XPO Logistics, Inc.
Form 10-K
March 01, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

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.)**

429 Post Road

Buchanan, MI 49107

(Address of principal executive offices)

(269) 695-2700

(Registrant s telephone number)

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

Title of Each Class:	**Name of Each Exchange on Which Registered:**
Common Stock, par value $.001 per share	NYSE Amex

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

None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No þ

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 þ No ¨

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant 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. (Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company þ

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

The aggregate market value of the registrant s common stock, par value $0.001 per share, held by non-affiliates of the registrant was approximately $84.9 million as of June 30, 2011, the last business day of the registrant s most recently completed second fiscal quarter, based upon the closing price of $12.44 per share on the NYSE Amex on that date.

As of February 20, 2012, there were 8,369,249 shares of the registrant s common stock, par value $0.001 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Specified portions of the registrant s proxy statement, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the registrant s 2012 Annual Meeting of Stockholders (the Proxy Statement), are incorporated by reference into Part III of this Annual Report on Form 10-K. Except with respect to information specifically incorporated by reference in this Annual Report, the Proxy Statement is not deemed to be filed as part hereof.

XPO LOGISTICS, INC.

FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2011

TABLE OF CONTENTS

This Annual Report on Form 10-K is for the year ended December 31, 2011. The Securities and Exchange Commission (the Commission) allows us to incorporate by reference information that we file with the Commission, which means that we can disclose important information to you by referring you directly to those documents. Information incorporated by reference is considered to be part of this Annual Report. In addition, information that we file with the Commission in the future will automatically update and supersede information contained in this Annual Report. In this Annual Report, Company, we, us and our refer to XPO Logistics, Inc. and its subsidiaries.

Table of Contents

PART I

Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 10-K 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 the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions that may cause actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Factors that might cause or contribute to a material difference include, but are not limited to, those discussed elsewhere in this Annual Report, including the section entitled Risk Factors , the risks in the Company s filings with the Commission and the following: economic conditions generally; competition; the Company s ability to find suitable acquisition candidates and execute its acquisition strategy; the Company s ability to raise capital; the Company s ability to attract and retain key employees to execute its growth strategy; the Company s ability to develop and implement a suitable information technology system; the Company s ability to maintain positive relationships with its network of third-party transportation providers; and governmental regulation. All forward-looking statements set forth in this Annual Report are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequence to or effects on the Company or its business or operations. The following discussion should be read in conjunction with the Company s audited Consolidated Financial Statements and related Notes thereto included elsewhere in this Annual Report. Forward-looking statements set forth in this Annual 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.

ITEM 1. ***BUSINESS***
General

XPO Logistics, Inc., a Delaware corporation (the Company , we , our or us), is a third party logistics provider of freight transportation services through three non-asset based or asset-light business units: Expedited Transportation, Freight Forwarding and Freight Brokerage. These business units provide services complementary to each other, effectively giving us a platform for expansion in three distinct areas of the transportation industry.

Business Unit	Subsidiary(ies)	Primary Office Location(s)	Date Initiated or Acquired
Expedited Transportation	Express-1	Buchanan, Michigan	August 2004
Freight Forwarding	Concert Group Logistics	Downers Grove, Illinois	January 2008
Freight Brokerage	Bounce Logistics and XPO Logistics	South Bend, Indiana and Phoenix, Arizona	March 2008

Expedited Transportation Express-1, Inc. (Express-1) was founded in 1989 and acquired in 2004. Express-1 provides time-critical expedited transportation to its customers, most typically through carrier arrangements that assign one truck to a load, with a specified delivery time requirement. Most of the services provided by Express-1 are completed via a fleet of exclusive-use vehicles that are owned and operated by independent contract drivers.

Table of Contents

Freight Forwarding Concert Group Logistics, Inc. (CGL *)* was founded in 2001 and acquired in 2008. CGL provides freight forwarding services through a network of independently owned stations and Company-owned branches located throughout the United States. These stations and branches are responsible for selling and operating freight forwarding transportation services within their geographic area under the authority of CGL. In October 2009, certain assets and liabilities of LRG International Inc. (now known as CGL International) were purchased to complement the operations of CGL through two Florida branches that primarily provide international freight forwarding services. The financial reporting of this operation has been included within CGL.

Freight Brokerage Through our Freight Brokerage unit, we arrange freight transportation and provide related logistics and supply chain services to customers in North America, ranging from commitments on specific individual shipments to more comprehensive and integrated relationships. From January 2008 until the fourth quarter of 2011, we provided these services solely through our Bounce Logistics, Inc. subsidiary (Bounce Logistics). During the fourth quarter of 2011, we opened a sales office in Phoenix, Arizona, which provides freight brokerage services under the name XPO Logistics . The Phoenix office is the first of several cold-start sales offices we plan to open during the next two years.

The Company generally does not own its own trucks, ships or planes; instead we use a network of relationships with ground, ocean and air carriers to find the best transportation solutions for our customers. This allows capital to be invested primarily in expanding our workforce of talented people who are adept in the critical areas of competitive selling, price negotiation, carrier relations and customer service.

Growth Strategy

Following a significant equity investment by Jacobs Private Equity, LLC (JPE) in the Company in September 2011 (as described below under Recent Developments), we began to implement a growth strategy that will leverage our strengths including management expertise, substantial liquidity and potential access to additional capital in pursuit of profitable growth. Our strategy anticipates that this will be facilitated by a highly experienced executive team recently put in place, and by new technology that will integrate our operations on a shared platform for cross-company benchmarking and analysis.

Our growth strategy focuses on the following three key areas:

Targeted acquisitions We intend to make selective acquisitions of non-asset based logistics freight brokerage businesses that would benefit from our greater scale and potential access to capital, and we may make similar acquisitions of freight forwarding, expedited and intermodal service businesses, among others. We believe that we are in a position to make the first phase of acquisitions by using existing cash and expanding our credit facilities.

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

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

Recent Developments

Equity Investment

In September 2011, pursuant to the Investment Agreement, dated as of June 13, 2011 (the Investment Agreement), by and among JPE, the other investors party thereto (collectively with JPE, the Investors) and the

Company, we issued to the Investors, for $75.0 million in cash: (i) an aggregate of 75,000 shares of our Series A Convertible Perpetual Preferred Stock (the Series A Preferred Stock), which are initially convertible into an aggregate of 10,714,286 shares of our common stock, and (ii) warrants initially exercisable for an aggregate of 10,714,286 shares of our common stock at an initial exercise price of $7.00 per common share (the Warrants). Our stockholders approved the issuance of the Series A Preferred Stock and the Warrants at the special meeting of our stockholders on September 1, 2011. We refer to this investment as the Equity Investment. See Note 10 to our audited Consolidated Financial Statements in Item 8 of this Annual Report.

The conversion feature of the Series A Preferred Stock was determined to be a beneficial conversion feature (BCF) based on the effective initial conversion price and the market value of our common stock at the commitment date for the issuance of the Series A Preferred Stock. Generally accepted accounting principles in the United States (US GAAP) require that we recognize the BCF related to the Series A Preferred Stock as a discount on the Series A Preferred Stock and amortize such amount as a deemed distribution through the earliest conversion date. The calculated value of the BCF was in excess of the relative fair value of net proceeds allocated to the Series A Preferred Stock. Accordingly, during the third quarter of 2011 we recorded a discount on the Series A Preferred Stock of $44.2 million with immediate recognition of this amount as a deemed distribution because the Series A Preferred Stock is convertible at any time.

Change of Company Name

In connection with the closing of the Equity Investment, our name was changed from Express-1 Expedited Solutions, Inc. to XPO Logistics, Inc. on September 2, 2011. Our stockholders approved the amendment to our certificate of incorporation effecting the name change at the special meeting of our stockholders on September 1, 2011.

Reverse Stock Split

In connection with the closing of the Equity Investment, we effected a 4-for-1 reverse stock split on September 2, 2011. Our stockholders approved the amendment to our certificate of incorporation effecting the reverse stock split at the special meeting of our stockholders on September 1, 2011. Unless otherwise noted, all share-related amounts in this Annual Report and our audited Consolidated Financial Statements and the related Notes thereto reflect the reverse stock split.

In connection with the reverse stock split, our stockholders received one new share of our common stock for every four shares of common stock held at the effective time. The reverse stock split reduced the number of shares of outstanding common stock from 33,011,561 to 8,252,891. Proportional adjustments were made to the number of shares issuable upon the exercise of outstanding options to purchase shares of common stock and the per share exercise price of those options.

Increase in Authorized Shares of Common Stock

In connection with the closing of the Equity Investment, the number of authorized shares of our common stock was increased from 100,000,000 shares to 150,000,000 shares on September 2, 2011. Our stockholders approved the amendment to our certificate of incorporation effecting the increase in the number of authorized shares of common stock at the special meeting of the Company s stockholders on September 1, 2011.

Table of Contents

Our Business Units

As of December 31, 2011, our operations consisted of three business units: Expedited Transportation, Freight Forwarding and Freight Brokerage. Each of these business units is described more fully below. In accordance with US GAAP, we have summarized business unit financial information under Note 17 in the audited Consolidated Financial Statements included in Item 8 of this Annual Report. Accounting policies for the reportable operating units are the same as those described in the summary of significant accounting policies in Note 1 to the audited Consolidated Financial Statements contained in Item 8 of this Annual Report. The table below contains some basic information relating to our units.

XPO Logistics, Inc.

Business Unit Financial Data

	Year	Revenues	Operating Income	Total Assets
Expedited Transportation*	2011	$ 87,558,000	$ 8,199,000	$ 22,448,000
	2010	76,644,000	7,606,000	24,509,000
	2009	50,642,000	3,446,000	23,381,000
Freight Forwarding*	2011	65,148,000	1,545,000	23,394,000
	2010	65,222,000	1,882,000	25,106,000
	2009	41,162,000	1,121,000	23,509,000
Freight Brokerage*	2011	29,186,000	1,305,000	4,854,000
	2010	19,994,000	865,000	4,836,000
	2009	10,425,000	458,000	2,150,000
Express-1 Dedicated (Discontinued)	2009	666,000	28,000	
Consolidated Totals	2011	177,076,000	1,724,000	127,641,000
	2010	157,987,000	8,446,000	56,672,000
	2009	$ 100,136,000	$ 3,171,000	$ 49,039,000

* Includes intercompany revenue and assets which are eliminated in the consolidated totals.
See the Comparative Financial Table for details.

Expedited Transportation (Express-1)

Offering expedited transportation services to thousands of customers from its Buchanan, Michigan facility, Express-1 has become one of the largest ground expedited freight carriers in North America, handling approximately 90,000 shipments during 2011. Expedited transportation services can be characterized as time-critical, time-sensitive or high priority freight shipments, many of which have special handling needs. Expedited transportation providers typically manage a fleet of vehicles, ranging from cargo vans to semi-tractor trailer units. The dimensions for each shipment dictate the size of vehicle used to move the freight in addition to the related revenue per mile. Expedited transportation services are unique and can be differentiated since the movements are typically created due to an emergency or time-sensitive situation. Expediting needs arise due to tight supply chain tolerances, interruptions or changes in the supply chain, or failures within another mode of transportation within the supply chain. Expedited shipments are predominantly direct transit movements offering door-to-door service within tightly prescribed time parameters.

Customers offer loads to Express-1 via telephone, fax, e-mail or the Internet on a daily basis, with only a small percentage of these loads being scheduled for future delivery dates. Contracts, as is common within the transportation industry, typically relate to terms and rates, but not committed business volumes. Customers are free to choose their expedited transportation providers on an at-will basis, which underscores Express-1 s commitment to total customer satisfaction. Express-1 offers an ISO 9001:2008 certified, 24-hour, seven day-a-week call center allowing its customers immediate communication and status updates relating to their shipments. Express-1 s commitment to excellence was again recognized as Express-1 received the Carrier of the Year award from the UPS Freight Urgent Services group in addition to being recognized by Whirlpool Corporation as Special Services Supplier of the Year for 2011. Additionally, we were awarded Nasstrac Expedited Carrier of the Year Award for the second straight year in 2009 and were also named a top 100 carrier by Inbound Logistics in 2010.

Express-1 is predominantly a non-asset based service provider, meaning that substantially all of the transportation equipment used in its operation is provided by third parties. These third-party owned vehicles are driven by independent contract drivers and by drivers engaged directly by independent owners of multiple pieces of equipment, commonly referred to as fleet owners.

Express-1 serves its customers between points within the United States. In addition, Express-1 arranges for transportation services to be provided to its customers to and within Mexico and Canada by an independent transportation provider. Express-1 s Canadian and Mexican transportation services are provided to customers who are located primarily in the United States. As of December 31, 2011, we employed 122 full-time employees to support our Express-1 operations.

Freight Forwarding (Concert Group Logistics)

Concert Group Logistics (CGL), headquartered in Downers Grove, Illinois, is a non-asset based freight forwarding company. The CGL operating model is designed to attract and reward independent owners of freight forwarding operations in various domestic markets. These independent owners operate stations within exclusive geographical regions under contracts with CGL. We believe the use of the independent station owner network provides competitive advantages in the domestic market place, particularly in smaller and mid-size markets. As of December 31, 2011, CGL supported its 23 independently owned stations with 38 full-time employees, including employees at CGL s owned Tampa and Miami branches.

Through its owned stations and the expertise of its network of independent station owners, CGL has the capability to provide logistics services on a global basis. CGL s services are not restricted by size, weight, mode or location and can be tailored to meet the transportation requirements of its client base. The major domestic and international services provided by CGL are outlined below.

Domestic Offerings time critical services including as-soon-as-possible, air charter and expedites; time sensitive services including next day, second day and third day deliveries; and cost sensitive services including deferred delivery, less than truckload (LTL) and full truck load (FTL).

International Offerings time critical services including on-board courier and air charters; time sensitive services including direct transit and consolidation; and cost sensitive services including less-than-container loads, full-container-loads and vessel charters.

Other Service Offerings value added services include: documentation on international shipments, customs clearance; customized services including trade show shipment management, time definite and customized product distributions, reverse logistics and on-site asset recovery projects, installation coordination, freight optimization and diversity compliance support.

Freight Brokerage (Bounce Logistics and XPO Logistics)

Through our Freight Brokerage business, we arrange freight transportation and related logistics and supply-chain services. We are considered non-asset based and generally do not own any trucks; instead, we rely on our network of subcontracted transportation providers, which typically are independent contract motor carriers. We make a profit on the difference between what we charge our customers for the services we provide and what we pay to the subcontracted transportation providers to transport our customers freight. The services we provide

Table of Contents

range from commitments on a single shipment to more comprehensive and integrated relationships. Our success depends on our ability to find a suitable transportation provider at the right time, place and price to provide freight transportation services for our customers.

From January 2008 until the fourth quarter of 2011, we provided freight brokerage services solely through our Bounce Logistics, Inc. subsidiary. During the fourth quarter of 2011, we opened a sales office in Phoenix, Arizona, which provides freight brokerage services under the name XPO Logistics. The Phoenix office is the first of several cold-start sales offices we plan to open during the next two years. Bounce Logistics operating model is to provide premium freight brokerage services to customers in need of greater customer service levels than those typically offered in the marketplace. Bounce also services other customers in need of non-expedited premium transportation movements. As of December 31, 2011, our Freight Brokerage employed 38 full-time employees within its operations.

Express-1 Dedicated Discontinued Operations

The operations of our Express-1 Dedicated business unit were classified as discontinued during the fourth quarter of 2008, due to the loss of a dedicated services contract with a domestic automotive company. As of the contract termination date, February 28, 2009, all operations ceased and all employees were released from service. The facility lease was transferred to a third party and all equipment was either sold or redeployed for use elsewhere within our operations without incurring any material impairments or losses. All revenues and costs associated with this operation have been accounted for, net of taxes, in the line item labeled Income from discontinued operations for all years presented in the Consolidated Statements of Operations.

Information Systems

The transportation industry increasingly relies upon information technology to link the shipper with its inventory and as an analytical tool to optimize transportation solutions.

Our goal is to develop a customized, proprietary software application that is integrated with a packaged base software platform that we license from a third party. We expect this customized IT solution to enable us to integrate our three operating divisions and provide our customers with cost effective, timely and reliable access to carrier capacity, which we expect to give us an advantage as compared to companies against which we compete that use non-customized, or less significantly customized, packaged software systems. By developing a customized, proprietary technology solution, we plan to improve our productivity through automation and process optimization, and to be in position to effectively integrate our anticipated acquisitions and leverage our scale across our multiple business lines. During the first quarter of 2012, we expect to complete the initial development phase of our IT strategy, with subsequent phases of custom-built software upgrades planned over the following two years.

More specific to our Express-1 fleet, we utilize satellite tracking and communication units on the vehicles in our fleet to continually update the position of equipment. We have the ability to communicate to individual units or to a larger group of units, based upon our specific needs. Information received through our satellite tracking and communication system automatically updates our internal software and provides our customers with real-time electronic updates.

Within our Freight Forwarding business unit we utilize a freight forwarding software package with customization exclusive to our CGL network. We offer on-line shipment entry, quoting and track-and-trace for domestic and international shipments, as well as EDI messaging.

Technology represents one of our largest categories of investment within our annual capital expenditure budget, and we believe the continual enhancement of our technology platforms is critical to our success.

Table of Contents

Customers, Sales and Marketing

Our business units provide services to a variety of customers ranging in size from small entrepreneurial organizations to Fortune 500 companies. In 2011, we collectively served more than 4,000 different customers. Our customers are engaged within industries such as: major domestic and foreign automotive manufacturing, production of automotive components and supplies, commercial printing, durable goods manufacturing, pharmaceuticals, food and consumer products and the high tech sector. We have hazmat authority and transport lower risk hazardous materials such as automotive paint and batteries on occasion. In addition, we serve third-party logistics providers (3PLs), who themselves serve a multitude of customers and industries. Our 3PL customers vary in size from small, independent, single facility organizations to large, global logistics companies. Within our Expedited Transportation and Freight Brokerage business units, our services are marketed within the United States, Canada and Mexico. In addition to offering services within these same markets, our Freight Forwarding unit also provides international services by both air and ocean as well as other value added services.

We maintain a staff of external sales representatives and related support staff within Express-1, CGL and Bounce Logistics. Within Concert Group Logistics, sales are also initiated by our network of independent-owned stations, which manage the sales relationships within their exclusive markets. We believe our independent station ownership structure enables salespeople to better serve customers by developing a broad knowledge of logistics, local and regional market conditions, and specific logistics issues facing individual customers. Under the guidance of these experienced entrepreneurs, independent stations are given significant latitude to pursue opportunities and to commit resources to better serve customers.

We consistently seek to establish long-term relationships with new accounts and to increase the amount of business done with our existing customers. We are committed to providing our customers with a full range of logistics services. Our ability to offer multiple services through each of our business units represents a competitive advantage within the transportation industry.

During 2011, no customer accounted for more than 8% of our consolidated gross revenues. Although no individual customer exceeded this threshold and individual customer rankings within our top customers change from time to time, we rely upon our relationship with these large accounts in the aggregate for a significant portion of our revenues. Any interruption or decrease in the business volume awarded by these customers could have a materially adverse impact on our revenues and resulting profitability.

Competition

The transportation industry is intensely competitive with thousands of transportation companies competing in the domestic and international markets. Our competitors include local, regional, national and international companies with the same specialties that our business segments provide. Our business segments do not operate from a position of dominance and therefore must operate daily to retain established business relationships and forge new relationships in this competitive framework.

We compete on service, reliability and rates. Some competitors have larger client bases, significantly more resources and more experience than we do. The health of the transportation industry will continue to be a function of domestic and world economic growth. However, we believe we will benefit from the long-term outsourcing trend that should continue to enable the freight brokerage sector to grow at above-market rates.

Regulation

Our operations are regulated and licensed by various governmental agencies in the United States. Such regulations impact us directly, including through our independent contractor driver fleet, and indirectly through our network of third party transportation providers we need to transport freight for our customers. We and such third parties must comply with the safety and fitness regulations of the Department of Transportation (DOT), including those relating to drug- and alcohol-testing and hours-of-service. Weight and equipment dimensions

Table of Contents

also are subject to government regulations. We also may become subject to new or more restrictive regulations relating to fuel emissions, independent contractor drivers hours-of-service, independent contractor driver eligibility requirements, on-board reporting of operations, air cargo security and other matters affecting safety or operating methods. Other agencies, such as the Environmental Protection Agency (EPA) and Department of Homeland Security (DHS), also regulate our equipment, operations and independent contractor drivers.

The DOT, through the Federal Motor Carrier Safety Administration (FMCSA), imposes safety and fitness regulations on us, our independent contractor drivers, and our network of third party transportation providers. The FMCSA recently issued a final rule that placed additional limits on the amount of time drivers may operate a commercial motor vehicle. We are unable to predict the impact that the new hours-of-service rules may have, how a court may rule on challenges to such rules, and to what extent the FMCSA might attempt to materially revise the rules. On the whole, however, we believe that the new rules will decrease productivity and cause some loss of efficiency. Drivers and shippers may need to be retrained, computer programming may require modifications, additional independent contractor drivers may need to be engaged, our independent contractor drivers may experience a negative impact on their results and exit the market, our network of third party transportation providers may have their productivity decreased, may have to pay more for drivers, and may pass the additional expense on to us, additional independent contractor drivers may need to be recruited, and some shipping lanes may need to be reconfigured. We also are unable to predict the effect of any new rules that might be proposed if the issued rule is stricken by a court, but any such proposed rules could increase costs in our industry or decrease productivity.

The FMCSA s CSA 2010 introduces a new enforcement and compliance model that implements driver standards in addition to the company standards currently in place. CSA 2010 ranks both fleets and individual drivers on seven categories of safety-related data, known as Behavioral Analysis and Safety Improvement Categories, or BASICs, which include Unsafe Driving, Fatigued Driving (Hours-of-Service), Driver Fitness, Controlled Substances/Alcohol, Vehicle Maintenance, Cargo-Related and Crash Indicator. Under the new regulations, the methodology for determining a carrier s DOT safety rating has been expanded to include the on-road safety performance of the carrier s drivers, including independent contractor drivers. As a result, certain current and potential independent contractor drivers may no longer be eligible to drive for us, our fleet could be ranked poorly as compared to our peer firms, and our safety rating could be adversely impacted. Our network of third party transportation providers may experience a similar result. A reduction in eligible independent contractor drivers or a poor fleet ranking may result in difficulty attracting and retaining qualified independent contractor drivers and could cause our customers to direct their business away from us and to carriers with higher fleet rankings, which would adversely affect our results of operations.

The FMCSA also is considering revisions to the existing rating system and the safety labels assigned to motor carriers evaluated by the DOT. Our subsidiary with motor carrier operating authority currently has a satisfactory DOT rating, which is the highest available rating under the current safety rating scale. Under the revised rating system being considered by the FMCSA, the safety rating at subsidiaries with operating authority would be evaluated more regularly, and our safety rating would reflect a more in-depth assessment of safety-based violations.

The FMCSA has issued new rules that will require nearly all carriers, including us, to install and use electronic, on-board recorders in their tractors. Such recorders will increase costs and may not be well-received by independent contractor drivers.

At this time, we transport only low-to-medium-risk hazardous materials, representing a very small percentage of our total shipments. The Transportation Security Administration (TSA) has adopted regulations that require a determination by the TSA that each driver who applies for or renews his or her license for carrying hazardous materials is not a security threat. This could reduce the pool of qualified independent contractor drivers, which could require us to increase independent contractor driver compensation or limit our fleet growth.

Table of Contents

Tax and other regulatory authorities have in the past sought to assert that independent contractor drivers in the trucking industry are employees rather than independent contractors. Federal legislators have introduced legislation in the past to make it easier for tax and other authorities to reclassify independent contractor drivers as employees, including legislation to increase the recordkeeping requirements for employers of independent contractor drivers and to heighten the penalties of employers who misclassify their employees and are found to have violated employees overtime and/or wage requirements. Additionally, federal legislators have sought to abolish the current safe harbor allowing taxpayers meeting certain criteria to treat individuals as independent contractors if they are following a long-standing, recognized practice. Most recently, federal legislators are considering a bill that, if enacted, would, among other things, expand the Fair Labor Standards Act to cover non-employees who perform labor or services for businesses, even if the non-employees are properly classified as independent contractors; require every business to provide written notice to all workers of their classification as either an employee or a non-employee ; and impose penalties of $1,100 to $5,000 per worker for a violation of the notice requirements or for misclassifying an employee as a non-employee. Some states have put initiatives in place to increase their revenues from items such as unemployment, workers compensation and income taxes, and a reclassification of independent contractor drivers as employees would help states with this initiative. Taxing and other regulatory authorities and courts apply a variety of standards in their determination of independent contractor status. If our independent contractor drivers are determined to be our employees, we would incur additional exposure under federal and state tax, workers compensation, unemployment benefits, labor, employment and tort laws, including for prior periods, as well as potential liability for employee benefits and tax withholdings.

For domestic business, our Freight Forwarding business unit is also subject to regulation by the DOT regarding air cargo security for all loads, regardless of origin and destination. CGL is regulated as an indirect air carrier by the DHS and TSA. These agencies provide requirements, guidance and, in some cases, licensing to the freight forwarding industry. This ensures that we have satisfactorily completed the security requirements and qualifications, adhered to the economic regulations, and implemented the required policies and procedures. These agencies require companies to fulfill these qualifications prior to transacting various types of business. Failure to do so could result in penalties and fines. The air cargo industry is subject to regulatory and legislative changes that could affect the economics of the industry by requiring changes in operating practices or influencing the demand for and the costs of providing services to clients.

For our international operations, CGL is a member of the International Air Transportation Association (IATA), a voluntary association of airlines and forwarders, which outlines operating procedures for freight forwarders acting as agents for its members. A substantial portion of our international air freight business is completed with other IATA members. For international ocean business, we are registered as an Ocean Transportation Intermediary (OTI) by the Federal Maritime Commission (FMC), which establishes the qualifications, regulations and bonding requirements to operate as an OTI for businesses originating and terminating in the U.S. Our international operations subject us to regulations of the U.S. Department of State, U.S. Department of Commerce and the U.S. Department of Treasury. Regulations cover matters such as what commodities may be shipped to what destination and to what end-user, unfair international trade practices, and limitations on entities with which we may conduct business.

We and our independent contractor drivers are subject to various environmental laws and regulations dealing with the hauling and handling of hazardous materials, emissions from vehicles, engine-idling, discharge and retention of storm water, and other environmental matters that involve inherent environmental risks. We have instituted programs to monitor and control environmental risks and maintain compliance with applicable environmental laws. We would be responsible for the cleanup of any releases caused by our operations or business, and in the past we have been responsible for the costs of cleanup of diesel fuel spills caused by traffic accidents or other events. We generally transport only hazardous materials rated as low-to-medium-risk, and a small percentage of our total shipments contain hazardous materials. We believe that our operations are in substantial compliance with current laws and regulations and do not know of any existing environmental condition that would reasonably be expected to have a materially adverse effect on our business or operating

Table of Contents

results. If we are found to be in violation of applicable laws or regulations, we could be subject to costs and liabilities, including substantial fines or penalties or civil and criminal liability, any of which could have a materially adverse effect on our business and operating results.

Seasonality

Our revenues and profitability have been historically subject to some minor seasonal fluctuations. Our results of operations for the quarter ending in March are on average lower than the quarters ending in June, September and December. Typically, this pattern has been the result of factors such as inclement weather, national holidays, customer demand and economic conditions. This historical pattern has diminished recently due to changes in our mix of business between expedited, freight forwarding and freight brokerage and our mix of industries served within those modes of transportation. It is not possible to determine whether the historical revenue and profitability trends will occur.

Employees

At December 31, 2011, we had 216 full-time employees, none of whom were covered by a collective bargaining agreement. Of this number, 122 were employed in Expedited Transportation, 38 were employed in Freight Forwarding, 38 were employed in Freight Brokerage and 18 were employed in our corporate office. In addition to our full-time employees, we employed 11 part-time employees as of December 31, 2011. We recognize our trained staff of employees as one of our most critical resources, and acknowledge the recruitment, training and retention of qualified employees as essential to our ongoing success. We believe that we have good relations with our employees.

Executive Officers of the Registrant

We provide below information regarding each of our executive officers.

Name	Age	Position
Bradley S. Jacobs	55	Chairman of the Board and Chief Executive Officer
M. Sean Fernandez	48	Chief Operating Officer
John J. Hardig	47	Chief Financial Officer
Gordon E. Devens	43	Senior Vice President and General Counsel
Mario A. Harik	31	Chief Information Officer
Scott B. Malat	35	Senior Vice President Strategic Planning
Gregory W. Ritter	53	Senior Vice President Brokerage Operations

Bradley Jacobs has served as our Chief Executive Officer and Chairman of the board of directors since September 2011. Mr. Jacobs is also the managing director of Jacobs Private Equity, LLC, which is our largest stockholder. He has led two public companies: United Rentals, Inc. (NYSE: URI), which he co-founded in 1997, and United Waste Systems, Inc., founded in 1989. Mr. Jacobs served as chairman and chief executive officer of United Rentals for its first six years and as executive chairman for an additional four years. He served eight years as chairman and chief executive officer of United Waste Systems. Previously, Mr. Jacobs founded Hamilton Resources (UK) Ltd. and served as its chairman and chief operating officer. This followed the co-founding of his first venture, Amerex Oil Associates, Inc., where he was chief executive officer. Mr. Jacobs is a member of the board of directors of the Beck Institute for Cognitive Behavior Therapy.

Sean Fernandez has served as our Chief Operating Officer since November 2011. Mr. Fernandez has more than 20 years of leadership experience with global companies in industries that include distribution, consumer goods manufacturing, trucking and transportation. He most recently served as senior vice president and General Manager Consumables for NCR Corporation, and earlier held positions as Vice President New Growth Platforms with Avery Dennison Corporation; chief operating officer with SIRVA, Inc.; group president with Esselte Corporation; chief operating officer Asia Pac operations and divisional president with Arrow

Table of Contents

Electronics, Inc.; and senior engagement manager with McKinsey & Company, Inc. He holds a master of business administration degree from Harvard University and a bachelor s degree in business administration from Boston College.

John Hardig has served as our Chief Financial Officer since February 2012. Mr. Hardig most recently served as managing director for the Transportation & Logistics investment banking group of Stifel Nicolaus Weisel since 2003. Prior to that, Mr. Hardig was an investment banker for six years in the Transportation and Telecom groups at Alex. Brown & Sons (now Deutsche Bank). Mr. Hardig holds a master of business administration degree from the University of Michigan Business School and a bachelor s degree from the U.S. Naval Academy.

Gordon Devens has served as our Senior Vice President and General Counsel since November 2011. Mr. Devens was most recently vice president corporate development with AutoNation, Inc., where he was previously vice president associate general counsel. Earlier, he was an associate at the law firm of Skadden, Arps, Slate, Meagher & Flom LLP, where he specialized in mergers and acquisitions and securities law. Mr. Devens holds a doctorate of jurisprudence and a bachelor s degree in business administration from the University of Michigan.

Mario Harik has served as our Chief Information Officer since November 2011. Mr. Harik has built comprehensive IT organizations and overseen the implementation of proprietary platforms for a variety of firms, including members of the *Fortune 100*. His prior positions include chief information officer and senior vice president research and development with Oakleaf Waste Management; chief technology officer with Tallan, Inc.; co-founder of G3 Analyst, where he served as chief architect of web and voice applications; and architect and consultant with Adea Solutions. Mr. Harik holds a master of engineering degree in information technology from Massachusetts Institute of Technology, and a degree in engineering, computer and communications from the American University of Beirut, Lebanon.

Scott Malat has served as our Senior Vice President Corporate Strategy since October 2011. Mr. Malat was most recently with Goldman Sachs Group, Inc., where he served as senior equity research analyst covering the air, rail, trucking and shipping sectors. Prior to Goldman Sachs, Mr. Malat was an equity research analyst with UBS, and a strategy manager with JPMorgan Chase & Co. He serves on the board of directors of the non-profit PSC Partners Seeking a Cure. He is a CFA® charter holder and has a degree in statistics with a concentration in business management from Cornell University.

Gregory Ritter has served as our Senior Vice President Brokerage Operations since October 2011. Mr. Ritter has more than three decades of sales and management experience in multi-modal transportation logistics. He most recently served as the president of a brokerage subsidiary that he established for one of the top 10 transportation logistics providers in North America. Previously, Mr. Ritter spent 22 years with C.H. Robinson Worldwide, and worked with Allen Lund Company, Inc. on territory development.

Corporate Information and Availability of Reports

XPO Logistics, Inc. was incorporated in Delaware on April 28, 2000. Our executive office is located at 429 Post Road, Buchanan, Michigan 49107. Our telephone number is (269) 695-2700. Our stock is listed on NYSE Amex under the symbol XPO .

Our corporate website is www.xpologistics.com. We make available on this website, free of charge, access to our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements on Schedule 14A and amendments to those materials filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as soon as reasonably practicable after we electronically submit such material to the Commission. We also make available on our website copies of materials regarding our corporate governance policies and practices, including the XPO Logistics, Inc. Corporate Governance Guidelines, our Senior Officer Code of Business Conduct and Ethics and

Table of Contents

the charters relating to the committees of our board of directors. You also may obtain a printed copy of the foregoing materials by sending a written request to: Investor Relations, XPO Logistics, Inc., 429 Post Road, Buchanan, Michigan 49107. The public may read and copy any materials that we file with the Commission at the Commission s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. In addition, the Commission s website is www.sec.gov. The Commission makes available on this website, free of charge, reports, proxy and information statements and other information regarding issuers, such as us, that file electronically with the Commission. Information on our website or the Commission s website is not part of this document. We are currently classified as a smaller reporting company for purposes of filings with the Commission. However, beginning with our Quarterly Report for the quarter ending March 31, 2012, we will be classified as an accelerated filer for purposes of filings with the Commission.

Item 1A. Risk Factors

Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 10-K 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 the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions that may cause actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Factors that might cause or contribute to a material difference include, but are not limited to, those discussed below and the risks discussed in the Company s other filings with the Commission. All forward-looking statements set forth in this Annual Report are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequence to or effects on the Company or its business or operations. The following discussion should be read in conjunction with the Company s audited Consolidated Financial Statements and related Notes thereto included elsewhere in this Annual Report. Forward-looking statements set forth in this Annual 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.

Economic recessions and other factors that reduce freight volumes could have a materially adverse impact on our business.

The transportation industry historically has experienced cyclical fluctuations in financial results due to economic recession, downturns in business cycles of our customers, interest rate fluctuations and other economic factors beyond our control. Deterioration in the economic environment subjects our business to various risks that may have a material impact on our operating results and cause us to not reach our long-term growth goals, and which may include the following:

- A reduction in overall freight volumes in the marketplace reduces our opportunities for growth. In addition, if a downturn in our customers business cycles causes a reduction in the volume of freight shipped by those customers, our operating results could be adversely affected.

14

Some of our customers may face economic difficulties and may not be able to pay us, and some may go out of business. In addition, some customers may not pay us as quickly as they have in the past, causing our working capital needs to increase.

A significant number of our transportation providers may go out of business and we may be unable to secure sufficient equipment or other transportation services to meet our commitments to our customers.

We may not be able to appropriately adjust our expenses to changing market demands. In order to maintain high variability in our business model, it is necessary to adjust staffing levels to changing market demands. In periods of rapid change, it is more difficult to match our staffing level to our business needs. In addition, we have other primarily variable expenses that are fixed for a period of time, and we may not be able to adequately adjust them in a period of rapid change in market demand.

We operate in a highly competitive industry and, if we are unable to adequately address factors that may adversely affect our revenue and costs, our business could suffer.

Competition in the transportation services industry is intense. Increased competition may lead to revenue reductions, reduced profit margins, or a loss of market share, any one of which could harm our business. There are many factors that could impair our profitability, including the following:

competition with other transportation services companies, some of which have a broader coverage network, a wider range of services, more fully developed information technology systems and greater capital resources than we do;

reduction by our competitors of their rates to gain business, especially during times of declining growth rates in the economy, which reductions may limit our ability to maintain or increase rates, maintain our operating margins or maintain significant growth in our business;

shift in the business of shippers to asset-based trucking companies that also offer brokerage services in order to secure access to those companies trucking capacity, particularly in times of tight industry-wide capacity;

solicitation by shippers of bids from multiple transportation providers for their shipping needs and the resulting depression of freight rates or loss of business to competitors; and

establishment by our competitors of cooperative relationships to increase their ability to address shipper needs.

We may not be able to successfully execute our acquisition strategy.

We intend to expand substantially through acquisitions to take advantage of market opportunities we perceive in both our current markets (expedited transportation, freight brokerage and freight forwarding) and in new markets that we may enter. However, we may experience delays in making acquisitions or be unable to make the acquisitions we desire for a number of reasons. Suitable acquisition candidates may not be available at purchase prices that are attractive to us or on terms that are acceptable to us. In pursuing acquisition opportunities, we will compete with other companies, some of which have greater financial and other resources than we do. We may not have available funds or common stock with a sufficient market price to complete a desired acquisition. If we are unable to secure sufficient funding for potential acquisitions, we may not be able to complete acquisitions that we otherwise find advantageous.

The timing and number of acquisitions we pursue may cause volatility in our financial results.

We are unable to predict the size, timing and number of acquisitions we may complete. In addition, we may incur expenses associated with sourcing, evaluating and negotiating acquisitions (including those that are not completed), and we also may pay fees and expenses associated with obtaining financing for acquisitions and with

Table of Contents

investment banks and others finding acquisitions for us. Any of these amounts may be substantial, and together with the size, timing and number of acquisitions we pursue, may negatively impact and cause significant volatility in our financial results and stock price.

We may not successfully manage our growth.

We intend to grow rapidly and substantially, including by expanding our internal resources, making acquisitions and entering into new markets. We may experience difficulties and higher than expected expenses in executing this strategy as a result of unfamiliarity with new markets, change in revenue and business models and entering into new geographic areas.

Our growth will place a significant strain on our management, operational and financial resources. We will need to continually improve existing procedures and controls as well as implement new transaction processing, operational and financial systems, and procedures and controls to expand, train and manage our employee base. Our working capital needs will increase substantially as our operations grow. Failure to manage growth effectively, or obtain necessary working capital, could have a material adverse effect on our business, results of operations, cash flows, stock price and financial condition.

Any acquisitions that we undertake could be difficult to integrate, disrupt our business, dilute stockholder value and adversely affect our results of operations.

Acquisitions involve numerous risks, including the following:

- failure of the acquired company to achieve anticipated revenues, earnings or cash flows;
- assumption of liabilities that were not disclosed to us or that exceed our estimates;
- problems integrating the purchased operations with our own, which could result in substantial costs and delays or other operational, technical or financial problems;
- potential compliance issues with regard to acquired companies that did not have adequate internal controls;
- diversion of management s attention or other resources from our existing business;
- risks associated with entering markets, such as rail intermodal, air freight forwarding and ocean cargo, in which we have limited prior experience;
- increases in working capital borrowing to fund the growth of acquired operations;
- potential loss of key employees and customers of the acquired company; and
- future write-offs of intangible and other assets if the acquired operations fail to generate sufficient cash flows.

In connection with future acquisitions, we may issue shares of capital stock that dilute other stockholders holdings, incur debt, assume significant liabilities or create additional expenses related to intangible assets, any of which might reduce our profitability and cause our stock price to decline.

Our business will be seriously harmed if we fail to develop, implement, maintain, upgrade, enhance, protect and integrate information technology systems.

We rely heavily on our information technology system to efficiently run our business and it is a key component of our growth strategy. To keep pace with changing technologies and customer demands, we must correctly interpret and address market trends and enhance the features and functionality of our proprietary technology platform in response to these trends, which may lead to significant ongoing software development costs. We may be unable to accurately determine the needs of our customers and the trends in the transportation services

Table of Contents

industry or to design and implement the appropriate features and functionality of our technology platform in a timely and cost-effective manner, which could result in decreased demand for our services and a corresponding decrease in our revenues. Despite testing, external and internal risks, such as malware, insecure coding, Acts of God, attempts to penetrate our network, data leakage and human error, pose a direct threat to our information technology systems and operations. Any failure to identify and address such defects or errors could result in loss of revenues or market share, liability to customers or others, diversion of resources, injury to our reputation and increased service and maintenance costs. Correction of such errors could prove to be impossible or very costly and responding to resulting claims or liability could similarly involve substantial cost.

We must maintain and enhance the reliability and speed of our information technology systems to remain competitive and effectively handle higher volumes of freight through our network. If our information technology systems are unable to manage additional volume for our operations as our business grows, our service levels and operating efficiency could decline. We expect customers to continue to demand more sophisticated, fully integrated information systems from their transportation providers. If we fail to hire and retain qualified personnel to implement, protect and maintain our information technology systems or if we fail to upgrade our systems to meet our customers demands, our business and results of operations could be seriously harmed. This could result in a loss of customers and a decline in the volume of freight we receive from customers.

We recently have licensed an operating system that we are developing into an integrated information technology system for all of our business units. This new system may not be successful or may not achieve the desired results. We may require additional training or different personnel to successfully implement this system, all of which may result in additional expense, delays in obtaining results or disruptions to our operations. In addition, acquired companies will need to be on-boarded, which may cause additional training or licensing cost and disruption. In such event, our revenue, financial results and ability to operate profitably could be negatively impacted.

Our ability to raise capital in the future may be limited, and our failure to raise substantial additional capital when needed could prevent us from achieving our growth objectives.

We may in the future be required to raise capital through public or private financing or other arrangements. Such financing may not be available on acceptable terms, or at all, and our failure to raise capital when needed could harm our business. Debt financing, if available, may involve restrictive covenants and could reduce our profitability. If we cannot raise funds on acceptable terms, we may not be able to grow our business or respond to competitive pressures.

Sales or issuances of a substantial number of shares of our common stock may adversely affect the market price of our common stock.

We anticipate that we will fund future acquisitions or our capital requirements from time to time, in whole or part, through sales or issuances of our common stock or equity-based securities, subject to prevailing market conditions and our financing needs. Future equity financing may dilute the interests of our stockholders, and future sales or issuances of a substantial number of shares of our common stock or other equity-related securities may adversely affect the market price of our common stock. There are securities outstanding presently that are convertible into or exercisable for a substantial number of shares of our common stock. As of February 20, 2012, there were (i) 8,369,249 million shares of our common stock outstanding, (ii) 75,000 shares of Series A Convertible Perpetual Preferred Stock outstanding, which are initially convertible into an aggregate of 10,714,286 shares of our common stock (subject to customary anti-dilution adjustments), (iii) warrants exercisable at any time until September 2, 2021, for an aggregate of 10,714,286 shares of our common stock, at an initial exercise price of $7.00 per share of common stock (subject to customary anti-dilution adjustments), and (iv) 2,506,811 shares of our common stock reserved for future issuance under our various stock compensation plans.

Table of Contents

If we are unable to expand the number of our sales representatives and brokerage agents, or if a significant number of our existing sales representatives and brokerage agents leaves us, our ability to increase our revenue could be negatively impacted.

Our ability to expand our business will depend, in part, on our ability to attract and retain sales representatives and brokerage agents. Competition for qualified sales representatives and brokerage agents can be intense. We may be unable to attract such persons or retain those that are already associated with us. Any difficulties we experience in expanding or retaining our sales representatives and brokerage agents could have a negative impact on our ability to expand our customer base, increase our revenue and continue our growth. Further, a significant increase in the turnover rate among our current sales representatives and brokerage agents could also increase our recruiting costs and decrease our operating efficiency.

We have a new senior management team that has little experience working together and that is essential to the management of our business and operations.

Our success depends on the continuing services of our Chief Executive Officer, Mr. Bradley S. Jacobs. We believe that Mr. Jacobs possesses valuable knowledge and skills that are crucial to our success and would be very difficult to replicate.

We recently assembled a new senior management team under the guidance of Mr. Jacobs. The team was assembled with a view towards substantial growth, and the size and aggregate compensation of the team increased substantially. The associated significant increase in overhead expense could decrease our margins if we fail to grow substantially.

Our senior management team is new and has little experience working together. In addition, not all of our senior management team resides near or works at our headquarters. The newness and geographic distance of the members of our senior management team may impede the team s ability to work together effectively. Our success will depend, in part, on the efforts and abilities of our senior management and their ability to work together. We cannot assure you that they will be able to do so.

Over time, our success will depend on attracting and retaining qualified personnel. Competition for senior management is intense, and we may not be able to retain our management team or attract additional qualified personnel. The loss of a member of senior management would require our remaining senior officers to divert immediate and substantial attention to fulfilling the duties of the departing executive and to seeking a replacement. The inability to adequately fill vacancies in our senior executive positions on a timely basis could negatively affect our ability to implement our business strategy, which could adversely impact our results of operations and prospects.

Our Chairman and Chief Executive Officer controls a large portion of our stock and has substantial control over us, which could limit other stockholders ability to influence the outcome of key transactions, including changes of control.

Our Chairman and Chief Executive Officer, Mr. Bradley S. Jacobs, controls, as the managing member of JPE, (i) 67,500 shares of our Series A Convertible Perpetual Preferred Stock, which are initially convertible into an aggregate of 9,642,857 shares of our common stock, and (ii) 9,642,857 warrants initially exercisable for an aggregate of 9,642,857 shares of our common stock at an exercise price of $7.00 per share, which, upon conversion and exercise, represents approximately 70% of our outstanding common stock. This significant concentration of share ownership may adversely affect the trading price for our common stock because investors may perceive disadvantages in owning stock in companies with controlling stockholders. Our preferred stock votes together with our common stock on an as-converted basis on all matters, except as otherwise required by law, and separately as a class with respect to certain matters implicating the rights of holders of shares of the preferred stock. In addition, pursuant to the Investment Agreement, Mr. Jacobs, as the managing member of JPE, will have the right to designate for nomination by our board of directors a majority of the members of our board of directors so long as JPE owns securities (including preferred stock convertible into, or warrants exercisable

Table of Contents

for, securities) representing at least 33% of the voting power of our capital stock on a fully-diluted basis, and will have the right to designate for nomination by our board of directors 25% of the members of our board of directors so long as JPE owns securities (including preferred stock convertible into, or warrants exercisable for, securities) representing at least 20% of the voting power of our capital stock on a fully-diluted basis. Accordingly, Mr. Jacobs can exert significant influence over our management and affairs and matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions, such as mergers, consolidations or the sale of substantially all of our assets. Consequently, this concentration of ownership and the related contractual rights may have the effect of delaying or preventing a change of control, including a merger, consolidation, or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change of control would benefit our other stockholders.

Because Mr. Jacobs controls a majority of the voting power of our stock, we qualify as a controlled company as defined in the NYSE Amex LLC Company Guide, and, as such, we may elect not to comply with certain corporate governance requirements of such stock exchange. We do not currently intend to utilize these exemptions.

We depend on third parties in the operation of our business.

In our freight forwarding and freight brokerage operations, we do not own or control the transportation assets that deliver our customers freight, and we do not employ the people directly involved in delivering the freight. In our expedited ground transportation operations, we engage independent contractors who own and operate their own equipment. Accordingly, we are dependent on third parties to provide truck, rail, ocean, air, and other transportation services and to report certain events to us, including delivery information and cargo claims. This reliance could cause delays in reporting certain events, including recognizing revenue and claims. Our inability to maintain positive relationships with independent transportation providers could significantly limit our ability to serve our customers on competitive terms. If we are unable to secure sufficient equipment or other transportation services to meet our commitments to our customers or provide our services on competitive terms, our operating results could be materially and adversely affected and our customers could switch to our competitors temporarily or permanently. Many of these risks are beyond our control, including the following:

- equipment shortages in the transportation industry, particularly among contracted truckload carriers;
- interruptions in service or stoppages in transportation as a result of labor disputes;
- changes in regulations impacting transportation; and
- changes in transportation rates.

In our freight forwarding operations, we rely upon both independent station owners and company employees to develop and manage customer relationships and to service the customers.

Our freight forwarding services are provided by our Concert Group Logistics subsidiary through a network of independent stations that are owned and operated by independent contractors and through stations managed by company employees. These independent station owners and company employees develop and manage customer relationships, have discretion in establishing pricing, and service the customers through the various modes of transportation made available through our network of third-party transportation providers. We cannot assure you that we will be able to maintain our relationships with these independent station owners or develop in the future relationships with additional independent station owners. Similarly, we cannot assure you that we will be able to retain or effectively motivate the key company employees who manage our most significant customer relationships. Since these independent station owners and company employees maintain the relationships with the customers, some customers may decide to terminate their relationship with us if their independent station owner or company contact leaves our network. Accordingly, our inability to maintain relationships with these independent station owners and company employees could have a materially adverse effect on our results of operations.

Table of Contents

In addition, since these independent station owners are independent contractors, we have limited control over their operations and the quality of service that they provide to customers. To the extent that an independent station owner provides poor customer service or otherwise does not meet a customer s expectations, or we encounter a similar situation with our company employees, this will reflect poorly on us, and the customer may not use us in the future, which may adversely affect our results of operations.

Higher purchased transportation expenses may result in decreased net revenue margin.

Transportation providers can be expected to charge higher prices if market conditions warrant, or to cover higher operating expenses. Factors such as increases in freight demand, decreases in trucking capacity, higher driver wages, increased regulation, and increases in the prices of fuel, insurance, tractors, trailers, and other operating expenses can result in higher purchased transportation expenses to us. Our profitability may decrease if we are unable to increase our pricing to our customers to cover higher expenses, or we may be forced to refuse certain business, which could affect our customer relationships.

Increases in independent contractor driver compensation or other difficulties attracting and retaining qualified independent contractor drivers could adversely affect our profitability and ability to maintain or grow our independent contractor driver fleet.

Our expedited ground transportation services are provided by our Express-1 subsidiary through a fleet of exclusive-use vehicles that are owned and operated by independent contractors. These independent contractor drivers are responsible for maintaining their own equipment and paying their own fuel, insurance, licenses and other operating costs. Independent contractor drivers make up a relatively small portion of the pool of all professional drivers in the United States. Turnover and bankruptcy among independent contractor drivers often limit the pool of qualified independent contractor drivers and increase competition for their services. In addition, new regulations such as CSA 2010 may further reduce the pool of qualified independent contractor drivers. Thus, our continued reliance on independent contractor drivers could limit our ability to grow our ground transportation fleet.

From time to time we experience, and we are currently experiencing, difficulty in attracting and retaining sufficient numbers of qualified independent contractor drivers, and such shortages may recur in the future. Additionally, our agreements with independent contractor drivers are terminable by either party upon short notice and without penalty. Consequently, we regularly need to recruit qualified independent contractor drivers to replace those who have left our fleet. If we are unable to retain our existing independent contractor drivers or recruit new independent contractor drivers, our business and results of operations could be adversely affected.

The compensation we offer our independent contractor drivers is subject to market conditions and we may find it necessary to continue to increase independent contractor drivers compensation in future periods, which may be more likely to the extent economic conditions continue to improve. If we are unable to continue to attract and retain a sufficient number of independent contractor drivers, we could be required to adjust our mileage rates and accessorial pay or operate with fewer trucks and face difficulty meeting shipper demands, all of which would adversely affect our profitability and ability to maintain our size or grow.

A determination by regulators or courts that our independent contractor drivers are employees could expose us to various liabilities and additional costs and our business and results of operations could be adversely affected.

Legislative and other regulatory authorities have in the past sought to assert that independent contractor drivers in the trucking industry are employees rather than independent contractors. Many states have initiated enforcement programs to increase their revenues from items such as unemployment, workers compensation and income taxes and a reclassification of independent contractor drivers as employees would help states with these initiatives. Further, class actions and other lawsuits have arisen in our industry seeking to reclassify independent contractor drivers as employees for a variety of purposes, including workers compensation, wage-and-hour, and health care

Table of Contents

coverage. Proposed legislation would make it easier for tax and other authorities to reclassify independent contractor drivers as employees. If our independent contractor drivers are determined to be our employees, we would incur additional exposure under federal, state and local tax, workers compensation, unemployment benefits, labor and employment laws, including for prior periods, as well as potential liability for penalties and interest, which could have a materially adverse effect on our results of operations and financial condition and the ongoing viability of our business model.

We may be subject to various claims and lawsuits that could result in significant expenditures.

The nature of our business exposes us to the potential for various claims and litigation related to labor and employment (including wage-and-hour litigation relating to independent contractor drivers, sales representatives, brokerage agents and other individuals), personal injury, property damage, business practices, environmental liability and other matters. Any material litigation could have a material adverse effect on our business, results of operations, financial condition or cash flows.

Fluctuations in the price or availability of fuel may change our operations structure and resulting profitability.

Fuel expense constitutes one of the greatest costs to our fleet of independent contractor drivers and third-party transportation providers who complete the physical movement of freight we arrange. Fuel prices are highly volatile with the price and availability of all petroleum products subject to economic, political and other market forces beyond our control. As is customary in our industry, most of our customer contracts include fuel surcharge provisions to mitigate the effect of the fuel price increase over base amounts established in the contract. However, these fuel surcharge mechanisms usually do not capture the entire amount of the increase in fuel prices, and they also feature a lag between the payment for the fuel at the pump and collection of the surcharge revenue. Market pressures may limit our ability in the future to assess fuel surcharges. Significant increases in fuel prices would increase our need for working capital to fund payments to our independent contractor drivers and third-party transportation providers. Significant changes in the price or availability of fuel in future periods or significant changes in our ability to mitigate fuel price increases through the use of fuel surcharges, could have a materially adverse impact on our operations, fleet capacity and ability to generate both revenues and profits.

We are subject to regulation beyond our control, which could negatively impact our business.

Our operations are regulated and licensed by various United States and international agencies. Our Expedited Transportation unit is licensed as a motor carrier and property broker, and our Freight Brokerage unit is licensed as a property broker, in each case by the Federal Motor Carrier Safety Administration (FMCSA), an agency of the U.S. Department of Transportation (the DOT), and by various state agencies. Our Freight Forwarding unit is licensed as an ocean transportation intermediary by the U.S. Federal Maritime Commission as a non-vessel-operating common carrier and as an ocean freight forwarder. We must comply with various insurance and surety bond requirements to act in these capacities. Our air transportation activities in the United States are subject to regulation by the DOT as an indirect air carrier.

We also are subject to regulations and requirements relating to safety and security promulgated by, among others, the U.S. Department of Homeland Security through the Bureau of U.S. Customs and Border Protection and the Transportation Security Administration, the Canada Border Services Agency and various state and local agencies and port authorities. Our failure to maintain our required licenses, or to comply with applicable regulations, could have a materially adverse impact on our business and results of operations.

Future laws and regulations may be more stringent and require changes in our operating practices, influence the demand for transportation services or require us to incur significant additional costs. We are unable to predict the impact that recently enacted and future regulations may have on our businesses. Higher costs that we incur as a result of new regulations without a corresponding increase in price to our customers could adversely affect our results of operations.

Table of Contents

We derive a significant portion of our revenue from our largest customers, some of which are involved in the highly cyclical automotive industry; our relationships with our customers generally are terminable on short notice and generally do not provide minimum shipping commitments.

While individual customer rankings within our top customers change from time to time, we rely upon our relationship with these large accounts in the aggregate for a significant portion of our revenues. Any interruption or decrease in the business volume awarded by these customers could have a materially adverse impact on our revenues and resulting profitability.

Our most significant customers include certain of the large automotive manufacturers, as well as various automotive industry suppliers. These companies have been, and will continue to be, impacted by the changing landscape in the U.S. automotive market, which is highly competitive and historically has been subject to substantial cyclical variation characterized by periods of oversupply and weak demand. Negative trends in the U.S. automotive market or a worsening in the financial condition of automotive manufacturers, or within the associated supplier base, could have a materially adverse impact on our revenues and resulting profitability.

Our contractual relationships with our customers generally are terminable by our customers or us on short notice for any reason or no reason. Moreover, our customers generally are not required to provide any minimum shipping commitments. Our failure to retain our existing customers or enter into relationships with new customers could have a materially adverse impact on our revenues and resulting profitability.

Our operations are subject to varying liability standards that may result in claims being asserted against us.

With respect to our expedited transportation and freight forwarding operations, we have primary liability to the shipper for cargo loss and damage for certain liabilities caused by our independent contractor drivers. From time to time, our independent contractor drivers, and the drivers engaged by the transportation providers we contract with, are involved in accidents that may result in serious personal injuries or property damage. The resulting types and/or amounts of damages may be excluded by or exceed the amount of insurance coverage maintained by the contracted transportation provider. With respect to our brokerage operations, claims of secondary liability may be asserted against us for the actions of transportation providers to which we broker freight and their employees or independent contractor drivers, or for our actions in retaining them. Claims against us may exceed the amount of our insurance coverage, or may not be covered by insurance at all. A material increase in the frequency or severity of accidents, liability claims, or workers compensation claims, or unfavorable resolutions of claims, could materially and adversely affect our operating results. In addition, significant increases in insurance costs or the inability to purchase insurance as a result of these claims could reduce our profitability.

Seasonality affects our operations and profitability.

The transportation industry experiences seasonal fluctuations. Our results of operations are typically lower for the first quarter of the calendar year relative to our other quarters. We believe this is due in part to the post-holiday reduction in demand experienced by many of our customers, which leads to more capacity in the non-expedited and service-critical markets and, in turn, less demand for expedited and premium shipping services. In addition, the productivity of our independent contractors and transportation providers generally decreases during the winter season because inclement weather impedes operations.

Table of Contents

Terrorist attacks, anti-terrorism measures and war could have broad detrimental effects on our business operations.

As a result of the potential for terrorist attacks, federal, state and municipal authorities have implemented and continue to follow various security measures, including checkpoints and travel restrictions on large trucks. Such measures may reduce the productivity of our independent contractors and transportation providers or increase the costs associated with their operations, which we could be forced to bear. For example, security measures imposed at bridges, tunnels, border crossings and other points on key trucking routes may cause delays and increase the non-driving time of our independent contractors and transportation providers, which could have an adverse effect on our results of operations. Congress has mandated 100% security screening of air cargo traveling on passenger airlines effective July 31, 2010, and for ocean freight by July of 2012, which may increase costs associated with our air and freight forwarding operations. War, risk of war, or a terrorist attack also may have an adverse effect on the economy. A decline in economic activity could adversely affect our revenues or restrict our future growth. Instability in the financial markets as a result of terrorism or war also could impact our ability to raise capital. In addition, the insurance premiums charged for some or all of the coverage currently maintained by us could increase dramatically or such coverage could be unavailable in the future.

Our outstanding preferred stock and credit agreement limit our operating and financial flexibility.

We are obligated to pay holders of our Series A Convertible Perpetual Preferred Stock quarterly cash dividends equal to the greater of (i) the as-converted dividends on the underlying common stock for the relevant quarter, if applicable, and (ii) 4% of the then-applicable liquidation preference per annum. Presently, the aggregate dividends due to holders of our preferred stock are $3.0 million each year. Our preferred stock has an initial liquidation preference of $1,000 per share, for an aggregate initial liquidation preference of $75.0 million, subject to adjustment in the event of accrued and unpaid dividends. Accordingly, holders of our preferred stock have claim to a substantial portion of our cash flows from operations and liquidity, thereby reducing the availability of our cash flows to fund acquisitions, working capital, capital expenditures, our growth initiatives and other general corporate purposes.

Our current credit agreement contains certain operating and financial covenants and we expect that any future credit agreement we enter into will contain similarly restrictive covenants. Such covenants limit management s discretion in operating our business and may affect our ability, among other things, to: incur additional debt; pay dividends and make other distributions; prepay subordinated debt; make investments, acquisitions and other restricted payments; create liens; sell assets; and enter into transactions with affiliates. Failure to comply with the covenants under our current or future credit agreements may have a materially adverse impact on our operations. In addition, if we fail to comply with the covenants under our current or any future credit agreement, and are unable to obtain a waiver or amendment, an event of default would result under the applicable credit agreement. We cannot assure you that we would have sufficient liquidity to repay or refinance borrowings if such borrowings were accelerated upon an event of default.

We currently do not intend to pay dividends on our common stock.

We have never paid, and have no immediate plans to pay, cash dividends on our common stock. We currently plan to retain future earnings and cash flows for use in the development of our business and to enhance stockholder value through growth and continued focus on increasing profitability rather than pay dividends on our common stock. Accordingly, we do not anticipate paying any cash dividends on our common stock in the near future.

Table of Contents

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None

ITEM 2. *PROPERTIES*

Our executive offices are located at 429 Post Road, Buchanan, Michigan 49107. The table below describes the properties that we maintain.

Company	Location	Purpose	Square Feet	Owned or Leased
Express-1 Operations and Recruiting Center	429 Post Road Buchanan, MI 49107	Express-1 headquarters, call center & recruiting	23,000	Owned
XPO Logistics, Inc.	Nine Greenwich Office Park, Greenwich, CT 06831	Operations and general office	4,000	Leased
Express-1/Metro Detroit	2399 Avon Industrial Drive Rochester Hills, MI 48309	Metro Detroit Regional expedite call center	10,500	Leased
Concert Group Logistics	1430 Branding Ave. Suite 150, Downers Grove, IL 60515	CGL headquarters and general office	7,400	Leased
Concert Group Logistics International	5845 Barry Road Tampa, FL 33634	International operations station	6,200	Leased
Concert Group Logistics International	7855 NW 12th Street Suite 210 Miami, FL 33126	International operations station	1,300	Leased
Concert Group Logistics	1859 Lindberg Street Unit 500 Charlotte, NC 28208	Operation station	11,000	Leased
Bounce Logistics	5838 W. Brick Road South Bend, IN 46628	Bounce headquarters and general office	6,300	Leased
XPO Logistics, LLC	Hayden Corporate Center 8283 North Hayden Road Suite 220 Scottsdale, AZ 85258	Brokerage operations	5,100	Leased

ITEM 3. *LEGAL PROCEEDINGS*

We are involved in various claims and legal actions arising in the ordinary conduct of our business. We do not believe that the ultimate resolution of these matters will have a material adverse effect on our business, 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 our business, results of operations, financial condition, cash flows and prospects.

We carry liability and excess umbrella insurance policies that we deem sufficient to cover potential legal claims arising in the normal course of conducting our operations as a transportation company. In the event we are required to satisfy a legal claim in excess of the coverage provided by this insurance, our cash flows and earnings could be negatively impacted.

ITEM 4. ***MINE SAFETY DISCLOSURES***

Not applicable.

Table of Contents

PART II

ITEM 5. ***MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***

Price Range of Common Stock

The Company s common stock is traded on NYSE Amex under the symbol XPO. The table below sets forth the high and low closing sales prices (adjusted for the 4-for-1 reverse stock split effected September 2, 2011) for the Company s common stock for the quarters included within 2010 and 2011 and through February 20, 2012.

	High	Low
2010		
1st quarter	$ 6.60	$ 4.88
2nd quarter	6.24	5.04
3rd quarter	7.52	4.96
4th quarter	11.28	7.96
2011		
1st quarter	$ 12.12	$ 8.48
2nd quarter	13.28	8.28
3rd quarter	17.00	7.67
4th quarter	12.66	6.98
2012		
1st quarter (through February 20, 2012)	$ 14.90	$ 11.35

As of February 20, 2012, there were approximately 7,700 holders of our common stock, based upon data available to us from our proxy solicitor, transfer agent and market maker for our common stock. We have never paid, and have no immediate plans to pay, cash dividends on our common stock. We currently plan to retain future earnings and cash flows for use in the development of our business and to enhance stockholder value through growth and continued focus on increasing profitability rather than pay dividends on our common stock. In addition, our current credit agreement imposes, and we expect that any future credit agreement we enter into will impose, restrictions on our ability to pay cash dividends on our common stock. Accordingly, we do not anticipate paying any cash dividends on our common stock in the near future. Future payment of dividends on our common stock would depend on our earnings, capital requirements, expansion plans, financial condition and other relevant factors.

Equity Compensation Plan

Certain information with respect to our equity compensation plans is set forth in Item 12 of this Annual Report on Form 10-K.

Table of Contents

Item 6. ***SELECTED FINANCIAL DATA***

This table includes selected financial data for the last five years. This financial data should be read together with our audited Consolidated Financial Statements and related notes, Management s Discussion and Analysis of Financial Condition and Results of Operations, and other financial data appearing elsewhere in this Annual Report.

XPO Logistics, Inc.

Consolidated Statements of Operations

			Fiscal Year Ended		
	December 31, 2011	**December 31, 2010**	**December 31, 2009**	**December 31, 2008**	**December 31, 2007**
Consolidated Statements of Operations Data:					
Operating revenue	$ 177,076,000	$ 157,987,000	$ 100,136,000	$ 109,462,000	$ 47,713,000
Income from continuing operations	759,000	4,888,000	1,690,000	2,817,000	1,813,000
Income from discontinued operations			15,000	339,000	358,000
Preferred stock beneficial conversion charge and preferred dividends	(45,336,000)				
Net (loss) income available to common stockholders	$ (44,577,000)	$ 4,888,000	$ 1,705,000	$ 3,156,000	$ 2,171,000
Earnings Per Share					
Basic	$ (5.41)	$ 0.61	$ 0.21	$ 0.40	$ 0.33
Diluted	(5.41)	0.59	0.21	0.40	0.32
Weighted average common shares outstanding					
Basic	8,246,577	8,060,346	8,008,805	7,863,439	6,672,596
Diluted	8,246,577	8,278,995	8,041,862	7,939,291	6,831,682
Consolidated Balance Sheet Data:					
Working capital	$ 83,070,000	$ 12,314,000	$ 970,000	$ 4,428,000	$ 3,781,000
Total assets	$ 127,641,000	$ 56,672,000	$ 49,039,000	$ 41,682,000	$ 23,724,000
Total long-term debt and capital leases	$ 2,129,000	$ 6,512,000	$ 1,428,000	$ 4,955,000	$ 84,000
Preferred Stock	$ 42,794,000	$	$	$	$
Stockholder s equity	$ 108,360,000	$ 34,013,000	$ 28,404,000	$ 26,527,000	$ 18,202,000

The Company effected a 4-for-1 reverse stock split on September 2, 2011. All share and per share amounts have been adjusted to reflect the reverse stock split. Results for the fiscal year ended December 31, 2011 reflect the beneficial conversion feature of $44.2 million on the Series A Preferred Stock that was recorded as a deemed distribution during the third quarter of 2011, as described in Item 1 above.

Table of Contents

Item 7. ***MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

You should read the following discussion in conjunction with Part I, including matters set forth under Item 1A, Risk Factors , of this Annual Report, and our audited Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report. The following discussion contains forward-looking statements. You should refer to the Cautionary Statement Regarding Forward-Looking Statements set forth in Part I of this Annual Report.

Executive Summary

XPO Logistics, Inc., a Delaware corporation (the Company , we , our or us), is a third party logistics provider of freight transportation services through three non-asset based or asset-light business units: Expedited Transportation, Freight Forwarding and Freight Brokerage. These business units provide services complementary to each other, effectively giving us a platform for expansion in three distinct areas of the transportation industry.

Business Unit	Subsidiary(ies)	Primary Office Location(s)	Date Initiated or Acquired
Expedited Transportation	Express-1	Buchanan, Michigan	August 2004
Freight Forwarding	Concert Group Logistics	Downers Grove, Illinois	January 2008
Freight Brokerage	Bounce Logistics and XPO Logistics	South Bend, Indiana and Phoenix, Arizona	March 2008

Expedited Transportation Express-1, Inc. (Express-1) was founded in 1989 and acquired in 2004. Express-1 provides time-critical expedited transportation to its customers, most typically through carrier arrangements that assign one truck to a load, with a specified delivery time requirement. Most of the services provided by Express-1 are completed via a fleet of exclusive-use vehicles that are owned and operated by independent contract drivers.

Freight Forwarding Concert Group Logistics, Inc. (CGL *)* was founded in 2001 and acquired in 2008. CGL provides freight forwarding services through a network of independently owned stations and Company-owned branches located throughout the United States. These stations and branches are responsible for selling and operating freight forwarding transportation services within their geographic area under the authority of CGL. In October 2009, certain assets and liabilities of LRG International Inc. (now known as CGL International) were purchased to complement the operations of CGL through two Florida branches that primarily provide international freight forwarding services. The financial reporting of this operation has been included within CGL.

Freight Brokerage Through our Freight Brokerage unit, we arrange freight transportation and provide related logistics and supply chain services to customers in North America, ranging from commitments on specific individual shipments to more comprehensive and integrated relationships. From January 2008 until the fourth quarter of 2011, we provided these services solely through our Bounce Logistics, Inc. subsidiary (Bounce Logistics). During the fourth quarter of 2011, we opened a sales office in Phoenix, Arizona, which provides freight brokerage services under the name XPO Logistics. The Phoenix office is the first of several cold-start sales offices we plan to open during the next two years.

The Company generally does not own its own trucks, ships or planes; instead we use a network of relationships with ground, ocean and air carriers to find the best transportation solutions for our customers. This allows capital to be invested primarily in expanding our workforce of talented people who are adept in the critical areas of competitive selling, price negotiation, carrier relations and customer service.

GROWTH STRATEGY

Following a significant equity investment by Jacobs Private Equity, LLC (JPE) in the Company in September 2011 (as described below under Recent Developments), we began to implement a growth strategy that will leverage our strengths including management expertise, substantial liquidity and potential access to additional capital in pursuit of profitable growth. Our strategy anticipates that this will be facilitated by a highly experienced executive team recently put in place, and by new technology that will integrate our operations on a shared platform for cross-company benchmarking and analysis.

Our growth strategy focuses on the following three key areas:

Targeted acquisitions We intend to make selective acquisitions of non-asset based logistics freight brokerage businesses that would benefit from our greater scale and potential access to capital, and we may make similar acquisitions of freight forwarding, expedited and intermodal service businesses, among others. We believe that we are in a position to make the first phase of acquisitions by using existing cash and expanding our credit facilities.

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

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

Recent Developments

Equity Investment

In September 2011, pursuant to the Investment Agreement, dated as of June 13, 2011 (the Investment Agreement), by and among JPE, the other investors party thereto (collectively with JPE, the Investors) and the Company, we issued to the Investors, for $75.0 million in cash: (i) an aggregate of 75,000 shares of our Series A Convertible Perpetual Preferred Stock (the Series A Preferred Stock), which are initially convertible into an aggregate of 10,714,286 shares of our common stock, and (ii) warrants initially exercisable for an aggregate of 10,714,286 shares of our common stock at an initial exercise price of $7.00 per common share (the Warrants). Our stockholders approved the issuance of the Series A Preferred Stock and the Warrants at the special meeting of our stockholders on September 1, 2011. We refer to this investment as the Equity Investment. See Note 10 to our audited Consolidated Financial Statements in Item 8 of this Annual Report.

The conversion feature of the Series A Preferred Stock was determined to be a beneficial conversion feature (BCF) based on the effective initial conversion price and the market value of our common stock at the commitment date for the issuance of the Series A Preferred Stock. Generally accepted accounting principles in the United States (US GAAP) require that we recognize the BCF related to the Series A Preferred Stock as a discount on the Series A Preferred Stock and amortize such amount as a deemed distribution through the earliest conversion date. The calculated value of the BCF was in excess of the relative fair value of net proceeds allocated to the Series A Preferred Stock. Accordingly, during the third quarter of 2011 we recorded a discount on the Series A Preferred Stock of $44.2 million with immediate recognition of this amount as a deemed distribution because the Series A Preferred Stock is convertible at any time.

Change of Company Name

In connection with the closing of the Equity Investment, our name was changed from Express-1 Expedited Solutions, Inc. to XPO Logistics, Inc. on September 2, 2011. Our stockholders approved the amendment to our certificate of incorporation effecting the name change at the special meeting of our stockholders on September 1, 2011.

Reverse Stock Split

In connection with the closing of the Equity Investment, we effected a 4-for-1 reverse stock split on September 2, 2011. Our stockholders approved the amendment to our certificate of incorporation effecting the reverse stock split at the special meeting of our stockholders on September 1, 2011. Unless otherwise noted, all share-related amounts in this Annual Report and our audited Consolidated Financial Statements and the related Notes thereto reflect the reverse stock split.

In connection with the reverse stock split, our stockholders received one new share of our common stock for every four shares of common stock held at the effective time. The reverse stock split reduced the number of shares of outstanding common stock from 33,011,561 to 8,252,891. Proportional adjustments were made to the number of shares issuable upon the exercise of outstanding options to purchase shares of common stock and the per share exercise price of those options.

Increase in Authorized Shares of Common Stock

In connection with the closing of the Equity Investment, the number of authorized shares of our common stock was increased from 100,000,000 shares to 150,000,000 shares on September 2, 2011. Our stockholders approved the amendment to our certificate of incorporation effecting the increase in the number of authorized shares of common stock at the special meeting of the Company s stockholders on September 1, 2011.

Other Reporting Disclosures

Throughout our reports, we refer to the impact of fuel on our business. For purposes of these references, we have considered the impact of fuel surcharge revenues and the related fuel surcharge expenses only as they relate to our Expedited Transportation business unit. The expedited transportation industry commonly negotiates both fuel surcharges charged to its customers as well as fuel surcharges paid to its carriers. Therefore, we feel that this approach most readily conveys the impact of fuel revenues, costs and the resulting gross margin within this business unit. Our fuel surcharges are determined on a negotiated customer-by-customer basis and are primarily based on a fuel matrix driven by the Department of Energy fuel price index. Fuel surcharge revenues are charged to our customers to provide for variable costs associated with changing fuel prices. Independent contractors and brokered carriers are responsible for the cost of fuel, and therefore are paid a fuel surcharge by the Company to offset their variable cost of fuel. The fuel surcharge payment is expensed as paid and included in the Company s cost of transportation. Fuel surcharge payments are consistently applied based on the Department of Energy fuel price index and the type of truck utilized. Because fuel surcharge revenues vary based on negotiated customer rates and the overall mix of business, and because our fuel surcharge expense is applied on a consistent basis, gross margin and our gross margin percentage attributable to fuel surcharges will vary from period to period. The impact of fuel surcharge revenue and expense is discussed within management s discussion and analysis of our Expedited Transportation business unit.

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

This discussion and analysis refers from time to time to Expedited Transportation s international operations. These operations consist 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 freight is carried for domestic customers who pay in U.S. dollars. We discuss this freight separately because our Expedited Transportation business unit has developed an expertise in cross-docking freight at the border through the utilization of Canadian and Mexican carriers, and this portion of our business has seen significant growth.

Table of Contents

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

We often refer to the costs of our board of directors, our executive team and certain operating costs associated with operating as a public company as corporate charges. In addition to the aforementioned items, we also record items such as our income tax provision and other charges that are reported on a consolidated basis within the corporate line items of the following tables.

The following tables are provided to allow readers to review results within our major operating segments.

XPO Logistics, Inc.

Summary Financial Table

For the Twelve Months Ended December 31,

				Percent of Revenue			Percentage Change	
	2011	**2010**	**2009**	**2011**	**2010**	**2009**	**2011-2010**	**2010-2009**
Revenues								
Operating revenue	$ 177,076,000	$ 157,987,000	$ 100,136,000	100.0%	100.0%	100.0%	12.1%	57.8%
Direct expense								
Transportation services	133,007,000	117,625,000	72,284,000	75.1%	74.5%	72.2%	13.1%	62.7%
Station commissions	11,098,000	10,724,000	8,798,000	6.3%	6.8%	8.8%	3.5%	21.9%
Insurance	1,597,000	1,161,000	1,568,000	0.9%	0.7%	1.6%	37.6%	-26.0%
Other	1,596,000	1,077,000	746,000	0.9%	0.7%	0.7%	48.2%	44.4%
Direct expense	147,298,000	130,587,000	83,396,000	83.2%	82.7%	83.3%	12.8%	56.6%
Gross margin	29,778,000	27,400,000	16,740,000	16.8%	17.3%	16.7%	8.7%	63.7%
SG&A expenses								
Salaries & benefits	15,158,000	12,039,000	7,971,000	8.6%	7.6%	8.0%	25.9%	51.0%
Purchased services	6,733,000	2,519,000	1,917,000	3.8%	1.6%	1.9%	167.3%	31.4%
Depreciation & amortization	1,046,000	1,173,000	1,123,000	0.6%	0.7%	1.1%	-10.8%	4.5%
Other	5,117,000	3,223,000	2,558,000	2.9%	2.0%	2.6%	58.8%	26.0%
Total SG&A expenses	28,054,000	18,954,000	13,569,000	15.8%	12.0%	13.6%	48.0%	39.7%
Operating income	1,724,000	8,446,000	3,171,000	1.0%	5.3%	3.2%	-79.6%	166.4%
Other expense	56,000	140,000	51,000	0.0%	0.1%	0.1%	-60.0%	174.5%
Interest expense	191,000	205,000	105,000	0.1%	0.1%	0.1%	-6.8%	95.2%
Income before income tax	1,477,000	8,101,000	3,015,000	0.8%	5.1%	3.0%	-81.8%	168.7%
Income tax provision (benefit)	718,000	3,213,000	1,325,000	0.4%	2.0%	1.3%	-77.7%	142.5%
Income from Continuing Operations	759,000	4,888,000	1,690,000	0.4%	3.1%	1.7%	-84.5%	189.2%
Income from Discontinued Operations, Net of Tax			15,000	0.0%	0.0%	0.0%		-100.0%
Net Income	$ 759,000	$ 4,888,000	$ 1,705,000	0.4%	3.1%	1.7%	-84.5%	186.7%

Table of Contents

Consolidated Results

2011 vs. 2010

In total, the Company s consolidated revenues for fiscal year 2011 were 12.1% greater than fiscal year 2010. This growth was driven primarily by increased international revenues at Express-1 and continued strong growth in our Freight Brokerage unit.

Direct expenses represent expenses attributable to freight transportation. Our asset-light operating model arranges transportation capacity through variable cost transportation alternatives, and therefore enables us to control certain of our operating costs as our volumes fluctuate. Our primary means of arranging transportation capacity are through our fleet of independent contractors in Expedited Transportation and our network of independent ground, ocean and air carriers in Freight Forwarding and Freight Brokerage. We believe this operating model gives us a strategic advantage as compared to transportation providers who directly own assets, particularly in uncertain economic conditions. Our overall gross margin for fiscal year 2011 was 16.8%, a decrease when compared to 17.3% in fiscal year 2010. The decrease in gross margin can be attributed primarily to the following items:

- International shipments in Expedited Transportation tend to be higher revenue transactions than domestic shipments, but historically have generated a lower gross margin percentage. As international business becomes a larger component of our revenue, we expect to experience continuing decreases in gross margin percentage as our business mix shifts.

- Freight Brokerage continues to grow at a higher rate than Expedited Transportation and Freight Forwarding, which we expect to continue in the future. Freight Brokerage historically has a lower gross margin percentage compared with Expedited Transportation. As our business mix shifts toward Freight Brokerage in the future, we expect to experience continuing decreases in gross margin percentage.

Selling, general and administrative (SG&A) expenses as a percentage of revenue were 15.8% for fiscal year 2011, an increase from 12.0% in 2010. Overall, SG&A expenses increased by $9.1 million for full year 2011 compared to 2010, resulting from an increase of $4.2 million in purchased services, of which approximately $1.0 million represented indirect expenses associated with the Equity Investment and $1.9 million represented recruiting and other costs related to new executive team appointments. Salary and benefit costs increased by $3.1 million related primarily to our investment in additional salespeople at Freight Brokerage and Freight Forwarding and the new executive team appointments, of which $850,000 were one-time guarantees recorded during the fourth quarter of 2011. Additionally, other SG&A costs were up $1.9 million mainly due to equity compensation expense of approximately $900,000 recorded in the fourth quarter of 2011 related to equity grants for the new executive team.

As of December 31, 2011, we had approximately $4.0 million of unrecognized compensation cost related to non-vested stock option-based compensation that we expect to recognize over a weighted average period of approximately 4.3 years. Also as of December 31, 2011, we had approximately $6.9 million of unrecognized compensation cost related to non-vested restricted stock-based compensation that we expect to recognize over a weighted average period of approximately 4.5 years.

Our effective income tax rate for the fiscal year ended December 31, 2011 was 46% as compared to 40% for the fiscal year ended December 31, 2010 associated with out of period tax charges incurred in 2011.

The Company finished fiscal year 2011 with $759,000 in net income, which is a 84.5% decrease when compared to $4.9 million for fiscal year 2010. Investment in the new executive team and corporate infrastructure, which includes payroll, equity compensation and professional fees, and indirect transaction costs related to the Equity Investment contributed to the reduction in net income.

Table of Contents

2010 vs. 2009

The actions we took in 2009 to minimize the negative impact of the economic downturn significantly helped improve results of operations during 2010. We experienced solid financial improvements across our business units, including improvements in: gross revenues, gross margin percentage, SG&A-to-revenue ratios and net income. Our gross margin percentage and SG&A-to-revenue ratios returned to more historic levels during 2010 as the economy improved.

Overall consolidated revenues of $158.0 million for fiscal year 2010 represented an increase of 57.8% over fiscal year 2009. LRG International, acquired in October of 2009, contributed $12.1 million of the revenue growth for 2010, with remaining growth being achieved organically.

In 2010, the consolidated gross margin percentage improved to 17.3% from 16.7% in 2009 as the result of significant margin improvements at our Expedited Transportation unit and an overall improvement in our mix of business.

SG&A expenses as a percentage of revenue declined steadily throughout the year as revenues increased more quickly than SG&A costs.

Accordingly, net income improved to $4.9 million in 2010, which represented a 187% increase over net income of $1.7 million in full year 2009.

Our Express-1 Dedicated business unit was discontinued during the fourth quarter of 2008 due to the loss of the contract with its key customer. All operations were ceased effective February 28, 2009, and all assets have either been sold or transferred to our other operations.

Expedited Transportation

(Express -1)

Summary Financial Table

For the Twelve Months Ended December 31,

				Percent of Revenue			Percentage Change	
	2011	**2010**	**2009**	**2011**	**2010**	**2009**	**2011-2010**	**2010-2009**
Revenues								
Operating revenue	$ 87,558,000	$ 76,644,000	$ 50,642,000	100.0%	100.0%	100.0%	14.2%	51.3%
Direct expense								
Transportation services	66,267,000	57,129,000	37,728,000	75.7%	74.5%	74.5%	16.0%	51.4%
Insurance	1,404,000	1,020,000	1,437,000	1.6%	1.3%	2.8%	37.6%	-29.0%
Other	1,594,000	1,077,000	709,000	1.8%	1.4%	1.4%	48.0%	51.9%
Direct expense	69,265,000	59,226,000	39,874,000	79.1%	77.3%	78.7%	17.0%	48.5%
Gross margin	18,293,000	17,418,000	10,768,000	20.9%	22.7%	21.3%	5.0%	61.8%
SG&A expenses								
Salaries & benefits	6,854,000	7,061,000	5,062,000	7.8%	9.2%	10.0%	-2.9%	39.5%
Purchased services	1,426,000	1,249,000	782,000	1.6%	1.6%	1.5%	14.2%	59.7%
Depreciation & amortization	403,000	494,000	521,000	0.5%	0.6%	1.0%	-18.4%	-5.2%
Other	1,411,000	1,008,000	957,000	1.6%	1.3%	1.9%	40.0%	5.3%
Total SG&A expenses	10,094,000	9,812,000	7,322,000	11.5%	12.8%	14.5%	2.9%	34.0%
Operating income	$ 8,199,000	$ 7,606,000	$ 3,446,000	9.4%	9.9%	6.8%	7.8%	120.7%

Table of Contents

Expedited Transportation

2011 vs. 2010

Our Expedited Transportation segment generated fiscal year 2011 revenue of $87.6 million, reflecting growth of 14.2% compared to 2010. As the international component of our Expedited Transportation unit increased during 2011, Mexican and Canadian cross-border freight represented 24.2% of segment revenue for 2011, compared to 20.1% of segment revenue for 2010.

For the year ended December 31, 2011, rising fuel prices positively impacted our revenue as fuel charge revenues represented 16.4% of our revenue as compared to 12.3% for 2010.

Expedited Transportation s gross margin percentage was 20.9% for fiscal year 2011, compared to 22.7% for 2010. Reasons for the decrease in gross margin percentage include:

- The increase in international transactions, which are typically higher revenue shipments at a lower gross margin percentage than our domestic transactions;

- A higher percentage of shipments placed through brokered carriers, associated mainly with the growth in international business. All cross-border moves are handled by brokered carriers; and

- Expedited Transportation results in the third quarter of 2010 were positively impacted by floods in Mexico that generated significantly higher margins than normal.

Historically, the utilization of brokered carriers has enabled our Expedited Transportation unit to handle peak volume periods for its customers while building its fleet of independent contractor drivers. Brokered carriers also are utilized to more efficiently handle freight that crosses into Canada or Mexico. This component of Expedited Transportation s purchased transportation costs is critical to our ongoing success; however, gross margin percentages relating to this business are typically lower than margins associated with our own fleet of independent contractor drivers. During fiscal year 2011, 32.5% of our Expedited Transportation unit s revenue was carried by brokered carriers as compared to 29.6% for 2010. The increase was due primarily to the growth of our international business.

SG&A expenses as a percentage of revenue decreased to 11.5% for full year 2011 from 12.8% for 2010. This decrease in SG&A as a percentage of revenues was driven by improved leverage as our 2011 Expedited Transportation revenues increased $10.9 million as compared to 2010, with a 2.9% increase during 2011 of $282,000 in SG&A expenses as compared to 2010.

Operating income increased by 7.8% or $593,000 for fiscal year 2011 compared to 2010, driven primarily by the factors described above.

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

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

- 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.

Table of Contents

2010 vs. 2009

During 2010, Expedited Transportation generated annual revenue of $76.6 million. Expedited Transportation s 2010 revenue increased 51% when compared to 2009. For the year ended December 31, 2010, Expedited Transportation s continued investment in sales diversification paid off as it expanded its presence into other markets. Also, the results of the Company s investment in its Mexican operations continued to exceed management s expectations. Mexican operations generated 16% of the Company s total revenue for full year 2010 as compared to 13% during 2009. This growth has contributed to our overall improvement in diversifying our customer base, which historically has been heavily dependent on the automotive sector. In general, overall pricing remained stable in 2010 as compared to 2009. Expedited Transportation historically has rebounded quickly from recessions as the expediting industry in general is typically one of the first benefactors of a recovering economy. This proved to be true during 2010 as Expedited Transportation experienced significant quarter-over-quarter growth during 2010 as compared to 2009.

Fuel prices increased throughout the year resulting in a corresponding increase in fuel surcharge as a percentage of revenue. For the year ended December 31, 2010, fuel surcharge revenues represented 12.3% of our revenue as compared to 9.5% in the same period in 2009. Rising fuel prices tend to have a negative impact on our gross margin percentage since these revenues are substantially passed through to our independent contractor drivers and do not tend to add any additional gross margin dollars to the Company.

Expedited Transportation s direct expenses represent both fleet costs associated with their fleet of independent contractor drivers along with brokerage costs related to runs that are brokered to other carriers. Expedited Transportation s gross margin percentage increased to 22.7% for the year ended December 31, 2010 compared to 21.3% for 2009. The primary factor resulting in the increased gross margin percentage was a favorable mix shift for business at our Expedited Transportation unit. Variables that impacted the mix of business included the vehicle type utilized and our customer utilization mix.

As a percentage of total revenue, our SG&A costs dropped for the year ended December 31, 2010 to 12.8% as compared to 14.5% for 2009. Overall, SG&A expenses increased by $2.5 million for full year 2010 as compared to 2009. Increased salaries and benefits accounted for $2.0 million of the increase in SG&A at Expedited Transportation. Approximately $815,000 of the salary and benefits increases resulted from the reestablishment of incentive compensation and the Company match under the XPO Logistics, Inc. 401(k) Plan. An additional $270,000 of the increase resulted from increased expenses relating to the Company s health insurance plan. The remaining $1.1 million of increased SG&A expenses resulted from the addition of new employees and raises received by existing employees.

Table of Contents

Freight Forwarding

(Concert Group Logistics)

Summary Financial Table

For the Twelve Months Ended December 31,

	2011	2010	2009	Percent of Revenue 2011	2010	2009	Percentage Change 2011-2010	2010-2009
Revenues								
Operating revenue	$ 65,148,000	$ 65,222,000	$ 41,162,000	100.0%	100.0%	100.0%	-0.1%	58.5%
Direct expense								
Transportation services	47,122,000	47,694,000	28,067,000	72.3%	73.1%	68.2%	-1.2%	69.9%
Station commissions	11,098,000	10,724,000	8,798,000	17.0%	16.4%	21.4%	3.5%	21.9%
Insurance	140,000	131,000	114,000	0.2%	0.2%	0.3%	6.9%	14.9%
Other				0.0%	0.0%	0.0%		
Direct expense	58,360,000	58,549,000	36,979,000	89.6%	89.8%	89.8%	-0.3%	58.3%
Gross margin	6,788,000	6,673,000	4,183,000	10.4%	10.2%	10.2%	1.7%	59.5%
SG&A expenses								
Salaries & benefits	2,897,000	2,670,000	1,615,000	4.4%	4.1%	3.9%	8.5%	65.3%
Purchased services	432,000	228,000	129,000	0.7%	0.3%	0.3%	89.5%	76.7%
Depreciation & amortization	575,000	629,000	575,000	0.9%	1.0%	1.4%	-8.6%	9.4%
Other	1,339,000	1,264,000	743,000	2.1%	1.9%	1.8%	5.9%	70.1%
Total SG&A expenses	5,243,000	4,791,000	3,062,000	8.0%	7.3%	7.4%	9.4%	56.5%
Operating income	$ 1,545,000	$ 1,882,000	$ 1,121,000	2.4%	2.9%	2.7%	-17.9%	67.9%

Freight Forwarding

2011 vs. 2010

Our Freight Forwarding unit s revenues for the fiscal year ended December 31, 2011 were $65.1 million, which was essentially flat with 2010. The gains in the first six months of 2011 were offset in the last six months of 2011 by certain lost revenue from larger customers and specific project work from 2010.

Direct expenses consisted primarily of payments for purchased transportation and payments to Freight Forwarding s independent offices that control the overall operation of our customers shipments. As a percentage of revenue, direct expenses of 89.6% for the full year ended 2011 were flat as compared to 89.8% for 2010. The gross margin percentage for full year 2011 of 10.4% was flat as compared to 10.2% for 2010.

SG&A expenses as a percentage of revenue increased to 8.0% of revenues for full year 2011 compared to 7.3% for 2010. Overall, SG&A expenses for full year 2011 increased by approximately $450,000 compared to 2010 due to an increase in purchased services and our investments in additional salespeople.

Primarily as a result of the SG&A increase discussed above, Freight Forwarding s full-year 2011 operating income of $1.5 million decreased 17.9% as compared to 2010.

As of December 31, 2011 and December 31, 2010, the Company maintained a network of 23 independent offices and two Company-owned branches.

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 and independently owned stations;

35

Table of Contents

Increased international growth, 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 that would benefit from our scale and potential access to capital.

2010 vs. 2009

Freight Forwarding s year-end revenue in 2010 reflected a rebound from 2009. Revenues of $65.2 million compared favorably to revenues of $41.2 million in 2009, representing a 58.5% increase. The purchase of certain assets and liabilities of LRG International (CGL International) in October 2009 contributed to the revenue increases during 2010 and 2009 of $12.1 million and $1.6 million, respectively.

Direct expenses consist primarily of payments for purchased transportation in addition to payments to Freight Forwarding s independent offices that control the overall operation of our customers shipments. As a percentage of Freight Forwarding revenue, direct expenses represented 89.8% for the years ended December 31, 2010 and 2009. Management expected direct expenses to decrease as a percentage of Freight Forwarding revenue for 2010 because of the acquisition of CGL International with its higher margins. However, because of increasing fuel costs, most notably in the fourth quarter, direct expenses as a percentage of revenue in 2010 stayed unchanged as compared to 2009. The result left gross margin at a comparable percentage of revenue of 10.2% for the years ended December 31, 2010 and 2009. For 2010, CGL International s direct expense represented $10.4 million or 21.5% of the total direct expense of Freight Forwarding.

SG&A expenses increased for full year 2010 by $1.7 million as compared to 2009, due in part to running CGL International as a Company-owned station. For the years ended December 31, 2010 and 2009, CGL International added approximately $1.3 million and $221,000, respectively, to SG&A expenses. Increased salaries and benefits were responsible for $1.1 million of the increase in SG&A for full year 2010. $673,000 of this increase for full year 2010 as compared to 2009 related to a full year of CGL International payroll and benefits being absorbed by Freight Forwarding. The remaining $427,000 of increased SG&A expense for 2010 as compared to 2009 reflected the addition of six new employees and incentive and other pay increases for all employees. Other costs also increased by $521,000 for 2010 as compared to 2009, of which approximately $196,000 was related to CGL International s full year of costs and approximately $280,000 was related to bad debt and impairment charges in connection with a former independent station owner whose contract was terminated. As a percentage of revenue, SG&A costs decreased to 7.3% for the year ended December 31, 2010 compared to 7.4% for the year ended December 31, 2009.

For the year ended December 31, 2010, Freight Forwarding generated income from operations before tax of $1.9 million, representing an increase of 67.9% as compared to full year 2009. Approximately $488,000 or 25.7% of Freight Forwarding s operating income was generated at CGL International.

As of December 31, 2009, the Company maintained a network of 24 independent stations and two Company-owned branches.

Table of Contents

Freight Brokerage

(Bounce Logistics and XPO Logistics)

Summary Financial Table

For the Twelve Months Ended December 31,

				Percent of Revenue		Percentage Change
	2011	2010	2009	2011	2010	