CUI Global, Inc.
Form PRE 14A
September 04, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

Schedule 14A

Proxy Statement pursuant to Section 14(a)

of the Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement ¨ Confidential for use of the Commission
¨ Definitive Proxy Statement only (as permitted by Rule 14a-6(e)(2))
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-11(c) of §240.14a-12

CUI Global, Inc.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Not applicable

Payment of Filing Fee (Check the appropriate box):

x No Fee Required

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(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

20050 SW 112th Avenue

Tualatin, Oregon 97062

September 3, 2013

Dear Stockholders:

We are pleased to invite you to attend our 2013 Annual Meeting of Stockholders to be held on December 5, 2013 at 9:00 a.m. PST in our corporate offices located at 20050 SW 112th Avenue, Tualatin, Oregon 97062. The Board of Directors has fixed the close of business on October 16, 2013 as the record date for the determination of Stockholders entitled to receive notice of, and to vote at, the 2013 Annual Meeting. For your convenience, we are also pleased to offer a live webcast of our 2012 Annual Meeting to allow you to view the meeting on the Investor Relations section of our web site at www.cuiglobal.com.

Details of the business to be conducted are described in the Notice of Internet Availability of Proxy Materials (the "Notice") you received in the mail and in this proxy statement. We have also made available a copy of our 2012 Annual Report to Stockholders with this proxy statement. We encourage you to read our Annual Report. It includes our audited financial statements and provides information about our business and products.

In addition to the proxy statement and the 2012 Annual Report, you might also review our recent press releases, which demonstrate the exciting and successful year we have had thus far in 2013. Among our other accomplishments, we have:

- Completed equity raises with net proceeds to the Company in excess of $45,000,000;
- Acquired Orbital Gas Systems Ltd., an independent specialist natural gas and energy control and instrumentation solutions provider in the United Kingdom;
- Reported our first profitable quarter as well as increased revenues which were up than 80% quarter-over-quarter and year-over-year in the Second Quarter (the Second Quarter of 2013 included Orbital-UK and its associated accretive revenues);
- Paid down an additional $2,000,000 in long term debt obligations and
- Experienced a historic backlog of open sales orders throughout the Second Quarter and into the Third Quarter.

We have elected to provide access to our proxy materials over the internet under the Securities and Exchange Commission's "notice and access" rules. Our management is constantly focused on improving the ways people connect with information and believes that providing our proxy materials over the internet increases the ability of our

stockholders to connect with the information they need, while reducing the environmental impact of our 2013 Annual Meeting. If you want more information about the 2013 Annual Meeting, please see the Questions and Answers section of the proxy statement under the heading General Information or visit the Stockholders Meeting section of our Investor Relations website.

Your vote is important. Whether or not you plan to attend the 2013 Annual Meeting, we hope you will vote as soon as possible. You may vote over the internet, as well as by telephone or, if you requested to receive printed proxy materials, by mailing a proxy card or voting instructions. Please review the instructions on each of your voting options described in this proxy statement as well as in the Notice you received in the mail.

Thank you for your ongoing support of CUI Global. We look forward to seeing you at our 2013 Annual Meeting.

Sincerely,

William J. Clough
President/Chief Executive Officer

Annual Meeting of Stockholders

An Annual Meeting of Stockholders will be held on Thursday, December 5, 2013, at 9:00 a.m. PST in our corporate offices located at 20050 SW 112th Avenue, Tualatin, Oregon 97062.

To: The Stockholders of CUI Global, Inc.

We will hold our Annual Meeting of Stockholders on Thursday, December 5, 2013, at 9:00 a.m. PST in our corporate offices located at 20050 SW 112th Avenue, Tualatin, Oregon 97062 (the "Annual Meeting") for the following purposes:

1. Election of three directors to hold office until the 2014 Annual Meeting of Stockholders or until their respective successors have been duly elected and qualified;
2. Ratification of the appointment of Liggett, Vogt & Webb, P.A. as the Company's Independent Auditor for the year ending December 31, 2013;
3. Advisory approval of the company's executive compensation (Say-on-Pay);
4. Advisory vote on the frequency of a shareholder vote on executive compensation (Say-on-Frequency);
5. Approve the amended Restated Articles of Incorporation to compile prior amendments into a single document;
6. To transact such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

These items of business are more fully described in the proxy statement accompanying this notice. The Board of Directors has fixed the close of business on October 16, 2013 as the record date for the determination of stockholders entitled to receive notice of, and to vote at, the Annual Meeting of Stockholders. For a period of at least ten days prior to the Annual Meeting, a complete list of stockholders entitled to vote at the Annual Meeting will be open to examination by any stockholder during ordinary business hours at the offices of the company, 20050 SW 112th Avenue, Tualatin, Oregon 97062.

Your vote is very important. All stockholders are cordially invited to attend the Annual Meeting. Whether or not you plan to attend the Annual Meeting, we encourage you to read this proxy statement and submit your proxy or voting instructions as soon as possible. For specific instructions on how to vote your shares, please refer to the instructions on the Notice of Internet Availability of Proxy Materials (the "Notice") you received in the mail, the section entitled General Information about the Annual Meeting beginning on page 1 of the proxy statement or, if you requested to receive printed proxy materials, your enclosed proxy card.

To assure your representation at the Annual Meeting of Stockholders, we ask that you vote as promptly as possible. **Your stock will be voted in accordance with the instructions you provide in your proxy. You may revoke your proxy at any time before it is voted by signing and returning a proxy bearing a later date for the same shares, by filing with the Secretary of the Company a written revocation bearing a later date or by attending and voting in person at the Annual Meeting.**

By Order of the Board of Directors

/s/ Matthew M. McKenzie
Corporate Secretary
Tualatin, Oregon

September 3, 2013

3

Proxy Statement

Introduction

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of CUI Global, Inc. (the “Company") for use at the Annual Meeting of Stockholders to be held on Thursday, December 5, 2013, at 9:00 a.m. PST in our corporate offices located at 20050 SW 112th Avenue, Tualatin, Oregon 97062 and for any postponements or adjournments thereof. Please vote your shares of CUI Global, Inc. common stock. Your vote at the Annual Meeting is important to us. Whether or not you plan to attend the Annual Meeting, we encourage you to read this proxy statement and submit your proxy or voting instructions as soon as possible. For specific instructions on how to vote your shares, please refer to the instructions on the Notice of Internet Availability of Proxy Materials (the “Notice”) you received in the mail, the section entitled General Information about the Annual Meeting beginning below in this proxy statement or, if you requested to receive printed proxy materials, your enclosed proxy card. The Proxy Statement and the accompanying materials are being made available to the stockholders on or about October 26, 2013.

WE URGE YOU TO VOTE AS SOON AS POSSIBLE, EVEN IF YOU ARE CURRENTLY INTENDING TO ATTEND THE MEETING. THIS WILL NOT PREVENT YOU FROM VOTING IN PERSON, BUT WILL ASSURE THAT YOUR VOTE IS COUNTED IF YOU ARE UNABLE TO ATTEND THE MEETING. IT IS IMPORTANT THAT YOUR SHARES ARE REPRESENTED AT THE MEETING IN PERSON OR BY PROXY; IF YOU DO NOT EXPECT TO ATTEND THE MEETING, PLEASE COMPLETE, DATE, SIGN AND RETURN THE PROXY CARD (WHICH WILL BE MADE AVAILABLE TO YOU SEPARATELY) OR PROVIDE VOTING INSTRUCTIONS BY TELEPHONE OR VIA THE INTERNET.

General Information about the Annual Meeting

Q: Why am I receiving these materials?

A: Our Board of Directors has made these materials available to you on the internet or, upon your request, delivered printed proxy materials to you, in connection with the solicitation of proxies for use at the CUI Global Annual Meeting of Stockholders, which will take place on Thursday, December 5, 2013, at 9:00 a.m. PST in our corporate offices located at 20050 SW 112th Avenue, Tualatin, Oregon 97062. As a stockholder, you are invited to attend the Annual Meeting and you are requested to vote on the items of business described in this proxy statement.

Q: What information is contained in this proxy statement?

A: The information in this proxy statement relates to the proposals to be voted on at the Annual Meeting, the voting process, the compensation award process of our directors and most highly paid executive officers, corporate governance and information on our Board of Directors and certain other required information.

Q: Why did I receive a notice in the mail regarding the internet availability of proxy materials instead of a full set of proxy materials?

A**:** In accordance with rules adopted by the Securities and Exchange Commission (the “SEC”), we may furnish proxy materials, including this proxy statement and our 2012 Annual Report on Form 10-K, to our stockholders by providing access to such documents on the internet instead of mailing printed copies. Most stockholders will not receive printed copies of the proxy materials unless they request them. Instead, the Notice, which was mailed to most of our stockholders, will instruct you as to how you may access and review all of the proxy materials on the internet. The Notice also instructs you as to how you may submit your proxy on the internet. If you would like to receive a paper or email copy of our proxy materials, you should follow the instructions in the Notice for requesting such materials.

Q: I share an address with another stockholder and we received only one paper copy of the proxy materials. How may I obtain an additional copy of the proxy materials?

A: We have adopted a procedure called “householding” which the SEC has approved. Under this procedure, we deliver a single copy of the Notice and, if applicable, the proxy materials and the 2012 Annual Report to Stockholders to multiple stockholders who share the same address unless we received contrary instructions from one or more of the stockholders. This procedure reduces environmental impact as well as our printing costs, mailing costs and fees. Stockholders who participate in householding will continue to be able to access and receive separate proxy cards. Upon written request, we will promptly deliver a separate copy of the Notice and, if applicable, the proxy materials and the Annual Report to Stockholders to any stockholder at a shared address to which we delivered a single copy of any of these documents. To receive a separate copy of the Notice and, if applicable, these proxy materials or the Annual Report to Stockholders, stockholders may telephone, write or email us as follows: (503) 612-2300; 20050 SW 112th Avenue, Tualatin, Oregon 97062; investors@CUIGlobal.com.

Stockholders who hold shares in street name (as described below) may contact their brokerage firm, bank, broker-dealer or other similar organization to request information about householding.

Q: How do I get electronic access to the proxy materials?

A: The Notice will provide you with instructions regarding how to:

- View our proxy materials for the Annual Meeting on our internet website, www.CUIGlobal.com and
- Instruct us to send our future proxy materials to you electronically by email.

Choosing to receive your future proxy materials by email will save us the cost of printing and mailing documents to you and will reduce the impact on the environment of printing and mailing these materials. If you choose to receive future proxy materials by email, you will receive an email next year with instructions containing a link to those materials and a link to the proxy voting site. Your election to receive proxy materials by email will remain in effect until you terminate it.

Q: Is the Annual Meeting going to be webcast?

A: For your convenience, we are pleased to offer a live webcast of our Annual Meeting on the Investor Relations section of our web site at www.CUIGlobal.com.

Q: Can I participate in the question-and-answer portion of the Annual Meeting without attending the Annual Meeting?

A: No. The live webcast will be only visual and audio; there will be no opportunity to participate in the question-and-answer portion of the Annual Meeting unless you are present at the meeting.

Q: What items of business will be voted on at the 2013 Annual Meeting?

A: The items of business scheduled to be voted on at the Annual Meeting are:

- The election of three directors to hold office until the 2014 Annual Meeting of Stockholders or until their respective successors have been duly elected and qualified;
- Ratification of the appointment of Liggett, Vogt & Webb, P.A. as the Company's Independent Auditor for the year ending December 31, 2013;
- Advisory approval of the company's executive compensation (Say-on-Pay);
- Advisory vote on the frequency of a shareholder vote on executive compensation (Say-on-Frequency);
- Approve the amended Restated Articles of Incorporation to compile prior amendments into a single document.

We will also consider any other business that properly comes before the Annual Meeting.

Q: How can I vote my shares in person at the Annual Meeting?

A: Shares held in your name as the stockholder of record may be voted by you in person at the Annual Meeting. Shares held beneficially in street name may be voted by you in person at the Annual Meeting only if you obtain a legal proxy from the broker, bank, trustee or nominee that holds your shares giving you the right to vote the shares. Even if you plan to attend the Annual Meeting, we recommend that you also submit your proxy or voting instructions as described herein so that your vote will be counted if you later decide not to attend the meeting.

Q: How shall I sign my name on the proxy card?

A: The following general rules for signing proxy cards may be of assistance to you and avoid the time and expense to CUI Global in validating your vote if you fail to sign your proxy card properly.

- Individual Accounts: Sign your name exactly as it appears in the registration on the proxy card.
- Joint Accounts: Either party may sign, but the name of the party signing should conform exactly to a name shown in the registration on the proxy card.
- All Other Accounts: The capacity of the individual signing the proxy card should be indicated unless it is reflected in the form of registration.

Q: How can I vote my shares without attending the Annual Meeting?

A: Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct how your shares are voted without attending the Annual Meeting. If you are a stockholder of record, you may vote by proxy. You can vote by proxy over the internet by following the instructions provided in the Notice or, if you requested to receive printed proxy materials, you can also vote by mail or telephone pursuant to instructions provided on the proxy card. If you hold shares beneficially in street name, you may also vote by proxy over the internet by following the instructions provided in the Notice or, if you requested to receive printed proxy materials, you can also vote by telephone or mail by following the voting instruction card provided to you by your broker, bank, trustee or

nominee.

6

Q: May I change my vote?

A: You may change your vote at any time prior to the taking of the vote at the Annual Meeting. If you are the stockholder of record, you may change your vote by: (1) granting a new proxy bearing a later date (which automatically revokes the earlier proxy) using any of the methods described above (and until the applicable deadline for each method), (2) providing a written notice of revocation to CUI Global's Corporate Secretary at CUI Global Inc., 20050 SW 112th Avenue, Tualatin, Oregon 97062 prior to your shares being voted or (3) attending the Annual Meeting and voting in person. Attendance at the meeting will not cause your previously granted proxy to be revoked unless you specifically so request. For shares you hold beneficially in street name, you may change your vote by submitting new voting instructions to your broker, bank, trustee or nominee following the instructions they provided or, if you have obtained a legal proxy from your broker, bank, trustee or nominee giving you the right to vote your shares, by attending the Annual Meeting and voting in person.

Q: Is my vote confidential?

A: Proxy instructions, ballots and voting tabulations that identify individual stockholders are handled in a manner that protects your voting privacy. Your vote will not be disclosed either within CUI Global or to third parties, except: (1) as necessary to meet applicable legal requirements, (2) to allow for the tabulation of votes and certification of the votes and (3) to facilitate a successful proxy solicitation. Occasionally, stockholders provide on their proxy card written comments, which are then forwarded to CUI Global management.

Q: How many shares must be present or represented to conduct business at the Annual Meeting?

A: The presence at the Annual Meeting, in person or by proxy, of the holders of one third of the aggregate voting power of the common stock outstanding on the record date will constitute a quorum. Each share of common stock is entitled to one vote. As of the Record Date for this Annual Meeting, 20,564,163 shares of common stock were outstanding and entitled to vote at the Annual Meeting. Both abstentions and broker non-votes (described below) are counted for the purpose of determining the presence of a quorum. Unless otherwise indicated, all references herein to percentages of outstanding shares of stock are based on such numbers of shares outstanding. Shares entitled to vote are referred to hereafter as "Voting Shares".

Q: What shares can I vote?

A: Each share of CUI Global common stock issued and outstanding as of the close of business on the Record Date for the Annual Meeting is entitled to be voted on all items being voted on at the Annual Meeting. You may vote all shares owned by you as of the Record Date, including: (1) shares held directly in your name as the stockholder of record and (2) shares held for you as the beneficial owner in street name through a broker, bank, trustee or other nominee. As of the Record Date, we had 20,564,163 shares of common stock issued and outstanding.

Q: How many votes am I entitled to per share?

A: Each holder of shares of common stock is entitled to one vote for each share held as of the Record Date.

Q: What is the Record Date?

A: Record Date, in the context of voting at the Annual Meeting, is the date on which our stock ledger is closed for the purpose of determining which shareholders officially own voting shares in order to be entitled to vote at the Annual Meeting. The Record Date for the 2013 Annual Meeting of Shareholders is October 16, 2013.

Q: How may I vote?

A: Regarding the election of directors, you may vote “FOR” all or some of the nominees or your vote may be “WITHHELD” with respect to one or more of the nominees.

Regarding:

- Ratification of the appointment of Liggett, Vogt & Webb, P.A. as the Company's Independent Auditor for the year ending December 31, 2013,
- Advisory approval of the company's executive compensation (Say-on-Pay) and
- Approval of the amended Restated Articles of Incorporation to compile prior amendments into a single document,

you may vote "FOR" or "AGAINST" or "ABSTAIN" on these proposals.

Regarding the advisory vote on the frequency of a shareholder vote on executive compensation (Say-on-Frequency), you may vote "EVERY YEAR", "EVERY OTHER YEAR", or "EVERY THREE YEARS", or "ABSTAIN".

Q: What vote is required to approve each item?

A: *Election of Directors*

The affirmative vote "FOR" of a simple majority of the votes cast at the Annual Meeting is required for the election of each director, A properly executed proxy marked "WITHHOLD" with respect to the election of one or more directors will not be voted with respect to the director or directors indicated or the other items to be voted on; although, it will be counted for purposes of determining whether there is a quorum. Voting Shares represented by properly executed proxies for which no instruction is given will be voted "FOR" election of the nominee for director.

A: *Ratification of Liggett, Vogt & Webb, P.A.* as our independent registered public accounting firm*, advisory approval of executive compensation and approval of the Restated Articles of Incorporation*

The affirmative vote "FOR" of a simple majority of the votes cast at the Annual Meeting is required for the ratification of the appointment of Liggett, Vogt & Webb, P.A. as our independent registered public accounting firm, the advisory approval of the company's executive compensation (Say-on-Pay) and approval of the amended Restated Articles of Incorporation to compile prior amendments into a single document. A properly executed proxy marked "ABSTAIN" with regard to these issues to be voted on will not be voted with respect to the items to be voted on; although, it will be counted for purposes of determining whether there is a quorum. Voting Shares represented by properly executed proxies for which no instruction is given will be voted "FOR" these issues.

A. *Advisory vote on the frequency of a shareholder vote on executive compensation (Say-on-Frequency),*

The choice receiving the greatest number of votes will determine the period of time considered to be approved by shareholders, on an advisory basis (Say-on-Frequency). The choices are: "EVERY YEAR", "EVERY OTHER YEAR", or "EVERY THREE YEARS", or "ABSTAIN".

You may cast your vote for your preferred voting frequency (Say-on-Frequency) by selecting the option of holding an advisory vote on executive compensation “EVERY THREE YEARS”, “EVERY TWO YEARS”, “EVERY ONE YEAR,” or you may “ABSTAIN.” The choice receiving the greatest number of votes will determine the period of time considered to be approved by shareholders, on an advisory basis. Similar to the effect of your vote for Say-on-Pay, while we intend to carefully consider the voting results of this proposal, the final vote is advisory in nature, therefore, not binding on us, our board or the Compensation Committee.

A properly executed proxy marked "ABSTAIN" with regard to this issue will be counted for purposes of determining whether there is a quorum. Voting Shares represented by properly executed proxies for which no instruction is given will be voted for "EVERY THREE YEARS".

Q: What is the effect of the proposal to ratify the Audit Committee's appointment of Liggett, Vogt and Webb, P.A. as our independent registered public accounting firm?

A: Selection of our independent registered public accounting firm is not required to be submitted to a vote of stockholders. The Sarbanes-Oxley Act of 2002 requires the Audit Committee of our Board of Directors to be directly responsible for the appointment, compensation and oversight of the audit work of the independent registered public accounting firm. However, the Board of Directors has elected to submit the selection of Liggett, Vogt and Webb, P.A. as our independent registered public accounting firm to stockholders for ratification as a matter of corporate practice. If the stockholders fail to ratify the appointment, the Audit Committee will reconsider whether to retain Liggett, Vogt and Webb, P.A., and may retain that firm or another firm without resubmitting the matter to our stockholders. Even if the appointment is ratified, the Audit Committee may, at its discretion, appoint a different independent registered public accounting firm at any time during the year.

Q: Is cumulative voting permitted for the election of directors?

A: No. You may not cumulate your votes for the election of directors.

Q: What is cumulative voting?

A: A system of voting in which each voter is given as many votes as there are positions to be filled and allowed to cast those votes for one candidate or distribute them in any way among the candidates.

Q: What happens if additional matters are presented at the Annual Meeting?

A: Other than:

1. Election of three directors to hold office until the 2014 Annual Meeting of Stockholders or until their respective successors have been duly elected and qualified;
2. Ratification of the appointment of Webb & Company, P.A. as the Company's Independent Auditor for the year ending December 31, 2013;
3. Advisory approval of the company's executive compensation (Say-on-Pay);
4. Advisory vote on the frequency of a shareholder vote on executive compensation (Say-on-Frequency); and
5. Approve the amended Restated Articles of Incorporation to compile prior amendments into a single document.

As described in this proxy statement, we are not aware of any other business to be acted upon at the Annual Meeting. If you submit a signed proxy, the persons named as proxy will have the discretion to vote your shares on any additional matters properly presented for a vote at the meeting.

Q: What is the difference between holding shares as a stockholder of record and as a beneficial owner?

A: Many CUI Global stockholders hold their shares as a beneficial owner through a broker or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Stockholder of Record

If your shares are registered directly in your name with our transfer agent, Computershare Trust Company, N.A., you are considered, with respect to those shares, the *stockholder of record,* and the Notice was sent directly to you by CUI Global. As the *stockholder of record,* you have the right to grant your voting proxy directly to CUI Global or to vote in person at the Annual Meeting. If you requested to receive printed proxy materials, CUI Global has enclosed or sent a proxy card for you to use. You may also vote on the internet or by telephone, as described in the Notice and below under the heading "How can I vote my shares without attending the Annual Meeting?"

Beneficial Owner

If your shares are held in an account at a brokerage firm, bank, broker-dealer, trust or other similar organization, like the majority of our stockholders, you are considered the *beneficial owner* of shares held *in street name,* and the Notice was forwarded to you by that organization. As the beneficial owner, you have the right to direct your broker, bank, trustee or nominee how to vote your shares and you are also invited to attend the Annual Meeting.

Since a beneficial owner is not the *stockholder of record,* you may not vote your shares in person at the Annual Meeting unless you obtain a "legal proxy" from the broker, bank, trustee or nominee that holds your shares giving you the right to vote the shares at the meeting. If you do not wish to vote in person or you will not be attending the Annual Meeting, you may vote by proxy. You may vote by proxy over the internet or by telephone, as described in the Notice and below under the heading "How can I vote my shares without attending the Annual Meeting?"

If you hold your shares in "street name" through a broker or other nominee, your broker or nominee may not be permitted to exercise voting discretion with respect to some of the matters to be acted upon. Thus, if you do not give your broker or nominee specific instructions, your shares may not be voted on those matters and will not be counted in determining the number of shares necessary for approval. Shares represented by such "broker non-votes" will, however, be counted in determining whether there is a quorum.

Q: Who will bear the cost of soliciting votes for the Annual Meeting?

A: CUI Global will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials and soliciting votes. If you choose to access the proxy materials and/or vote over the internet, you are responsible for internet access charges you may incur. If you choose to vote by telephone, you are responsible for telephone charges you may incur. In addition to the mailing of these proxy materials, the solicitation of proxies or votes may be made in person, by telephone or by electronic communication by our directors, officers and employees, who will not receive any additional compensation for such solicitation activities.

Q: Where can I find the voting results of the Annual Meeting?

A: We intend to announce preliminary voting results at the Annual Meeting and publish final results in our Annual Report on Form 10-K for the year ending December 31, 2013. We also plan to disclose the vote results on our website at www.CUIGlobal.com as soon as possible after the Annual Meeting.

Proposals to be Considered

PROPOSAL I

Election of Directors

Issued and outstanding shares of our Common Stock are entitled to one vote per share for each Director for a one year term or until his successor has been elected and qualified, or his earlier resignation or removal. Cumulative voting is not permitted.

Unless stated to be voted otherwise, each proxy will be voted for the election of the nominees named. The nominees have consented to serve as director if elected. If any nominee becomes unavailable for election before the Annual Meeting of Shareholders, the Board of Directors may name a substitute nominee and proxies will be voted for such substitute nominee unless an instruction to the contrary is written on the proxy card.

Information about Director Nominees

Board of Directors Independence

The board of directors has determined that each of the director nominees standing for election has no relationship that, in the opinion of the board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Additionally, each of the three director nominees standing for election is an "independent director" as defined by Rule 5605(a)(2) of The Nasdaq Stock Market ("Nasdaq"). In determining the independence of our directors, the board of directors has adopted independence standards that mirror exactly the criteria specified by applicable laws and regulations of the SEC and the Rules of The Nasdaq Stock Market. In determining the independence of our directors, the board of directors considered all transactions in which CUI Global and any director had any interest, including those discussed below under "Certain Relationships and Related Transactions".

Thomas A. Price*, Director, age 69 (Seat 2)*

Mr. Price was first elected to the Board of Directors at the 2008 Annual Meeting of Shareholders and has served as a director continuously since that time.

Mr. Price has more than 30 years of business and operational management experience. He is the founder of Tom Price Dealership Group, a leading auto dealership with eleven franchises at six locations across California. Mr. Price developed the multi-brand San Francisco Auto Repair Center and a conference facility in Larkspur, California. Currently, Mr. Price is the owner of nine car dealerships in Northern California. He was Chairman of the Lexus National Dealer Advisory Board and charter member of the J.D. Power Dealer Roundtable. The Price Family Dealerships are major sponsors of Special Olympics of Marin, Dedication to Special Education, CASA/Advocates for Children, Marin Breast Cancer Council and the Golden Gate Shootout.

- **Thomas A. Price is nominated for election to the Board of Directors at the 2013 Annual Meeting of Stockholders.**

Sean P. Rooney*, Director, age 42 (Seat 4)*

Mr. Rooney was first elected to the Board of Directors at the 2008 Annual Meeting of Shareholders and has served as a director continuously since that time.

11

Mr. Rooney brings to the CUI Global board nearly 20 years of financial management experience. He currently serves as Senior Director of Investments for Oppenheimer & Co. Inc., a leading full service investment banking, securities and wealth management firm. Prior to joining Oppenheimer, he served in a similar capacity at Maxim Group, a boutique investment bank in New York, and Investec Ernst & Company, an international specialist bank headquartered in South Africa and the U.K. Through his many years of experience, Mr. Rooney has built a vast network of industry resources and contacts.

Mr. Rooney graduated from C. W. Post University in 1993 with a Bachelors of Arts degree in Business Administration. Mr. Rooney currently manages a clientele of high net worth investors, institutions and foundations.

- **Sean P. Rooney is nominated for election to the Board of Directors at the 2013 Annual Meeting of Stockholders.**

Corey A. Lambrecht*, Director, age 44 (Seat 6)*

Mr. Lambrecht was first elected to the Board of Directors at the 2008 Annual Meeting of Shareholders and has served as a director continuously since that time.

Mr. Lambrecht is a 14+ year public company executive with experience in strategic acquisitions, new business development, pioneering consumer products, corporate licensing and interactive technology services. Mr. Lambrecht currently serves as the President of Earth911, Inc. and is a current director of Guardian 8 Holdings and Carbon Credits International. He previously served as Director of Sales for Leveraged Marketing Associates, a worldwide leader in licensed brand extension strategies. While Executive Vice President for Smith & Wesson Holding Corporation he was responsible for Smith & Wesson Licensing, Advanced Technologies and Interactive Marketing divisions. He was the former President of A For Effort (sold to Freesoftwareclub.com), an interactive database marketing company specializing in online content (advergaming) for clients such as the National Hockey League. Mr. Lambrecht's prior experience also includes Pre-IPO founder for Premium Cigars International and VP Sales/Marketing for ProductExpress.com.

- **Corey A. Lambrecht is nominated for election to the Board of Directors at the 2013 Annual Meeting of Stockholders.**

Vote Required

The election of each director nominee requires the affirmative vote "FOR" of a majority of the shares present in person or by proxy at the Annual Meeting.

The Board of Directors recommends that Stockholders vote "FOR" election of the nominees for director named above.

PROPOSAL II

Ratification of the Appointment of Liggett, Vogt & Webb, P.A. as the Company's

Independent Auditor for the Year Ending December 31, 2013

The Audit Committee has selected Liggett, Vogt and Webb, P.A. to serve as independent registered public accountants for the fiscal year ending December 31, 2013. The board is submitting the appointment of independent registered public accountants to the shareholders for ratification at the Annual Meeting.

Webb & Company, P.A. has been our auditor since 2007. On October 22, 2012 Webb & Company, P.A. added two additional partners and changed the name of the firm to Liggett, Vogt and Webb, P.A. Liggett, Vogt and Webb, P.A. has advised the Company that it has no direct or indirect financial interest in the Company. Representatives of Liggett, Vogt and Webb, P.A. are expected to be available by teleconference at the Annual Meeting, will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions. Shareholder ratification of the appointment of Liggett, Vogt and Webb, P.A. as the Company's independent registered public accountants is not required by the Company's Restated Articles of Incorporation, bylaws or otherwise; however, the Board of Directors is submitting the selection of Liggett, Vogt and Webb, P.A. to the shareholders for ratification as a matter of good corporate practice. If the shareholders fail to ratify the selection, the Audit Committee will review its future selection of an independent registered public accounting firm in light of that vote result. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of different independent registered public accountants at any time during the year if it determines that such a change would be in the best interests of the Company and its shareholders.

Vote Required

Ratification of the appointment of Liggett, Vogt and Webb, P.A. as the Company's independent registered public accountants for the fiscal year ending December 31, 2013 requires the affirmative vote of a majority of the shares present in person or by proxy at the Annual Meeting and voting for the proposal.

The Board of Directors recommends a vote "FOR" the ratification of the appointment of Liggett, Vogt and Webb, P.A. as the independent registered public accountants of the Company for the fiscal year ending December 31, 2013.

PROPOSAL III

Advisory Approval of the Company's

Executive Compensation

(Say-on-Pay)

This proposal gives our shareholders the opportunity to vote to approve or not approve, on an advisory basis, the compensation of our named executive officers. This vote is not intended to address any particular component of any compensation package, but rather the overall compensation of our named executive officers and our compensation philosophy, policies and practices, as disclosed under the "Executive Compensation" section of this Proxy Statement. We are providing this vote as required by Section 14A of the Securities Exchange Act of 1934, as amended. Accordingly, we are asking our shareholders to vote to approve, on an advisory basis, the compensation of the

Company's named executive officers, as disclosed in this Proxy Statement under the heading entitled "Executive Compensation."

The Company's compensation packages for its executive officers are designed to enable the Company to recruit, retain and motivate its officers, to synchronize executive compensation with the Company's performance, to motivate executive officers to achieve the Company's business objectives, to provide performance incentives and minimize undue risk to the Company. The Board of Directors believes that the Company's approach to compensating its executive officers, as described in this Proxy Statement, effectively accomplishes these objectives.

Vote Required

The Say-on-Pay proposal is advisory and non-binding. The approval or disapproval of this proposal by shareholders will not require the Board of Directors or the Compensation Committee to take any action regarding the Company's executive compensation practices. The final decision on the compensation and benefits of the Company's executive officers and on whether, and if so, how, to address shareholder disapproval remains with the board and the Compensation Committee. Although the Say-on-Pay resolution is non-binding, the Board of Directors will review and consider the voting results when making future executive compensation decisions. Our executive compensation will be approved, on an advisory basis, if the votes cast by shareholders in favor of advisory approval exceed those votes cast in opposition of advisory approval.

The Board of Directors recommends a vote "FOR" Advisory Approval of the Company's Executive Compensation (Say-on-Pay)

PROPOSAL IV

Advisory Vote on the

Frequency of a Shareholder Vote on Executive Compensation

(Say-on-Frequency)

The following proposal gives our shareholders the opportunity to vote, on an advisory basis, on the frequency with which we include in our Proxy Statement an advisory vote to approve or not approve the compensation of our named executive officers. By voting on this proposal, shareholders may indicate whether they prefer that we seek such an advisory vote every one, two or three years. After careful consideration of this proposal, our board determined that an advisory vote on executive compensation that occurs every three years is the most appropriate option for the Company, therefore, recommends that shareholders vote for future advisory votes on executive compensation to occur every three years. In reaching its recommendation, our board has determined that an advisory vote every three years would permit our compensation programs to be evaluated on a long-term basis and would allow the Company to engage a compensation expert only every three years, which the board believes is an appropriate use of Company funds, given the Company's size. Further, our board believes that a well-structured and meaningful compensation program should include plans that increase shareholder value over the long-term and do not focus on short-term awards and that the effectiveness of such plans cannot be adequately evaluated on an annual or biennial basis.

Vote Required

You may cast your vote on your preferred voting frequency by selecting the option of holding an advisory vote on executive compensation "EVERY THREE YEARS", "EVERY TWO YEARS", "EVERY ONE YEAR," or you may "ABSTAIN." Similar to the effect of your vote for Proposal III, while we intend to carefully consider the voting results of this proposal, the final vote is advisory in nature, therefore, not binding on us, our board or the Compensation Committee. Our board and the Compensation Committee value the opinions of our shareholders and will consider the outcome of this vote when making future decisions on the frequency with which we will hold an advisory vote on executive compensation. The choice receiving the greatest number of votes will determine the period of time considered to be approved, on an advisory basis, by our shareholders.

The Board of Directors recommends a vote "FOR" voting "EVERY THREE YEARS" on the advisory of frequency of the advisory approval of executive compensation.

PROPOSAL V

Approve the Amended Restated Articles of Incorporation to

Compile Prior Amendments into a Single Document

CUI Global, Inc. was initially incorporated on April 21, 1998. Throughout the following years the initial Articles of Incorporation was revised eighteen times in various ways including such matters as changing the corporate name, changing the number of authorized shares of stock and providing for three issuances of preferred stock. These various revisions and changes have created a lengthy and difficult to read and understand document. It is in the best interest of the Company that all of the revisions be compiled into a single, streamlined document that includes all of the revisions throughout the years. A copy of the proposed Restated Articles of Incorporation is attached as an exhibit to this Proxy Statement. This compilation of the initial Articles of Incorporation and all subsequent amendments and revisions contains no changes that have not heretofore been approved by the shareholders of this Company. The applicable state statutes of Colorado, the state in which CUI Global is incorporated, require that any changes or revisions to Articles of Incorporation shall be approved by the shareholders of the Company.

Vote Required

Approval of the Amended Restated Articles of Incorporation to Compile Prior Amendments into a Single Document requires the affirmative vote of a majority of the shares present in person or by proxy at the Annual Meeting and voting for the proposal.

The Board of Directors recommends a vote "FOR" Approval of the Amended Restated Articles of Incorporation to Compile Prior Amendments into a Single Document

Other Business

Management does not presently know of any matter that may be presented for action at this Annual Meeting other than as set forth herein. However, if any other matters properly come before this Annual Meeting, it is the intention of the persons named in the proxies solicited by management to exercise their discretionary authority to vote the shares represented by all effective proxies on such matters in accordance with their best judgment.

Directors and Executive Officers

Our Bylaws permit the number of directors to be fixed by resolution of the Board of Directors, but to be no less than one. The Board of Directors has set the maximum number of members to no more than eight members. Directors are elected by a majority of the votes cast by the stockholders and have served two-year terms or until their successors have been elected and qualified or until their earlier resignation or removal. Commencing with the 2013 Annual Meeting of Shareholders, we intend to elect all of our directors simultaneously for a one year term or until their successors have been elected and qualified, or their earlier resignation or removal. Currently, we have six directors, four of whom are ‘‘independent’’ in accordance with applicable rules promulgated by the Securities and Exchange Commission and within the meaning of Rule 5605(a)(2) of the NASDAQ Stock Market.

The Board of Directors has four standing committees: Audit Committee, Disclosure Committee, Compensation Committee and Nomination Committee, each of which has a written charter and/or statement of policy approved by our board. Our board currently appoints the members of each committee. Copies of the current committee charters and/or statement of policy for each committee are posted on our website at www.CUIGlobal.com. No incumbent director attended fewer than 100% of the total number of meetings held by the committees on which such director served.

The following are officers and directors of the Company with their ages as of December 31, 2012, and a list of the members of our four standing committees: Audit Committee, Disclosure Committee, Compensation Committee and Nomination Committee.

Colton R. Melby*, Chairman of the Board of Directors, age 56 (Seat 7)*

Effective June 11, 2008, Colton Melby was appointed to the Board of Directors and was elected by the Board of Directors to serve as Chairman of the Board of Directors. Mr. Melby continues to serve as Chairman of the Board of Directors.

Mr. Melby has a 20 year background in aerospace manufacturing. He spent 15 years as owner and chief executive officer of Metal Form, Inc., serving a customer base that included: Boeing, Bombardier, Rockwell, Grumman and Lockheed Martin, among others. One of Mr. Melby’s more notable investments was the financing and purchase of firearms-maker Smith & Wesson from London-based Tomkins PLC in 2001. Mr. Melby has investments in Earth 911, a successful recycling company dedicated to green initiatives and green recycling.

William J. Clough, Esq.*, President/Chief Executive Officer, Director and General Counsel of CUI Global, Inc., Chief Executive Officer of CUI, Inc. and Chief Executive Officer of Orbital Gas Systems, Ltd., age 62 (Seat 1)*

*Mr. Clough was first elected to the Board of Directors at the 2006 Annual Meet*ing of Shareholders. Mr. Clough continues to serve on the Board of Directors.

Mr. Clough was appointed President and Chief Executive Officer of CUI Global, Inc. September 13, 2007 at which time Mr. Clough stepped down as Executive Vice President of Corporate Development. Effective May 16, 2008, CUI Global, Inc. formed a wholly owned subsidiary to acquire the assets of CUI, Inc. Along with this acquisition Mr. Clough was appointed Chief Executive Officer of this subsidiary, now renamed to CUI, Inc. Mr. Clough received his Juris Doctorate, cum laude, from the University of California, Hastings College of the Law in 1990. He is certified to practice law in state and federal courts in California, Illinois, Hawaii and before the United States Supreme Court.

During late 2011 into early 2012, along with Company CFO, Daniel Ford, Mr. Clough led our efforts to complete a successful equity raise; coupled with a re-structuring of the Company's capital structure and up-listing the Company to The Nasdaq Stock Market in February 2012. During the first quarter of 2013, Mr. Clough and Mr. Ford facilitated a public offering that raised in excess of $45,000,000. In conjunction with that equity raise, Mr. Clough had negotiated and consummated the acquisition of Orbital Gas Systems Ltd., an independent specialist gas control and instrumentation solutions provider in the United Kingdom. Orbital-UK is now a wholly owned subsidiary of CUI Global Inc.

***Thomas A. Price**, Director, age 69 (Seat 2)*

Mr. Price has continuously served on the Board of Directors since the 2008 Annual Meeting of Shareholders.

Mr. Price has more than 30 years of business and operational management experience. He is the founder of Tom Price Dealership Group, a leading auto dealership with eleven franchises at six locations across California. Mr. Price developed the multi-brand San Francisco Auto Repair Center and a conference facility in Larkspur, California. Currently, Mr. Price is the owner of nine car dealerships in Northern California. He was Chairman of the Lexus National Dealer Advisory Board and charter member of the J.D. Power Dealer Roundtable. The Price Family Dealerships are major sponsors of Special Olympics of Marin, Dedication to Special Education, CASA/Advocates for Children, Marin Breast Cancer Council and the Golden Gate Shootout.

***Matthew M. McKenzie**, President of CUI, Inc., Corporate Secretary of CUI Global, Inc. and Director, age 33 (Seat 3)*

Matt McKenzie has continuously served on the Board of Directors since the 2008 Annual Meeting of Shareholders.

Mr. McKenzie earned an MBA from George Fox University. He has been President of CUI since 2008, with an intimate knowledge of the business, its operations and its opportunities for growth. Over the past several years, Mr. McKenzie has worked to position CUI, Inc. for growth through sales and operation expansion as well as channel development and technology development. Mr. McKenzie has developed significant channel expansion, company growth, and brand identity in the electromechanical component space. He spearheads the research, development and implementation of the Novum and Solus technologies.

***Sean P. Rooney**, Director, age 42 (Seat 4)*

Mr. Rooney has continuously served on the Board of Directors since the 2008 Annual Meeting of Shareholders.

Mr. Rooney brings to the CUI Global board nearly 20 years of financial management experience. He currently serves as Senior Director of Investments for Oppenheimer & Co. Inc., a leading full service investment banking, securities and wealth management firm. Prior to joining Oppenheimer, he served in a similar capacity at Maxim Group, a boutique investment bank in New York, and Investec Ernst & Company, an international specialist bank headquartered in South Africa and the U.K. Through his many years of experience, Mr. Rooney has built a vast network of industry resources and contacts.

Mr. Rooney graduated from C. W. Post University in 1993 with a Bachelors of Arts degree in Business Administration. Mr. Rooney currently manages a clientele of high net worth investors, institutions and foundations.

***Corey A. Lambrecht**, Director, age 44 (Seat 6)*

Mr. Lambrecht has continuously served on the Board of Directors since the 2007 Annual Meeting of Shareholders.

Mr. Lambrecht is a 14+ year public company executive with experience in strategic acquisitions, new business development, pioneering consumer products, corporate licensing and interactive technology services. Mr. Lambrecht currently serves as the President of Earth911, Inc. and is a current director of Guardian 8 Holdings and Carbon Credits International. He previously served as Director of Sales for Leveraged Marketing Associates, a worldwide leader in licensed brand extension strategies. While Executive Vice President for Smith & Wesson Holding Corporation he was responsible for Smith & Wesson Licensing, Advanced Technologies and Interactive Marketing divisions. He was the former President of A For Effort (sold to Freesoftwareclub.com), an interactive database marketing company specializing in online content (advergaming) for clients such as the National Hockey League. Mr. Lambrecht's prior experience also includes Pre-IPO founder for Premium Cigars International and VP Sales/Marketing for ProductExpress.com.

***Daniel N. Ford**, Chief Financial Officer of CUI Global and CUI, Inc., age 34*

Mr. Ford has a background in accounting, including working at KPMG. As CFO of CUI for in excess of five years, Mr. Ford moved CUI into a position of profitability and he provides efficiency and forward thinking, transforming many of CUI's accounting, inventory management and vendor relations processes. During 2012, along with Mr. Clough, Mr. Ford facilitated our equity raise and uplisting to The Nasdaq Stock Market. During the first quarter of 2013, Mr. Clough and Mr. Ford facilitated a public offering that raised net proceeds in excess of $45,000,000 and the purchase of Orbital Gas Systems, Ltd., an independent specialist gas control and instrumentation solutions provider located in the United Kingdom.

Over the past five years, Mr. Ford has implemented advanced internal fixed asset tracking, implemented a ‘‘real time’’ inventory system and participated in implementing CUI's ERP system. His skills as a financier have allowed CUI to move to its current, 61,380 square foot building, to transition its banking relationships to Wells Fargo National Association, as well as to acquire CUI, Orbital and CUI Japan. Mr. Ford holds an MBA from George Fox University.

Corporate Governance and Board of Directors Matters

We are committed to maintaining the highest standards of business conduct and corporate governance, which we believe are essential to running our business efficiently, serving our stockholders well and maintaining our integrity in the marketplace. We have adopted a Corporate Code of Ethics and Business Conduct, a code of business conduct and ethics for employees, directors and officers (including our principal executive officer and principal financial and accounting officer). We have also adopted the following governance guides: Charter of the Audit Committee, Charter of the Compensation Committee, policy for Director Independence, Nominating Committee guide and, most recently adopted, Disclosure Controls and Procedures, all of which, in conjunction with our certificate of incorporation and bylaws, form the framework for our corporate governance. These corporate governance documents are available on the internet and our website at www.CUIGlobal.com.

Our Corporate Governance Practices

We have always believed in strong and effective corporate governance procedures and practices. In that spirit, we have summarized several of our corporate governance practices below.

The Board of Director's Role in Risk Oversight

The Board of Directors and its committees have an important role in the Company's risk oversight, management and assessment process. The board regularly reviews with management the Company's financial and business strategies which include a discussion of relevant material risks as appropriate. The board discusses with the Company's outside general counsel, as appropriate, its risk oversight and assessment as well as any material risks to the Company. In addition, the board delegates risk management responsibilities to the Audit Committee and Compensation Committee, which committees are each all comprised of independent directors. The Audit Committee, as part of its charter, oversees the Company's risk oversight, management and assessment of the Company and oversees and assesses the risks associated with the corporate governance and ethics of the Company. Risk considerations are a material aspect of the Compensation Committee. The Compensation Committee is responsible for overseeing the management of risks relating to executive compensation. In addition, the Compensation Committee also, as appropriate, assesses the risks relating to the Company's overall compensation programs. While the Audit Committee and Compensation Committee oversee the management of the risk areas identified above, the entire board is regularly informed through committee reports about such risks. This enables the board and its committees to coordinate the risk management, assessment and oversight roles.

Adopting Governance Guidelines

Our Board of Directors has adopted a set of corporate governance guidelines to establish a framework within which it will conduct its business and to guide management in its running of your Company. The governance guidelines can be found on our website at www.CUIGlobal.com and are summarized below.

Monitoring Board Effectiveness

It is important that our Board of Directors and its committees are performing effectively and in the best interest of the Company and its stockholders. The Board of Directors and each committee are responsible for annually assessing their effectiveness in fulfilling their obligations.

Conducting Formal Independent Director Sessions

On a regular basis, at the conclusion of regularly scheduled board meeting, the independent directors are encouraged to meet privately, without our management or any non-independent directors.

Hiring Outside Advisors

The board and each of its committees may retain outside advisors and consultants of their choosing at our expense, without management's consent.

Avoiding Conflicts of Interest

We expect our directors, executives and employees to conduct themselves with the highest degree of integrity, ethics and honesty. Our credibility and reputation depend upon the good judgment, ethical standards and personal integrity of each director, executive and employee. In order to provide assurances to the Company and its stockholders, we have implemented standards of business conduct which provide clear conflict of interest guidelines to its employees and directors, as well as an explanation of reporting and investigatory procedures.

Providing Transparency

We believe that it is important that stockholders understand our governance practices. In order to help ensure transparency of our practices, we have posted information regarding our corporate governance procedures on our website at www.CUIGlobal.com.

Accuracy of All Public Disclosure

It is the Company's policy that all public disclosure made by the Company should be accurate and complete, fairly present, in all material respects, the Company's financial condition and results of operations, and be made on a timely basis as required by applicable laws and securities exchange requirements. In order to oversee this policy, a Disclosure Committee Charter has been adopted by the Chief Executive Officer and Chief Financial Officer and ratified by our Audit Committee. You can view a copy of this document on our website at www.CUIGlobal.com or obtain a copy by making a written request to the Company at CUI Global, Inc., 20050 SW 112th Avenue, Tualatin, Oregon 97062, phone (503) 612-2300.

Communications with the Board of Directors

Stockholders may communicate with the Board of Directors by writing to the Company at CUI Global, Inc., 20050 SW 112th Avenue, Tualatin, Oregon 97062, phone (503) 612-2300. Stockholders who would like their submission

directed to a member of the board may so specify and the communication will be forwarded as appropriate.

Standards of Business Conduct

The Board of Directors has adopted a Code of Ethics and Business Conduct for all of our employees and directors, including the Company's principal executive and senior financial officers. You can obtain a copy of these documents on our website at www.CUIGlobal.com or by making a written request to the Company at CUI Global, Inc., 20050 SW 112th Avenue, Tualatin, Oregon 97062, phone (503) 612-2300. We will disclose any amendments to the Code of Ethics and Business Conduct or waiver of a provision therefrom on our website at www.CUIGlobal.com.

Ensuring Auditor Independence

We have taken a number of steps to ensure the continued independence of our independent registered public accounting firm. That firm reports directly to the Audit Committee, which also has the ability to pre-approve or reject any non-audit services proposed to be conducted by our independent registered public accounting firm.

Committees of the Board and Meetings

Presently, our Board of Directors consists of six directors. Four of our six directors are “independent” as defined in Rule 5605(a)(2) of The Nasdaq Stock Market. Our Board of Directors has the following standing committees: Audit Committee, Nominating Committee, Compensation Committee and Disclosure Committee. Each of the committees operates under a written charter adopted by the Board of Directors. All of the committee charters are available on our website at www.CUIGlobal.com.

Audit Committee

The Audit Committee is established pursuant to the Sarbanes-Oxley Act of 2002 for the purposes of overseeing the company’s accounts and financial reporting processes and audits of its financial statements. The Audit Committee reviews the financial information that will be provided to the Stockholders and others, the systems of internal controls established by management and the board and the independence and performance of the Company’s audit process. The Audit Committee is directly responsible for, among other things, the appointment, compensation, retention and oversight of our independent registered public accounting firm, review of financial reporting, internal company processes of business/financial risk and applicable legal, ethical and regulatory requirements.

The Audit Committee is currently comprised of Sean P. Rooney, Chairman, and Thomas A. Price, Deputy Chairman and Colton Melby, committee member. Messers Rooney, Price and Melby are independent in accordance with Rule 10A-3 under the Securities Exchange Act of 1934 and Rule 5605(a)(2) of The Nasdaq Stock Market.

Audit Committee Report

THE FOLLOWont style="font-family:inherit;font-size:10pt;">Other noncurrent assets

2,851

1,918

Total noncurrent assets
488,345

489,778

Total assets
$
947,400

$
838,079

Liabilities and stockholders' equity

Current liabilities:

Accounts payable
$
252,483

$
193,749

Due to seller, current
1,933

919

Accrued expenses
50,306

39,660

Total current liabilities
304,722

234,328

Noncurrent liabilities:

Convertible notes, net
216,748

210,919

Due to seller, noncurrent
767

1,156

Other noncurrent liabilities
18,745

20,301

Deferred income taxes
15,404

12,503

Total noncurrent liabilities
251,664

244,879

Total liabilities
556,387

479,207

Stockholders' equity:

Common stock, par value $0.0001 per share, 100,000,000 shares authorized, 31,328,469 shares issued and 27,801,599 shares outstanding at September 30, 2018; 30,768,050 shares issued and 27,241,180 shares outstanding at December 31, 2017
3

3

Treasury stock, 3,526,870 shares at September 30, 2018 and December 31, 2017, respectively
(69,818
)

(69,818
)

Additional paid-in capital	346,662	337,445
Retained earnings	114,167	91,242
Total stockholders' equity	391,014	358,872
Total liabilities and stockholders' equity	$ 947,400	$ 838,079

Note: Amounts may not foot due to rounding.

See accompanying notes.

4

Table of Contents

Echo Global Logistics, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
(In thousands)	2018	2017
Operating activities		
Net income (loss)	$21,788	$(726)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred income taxes	2,532	1,517
Noncash stock compensation expense	7,091	7,113
Noncash interest expense	6,362	6,005
Change in contingent consideration due to seller	150	669
Change in contingent consideration due from seller	—	(79)
Gain on disposal of assets	—	13
Depreciation and amortization	27,168	24,139
Change in assets:		
Accounts receivable	(60,333)	(64,343)
Income taxes receivable	4,274	(2,871)
Prepaid expenses and other assets	(3,132)	(3,742)
Change in liabilities:		
Accounts payable	47,517	62,801
Accrued expenses and other liabilities	9,967	10,718
Payments of contingent consideration in excess of costs over estimated earnings	(375)	—
Net cash provided by operating activities	63,009	41,215
Investing activities		
Purchases of property and equipment	(19,500)	(14,745)
Investments in business entities	(1,000)	—
Payments for acquisitions, net of cash acquired	(6,720)	—
Net cash used in investing activities	(27,220)	(14,745)
Financing activities		
Receipt of contingent consideration due from seller	—	500
Payments of contingent consideration due to seller	(550)	(695)
Proceeds from exercise of stock options	4,189	512
Employee tax withholdings related to net share settlements of equity-based awards	(2,400)	(1,552)
Purchases of treasury stock	—	(20,669)
Proceeds from borrowing on ABL facility	12,000	56,000
Repayments of amounts borrowed on ABL facility	(12,000)	(56,000)
Net cash provided by (used in) financing activities	1,239	(21,904)
Increase in cash and cash equivalents	37,028	4,566
Cash and cash equivalents, beginning of period	23,515	16,646
Cash and cash equivalents, end of period	$60,542	$21,213

Note: Amounts may not foot due to rounding.

Supplemental disclosure of cash flow information		
Cash paid during the period for interest	$3,473	$3,569
Cash paid during the period for income taxes	144	259
Cash received during the period for income taxes refunded	129	—

See accompanying notes.

5

Table of Contents

Echo Global Logistics, Inc. and Subsidiaries
Consolidated Statement of Stockholders' Equity
Nine Months Ended September 30, 2018
(Unaudited)

	Common Stock		Treasury Stock		Additional		
(In thousands, except share data)	Shares	Amount	Shares	Amount	Paid-In Capital	Retained Earnings	Total
Balance at December 31, 2017	30,768,050	$ 3	(3,526,870)	$(69,818)	$337,445	$91,242	$358,872
Share compensation expense	—	—	—	—	6,735	—	6,735
Exercise of stock options	380,042	0	—	—	4,188	—	4,189
Common stock issued for vested restricted stock	213,237	0	—	—	(0)	—	—
Common stock issued for vested performance shares	26,567	0	—	—	(0)	—	—
Common shares withheld and retired to satisfy employee tax withholding obligations upon vesting of share-based awards	(84,650)	(0)	—	—	(2,400)	—	(2,400)
Common shares issued for acquisition	25,223	0	—	—	693	—	693
Cumulative effect of accounting change	—	—	—	—	—	1,136	1,136
Net income	—	—	—	—	—	21,788	21,788
Balance at September 30, 2018	31,328,469	$ 3	(3,526,870)	$(69,818)	$346,662	$114,167	$391,014

Note: Amounts may not foot due to rounding.

See accompanying notes.

Echo Global Logistics, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
Nine Months Ended September 30, 2018 and 2017

1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Echo Global Logistics, Inc. and its subsidiaries (the "Company" or "Echo"). All significant intercompany accounts and transactions have been eliminated in the consolidation. The consolidated statements of operations include the results of entities or assets acquired from the effective date of the acquisition for accounting purposes.

The preparation of the consolidated financial statements is in conformity with the rules and regulations of the Securities and Exchange Commission ("SEC") and accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules or regulations. In the opinion of management, the accompanying unaudited financial statements reflect all adjustments considered necessary for a fair presentation of the results for the period and those adjustments are of a normal recurring nature. The operating results for the nine months ended September 30, 2018 are not necessarily indicative of the results expected for the full year 2018. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's audited financial statements for the year ended December 31, 2017.

Preparation of Financial Statements and Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results can differ from those estimates.

Fair Value of Financial Instruments

The carrying values of the Company's financial instruments, which consist of cash and cash equivalents, accounts receivable and accounts payable, approximate their fair values due to their short-term nature. The fair value of the acquired intangible assets was determined using a discounted cash flow analysis as further described in Note 3. The fair value of the due to seller liabilities are determined based on the likelihood of the Company making contingent earn-out payments (see Note 5). The fair value of the liability component of the Notes (as defined in Note 12) was determined using the discounted cash flow analysis discussed in Note 12.

2. Recent Accounting Pronouncements

Recently adopted accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, to clarify the principles used to recognize revenue for all entities. This new standard requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled for those goods or services. In addition, the new standard requires enhanced qualitative and quantitative disclosures related to the nature, amount,

timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Company adopted this standard on January 1, 2018 using the modified retrospective approach. As a result of using this approach, the Company recognized the cumulative effect adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The adoption of this new standard adjusted the revenue recognition timing of the Company's brokerage and transportation management services performance obligation from point in time to over time on a relative transit time basis, which resulted in a cumulative transition adjustment to the opening balance of retained earnings, on January 1, 2018, of $1.1 million, net of tax, and an increase of $6.6 million to revenue for the nine months ended September 30, 2018. While adoption

Table of Contents

of this standard also effects the corresponding direct costs of revenue, including commission expense, this change did not have a material impact on the Company's consolidated financial statements due to the short term nature of its performance obligations. The Company fully describes the adoption and impact of this standard in Note 4 to the consolidated financial statements. As part of the adoption of this standard, the Company implemented changes to its accounting policies, practices and internal controls over financial reporting.

In March 2018, the FASB issued ASU 2018-05, Income Taxes, to clarify the accounting implications of Staff Accounting Bulletin No. 118 ("SAB 118"). SAB 118 provides a measurement period that should not extend beyond one year from December 22, 2017, the date of the enactment of the Tax Cuts and Jobs Act (the "Act"), to complete the accounting under Accounting Standards Codification ("ASC") 740, Income Taxes. As of September 30, 2018, the Company has not adjusted the provisional estimate of $8.9 million recorded as a decrease to the net deferred tax liability at December 31, 2017. The Company expects to complete its analysis within the measurement period in accordance with SAB 118.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation, to provide guidance regarding which changes to a share-based payment award require modification accounting in Topic 718. The Company adopted this standard prospectively on January 1, 2018. The impact of this new standard is dependent on future modifications, if any, to the Company's share-based payment awards. For the nine months ended September 30, 2018, the adoption of this standard did not have an impact on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations: Clarifying the Definition of a Business, to clarify the definition of a business to assist entities when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The Company adopted this standard prospectively on January 1, 2018. During the nine months ended September 30, 2018, the Company acquired Freight Management Plus, Inc. ("Freight Management," or "FMP") as a business combination in accordance with this updated guidance as further discussed in Note 3 to the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows, to clarify the classification of certain cash receipts and cash payments in the statement of cash flows, including debt prepayment or extinguishment costs and settlement of contingent consideration arising from an acquisition. The Company adopted this standard retrospectively, and the adoption did not have a material impact on the consolidated financial statements.

Recently issued accounting pronouncements not yet adopted

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement, which modifies the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. This new accounting standard will be effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The Company is evaluating the effects that the adoption of this guidance will have on its disclosures.

In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation, which expands the scope of Topic 718 to include all share-based payment transactions for acquiring goods and services from nonemployees. The amendments in this update will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company is evaluating the effects that the adoption of this guidance will have on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment, to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. This new accounting standard will be effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The Company is evaluating the effects that the adoption of this guidance will have on its

consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, requiring a lessee to record, on the balance sheet, the assets and liabilities for the right-of-use assets and lease obligations created by leases with lease terms of more than 12 months. This new accounting standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. In July 2018, the FASB issued ASU 2018-11, which added amendments to create an optional transition method that will provide an option to use the effective date of ASC 842, Leases, as the date of initial application of the transition. The Company plans to adopt this optional transition method on January 1, 2019. Upon adoption, the Company plans to use the package of practical expedients that allows it to (i) not reassess whether

8

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an arrangement contains a lease, (ii) carry forward its lease classification as operating or capital leases and (iii) not reassess its previously recorded initial direct costs. In addition, the Company plans to elect the practical expedient to not separate lease and non-lease components whereby both components are accounted for and recognized as lease components. Adoption will also require enhanced qualitative and quantitative disclosures. The Company anticipates that the adoption of this standard will materially affect its consolidated balance sheets.

3. Acquisitions

On July 6, 2018, the Company purchased substantially all of the assets of Freight Management, a Pennsylvania corporation, for an aggregate purchase price of up to $10.2 million, of which (i) $6.6 million was paid at closing, subject to post-closing adjustments for working capital, (ii) $0.7 million was paid in the form of common stock, par value $0.0001 per share, of the Company at closing and (iii) up to $2.9 million will be paid in the three years following the closing, subject to the achievement of certain financial objectives set forth in the Asset Purchase Agreement by and between Echo/FMP Holdings, LLC, a wholly-owned subsidiary of the Company, and Freight Management. As a result of the preliminary purchase accounting for the acquisition, the Company recorded $2.3 million of goodwill, $1.4 million as the estimated opening balance sheet fair value of the contingent consideration obligation, and $5.1 million of customer relationship intangible assets. The fair values of the contingent consideration obligation and the customer relationship intangible assets are considered Level 3 fair value estimates. The fair value of the contingent consideration obligation was based on the probability of reaching the financial forecasts of future operating results, an appropriate discount rate, and the Company's historical experience with similar arrangements as further described in Note 5 to the consolidated financial statements. The fair value of the customer relationship intangible assets was determined using a discounted cash flow analysis based on the current customers of FMP at the time of the acquisition. This allocation is subject to change as the Company finalizes the purchase accounting. The Company is in the process of finalizing the valuation of certain acquired accounts receivable, accounts payable and intangible assets, along with the acquisition date fair value of the contingent consideration obligation. The amount of goodwill deductible for U.S. income tax purposes is $0.8 million, which excludes the opening balance sheet fair value of the contingent consideration obligation and provisional working capital adjustments.

As of September 30, 2018, the fair value of the contingent consideration has not changed from its opening balance sheet fair value of $1.4 million. The Company will continue to reassess the fair value of the contingent consideration obligation each quarter.

The amounts of revenue and net income of FMP included in the Company's consolidated statement of income from the acquisition date for the three months ended September 30, 2018 are $4.6 million and $0.2 million, respectively. During the nine months ended September 30, 2018, the Company incurred $0.3 million of acquisition-related costs associated with the acquisition, which were recorded in selling, general and administrative expenses on the consolidated statement of income.

4. Revenue

Adoption of ASC Topic 606, "Revenue from Contracts with Customers"

On January 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers ("ASC Topic 606"), using the modified retrospective method. Results for reporting periods beginning on or after January 1, 2018 are presented under ASC Topic 606; however, prior period amounts are not adjusted and continue to be reported in

accordance with the accounting standards in effect for those periods.

The Company recorded an increase to the opening balance of retained earnings of $1.1 million, net of tax, as of January 1, 2018 due to the cumulative impact of adoption of ASC Topic 606. The impact to revenue for the nine months ended September 30, 2018 was an increase of $6.6 million, as a result of applying ASC Topic 606.

Revenue Recognition

Revenue is recognized when 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. The Company generates revenue from two different client types: Transactional and Managed Transportation. Most clients are categorized as Transactional clients. For its Transactional business, the Company provides brokerage and transportation management services on a shipment-by-

Table of Contents
Echo Global Logistics, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
Nine Months Ended September 30, 2018 and 2017

shipment basis. Carrier selection, dispatch, load management and tracking are integrated services that occur within the brokerage and transportation management performance obligation. For the brokerage and transportation management performance obligation, revenue is recognized as the client's shipment travels from origin to destination by a third-party carrier. The Company is the principal in these transactions and recognizes revenue on a gross and relative transit time basis. The Company categorizes a client as a Managed Transportation client if there is an agreement with the client for the provision of services, typically for a multi-year term. Brokerage and transportation management services is typically the performance obligation for the Company's Managed Transportation clients. Other performance obligations for Managed Transportation clients may include transportation management services, which includes the integrated services of dispatch, tracking and carrier payment. For these types of transactions, revenue is recorded on a net basis as the Company does not have latitude in carrier selection or establish rates with the carrier. The Company also performs project-based services, such as compliance management, customized re-billing services and freight studies for certain Managed Transportation clients.

The following table presents the Company's revenue disaggregated by client type (in thousands, unaudited):

	Three Months Ended September 30,		Nine Months Ended September 30,	
Client Type	2018	2017[1]	2018	2017[1]
Transactional	$510,344	$401,179	$1,466,241	$1,105,533
Managed Transportation	134,478	108,352	390,482	289,835
Revenue	$644,821	$509,531	$1,856,723	$1,395,368

Note: Amounts may not foot due to rounding.
[1] Prior period amounts have not been adjusted under the modified retrospective method.

Revenue recognized per shipment varies depending on the transportation mode. The primary modes of shipment in which the Company transacts are truckload and less than truckload. Other transportation modes include intermodal, small parcel, domestic air, expedited and international.

The following table presents the Company's revenue disaggregated by mode (in thousands, unaudited):

	Three Months Ended September 30,		Nine Months Ended September 30,	
Mode	2018	2017[1]	2018	2017[1]
Truckload	$445,827	$347,453	$1,290,013	$942,464
Less than truckload	166,244	135,599	474,062	379,387
Other revenue	32,749	26,479	92,648	73,518
Revenue	$644,821	$509,531	$1,856,723	$1,395,368

Note: Amounts may not foot due to rounding.
[1] Prior period amounts have not been adjusted under the modified retrospective method.

Variable Consideration

Certain customers may receive rebates based on the terms of their agreement with the Company, which are accounted for as variable consideration. Rebates are estimated based on the expected amount to be provided to customers and reduce revenue recognized. The Company also estimates for possible additional fees based on a portfolio approach.

Practical Expedients

The Company adopted the practical expedient to recognize commission expense when incurred because the amortization period is less than one year. Commission expense recognition aligns with the Company's revenue recognition policy under ASC Topic 606, as commission expense is recognized on a relative transit time basis.

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 the Company recognizes revenue at the amount to which the Company has the right to invoice for services performed.

Table of Contents
Echo Global Logistics, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
Nine Months Ended September 30, 2018 and 2017

5. Fair Value Measurement

The Company applies ASC Topic 820, Fair Value Measurements and Disclosures ("ASC Topic 820"), for its financial assets and financial liabilities. The guidance requires disclosures about assets and liabilities measured at fair value. The Company's financial liabilities primarily relate to contingent earn-out payments due to sellers in connection with various acquisitions. The fair value of the due to seller liabilities at September 30, 2018 was $2.7 million. The potential earn-out payments and performance periods are defined in the individual purchase agreements for each acquisition. Earnings before interest, taxes, depreciation and amortization ("EBITDA") is the performance target defined and measured to determine the earn-out payment due, if any, after each defined measurement period.

The Company's financial assets related to contingent payments that were due from the seller of Command Transportation, LLC ("Command") based upon certain employee retention criteria. As of September 30, 2018, there was no remaining balance of the due from seller asset as the criteria were met.

ASC Topic 820 includes a fair value hierarchy that is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on observable or unobservable inputs to valuation techniques that are used to measure fair value. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon its own market assumptions. The fair value hierarchy consists of the following three levels:

- Level 1: Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable and market-corroborated inputs, which are derived principally from or corroborated by observable market data.
- Level 3: Inputs that are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

The significant inputs used to derive the fair value of the amounts due to seller include financial forecasts of future operating results, the probability of reaching the forecast and an appropriate discount rate for each contingent liability. Probabilities are estimated by reviewing financial forecasts and assessing the likelihood of reaching the required performance measures based on factors specific to each acquisition as well as the Company's historical experience with similar arrangements. If an acquisition reaches the required performance measure, the estimated probability would be increased to 100% and would still be classified as a contingent liability on the balance sheet. If the measure is not reached, the probability would be reduced to reflect the amount earned, if any, depending on the terms of the agreement. Discount rates used in determining the fair value of the contingent consideration due to seller ranged from 5% to 6%. Historical results of the respective acquisitions serve as the basis for the financial forecasts used in the valuation.

Quantitative factors are also considered in these forecasts, including acquisition synergies, growth and sales potential and potential operational efficiencies gained. Changes to the significant inputs used in determining the fair value of the contingent consideration due to seller could result in a change in the fair value of the contingent consideration. However, the correlation and inverse relationship between higher projected financial results to the discount rate applied and probability of meeting the financial targets mitigates the effect of any changes to the unobservable inputs.

The following tables set forth the Company's financial liabilities measured at fair value on a recurring basis and the basis of measurement at September 30, 2018 and December 31, 2017 (in thousands):

	Fair Value Measurements as of September 30, 2018			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Contingent consideration due to seller	$(2,700)	—	—	$(2,700)

	Fair Value Measurements as of December 31, 2017			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Contingent consideration due to seller	$(2,075)	—	—	$(2,075)

The following table provides a reconciliation of the beginning and ending balances for the liabilities measured at fair value using significant unobservable inputs (Level 3) (in thousands):

	Due to Seller Liability
Balance at December 31, 2017	$(2,075)
FMP acquisition, acquisition date fair value	(1,400)
Change in fair value of contingent consideration due to seller	(150)
Payment of contingent consideration due to seller	925
Balance at September 30, 2018	$(2,700)

For the three months ended September 30, 2018 and 2017, the Company recognized expense of $50 thousand and $304 thousand, respectively, in selling, general and administrative expenses due to the change in fair value determined by a Level 3 valuation technique. For the nine months ended September 30, 2018 and 2017, the Company recognized net expense of $150 thousand and $590 thousand, respectively. These changes in fair value resulted from using revised forecasts that took into account the most recent performance at each acquired business, the effect of the time value of money and the satisfaction of the employee retention criteria.

During the nine months ended September 30, 2018 and 2017, the Company made contingent earn-out payments of $925 thousand and $695 thousand, respectively, to the sellers of businesses acquired by the Company. The Company did not receive any contingent payments from the seller of Command during the nine months ended September 30, 2018. The Company received $500 thousand of contingent payments from the seller of Command during the nine months ended September 30, 2017.

6. Intangibles and Goodwill

The following is a roll-forward of goodwill from December 31, 2017 to September 30, 2018:

Balance as of December 31, 2017	$307,314
FMP acquisition, goodwill acquired	2,275
Balance as of September 30, 2018	$309,589

12

The following is a summary of amortizable intangible assets as of September 30, 2018 and December 31, 2017 (in thousands):

	September 30, 2018			December 31, 2017		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Customer relationships	$150,239	$ (55,408)	$94,831	$145,139	$ (48,058)	$97,081
Carrier relationships	18,300	(3,588)	14,712	18,300	(2,781)	15,519
Non-compete agreements	5,239	(2,806)	2,433	5,239	(2,216)	3,023
Trade names	5,640	(4,784)	856	5,640	(3,779)	1,861
	$179,418	$ (66,586)	$112,832	$174,318	$ (56,834)	$117,484

The customer relationships are being amortized using an accelerated method over their estimated weighted-average useful life of 14.8 years, as an accelerated method best approximates the distribution of cash flows generated by the acquired customer relationships. The carrier relationships, non-compete agreements and trade names are being amortized using the straight-line method over their estimated weighted-average useful lives of 17.0 years, 6.7 years and 4.0 years, respectively. Amortization expense related to intangible assets was $3.3 million and $3.6 million for the three months ended September 30, 2018 and 2017, respectively, and $9.8 million and $10.7 million for the nine months ended September 30, 2018 and 2017, respectively.

The estimated amortization expense for the next five years and thereafter is as follows (in thousands):

Remainder of 2018	$3,268
2019	11,802
2020	10,973
2021	10,362
2022	10,005
Thereafter	66,421
Total	$112,832

Note: Amounts may not foot due to rounding.

7. Accrued Expenses and Other Noncurrent Liabilities

The components of accrued expenses at September 30, 2018 and December 31, 2017 were as follows (in thousands):

	September 30, 2018	December 31, 2017
Accrued compensation	$ 31,963	$ 24,206
Accrued rebates	2,737	2,038
Accrued employee benefits	2,755	2,480
Accrued professional service fees	2,891	698
Accrued interest	2,592	1,139
Deferred rent	2,485	2,641
Other	4,884	6,459
Total accrued expenses	$ 50,306	$ 39,660

Note: Amounts may not foot due to rounding.

The other noncurrent liabilities of $18.7 million and $20.3 million at September 30, 2018 and December 31, 2017, respectively, consist primarily of the portion of deferred rent in excess of twelve months.

Table of Contents
Echo Global Logistics, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
Nine Months Ended September 30, 2018 and 2017

8. Income Taxes

On December 22, 2017, the Act was signed into legislation. The Act became effective January 1, 2018 and reduced the federal corporate tax rate from 35% to 21%.

In March 2018, the FASB issued ASU 2018-05, Income Taxes, which provides guidance on accounting for the tax effects of SAB 118, as discussed in Note 2. SAB 118 provides a measurement period that should not extend beyond one year from December 22, 2017 to complete the accounting under the Act. As of September 30, 2018, the Company has not adjusted the provisional estimate of $8.9 million recorded as a decrease to the net deferred tax liability at December 31, 2017. The Company considers the deferred tax re-measurements, and other items to be reasonable estimates, but provisional, due to the forthcoming guidance and its ongoing analysis of final year-end data and tax provisions. The Company expects to complete its analysis within the measurement period in accordance with SAB 118.

The following table shows the Company's effective income tax rate for the three and nine months ended September 30, 2018 and 2017 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Income (Loss) before provision for income taxes	$12,501	$2,618	$28,609	$(2,022)
Income tax (expense) benefit	$(3,118)	$(226)	$(6,821)	$1,297
Effective tax rate	24.9 %	8.6 %	23.8 %	(64.1)%

The difference in the Company's effective tax rate for the three and nine months ended September 30, 2018 from the Company's statutory federal tax rate of 21% was primarily due to state taxes; an increase in non-deductible expenses, primarily executive stock-based compensation; offset in part by the impact of certain tax credits.

The difference in the Company's effective tax rate for the three months ended September 30, 2017 from the company's federal tax rate of 35% was primarily due to a domestic production tax deduction for the 2013 tax year recorded in the third quarter of 2017, the net tax deficiencies related to share-based payment awards recognized as income tax expense in accordance with ASU 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting and lower income before taxes during the quarter, while the difference in the Company's effective tax rate for the nine months ended September 30, 2017 was primarily due to a domestic production tax deduction for the 2013 tax year recorded in the third quarter of 2017, the net tax deficiencies related to share-based payment awards and the effect of the 2017 year to date pre-tax loss.

Table of Contents
Echo Global Logistics, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
Nine Months Ended September 30, 2018 and 2017

9. Earnings (Loss) Per Share

Basic earnings (loss) per common share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted earnings (loss) per common share is calculated by dividing net income (loss) by the weighted average shares outstanding plus share equivalents that would arise from the exercise of share options and the vesting of restricted stock and performance shares. The computation of basic and diluted earnings (loss) per common share for the three and nine months ended September 30, 2018 and 2017 is as follows (in thousands, except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Numerator:				
Net income (loss)	$9,383	$ 2,392	$21,788	$ (726)
Denominator:				
Denominator for basic earnings (loss) per common share - weighted-average shares	27,779,990	27,486,098	27,571,122	27,885,839
Effect of dilutive securities:				
Employee stock awards	428,977	135,806	364,492	—
Denominator for dilutive earnings (loss) per common share	28,208,967	27,621,904	27,935,614	27,885,839
Basic earnings (loss) per common share	$0.34	$ 0.09	$0.79	$ (0.03)
Diluted earnings (loss) per common share	$0.33	$ 0.09	$0.78	$ (0.03)

For the three months ended September 30, 2018 and 2017, and the nine months ended September 30, 2018, there were no employee stock options and no unvested restricted stock and performance and market-based shares excluded from the calculation of diluted earnings per common share. For the nine months ended September 30, 2017, 266,347 incremental shares related to stock-based awards were not included in the computation of diluted loss per common share because of the net loss during the period.

As of September 30, 2018, none of the conditions allowing holders of the Notes to convert have been met and no conversion spread exists. As such, the Notes did not have a dilutive impact on diluted earnings (loss) per common share for the three and nine months ended September 30, 2018 and 2017.

10. Stock-Based Compensation Plans

The Company recorded $2.4 million and $7.1 million in total stock-based compensation expense with corresponding income tax benefits of $0.6 million and $1.7 million for the three and nine months ended September 30, 2018, respectively. For the three and nine months ended September 30, 2017, the Company recorded $2.0 million and $7.1 million in total stock-based compensation expense with corresponding income tax benefits of $0.8 million and $2.7 million, respectively.

During each of the nine months ended September 30, 2018 and 2017, the Company did not grant any stock options.

The Company granted 247,612 and 294,820 shares of restricted stock to various employees during the nine months ended September 30, 2018 and 2017, respectively.

In 2014, the Company initiated a performance and market-based stock incentive plan for certain executives that provides vesting based on specific financial and market-based performance measurements. The Company granted 97,966 and 99,933 shares of performance and market-based stock during the nine months ended September 30, 2018 and 2017, respectively.

11. Contingencies

In the normal course of business, the Company is subject to potential claims and disputes related to its business, including claims for freight lost or damaged in transit. Some of these matters may be covered by the Company's insurance and risk management programs or may result in claims or adjustments with the Company's carriers. No such matters are currently expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

15

In July 2016, the Company received an unfavorable appeals assessment regarding a state activity-based tax matter of $1.3 million, including penalties and interest, for the state tax audit period from January 1, 2010 to June 30, 2014. The Company believes the assessment is without merit and is currently defending the Company's position through a formal appeals process. The Company has not recorded any potential loss related to this matter as of September 30, 2018.

12. Long-Term Debt

ABL Facility

On June 1, 2015, the Company and Command, as co-borrowers, entered into a Revolving Credit and Security Agreement (the “Credit Agreement”) with PNC Bank. The Credit Agreement provides for a senior secured revolving credit facility in an initial aggregate principal amount of up to $200 million (the “ABL Facility”). The Company's obligations under the ABL facility are secured, on a first lien priority basis, by certain working capital assets. The initial aggregate principal amount under the ABL Facility may be increased from time to time by an additional $100 million to a maximum aggregate principal amount of $300 million.

Interest is payable at a rate per annum equal to, at the option of the Company, any of the following, plus, in each case, an applicable margin: (a) a base rate determined by reference to the highest of (1) the federal funds effective rate, plus 0.50%, (2) the base commercial lending rate of PNC Bank, National Association and (3) a daily LIBOR rate, plus 1.00%; or (b) a LIBOR rate determined by reference to the costs of funds for deposits in the relevant currency for the interest period relevant to such borrowing adjusted for certain additional costs. The applicable margin is 0.25% to 0.75% for borrowings at the base rate and 1.25% to 1.75% for borrowings at the LIBOR rate, in each case, based on the excess availability under the ABL Facility.

The Company is required to pay a commitment fee in respect to the unutilized commitments under the revolving credit facility. At September 30, 2018, the Company's commitment fee was calculated at a rate of 0.375%. The Company recognized interest expense related to the commitment fee and borrowings on the ABL Facility of $0.2 million for each of the three months ended September 30, 2018 and 2017, and $0.6 million and $0.7 million for the nine months ended September 30, 2018 and 2017, respectively.

The Company drew $12.0 million and $56.0 million on the ABL Facility during the nine months ended September 30, 2018 and 2017, respectively, all of which was repaid as of September 30, 2018 and 2017. No amounts were outstanding on the ABL Facility as of September 30, 2018. The Company is in compliance with all covenants related to the ABL Facility.

The issuance of letters of credit under the ABL Facility reduces available borrowings. As of September 30, 2018, there were $0.7 million of letters of credit outstanding. The total draw allowed on the ABL Facility at September 30, 2018, as determined by the working capital assets pledged as collateral, was $200.0 million. After adjusting for the letters of credit, the Company's remaining availability under the ABL Facility at September 30, 2018 was $199.3 million.

The Company incurred issuance costs of $3.1 million in 2015 related to the ABL Facility. These issuance costs are being amortized to interest expense using straight-line amortization over the 5 year life of the ABL Facility. For each of the three and nine months ended September 30, 2018 and 2017, the Company recorded $0.2 million and $0.5 million of interest expense related to ABL Facility issuance costs, respectively. As there is no outstanding draw on the

ABL Facility at September 30, 2018, the unamortized issuance costs are presented as a deferred asset on the consolidated balance sheet.

Convertible Senior Notes

On May 5, 2015, the Company issued $230 million aggregate principal amount of 2.50% convertible senior notes due 2020 (the “Notes”). The Company used all of the net proceeds from the note offering (together with the proceeds from the sale of common stock and borrowings under the ABL Facility) to finance the acquisition of Command in June 2015.

The Notes bear interest at a rate of 2.50% per year payable semiannually in arrears in cash on May 1 and November 1 of each year, beginning on November 1, 2015. The Notes will mature on May 1, 2020, unless earlier converted or repurchased in accordance with the terms discussed below. The Notes are the Company's senior unsecured obligations and rank senior in right of payment to any of the Company's indebtedness that is expressly subordinated in right of payment to the Notes; equal in right of payment to any of the Company's unsecured indebtedness that is not so subordinated; effectively junior in right of payment

to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of the Company's subsidiaries.

The Notes will be convertible, under certain circumstances and during certain periods, into cash, shares of the Company's common stock, or a combination of cash and shares of common stock at the Company's election, at an initial conversion rate of 25.5428 shares of common stock per $1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately $39.15 per share of common stock.

The Company's intent and policy will be to settle the $230 million principal amount of Notes in cash, and any excess conversion premium in shares of common stock. As such, the principal amount of the Notes will not be included in the calculation of diluted earnings (loss) per common share, but any conversion premium that exists will be included in the calculation of diluted earnings (loss) per common share using the treasury stock method. As of September 30, 2018, none of the conditions allowing holders of the Notes to convert have been met and no conversion spread exists. As such, the Notes did not have a dilutive impact on diluted earnings (loss) per common share for each of the three and nine months ended September 30, 2018 and 2017.

At issuance, the Company estimated the straight debt borrowing rates to be 5.75% for similar debt to the Notes without the conversion feature, which resulted in a fair value of the liability component of $198.5 million and a fair value of the equity component of $31.5 million. The fair value of the equity component was recorded as a debt discount, with the offset recorded as a credit to additional paid-in capital within stockholders' equity. The $31.5 million debt discount and Note issuance costs discussed below are being amortized to interest expense under the effective interest method over the 5 year life of the Notes, using an effective interest rate of 6.33%.

The Company allocated the total issuance costs related to the Notes to liability and equity components based on their relative fair values. Issuance costs attributable to the liability component were recorded on the consolidated balance sheets as a contra-liability that reduces the carrying amount of the convertible note liability. This amount is being amortized to interest expense over the term of the Notes using the effective interest method and an effective interest rate of 6.33%. Issuance costs attributable to the equity component were recorded as a charge to additional paid-in capital within stockholders' equity.

As of September 30, 2018 and December 31, 2017, the carrying amounts of the Notes on the consolidated balance sheets were calculated as follows (in thousands):

	September 30, 2018	December 31, 2017
Convertible senior notes, principal amount	$230,000	$230,000
Unamortized debt discount	(11,064)	(15,930)
Unamortized debt issuance costs	(2,188)	(3,151)
Convertible senior notes, net	$216,748	$210,919

The Notes are carried on the consolidated balance sheets at their principal amount, net of the unamortized debt discount and unamortized debt issuance costs, and are not marked to market each period. The approximate fair value of the Notes as of September 30, 2018 was $239.9 million. The fair value of the Notes was estimated based on the trading price of the Notes at September 30, 2018. As trading volume is low, these are quoted prices for identical instruments in markets that are not active, and thus are Level 2 in the fair value hierarchy.

For the three and nine months ended September 30, 2018 and 2017, interest expense related to the Notes consisted of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Contractual coupon interest	$1,438	$1,438	$4,313	$4,313
Debt discount amortization	1,648	1,547	4,867	4,569
Debt issuance cost amortization	326	306	963	904
Interest expense, Notes	$3,411	$3,291	$10,142	$9,785

Note: Amounts may not foot due to rounding.

The undiscounted interest and principal payments due in relation to the Notes from September 30, 2018 to the maturity of the Notes on May 1, 2020 are as follows (in thousands):

	Total	2018	2019	2020
Senior convertible notes, including interest	$241,500	2,875	5,750	$232,875

13. Subsequent Events

On October 23, 2018, the Company entered into Amendment No. 2 to its Revolving Credit and Security Agreement (the "Second Amendment"), which amends the terms of its existing Revolving Credit and Security Agreement, dated as of June 1, 2015, by and among the Company, the lenders party thereto, and PNC Bank, National Association, as administrative agent (as amended, restated or otherwise modified prior to the Second Amendment, the "Existing Credit Agreement" and, as amended by the Second Amendment, the "Amended Credit Agreement"). The Amended Credit Agreement provides for a senior secured revolving credit facility in an initial aggregate principal amount of up to $350 million (the "Amended ABL Facility"), with an extended maturity date of October 23, 2023. The initial aggregate principal amount under the Amended ABL Facility may be increased from time to time by an additional $150 million to a maximum aggregate principal amount of $500 million; provided that certain requirements are satisfied. The Company's obligations under the Amended ABL Facility are secured, on a first lien priority basis, by certain working capital assets.

Interest is payable at a rate per annum equal to, at the option of the Company, any of the following, plus, in each case, an applicable margin: (a) a base rate determined by reference to the highest of (1) the federal funds effective rate, plus 0.50%, (2) the base commercial lending rate of PNC Bank, National Association and (3) a daily LIBOR rate, plus 1.00%; or (b) a LIBOR rate determined by reference to the costs of funds for deposits in the relevant currency for the interest period relevant to such borrowing adjusted for certain additional costs. The applicable margin is 0.25% to 0.50% for borrowings at the base rate and 1.25% to 1.50% for borrowings at the LIBOR rate, in each case, based on the excess availability under the Amended ABL Facility.

The Company will be required to pay a commitment fee in respect to the unutilized commitments under the Amended ABL Facility, calculated at a rate of 0.25%.

The terms of the Amended ABL Facility include various covenants, including a covenant that requires the Company to maintain a consolidated fixed charge coverage ratio at any time (a) a specified default occurs or (b) if excess availability falls below certain specified levels.

The issuance of letters of credit under the Amended ABL Facility reduces available borrowings.

The Company incurred issuance costs of approximately $0.7 million in 2018 related to the Amended ABL Facility. These issuance costs will be presented on the consolidated balance sheet as a reduction to the carrying amount of the debt and amortized to interest expense using straight-line amortization over the 5 year life of the Amended ABL Facility, and the unamortized issuance costs will be presented as a deferred asset on the consolidated balance sheet.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements in this Quarterly Report on Form 10-Q are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements involve a number of risks, uncertainties and other factors that could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors which could materially affect such forward-looking statements can be found in the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017 and elsewhere in this Form 10-Q. Investors are urged to consider these factors carefully in evaluating any forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are only made as of the date hereof and we undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

Overview

We are a leading provider of technology-enabled transportation and supply chain management solutions. We utilize a proprietary technology platform to compile and analyze data from our multi-modal network of transportation providers to satisfy the transportation and logistics needs of our clients. This model enables us to quickly adapt to and offer efficient and cost-effective solutions for our clients' shipping needs. We focus primarily on arranging transportation by truckload ("TL") and less than truckload ("LTL") carriers. We also offer intermodal (which involves moving a shipment by rail and truck), small parcel, domestic air, expedited and international transportation services. Our core logistics services include carrier selection, dispatch, load management and tracking.

We procure transportation and provide logistics services for clients across a wide range of industries, such as manufacturing, construction, food and beverage, consumer products and retail. Our clients fall into two categories: Transactional and Managed Transportation. We provide brokerage and transportation management services to our Transactional clients on a shipment-by-shipment basis, typically with individual or spot market pricing. We typically enter into multi-year agreements with our Managed Transportation clients, which are often on an exclusive basis for a specific transportation mode or point of origin. As part of our value proposition, we also provide core logistics services to these clients.

Table of Contents

Results of Operations

The following table represents certain results of operations data:

(Unaudited, in thousands except per share data)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Consolidated statements of operations data:				
Revenue	$644,821	$509,531	$1,856,723	$1,395,368
Transportation costs	533,601	422,830	1,538,791	1,152,556
Net revenue [1]	111,220	86,701	317,932	242,812
Operating expenses:				
Commissions	33,162	26,452	95,730	73,571
Selling, general and administrative expenses	52,498	45,528	154,990	135,559
Contingent consideration expense	50	304	150	590
Depreciation and amortization	9,230	8,124	27,168	24,139
Total operating expenses	94,939	80,408	278,039	233,858
Income from operations	16,281	6,293	39,893	8,954
Interest income		21	—	21
Interest expense	(3,780)	(3,696)	(11,284)	(10,997)
Income (Loss) before provision for income taxes	12,501	2,618	28,609	(2,022)
Income tax (expense) benefit	(3,118)	(226)	(6,821)	1,297
Net income (loss)	$9,383	$2,392	$21,788	$(726)
Earnings (Loss) per common share:				
Basic	$0.34	$0.09	$0.79	$(0.03)
Diluted	$0.33	$0.09	$0.78	$(0.03)
Shares used in per share calculations (in thousands):				
Basic	27,780	27,486	27,571	27,886
Diluted	28,209	27,622	27,936	27,886

Note: Amounts may not foot due to rounding.

[1] Net revenue is a non-GAAP measure calculated as revenue less transportation costs. Net revenue is one of the primary operational and financial measures used by management to evaluate the business. The following table presents a reconciliation of net revenue to revenue, the most comparable GAAP measure:

(Unaudited, in thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Revenue	$644,821	$509,531	$1,856,723	$1,395,368
Transportation costs	533,601	422,830	1,538,791	1,152,556
Net revenue	$111,220	$86,701	$317,932	$242,812

20

Table of Contents

Revenue

We generate revenue through the sale of brokerage and transportation management services to our clients. For our brokerage and transportation management services, revenue is recognized as the client's shipment travels from origin to destination by a third-party carrier. Our revenue was $1.9 billion and $1.4 billion for the nine months ended September 30, 2018 and 2017, respectively, representing a period-over-period increase of 33.1%.

Our revenue is generated from two different types of clients: Transactional and Managed Transportation. Most of our clients are categorized as Transactional. We provide services to our Transactional clients on a shipment-by-shipment basis. We categorize a client as a Managed Transportation client if we have a contract with the client for the provision of services on a recurring basis. Our contracts with Managed Transportation clients typically have a multi-year term and are often on an exclusive basis for a specific transportation mode or point of origin. In several cases, we provide substantially all of a client's transportation and logistics requirements. Our Managed Transportation accounts typically generate higher dollar amounts and volume than our Transactional relationships. For the nine months ended September 30, 2018 and 2017, Transactional clients accounted for 79.0% and 79.2% of our revenue, respectively, and Managed Transportation clients accounted for 21.0% and 20.8% of our revenue, respectively. We expect to continue to grow both our Transactional and Managed Transportation client base in the future, although the rate of growth for each type of client will vary depending on opportunities in the marketplace.

Revenue recognized per shipment will vary depending on the transportation mode, fuel prices, shipment weight, density and mileage of the product shipped. The primary modes of shipment that we transact in are TL and LTL. Other transportation modes include intermodal, small parcel, domestic air, expedited and international. Material shifts in the percentages of our revenue by transportation mode could have a significant impact on our revenue growth. For the nine months ended September 30, 2018, TL accounted for 69.5% of our revenue, LTL accounted for 25.5% of our revenue and other transportation modes accounted for 5.0% of our revenue. For the nine months ended September 30, 2017, TL accounted for 67.5% of our revenue, LTL accounted for 27.2% of our revenue and other transportation modes accounted for 5.3% of our revenue.

The transportation industry has historically been subject to seasonal sales fluctuations as shipments generally are lower during and after the winter holiday season because many companies ship goods and stock inventories prior to this season. While we experience some seasonality, differences in our revenue between periods have been driven primarily by growth in our client base and changes in the market environment.

Transportation costs and net revenue

We act primarily as a service provider to add value and expertise in the procurement and execution of transportation and logistics services for our clients. Our pricing structure is primarily variable, although we have entered into a limited number of fixed-fee arrangements that represent an insignificant portion of our revenue. Net revenue equals revenue minus transportation costs. Our transportation costs consist primarily of the direct cost of transportation paid to the carrier.

Net revenue is considered by management to be an important measurement of our success in the marketplace. Our transportation costs are typically lower for an LTL shipment than for a TL shipment, while our net revenue margin is typically higher for an LTL shipment than for a TL shipment. Material shifts in the percentage of our revenue by transportation mode could have a significant impact on our net revenue. The discussion of our results of operations below focuses on changes in our net revenue and expenses as a percentage of net revenue. Net revenue for the nine months ended September 30, 2018 was $317.9 million, an increase of 30.9% from $242.8 million in the comparable period of 2017.

Operating expenses

Our costs and expenses, excluding transportation costs, consist of commissions paid to our sales personnel; selling, general and administrative expenses to run our business; changes in our contingent consideration; and depreciation and amortization.

Commissions paid to our sales personnel, including employees and agents, are a significant component of our operating expenses. These commissions are based on the net revenue we collect from the clients for which such sales personnel have primary responsibility. For the nine months ended September 30, 2018 and 2017, our commission expense was $95.7 million and $73.6 million, respectively. Commission expense decreased to 30.1% of our net revenue as of September 30, 2018, as compared to 30.3% in the prior year. The percentage of net revenue paid as commissions will vary depending on the type of client, composition of the sales team and mode of transportation. Commission expense, stated as a percentage of net revenue, could increase or decrease in the future depending on the composition and sources of our revenue growth.

Table of Contents

We accrue for commission expense when we recognize the related revenue on a relative transit time basis. Some of our sales personnel receive a monthly advance to provide them with a more consistent income stream. Cash paid to our sales personnel in advance of commissions earned is recorded as a prepaid expense. As our sales personnel earn commissions, a portion of their commission payment is withheld and offset against their prepaid commission balance, if any.

Selling, general and administrative expenses, excluding commission expense and changes to contingent consideration, consist of compensation costs for our sales, operations, information systems, finance and administrative support employees as well as occupancy costs, professional fees, stock compensation, acquisition-related transaction costs and other general and administrative expenses. For the nine months ended September 30, 2018 and 2017, our selling, general and administrative expenses were $155.0 million and $135.6 million, respectively. For the nine months ended September 30, 2018 and 2017, selling, general and administrative expenses as a percentage of net revenue were 48.7% and 55.8%, respectively.

Our contingent consideration expense is the change in the fair value of our contingent consideration assets and liabilities. The contingent consideration assets and liabilities presented on our consolidated balance sheets reflect the fair value of expected earn-out payments that may be paid or received from the sellers of certain acquired businesses upon the achievement of certain performance measures. The fair values of the contingent consideration assets and liabilities are evaluated on a quarterly basis, and the change in fair value is included in selling, general and administrative expenses in our consolidated statements of operations. For the nine months ended September 30, 2018 and 2017, we recorded a net expense of $0.2 million and $0.6 million, respectively.

Our depreciation expense is primarily attributable to depreciation of computer hardware and software, equipment, leasehold improvements, furniture and fixtures and internally developed software. For the nine months ended September 30, 2018 and 2017, depreciation expense was $17.4 million and $13.4 million, respectively.

Our amortization expense is attributable to amortization of intangible assets acquired from business combinations, including customer and carrier relationships, trade names and non-compete agreements. For the nine months ended September 30, 2018 and 2017, amortization expense was $9.8 million and $10.7 million, respectively.

Interest expense

The interest expense included in our consolidated statements of operations consists of interest expense related to our $230 million aggregate principal amount of 2.50% convertible senior notes due 2020 issued in May 2015 (the "Notes") and our senior secured revolving credit facility in an initial aggregate principal amount of up to $200 million entered into in June 2015 (the "ABL Facility"). We amortize the debt discount and issuance costs related to the Notes over the five year life of the Notes using the effective interest method. We amortize the issuance costs related to our ABL Facility over the five year life of the facility using straight-line amortization, as the amount drawn on the line (and thus the interest rate and commitment fee paid by Echo) will fluctuate from period to period. Interest expense was $11.3 million and $11.0 million for the nine months ended September 30, 2018 and 2017, respectively.

Comparison of the three months ended September 30, 2018 and 2017

Revenue

Revenue for the three months ended September 30, 2018 was $644.8 million, an increase of 26.6% from $509.5 million in the comparable period of 2017. The increase in revenue was primarily attributable to an increase of 17.6% in revenue per shipment, along with an increase of 7.6% in volume.

Revenue from Transactional clients for the three months ended September 30, 2018 was $510.3 million, an increase of 27.2% from $401.2 million in the comparable period of 2017. The increase in Transactional revenue was driven by an increase in both TL and LTL volume and revenue per shipment. Revenue from Transactional clients was 79.1% of our revenue for the three months ended September 30, 2018, an increase from 78.7% of our revenue in the comparable period of 2017.

Revenue from Managed Transportation clients for the three months ended September 30, 2018 was $134.5 million, an increase of 24.1% from $108.4 million in the comparable period of 2017. The increase in Managed Transportation revenue was driven by an increase in both volume and revenue per shipment. Revenue from Managed Transportation clients was 20.9% of our revenue for the three months ended September 30, 2018, a decrease from 21.3% of revenue in the comparable period of 2017. This decrease in Managed Transportation revenue as a percent of total revenue was driven by the increases in Transactional revenue per shipment and volume.

Table of Contents

Transportation costs

Transportation costs for the three months ended September 30, 2018 were $533.6 million, an increase of 26.2% from $422.8 million in the comparable period of 2017. The 7.6% growth in the total number of shipments and the 17.3% increase in carrier rates per load drove the increase in our transportation costs during this period. Our transportation costs as a percentage of revenue decreased to 82.8% for the three months ended September 30, 2018 from 83.0% in the comparable period of 2017, which is due to the increase in revenue per shipment.

Net revenue

Net revenue for the three months ended September 30, 2018 was $111.2 million, an increase of 28.3% from $86.7 million in the comparable period of 2017. The increase in net revenue was driven by the 17.6% increase in revenue per shipment and the 7.6% growth in the total number of shipments. Net revenue margins increased to 17.2% for the three months ended September 30, 2018, from 17.0% in the comparable period of 2017, due to an increase in TL margins.

Operating expenses

Commission expense for the three months ended September 30, 2018 was $33.2 million, an increase of 25.4% from $26.5 million in the comparable period of 2017, due to higher net revenue resulting from increased volume. For the three months ended September 30, 2018, commission expense was 29.8% of net revenue, compared to 30.5% in the comparable period of 2017. The decrease in commission expense as a percentage of net revenue for the three months ended September 30, 2018 was due to the fluctuations in the composition of our net revenue by sales channel type.

Selling, general and administrative expenses for three months ended September 30, 2018 were $52.5 million, an increase of 15.3% from $45.5 million in the comparable period in 2017, due to an increased investment in technology, the growth of our sales force and operating personnel, and acquisition-related transaction costs. As a percentage of net revenue, selling, general and administrative expenses decreased to 47.2% for the three months ended September 30, 2018, from 52.5% in the comparable period of 2017. The decrease in selling, general and administrative expenses as a percent of net revenue is driven by the increase in net revenue.

The contingent consideration fair value adjustment resulted in expense of $0.1 million and $0.3 million for the three months ended September 30, 2018 and 2017, respectively. The expense for both 2018 and 2017 was the result of adjustments made to the fair value of the contingent liabilities due to financial performance of previous acquisition owners and the time value of money. The fair value of the contingent consideration liabilities reflects the updated probabilities and assumptions as of September 30, 2018.

Depreciation expense for the three months ended September 30, 2018 was $6.0 million, an increase of 30.5% from $4.6 million in the comparable period of 2017. The increase in depreciation expense is primarily due to depreciation of internally developed software and computer equipment.

Amortization expense for the three months ended September 30, 2018 was $3.3 million, a decrease of 8.0% from $3.6 million in the comparable period of 2017. The decrease in amortization expense was primarily attributable to the accelerated method of amortization of our acquired customer relationships, along with the complete amortization of previously acquired intangible assets.

Income from operations

Income from operations for the three months ended September 30, 2018 was $16.3 million, compared to $6.3 million in the comparable period of 2017. The increase in income from operations was primarily due to higher net revenue.

Interest expense

Interest expense was $3.8 million for the three months ended September 30, 2018, an increase from $3.7 million in the comparable period of 2017. The interest expense in both years primarily relates to our Notes and the ABL Facility.

Table of Contents

Income tax expense

We recognized income tax expense of $3.1 million and $0.2 million for the three months ended September 30, 2018 and 2017, respectively. Our effective tax rate for the three months ended September 30, 2018 was 24.9%, compared to an effective tax rate of 8.6% in the comparable period of 2017. The difference in our effective tax rate for the three months ended September 30, 2018 from the statutory federal tax rate of 21% was primarily due to state taxes and non-deductible expenses, primarily stock-based compensation. The difference in our effective tax rate for the the three months ended September 30, 2017 from the Company's statutory federal tax rate of 35% was primarily due to a domestic production tax deduction for the 2013 tax year recorded in the third quarter of 2017 and net tax deficiencies related to share-based payment awards.

Net income

Net income for the three months ended September 30, 2018 was $9.4 million, compared to $2.4 million in the comparable period of 2017, due to the items previously discussed.

Comparison of the nine months ended September 30, 2018 and 2017

Revenue

Revenue for the nine months ended September 30, 2018 was $1.9 billion, an increase of 33.1% from $1.4 billion in the comparable period of 2017. The increase in revenue was primarily attributable to an increase of 21.8% in revenue per shipment, along with a 9.2% increase in volume.

Revenue from Transactional clients for the nine months ended September 30, 2018 was $1.5 billion, an increase of 32.6% from $1.1 billion in the comparable period of 2017. The increase in Transactional revenue was driven by an increase in both TL and LTL revenue per shipment. Revenue from Transactional clients was 79.0% of our revenue for the nine months ended September 30, 2018, a decrease from 79.2% of our revenue in the comparable period of 2017. The decrease in Transactional revenue as a percent of total revenue was driven by an increase in Managed Transportation volume.

Revenue from Managed Transportation clients for the nine months ended September 30, 2018 was $390.5 million, an increase of 34.7% from $289.8 million in the comparable period of 2017. Revenue from Managed Transportation clients was 21.0% of our revenue for the nine months ended September 30, 2018, an increase from 20.8% of revenue in the comparable period of 2017. This increase was driven by the increase in revenue from existing clients, along with the addition of new clients.

Transportation costs

Transportation costs for the nine months ended September 30, 2018 were $1.5 billion, an increase of 33.5% from $1.2 billion in the comparable period of 2017. The 9.2% growth in the total number of shipments and the 22.2% increase in carrier rates per load drove the increase in our transportation costs during this period. Our transportation costs as a percentage of revenue increased to 82.9% for the nine months ended September 30, 2018 from 82.6% in the comparable period of 2017, primarily due to higher carrier rates.

Net revenue

Net revenue for the nine months ended September 30, 2018 was $317.9 million, an increase of 30.9% from $242.8 million in the comparable period of 2017. The increase in net revenue was driven by the 21.8% increase in revenue per shipment and the 9.2% growth in volume. Net revenue margins decreased to 17.1% for the nine months ended September 30, 2018, from 17.4% in the comparable period of 2017. The decline in margin was due to the 22.2% increase in carrier rates, along with higher growth in our Managed Transportation business.

Operating expenses

Commission expense for the nine months ended September 30, 2018 was $95.7 million, an increase of 30.1% from $73.6 million in the comparable period of 2017, due to higher volume and revenue per shipment. For the nine months ended September 30, 2018 and 2017, commission expense was 30.1% and 30.3%, respectively, of net revenue. The slight decrease in commission expense as a percentage of net revenue for the nine months ended September 30, 2018 was due to the fluctuations in the composition of our net revenue by sales channel type.

Selling, general and administrative expenses for nine months ended September 30, 2018 were $155.0 million, an increase of 14.3% from $135.6 million in the comparable period in 2017, due to an increased investment in technology, the growth of our sales force and operating personnel, and acquisition-related transaction costs. As a percentage of net revenue, selling, general and administrative expenses decreased to 48.7% for the nine months ended September 30, 2018, from 55.8% in the comparable period of 2017. The decrease in selling, general and administrative expenses as a percent of net revenue is driven by the increase in net revenue.

The contingent consideration fair value adjustment resulted in net expense of $0.2 million and $0.6 million for nine months ended September 30, 2018 and 2017, respectively. The net expense for 2018 was the result of adjustments made to the fair value of the contingent liabilities due to financial performance of previous acquisition owners and the time value of money. The net expense for 2017 is the result of adjustments made to the fair value of the contingent assets and liabilities due to financial performance of previous acquisition owners, time value of money and the satisfaction of applicable employee retention criteria. The fair value of the contingent consideration liabilities reflects the updated probabilities and assumptions as of September 30, 2018.

Depreciation expense for the nine months ended September 30, 2018 was $17.4 million, an increase of 29.7% from $13.4 million in the comparable period of 2017. The increase in depreciation expense is primarily due to depreciation of internally developed software and computer equipment.

Amortization expense for the nine months ended September 30, 2018 was $9.8 million, a decrease of 8.9% from $10.7 million in the comparable period of 2017. The decrease in amortization expense was primarily attributable to the accelerated method of amortization of our acquired customer relationships, along with the complete amortization of previously acquired intangible assets.

Income from operations

Income from operations for the nine months ended September 30, 2018 was $39.9 million, compared to $9.0 million in the comparable period of 2017. The increase in income from operations was primarily due to higher net revenue.

Interest expense

Interest expense was $11.3 million for the nine months ended September 30, 2018, an increase from $11.0 million of interest expense in the comparable period of 2017. The interest expense in both periods primarily relates to our Notes and the ABL Facility.

Income tax (expense) benefit

We recognized income tax expense of $6.8 million and income tax benefit of $1.3 million for the nine months ended September 30, 2018 and 2017, respectively. Our effective tax rate for the nine months ended September 30, 2018 was 23.8%, compared to an effective tax rate of (64.1)% in the comparable period of 2017. The difference in our effective tax rate for the nine months ended September 30, 2018 from the statutory federal tax rate of 21% was primarily due to state taxes and an increase in non-deductible expenses, primarily stock-based compensation, offset in part by the impact of certain tax credits. The difference in our effective tax rate for the nine months ended September 30, 2017 from the Company's statutory federal tax rate of 35% was primarily due to a domestic production tax deduction for the 2013 tax year recorded in the third quarter of 2017, the net tax deficiencies related to share-based payment awards, and the effect of the 2017 year to date pre-tax loss.

Net income (loss)

Net income for the nine months ended September 30, 2018 was $21.8 million, compared to a net loss of $0.7 million in the comparable period of 2017, due to the items previously discussed.

Table of Contents

Liquidity and Capital Resources

As of September 30, 2018, we had $60.5 million in cash and cash equivalents, $154.3 million in working capital and $199.3 million available under our ABL Facility.

Cash provided by operating activities

During the nine months ended September 30, 2018 and 2017, net cash provided by operating activities was $63.0 million and $41.2 million, respectively. We generated $65.1 million and $38.7 million in cash from net income (adjusted for noncash operating items) for the nine months ended September 30, 2018 and 2017, respectively. This cash flow generation was offset by $2.1 million in the current year and increased by $2.6 million in the same period of 2017, due to changes in working capital. These fluctuations in working capital were primarily driven by the timing of payments made and received each year.

Cash used in investing activities

During the nine months ended September 30, 2018 and 2017, net cash used in investing activities was $27.2 million and $14.7 million, respectively. During the nine months ended September 30, 2018, the primary investing activities were the internal development of computer software; purchases of property and equipment, leasehold improvements, and investments; and the acquisition of Freight Management Plus, Inc. ("Freight Management," or "FMP"). During the nine months ended September 30, 2017, the primary investing activities were the purchases of property and equipment, leasehold improvements and the internal development of computer software.

Cash provided by (used in) financing activities

During the nine months ended September 30, 2018 and 2017, net cash provided by financing activities was $1.2 million, net cash used in financing activities was $21.9 million, respectively. During the nine months ended September 30, 2018, the primary financing activities were the payment of contingent consideration and the use of cash to satisfy employee tax withholdings upon the vesting of equity-based awards, offset by the proceeds from the exercise of stock options. During the nine months ended September 30, 2017, the primary financing activities were the purchases of treasury stock, payments and receipt of contingent consideration and the use of cash to satisfy employee tax withholdings upon the vesting of equity-based awards. We also drew $12.0 million and $56.0 million on our ABL Facility during the nine months ended September 30, 2018 and 2017, respectively, all of which was repaid as of September 30, 2018 and 2017.

ABL Facility

On June 1, 2015, we entered into a Revolving Credit and Security Agreement with PNC Bank (the "Credit Agreement"). The Credit Agreement provides for a senior secured revolving credit facility in an initial aggregate principal amount of up to $200 million. Our obligations under the ABL Facility are secured, on a first lien priority basis, by certain working capital assets. We are required to pay a commitment fee in respect of the unutilized commitments under the revolving credit facility.

At September 30, 2018, there was no outstanding balance on the ABL Facility. The issuance of letters of credit under the ABL Facility also reduces available borrowings. At September 30, 2018, there were $0.7 million of letters of credit outstanding. The total draw allowed under the ABL Facility at September 30, 2018, as determined by the working capital assets pledged as collateral, was $200.0 million. After adjusting for the letters of credit, our remaining availability under the ABL Facility at September 30, 2018 was $199.3 million.

On October 23, 2018, we amended the terms of the Credit Agreement with PNC Bank (the "Amended Credit Agreement"), as further described in Note 13 to the consolidated financial statements.

Anticipated uses of cash

Our priority is to continue to grow our revenue and net revenue. We anticipate that our operating expenses and planned expenditures will constitute material uses of cash, and we expect to use available cash to expand our sales force, to enhance our technology, to acquire or make strategic investments in complementary businesses, and for working capital and other general corporate purposes.

In 2018, we also expect to use $2.9 million to satisfy the semi-annual Notes coupon payment due November 1, 2018, as well as $4 million to $7 million for capital expenditures for the remainder of 2018. We expect our use of cash for working capital purposes and other purposes to be offset by the cash flow generated from operating activities during the same period.

Historically, our average accounts receivable life-cycle has been longer than our average accounts payable life-cycle, meaning that we have used cash to pay carriers in advance of collecting from our clients. We elect to provide this benefit to foster strong relationships with our clients and carriers. As our business grows, we expect this use of cash to continue. The amount of cash we use will depends on the growth of our business.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Recent Accounting Pronouncements

The discussion of recent accounting pronouncements in Note 2, Recent Accounting Pronouncements, to the Consolidated Financial Statements (Unaudited) included in this Quarterly Report on Form 10-Q is incorporated herein by reference.

Changes in Critical Accounting Policies

We adopted Accounting Standards Codification Topic 606 Revenue from Contracts with Customers ("ASC Topic 606") on January 1, 2018. Results for reporting periods beginning on or after January 1, 2018 are presented under ASC Topic 606, of which prior amounts are not adjusted and continue to be reported in accordance with the accounting standards in effect for those periods. The changes to our revenue recognition policy under the new standard are discussed in Note 4, Revenue, to the Consolidated Financial Statements (Unaudited) included in this Quarterly Report on Form 10-Q is incorporated herein by reference.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Commodity Risk

We pass through fluctuations in fuel prices to our clients. As a result, we believe that there is no material risk exposure to fluctuations in fuel prices.

Interest Rate Risk

We have exposure to changes in interest rates on our ABL Facility. Borrowings bear interest at one of the following, plus an applicable margin: (1) the federal funds rate, (2) the base commercial lending rate of PNC Bank, or (3) the LIBOR rate, based on the Company's election for each tranche of borrowing. The interest rate on our line of credit fluctuates based on the rates described above. Assuming the $200.0 million ABL Facility was fully drawn, a 1.0% increase in the interest rate selected would increase our annual interest expense by $2.0 million.

Our interest income is sensitive to changes in the general level of U.S. interest rates, in particular because all of our investments are in cash equivalents. Due to the short-term nature of our investments, we believe that there is no material risk exposure.

We do not use derivative financial instruments for speculative trading purposes.

Impact of Inflation

We believe that our results of operations are not materially impacted by moderate changes in the inflation rate. Inflation and changing prices did not have a material impact on our operations for the nine months ended September 30, 2018 and 2017.

Table of Contents

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2018. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2018, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Based on its evaluation, management concluded that our internal control over financial reporting was effective as of September 30, 2018.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarterly period ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Management does not believe that the outcome of any of the legal proceedings to which the Company is a party will have a material adverse effect on its financial position or results of operations.

Item 1A. Risk Factors

There have been no material changes from the risk factors described in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Recent Sales of Unregistered Securities

As partial consideration for the acquisition of FMP, on July 6, 2018, we issued 25,223 shares of common stock, valued at $29.10 per share, for an aggregate value of $0.7 million (the "Equity Consideration"). See Note 3 to the unaudited consolidated financial statements contained in this Quarterly Report on Form 10-Q. The Equity Consideration was issued in a private placement subject to exemption from registration pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended.

During the three months ended September 30, 2018, no other unregistered securities were sold by us.

Issuer Purchases of Equity Securities

The table below gives information on a monthly basis regarding purchases made by us of our common stock and the number of shares delivered to us by employees to satisfy the mandatory tax withholding requirement upon vesting of restricted stock during the third quarter of 2018.

Date	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program [1]	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under Program [1]
7/1/18-7/31/18	—	$ —	—	$ 30,181,701
8/1/18-8/31/18	1,107	$ 32.25	—	$ 30,181,701
9/1/18-9/30/18	1,326	$ 34.65	—	$ 30,181,701
Total	2,433	$ 33.56	—	

[1] On May 1, 2017, the Board of Directors authorized a repurchase program for up to an aggregate of $50 million of the Company's outstanding common stock and Notes prior to its expiration on April 30, 2019. The timing and amount of any repurchases will be determined based on market conditions and other factors, and the program may be discontinued or suspended at any time.

Item 6. Exhibits

A list of exhibits included as part of this Form 10-Q is set forth in an Exhibit Index.

Table of Contents

EXHIBIT INDEX

Number	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer 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 Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

** Submitted electronically with this Quarterly Report on Form 10-Q

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ECHO GLOBAL LOGISTICS, INC.

Date:	October 25, 2018	By:	/s/ DOUGLAS R. WAGGONER Douglas R. Waggoner Chairman and Chief Executive Officer
Date:	October 25, 2018	By:	/s/ KYLE L. SAUERS Kyle L. Sauers Chief Financial Officer

32