XPO Logistics, Inc.
Form 10-Q
May 08, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

..

For the transition period from to

Commission file number 001-32172

XPO Logistics, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**03-0450326**
(State or other jurisdiction of incorporation or organization)	**(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 x 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). x 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	x
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 x

As of May 8, 2013, there were 18,157,092 shares of the registrant s common stock, par value $0.001 per share, outstanding.

XPO Logistics, Inc.

Form 10-Q

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Part I Financial Information

Item 1. ***Financial Statements.***

XPO Logistics, Inc.

Condensed Consolidated Balance Sheets

(In thousands, except share data)

	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 206,182	$ 252,293
Accounts receivable, net of allowances of $1,068 and $603, respectively	73,455	61,245
Prepaid expenses	1,657	1,555
Deferred tax asset, current	1,266	1,406
Income tax receivable	2,913	2,569
Other current assets	3,785	1,866
Total current assets	289,258	320,934
Property and equipment, net of $6,073 and $5,323 in accumulated depreciation, respectively	14,011	13,090
Goodwill	66,904	55,947
Identifiable intangible assets, net of $5,382 and $4,592 in accumulated amortization, respectively	29,373	22,473
Deferred tax asset, long-term	79	
Other long-term assets	829	764
Total long-term assets	111,196	92,274
Total assets	$ 400,454	$ 413,208
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 20,227	$ 22,108
Accrued salaries and wages	2,687	3,516
Accrued expenses, other	20,410	21,123
Current maturities of notes payable and capital leases	791	491
Other current liabilities	1,477	1,789
Total current liabilities	45,592	49,027
Convertible senior notes	109,718	108,280
Notes payable and capital leases, net of current maturities	1,121	676
Deferred tax liability, long term	6,855	6,781
Other long-term liabilities	3,770	3,385
Total long-term liabilities	121,464	119,122
Stockholders equity:		
Preferred stock, $.001 par value; 10,000,000 shares; 74,275 shares issued and outstanding	42,794	42,794

Common stock, $.001 par value; 150,000,000 shares authorized; 18,197,929 and 18,002,985 shares issued, respectively; and 18,152,929 and 17,957,985 shares outstanding, respectively		18		18
Additional paid-in capital		266,267		262,641
Treasury stock, at cost, 45,000 shares held		(107)		(107)
Accumulated deficit		(75,574)		(60,287)
Total stockholders equity		233,398		245,059
Total liabilities and stockholders equity	$	400,454	$	413,208

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

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XPO Logistics, Inc.

Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share data)

	Three Months Ended March 31,	
	2013	2012
Revenue	$ 113,999	$ 44,560
Expenses		
Direct expense	97,739	37,787
Gross margin	16,260	6,773
Sales general and administrative expense	27,627	10,997
Operating loss	(11,367)	(4,224)
Other (income) expense	(109)	(21)
Interest expense	3,064	12
Loss before income tax provision	(14,322)	(4,215)
Income tax expense (benefit)	222	(1,521)
Net loss	(14,544)	(2,694)
Cumulative preferred dividends	(743)	(750)
Net loss available to common shareholders	$ (15,287)	$ (3,444)
Basic loss per share		
Net loss	$ (0.85)	$ (0.36)
Diluted loss per share		
Net loss	$ (0.85)	$ (0.36)
Weighted average common shares outstanding		
Basic weighted average common shares outstanding	18,032	9,501
Diluted weighted average common shares outstanding	18,032	9,501

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

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XPO Logistics, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Three Months Ended March 31, 2013	2012
Operating activities		
Net loss	$ (14,544)	$ (2,694)
Adjustments to reconcile net loss to net cash from operating activities		
Provisions for allowance for doubtful accounts	231	53
Depreciation & amortization expense	1,554	317
Stock compensation expense	1,097	1,033
Accretion of debt	1,438	
Other	(200)	
Changes in assets and liabilities, net of effects of acquisitions:		
Account receivable	(9,771)	(1,979)
Deferred tax expense	135	13
Income tax receivable	(814)	(1,737)
Other current assets	6	(1,780)
Prepaid expenses	(68)	
Other long-term assets and advances	(2)	(102)
Accounts payable	(5,199)	1,818
Accrued expenses	(2,280)	2,282
Other liabilities	403	
Cash used by operating activities	(28,014)	(2,776)
Investing activities		
Acquisition of businesses, net of cash acquired	(16,560)	
Proceeds from sale of business interests	125	
Payment of acquisition earn-out		(450)
Payment for purchases of property and equipment	(1,081)	(836)
Cash Flows used by investing activities	(17,516)	(1,286)
Financing Activities		
Credit line, net activity	478	
Payments of notes payable and capital leases	(284)	(2,084)
Excess tax benefit from stock options		167
Proceeds from stock offering, net		136,985
Proceeds from exercise of options, net	10	233
Payment of tax withholdings for shares	(31)	
Dividends paid to preferred stockholders	(743)	(750)
Cash flows (used)/provided by financing activities	(570)	134,551
Effect of exchange rate changes on cash	(11)	
Net (decrease)/increase in cash	(46,111)	130,489
Cash, beginning of period	252,293	74,007

Cash, end of period	$	206,182	$	204,496
Supplemental disclosure of noncash activities:				
Cash paid during the period for interest	$	3,328	$	12
Cash paid during the period for income taxes	$	732	$	84

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

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XPO Logistics, Inc.

Condensed Consolidated Statements of Changes in Stockholders Equity

Three Months Ended March 31, 2013

(Unaudited)

(In thousands)

	Preferred Stock		Common Stock		Treasury Stock		Paid-In	Accumulated	
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Balance, December 31, 2012	74	$ 42,794	18,003	$ 18	(45)	$ (107)	$ 262,641	$ (60,287)	$ 245,059
Net loss								(14,544)	(14,544)
Issuance of common stock for option exercise			22				10		10
Issuance of common stock for acquisition			173				2,573		2,573
Tax witholdings for share exercises							(30)		(30)
Sale of business interest							(24)		(24)
Dividend paid								(743)	(743)
Stock compensation expense							1,097		1,097
Balance, March 31, 2013	74	$ 42,794	18,198	$ 18	(45)	$ (107)	$ 266,267	$ (75,574)	$ 233,398

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

XPO Logistics, Inc.

Notes to Condensed Consolidated Financial Statements

Three Months Ended March 31, 2013 and 2012

(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 North America through its wholly-owned subsidiaries XPO Logistics, LLC, Bounce Logistics, Inc. (Bounce), and XPO Logistics Canada Inc. Freight brokerage services are arranged using relationships with sub-contracted motor and rail carriers.

Expedited Transportation provides time-critical expedited transportation through its wholly-owned subsidiaries Express-1, Inc. (Express-1) and XPO Air Charter, LLC (Air Charter). Expedited Transportation services are provided through a fleet of exclusive use vehicles that are owned and operated by independent contract drivers, whom it refers to as owner operators. For Air Charter, this involves the use of third-party aircraft to expedite shipment of goods for a customer.

Freight Forwarding provides freight forwarding services through its 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 nine company-owned branches located in the United States and Canada.

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.

For specific financial information relating to the above business units, refer to **Note 12 Reportable 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, management believes that the disclosures contained herein are adequate to make the information presented not misleading.

These unaudited condensed consolidated financial statements reflect, in the opinion of the Company, all material adjustments (which include only normal recurring adjustments) necessary to fairly present our financial position as of March 31, 2013 and December 31, 2012, and results of operations for the three-month periods ended March 31, 2013 and 2012. 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, 2012 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.

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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.

The Company s Freight Forwarding Segment collects on behalf of its customers certain taxes and duties as a complimentary service for international shipments. The Company s accounting policy is to present these collections on a gross basis. The Company recognized $0.8 million and $0.7 million of such revenue for the three-month periods ended March 31, 2013 and 2012, respectively.

Cash and cash equivalents

The Company considers 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. The Company may first choose to perform a qualitative evaluation of the likelihood of goodwill impairment. For the goodwill that was the result of current year acquisitions, the Company chose to perform a qualitative evaluation. If the Company determined a quantitative evaluation was necessary, the goodwill at the reporting unit was subject to a two-step impairment test. 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.**

The fair values of purchased intangible assets with indefinite lives, primarily trade names, are estimated and compared to their carrying values. The Company estimates the fair value of these intangible assets based on an income approach using the relief-from-royalty method. This methodology assumes that, in lieu of ownership, a third party would be willing to pay a royalty in order to exploit the related benefits of these types of assets. This approach

is dependent on a number of factors, including estimates of future growth and trends, royalty rates in the category of intellectual property, discount rates and other variables. The Company bases its fair value estimates on assumptions it believes to be reasonable, but which are unpredictable and inherently uncertain. Actual future results may differ from those estimates. The Company recognizes an impairment loss when the estimated fair value of the intangible asset is less than the carrying value. The Company performs the annual impairment testing during the third quarter unless events or circumstances indicate impairment of the intangible assets with indefinite lives may have occurred before that time. For the periods presented, the Company did not recognize any intangible assets with indefinite lives impairment as the estimated fair value of its intangible assets with indefinite lives exceeded the book value of these reporting units.

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 three-month periods ended March 31, 2013 and 2012, 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 three months to 12 years.

The following table sets forth the Company s identifiable intangible assets as of March 31, 2013 and December 31, 2012 (in thousands):

	March 31, 2013	December 31, 2012
Indefinite Lived Intangibles		
Trade Name	$ 6,416	$ 6,416
Definite Lived Intangibles:		
Trade name	1,322	1,246
Non-compete agreeements	3,850	3,050
Customer lists and relationships	20,996	14,281
Other intangible assets	2,171	2,072
	28,339	20,649
Less: acccumulated amortization	(5,382)	(4,592)
Intangible assets, net	$ 22,957	$ 16,057
Total Identifiable Intangibles	$ 29,373	$ 22,473

Estimated amortization expense for amortizable intangible assets for the next five years is as follows:

(in thousands)	2013	2014	2015	2016	2017
Estimated amortization expense	$ 2,179	$ 2,356	$ 2,243	$ 2,230	$ 2,189

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Actual amounts of amortization expense may differ from estimated amounts due to changes in foreign currency exchange rates, additional intangible asset acquisitions, impairment of intangible assets, accelerated amortization of intangible assets and other events.

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 business units in a currency other than the business units functional currency are normally reflected in cost of sales in the Consolidated Statements of Operations. Assets and liabilities of XPO Logistics Canada, 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 period-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 statements of operations for the periods presented.

Foreign Currency Hedging and Derivative Financial Instruments

The Company enters 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 statements of operations. In accordance with FASB ASC Topic 815 Derivatives and Hedging we do not apply hedge accounting to our derivative contracts.

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;

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.

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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 March 31, 2013 and December 31, 2012 (in thousands):

	Fair Value Measurements as of March 31, 2013			
	Total	Level 1	Level 2	Level 3
Assets:				
Money market funds	$ 202,633	$ 202,633	$	$
Liabilities:				
Contingent consideration obligations	$ 408	$	$	$ 408

	Fair Value Measurements as of December 31, 2012			
	Total	Level 1	Level 2	Level 3
Assets:				
Money market funds	$ 239,443	$ 239,443	$	$
Liabilities:				
Contingent consideration obligations	$ 392	$	$	$ 392

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 March 31, 2013 and 2012. 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 outstanding $143.8 million of 4.50% Convertible Senior Notes due October 1, 2017, which the Company is obligated to repay at 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 convertible senior notes were allocated to long-term debt and equity in the amounts of $106.8 million and $31.7 million, respectively. These amounts are net of debt issuance costs of $4.1 million for debt and $1.2 million for equity. Holders of the convertible senior notes are due interest semiannually in arrears on April 1 and October 1 of each year, beginning on April 1, 2013. The conversion rate was initially 60.8467 shares of common stock per $1,000 principal amount of notes (equivalent to an initial conversion price of approximately $16.43 per share of common stock) and is subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. The fair value of the convertible senior notes was $171.2 million as of March 31, 2013. The convertible senior notes contain an optional redemption right in favor of the Company, although it is the Company s 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**.

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 three-month periods ended March 31, 2013 and 2012 were 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 $1.2 million as of March 31, 2013 and December 31, 2012. Capitalized internal use software costs are amortized over the expected economic life of three years using the straight-line method.

Allowance for Doubtful Accounts

The Company records its allowance for doubtful accounts based upon its assessment of various factors. The Company considers historical experience, the age of the accounts receivable balances, credit quality of the Company s customers, current economic conditions, and other factors that may affect customers ability to pay.

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, 2012 for a more complete discussion of the Company s significant accounting policies.

3. Acquisitions

2013 Acquisitions

East Coast Air Charter

On February 8, 2013, pursuant to an asset purchase agreement the Company purchased substantially all of the operating assets of East Coast Air Charter, Inc. and 9-1-1 Air Charter LLC (together, ECAC) for total cash consideration of $9.3 million, excluding any working capital adjustments, with no assumption of debt. ECAC is a non-asset, third party logistics service provider specializing in expedited air charter brokerage in Statesville, NC. The ECAC 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 condensed consolidated balance sheet at their estimated fair values as of February 8, 2013 with the remaining unallocated purchase price recorded as goodwill. As a result of the acquisition, the Company recorded goodwill of $3.9 million and intangible assets of $4.8 million. 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.

Covered Logistics & Transportation

On February 26, 2013, pursuant to an asset purchase agreement the Company acquired substantially all of the assets of Covered Logistics & Transportation LLC (Covered Logistics) for $8.0 million in cash consideration and 173,712 shares of the Company s common stock with a value of $3.0 million, excluding any working capital adjustments, with no assumption of debt. Covered Logistics is a non-asset, third-party transportation logistics service provider focusing on freight brokerage with offices in Lake Forest, IL and Dallas, TX.

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The Covered Logistics 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 condensed consolidated balance sheet at their estimated fair values as of February 26, 2013 with the remaining unallocated purchase price recorded as goodwill. As a result of the acquisition, the Company recorded goodwill of $7.0 million and intangible assets of $2.9 million. 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.

2012 Acquisitions

Turbo Logistics

On October 24, 2012, pursuant to an asset purchase agreement the Company purchased substantially all of the assets of Turbo Logistics, Inc. and Turbo Dedicated, Inc. (collectively, Turbo) for total cash consideration of $50.1 million, excluding any working capital adjustments, with no assumption of debt. As a result of the final working capital adjustment, the cash consideration was reduced by $0.2 million.

Kelron Logistics

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.

As of March 31, 2013, the purchase price allocation is considered final, except for any impact resulting from any final working capital adjustments. 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. The Company 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 March 31, 2013 was $0.8 million.

Continental Freight Services

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. 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 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. The fair value of the contingent consideration at March 31, 2013 is $0.3 million.

4. Commitments and Contingencies

Lease Commitments

As of March 31, 2013, the Company had approximately $22.5 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 $3.2 million, $3.6 million, $3.4 million, $3.2 million, and $9.1 million for the periods ending December 31, 2013, 2014, 2015, 2016, and 2017 and thereafter, respectively.

Rent expense was approximately $0.9 million and $0.3 million for the three-month periods ended March 31, 2013 and 2012, respectively.

Litigation

The Company is involved in litigation in the Fourth Judicial District Court of Hennepin County, Minnesota relating to its hiring of former employees of C.H. Robinson Worldwide, Inc. (CHR). In the litigation, CHR asserts claims for breach of contract, breach of fiduciary duty and duty of loyalty, tortious interference with contractual relationships and prospective contractual relationships, misappropriation of trade secrets, violation of the federal Computer Fraud and Abuse Act, inducing, aiding, and abetting breaches, and conspiracy. CHR seeks temporary, preliminary and permanent injunctions, as well as direct and consequential damages and attorneys fees. CHR has asserted that it may seek punitive damages as well. On January 17, 2013, the Court issued an Order Regarding Motion for Temporary Injunction (the January 17 Order). On February 7, 2013, CHR filed a First Amended Complaint. On April 11, 2013, the Company moved to dismiss the new claims asserted in that First Amended Complaint. On April 16, 2013, following the Company s request, the Court issued an Order Denying Request for Leave to File Motion to Reconsider and Amending the Order for a Temporary Injunction (the Amended Order). The Amended Order limited and clarified paragraph 1(e) of the January 17 Order to prohibit the Company from engaging in business within a specified radius of Phoenix, AZ, until July 1, 2014, with customers identified on a CHR spreadsheet with whom CHR did more than $100,000 worth of gross revenue in 2011. The Company intends to vigorously defend the action in court. The outcome of this litigation is uncertain and could have a material adverse effect on the Company s business and results of operations.

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, the Company 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 senior 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. On October 17, 2012, as part of the underwritten registered public offering on September 26, 2012 of the 4.50% convertible senior notes due October 1, 2017, the underwriters exercised the overallotment option to purchase $18.8 million additional principal amount of the convertible senior notes. The Company received approximately $18.2 million in net proceeds after underwriting discounts, commissions and expenses were paid. The overallotment option was allocated to long-term debt and equity in the amounts of $14.0 million and $4.2 million, respectively. These amounts are net of debt issuance costs of $0.5 million for debt and $0.1 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 senior 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

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conversion rate of approximately 60.8467 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 senior 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 senior notes at any time. The convertible senior 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 senior 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 senior 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 senior notes following the Company s issuance of a redemption notice.

For accounting purposes, the redemption feature in the convertible senior notes is an embedded derivative that is not clearly and closely related to the convertible senior 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 March 31, 2013, 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.

The following table outlines the Company s debt obligations (in thousands) as of March 31, 2013 and December 31, 2012:

	Interest rates	Term (months)	As of March 31, 2013	As of December 31, 2012
Capital leases for equipment	12.94%	56	$ 186	$ 154
Notes payable	N/A	N/A	1,288	863
Line of credit	5.0%	N/A	438	150
Convertible senior notes	4.50%	60	109,718	108,280
Total debt and capital leases			111,630	109,447
Less: current maturities of notes payable and capital leases			791	491
Non-current maturities of debt and capital leases			$ 110,839	$ 108,956

6. Goodwill

The following table is a roll-forward of goodwill from December 31, 2012 to March 31, 2013. The current period additions are the result of the goodwill recognized as excess purchase price in the acquisitions of East Coast Air Charter and Covered Logistics (in thousands):

	Expedited Transportation	Freight Forwarding	Freight Brokerage	Total
Goodwill at December 31, 2012	$ 7,737	$ 9,222	38,988	$ 55,947
Acquisitions and other adjustments	3,879		7,078	10,957
Goodwill at March 31, 2013	$ 11,616	$ 9,222	$ 46,066	$ 66,904

7. Stockholder s Equity

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.

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8. Stock-Based Compensation

The following table summarizes the Company s equity awards outstanding and exercisable as of December 31, 2012 and March 31, 2013:

	Options				Restricted Stock Units	
	Options	Weighted Average Exercise Price	Exercise Price Range	Weighted Average Remaining Term	Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2012	1,383,332	10.06	2.28 18.07	8.29	883,816	11.31
Granted	25,500	17.98	17.10 18.59		140,714	12.62
Exercised	29,997	4.01	2.96 6.08			
Forfeited	348	6.08	6.08			
Outstanding at March 31, 2013	1,378,487	$ 10.34	$ 2.28 18.59	8.18	1,024,530	$ 11.49

The stock-based compensation expense for outstanding restricted stock units (RSUs) was $0.7 million and $0.8 million for the three-month periods ended March 31, 2013 and 2012, respectively. Of the 1,024,530 outstanding RSUs, 573,816 vest subject to service conditions, 310,000 vest subject to service and performance-based conditions and 140,714 vest subject to service and market conditions. Based on the Company s financial performance in 2012, all performance-based conditions relating to outstanding RSUs vesting have been satisfied.

As of March 31, 2013, the Company had approximately $10.1 million of unrecognized compensation cost related to non-vested RSU compensation that is anticipated to be recognized over a weighted-average period of approximately 2.99 years. Remaining estimated compensation expense related to outstanding restricted stock-based grants is $2.4 million, $3.0 million, $2.9 million, $1.8 million and $0.0 million for the years ending December 31, 2013, 2014, 2015, 2016 and 2017, respectively.

As of March 31, 2013, the Company had 489,946 options vested and exercisable and $4.3 million of unrecognized compensation cost related to stock options. The remaining estimated compensation expense related to the existing stock options is $1.2 million, $1.1 million, $1.1 million, $0.8 million and $0.1 million for the years ended December 31, 2013, 2014, 2015, 2016 and 2017, 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 senior notes and Preferred Stock outstanding during the period, if dilutive. The weighted average of potentially dilutive securities excluded from the computation of diluted earnings per share for the three-month periods ending March 31, 2013 and 2012 is shown per the table below.

	Three Months Ended	
	March 31, 2013	March 31, 2012
Basic common stock outstanding	18,031,926	9,501,336
Potentially Dilutive Securities:		
Shares underlying the conversion of preferred stock to common stock	10,610,714	10,714,286
Shares underlying the conversion of the convertible senior notes	8,749,239	
Shares underlying warrants to purchase common stock	6,342,298	5,411,309
Shares underlying stock options to purchase common stock	550,611	293,578
Shares underlying restricted stock units	414,088	97,894
	26,666,950	16,517,067
Diluted weighted shares outstanding	44,698,876	26,018,403

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 for the potential dilution with an average market price of $17.15 per share and $14.14 per share for the three-month periods ended March 31, 2013 and 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 March 31, 2013, the Company recorded income tax expense of $0.2 million yielding an effective tax rate of 1.6%. The effective tax rate differs from the U.S. statutory rate of 34% in the periods ended March 31, 2013, primarily due to the impact of recording a valuation allowance against the benefits of the current period s loss.

The Company has a valuation allowance of $6.3 million as of March 31, 2013 on the deferred tax assets generated for federal, state and foreign net operating losses where it is not more likely than not that the deferred tax assets will be utilized. In evaluating the Company s ability to realize its deferred income tax assets, the Company considers all available positive and negative evidence, including operating results, ongoing tax planning, and forecasts of future taxable income on a jurisdiction by jurisdiction basis. The valuation allowance as of March 31, 2013 relates primarily to domestic net operating loss and credit carryforwards that will reduce the provision for income taxes if and when recognized.

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 March 31, 2013, 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, if any exists. 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.

11. Related Party Transactions

There were no related party transactions that occurred during the three-month periods ended March 31, 2013 and 2012.

12. Reportable Segments

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

Corporate charges include the costs of the Company s executive and shared service teams, professional services such as legal and consulting, board of directors, and certain other corporate costs associated with operating as a public company. The Company allocates charges to the reportable segments for IT services, depreciation of IT fixed assets as well as centralized recruiting and training resources.

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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. The following schedule identifies select financial data for each of the Company s operating segments for the three-month periods ended March 31, 2013 and 2012, respectively (in thousands):

XPO Logistics, Inc.

Segment Data

(Unaudited)

(In thousands)

	Freight Brokerage	Expedited Transportation	Freight Forwarding	Corporate	Eliminations	Total
Three Months Ended March 31, 2013						
Revenue	$ 78,230	$ 23,875	$ 16,233	$	$ (4,339)	$ 113,999
Operating income (loss) from operations	(3,820)	753	372	(8,672)		(11,367)
Depreciation and amortization	1,014	268	88	184		1,554
Interest expense	2	2		3,060		3,064
Tax provision (benefit)	41			181		222
Goodwill	46,066	11,616	9,222			66,904
Total assets	140,275	51,930	22,412	373,207	(187,370)	400,454
Three Months Ended March 31, 2012						
Revenue	$ 7,928	$ 22,420	$ 15,457	$	$ (1,245)	$ 44,560
Operating income (loss) from operations	(154)	1,580	162	(5,812)		(4,224)
Depreciation and amortization	20	136	144	17		317
Interest expense (income)	1	1	(1)	11		12
Tax (benefit) provision	(452)	(597)	(730)	258		(1,521)
Goodwill		7,737	9,222			16,959
Total assets	4,939	25,416	23,055	230,769	(18,933)	265,246

13. Subsequent Events

On April 10, 2013, 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 $0.7 million and was paid on April 15, 2013.

On May 6, 2013, the Company acquired substantially all of the assets of Interide Logistics (Interide) for $3.1 million in cash consideration and 36,878 shares of the Company s common stock with a value of $0.6 million, excluding any working capital adjustments, with no assumption of debt. Interide is a non-asset based freight brokerage business with offices in Salt Lake City, UT, Minneapolis-Saint Paul, MN and Louisville, KY.

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 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, 2012 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, 2012 includes a summary of our critical accounting policies. For the period ended March 31, 2103, there were no significant changes to our critical accounting policies.

New Pronouncements

No applicable new accounting pronouncements were noted during the period ended March 31, 2013.

Executive Summary

XPO Logistics, Inc., a Delaware corporation, and its subsidiaries (collectively, 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. As of March 31, 2013, we operated at 59 locations: 37 Company-owned branches and 22 agent-owned offices.

Our services are offered through three distinct business segments. The first segment, Freight Brokerage, places shippers freight with qualified carriers. The second segment, Expedited Transportation, provides urgent freight transportation via independent contractors and air carriers. Our third segment, Freight Forwarding, arranges domestic and international shipments using ground, air and ocean transport through a network of agent-owned and Company-owned locations.

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

Our growth strategy has three main components:

Acquisitions. During 2013, we acquired the following non-asset based transportation logistics providers:

Covered Logistics & Transportation On February 26, 2013, we purchased substantially all of the assets of Covered Logistics & Transportation LLC (Covered Logistics);

East Coast Air Charter On February 8, 2013, we purchased substantially all of the assets of East Coast Air Charter, Inc. (XPO Air Charter);

During 2012, we acquired the following non-asset based transportation logistics providers:

Turbo Logistics On October 24, 2012, we purchased substantially all of the assets of Turbo Logistics, Inc. and Turbo Dedicated, Inc. (together, Turbo);

BirdDog Logistics On October 1, 2012, we purchased certain assets of BirdDog Logistics, Inc. (BirdDog);

Kelron Logistics On August 3, 2012, we purchased all of the outstanding capital stock of Kelron Corporate Services Inc. and certain related entities (collectively, Kelron); and

Continental Freight Services On May 8, 2012, we purchased all of the outstanding capital stock of Continental Freight Services, Inc. (Continental).

Cold-starts. We opened 17 cold-starts from September 2011 through March 31, 2013, including eight in our Freight Brokerage business segment. We plan to continue to open cold-start locations with a focus on growing our Freight Brokerage business network.

Optimization of operations. In March 2012, we opened a national operations center in Charlotte, NC a critical component of our infrastructure. The operations center incorporates shared services for back office functions, and provides centralized carrier procurement as a resource for our brokerage branches.

Convertible Debt Offering

On September 26, 2012, we completed a registered underwritten public offering of 4.50% Convertible Senior Notes due October 1, 2017, in an aggregate principal amount of $125.0 million. On October 17, 2012, the underwriters exercised the overallotment option to purchase $18.8 million additional principal amount of the convertible senior notes. We received $138.5 million in net proceeds after underwriting discounts, commissions and expenses were paid. The convertible senior notes were allocated to long-term debt and equity in the amounts of $106.8 million and $31.7 million, respectively. These amounts are net of debt issuance costs of $4.1 million for debt and $1.2 million for equity.

We are obligated to pay holders of our 4.50% Convertible Senior Notes interest semiannually in arrears on April 1 and October 1 of each year, beginning on April 1, 2013. The notes will mature on October 1, 2017 unless earlier converted or repurchased. The conversion rate was initially 60.8467 shares of common stock per $1,000 principal amount of notes (equivalent to an initial conversion price of approximately $16.43 per share of common stock) and is subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest.

Common Stock Offering

On March 20, 2012, we 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. We received $137.0 million in net proceeds from the Offering after underwriting discounts and estimated expenses.

Other Reporting Disclosures

This discussion and analysis also refers from 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 acquisition of Kelron. These services are provided to both U.S. and Canadian customers who primarily pay in their home currency.

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 segment 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.

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XPO Logistics, Inc.

Consolidated Summary Financial Table

(Unaudited)

(In thousands)

	For the Three Months Ended March 31, 2013	2012	Percent of Revenue 2013	2012	Change %
Revenue	$ 113,999	$ 44,560	100.0%	100.0%	155.8%
Direct expense					
Transportation services	94,880	34,534	83.2%	77.5%	174.7%
Station commissions	1,708	2,316	1.5%	5.2%	-26.3%
Other direct expense	1,151	937	1.0%	2.1%	22.8%
Total direct expense	97,739	37,787	85.7%	84.8%	158.7%
Gross margin	16,260	6,773	14.3%	15.2%	140.1%
SG&A expense					
Salaries & benefits	18,048	6,349	15.8%	14.2%	184.3%
Purchased services	3,815	2,736	3.3%	6.1%	39.4%
Other SG&A expense	4,262	1,646	3.7%	3.7%	158.9%
Depreciation & amortization	1,502	266	1.3%	0.6%	464.7%
Total SG&A expense	27,627	10,997	24.2%	24.7%	151.2%
Operating loss	(11,367)	(4,224)	-10.0%	-9.5%	169.1%
Other (income) expense	(109)	(21)	-0.1%	0.0%	419.0%
Interest expense	3,064	12	2.7%	0.0%	25433.3%
Loss before income tax	(14,322)	(4,215)	-12.6%	-9.5%	239.8%
Income tax expense (benefit)	222	(1,521)	0.2%	-3.4%	-114.6%
Net loss	$ (14,544)	$ (2,694)	-12.8%	-6.0%	439.9%

Consolidated Results

Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012

Our consolidated revenue for the first quarter of 2013 increased 155.8% to $114.0 million from $44.6 million in the first quarter of 2012. This increase was driven largely by the increased revenues in Freight Brokerage due to the acquisitions of Turbo, Kelron, Continental, and Covered Logistics as well as the revenue attributable to the growth of our eight Brokerage cold-start locations, and the acquisition of XPO Air Charter.

Direct expense is primarily attributable to the cost of procuring freight transportation services for our customers and commissions paid to independent station owners in our freight forwarding business. Our non-asset operating model provides transportation capacity through variable cost third-party transportation arrangements, therefore enabling us to be flexible to adapt to changes in economic or industry conditions. Our primary means of providing capacity are through our base 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 due to its flexibility, particularly in uncertain economic conditions.

Total gross margin dollars for the first quarter of 2013 increased 140.1% to $16.3 million from $6.8 million in the first quarter of 2012. As a percentage of revenue, gross margin was 14.3% in the first quarter of 2013 as compared to 15.2% in the first quarter of 2012. The decrease in gross margin as a percentage of revenue is attributable primarily to increased revenues in our Freight Brokerage segment, which typically experiences lower margins than our other operations, and lower margins in our Expedited Transportation segment.

Selling, general and administrative (SG&A) expense as a percentage of revenue was 24.2% in the first quarter of 2013, as compared to 24.7% in the first quarter of 2012. SG&A expense increased by $16.6 million in the first quarter of 2013 compared to the first quarter of 2012, due to significant growth initiatives, including six acquisitions, sales force recruitment, costs associated with our new Freight Brokerage offices, and an increase in Corporate SG&A.

Our effective income tax rates in the first quarter of 2013 and 2012 were 1.6% and (36.1%), respectively. The significant difference between the tax rates is due to the effects of recording a tax valuation allowance against the income tax benefit for the first quarter of 2013.

The increase in net loss was due primarily to higher SG&A expenses associated with significant growth initiatives, including sales force recruitment, costs associated with our new Freight Brokerage offices, and an increase in Corporate SG&A.

Freight Brokerage

Summary Financial Table

(Unaudited)

(In thousands)

	For the Three Months Ended March 31,		Percent of Revenue		Change
	2013	2012	2013	2012	%
Revenue	$ 78,230	$ 7,928	100.0%	100.0%	886.8%
Direct expense					
Transportation services	67,957	6,905	86.9%	87.1%	884.2%
Other direct expense	207	(6)	0.3%	-0.1%	-3550.0%
Total direct expense	68,164	6,899	87.1%	87.0%	888.0%
Gross margin	10,066	1,029	12.9%	13.0%	878.2%
SG&A expense					
Salaries & benefits	10,163	859	13.0%	10.8%	1083.1%
Purchased services	814	62	1.0%	0.8%	1212.9%
Other SG&A expense	1,895	174	2.4%	2.2%	989.1%
Depreciation & amortization	1,014	20	1.3%	0.3%	4970.0%
Total SG&A expense	13,886	1,115	17.8%	14.1%	1145.4%
Operating (loss) income	$ (3,820)	$ (86)	-4.9%	-1.1%	4341.9%

Freight Brokerage

Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012

Revenue in our Freight Brokerage segment increased by 886.8% to $78.2 million in the first quarter of 2013 compared to $7.9 million in the first quarter of 2012. Revenue growth was primarily due to the acquisitions of Turbo, Kelron, Continental, and Covered Logistics, as well as revenue growth from our eight cold-start sales locations. Headcount in our Freight Brokerage segment increased to 668 from 40 as of March 31, 2013 and 2012, respectively.

Freight Brokerage s gross margin dollars increased 878.2% to $10.1 million in the first quarter of 2013 from $1.0 million in the first quarter of 2012. As a percentage of revenue, Freight Brokerage s gross margin remained relatively flat at 12.9% in the first quarter of 2013, compared to 13.0% in the first quarter of 2012.

SG&A expense increased to $13.9 million in the first quarter of 2013 from $1.1 million in the first quarter of 2012. As a percentage of revenue, SG&A expense increased to 17.8% in the first quarter of 2013 as compared to 14.1% in the first quarter of 2012. The increase in SG&A expense was associated with sales force expansion, technology development and training.

Our Freight Brokerage operations generated an operating loss of $3.8 million in the first quarter of 2013 compared to an operating loss of $0.1 million in the first quarter of 2012. The increase in operating loss was attributable to the increase in SG&A expense as we continue to invest in sales and procurement personnel to support our growth initiatives.

Management s growth strategy for Freight Brokerage is based on:

Selective acquisitions of non-asset based freight brokerage firms that would benefit from our scale and potential access to capital;

The opening of new freight brokerage sales offices;

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Investment in an expanded sales and service workforce;

Technology investments to improve efficiency in sales, freight tracking and carrier procurement; and

The integration of industry best practices, with specific focus on better leveraging our scale and lowering administrative overhead.

Expedited Transportation

Summary Financial Table

(Unaudited)

(In thousands)

	For the Three Months Ended March 31, 2013	2012	Percent of Revenue 2013	2012	Change %
Revenue	$ 23,875	$ 22,420	100.0%	100.0%	6.5%
Direct expense					
Transportation services	19,152	17,362	80.2%	77.4%	10.3%
Other direct expense	915	899	3.8%	4.0%	1.8%
Total direct expense	20,067	18,261	84.1%	81.4%	9.9%
Gross margin	3,808	4,159	15.9%	18.6%	-8.4%
SG&A expense					
Salaries & benefits	1,945	1,660	8.1%	7.4%	17.2%
Purchased services	289	197	1.2%	0.9%	46.7%
Other SG&A expense	604	429	2.5%	1.9%	40.8%
Depreciation & amortization	217	85	0.9%	0.4%	155.3%
Total SG&A expense	3,055	2,371	12.8%	10.6%	28.8%
Operating income	$ 753	$ 1,788	3.2%	8.0%	-57.9%

Note: Total depreciation and amortization for the Expedited Transportation operating segment included in both direct expense and SG&A, was $268 and $137 for the three-month periods ended March 31, 2013 and 2012

Expedited Transportation

Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012

Revenue in our Expedited Transportation segment increased 6.5% to $23.9 million in the first quarter of 2013 from $22.4 million in the first quarter of 2012. This growth was driven by the acquisition of East Coast Air Charter on February 12, 2013.

Direct expenses consist primarily of payments to independent contractors for ground transportation and air charter services, insurance and truck leasing expense. Expedited Transportation gross margin dollars decreased 8.4% to $3.8 million in the first quarter of 2013 from $4.2 million in the first quarter of 2012. As a percentage of revenue, Expedited Transportation gross margin was 15.9% in the first quarter of 2013, compared to 18.6% in the first quarter of 2012. The decrease in gross margin as a percentage of revenue primarily reflects a softer expedited freight environment.

SG&A expense increased 28.8% to $3.1 million in the first quarter of 2013 from $2.4 million in the first quarter of 2012. As a percentage of revenue, SG&A expense increased to 12.8% in the first quarter of 2013 compared to 10.6% in the first quarter of 2012. The increase was due to largely to the addition of East Coast Air Charter and an increase in the number of sales and service personnel since the first quarter of 2012.

Operating income decreased to $0.8 million in the first quarter of 2013 compared to $1.8 million in the first quarter of 2012. The decrease in operating income was primarily related to the decrease in gross margin as a percent of revenue and an increase in SG&A, as described above.

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Management s growth strategy for our Expedited Transportation segment is based on:

Targeted investments to expand the sales and service workforce, in order to capture key opportunities in specialized areas (*e.g.*, cross-border, refrigeration and air charter);

An increased focus on carrier recruitment and retention, as well as improved utilization of the current carrier fleet;

Technology upgrades to improve efficiency in sales and carrier procurement; and

Selective acquisitions of non-asset based expedited businesses that would benefit from our scale and potential access to capital.

Freight Forwarding

Summary Financial Table

(Unaudited)

(In thousands)

	For the Three Months Ended March 31, 2013	2012	Percent of Revenue 2013	2012	Change %
Revenue	$ 16,233	$ 15,457	100.0%	100.0%	5.0%
Direct expense					
Transportation services	12,110	11,513	74.6%	74.5%	5.2%
Station commissions	1,708	2,316	10.5%	15.0%	-26.3%
Other direct expense	29	43	0.2%	0.3%	-32.6%
Total direct expense	13,847	13,872	85.3%	89.7%	-0.2%
Gross margin	2,386	1,585	14.7%	10.3%	50.5%
SG&A expense					
Salaries & benefits	1,433	787	8.8%	5.1%	82.1%
Purchased services	90	41	0.6%	0.3%	119.5%
Other SG&A expense	403	372	2.5%	2.4%	8.3%
Depreciation & amortization	88	144	0.5%	0.9%	-38.9%
Total SG&A expense	2,014	1,344	12.4%	8.7%	49.9%
Operating income	$ 372	$ 241	2.3%	1.6%	54.4%

Freight Forwarding

Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012

Revenue in our Freight Forwarding segment increased 5.0% to $16.2 million in the first quarter of 2013 from $15.5 million in the first quarter of 2012. The increase was primarily the result of the opening of new freight forwarding locations.

As of March 31, 2013, Freight Forwarding had 28 locations, consisting of 19 independently-owned stations and nine Company-owned branches. This compares to 27 locations as of March 31, 2012, consisting of 23 independently-owned stations and four company-owned branches.

Direct expense consists primarily of payments for purchased transportation and commissions paid to Freight Forwarding s independently-owned stations. Freight Forwarding s gross margin dollars increased 50.5% to $2.4 million in the first quarter of 2013 from $1.6 million in the first quarter of 2012. As a percentage of revenue, Freight Forwarding gross margin increased to 14.7% in the first quarter of 2013 as compared to 10.3% in the first quarter of 2012. The increase was primarily driven by company-owned conversions from independently-owned stations, and coldstarts.

SG&A expense increased 49.9% to $2.0 million in the first quarter of 2013 from $1.3 million in the first quarter of 2012. As a percentage of revenue, SG&A expense increased to 12.4% in the first quarter of 2013 as compared to 8.7% in the first quarter of 2012. The increase in SG&A expense is mainly due to the investment associated with opening our company-owned branches in Chicago, IL, Houston, TX, Los Angeles, CA, Minneapolis, MN, Charlotte, NC, Atlanta, GA and Montreal, QC.

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Operating income increased to $0.4 million in the first quarter of 2013 compared to $0.2 million in the first quarter of 2012. The increase in operating income was primarily related to an increase in the percentage of revenues from our company-owned branches, which yield higher margins than our independently-owned stations.

Management s growth strategy for Freight Forwarding is based on:

Plans to open new offices in key U.S. markets, which will consist of both company-owned branches and independently-owned stations;

Growth of international shipments, with a focus on Asia and Latin America;

Technology upgrades to improve efficiency in sales and carrier procurement; and

Selective acquisitions of complementary, non-asset based freight forwarding businesses.

XPO Corporate

Summary of Selling, General and Administrative Expense

(Unaudited)

(In thousands)

	For the Three Months Ended March 31,		Percent of Consolidated Revenue		Change
	2013	2012	2013	2012	%
SG&A expense					
Salaries & benefits	4,507	3,043	4.0%	6.8%	48.1%
Purchased services	2,622	2,436	2.3%	5.5%	7.6%
Other SG&A expense	1,359	671	1.2%	1.5%	102.5%
Depreciation & amortization	184	17	0.2%	0.0%	982.4%
Total SG&A expense	$ 8,672	$ 6,167	7.6%	13.8%	40.6%

Corporate

Three Months Ended March 31, 2013 Compared to Three Months Ended March 31, 2012

Corporate SG&A expense in the first quarter of 2013 increased by $2.5 million compared to the first quarter of 2012. As a percentage of consolidated revenue, Corporate SG&A expense was 7.6% in the first quarter of 2013, compared with 13.8% in the first quarter of 2012 due to improved leverage as the Company executed its acquisition and organic growth strategies. The increase in salaries and benefits was driven by higher headcount in corporate shared services. Purchased services increased in the first quarter of 2013 due largely to $1.1 million of litigation-related legal costs. Corporate SG&A for the first quarter of 2013 also included $1.1 million of non-cash share based compensation and $0.3 million of acquisition-related transaction costs.

Liquidity and Capital Resources

General

As of March 31, 2013, we had $243.7 million of working capital, including cash of $206.2 million, compared to working capital of $271.9 million, including cash of $252.3 million, as of December 31, 2012. This decrease of $28.2 million in working capital during the three-month period was mainly due to cash used in the acquisitions of East Coast Air Charter and Covered Logistics as well as cash used in operations.

During the first quarter of 2013, we funded operations, capital expenditures and preferred stock dividends through cash on hand. We continually evaluate our liquidity requirements, capital needs and availability of capital resources based on our operating needs and our planned growth initiatives. In addition to our existing cash balances and net cash provided by operating activities, in certain circumstances we may also use debt financings and issuances of equity or equity-related securities to fund our operating needs and growth initiatives.

We believe that our existing cash balances will be sufficient for the next twelve months to finance our existing operations and growth initiatives.

Cash Flow

During the first quarter of 2013, $28.0 million was used in cash from operations compared to $2.8 million used for the comparable period in 2012. The primary use of cash for the period was payment of transportation services and various SG&A expenses.

Cash generated from revenue equaled $104.2 million for the first quarter of 2013 as compared to $42.6 million for the same period in 2012 and correlates directly with the revenue increase between the two periods. Cash flow increases are related primarily to volume increases between the periods ended March 31, 2013 and 2012.

Cash used for payment of transportation services for the first quarter of 2013 equaled $97.1 million as compared to $36.3 million for the same period in 2012. The increase in cash outflows between the two periods also directly correlates to the increase in revenues between the two periods.

Other operating uses of cash included SG&A items, which equaled $31.2 million and $8.8 million for the three-month periods ended March 31, 2013 and 2012, respectively. Significant SG&A items include payroll and purchased services. For the first quarter of 2013, payroll expense equaled $13.4 million as compared to $5.9 million for the same period in 2012.

Investing activities used approximately $17.5 million during the first quarter of 2013 compared to a use of $1.3 million from these activities during the same period in 2012. During the current period, $16.6 million was used in acquisitions and $1.1 million was used to purchase fixed assets while $0.1 million was received from the sale of business interests. During the same period in 2012, we used $0.5 million to make an earn-out payment to the former owners of LRG International and $0.8 million to purchase fixed assets.

Financing activities used approximately $0.6 million for the first quarter of 2013, compared to $134.6 million generated for the same period in 2012. Our primary use of cash in financing activities during the first quarter of 2013 was the dividends paid to preferred stockholders of $0.7 million and payments on notes payable of $0.3 million offset by the receipt of $0.5 million from a line of credit. During the same period in 2012, our main source of cash was the $137.0 million of net proceeds from the stock offering and $0.2 million in proceeds from the exercise of options offset by the use of cash in the payoff of our revolving credit facility and term loan for $2.1 million and the dividend paid to preferred stockholders of $0.8 million during the period.

Long-Term Debt and Line of Credit

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 provided for a $5.0 million revolving demand facility (the Revolving Demand Facility) subject to certain borrowing limits. Borrowings under the Agreements can be made either as Royal Bank Prime based loans in Canadian currency at the interest rate equal to the Royal Bank Prime Rate (as defined in the Agreements) 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 we were in compliance at March 31, 2013.

Contractual Obligations

The following table reflects our contractual obligations as of March 31, 2013 (in thousands):

		Payments Due by Period			
Contractual Obligations	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years
Capital leases payable	$ 186	$ 38	$ 91	$ 57	$
Notes Payable	1,726	753	973		
Operating/real estate leases	22,287	4,045	6,833	5,866	5,543
Employment contracts	20,043	5,432	11,563	3,048	
Convertible Senior Notes	139,278	5,930	12,938	120,410	
Total contractual cash obligations	$ 183,520	$ 16,198	$ 32,398	$ 129,381	$ 5,543

We do not have any material commitments that have not been disclosed elsewhere.

Off-Balance Sheet Arrangements

We are not a party to any transactions that would be considered off-balance sheet arrangements under Item 303(a)(4) of Regulation S-K.

Item 3. ***Quantitative and Qualitative Disclosures about Market Risk.***

The following discussion about our market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. We are exposed to market risk related to changes in interest rates and foreign currency exchange rates.

Interest Rate Risk. As of March 31, 2013, we held $206.2 million of cash in cash depository and money market funds held in depository accounts at four financial institutions. The primary market risk associated with these investments is liquidity risk. A hypothetical 100-basis-point change in the interest rate would not have a material effect on our earnings. We do not use derivative financial instruments to manage interest rate risk or to speculate on future changes in interest rates.

Foreign Currency Exchange Risk. As a result of our acquisition of the freight brokerage operations of Kelron on August 3, 2012, our Canadian-based business and results of operations are exposed to movements in the U.S. dollar to Canadian dollar foreign currency exchange rate. As a result of our presence in Canada, a portion of our revenue is denominated in Canadian dollars. If the U.S. dollar strengthens against the Canadian dollar, our revenues reported in U.S. dollars would decline. With regard to operating expense, our primary exposure to foreign currency exchange risk relates to operating expense incurred in Canadian dollars. If the Canadian dollar strengthens, costs reported in U.S. dollars will increase. Movements in the U.S. dollar to Canadian dollar foreign currency exchange rate did not have a material effect on our revenue during the first quarter of 2013. A hypothetical ten percent change in average exchange rates versus the U.S. dollar would not have resulted in a material change to our earnings for the first quarter of 2013.

From time to time, we use foreign currency forward contracts to reduce part of the variability in certain forecasted Canadian dollar denominated cash flows. Generally, these instruments are for maturities of six months or less. We consider several factors when evaluating hedges of our forecasted foreign currency exposures, such as significance of the exposure, offsetting economic exposures and potential costs of hedging. We do not enter into derivative transactions for purposes other than hedging economic exposures. During the first quarter of 2013, we have not entered into any forward contracts to reduce the variability in our Canadian dollar denominated revenues and operating expenses that relate to our Canadian-based operations.

Convertible Debt Outstanding. The fair market value of our outstanding issue of convertible senior notes is subject to interest rate and market price risk due to the convertible feature of the notes and other factors. Generally the fair market value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. The fair market value of the notes may also increase as the market price of our stock rises and decrease as the

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market price of our stock falls. Interest rate and market value changes affect the fair market value of the convertible senior notes, and may affect the prices at which we would be able to repurchase such convertible senior notes were we to do so. These changes do not impact our financial position, cash flows or results of operations. For additional information on the fair value of our outstanding convertible senior notes, see Note 2 to our condensed consolidated financial statements included in this Quarterly Report.

Item 4. ***Controls and Procedures.***

Evaluation of disclosure controls and procedures. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on their evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of such time such that the material information required to be included in our SEC reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms relating to the Company, including our consolidated subsidiaries, and was made known to them by others within those entities, particularly during the period when this report was being prepared.

Changes in internal controls. Except as described below, there have not been any changes in the Company s internal control over financial reporting during the quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. The Company has replaced its financial reporting system with a new financial reporting system from Oracle and implementation is occurring during 2013. On February 8, 2013 and February 26, 2013, the Company completed its acquisitions of the air charter operations of ECAC and the freight brokerage operations of Covered Logistics, respectively, and is in the process of integrating the acquired businesses into the Company s overall internal controls over financial reporting process. For additional information on the acquisitions of ECAC and Covered Logistics, see Note 3 to our condensed consolidated financial statements included in this Quarterly Report.

Part II Other Information

Item 1. ***Legal Proceedings.***

The Company is involved in litigation in the Fourth Judicial District Court of Hennepin County, Minnesota relating to its hiring of former employees of C.H. Robinson Worldwide, Inc. (CHR). In the litigation, CHR asserts claims for breach of contract, breach of fiduciary duty and duty of loyalty, tortious interference with contractual relationships and prospective contractual relationships, misappropriation of trade secrets, violation of the federal Computer Fraud and Abuse Act, inducing, aiding, and abetting breaches, and conspiracy. CHR seeks temporary, preliminary and permanent injunctions, as well as direct and consequential damages and attorneys fees. CHR has asserted that it may seek punitive damages as well. On January 17, 2013, the Court issued an Order Regarding Motion for Temporary Injunction (the January 17 Order). On February 7, 2013, CHR filed a First Amended Complaint. On April 11, 2013, the Company moved to dismiss the new claims asserted in that First Amended Complaint. On April 16, 2013, following the Company s request, the Court issued an Order Denying Request for Leave to File Motion to Reconsider and Amending the Order for a Temporary Injunction (the Amended Order). The Amended Order limited and clarified paragraph 1(e) of the January 17 Order to prohibit the Company from engaging in business within a specified radius of Phoenix, AZ, until July 1, 2014, with customers identified on a CHR spreadsheet with whom CHR did more than $100,000 worth of gross revenue in 2011. The Company intends to vigorously defend the action in court. The outcome of this litigation is uncertain and could have a material adverse effect on the Company s business and results of operations.

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.

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Item 1A. ***Risk Factors.***

In addition to the information set forth in this Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012, which could materially affect our business, financial condition or future results.

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

On February 26, 2013, we issued 173,712 unregistered shares of our common stock, and paid $8.0 million in cash, as consideration for substantially all the assets of Covered Logistics & Transportation LLC. These shares were issued to the three principals of Covered Logistics & Transportation LLC. The issuance of these shares was exempt from the registration requirements of the Securities Act of 1933, as amended, in accordance with Section 4(2) thereof, as a transaction by an issuer not involving any public offering.

Item 3. ***Defaults upon Senior Securities.***

None.

Item 4. ***Mine Safety Disclosures.***

Not applicable.

Item 5. ***Other Information.***

(a) None.

(b) Not applicable.

Item 6. ***Exhibits.***

Exhibit Number	Description
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrants Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2013.
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrants Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2013.
32.1	Certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the registrants Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2013.
32.2	Certification of the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the registrants Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2013.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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This exhibit will not be deemed filed for purposes of Section 18 of the Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities and Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

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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.

XPO Logistics, Inc.

/s/ Bradley S. Jacobs
Bradley S. Jacobs

Chief Executive Officer

(Principal Executive Officer)

/s/ John J. Hardig
John J. Hardig

Chief Financial Officer

(Principal Financial Officer)

Date: May 8, 2013