

XPO Logistics, Inc.
Form 10-Q
November 06, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

..

For the transition period from _____ to _____

Commission file number 001-32172

XPO Logistics, Inc.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

03-0450326
(I.R.S. Employer
Identification No.)

Five Greenwich Office Park
Greenwich, CT 06831

(Address of principal executive offices)

(855) 976-4636

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

As of November 6, 2012, there were 17,921,794 shares of the registrant's common stock, par value \$0.001 per share, outstanding.

XPO Logistics, Inc.

Form 10-Q

Index

Part I Financial Information

Item 1. Financial Statements:

<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Operations</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Condensed Consolidated Statement of Changes in Stockholders' Equity</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	30
<u>Item 4. Controls and Procedures</u>	31

Part II Other Information

<u>Item 1. Legal Proceedings</u>	31
<u>Item 1A. Risk Factors</u>	32
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
<u>Item 3. Defaults Upon Senior Securities</u>	32
<u>Item 4. Mine Safety Disclosures</u>	32
<u>Item 5. Other Information</u>	32
<u>Item 6. Exhibits</u>	33
EX-2.1	
EX-2.2	
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	

Part I Financial Information**Item 1. Financial Statements.****XPO Logistics, Inc.****Condensed Consolidated Balance Sheets**

(in thousands except share data)

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 296,503	\$ 74,007
Accounts receivable, net of allowances of \$420 and \$356, respectively	42,881	22,425
Prepaid expenses	1,174	426
Deferred tax asset, current	1,484	955
Income tax receivable	2,790	1,109
Other current assets	1,376	219
Total current assets	346,208	99,141
Property and equipment, net of \$4,769 and \$3,937 in accumulated depreciation, respectively	8,083	2,979
Goodwill	22,521	16,959
Identifiable intangible assets, net of \$3,902 and \$3,320 in accumulated amortization, respectively	10,487	8,053
Other long-term assets	472	509
Total long-term assets	41,563	28,500
Total assets	\$ 387,771	\$ 127,641
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 12,286	\$ 8,565
Accrued salaries and wages	2,745	2,234
Accrued expenses, other	11,913	2,789
Current maturities of notes payable and capital leases	359	1,675
Other current liabilities	1,395	808
Total current liabilities	28,698	16,071
Convertible senior notes (net of discount and issuance costs)	92,757	
Notes payable and capital leases, net of current maturities	734	454
Deferred tax liability, long term	9,761	2,346
Other long-term liabilities	3,083	410
Total long-term liabilities	106,335	3,210
Stockholders equity:		
Preferred stock, \$.001 par value; 10,000,000 shares; 75,000 shares issued and outstanding	42,794	42,794
Common stock, \$.001 par value; 150,000,000 shares authorized; 17,863,223 and 8,410,353 shares issued, respectively; and 17,818,223 and 8,365,353 shares outstanding,	17	8

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respectively		
Additional paid-in capital	260,252	102,613
Treasury stock, at cost, 45,000 shares held	(107)	(107)
Accumulated deficit	(50,218)	(36,948)
Total stockholders equity	252,738	108,360
Total liabilities and stockholders equity	\$ 387,771	\$ 127,641

The accompanying notes are an integral part of the condensed consolidated financial statements.

XPO Logistics, Inc.

Condensed Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share amounts)

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	2012	2011	2012	2011
Revenues				
Operating revenue	\$ 70,988	\$ 47,389	\$ 170,088	\$ 132,991
Expenses				
Direct expense	61,064	39,169	144,925	110,384
Gross margin				
Sales general and administrative expense	9,924	8,220	25,163	22,607
	19,204	7,750	42,035	18,494
Operating (loss) income				
	(9,280)	470	(16,872)	4,113
Other expense	314		319	62
Interest expense	15	49	30	145
(Loss) income before income tax				
Income tax (benefit) provision	(9,609)	421	(17,221)	3,906
	(6,460)	231	(6,201)	1,685
Net (loss) income				
Preferred stock beneficial conversion charge and dividends	(3,149)	190	(11,020)	2,221
Cumulative preferred dividends		(44,586)		(44,586)
	(750)		(2,250)	
Net loss available to common shareholders				
	\$ (3,899)	\$ (44,396)	\$ (13,270)	\$ (42,365)
Basic loss per share				
Net loss	(0.22)	(5.38)	(0.89)	(5.15)
Diluted loss per share				
Net loss	(0.22)	(5.38)	(0.89)	(5.15)
Weighted average common shares outstanding				
Basic weighted average common shares outstanding	17,663	8,253	14,952	8,227
Diluted weighted average common shares outstanding	17,663	8,253	14,952	8,227

The accompanying notes are an integral part of the condensed consolidated financial statements.

XPO Logistics, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)

	Nine Months Ended September 30,	
	2012	2011
Operating (loss) activities		
Net income	\$ (11,020)	\$ 2,221
Adjustments to reconcile net income to net cash from operating activities		
Provisions for allowance for doubtful accounts	645	(23)
Depreciation & amortization expense	1,463	944
Stock compensation expense	3,485	297
Other	1	(9)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(8,078)	(2,037)
Deferred tax expense	(4,276)	788
Income tax receivable	(1,824)	479
Other current assets	(14)	568
Prepaid expenses	(422)	(351)
Other long-term assets and advances	12	101
Accounts payable	(3,136)	(1,625)
Accrued expenses	6,232	1,653
Other liabilities	23	301
Cash provided (used) by operating activities	(16,909)	3,307
Investing activities		
Acquisition of businesses, net of cash acquired	(7,011)	
Payment of acquisition earn-out	(450)	(450)
Payment for purchases of property and equipment	(3,986)	(442)
Proceeds from sale of assets		9
Cash used by investing activities	(11,447)	(883)
Financing Activities		
Credit line, net activity	(2,178)	(2,749)
Proceeds from issuance of preferred stock, net of issuance costs		71,628
Proceeds from issuance of convertible senior notes, net	120,287	
Payments of notes payable and capital leases	(2,089)	(1,215)
Excess tax benefit from stock options		97
Proceeds from common stock offering, net	136,961	
Proceeds from exercise of options, net	131	727
Dividends paid to preferred stockholders	(2,250)	
Cash provided by financing activities	250,862	68,488
Effect of exchange rate changes on cash	(10)	
Net increase in cash	222,496	70,912
Cash, beginning of period	74,007	561
Cash, end of period of period	\$ 296,503	\$ 71,473

Supplemental disclosure of noncash activities:

Cash paid during the period for interest	\$	29	\$	166
Cash paid during the period for income taxes	\$	244	\$	201

The accompanying notes are an integral part of the condensed consolidated financial statements.

XPO Logistics, Inc.

Condensed Consolidated Statement of Changes in Stockholders' Equity

Nine Months Ended September 30, 2012

(Unaudited)

(in thousands)

	Preferred Stock		Common Stock		Treasury Stock		Paid-In Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, December 31, 2011	75	\$ 42,794	8,410	\$ 8	(45)	\$ (107)	\$ 102,613	\$ (36,948)	\$ 108,360
Net loss								(11,020)	\$ (11,020)
Issuance of common stock for option exercise			253				131		\$ 131
Dividends paid								(2,250)	\$ (2,250)
Stock compensation expense							3,485		\$ 3,485
Proceeds from common stock offering, net of issuance costs			9,200	9			136,952		\$ 136,961
Equity component of convertible debt offering, net of issuance costs and deferred taxes							17,071		\$ 17,071
Balance, September 30, 2012	75	\$ 42,794	17,863	\$ 17	(45)	\$ (107)	\$ 260,252	\$ (50,218)	\$ 252,738

The accompanying notes are an integral part of the condensed consolidated financial statements.

XPO Logistics, Inc.

Notes to Condensed Consolidated Financial Statements

Three and Nine Months Ended September 30, 2012 and 2011

(Unaudited)

1. Organization

Nature of Business

XPO Logistics, Inc. (the Company) provides premium transportation and logistics services to thousands of customers through its three business units:

Freight Brokerage provides truckload brokerage transportation services throughout the United States through our wholly-owned subsidiaries Bounce Logistics, Inc. (Bounce), XPO Logistics Canada Inc. and XPO Logistics, LLC.

Expedited Transportation provides time-critical expedited transportation through our wholly-owned subsidiary Express-1, Inc. (Express-1). This typically involves dedicating one truck and driver to a load which has a specified time delivery requirement. Most of the services provided are completed through a fleet of exclusive use vehicles that are owned and operated by independent contract drivers, whom we refer to as owner operators. The use of non-owned resources to provide services minimizes the amount of capital investment required and is often described with the terms non-asset or asset-light.

Freight Forwarding provides freight forwarding services through our wholly-owned subsidiary Concert Group Logistics, Inc. (CGL). Freight forwarding transportation services are sold and arranged for under the authority of CGL through independently-owned stations and seven company-owned branches located throughout the United States.

For specific financial information relating to the above business units, refer to **Note 12 Operating Segments**.

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and in accordance with the instructions to Form 10-Q. Certain information and note disclosures normally included in annual financial statements have been condensed or omitted pursuant to those rules and regulations. However, we believe that the disclosures contained herein are adequate to make the information presented not misleading.

These unaudited condensed consolidated financial statements reflect, in our opinion, all material adjustments (which include only normal recurring adjustments) necessary to fairly present our financial position as of September 30, 2012 and December 31, 2011, and results of operations for the three- and nine-month periods ended September 30, 2012 and 2011. The preparation of the condensed consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements as well as the reported amounts of revenue and expense during the reporting period. Estimates have been prepared on the basis of the most current and best available information and actual results could differ materially from those estimates.

These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2011 in our Annual Report on Form 10-K and available on the SEC 's website (www.sec.gov). Results of operations for interim periods are not necessarily indicative of results to be expected for a full year.

Use of Estimates

The Company prepares its unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. These principles require management to make estimates and assumptions that impact the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expense during the

reporting period. The Company reviews its estimates on a regular basis and makes adjustments based on historical experience and existing and expected future conditions. Estimates are made with respect to, among other matters, accrued revenue, purchased transportation, recoverability of long-lived assets, accrual of acquisition earn-outs, estimated legal accruals, valuation allowances for deferred taxes, reserve for uncertain tax positions, and allowance for doubtful accounts. These evaluations are performed and adjustments are made as information is available. Management believes that these estimates, which have been discussed with the audit committee of the Company's board of directors, are reasonable; however, actual results could differ from these estimates.

Significant Accounting Policies

Revenue Recognition

The Company recognizes revenue at the point in time when delivery is completed on the freight shipments it handles, with related costs of delivery being accrued as incurred and expensed within the same period in which the associated revenue is recognized. The Company uses the following supporting criteria to determine that revenue has been earned and should be recognized:

Persuasive evidence of an arrangement exists;

Services have been rendered;

The sales price is fixed and determinable; and

Collectability is reasonably assured.

The Company reports revenue on a gross basis in accordance with the Financial Accounting Standards Board's (FASB) Accounting Standard Codification (ASC) Topic 605, *Reporting Revenue Gross as Principal Versus Net as an Agent*. The Company believes presentation on a gross basis is appropriate under ASC Topic 605 in light of the following factors:

The Company is the primary obligor and is responsible for providing the service desired by the customer.

The customer holds the Company responsible for fulfillment, including the acceptability of the service (requirements may include, for example, on-time delivery, handling freight loss and damage claims, establishing pick-up and delivery times, and tracing shipments in transit).

For Expedited Transportation and Freight Brokerage, the Company has complete discretion to select its drivers, contractors or other transportation providers (collectively, service providers). For Freight Forwarding, the Company enters into agreements with significant service providers that specify the cost of services, among other things, and has ultimate authority in providing approval for all service providers that can be used by Freight Forwarding's independently-owned stations. Independently-owned stations may further negotiate the cost of services with Freight Forwarding-approved service providers for individual customer shipments.

Expedited Transportation and Freight Brokerage have complete discretion to establish sales prices. Independently-owned stations within Freight Forwarding have the discretion to establish sales prices.

The Company bears credit risk for all receivables. In the case of Freight Forwarding the independently-owned stations reimburse Freight Forwarding for a portion (typically 70-80%) of credit losses. Freight Forwarding retains the risk that the independent station owners will not meet this obligation.

Cash and cash equivalents

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We consider all highly liquid investments with an original maturity of three months or less as of the date of purchase to be cash equivalents unless the investments are legally or contractually restricted for more than three months.

Income Taxes

Taxes on income are provided in accordance with ASC Topic 740, *Income Taxes*. Deferred income tax assets and liabilities are recognized for the expected future tax consequences of events that have been reflected in the unaudited condensed consolidated financial statements. Deferred tax assets and liabilities are determined based on the differences between the book values and the tax basis of particular assets and liabilities, and the tax effects of net operating loss and capital loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in the tax rate is recognized as income or expense in the period that included the enactment date. A valuation allowance is provided to offset the net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Management periodically assesses the likelihood that the company will utilize its existing deferred tax assets and records a valuation allowance for deferred tax assets when it is more likely than not that such deferred tax assets will not be realized.

Accounting for uncertainty in income taxes is determined based on ASC Topic 740, which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. For additional information refer to **Note 10 Income Taxes**.

Goodwill and Intangible Assets with Indefinite Lives

Goodwill consists of the excess of cost over the fair value of net assets acquired in business combinations. Intangible assets with indefinite lives consist principally of the Express-1 and CGL trade names. The Company follows the provisions of ASC Topic 350, *Intangibles Goodwill and Other*, which requires an annual impairment test for goodwill and intangible assets with indefinite lives. If the carrying value of intangibles with indefinite lives exceeds their fair value, an impairment loss is recognized in an amount equal to that excess. Goodwill is evaluated using a two-step impairment test at the reporting unit level. The first step compares the book value of a reporting unit, including goodwill, with its fair value. If the book value of a reporting unit exceeds its fair value, the Company completes the second step in order to determine the amount of goodwill impairment loss that should be recorded. In the second step, the Company determines an implied fair value of the reporting unit's goodwill by allocating the fair value of the reporting unit to all of the assets and liabilities other than goodwill. The amount of impairment is equal to the excess of the book value of goodwill over the implied fair value of that goodwill. The Company performs the annual impairment testing during the third quarter unless events or circumstances indicate impairment of the goodwill may have occurred before that time. For the periods presented, the Company did not recognize any goodwill impairment as the estimated fair value of its reporting units with goodwill exceeded the book value of these reporting units. For additional information refer to **Note 6 Goodwill**.

Identifiable Intangible Assets

The Company follows the provisions of ASC Topic 360, *Property, Plant and Equipment*, which establishes accounting standards for the impairment of long-lived assets such as property, plant and equipment and intangible assets subject to amortization. The Company reviews long-lived assets to be held-and-used for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows over the remaining useful life of a long-lived asset group is less than its carrying amount, the asset is considered to be impaired. Impairment losses are measured as the amount by which the carrying amount of the asset group exceeds the fair value of the asset. The Company estimates fair value using the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset. During the nine-month periods ended September 30, 2012 and 2011, there was no impairment of the identified intangible assets.

The Company's intangible assets subject to amortization consist of non-compete agreements, customer relationships and other intangibles that are amortized on a straight-line basis over the estimated useful lives of the related intangible asset. The estimated useful lives of the respective intangible assets range from four months to 12 years.

The following table sets forth the Company's identifiable intangible assets as of September 30, 2012 and December 31, 2011 (in thousands):

	September 30, 2012	December 31, 2011
Indefinite Lived Intangibles		
Trade names	\$ 6,420	\$ 6,420
Definite Lived Intangibles:		
Trade names	521	220
Non-compete agreements	1,250	763
Customer lists and relationships	4,131	1,974
Other intangible assets	2,067	1,996
	7,969	4,953
Less: accumulated amortization	(3,902)	(3,320)
Intangible assets, net	\$ 4,067	\$ 1,633
Total Identifiable Intangibles	\$ 10,487	\$ 8,053

Other Long-Term Assets

Other long-term assets consist primarily of balances representing various deposits, and notes receivable from various CGL independent station owners. Also included within this account classification are incentive payments to independent station owners within the CGL network. These payments are made by CGL to certain station owners as an incentive to establish an independently-owned station. These amounts are amortized over the life of each independent station contract and the unamortized portion generally is recoverable in the event of default under the terms of the agreements.

Foreign Currency Translation

Exchange gains or losses incurred on transactions conducted by our business units in a currency other than the business units' functional currency are normally reflected in cost of sales in our Consolidated Statement of Income. Assets and liabilities of Kelron, which has the U.S. dollar as its functional currency (but which maintains its accounting records in Canadian currency), have their values remeasured into U.S. dollars at year-end exchange rates, except for non-monetary items for which historical rates are used. Exchange gains or losses are not material to the condensed consolidated statement of operations for the periods presented.

Foreign Currency Hedging and Derivative Financial Instruments

We enter into derivative contracts, primarily foreign currency forward contracts, to protect against fluctuations in exchange rates. These contracts are for expected future cash flows and not for speculative purposes. The Company reflects changes in fair value of these contracts in the condensed consolidated statement of operation.

Fair Value Measurements

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and classifies the inputs used to measure fair value into the following hierarchy:

Level 1 Quoted prices for identical instruments in active markets;

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Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets; and

Level 3 Valuations based on inputs that are unobservable, generally utilizing pricing models or other valuation techniques that reflect management's judgment and estimates.

The following table sets forth the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2012 and December 31, 2011 (in thousands):

	Fair Value Measurements as of September 30, 2012			
	Total	Level 1	Level 2	Level 3
Assets:				
Money market funds	\$ 290,989	\$ 290,989	\$	\$
Foreign currency forward contracts	\$ 23	\$ 23	\$	\$
Liabilities:				
Contingent consideration obligations	\$ 323	\$	\$	\$ 323

	Fair Value Measurements as of December 31, 2011			
	Total	Level 1	Level 2	Level 3
Assets:				
Money market funds	\$	\$	\$	\$
Foreign currency forward contracts	\$	\$	\$	\$
Liabilities:				
Contingent consideration obligations	\$ 450	\$	\$	\$ 450

Estimated Fair Value of Financial Instruments

The aggregate net fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management. The respective carrying value of certain financial instruments approximated their fair values as of the periods ended September 30, 2012 and 2011. These financial instruments include cash, accounts receivable, notes receivable, accounts payable, accrued expense, notes payable and short-term borrowings. Fair values approximate carrying values for these financial instruments since they are short-term in nature and they are receivable or payable on demand. The fair value of the Freight Forwarding notes receivable from the owners of the independently-owned stations approximated their respective carrying values based on the interest rates associated with these instruments.

The Company has convertible senior notes for which we are obligated to repay the face value, unless the holder agrees to a lesser amount or elects to convert all or a portion of such notes into the Company's common stock. The aggregate principal amount of these convertible notes at issuance were \$125.0 million with a fair value of \$122.6 million. The convertible notes were allocated to long-term debt and equity in the amounts of \$92.8 million and \$27.5 million, respectively. These amounts are net of debt issuance costs of \$3.6 million for debt and \$1.1 million for equity. The convertible notes contain an optional redemption right in favor of the Company, although it is our present intent not to exercise such redemption right. Accordingly, the fair value of the bifurcated coupon make-whole premium that would be payable to holders in the event of a redemption has been valued at \$0.0 million. For additional information refer to **Note 5 Debt** and **Note 13 Subsequent Events**.

Stock-Based Compensation

The Company accounts for share-based compensation based on the equity instrument's grant date fair value in accordance with ASC Topic 718, *Compensation - Stock Compensation*. The fair value of each share-based payment award is established on the date of grant. For grants of restricted stock units, including those subject to service-based vesting conditions and those subject to service and performance-based vesting conditions, the fair value is established based on the market price on the date of the grant. For grants of options, the Company uses the Black-Scholes option pricing model to estimate the fair value of share-based payment awards. The determination of the fair value of share-based awards is affected by the Company's stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends.

The weighted-average fair value of each stock option recorded in expense for the nine-month period ended September 30, 2012 was estimated on the date of grant using the Black-Scholes option pricing model and is amortized over the requisite service period of the option. The Company has used one grouping for the assumptions, as its option grants have similar characteristics. The expected term of options granted has been derived based upon the Company's history of actual exercise behavior and represents the period of time that options granted are expected to be outstanding. Historical data was also used to estimate option exercises and employee terminations. Estimated volatility is based upon the Company's historical market price at consistent points in a period equal to the expected life of the options. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant and the expected dividend yield is zero. For additional information refer to **Note 8 Stock-Based Compensation**.

Earnings per Share

Earnings per common share are computed in accordance with ASC Topic 260, *Earnings per Share*, which requires companies to present basic earnings per share and diluted earnings per share. For additional information refer to **Note 9 Earnings per Share**.

Internal Use Software

The Company has adopted the provisions of ASC Topic 350, *Intangibles Goodwill and Other*. Accordingly, certain costs incurred in the planning and evaluation stage of internal use computer software are expensed as incurred. Costs incurred during the application development stage are capitalized and included in property and equipment. Capitalized internal use software totaled \$0.1 million and \$0.0 million as of September 30, 2012 and December 31, 2012, respectively. Capitalized internal use software costs are amortized over the expected economic life of three years using the straight-line method.

Please also refer to Note 1 of the *Notes to Consolidated Financial Statements* in the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 for a more complete discussion of the Company's significant accounting policies.

3. Acquisitions

Kelron Logistics, Inc.

On August 3, 2012, the Company purchased all of the outstanding capital stock of Kelron Corporate Services Inc. and certain related entities (collectively, *Kelron*), a non-asset, third-party logistics business based in Canada. Founded in 1992, Kelron serves more than 750 customers through locations in Toronto, Ontario; Vancouver, British Columbia; Montreal, Quebec; and Cleveland, Ohio. The purchase price was \$8.0 million, including \$2.6 million of consideration for the outstanding stock and \$5.4 million of assumed debt and liabilities. The working capital adjustments in connection with this acquisition are being finalized, although the Company does not expect there to be a material change in the purchase price as a result.

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The Kelron acquisition was accounted for as a purchase business combination in accordance with ASC 805 *Business Combinations*. Assets acquired and liabilities assumed were recorded in the accompanying condensed consolidated balance sheet at their estimated fair values as of August 3, 2012, with the remaining unallocated purchase price recorded as goodwill. The following table outlines the Company's consideration transferred and the identifiable net assets acquired at their estimated fair value as of August 3, 2012 (in thousands).

Consideration	\$ 2,646
Net Assets Acquired	(2,426)
Intangibles acquired:	
Fair value of Trademarks/Trade names	251
Fair value of Technology	75
Fair value of Non Compete Agreement	377
Fair value of Customer Relationships	1,207
Net deferred tax liability on fair value adjustments	(276)
Goodwill	\$ 3,438

As of September 30, 2012, the purchase price allocation was not finalized. The Company is still evaluating the fair value of accounts receivable, intangible assets and deferred taxes. All goodwill recorded related to the acquisition relates to the Freight Brokerage segment and is not deductible for Canadian income tax purposes.

In conjunction with the acquisition, the Company issued notes payable to the sellers totaling \$1.0 million. The notes do not bear any interest. The notes were treated as consideration transferred as part of the acquisition and are payable in equal quarterly installments on November 3, February 3, May 3 and August 3 of each year with the final installment to be due and payable on August 3, 2015. We used an imputed interest rate of 4.53% to determine the appropriate discount to apply to the notes. The carrying value of the notes payable at September 30, 2012 was \$0.9 million.

In conjunction with the acquisition of Kelron on August 3, 2012, the Company assumed Kelron's credit agreements with Royal Bank of Canada (RBC) dated April 21, 2011 and amended May 8, 2012 (the Agreements), which provide for a \$5.0 million revolving demand facility (the Revolving Demand Facility) subject to certain borrowing limits. Borrowings under the Revolving Demand Facility can be made either as Royal Bank Prime based loans in Canadian currency at the interest rate equal to the Royal Bank Prime (as defined in the Agreements) rate plus 2.00 percent or as Royal Bank US Base Rate loans in U.S. currency at the interest rate equal to the Royal Bank US Base Rate (as defined in the Agreements) plus 2.00 percent. Borrowings under the Revolving Demand Facility are payable upon demand by RBC. The Revolving Demand Facility is guaranteed by a first ranking security interest in all personal property of Kelron. The Agreements contain customary representations, warranties and general covenants, with which the Company was in compliance at September 30, 2012.

The following unaudited pro forma consolidated results of operations for the nine-month periods ended September 30, 2012 and 2011 present consolidated information of the Company as if the Kelron acquisition had occurred as of January 1, 2011 (in thousands):

	Pro Forma Nine Months Ended September 30, 2012	Pro Forma Nine Months Ended September 30, 2011
Revenue	\$ 229,134	\$ 208,470
Operating Income (Loss)	\$ (17,614)	\$ 3,300
Net Income (Loss)	\$ (20,140)	\$ (43,247)
Earnings per common share		
Basic	\$ (1.35)	\$ (5.26)
Diluted	\$ (1.35)	\$ (5.26)

The unaudited pro forma consolidated results for the nine-month periods were prepared using the acquisition method of accounting and are based on the historical financial information of Kelron and the Company. The historical financial information has been adjusted to give effect to the pro forma adjustments that are: (i) directly attributable to the acquisition, (ii) factually supportable and (iii) expected to have a continuing impact on the combined results. The unaudited pro forma consolidated results are not necessarily indicative of what our consolidated results of

operations actually would have been had we completed the acquisition on January 1, 2011.

Continental Freight Services, Inc.

On May 8, 2012, the Company purchased all of the outstanding capital stock of Continental Freight Services, Inc. (Continental) and all of the membership interests in G & W Tanks, LLC. Founded in 1980, Continental is headquartered in Columbia, S.C., with branches and agent locations in Texas, North Carolina, and South Carolina. The Continental acquisition was accounted for as a purchase business combination in accordance with ASC Topic 805 *Business Combinations* . Assets acquired and liabilities assumed were recorded in the accompanying consolidated balance sheet at their estimated fair values as of May 8, 2012 with the remaining unallocated purchase price recorded as goodwill.

The cash purchase price was \$3.5 million, excluding any working capital adjustments and a potential earn-out of up to \$0.3 million. The Company also accrued \$0.3 million in the opening balance sheet related to a pre-existing employment agreement with an employee that required a payment related to the sale of Continental which was subsequently paid in the period ended June 30, 2012. As a result of the acquisition, the Company recorded goodwill of \$2.1 million and intangible assets of \$1.1 million.

The acquisition of Continental includes a contingent consideration arrangement that requires additional consideration to be paid by the Company to Continental s former owners based on the adjusted gross profit of Continental during the twelve month period commencing June 1, 2012. The range of the undiscounted amounts the Company could pay under the contingent consideration agreement is between \$0.0 million and \$0.3 million. The fair value of the contingent consideration recognized on the acquisition date of \$0.3 million was estimated by applying the income approach.

4. Commitments and Contingencies

Lease Commitments

As of September 30, 2012, the company had approximately \$14.5 million in future minimum payments required under operating leases for various real estate, transportation and office equipment leases that have an initial or remaining non-cancelable lease term. Remaining future minimum payments related to these operating leases amount to approximately \$0.3 million, \$2.2 million, \$1.8 million, \$1.5 million, and \$6.7 million for the periods ending December 31, 2012, 2013, 2014, 2015, and 2016 and thereafter, respectively.

Rent expense was approximately \$0.5 million and \$0.1 million for the three month periods ended September 30, 2012 and 2011, respectively, and \$1.1 million and \$0.3 million for the nine month periods ended September 30, 2012 and 2011, respectively.

Litigation

The Company recently became involved in litigation in the Fourth Judicial District Court, County of Hennepin, State of Minnesota, relating to our hiring of former employees of C.H. Robinson Worldwide, Inc. (C.H. Robinson). In the litigation, C.H. Robinson alleges the following against the Company: (1) tortious interference with contractual employment-related relationships; (2) misappropriation of trade secrets; and (3) inducing, aiding and abetting breaches of contract. C.H. Robinson is seeking temporary, preliminary and permanent injunctions, direct and consequential damages, and attorney s fees. On August 23, 2012, the Court denied C.H. Robinson s motion for a temporary injunction to prevent us from communicating with C.H. Robinson employees, among other things, but granted C.H. Robinson s motion for expedited discovery in connection with the litigation and enjoined two individual defendant employees of the Company. The legal discovery process is underway on this matter and the preliminary injunction hearing is scheduled for November 20, 2012. We believe that we have strong legal defenses to the asserted claims and we are evaluating the counterclaims available to us. However, we cannot assure you that an adverse outcome would not significantly impact our ability to execute certain of our growth initiatives.

The Company is a party to a variety of other legal actions, both as a plaintiff and as a defendant that arose in the ordinary course of business, and may in the future become involved in other legal actions. The Company does not currently expect any of these matters or these matters in the aggregate to have a material adverse effect on the Company s results of operations, financial condition or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on the Company s financial condition, results of operations or cash flows.

The Company carries liability and excess umbrella insurance policies that it deems sufficient to cover potential legal claims arising in the normal course of conducting its operations as a transportation company. In the event the Company is required to satisfy a legal claim in excess of the coverage provided by this insurance, the Company's financial condition, results of operations or cash flows could be negatively impacted.

5. Debt

Long-Term Debt and Capital Leases

The Company uses financing for acquisitions and business start-ups, among other things. The Company also enters into long-term debt and capital leases with various third parties from time to time to finance certain operational equipment and other assets used in its business operations. Generally, these loans and capital leases bear interest at market rates, and are collateralized with accounts receivable, equipment and certain other assets of the Company.

On September 26, 2012 XPO Logistics, Inc. completed the registered underwritten public offering of 4.50% convertible senior notes due October 1, 2017, in an aggregate principal amount of \$125.0 million. The convertible notes were allocated to long-term debt and equity in the amounts of \$92.8 million and \$27.5 million, respectively. These amounts are net of debt issuance costs of \$3.6 million for debt and \$1.1 million for equity. Interest is payable on the notes on April 1 and October 1 of each year, beginning on April 1, 2013.

Under certain circumstances at the election of the holder, the convertible notes may be converted until the close of business on the business day immediately preceding April 1, 2017, 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 the initial conversion rate of approximately 60.85 shares of common stock per \$1,000 in principal amount, which is equivalent to an initial conversion price of approximately \$16.43 per share. In addition, following certain corporate events that occur prior to the maturity date, the Company will increase the conversion rate for a holder who elects to convert its convertible notes in connection with such corporate event in certain circumstances. On or after April 1, 2017, until the close of business on the business day immediately preceding the maturity date, holders may convert their convertible notes at any time. The convertible notes may be redeemed by the Company on or after October 1, 2015 if the last reported sale price of the Company's common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including the trading day immediately preceding the date on which the Company provides notice of redemption, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption. The Company may redeem the convertible notes in whole but not in part, at a redemption price in cash equal to 100% of the principal amount to be redeemed, plus accrued and unpaid interest, but excluding, the redemption date, plus a make-whole premium payment. The make whole premium payment or delivery will be made, as the case may be, in cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election, equal to the present values of the remaining scheduled payments of interest on the convertible notes to be redeemed through October 1, 2017 (excluding interest accrued to, but excluding, the redemption date), computed using a discount rate equal to 4.5%. The make-whole premium is paid to holders whether or not they convert the convertible notes following the Company's issuance of a redemption notice.

For accounting purposes, the redemption feature in the convertible notes is an embedded derivative that is not clearly and closely related to the convertible notes. Consequently, it was initially bifurcated from the indenture and separately recorded at its fair value as a liability with subsequent changes in fair value to be recorded through earnings. As of September 30, 2012, the fair value of the embedded redemption feature was \$0.0 million as management has determined it is not our intent to exercise the conversion feature.

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The following table outlines the Company's debt obligations (in thousands) as of September 30, 2012 and December 31, 2011:

	Interest rates	Term (months)	As of September 30, 2012	As of December 31, 2011
Capital leases for equipment	11.98%	55	\$ 126	\$ 45
Notes payable	N/A	N/A	952	2,084
Line of credit	5.0%	N/A	15	
Convertible senior notes	4.50%	60	92,757	
Total debt and capital leases			93,850	2,129
Less: current maturities of notes payable and capital leases			359	1,675
Non-current maturities of debt and capital leases			\$ 93,491	\$ 454

6. Goodwill

The following table is a roll-forward of goodwill from December 31, 2011 to September 30, 2012. The current period additions are the result of the goodwill recognized as excess purchase price in the acquisitions of Kelron and Continental (in thousands):

	Expedited Transportation	Freight Forwarding	Freight Brokerage	Corporate	Total
Goodwill at December 31, 2011	\$ 7,737	\$ 9,222			\$ 16,959
Acquisitions and other adjustments			5,562		5,562
Goodwill at September 30, 2012	\$ 7,737	\$ 9,222	\$ 5,562	\$	\$ 22,521

7. Stockholder's Equity

On each of July 9, April 5, and January 9, 2012, the Company's board of directors approved the declaration of a dividend payable to holders of the Company's Series A Convertible Perpetual Preferred Stock (the Preferred Stock). Each declared dividend equaled \$10 per share of Preferred Stock as specified in the Certificate of Designation of the Preferred Stock. The quarterly declared dividends were each \$0.8 million and were paid on July 16, April 16 and January 17, 2012.

On March 20, 2012, the Company closed a registered underwritten public offering of 9,200,000 shares of common stock (the Offering), including 1,200,000 shares issued and sold as a result of the full exercise of the underwriters' overallotment option, at a price of \$15.75 per share. The Company received \$137.0 million in net proceeds from the Offering after underwriting discounts and estimated expenses. The Company intends to use the proceeds for general corporate purposes, which may include potential acquisitions.

On September 2, 2011, pursuant to the Investment Agreement, dated as of June 13, 2011 (the Investment Agreement), by and among Jacobs Private Equity, LLC (JPE), the other investors party thereto (collectively with JPE, the Investors) and the Company, the Company issued to the Investors, for \$75.0 million in cash: (i) an aggregate of 75,000 shares of the Preferred Stock which are initially convertible into an aggregate of 10,714,286 shares of common stock, and (ii) warrants initially exercisable for an aggregate of 10,714,286 shares of common stock at an initial exercise price of \$7.00 per common share (the Warrants). The Company's stockholders approved the issuance of the Preferred Stock and the Warrants at the special meeting of the Company's stockholders on September 1, 2011.

8. Stock-Based Compensation

The following table summarizes the Company's equity awards outstanding and exercisable as of December 31, 2011 and September 30, 2012:

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	Options			Weighted Average Remaining Term	Restricted Stock Units	
	Options	Weighted Average Exercise Price	Exercise Price Range		Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2011	1,381,958	8.53	2.28 - 18.07	9.00	695,000	10.33
Granted	193,000	14.38	11.46 - 18.07		405,691	12.63
Expired						
Exercised	123,473	4.79	2.96 - 10.56		231,875	11.04
Forfeited	79,964	13.63	3.48 - 16.92			
Outstanding at September 30, 2012	1,371,521	\$ 9.39	2.28 - 18.07	8.28	868,816	\$ 11.21

The stock-based compensation expense for outstanding restricted stock units (RSUs) was \$0.9 million and \$2.6 million for the three-month and nine-month periods ended September 30, 2012, respectively. Of the 868,816 outstanding RSUs, 558,816 vest subject to service conditions and 310,000 vest subject to service and performance-based conditions. Based on the Company's financial performance in 2012, all performance-based conditions relating to outstanding RSUs vesting have been satisfied.

As of September 30, 2012, the Company had approximately \$9.5 million of unrecognized compensation cost related to non-vested RSU compensation that is anticipated to be recognized over a weighted-average period of approximately 3.28 years. Remaining estimated compensation expense related to outstanding restricted stock-based grants is \$0.6 million, \$2.5 million, \$2.5 million, \$2.4 million and \$1.5 million for the years ending December 31, 2012, 2013, 2014, 2015 and 2016, respectively.

As of September 30, 2012, the Company had 573,196 options vested and exercisable and \$3.9 million of unrecognized compensation cost related to stock options. The remaining estimated compensation expense related to the existing stock options is \$0.3 million, \$1.0 million, \$1.0 million, \$1.0 million and \$0.6 million for the years ended December 31, 2012, 2013, 2014, 2015 and 2016, respectively.

9. Earnings per Share

Basic earnings per common share are computed by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share are computed by dividing net income available to common shareholders by the combined weighted average number of shares of common stock outstanding and the potential dilution of stock options, Warrants, RSUs, convertible notes and Preferred Stock outstanding during the period, if dilutive. For the three-month and nine-month periods ended September 30, 2012 and 2011, the weighted average of potentially dilutive securities excluded from the computation of diluted earnings per share is shown per the table below.

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Basic common stock outstanding	17,663,403	8,252,891	14,952,059	8,227,375
Potentially Dilutive Securities:				
Shares underlying the conversion of preferred stock to common stock	10,714,286	3,260,870	10,714,286	1,098,901
Shares underlying the conversion of the convertible senior notes	330,784		111,066	
Shares underlying warrants to purchase common stock	5,516,551	4,564,224	5,770,577	3,634,139
Shares underlying stock options to purchase common stock	507,425	402,819	549,084	361,707
Shares underlying restricted stock units	138,921	682	158,308	
	17,207,967	8,228,595	17,303,321	5,094,747
Diluted weighted shares outstanding	34,871,370	16,481,486	32,255,380	13,322,122

The impact of this dilution was not reflected in the earnings per share calculations in the Unaudited Condensed Consolidated Statements of Operations because the impact was anti-dilutive. The treasury method was used to determine the shares underlying the Warrants with an average market price of \$14.43 per share and \$15.17 per share for the three-month and nine-month periods ended September 30, 2012, respectively.

10. Income Taxes

The Company has determined its interim tax provision projecting an estimated annual effective tax rate. For the three months ended September 30, 2012, the Company recorded an income tax benefit of \$6.5 million yielding an effective tax rate of (67.2)%. For the nine months ended September 30, 2012, the Company recorded an income tax benefit of \$6.2 million yielding an effective tax rate of (36.0)%. The effective tax rate differs from the U.S. statutory rate of 35% in the periods ended September 30, 2012, primarily due to the impact of the release of the valuation allowance previously recorded during the three months ended June 30, 2012.

During the three months ended September 30, 2012, the Company reassessed its U.S. valuation allowance requirements taking into consideration deferred tax liabilities created through the issuance of the convertible notes during the quarter. The Company evaluated all available evidence in

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its analysis, including reversal of the deferred tax liabilities, carrybacks available and historical and projected pre-tax profits generated by the Company's U.S. operations. The Company also considered tax planning strategies that are prudent and can be reasonably implemented. As a result, the Company recorded a

\$2.8 million tax benefit related to the reversal of a significant portion of the valuation allowance established on U.S. deferred tax assets. The Company has a valuation allowance of \$0.2 million as of September 30, 2012 on the deferred tax assets in the state jurisdictions where it is not more likely than not that the deferred tax assets will be utilized, while at December 31, 2011, the Company had no valuation allowance on its deferred tax assets.

The Company accrued \$0.9 million and \$0.2 million for uncertain tax positions related to certain potential income taxes at September 30, 2012 and December 31, 2011, respectively, of which \$0.7 million and \$0.0 million related to uncertain tax positions from tax filings of the Company's non-U.S. subsidiaries. The Company is currently under audit by the Internal Revenue Service of the United States related to its 2010 fiscal year tax filing.

In general, it is the practice and intention of the Company to reinvest the earnings of its non-U.S. subsidiaries in those operations. As of September 30, 2012, the Company has not made a provision for U.S. or additional foreign withholding taxes for financial reporting over the tax basis of investments in foreign subsidiaries that are essentially permanent in duration. Generally, such amounts become subject to U.S. taxation upon the remittance of dividends and under certain other circumstances. It is not practicable to estimate the amount of deferred tax liability related to investments in these foreign subsidiaries.

To the extent the Company reports income in future periods, the Company intends to use its net operating loss carryforwards to the extent available to offset taxable income and reduce cash outflows for income taxes. Although currently not anticipated, the Company's ability to use its federal and state net operating loss carryforwards may become subject to restrictions attributable to equity transactions in the future resulting from changes in ownership as defined under Internal Revenue Code Section 382.

11. Related Party Transactions

There were no related party transactions that occurred during the three- and nine-month periods ended September 30, 2012 and 2011.

12. Operating Segments

The Company has three reportable segments as described in Note 1 of the unaudited condensed consolidated financial statements.

The costs of the Company's board of directors, executive team and certain corporate costs associated with operating as a public company are referred to as corporate charges.

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on operating income of the respective business segments.

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The following schedule identifies select financial data for each of the Company's operating segments for the three-month and nine month periods ended September 30, 2012 and 2011, respectively (in thousands):

XPO Logistics, Inc.

Segment Data

(Unaudited)

(in thousands)

	Expedited Transportation	Freight Forwarding	Freight Brokerage	Corporate	Eliminations	Total
Three Months Ended September 30, 2012						
Revenue	\$ 23,755	\$ 17,304	\$ 32,169	\$	\$ (2,240)	\$ 70,988
Operating income (loss)	1,217	97	(2,351)	(8,243)		(9,280)
Depreciation and amortization	127	145	316	133		721
Interest expense	1	1	1	12		15
Tax benefit			(415)	(6,045)		(6,460)
Goodwill	7,737	9,222	5,562			22,521
Total assets	31,728	23,272	31,038	357,127	(55,394)	387,771
Three Months Ended September 30, 2011						
Revenue	\$ 23,419	\$ 16,918	\$ 8,246	\$	\$ (1,194)	\$ 47,389
Operating income (loss)	2,453	639	499	(3,121)		470
Depreciation and amortization	144	144	11	5		304
Interest expense	3	38	8			49
Tax provision	660	145	144	(718)		231
Goodwill	7,737	9,222				16,959
Total assets	25,061	23,561	5,066	94,067	(19,725)	128,030
Nine Months Ended September 30, 2012						
Revenue	\$ 71,906	\$ 49,229	\$ 53,974	\$	\$ (5,021)	\$ 170,088
Operating income (loss)	5,171	387	(3,477)	(18,953)		(16,872)
Depreciation and amortization	393	433	413	223		1,462
Interest expense	3	1	2	24		30
Tax provision (benefit)			(415)	(5,786)		(6,201)
Goodwill	7,737	9,222	5,562			22,521
Total assets	31,728	23,272	31,038	357,127	(55,394)	387,771
Nine Months Ended September 30, 2011						
Revenue	\$ 67,221	\$ 48,379	\$ 20,916	\$	\$ (3,525)	\$ 132,991
Operating income (loss)	6,368	1,510	809	(4,574)		4,113
Depreciation and amortization	465	431	32	16		944
Interest expense	3	116	25	1		145
Tax provision	1,774	346	227	(662)		1,685
Goodwill	7,737	9,222				16,959
Total assets	25,061	23,561	5,066	94,067	(19,725)	128,030

13. Subsequent Events

On October 8, 2012, the Company's board of directors approved the declaration of a dividend payable to holders of the Preferred Stock. The declared dividend equaled \$10 per share of Preferred Stock as specified in the Certificate of Designation of the Preferred Stock. The total declared dividend equaled \$0.8 million and was paid on October 15, 2012.

On October 17, 2012, as part of the underwritten registered public offering on September 26, 2012 of the 4.50% convertible notes due October 1, 2017, the underwriters exercised the overallotment option to purchase \$18.8 million additional principal amount of the convertible notes. The Company received approximately \$18.1 million in net proceeds after underwriting discounts, commissions and expenses were paid.

On October 24, 2012, the Company and its wholly-owned subsidiary, XPO Logistics, LLC, entered into a definitive asset purchase agreement (the Agreement) with Turbo Logistics, Inc. (Turbo Logistics), Turbo Dedicated, Inc. (Turbo Dedicated), and together with Turbo Logistics,

Turbo), Ozburn-Hessey Logistics, LLC, and OHH Acquisition Corporation.

Turbo primarily operates a non-asset-based, third party logistics business in Gainesville, Ga.; Reno, Nev.; Chicago, Ill.; and Dallas, Texas. Pursuant to the Agreement, on October 24, 2012 the Company purchased substantially all of the assets of Turbo for total cash consideration of \$50.0 million, excluding any working capital adjustments, with no assumption of debt. The assets acquired pursuant to the Agreement included rights under certain contracts, intellectual property, equipment, accounts receivable, and other related assets.

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

Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q and other written reports and oral statements we make from time to time contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. In some cases, forward-looking statements can be identified by the use of forward-looking terms such as anticipate, estimate, believe, continue, could, intend, may, plan, potential, predict, should, will, expect, objective, projection, forecast, goal, guidance, outlook, effort, target or the negative of these terms or other comparable terms. However, the absence of these words does not mean that the statements are not forward-looking. These forward-looking statements are based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions that may cause actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Factors that might cause or contribute to a material difference include, but are not limited to, those discussed elsewhere in this Quarterly Report, the risks discussed in our other filings with the SEC and the following: economic conditions generally; competition; our ability to find suitable acquisition candidates and execute our acquisition strategy; our ability to raise capital; our ability to attract and retain key employees to execute our growth strategy; our ability to develop and implement a suitable information technology system; our ability to maintain positive relationships with our network of third-party transportation providers; litigation; and governmental regulation. All forward-looking statements set forth in this Quarterly Report are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequence to or effects on us or our business or operations. Forward-looking statements set forth in this Quarterly Report speak only as of the date hereof and we do not undertake any obligation to update forward-looking statements to reflect subsequent events or circumstances, changes in expectations or the occurrence of unanticipated events.

The following discussion should be read in conjunction with our Unaudited Condensed Consolidated Financial Statements and related Notes thereto included elsewhere in this Quarterly Report. In addition, reference should be made to our Audited Consolidated Financial Statements and Notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations included in our most recent Annual Report on Form 10-K.

Critical Accounting Policies

The preparation of condensed consolidated financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions. In certain circumstances, those estimates and assumptions can affect amounts reported in the accompanying unaudited condensed consolidated financial statements. We have made our best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. We do not believe there is a great likelihood that materially different amounts will be reported related to the accounting policies described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ materially from these estimates. Note 1 of the Notes to Consolidated Financial Statements in the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011 includes a summary of the significant accounting policies and methods used in the preparation of our consolidated financial statements. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2011 includes a summary of our critical accounting policies. For the period ended September 30, 2012, there were no significant changes to our critical accounting policies.

New Pronouncements

On September 15, 2011, the FASB approved ASU No. 2011-08, *Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. This ASU permits an entity to first assess qualitative factors to determine whether it is more likely than not (a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. After assessing qualitative factors, if an entity determines that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, no further testing is necessary. If an entity determines that it is more likely than not that the fair value of the reporting unit is less than its carrying value, then the traditional two-step goodwill impairment test must be performed. This ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011.

Executive Summary

XPO Logistics, Inc., a Delaware corporation (the *Company*, *we*, *our* or *us*), is a non-asset based transportation services provider. We do not own trucks, airplanes or ships. We act as a middleman between shippers and carriers who outsource their transportation logistics to us as a third-party broker.

Our services are offered through three distinct business segments: Freight Brokerage (XPO Brokerage and Bounce Logistics), which places shippers' freight with qualified carriers; Expedited Transportation (Express-1), which provides urgent freight transportation via independent contractors; and Freight Forwarding (Concert Group Logistics or CGL), which arranges domestic and international shipments using ground, air and ocean transport through a network of agent-owned and Company-owned locations.

In September 2011, following the equity investment in the Company led by Jacobs Private Equity, LLC (the *Equity Investment*), we began to implement a three-pronged strategy to leverage our strengths including management expertise, operational scale and substantial capital resources in pursuit of significant growth and value creation:

Targeted acquisitions We intend to make selective acquisitions of non-asset based freight brokerage businesses that would benefit from our greater scale and potential access to capital. We may also make acquisitions of freight forwarding, expedited and intermodal service businesses, among others, that complement our current service offerings.

Cold-starts We plan to establish new freight brokerage and freight forwarding offices in locations across North America, and we are actively recruiting managers with a proven track record of building successful brokerage operations. We expect the new brokerage offices to grow revenue by developing customer and carrier relationships in new territories.

Optimized operations We intend to optimize our existing operations, acquired companies and greenfield locations by investing in an expanded sales and service workforce, implementing an advanced information technology infrastructure, incorporating industry best practices, and leveraging scale to share capacity more efficiently and increase buying power.

The backbone of our customer service organization in all three of our business segments is our information technology. We are developing a scalable platform across the Company, with sales, service, carrier and track-and-trace capabilities, as well as benchmarking and analysis.

Other Reporting Disclosures

The expedited transportation industry commonly negotiates both fuel surcharges charged to its customers as well as fuel surcharges paid to its carriers. Our fuel surcharges are determined on a negotiated customer-by-customer basis and are primarily based on a fuel matrix based on the Department of Energy fuel price index. Fuel surcharge revenue is charged to our customers to provide for variable costs associated with changing fuel prices. Independent contractors and brokered carriers are responsible for the cost of fuel, and therefore are paid a fuel surcharge by us to offset their variable cost of fuel. The fuel surcharge payment is expensed as incurred and included in our cost of transportation. Fuel surcharge payments are consistently applied based on the Department of Energy fuel price index and the type of truck utilized. Because fuel surcharge revenue varies based on negotiated customer rates and the overall mix of business, and because our fuel surcharge expense is applied on a consistent basis, gross margin and our gross margin percentage attributable to fuel surcharges will vary from period to period. The impact of fuel surcharge revenue and expense is discussed within management's discussion and analysis of our Expedited Transportation business unit.

Within our other two business units, Freight Forwarding and Freight Brokerage, fuel charges to our customers are not commonly negotiated and identified separately from total revenue and the associated cost of transportation. Although fuel costs are factored into overall pricing of these services, they are not typically separately identified by carriers and therefore we have not included an analysis of fuel surcharges for these two operating segments. We believe this is a common practice within the freight forwarding and freight brokerage business sectors.

This discussion and analysis refers from time to time to Expedited Transportation's international operations. These operations involve the transportation of freight shipments that originate in or are delivered to either Canada or Mexico. These freight shipments either originate in or are delivered to the United States, and therefore only a portion of the freight movement actually takes place in Canada or Mexico. This service is provided to domestic customers who pay primarily in U.S. dollars. We discuss this freight separately because our Expedited Transportation business unit has developed an expertise in cross-docking freight at the border through the utilization of Canadian and Mexican carriers, and this portion of our business has seen significant growth.

This discussion and analysis also refers from time to time to our Freight Forwarding international operations. These freight movements also originate in or are delivered to the United States and are primarily paid for in U.S. dollars. We discuss this freight separately because of Freight Forwarding's more recent focus on international freight movements through its purchase of LRG International, Inc. (now known as CGL International).

This discussion and analysis also refers time to time to our Freight Brokerage international operations. These brokered shipments may originate in either the United States or Canada and are largely attributable to our recent acquisition of Kelron. These services are provided to both U.S. and Canadian customers who primarily pay in their home currency.

We often refer to the costs of our board of directors, our executive team and certain operating costs associated with operating as a public company as corporate charges. In addition to these costs, certain other charges are reported on a consolidated basis within the corporate line items of the following tables.

The following table is consolidated, not segmented.

XPO Logistics, Inc.

Consolidated Summary Financial Table

(Unaudited)

(in thousands)

	Three Months Ended September 30,		\$ Variance Favorable (Unfavorable)	Percentage Variance Favorable (Unfavorable)	Nine Months Ended September 30,		\$ Variance Favorable (Unfavorable)	Percentage Variance Favorable (Unfavorable)
	2012	2011			2012	2011		
Revenue								
Operating revenue	\$ 70,988	\$ 47,389	\$ 23,599	49.8%	\$ 170,088	\$ 132,991	\$ 37,097	27.9%
Direct expense								
Transportation services	57,436	35,539	(21,897)	-61.6%	134,670	99,568	(35,102)	-35.3%
Station commissions	2,428	2,798	370	13.2%	7,201	8,387	1,186	14.1%
Insurance	511	426	(85)	-20.0%	1,348	1,182	(166)	-14.0%
Other	689	406	(283)	-69.7%	1,706	1,247	(459)	-36.8%
Total direct expense	61,064	39,169	(21,895)	-55.9%	144,925	110,384	(34,541)	-31.3%
Gross margin	9,924	8,220	1,704	20.7%	25,163	22,607	2,556	11.3%
SG&A expense								
Salaries & benefits	8,936	3,420	(5,516)	-161.3%	20,282	9,709	(10,573)	-108.9%
Purchased services	5,177	2,996	(2,181)	-72.8%	9,783	4,912	(4,871)	-99.2%
Depreciation & amortization	670	253	(417)	-164.8%	1,309	795	(514)	-64.7%
Other	4,421	1,081	(3,340)	-309.0%	10,661	3,078	(7,583)	-246.4%

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Total SG&A expense	19,204	7,750	(11,454)	-147.8%	42,035	18,494	(23,541)	-127.3%
Operating (loss) income	(9,280)	470	(9,750)	-2074.5%	(16,872)	4,113	(20,985)	-510.2%
Other (income) expense	314		(314)		319	62	(257)	-414.5%
Interest expense	15	49	34	69.4%	30	145	115	79.3%
Income before income tax	(9,609)	421	(10,030)	-2382.4%	(17,221)	3,906	(21,127)	-540.9%
Income tax (benefit) provision	(6,460)	231	6,691	2896.5%	(6,201)	1,685	7,886	468.0%
Net (loss) income	\$ (3,149)	\$ 190	\$ (3,339)	-1757.4%	\$ (11,020)	\$ 2,221	\$ (13,241)	-596.2%

Consolidated Results

Three Months Ended September 30, 2012 Compared to Three Months Ended September 30, 2011

In total, our consolidated revenue for the third quarter of 2012 increased 49.8% to \$71.0 million from \$47.4 million in the same period of 2011. This increase was driven largely by the acquisitions of Kelron and Continental Freight Services, Inc. (Continental), and increased revenues in Freight Brokerage attributable to our new cold-start locations.

Direct expense represents cost attributable to freight transportation. Our asset-light operating model provides transportation capacity through variable cost third-party transportation arrangements, therefore enabling us to manage the largest component of our operating costs as our volumes fluctuate. Our primary means of providing capacity are through our fleet of independent owner operators in Expedited Transportation and our network of independent ground, ocean and air carriers in Freight Forwarding and Freight Brokerage. We view this operating model as a strategic advantage, particularly in uncertain economic conditions.

Total gross margin for the third quarter of 2012 increased 20.7% to \$9.9 million from \$8.2 million in the same period of 2011. As a percentage of revenue, gross margin was 14.0% in the third quarter of 2012 as compared to 17.3% in the same quarter of 2011. The decrease in gross margin as a percentage of revenue was due to two factors: lower margins in our Expedited Transportation segment; and increased revenues in our Freight Brokerage segment, which typically experiences lower margins than our other operations. Freight Brokerage's gross margins also have been negatively impacted by lower margin sales during the start-up phases of our cold-start sales offices.

Selling, general and administrative (SG&A) expense as a percentage of revenue was 27.1% in the third quarter of 2012, as compared to 16.4% in the same quarter of 2011. Overall, SG&A expense increased by \$11.5 million in the third quarter of 2012 compared to the same quarter of 2011, primarily due to an increase in Corporate SG&A as discussed further in the XPO Corporate operating segment, and costs associated with our new Freight Brokerage offices including our new North American Operations Center in Charlotte, North Carolina (Operations Center).

Our effective income tax rate for the three months ended September 30, 2012 and 2011 was (67.2%) and 54.9%, respectively. The significant difference between the tax rates is due to the reversal of the valuation allowance of \$2.8 million previously rec