XPO Logistics, Inc.
Form 10-Q
August 04, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-32172

XPO Logistics, Inc.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 03-0450326 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

| | |
|---|---|
| Five American Lane Greenwich, CT | 06831 |
| (Address of principal executive offices) | (Zip code) |

(855) 976-6951
(Registrant’s telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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 ý No ¨

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

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

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

Emerging growth company ¨

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

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

As of August 2, 2017 there were 117,828,171 shares of the registrant’s common stock, par value $0.001 per share, outstanding.

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Part I—Financial Information
Item 1. Financial Statements.
XPO Logistics, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

| (In millions, except per share data) | June 30, 2017 | December 31, 2016 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $291.4 | $373.4 |
| Accounts receivable, net of allowances of $36.2 and $26.3, respectively | 2,481.9 | 2,313.3 |
| Other current assets | 485.0 | 386.9 |
| Total current assets | 3,258.3 | 3,073.6 |
| Property and equipment, net of $846.6 and $589.9 in accumulated depreciation, respectively | 2,542.2 | 2,537.4 |
| Goodwill | 4,466.7 | 4,325.8 |
| Identifiable intangible assets, net of $469.7 and $377.1 in accumulated amortization, respectively | 1,490.7 | 1,534.7 |
| Deferred tax asset | 3.1 | 2.7 |
| Other long-term assets | 170.9 | 224.2 |
| Total long-term assets | 8,673.6 | 8,624.8 |
| Total assets | $11,931.9 | $11,698.4 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $1,077.7 | $1,056.3 |
| Accrued expenses | 1,395.5 | 1,382.1 |
| Current maturities of long-term debt | 117.0 | 136.5 |
| Other current liabilities | 143.5 | 156.7 |
| Total current liabilities | 2,733.7 | 2,731.6 |
| Long-term debt | 4,754.3 | 4,731.5 |
| Deferred tax liability | 547.0 | 572.4 |
| Employee benefit obligations | 227.6 | 251.4 |
| Other long-term liabilities | 419.5 | 373.9 |
| Total long-term liabilities | 5,948.4 | 5,929.2 |
| Stockholders' equity: | | |
| Convertible perpetual preferred stock, $.001 par value; 10.0 shares authorized; .07 of Series A shares issued and outstanding at June 30, 2017 and December 31, 2016 | 41.2 | 41.6 |
| Common stock, $.001 par value; 300.0 shares authorized; 112.5 and 111.1 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively | 0.1 | 0.1 |
| Additional paid-in capital | 3,255.1 | 3,244.9 |
| Accumulated deficit | (321.7) | (392.9) |
| Accumulated other comprehensive loss | (94.5) | (193.7) |
| Total stockholders' equity before noncontrolling interests | 2,880.2 | 2,700.0 |
| Noncontrolling interests | 369.6 | 337.6 |
| Total equity | 3,249.8 | 3,037.6 |
| Total liabilities and equity | $11,931.9 | $11,698.4 |

See accompanying notes to condensed consolidated financial statements.

XPO Logistics, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In millions, except per share data) | 2017 | 2016 | 2017 | 2016 |
| Revenue | $3,760.3 | $3,683.3 | $7,299.8 | $7,229.0 |
| Operating expenses | | | | |
| Cost of transportation and services | 1,969.6 | 1,973.3 | 3,856.9 | 3,918.4 |
| Direct operating expense | 1,194.2 | 1,130.2 | 2,331.9 | 2,236.4 |
| Sales, general and administrative expense | 411.5 | 409.5 | 812.4 | 841.5 |
| Total operating expenses | 3,575.3 | 3,513.0 | 7,001.2 | 6,996.3 |
| Operating income | 185.0 | 170.3 | 298.6 | 232.7 |
| Other (income) expense | (2.6) | (4.4) | 0.7 | (5.6) |
| Foreign currency loss (income) | 28.3 | (3.4) | 38.9 | 2.1 |
| Debt extinguishment loss | — | — | 9.0 | — |
| Interest expense | 74.3 | 94.7 | 149.9 | 187.8 |
| Income before income tax provision | 85.0 | 83.4 | 100.1 | 48.4 |
| Income tax provision | 27.8 | 33.0 | 18.0 | 17.3 |
| Net income | 57.2 | 50.4 | 82.1 | 31.1 |
| Net income attributable to noncontrolling interests | (5.3) | (3.8) | (8.9) | (7.0) |
| Net income attributable to XPO | $51.9 | $46.6 | $73.2 | $24.1 |
| | | | | |
| Earnings per share data: | | | | |
| Net income attributable to common shareholders | $47.6 | $42.6 | $67.1 | $22.0 |
| | | | | |
| Basic earnings per share | $0.43 | $0.39 | $0.60 | $0.20 |
| Diluted earnings per share | $0.38 | $0.35 | $0.54 | $0.19 |
| | | | | |
| Weighted-average common shares outstanding | | | | |
| Basic weighted-average common shares outstanding | 111.8 | 110.0 | 111.6 | 109.8 |
| Diluted weighted-average common shares outstanding | 124.7 | 122.3 | 124.6 | 118.9 |

See accompanying notes to condensed consolidated financial statements.

XPO Logistics, Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In millions) | 2017 | 2016 | 2017 | 2016 |
| Net income | $57.2 | $50.4 | $82.1 | $31.1 |
| Other comprehensive income (loss), net of tax | | | | |
| Foreign currency translation gain (loss) [1] | $133.0 | $(85.6) | $165.6 | $(33.5) |
| Unrealized (loss) gain on financial assets/liabilities designated as hedging instruments, net of tax effect of $17.3, $(7.5), $18.8 and $7.2 | (39.0) | 21.8 | (40.5) | 3.4 |
| Defined benefit plans adjustments, net of tax effect of $0.0 for all periods | (0.6) | — | — | — |
| Other comprehensive income (loss) | 93.4 | (63.8) | 125.1 | (30.1) |
| Comprehensive income (loss) | $150.6 | $(13.4) | $207.2 | $1.0 |
| Less: Comprehensive (income) loss attributable to noncontrolling interests | (25.8) | 6.8 | (34.9) | (5.1) |
| Comprehensive income (loss) attributable to XPO | $124.8 | $(6.6) | $172.3 | $(4.1) |

[1] There is no tax impact related to the foreign currency translation adjustments as the earnings are considered permanently reinvested.

See accompanying notes to condensed consolidated financial statements.

XPO Logistics, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

| | Six Months Ended June 30, | |
|---|---|---|
| (In millions) | 2017 | 2016 |
| Operating activities | | |
| Net income | $82.1 | $31.1 |
| Adjustments to reconcile net income to net cash from operating activities | | |
| Depreciation and amortization | 321.8 | 323.6 |
| Stock compensation expense | 33.5 | 20.5 |
| Accretion of debt | 9.7 | 8.0 |
| Deferred tax (benefit) expense | (11.0 ) | 2.7 |
| Loss on extinguishment of debt | 9.0 | — |
| Unrealized loss (gain) on foreign currency option and forward contracts | 40.4 | (2.6 ) |
| Other | 5.5 | 0.8 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (112.5 ) | 5.5 |
| Other assets | (31.7 ) | (52.8 ) |
| Accounts payable | (11.6 ) | (78.4 ) |
| Accrued expenses and other liabilities | (104.2 ) | 9.2 |
| Cash flows provided by operating activities | 231.0 | 267.6 |
| Investing activities | | |
| Payment for purchases of property and equipment | (262.0 ) | (224.0 ) |
| Proceeds from sale of assets | 42.2 | 35.6 |
| Other | — | 8.3 |
| Cash flows used by investing activities | (219.8 ) | (180.1 ) |
| Financing activities | | |
| Proceeds from borrowings on term loan facility | 523.5 | — |
| Repayment of borrowings on term loan facility | (511.4 ) | — |
| Proceeds from borrowings on ABL facility | 320.0 | 260.0 |
| Repayment of borrowings on ABL facility | (350.0 ) | (160.0 ) |
| Repayment of long-term debt and capital leases | (60.3 ) | (90.0 ) |
| Payment for debt issuance costs | (8.9 ) | — |
| Change in bank overdrafts | 3.4 | (10.9 ) |
| Payment for tax withholdings for restricted shares | (14.2 ) | — |
| Dividends paid | (1.7 ) | (1.5 ) |
| Other | 1.1 | 2.2 |
| Cash flows used by financing activities | (98.5 ) | (0.2 ) |
| Effect of exchange rates on cash | 5.3 | 0.7 |
| Net (decrease) increase in cash | (82.0 ) | 88.0 |
| Cash and cash equivalents, beginning of period | 373.4 | 289.8 |
| Cash and cash equivalents, end of period | $291.4 | $377.8 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | $132.6 | $178.4 |
| Cash paid for income taxes | $41.4 | $26.9 |

See accompanying notes to condensed consolidated financial statements.

XPO Logistics, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

## 1. Organization, Description of Business and Basis of Presentation

XPO Logistics, Inc. and its subsidiaries ("XPO" or the "Company") use an integrated network of people, technology and physical assets to help customers manage their goods more efficiently throughout their supply chains. The Company's customers are multinational, national, mid-size and small enterprises, and include many of the most prominent companies in the world. XPO runs its business on a global basis, with two reportable segments: Transportation and Logistics.

In the Transportation segment, the Company provides multiple services to facilitate the movement of raw materials, parts and finished goods. The Company accomplishes this by using its proprietary transportation technology, third-party carriers and Company-owned trucks and service centers. XPO's transportation services include: freight brokerage, last mile, less-than-truckload ("LTL"), full truckload, and global forwarding services. Freight brokerage, last mile, and global forwarding are all non-asset or asset-light businesses. LTL and full truckload are asset-based.

In the Logistics segment, referred to as supply chain, the Company provides a range of contract logistics services, including highly engineered and customized solutions, value-added warehousing and distribution, cold chain solutions and other inventory management solutions. Additionally, the Company performs e-commerce fulfillment, order personalization, warehousing, reverse logistics, storage, factory support, aftermarket support, manufacturing, distribution, packaging and labeling, as well as supply chain optimization services such as production flow management.

For additional information relating to these segments, refer to Note 2—Segment Reporting.

The Company has prepared the accompanying unaudited condensed consolidated financial statements in accordance with the accounting policies described in its annual report on Form 10-K for the year ended December 31, 2016 (the "2016 Form 10-K") and the interim reporting requirements of Form 10-Q. Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the 2016 Form 10-K.

In the opinion of management, all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of financial condition, operating results and cash flows for the interim periods presented have been made. Interim results of operations are not necessarily indicative of the results of the full year.

### Adoption of New Accounting Standards

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, Compensation - Stock Compensation (Topic 718): "Improvements to Employee Share-based Payment Accounting." This ASU involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under the new standard, income tax benefits and deficiencies are to be recognized as income tax expense or benefit in the income statement and the tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity should also recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. Excess tax benefits should be classified along with other income tax cash flows as an operating activity. The Company adopted this standard in the fourth quarter of 2016, effective January 1, 2016. Accordingly, the provision for income taxes in the second quarter and first six months of 2017 included excess tax benefits of $0.8 million and $11.5 million, respectively, that reduced the income tax provision. For the second quarter and six months ended June 30, 2016, there was no material effect on the Company's condensed consolidated financial statements from the adoption of this ASU. In regards to forfeitures, the Company elected to account for forfeitures when they occur.

### Accounting Pronouncements Issued But Not Yet Effective

In May 2014, the FASB issued ASU No. 2014-09, Revenue (Topic 606): "Revenue from Contracts with Customers." This new standard includes the required steps to achieve the core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard will be effective for the

Company's annual and interim periods beginning January 1, 2018, and permits the use of either the retrospective or cumulative effect transition method. The Company has determined it will use the modified retrospective transition method. The Company is currently evaluating the effects of this standard and has completed a "gap assessment," whereby it has compared its current revenue recognition practices to those required by the new standard. The main areas under consideration include the recognition of revenue using proportionate delivery within the Transportation segment and gross versus net revenue presentation. The Company does not currently expect that the adoption of the standard will have a material effect on its statement of operations, balance sheet or statement of cash flows. The Company expects to provide expanded revenue recognition disclosures based on the new qualitative and quantitative disclosure requirements of the standard upon adoption.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases, including operating leases. Under the new requirements, a lessee will recognize in the balance sheet a liability to make lease payments (the lease liability) and the right-of-use asset representing the right to the underlying asset for the lease term. For leases with a term of 12 months or less, the lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the effects ASU 2016-02 will have on its consolidated financial statements and related disclosures. As of December 31, 2016, the Company reported $2,144.3 million in operating lease obligations and will evaluate those contracts as well as other existing arrangements to determine if they qualify for lease accounting under the new standard. The Company does not plan to adopt the standard early.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): “Restricted Cash”. This ASU requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash. The standard is effective for the Company's annual and interim periods beginning January 1, 2018 and requires retrospective adoption. The Company does not expect the adoption of this standard to have a material effect on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 350): "Simplifying the Accounting for Goodwill Impairment." Under the current guidance for assessing goodwill for impairment, an entity can first assess qualitative factors to determine whether a two-step goodwill impairment test is necessary (often referred to as "Step 0"). When an entity bypasses or fails Step 0, the two-step goodwill impairment test is performed. Step 1 compares a reporting unit’s fair value to its carrying amount to determine if there is a potential impairment. If the carrying amount exceeds fair value, Step 2 must be completed. Step 2 involves determining the implied fair value of goodwill and comparing it to the carrying amount of that goodwill to measure the impairment loss, if any. The revised guidance eliminates Step 2 of the current goodwill impairment test, which requires a hypothetical purchase price allocation to measure goodwill impairment. Under the new standard, a goodwill impairment loss will instead be measured at the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance requires prospective adoption and will be effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption of this guidance is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company will be adopting this guidance for the year ending December 31, 2017 and does not expect it to have a material effect on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715): "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The ASU will change how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the cost of the benefits in the statements of operations. This cost, commonly referred to as the "net periodic benefit cost," is comprised of several components that reflect different aspects of the arrangement with the employee, including the effect of the related funding. Currently, the Company aggregates the various components of the net periodic benefit cost (including interest cost and the expected return on plan assets) for presentation purposes and includes these costs within operating income (loss) in the condensed consolidated statements of operations. Under the new guidance, these costs will be presented below operating income (loss). This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period; however, early adoption is permitted. The Company will be adopting the standard for the year ending December 31, 2018. The adoption of the standard will have no impact on net income. In connection with the adoption of this new standard, prior periods will be recast to reflect the new presentation. The amount of net periodic benefit cost that will be reclassified below operating income for fiscal year 2016 will be approximately $25 million of income.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): "Scope of Modification Accounting." This ASU provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Under the new standard, modification accounting applies unless all the following conditions are met: (i) the fair value of the modified award is the same as the fair value of the original award immediately before the modification, (ii) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the modification, and (iii) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification the original award immediately before the original award is modified. Generally speaking, modification accounting requires an entity to calculate and recognize the incremental fair value of the modified award as compensation cost on the date of modification (for a vested award) or over the remaining service period (for an unvested award). This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period; however, early adoption is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements and does not plan to adopt the standard early.

2. Segment Reporting

The Company is organized into two reportable segments: Transportation and Logistics. Corporate and Eliminations constitute the remaining portions of the Company's operating results required to be presented in order to reconcile the Company's segment results to the condensed consolidated financial statements.

The Company's chief executive officer, who is the chief operating decision maker ("CODM"), regularly reviews financial information at the reporting segment level in order to make decisions about resources to be allocated to the segments and to assess their performance. Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Asset information by segment is not provided to the Company's CODM as the majority of the Company's assets are managed at the corporate level.

The Company evaluates performance based on the various financial measures of the respective business segments.

The following table identifies selected financial data for the three- and six- months ended June 30, 2017 and 2016:

| (In millions) | Transportation | Logistics | Corporate | Eliminations | Total |
|---|---|---|---|---|---|
| Three Months Ended June 30, 2017 | | | | | |
| Revenue | $ 2,405.2 | $1,395.2 | $ — | $ (40.1 ) | $3,760.3 |
| Operating income (loss) | 160.0 | 64.3 | (39.3 ) | — | 185.0 |
| Depreciation and amortization | 111.4 | 51.5 | 1.5 | — | 164.4 |
| | | | | | |
| Three Months Ended June 30, 2016 | | | | | |
| Revenue | $ 2,418.9 | 1,332.0 | $ — | $ (67.6 ) | $3,683.3 |
| Operating income (loss) | 153.2 | 51.1 | (34.0 ) | — | 170.3 |
| Depreciation and amortization | 112.5 | 48.6 | 0.4 | — | 161.5 |
| | | | | | |
| Six Months Ended June 30, 2017 | | | | | |
| Revenue | $ 4,682.4 | $2,695.3 | $ — | $ (77.9 ) | $7,299.8 |
| Operating income (loss) | 260.8 | 111.5 | (73.7 ) | — | 298.6 |
| Depreciation and amortization | 217.6 | 100.2 | 4.0 | — | 321.8 |
| | | | | | |
| Six Months Ended June 30, 2016 | | | | | |
| Revenue | $ 4,716.3 | $2,592.7 | $ — | $ (80.0 ) | $7,229.0 |
| Operating income (loss) | 228.6 | 83.0 | (78.9 ) | — | 232.7 |
| Depreciation and amortization | 227.1 | 95.7 | 0.8 | — | 323.6 |

3. Restructuring Charges

In conjunction with various acquisitions, the Company has initiated a facility rationalization and severance program to close facilities and reduce employment. These initiatives are intended to improve the Company's efficiency and profitability.

The restructuring charges incurred during the six months ended June 30, 2017, and included in the Company's condensed consolidated statement of operations as sales, general and administrative expense, direct operating expense, and cost of transportation and services, are summarized below.

| | Six Months Ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| (In millions) | Reserve Balance at December 31, 2016 | Charges Incurred | Payments | Foreign Exchange and Other | Reserve Balance at June 30, 2017 |
| Transportation | | | | | |
| Facilities | $ 1.4 | $0.3 | $ (0.5 ) | $ — | $ 1.2 |
| Severance | 5.8 | 1.6 | (3.2 ) | 0.4 | 4.6 |
| Total | 7.2 | 1.9 | (3.7 ) | 0.4 | 5.8 |
| Logistics | | | | | |
| Contract termination | 0.7 | 0.3 | (0.1 ) | — | 0.9 |
| Facilities | 0.5 | — | (0.3 ) | — | 0.2 |
| Severance | 16.1 | 2.4 | (8.6 ) | 0.8 | 10.7 |
| Total | 17.3 | 2.7 | (9.0 ) | 0.8 | 11.8 |
| Corporate | | | | | |
| Contract termination | 0.3 | — | (0.2 ) | — | 0.1 |
| Severance | 0.4 | 1.1 | (1.1 ) | — | 0.4 |
| Total | 0.7 | 1.1 | (1.3 ) | — | 0.5 |
| Total | $ 25.2 | $5.7 | $ (14.0 ) | $ 1.2 | $ 18.1 |

4. Fair Value Measurements

The Company accounts for certain assets and liabilities at fair value, and categorizes each of its fair value measurements in one of the following three levels based on the lowest level input that is significant to the fair value measurement in its entirety:

- Level 1 - Quoted prices for identical instruments in active markets;
- Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets; and
- Level 3 - Valuations based on inputs that are unobservable, generally utilizing pricing models or other valuation techniques that reflect management's judgment and estimates.

Assets and Liabilities Measured at Fair Value

As of June 30, 2017 and December 31, 2016, the Company's assets and liabilities measured at fair value include its derivative instruments and the liability related to its cash settled performance-based restricted stock units.

Fair Value of Financial Instruments

The carrying values of the following financial instruments approximated their fair values as of June 30, 2017 and December 31, 2016: cash, cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses. Fair values approximate carrying values for these financial instruments since they are short-term in nature or are receivable or payable on demand. For information regarding the estimated fair value of the Company's derivative instruments and debt, refer to Note 5—Derivative Instruments and Note 6—Debt, respectively.

5. Derivative Instruments

In the normal course of business, the Company is exposed to certain risks arising from business operations and economic factors, including fluctuations in interest rates and foreign currencies. To manage the volatility related to these exposures, the Company uses derivative instruments. The objective of these derivative instruments is to reduce fluctuations in the Company's earnings and cash flows associated with changes in foreign currency exchange rates and interest rates. These financial

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instruments are not used for trading or other speculative purposes. The Company has not historically incurred, and does not expect to incur in the future, any losses as a result of counterparty default.

The Company's derivative portfolio is comprised of the following instruments as of June 30, 2017 and December 31, 2016.

June 30, 2017

| (In millions) | Fair Value Hierarchy Level | Notional Amount | Derivative Assets Balance Sheet Caption | Derivative Assets Fair Value | Derivative Liabilities Balance Sheet Caption | Derivative Liabilities Fair Value |
|---|---|---|---|---|---|---|
| Derivatives designated as hedges: | | | | | | |
| Cross-currency swap agreements | Level 2 | $1,265.9 | Other long-term assets | $ — | Other long-term liabilities | $(61.7) |
| Cross-currency swap agreements | Level 2 | 1.4 | Other current assets | 0.1 | Other current liabilities | — |
| Interest rate swaps | Level 2 | 114.1 | Other current assets | — | Other current liabilities | (1.2) |
| Derivatives not designated as hedges: | | | | | | |
| Foreign currency option and forward contracts | Level 2 | 854.4 | Other current assets | 4.1 | Other current liabilities | (7.8) |
| Foreign currency option and forward contracts | Level 2 | 429.3 | Other long-term assets | 4.6 | Other long-term liabilities | (5.4) |
| Total | | | | $ 8.8 | | $(76.1) |

December 31, 2016

| (In millions) | Fair Value Hierarchy Level | Notional Amount | Derivative Assets Balance Sheet Caption | Derivative Assets Fair Value | Derivative Liabilities Balance Sheet Caption | Derivative Liabilities Fair Value |
|---|---|---|---|---|---|---|
| Derivatives designated as hedges: | | | | | | |
| Cross-currency swap agreements | Level 2 | $ 730.9 | Other long-term assets | $ 11.9 | Other long-term liabilities | $(6.9) |
| Cross-currency swap agreements | Level 2 | 3.3 | Other current assets | 0.1 | Other current liabilities | — |
| Interest rate swaps | Level 2 | 105.4 | Other current assets | — | Other current liabilities | (2.3) |
| Derivatives not designated as hedges: | | | | | | |
| Foreign currency option and forward contracts | Level 2 | 552.2 | Other current assets | 18.8 | Other current liabilities | (1.0) |
| Foreign currency option and forward contracts | Level 2 | 742.6 | Other long-term assets | 26.7 | Other long-term liabilities | (5.8) |
| Total | | | | $ 57.5 | | $(16.0) |

The following table indicates the amount of pre-tax gains/(losses) that have been recognized in accumulated other comprehensive loss in the condensed consolidated balance sheets and gains/(losses) recognized in income before income tax provision in the condensed consolidated statements of operations for derivative and nonderivative instruments:

| | Recognized in Accumulated Other Comprehensive Loss | | Recognized in Income Before Income Tax Provision | |
|---|---|---|---|---|
| (In millions) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 |
| Derivatives designated as hedges: | | | | |
| Cross-currency swap agreements | $ (58.2 ) | $ 26.8 | $— | $ — |
| Interest rate swaps | 0.6 | 1.4 | — | — |
| Derivatives not designated as hedges: | | | | |
| Interest rate swaps | — | — | — | 0.4 |
| Foreign currency option and forward contracts | — | — | (28.3 ) | 5.2 |
| Nonderivatives designated as hedges: | | | | |
| Foreign currency denominated notes | 5.0 | 1.0 | — | $ — |
| Total | $ (52.6 ) | $ 29.2 | $ (28.3 ) | $ 5.6 |

| | Recognized in Accumulated Other Comprehensive Loss | | Recognized in Income Before Income Tax Provision | |
|---|---|---|---|---|
| (In millions) | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
| Derivatives designated as hedges: | | | | |
| Cross-currency swap agreements | $ (62.3 ) | $ (6.0 ) | $— | $ — |
| Interest rate swaps | 1.1 | 2.5 | — | — |
| Derivatives not designated as hedges: | | | | |
| Interest rate swaps | — | — | — | 0.6 |
| Foreign currency option and forward contracts | — | — | (38.5 ) | 2.8 |
| Nonderivatives designated as hedges: | | | | |
| Foreign currency denominated notes | 5.6 | (0.7 ) | — | $ — |
| Total | $ (55.6 ) | $ (4.2 ) | $ (38.5 ) | $ 3.4 |

Foreign Currency Option and Forward Contracts

In order to mitigate the currency translation risk which results from converting the financial statements of the Company’s international operations, which primarily use the Euro ("EUR") and British Pound Sterling ("GBP") as their functional currency, the Company uses foreign currency option and forward contracts. The foreign currency contracts were not designated as qualifying hedging instruments as of June 30, 2017. The contracts are not speculative; rather, they are used to manage the Company’s exposure to foreign currency exchange rate fluctuations. The contracts expire in 24 months or less. Gains or losses on the contracts are recorded in foreign currency (gain) loss in the condensed consolidated statements of operations. Cash flows related to the foreign currency contracts are included in operating activities on the condensed consolidated statements of cash flows.

In May 2017, the Company entered into certain cross-currency swap agreements to manage the related foreign currency exchange risk by effectively converting the fixed-rate U.S. Dollar ("USD")-denominated senior notes due 2023 (see Note 6-Debt), including the semi-annual interest payments, to fixed-rate, EUR-denominated debt. The risk management objective of these transactions is to manage foreign currency risk relating to net investments in subsidiaries denominated in foreign currencies and reduce the variability in the functional currency equivalent cash flows of the senior notes due 2023.

During the term of the swap contracts, the Company will receive quarterly interest payments in March, June, September and December of each year from the counterparties based on USD fixed interest rates, and the Company will make quarterly interest payments in March, June, September and December of each year to the counterparties based on EUR fixed interest rates. At maturity, the Company will repay the original principal amount in EUR and receive the principal amount in USD. The Company has designated the cross-currency swap agreements as qualifying hedging instruments and is accounting for these as net investment hedges. The gains and losses resulting from fair value adjustments to the cross-currency swap agreements are recorded in accumulated other comprehensive income to the extent that the cross-currency swaps are effective in hedging the designated risk.

6. Debt

The Company's debt is comprised of the following:

| | June 30, 2017 | | | |
|---|---|---|---|---|
| | | | Fair Value | |
| (In millions) | Principal Balance | Carrying Value | Level 1 | Level 2 |
| ABL facility | $— | $— | $— | $— |
| Senior notes due 2023 | 535.0 | 527.5 | 561.8 | — |
| Senior notes due 2022 | 1,600.0 | 1,581.5 | 1,682.0 | — |
| Senior notes due 2021 | 570.6 | 564.5 | 602.0 | — |
| Senior notes due 2018 | 265.8 | 266.5 | 272.0 | — |
| Term loan facility | 1,494.0 | 1,451.0 | — | 1,502.9 |
| Senior debentures due 2034 | 300.0 | 201.8 | 301.4 | — |
| Convertible senior notes | 38.4 | 37.8 | 150.9 | — |
| Euro private placement notes due 2020 | 13.7 | 14.7 | — | 14.1 |
| Asset financing | 105.5 | 105.5 | 105.5 | — |
| Capital leases for equipment | 120.5 | 120.5 | — | 120.5 |
| Total debt | $5,043.5 | $4,871.3 | $3,675.6 | $1,637.5 |
| Current maturities of long-term debt | $136.6 | $117.0 | | |
| Long-term debt | $4,906.9 | $4,754.3 | | |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | | | Fair Value | |
| (In millions) | Principal Balance | Carrying Value | Level 1 | Level 2 |
| ABL facility | $30.0 | $30.0 | $— | $30.0 |
| Senior notes due 2023 | 535.0 | 527.1 | 560.4 | — |
| Senior notes due 2022 | 1,600.0 | 1,579.9 | 1,689.4 | — |
| Senior notes due 2021 | 527.1 | 520.7 | 546.0 | — |
| Senior notes due 2018 | 265.8 | 267.1 | 274.0 | — |
| Term loan facility | 1,481.9 | 1,439.2 | — | 1,507.1 |
| Senior debentures due 2034 | 300.0 | 200.8 | 241.6 | — |
| Convertible senior notes | 49.4 | 47.1 | 129.8 | — |
| Euro private placement notes due 2020 | 12.6 | 13.7 | — | 14.0 |
| Asset financing | 145.0 | 145.0 | 145.0 | — |
| Capital leases for equipment | 97.4 | 97.4 | — | 97.4 |
| Total debt | $5,044.2 | $4,868.0 | $3,586.2 | $1,648.5 |
| Current maturities of long-term debt | $138.9 | $136.5 | | |
| Long-term debt | $4,905.3 | $4,731.5 | | |

The Level 1 debt was valued using quoted prices in active markets. The Level 2 debt was valued using bid evaluation pricing models or quoted prices of securities with similar characteristics. The fair value of the asset financing arrangements approximates carrying value since the debt is primarily issued at a floating rate, may be prepaid any time at par without penalty, and the remaining life is short-term in nature.

Refinancing of Existing Term Loan

On March 10, 2017, the Company entered into a Refinancing Amendment (Amendment No. 2 to Credit Agreement) (the "Amendment"), by and among XPO, its subsidiaries signatory thereto, as guarantors, the lenders party thereto and Morgan Stanley Senior Funding, Inc., in its capacity as administrative agent (the "Administrative Agent"), amending that certain Senior Secured Term Loan Credit Agreement, dated as of October 30, 2015 (as amended, amended and restated, supplemented or otherwise modified, including by that certain Incremental and Refinancing Amendment (Amendment No. 1 to Credit Agreement), dated as of August 25, 2016, the "Term Loan Credit Agreement").
Pursuant to the Amendment, the outstanding $1,481.9 million principal amount of term loans under the Term Loan Credit Agreement (the "Existing Term Loans") were replaced with $1,494.0 million in aggregate principal amount of new term loans (the "New Term Loans") having substantially similar terms as the Existing Term Loans, other than with respect to the applicable interest rate and prepayment premiums in respect of certain voluntary prepayments.
Proceeds from the New Term Loans were used primarily to refinance the Existing Term Loans and to pay interest, fees and expenses in connection therewith, and up to $1.5 million may be used for general corporate purposes.
The interest rate margin applicable to the New Term Loans was reduced from 2.25% to 1.25%, in the case of base rate loans, and from 3.25% to 2.25%, in the case of LIBOR loans and the LIBOR floor was reduced from 1.0% to 0%. The interest rate on the New Term Loans was 3.41% at June 30, 2017. The New Term Loans maturity date remains October 30, 2021. The refinancing resulted in a debt extinguishment charge of $9.0 million during the six months ended June 30, 2017.

Convertible Senior Notes

During the six months ended June 30, 2017, the Company issued an aggregate of 672,229 shares of the Company’s common stock to certain holders of the Convertible Senior Notes in connection with the conversion of $11.0 million aggregate principal amount of the Convertible Senior Notes. The conversions were allocated to long-term debt and equity in the amounts of $10.8 million and $11.1 million, respectively. A loss on conversion of $0.4 million was recorded as part of these transactions. Certain of these transactions represented induced conversions pursuant to which the Company paid the holder a market-based premium in cash. The negotiated market-based premiums, in addition to the difference between the current fair value and the book value of the Convertible Senior Notes, were reflected in interest expense.

7. Legal and Regulatory Matters

The Company is involved, and will continue to be involved, in numerous proceedings arising out of the conduct of its business. These proceedings may include, among other matters, claims for property damage or personal injury incurred in connection with the transportation of freight, claims regarding anti-competitive practices, and employment-related claims, including claims involving asserted breaches of employee restrictive covenants and tortious interference with contract. These proceedings also include numerous purported class action lawsuits, multi-plaintiff and individual lawsuits and state tax and other administrative proceedings that claim either that the Company’s owner operators or contract carriers should be treated as employees, rather than independent contractors, or that certain of the Company's drivers were not paid for all compensable time or were not provided with required meal or rest breaks. These lawsuits and proceedings may seek substantial monetary damages (including claims for unpaid wages, overtime, failure to provide meal and rest periods, unreimbursed business expenses and other items), injunctive relief, or both.
The Company establishes accruals for specific legal proceedings when it is considered probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Accruals for loss contingencies are reviewed quarterly and adjusted as additional information becomes available. In connection with certain acquisitions of privately-held businesses, the Company has retained purchase price holdbacks or escrows to provide security for a negotiated duration with respect to damages incurred in connection with pre-acquisition claims and litigation matters. If a loss is not both probable and reasonably estimable, or if an exposure to loss exists in excess of the amount accrued therefor or the applicable purchase price holdback or escrow, the Company assesses whether there is at least a reasonable possibility that a loss, or additional loss, may have been incurred. If there is a reasonable possibility that a loss, or additional loss, may have been incurred, the Company discloses the estimate of the possible loss or range of loss if it is material and an estimate can be made, or states that such an estimate cannot be made. The evaluation as to whether a loss is reasonably possible or probable is based on the Company’s assessment, in conjunction with legal counsel, regarding the ultimate outcome of the matter.

The Company believes that it has adequately accrued for, or has adequate purchase price holdbacks or escrows with respect to, the potential impact of loss contingencies that are probable and reasonably estimable. The Company does not believe that the ultimate resolution of any matters to which the Company is presently a party will have a material adverse effect on its results of operations, financial condition or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on the Company’s financial condition, results of operations or cash flows. Legal costs incurred related to these matters are expensed as incurred.

The Company carries liability and excess umbrella insurance policies that it deems sufficient to cover potential legal claims arising in the normal course of conducting its operations as a transportation and logistics company. The liability and excess umbrella insurance policies generally do not cover the misclassification claims described in this Note. In the event the Company is required to satisfy a legal claim outside the scope of the coverage provided by insurance, the Company’s financial condition, results of operations or cash flows could be negatively impacted.

Intermodal Drayage Classification Claims

Certain of the Company’s intermodal drayage subsidiaries received notices from the California Labor Commissioner, Division of Labor Standards Enforcement (the "DLSE"), that a total of approximately 150 owner operators contracted with these subsidiaries filed claims in 2012 with the DLSE in which they assert that they should be classified as employees, rather than independent contractors. These claims seek reimbursement for the owner operators’ business expenses, including fuel, tractor maintenance and tractor lease payments. After a decision was rendered by a DLSE hearing officer in seven of these claims, in 2014, the Company appealed the decision to California Superior Court, San Diego, where a de novo trial was held on the merits of those claims. On July 17, 2015, the court issued a final statement of decision finding that the seven claimants were employees rather than independent contractors, and awarding an aggregate of $2.9 million plus post-judgment interest and attorneys’ fees to the claimants. The Company appealed this judgment, but cannot provide assurance that such appeal will be successful. Separate decisions were rendered in June 2015 by a DLSE hearing officer in claims involving five additional plaintiffs, resulting in an award for the plaintiffs in an aggregate amount of approximately $0.9 million, following which the Company appealed the decisions in the U.S. District Court for the Central District of California. On May 16, 2017, the Court issued judgment finding that the five claimants were employees rather than independent contractors, and awarding an aggregate of approximately $1.0 million plus post-judgment interest and attorneys’ fees to the claimants. The Company has appealed this judgment, but cannot provide assurance that such appeal will be successful. In addition, separate decisions were rendered in April 2017 by a DLSE hearing officer in claims involving four additional plaintiffs, resulting in an award for the plaintiffs in an aggregate amount of approximately $0.9 million, following which the Company appealed the decisions to the U.S. District Court for the Central District of California. The remaining DLSE claims (the "Pending DLSE Claims") have been transferred to California Superior Court in three separate actions involving approximately 200 claimants, including the approximately 150 claimants mentioned above. The Company believes that it has adequately accrued for the potential impact of loss contingencies that are probable and reasonably estimable relating to the claims referenced above. The Company is unable at this time to estimate the amount of the possible loss or range of loss, if any, in excess of its accrued liability that it may incur as a result of these claims given, among other reasons, that the number and identities of plaintiffs in these lawsuits are uncertain and the range of potential loss could be impacted substantially by future rulings by the courts involved, including on the merits of the claims.

There are other putative class action litigation matters pending against the Company’s intermodal drayage subsidiaries in which the plaintiffs claim they should have been classified as employees, rather than independent contractors, and seek damages for alleged violations of various California wage and hour laws. The particular claims asserted vary from case to case, but the claims generally allege unpaid wages, unpaid overtime, or failure to provide meal and rest periods, and seek reimbursement of the contract carriers’ business expenses. However, these claims are all subject to arbitration provisions in the claimants’ independent contractor agreements, and class action certification is therefore unlikely. These cases include the following matters filed in the Superior Court for the State of California, Los Angeles District: M. Cortez v. Pacer filed in June 2016; and the following case filed in U.S. District Court for the Central District of California: I. Hernandez v. Pacer filed in May 2016. One of these cases, Cortez, has filed a California Private Attorneys General Act ("PAGA") claim, which is not subject to arbitration and therefore is subject to PAGA class action procedures. However, this matter is in the initial pleading stage and the court has not yet determined whether to certify the PAGA claim to proceed. The Company believes that it has adequately accrued for the potential impact of loss contingencies that are probable and reasonably estimable relating to these claims. The Company is unable at this time to estimate the amount of the possible loss or range of loss, if any, in excess of its accrued liability that it may incur as a result of these claims given, among other reasons, that the number and identities of plaintiffs in these lawsuits are uncertain and the range of potential loss could be impacted substantially by future rulings by the courts involved, including on the merits of the claims.

Last Mile Logistics Classification Claims

Certain of the Company’s last mile logistics subsidiaries are party to several putative class action litigations brought by independent contract carriers who contracted with these subsidiaries in which the contract carriers assert that they should be classified as employees, rather than independent contractors. The particular claims asserted vary from case to case, but the claims generally allege unpaid wages, unpaid overtime, or failure to provide meal and rest periods, and seek reimbursement of the contract carriers’ business expenses. Putative class actions against the Company’s subsidiaries are pending in California (Fernando Ruiz v. Affinity Logistics Corp., filed in May 2005 in the Federal District Court, Southern District of California - the Company has reached an agreement to settle this litigation, which is waiting for Court approval; Ron Carter, Juan Estrada, Jerry

Green, Burl Malmgren, Bill McDonald and Joel Morales v. XPO Logistics, Inc., filed in March 2016 in the Federal District Court, Northern District of California; Ramon Garcia v. Macy’s and XPO Logistics Inc., filed in July 2016 in Superior Court of the State of California, Alameda County; and Kevin Kramer v. XPO Logistics Inc., filed in September 2016 in Superior Court of the State of California, Alameda County); New Jersey (Leonardo Alegre v. Atlantic Central Logistics, Simply Logistics, Inc., filed in March 2015 in the Federal District Court, New Jersey - the Company has reached an agreement to settle this litigation, which is waiting for Court approval); and Connecticut (Carlos Taveras v. XPO Last Mile, Inc., filed in November 2015 in the Federal District Court, Connecticut - the Company has reached an agreement to settle this litigation, which is waiting for Court approval). The Company believes that it has adequately accrued for the potential impact of loss contingencies relating to the foregoing claims that are probable and reasonably estimable. The Company is unable at this time to estimate the amount of the possible loss or range of loss, if any, in excess of its accrued liability that it may incur as a result of these claims given, among other reasons, that the number and identities of plaintiffs in these lawsuits are uncertain and the range of potential loss could be impacted substantially by future rulings by the courts involved, including on the merits of the claims.

Last Mile TCPA Claims

The Company is a party to a putative class action litigation (Leung v. XPO Logistics, Inc., filed in May 2015 in the U.S. District Court, Illinois) alleging violations of the Telephone Consumer Protection Act ("TCPA") related to an automated customer call system used by a last mile logistics business that the Company acquired. This matter is in the initial pleading stage and the court has not yet determined whether to certify the matter as a class action. The Company believes that it has adequately accrued for the potential impact of loss contingencies that are probable and reasonably estimable relating to this matter. The Company is unable at this time to estimate the amount of the possible loss or range of loss, if any, in excess of its accrued liability that it may incur as a result of this matter given, among other reasons, that the Company is vigorously defending the matter and believes that it has a number of meritorious legal defenses and that it remains uncertain what evidence of their claims and damages, if any, plaintiffs will be able to present.

Less-Than-Truckload Meal Break Claims

The Company’s LTL subsidiary is a party to several class action litigations alleging violations of the state of California's wage and hour laws with respect to its driver employees. Plaintiffs allege failure to provide drivers with required meal breaks and rest breaks. Plaintiffs seek to recover unspecified monetary damages, penalties, interest and attorneys’ fees. The primary case is Jose Alberto Fonseca Pina, et al. v. Con-way Freight Inc., et al. (the "Pina case"). The Pina case was initially filed in November 2009 in Monterey County Superior Court and was removed to the U.S. District Court of California, Northern District. The Company has reached an agreement to settle the Pina case, which has been tentatively approved by the court, and no interested parties have timely filed objections to the proposed settlement. The Company has accrued the full amount of the proposed settlement.

8. Earnings Per Share

Basic and diluted earnings per share are computed using the two-class method, which is an earnings allocation method that determines earnings per share for common shares and participating securities. The participating securities consist of the Company's Series A Convertible Perpetual Preferred Stock. The undistributed earnings are allocated between common shares and participating securities as if all earnings had been distributed during the period. In periods of loss, no allocation is made to the preferred shares.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In millions, except per share data) | 2017 | 2016 | 2017 | 2016 |
| Basic earnings per common share | | | | |
| Net income attributable to XPO | $51.9 | $46.6 | $73.2 | $24.1 |
| Cumulative preferred dividends | (0.7) | (0.7) | (1.4) | (1.5) |
| Non-cash allocation of undistributed earnings | (3.6) | (3.3) | (4.7) | (0.6) |
| Net income allocable to common shares, basic | $47.6 | $42.6 | $67.1 | $22.0 |
| | | | | |
| Basic weighted-average common shares | 111.8 | 110.0 | 111.6 | 109.8 |
| Basic earnings per share | $0.43 | $0.39 | $0.60 | $0.20 |
| | | | | |
| Diluted earnings per common share | | | | |
| Net income allocable to common shares, basic | $47.6 | $42.6 | $67.1 | $22.0 |
| Interest from Convertible Senior Notes | 0.3 | 0.3 | 0.7 | — |
| Net income allocable to common shares, diluted | $47.9 | $42.9 | $67.8 | $22.0 |
| | | | | |
| Basic weighted-average common shares | 111.8 | 110.0 | 111.6 | 109.8 |
| Dilutive effect of non-participating stock-based awards and Convertible Senior Notes | 12.9 | 12.3 | 13.0 | 9.1 |
| Diluted weighted-average common shares | 124.7 | 122.3 | 124.6 | 118.9 |
| | | | | |
| Diluted earnings per share | $0.38 | $0.35 | $0.54 | $0.19 |
| | | | | |
| Potential common shares excluded | 10.2 | 11.1 | 10.2 | 14.9 |

Certain shares were not included in the computation of diluted earnings per share because the effect was anti-dilutive.

9. Subsequent Events

In July 2017, the Company completed a registered underwritten offering of 11 million shares of its common stock at a public offering price of $60.50 per share, plus up to an additional 1.65 million shares of its common stock pursuant to an option granted to the underwriters to purchase additional shares of the Company’s common stock directly from the Company (the “Offering”). Of the 11 million shares of common stock, 5 million shares were offered directly by the Company and 6 million shares were offered in connection with forward sale agreements (the "Forward Sale Agreements") described below. The Offering closed on July 25, 2017.

In connection with the Offering, the Company entered into separate Forward Sale Agreements with Morgan Stanley & Co. LLC and JPMorgan Chase Bank, National Association, London Branch (the "Forward Counterparties") pursuant to which the Company has agreed to sell, and each Forward Counterparty agreed to purchase, 3 million shares of the Company’s common stock (or 6 million shares of the Company common stock in the aggregate) subject to the terms and conditions of the Forward Sale Agreements, including the Company’s right to elect cash settlement or net share settlement. The initial forward price under each of the Forward Sale Agreements is $58.08 per share (which is the public offering price of our common stock, less the underwriting discount) and is subject to certain adjustments pursuant to the terms of the Forward Sale Agreements. Settlement of each of the Forward Sale Agreements is expected to occur no later than approximately one year after the closing of the Offering but may occur earlier at the option of the Company or, in certain circumstances described in the Forward Sale Agreements, at the option of the relevant Forward Counterparty. A Forward Counterparty’s decision to exercise its right to

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accelerate the Forward Sale Agreements entered into with it and to require the Company to settle the Forward Sale Agreements will be made irrespective of the Company's interests, including the Company's need for capital. The Company could be required to issue and deliver the Company's common stock under the terms of the physical settlement provisions of the Forward Sale Agreements irrespective of the Company's capital needs, which would result in dilution to the Company's earnings per share and return on equity. The Forward Sales Agreements will be accounted for as equity instruments with subsequent changes in fair value not recognized as long as the contracts continue to be classified as equity.

In addition, in connection with the Offering, the Company entered into Amendment No. 1 (the "Revolving Loan Credit Amendment") to the Company's Second Amended and Restated Revolving Loan Credit Agreement, dated as of October 30, 2015 (as previously amended, amended and restated, supplemented or otherwise modified, the "Existing Credit Agreement"), by and among the Company and certain subsidiaries signatory thereto, Morgan Stanley Senior Funding, Inc., as agent, and the Lenders party thereto, pursuant to which the Existing Credit Agreement was amended to permit certain transactions, including the transactions contemplated by the Forward Sale Agreements.

The Company received proceeds of $290.4 million from the sale of 5 million shares of common stock in the Offering. The Company did not initially receive any proceeds from the sale of shares of its common stock by the Forward Counterparties pursuant to the Forward Sale Agreements. The Company expects to use the net proceeds of the shares issued and sold by the Company in the Offering and any net proceeds received upon the settlement of the Forward Sale Agreements for general corporate purposes, which may include strategic acquisitions and the repayment or refinancing of outstanding indebtedness.

In July 2017, the Company issued a notice of redemption for all of its outstanding 7.25% senior notes due January 2018 (the "Notes"). The redemption will occur on August 25, 2017. The redemption price is equal to the sum of the present values of the remaining scheduled payments of principal and interest on the Notes (not including any interest accrued as of the date of the redemption), discounted to the redemption date on a semi-annual basis at a pre-defined treasury rate plus 50 basis points, plus accrued and unpaid interest on the Notes to the redemption date. The redemption will be funded using cash on hand at the date of the redemption.

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

Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q and other written reports and oral statements we make from time to time contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). 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," "trajectory" 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 those discussed below and the risks discussed in the Company's other filings with the Securities and Exchange Commission (the "SEC"). All forward-looking statements set forth in this Quarterly Report are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by 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 unaudited Condensed Consolidated Financial Statements and related Notes thereto included elsewhere in this Quarterly Report. Forward-looking statements set forth in this Quarterly Report speak only as of the date hereof, and we do not undertake any obligation to update forward-looking statements to reflect subsequent events or circumstances, changes in expectations or the occurrence of unanticipated events, except as required by law.

Reference should be made to the audited consolidated financial statements and notes thereto and related "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's 2016 Annual Report on Form 10-K.

Executive Summary

XPO Logistics, Inc., a Delaware corporation together with its subsidiaries ("XPO," the "Company," "we" or "our"), is a top ten global provider of cutting-edge supply chain solutions to the most successful companies in the world. The Company operates as a highly integrated network of people, technology and physical assets. We use our network to help our customers manage their goods more efficiently throughout their supply chains. As of June 30, 2017, we served more than 50,000 customers and operated with over 90,000 employees and 1,435 locations in 31 countries.

We run our business on a global basis, with two segments: Transportation and Logistics. Within each segment, we have built robust service offerings that are positioned to capitalize on fast-growing areas of customer demand. Substantially all of our businesses operate under the single brand of XPO Logistics.

We are not reliant on the economy of any one country, region or industry. Based on where orders originated, approximately 60% of our 2016 revenue was generated in the United States, 13% in France, 12% in the United Kingdom, and 15% in other countries. Our customers are also highly diversified across every major industry, with retail and e-commerce historically accounting for approximately a quarter of our revenue.

In our Transportation segment, we are the second largest freight brokerage provider globally, and we hold industry-leading positions in North America and Europe. In North America, we are the largest provider of last mile logistics for heavy goods; the largest manager of expedite shipments; the second largest provider of less-than-truckload ("LTL") transportation; and the third largest provider of intermodal services; as well as a global freight forwarder with a large network of ocean, air, ground and border services.

In Europe, we have the largest owned road transportation fleet. We offer full truckload transportation in Europe as dedicated, non-dedicated and brokered services; last mile logistics services; and LTL transportation through one of the largest LTL networks in Western Europe.

Our blended model of owned, contracted and brokered capacity gives us the flexibility to offer solutions that best serve the interests of our customers and the Company. As of June 30, 2017, globally, we had approximately 11,000 independent owner operators under contract to provide drayage, expedite, last mile and LTL services to our customers, and more than 50,000 independent brokered carriers representing approximately 1,000,000 trucks on the road.

We employ professional drivers who transport goods for customers using our fleet of owned and leased trucks and trailers. Globally, our fleet encompasses approximately 16,000 tractors and 39,000 trailers primarily related to our LTL and full truckload operations. These assets also provide capacity for our freight brokerage operations. Our company overall is asset-light, with assets accounting for just under a third of our revenue.

In our Logistics segment, which we sometimes refer to as "supply chain" or "contract business," we provide a range of services, including highly engineered and customized solutions, value-added warehousing and distribution, cold chain solutions and other inventory management solutions. We perform e-commerce fulfillment, order personalization, reverse logistics, recycling, storage, factory support, aftermarket support, manufacturing, distribution, packaging and labeling, as well as supply chain optimization services such as production flow management and transportation management.

XPO is the second largest contract logistics provider worldwide, with a broad footprint of shared and dedicated facilities that makes us attractive to multinational customers. Our logistics customers include the preeminent names in aerospace, retail, technology, manufacturing, food and beverage, wireless, chemical, agribusiness, life sciences and healthcare.

We also benefit from a strong presence in the high-growth e-commerce sector. E-commerce is predicted to continue to grow globally at a double-digit rate through at least 2020 and, increasingly, order fulfillment is being outsourced. We are the largest outsourced e-fulfillment provider in Europe, and we have a major platform for e-fulfillment in North America, where we provide highly customized solutions that include reverse logistics and omni-channel services.

We believe that our ability to provide customers with integrated, end-to-end supply chain solutions gives us a competitive advantage. Many customers, particularly large companies, are increasingly turning to multi-modal providers to handle their supply chain requirements. We have built XPO to capitalize on this trend, as well as the trend toward outsourcing in both transportation and logistics, the boom in e-commerce, and the adoption of just-in-time inventory practices. All of our service lines are run by highly experienced operators who know how to deliver results.

Two hallmarks of our operations worldwide are technology and sustainability. We place massive importance on innovation because we believe that great technology in the hands of well-trained employees is the ultimate competitive advantage. Our annual investment in technology is among the highest in our industry.

Our focus is on using innovation to differentiate our services and deliver tangible value to our customers and investors. We have built a highly scalable and integrated system on a cloud-based platform that speeds up innovation. Our global team of approximately 1,600 IT professionals can deploy proprietary software very rapidly. We concentrate our efforts in the following areas of innovation: automation; visibility and customer service business-specific analytics; and far-reaching new capabilities.

We also have a strong, global commitment to sustainability. XPO owns the largest natural gas truck fleet in Europe and launched government-approved mega-trucks in Spain, both of which reduce $CO_2$ emissions. We have been awarded the label "Objectif $CO_2$" for outstanding environmental performance of transport operations in Europe by the French Ministry of the Environment and the French Environment and Energy Agency.

Many of our logistics facilities in North America are ISO14001-certified, which ensures environmental and other regulatory compliances. We monitor fuel emissions from forklifts, with systems in place to take immediate corrective action if needed. Company packaging engineers ensure that the optimal carton size is used for each product slated for distribution and, as a byproduct of reverse logistics, we recycle millions of electronic components and batteries each year. These are just a few of the many initiatives that reflect our commitment to operating in a progressive and environmentally sound manner, with the greatest efficiency and least waste possible.

XPO Logistics, Inc.
Consolidated Summary Financial Table

| | Three Months Ended June 30, | | Percent of Revenue | | Change | Six Months Ended June 30, | | Percent of Revenue | | Change |
|---|---|---|---|---|---|---|---|---|---|---|
| (In millions) | 2017 | 2016 | 2017 | 2016 | 2017 vs. 2016 | 2017 | 2016 | 2017 | 2016 | 2017 vs. 2016 |
| Revenue | $3,760.3 | $3,683.3 | 100.0 % | 100.0 % | 2.1 % | $7,299.8 | $7,229.0 | 100.0% | 100.0 % | 1.0 % |
| Cost of transportation and services | 1,969.6 | 1,973.3 | 52.4 % | 53.6 % | (0.2 )% | 3,856.9 | 3,918.4 | 52.8 % | 54.2 % | (1.6 )% |
| Direct operating expense | 1,194.2 | 1,130.2 | 31.8 % | 30.7 % | 5.7 % | 2,331.9 | 2,236.4 | 31.9 % | 30.9 % | 4.3 % |
| SG&A expense | 411.5 | 409.5 | 10.9 % | 11.1 % | 0.5 % | 812.4 | 841.5 | 11.1 % | 11.6 % | (3.5 )% |
| Operating income | 185.0 | 170.3 | 4.9 % | 4.6 % | 8.6 % | 298.6 | 232.7 | 4.1 % | 3.2 % | 28.3 % |
| Other (income) expense | (2.6 ) | (4.4 ) | (0.1 )% | (0.1 )% | (40.9 )% | 0.7 | (5.6 ) | — % | (0.1 )% | (112.5 )% |
| Foreign currency loss (income) | 28.3 | (3.4 ) | 0.8 % | (0.1 )% | (932.4)% | 38.9 | 2.1 | 0.5 % | — % | 1,752.4 % |
| Debt extinguishment loss | — | — | — % | — % | — % | 9.0 | — | 0.1 % | — % | 100.0 % |
| Interest expense | 74.3 | 94.7 | 2.0 % | 2.6 % | (21.5 )% | 149.9 | 187.8 | 2.1 % | 2.6 % | (20.2 )% |
| Income before income tax provision | 85.0 | 83.4 | 2.3 % | 2.3 % | 1.9 % | 100.1 | 48.4 | 1.4 % | 0.7 % | 106.8 % |
| Income tax provision | 27.8 | 33.0 | 0.7 % | 0.9 % | (15.8 )% | 18.0 | 17.3 | 0.2 % | 0.2 % | 4.0 % |
| Net income | $57.2 | $50.4 | 1.5 % | 1.4 % | 13.5 % | $82.1 | $31.1 | 1.1 % | 0.4 % | 164.0 % |

Consolidated Results

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

Revenue for the second quarter of 2017 increased 2.1% to $3,760.3 million as compared to the same period in 2016. The increase was primarily driven by growth in our European contract logistics business, high single digit improvement in LTL weight per day, high-teens growth in North American brokerage operations, and mid-teens growth in Last Mile revenue. These items were partially offset by the October 2016 divestiture of our North American truckload operation, which had revenue of $133.4 million in the second quarter of 2016, as well as the unfavorable impact of relative currency values as the U.S. dollar has strengthened relative to the GBP and Euro on a year-over-year basis.

Cost of transportation and services represents the cost of providing or procuring freight transportation services for our customers, and includes salaries paid to employee drivers in our full truckload and LTL businesses, as well as commissions paid to independent station owners in our global forwarding business.

Cost of transportation and services for the second quarter of 2017 was $1,969.6 million, or 52.4% of revenue, compared to $1,973.3 million, or 53.6% of revenue, in the second quarter of 2016. The reduction as a percentage of revenue was primarily driven by the divestiture of our North American truckload operation and a lower mix of managed transportation in North American Supply Chain, partially offset by higher third-party transportation costs in freight brokerage and intermodal operations.

Direct operating expense includes: operating costs related to our contract logistics facilities; intermodal equipment lease expense; depreciation expense; maintenance and repair costs; property taxes; operating costs of our local drayage and last mile warehousing facilities; costs related to our LTL service centers and European pallet network, such as direct labor, facilities and forklift trucks; and fixed terminal and cargo handling expenses. Operating costs of our contract logistics facilities consist mainly of personnel costs, facility and equipment expenses, materials and supplies, information technology costs, and depreciation expense. Operating costs of our local drayage and last mile warehousing facilities consist mainly of personnel costs, rent, maintenance, utilities and other facility-related costs. Operating costs of our LTL facilities consist mainly of personnel costs, rent and depreciation of service center equipment. Fixed terminal and cargo handling costs primarily relate to the fixed rent and storage expense charged by terminal operators.

Direct operating expense for the second quarter of 2017 was $1,194.2 million, or 31.8% of revenue, compared to $1,130.2 million, or 30.7% of revenue, in the second quarter of 2016. The increase as a percentage of revenue was primarily driven by higher benefits and temporary labor expense to support growth in our contract logistics business.

Sales, general and administrative expense ("SG&A") consists of costs relating to customer acquisition, carrier procurement, billing, customer service, salaries and related expenses of our executive and administrative staff, integration-related costs, office expenses, technology services, professional fees and other purchased services relating to the aforementioned functions, travel and entertainment costs, bad debt expense, and depreciation and amortization expense.

SG&A for the second quarter of 2017 was $411.5 million, or 10.9% of revenue, compared to $409.5 million, or 11.1% of revenue, in the second quarter of 2016. The improvement in SG&A expense as a percentage of revenue primarily reflects the benefit of cost-saving actions initiated in 2016 and lower professional fees and consulting costs.

Foreign currency loss (income) for the second quarter of 2017 was $28.3 million as compared to $(3.4) million in the second quarter of 2016. The loss for the second quarter of 2017 primarily relates to unrealized losses on the Company's foreign currency option and forward contracts. For additional information on the Company's foreign currency option and forward contracts, see Note 5-Derivative Instruments of the condensed consolidated financial statements.

Interest expense decreased to $74.3 million in the second quarter of 2017, from $94.7 million in the second quarter of 2016. The decrease in interest expense is consistent with the year-over-year reduction in average total indebtedness of approximately 10% and also reflects the lower rates attributable to our recent refinancings. The reduction in average total indebtedness reflects the benefit of utilizing the proceeds from the sale of our North American Truckload operation of $555.0 million in October 2016 to repurchase outstanding indebtedness.

Our effective income tax rates for the second quarter of 2017 and 2016 were 32.7% and 39.6%, respectively. The effective tax rate for the second quarter of 2017 was based on forecasted effective tax rates, adjusted for discrete items that occurred within the period presented. The effective tax rate was impacted by $3.7 million of tax benefits associated with share-based payment arrangements and deferred tax asset revaluations. The effective tax rate for the second quarter of 2016 was based on forecasted effective tax rates, adjusted for discrete items that occurred within the period presented. The discrete items were not significant to the effective tax rate for the second quarter of 2016.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Revenue for the first six months of 2017 increased 1.0% to $7,299.8 million as compared to the same period in 2016. The increase was primarily driven by growth in our European contract logistics business, improvement in LTL weight per day, and mid-teens growth in North American brokerage and Last Mile operations. These items were partially offset by the October 2016 divestiture of our North American truckload operation, which had revenue of $262.2 million in the six months ended June 30, 2016, as well as the unfavorable impact of relative currency values as the U.S. dollar has strengthened relative to the GBP and Euro on a year-over-year basis.

Cost of transportation and services for the first six months of 2017 was $3,856.9 million, or 52.8% of revenue, compared to $3,918.4 million, or 54.2% of revenue, in the first six months of 2016. The reduction as a percentage of revenue was primarily driven by a lower mix of managed transportation in North American Supply Chain, partially offset by higher third-party transportation costs in freight brokerage and intermodal operations.

Direct operating expense for the first six months of 2017 was $2,331.9 million, or 31.9% of revenue, compared to $2,236.4 million, or 30.9% of revenue, in the first six months of 2016. The increase as a percentage of revenue was primarily driven by higher benefits and temporary labor expense to support growth in our contract logistics business.

SG&A for the first six months of 2017 was $812.4 million, or 11.1% of revenue, compared to $841.5 million, or 11.6% of revenue, in the first six months of 2016. The improvement in SG&A expense as a percentage of revenue for the six-months ended June 30, 2017 primarily reflects the benefit of cost-saving actions initiated in 2016 and lower professional fees and consulting costs.

Foreign currency loss for the first six months of 2017 was $38.9 million as compared to $2.1 million in the first six months of 2016. The loss for the first six months of 2017 primarily relates to unrealized losses on the Company's foreign currency option and forward contracts.

Debt extinguishment loss for the first six months of 2017 relates to the refinancing of the Company's Term Loan facility. As discussed further below (see Liquidity and Capital Resources - Refinancing of Existing Term Loan), in March 2017, the Company incurred a $9.0 million charge related to the refinancing of this facility.

Interest expense decreased to $149.9 million in the first six months of 2017, from $187.8 million in the first six months of 2016. The decrease in interest expense is consistent with the year-over-year reduction in average total indebtedness of approximately 10% and also reflects the lower rates attributable to our recent refinancings. The reduction in average total indebtedness reflects the benefit of utilizing the proceeds from the sale of our North American Truckload operation of $555.0 million in October 2016 to repurchase outstanding indebtedness.

Our effective income tax rates for the first six months of 2017 and 2016 were 18.0% and 35.7%, respectively. The effective tax rate for the first six months of 2017 was based on forecasted effective tax rates, adjusted for discrete items that occurred within the period presented. The effective tax rate was impacted by tax benefits associated with share-based payment arrangements, release of valuation allowance on state tax matters, release of uncertain tax positions, and certain deferred tax asset revaluations. The effective tax rate for the first six months of 2016 was based on forecasted effective tax rates, adjusted for discrete items that occurred within the period presented. The discrete items were not significant to the effective tax rate for the first six months of 2016.

Transportation

Summary Financial Table

| | Three Months Ended June 30, | | Percent of Revenue | | Change | Six Months Ended June 30, | | Percent of Revenue | | Change |
|---|---|---|---|---|---|---|---|---|---|---|
| (In millions) | 2017 | 2016 | 2017 | 2016 | 2017 vs. 2016 | 2017 | 2016 | 2017 | 2016 | 2017 vs. 2016 |
| Revenue | $2,405.2 | $2,418.9 | 100.0 % | 100.0 % | (0.6 )% | $4,682.4 | $4,716.3 | 100.0 % | 100.0 % | (0.7 )% |
| Cost of transportation and services | 1,701.7 | 1,715.9 | 70.8 % | 70.9 % | (0.8 )% | 3,342.9 | 3,363.0 | 71.4 % | 71.3 % | (0.6 )% |
| Direct operating expense | 293.7 | 297.8 | 12.2 % | 12.3 % | (1.4 )% | 584.1 | 610.2 | 12.5 % | 12.9 % | (4.3 )% |
| SG&A expense | | | | | | | | | | |
| Salaries & benefits | 131.3 | 142.7 | 5.5 % | 5.9 % | (8.0 )% | 261.5 | 290.0 | 5.6 % | 6.1 % | (9.8 )% |
| Other SG&A expense | 46.0 | 30.6 | 1.9 % | 1.3 % | 50.3 % | 88.1 | 67.6 | 1.9 % | 1.4 % | 30.3 % |
| Purchased services | 30.7 | 37.1 | 1.3 % | 1.5 % | (17.3)% | 62.8 | 77.0 | 1.3 % | 1.6 % | (18.4)% |
| Depreciation & amortization | 41.8 | 41.6 | 1.7 % | 1.7 % | 0.5 % | 82.2 | 79.9 | 1.8 % | 1.7 % | 2.9 % |
| Total SG&A expense | 249.8 | 252.0 | 10.4 % | 10.4 % | (0.9 )% | 494.6 | 514.5 | 10.6 % | 10.9 % | (3.9 )% |
| Operating income | $160.0 | $153.2 | 6.7 % | 6.3 % | 4.4 % | $260.8 | $228.6 | 5.6 % | 4.8 % | 14.1 % |

Note: Total depreciation and amortization for the Transportation segment included in cost of transportation and services, direct operating expense and SG&A was $111.4 million and $112.5 million for the three months ended June 30, 2017 and 2016, respectively, and $217.6 million and $227.1 million for the six months ended June 30, 2017 and 2016, respectively.

Transportation

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

Revenue in our Transportation segment decreased 0.6% to $2,405.2 million in the second quarter of 2017 compared to $2,418.9 million in the second quarter of 2016. The decrease was primarily driven by the divestiture of our North American truckload operations, which had revenue of $133.4 million in the second quarter of 2016, the unfavorable impact of relative currency values as the U.S. dollar has strengthened relative to the GBP and Euro on a year-over-year basis and lower revenue in global forwarding. The impact of these items was partially offset by: mid-teens revenue growth in our U.S. last mile service offering; growth in U.S. freight brokerage; and a 7.1% year-on-year increase in weight per day within our U.S. LTL business.

Cost of transportation and services for the second quarter of 2017 was $1,701.7 million, or 70.8% of revenue, compared to $1,715.9 million, or 70.9% of revenue, in the second quarter of 2016. The 0.1 percentage point decrease as a percentage of revenue compared to the second quarter of 2016 was primarily driven by the divestiture of our North American truckload operations, offset by the increased cost of third party transportation in brokerage and intermodal operations.

Direct operating expense for the second quarter of 2017 was $293.7 million, or 12.2% of revenue, compared to $297.8 million, or 12.3% of revenue, in the second quarter of 2016. Cost savings initiatives and improved dock efficiency largely offset increased payroll and benefits expense in the U.S. LTL business.

SG&A decreased to $249.8 million in the second quarter of 2017 from $252.0 million in the second quarter of 2016. As a percentage of revenue, SG&A was flat at 10.4%, reflecting improved technology-enabled labor efficiencies in North American brokerage and intermodal operations, as well as cost-discipline within European Transport operations, offset by modest increases in professional fees and services in LTL.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Revenue in our Transportation segment decreased 0.7% to $4,682.4 million in the first six months of 2017 compared to $4,716.3 million in the first six months of 2016. The decrease was primarily driven by the divestiture of our North American truckload operations, which had revenue of $262.2 million in the six months ended June 30, 2016, the unfavorable impact of relative currency values as the U.S. dollar has strengthened relative to the GBP and Euro on a year-over-year basis and lower revenue in global forwarding. The impact of these items was partially offset by: mid-teens revenue growth in our U.S. last mile service offering; growth in U.S. freight brokerage; and a 5.9% increase in weight per day within our U.S. LTL business.

Cost of transportation and services for the first six months of 2017 was $3,342.9 million, or 71.4% of revenue, compared to $3,363.0 million, or 71.3% of revenue, in the first six months of 2016. Increased cost of third party transportation in brokerage operations and higher fuel expenses were partially offset by line-haul savings in LTL.
Direct operating expense for the first six months of 2017 was $584.1 million, or 12.5% of revenue, compared to $610.2 million, or 12.9% of revenue, in the first six months of 2016. The improvement as a percentage of revenue was driven primarily by cost savings initiatives and improved dock efficiency in the U.S. LTL business.
SG&A decreased to $494.6 million in the first six months of 2017 from $514.5 million in the first six months of 2016. As a percentage of revenue, SG&A decreased from 10.9% in the first six months of 2016 to 10.6% in the first six months of 2017 reflecting technology-enabled labor efficiencies in our North American brokerage and intermodal operations.
Logistics
Summary Financial Table

| | Three Months Ended June 30, | | Percent of Revenue | | Change | Six Months Ended June 30, | | Percent of Revenue | | Change |
|---|---|---|---|---|---|---|---|---|---|---|
| (In millions) | 2017 | 2016 | 2017 | 2016 | 2017 vs. 2016 | 2017 | 2016 | 2017 | 2016 | 2017 vs. 2016 |
| Revenue | $1,395.2 | $1,332.0 | 100.0% | 100.0% | 4.7 % | $2,695.3 | $2,592.7 | 100.0% | 100.0% | 4.0 % |
| Cost of transportation and services | 307.0 | 323.2 | 22.0 % | 24.3 % | (5.0 )% | 589.5 | 633.4 | 21.9 % | 24.4 % | (6.9 )% |
| Direct operating expense | 892.4 | 832.8 | 64.0 % | 62.5 % | 7.2 % | 1,747.0 | 1,626.6 | 64.8 % | 62.7 % | 7.4 % |
| SG&A expense | | | | | | | | | | |
| Salaries & benefits | 63.7 | 54.6 | 4.6 % | 4.1 % | 16.7 % | 123.9 | 123.8 | 4.6 % | 4.8 % | 0.1 % |
| Other SG&A expense | 20.8 | 24.5 | 1.5 % | 1.8 % | (15.1)% | 37.3 | 36.7 | 1.4 % | 1.4 % | 1.6 % |
| Purchased services | 26.2 | 23.5 | 1.9 % | 1.8 % | 11.5 % | 44.7 | 45.2 | 1.7 % | 1.7 % | (1.1 )% |
| Depreciation & amortization | 20.8 | 22.3 | 1.5 % | 1.7 % | (6.7 )% | 41.4 | 44.0 | 1.5 % | 1.7 % | (5.9 )% |
| Total SG&A expense | 131.5 | 124.9 | 9.4 % | 9.4 % | 5.3 % | 247.3 | 249.7 | 9.2 % | 9.6 % | (1.0 )% |
| Operating income | $64.3 | $51.1 | 4.6 % | 3.8 % | 25.8 % | $111.5 | $83.0 | 4.1 % | 3.2 % | 34.3 % |

Note: Total depreciation and amortization for the Logistics segment included in cost of transportation and services, direct operating expense and SG&A was $51.5 million and $48.6 million for the three months ended June 30, 2017 and 2016, respectively, and $100.2 million and $95.7 million for the six months ended June 30, 2017 and 2016, respectively.
Logistics
Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016
Revenue in our Logistics segment increased by 4.7% to $1,395.2 million in the second quarter of 2017 compared to $1,332.0 million in the second quarter of 2016. The increase in revenue was primarily driven by strong demand for contract logistics in both Europe and North America, partially offset by a decline in managed transportation revenue and the unfavorable impact of relative currency values, particularly in the United Kingdom. European logistics revenue growth reflected a significant benefit from new contract starts, notably with e-commerce and cold chain customers in the United Kingdom, Italy and the Netherlands.
Cost of transportation and services for the second quarter of 2017 was $307.0 million, or 22.0% of revenue, compared to $323.2 million, or 24.3% of revenue, in the second quarter of 2016. The 5.0% reduction relative to the second quarter of 2016 was primarily driven by the lower cost of third party transportation in the managed transportation operations of North American supply chain, consistent with lower volumes of business.
Direct operating expense in the second quarter of 2017 was $892.4 million, or 64.0% as a percentage of revenue, compared to $832.8 million, or 62.5% as a percentage of revenue, in the second quarter of 2016. The 7.2% increase relative to the second quarter of 2016 was primarily driven by higher temporary labor costs related to new contract startups in North American supply chain.

SG&A increased to $131.5 million in the second quarter of 2017 from $124.9 million in the second quarter of 2016. As a percentage of revenue, SG&A remained flat at 9.4%.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Revenue in our Logistics segment increased by 4.0% to $2,695.3 million in the first six months of 2017 compared to $2,592.7 million in the first six months of 2016. The increase in revenue was primarily driven by strong demand for contract logistics in both Europe and North America, partially offset by a decline in managed transportation revenue and the unfavorable impact of relative currency values, particularly in the United Kingdom. European logistics revenue growth reflected a significant benefit from new contract starts, notably with e-commerce and cold chain customers in the United Kingdom, Italy and the Netherlands.

Cost of transportation and services for the first six months of 2017 was $589.5 million, or 21.9% of revenue, compared to $633.4 million, or 24.4% of revenue, in the first six months of 2016. The 6.9% reduction relative to the first six months of 2016 was primarily driven by the lower cost of third party transportation in the managed transportation operations of North American supply chain, consistent with lower volumes of business.

Direct operating expense in the first six months of 2017 was $1,747.0 million, or 64.8% as a percentage of revenue, compared to $1,626.6 million, or 62.7% as a percentage of revenue, in the first six months of 2016. The 7.4% increase relative to the first six months of 2016 was primarily driven by higher temporary labor costs related to new contract startups in North American supply chain.

SG&A decreased to $247.3 million in the first six months of 2017 from $249.7 million in the first six months of 2016. As a percentage of revenue, SG&A decreased to 9.2% in the first six months of 2017 compared to 9.6% in the first six months of 2016. The 1.0% reduction relative to the first six months of 2016 was primarily driven by cost reduction initiatives on purchased services.

Liquidity and Capital Resources

We manage our liquidity using internal cash management practices, which are subject to: (i) the policies and cooperation of the financial institutions we utilize to maintain and provide cash management services, (ii) the terms and other requirements of the agreements to which we are a party, and (iii) the statutes, regulations and practices of each of the local jurisdictions in which we operate.

Our principal existing sources of cash are cash generated from operations and borrowings available under the Second Amended and Restated Revolving Loan Credit Agreement (the "ABL Facility"). As of June 30, 2017, we had cash and cash equivalents of $291.4 million and availability under the ABL Facility of $679.0 million. Availability under the ABL Facility is based on a borrowing base of $924.4 million, as well as outstanding letters of credit of $245.4 million, respectively.

We continually evaluate our liquidity requirements, capital needs and the availability of capital resources based on our operating needs and our planned growth initiatives. We believe that our existing sources of cash will be sufficient to support our existing operations over the next 12 months.

Equity Offering

In July 2017, the Company completed a registered underwritten offering of 11 million shares of its common stock at a public offering price of $60.50 per share, plus up to an additional 1.65 million shares of its common stock pursuant to an option granted to the underwriters to purchase additional shares of the Company’s common stock directly from the Company (the “Offering”). Of the 11 million shares of common stock, 5 million shares were offered directly by the Company and 6 million shares were offered in connection with forward sale agreements (the "Forward Sale Agreements") described below. The Offering closed on July 25, 2017.

In connection with the Offering, the Company entered into separate Forward Sale Agreements with Morgan Stanley & Co. LLC and JPMorgan Chase Bank, National Association, London Branch (the "Forward Counterparties") pursuant to which the Company has agreed to sell, and each Forward Counterparty agreed to purchase, 3 million shares of the Company’s common stock (or 6 million shares of the Company common stock in the aggregate) subject to the terms and conditions of the Forward Sale Agreements, including the Company’s right to elect cash settlement or net share settlement. The initial forward price under each of the Forward Sale Agreements is $58.08 per share (which is the public offering price of our common stock, less the underwriting discount) and is subject to certain adjustments pursuant to the terms of the Forward Sale Agreements. Settlement of each of the Forward Sale Agreements is expected to occur no later than approximately one year after the closing of the Offering but may occur earlier at the option of the Company or, in certain circumstances described in the Forward Sale Agreements, at the option of the relevant Forward Counterparty. A Forward Counterparty’s decision to exercise its right to accelerate the Forward Sale Agreements entered into with it and to require the Company to settle the Forward Sale Agreements will be made irrespective of the Company’s interests, including the Company’s need for capital. The Company could be required to issue and deliver the Company’s common stock under the terms of the physical settlement provisions of the Forward Sale Agreements irrespective of the Company’s capital needs, which would result in dilution to the Company’s earnings per share and return on equity.

In addition, in connection with the Offering, the Company entered into Amendment No. 1 (the “Revolving Loan Credit Amendment”) to the Company’s Second Amended and Restated Revolving Loan Credit Agreement, dated as of October 30, 2015 (as previously amended, amended and restated, supplemented or otherwise modified, the “Existing Credit Agreement”), by and among the Company and certain subsidiaries signatory thereto, Morgan Stanley Senior Funding, Inc., as agent, and the

Lenders party thereto, pursuant to which the Existing Credit Agreement was amended to permit certain transactions, including the transactions contemplated by the Forward Sale Agreements.

The Company received proceeds of $290.4 million from the sale of 5 million shares of common stock in the Offering. The Company did not initially receive any proceeds from the sale of shares of its common stock by the Forward Counterparties pursuant to the Forward Sale Agreements. The Company expects to use the net proceeds of the shares issued and sold by the Company in the Offering and any net proceeds received upon the settlement of the Forward Sale Agreements for general corporate purposes, which may include strategic acquisitions and the repayment or refinancing of outstanding indebtedness.

Refinancing of Existing Term Loan

On March 10, 2017, we entered into a Refinancing Amendment (Amendment No. 2 to Credit Agreement) (the "Amendment"), by and among XPO, its subsidiaries signatory thereto, as guarantors, the lenders party thereto and Morgan Stanley Senior Funding, Inc., in its capacity as administrative agent (the "Administrative Agent"), amending that certain Senior Secured Term Loan Credit Agreement, dated as of October 30, 2015 (as amended, amended and restated, supplemented or otherwise modified, including by that certain Incremental and Refinancing Amendment (Amendment No. 1 to Credit Agreement), dated as of August 25, 2016, the "Term Loan Credit Agreement"). Pursuant to the Amendment, the outstanding $1,481.9 million principal amount of term loans under the Term Loan Credit Agreement (the "Existing Term Loans") were replaced with $1,494.0 million in aggregate principal amount of new term loans (the "New Term Loans") having substantially similar terms as the Existing Term Loans, other than with respect to the applicable interest rate and prepayment premiums in respect of certain voluntary prepayments. Proceeds from the New Term Loans were used primarily to refinance the Existing Term Loans and to pay interest, fees and expenses in connection therewith, and up to $1.5 million may be used for general corporate purposes.
The interest rate margin applicable to the New Term Loans was reduced from 2.25% to 1.25%, in the case of base rate loans, and from 3.25% to 2.25%, in the case of LIBOR loans and the LIBOR floor was reduced from 1.0% to 0%. The interest rate on the New Term Loans was 3.41% at June 30, 2017. The New Term Loans maturity will remain October 30, 2021. The refinancing resulted in an extinguishment charge of $9.0 million in the six months ended June 30, 2017. The Company expects annual cash interest savings of approximately $15 million per year related to the refinancing.

Loan Covenants and Compliance

As of June 30, 2017, we were in compliance with the covenants and other provisions of the ABL Facility, the New Term Loans, the senior notes due 2018, 2021, 2022 and 2023 (collectively the "Senior Notes"), and the other applicable indentures. Any failure to be in compliance with any material provision or covenant of these agreements could have a material adverse effect on our liquidity and operations.

Sources and Uses of Cash

During the six months ended June 30, 2017, we: (i) generated cash from operating activities of $231.0 million, (ii) generated proceeds from sales of assets of $42.2 million, and (iii) received proceeds, net of repayments, on our Term Loan facility of $12.1 million. We used cash during this period principally to (i) purchase property and equipment of $262.0 million, (ii) make payments on long-term debt and capital leases of $60.3 million, (iii) make repayments, net of advances, on our ABL Facility of $30.0 million, (iv) make payments for tax withholdings on restricted shares of $14.2 million and (v) make payments for debt issuance costs of $8.9 million in connection with the refinancing of our Term Loan facility.
During the six months ended June 30, 2016, we: (i) generated cash from operating activities of $267.6 million, (ii) generated proceeds from sales of assets of $35.6 million, and (iii) received advances, net of repayments, of $100 million on our ABL Facility. We used cash during this period principally to (i) purchase property and equipment of $224.0 million and (ii) make payments on long-term debt and capital leases of $90.0 million.

Off-Balance Sheet Arrangements

The Company guarantees the lease payments of certain tractor and trailer equipment utilized by subcontract carriers. These guarantees continue through the end of the lease of the equipment, which is typically four years. The maximum amount of the guarantee is limited to the amount of unpaid principal and interest. As of June 30, 2017, the maximum amount of these guarantees was approximately $20.1 million.

New Accounting Standards

Information related to new accounting standards is included in Note 1 to our Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We have a significant proportion of our net assets and income in non-U.S. dollar currencies, primarily the EUR and GBP. We are exposed to currency risk from the potential changes in functional currency values of our foreign currency denominated assets, liabilities and cash flows. Consequently, a depreciation of the EUR and GBP relative to the U.S. dollar could have an adverse impact on our financial results. In order to mitigate against the risk of a reduction in the value of foreign currency from the Company's international operations, the Company uses foreign currency option and forward contracts and gains or losses on these contracts are recorded in foreign currency gain/loss in the condensed consolidated statements of operations. See Note 5-Derivative Instruments for further information.

There have been no material changes to our quantitative and qualitative disclosures about market risk during the six months ended June 30, 2017 as compared to the quantitative and qualitative disclosures about market risk described in our Annual Report on Form 10-K for the year ended December 31, 2016.

Item 4. Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report. Based on their evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of such time such that the information required to be included in our SEC reports is: (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms relating to the Company, including our consolidated subsidiaries, and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II—Other Information
Item 1. Legal Proceedings.
For information related to our legal proceedings, please refer to "Legal Proceedings" in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 and Note 7—Legal and Regulatory Matters of Item 1, "Financial Statements" of this Quarterly Report on Form 10-Q.
Item 1A. Risk Factors.
In addition to the information set forth in this Form 10-Q and the risk factors previously disclosed in Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the year ended December 31, 2016, you should carefully consider the following risk factors which could materially affect our business, financial condition or future results.

Risks Related to our Growth Strategy and Acquisitions

We may not be able to successfully execute our growth strategy through acquisitions.

We intend to continue to expand through acquisitions to take advantage of market opportunities we perceive in the transportation and logistics industries, as well as new markets that we may enter. While we intend to make acquisitions in the future, we may experience delays 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 are unable to predict the size, timing and number of acquisitions we may complete and may not complete any acquisitions at all. 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 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 us and cause significant volatility in our financial results.

Anticipated synergies from any acquisitions that we have undertaken may not materialize in the expected timeframe or at all.

Our financial targets are dependent on our ability to realize significant ongoing synergies with respect to our acquisitions, in particular the Norbert Dentressangle SA and Con-way Inc. acquisitions we completed in 2015. In addition, we anticipate creating value through synergy opportunities in future acquisitions that we may undertake. We may not realize all synergies we anticipate from past and potential future acquisitions. Among the synergies that we currently expect are cross-selling opportunities to our existing customers, network synergies and other operational synergies. Our estimated synergies from the acquisitions that we have undertaken are, and synergies we may announce related to potential future acquisitions, if any, will be subject to a number of assumptions about the timing, execution and costs associated with realizing such synergies as well as the capacity of our information technology systems and other infrastructure to accommodate the demands of our new acquisitions. Such assumptions are inherently uncertain and are subject to a wide variety of significant business, economic, competition and execution risks and uncertainties. There can be no assurance that such assumptions turn out to be correct and, as a result, the amount of synergies that we will actually realize and/or the timing of any such realization may differ significantly (and may be significantly lower) from the ones that we estimate, and we may incur significant costs in reaching the estimated synergies.

Our past acquisitions, as well as any acquisitions that we may complete in the future, may be unsuccessful or result in other risks or developments that adversely affect our financial condition and results.

While we intend for our acquisitions to improve our competitiveness and profitability, we cannot be certain that our past or future acquisitions will be accretive to earnings or otherwise meet our operational or strategic expectations. Acquisitions involve special risks, including accounting, regulatory, compliance, information technology or human resources issues that could arise in connection with, or as a result of, the acquisition of the acquired company, the assumption of unanticipated liabilities and contingencies, difficulties in integrating acquired businesses, possible management distraction, and the inability of acquired businesses to achieve the levels of revenue, profit, productivity or synergies we anticipate or otherwise perform as we expect on the timeline contemplated. We are unable to predict all of the risks that could arise as a result of our acquisitions.

If the performance of our reporting units or an acquired business varies from our projections or assumptions, or estimates about the future profitability of our reporting units or an acquired business change, our revenues, earnings or other aspects of our financial condition could be adversely affected. We may also experience difficulties in connection with integrating any acquired companies into our existing businesses and operations, including our existing infrastructure and information technology systems. The infrastructure and information technology systems of acquired businesses could present issues which we were not able to identify prior to the acquisition that could adversely affect our financial condition and results, and we have experienced challenges of this nature relating to the infrastructure and systems of our businesses that we recently acquired. Any of these events could adversely affect our financial condition and results of operations.

We may not successfully manage our growth.

We have grown rapidly and substantially over prior years, including by expanding our internal resources, making acquisitions, in particular in 2015, and entering into new markets, and we intend to continue to focus on rapid growth, including organic growth and additional acquisitions. We may experience difficulties and higher-than-expected expenses in executing this strategy as a result of unfamiliarity with new markets, changes in revenue and business models, entering into new geographic areas and increased pressure on our existing infrastructure and information technology systems.

Our growth will place a significant strain on our management, operational, financial and information technology 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 continue to increase as our operations grow. Failure to manage our 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.

Our business will be seriously harmed if we fail to develop, implement, maintain, upgrade, enhance, protect and integrate our information technology systems, including those systems of any businesses that we acquire.

We rely heavily on our information technology systems to efficiently run our business, and they are a key component of our customer-facing and internal growth strategy. In general, we expect our customers to continue to demand more sophisticated, fully integrated information systems from their transportation providers. 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. This process of continuous enhancement may lead to significant ongoing software development costs which will continue to increase if we pursue new acquisitions of companies and their current systems. In addition, we may fail to accurately determine the needs of our customers or trends in the transportation services industry or we may fail to design and implement the appropriate responsive features and functionality for our technology platform in a timely and cost-effective manner. Any such failures could result in decreased demand for our services and a corresponding decrease in our revenues.

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 and the various service modes we offer. If our information technology systems are unable to manage additional volume for our operations as our business grows, or if such systems are not suited to manage the various service modes we offer, our service levels and operating efficiency could decline. In addition, 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 or a decline in the volume of freight we receive from customers.

We are developing proprietary information technology for all of our business segments. Our technology may not be successful or may not achieve the desired results and we may require additional training or different personnel to successfully implement this technology. Our technology development process may be subject to cost overruns or delays in obtaining the expected results, which may result in disruptions to our operations.

A failure of our information technology infrastructure or a breach of our information security systems, networks or processes may materially adversely affect our business.

The efficient operation of our business depends on our information technology systems. We rely on our information technology systems to effectively manage our sales and marketing, accounting and financial and legal and compliance functions, engineering and product development tasks, research and development data, communications, supply chain, order entry and fulfillment and other business processes. We also rely on third parties and virtualized infrastructure to operate and support our information technology systems. Despite testing, external and internal risks, such as malware, insecure coding, “Acts of God,” data leakage and human error pose a direct threat to the stability or effectiveness of our information technology systems and operations. The failure of our information technology systems to perform as we anticipate has in the past, and could in the future, adversely affect our business through transaction errors, billing and invoicing errors, internal recordkeeping and reporting errors, processing inefficiencies and loss of sales, receivables collection and customers, in each case, which could result in harm to our reputation and have an ongoing adverse impact on our business, results of operations and financial condition, including after the underlying failures have been remedied.

We may also be subject to cybersecurity attacks and other intentional hacking. Any failure to identify and address such defects or errors or prevent a cyber-attack could result in service interruptions, operational difficulties, loss of revenues or market share, liability to our customers or others, the diversion of corporate resources, injury to our reputation and increased service and maintenance costs. Addressing such issues could prove to be impossible or very costly and responding to resulting claims or liability could similarly involve substantial cost. In addition, recently, there has also been heightened regulatory and enforcement focus on data protection in the U.S. and abroad (particularly in the European Union), and failure to comply with applicable U.S. or foreign data protection regulations or other data protection standards may expose us to litigation, fines, sanctions or other penalties, which could harm our reputation and adversely impact our business, results of operations and financial condition.

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

During the quarter ended June 30, 2017, the Company issued an aggregate of 671,867 shares of the Company's common stock, par value $0.001 per share, to certain holders of the Company's Convertible Senior Notes in connection with the conversion of $11,042,000 aggregate principal amount of the Convertible Senior Notes. The number of shares of our common stock issued in the foregoing transactions equals the number of shares of our common stock presently issuable to holders of the Convertible Senior Notes upon conversion under the original terms of the Convertible Senior Notes. During the quarter ended June 30, 2017, pursuant to the Investment Agreement dated as of June 13, 2011 (the “Investment Agreement”) by and among Jacobs Private Equity, LLC (“JPE”) and the other investors party thereto (collectively with JPE, the “Investors”) the Company issued 21,317 unregistered shares of its common stock as a result of the cashless exercise of warrants by certain shareholders and 42,063 unregistered shares of its common stock as a result of the exercise of warrants by certain shareholders for cash resulting in the receipt of $294,441 of total proceeds by the Company. The proceeds received by the Company will be used for general corporate purposes. The issuance of these shares was exempt from the registration requirements of the Securities Act of 1933, as amended, in accordance with Section 4(a)(2) thereof, as a transaction by an issuer not involving any public offering. For additional information on the Company's Convertible Senior Notes, refer to Note 9—Debt, of Item 8, "Financial Statements and Supplementary Data" in our 2016 Annual Report on Form 10-K.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Disclosure Pursuant to Section 13(r) of the Exchange Act

In connection with ongoing efforts to review and enhance our compliance program and to investigate transactions or dealings involving countries and entities that are subject to U.S. economic sanctions, including those disclosed in our Quarterly Report on Form 10-Q for the quarters ended June 30, 2016, September 30, 2016, and March 31, 2017, under the heading “Disclosure Pursuant to Section 13(r) of the Exchange Act,” we learned that, on one occasion in August 2014, our Hong Kong Global Forwarding business provided forwarding services for a shipment to Iran destined to consignee Bandar Imam Petrochemical Company, which was designated as a Government of Iran entity under Executive Order 13599. The shipment involved cargo described as a pressure switch. We received $864.52 (6,700 HKD) for our services in connection with this shipment, and had a net profit of $123.19 (954.70 HKD) attributable to this transaction.

As noted in our Quarterly Report on Form 10-Q for the quarters ended June 30, 2016, September 30, 2016, and March 31, 2017, we filed an initial voluntary disclosure of such matters with the U.S. Department of Treasury, Office of Foreign Assets Control (“OFAC”). We are continuing to investigate and intend to cooperate with regulatory authorities regarding these matters. We plan to file a complete report with OFAC accounting for these and any other unauthorized transactions identified by our investigation when that investigation is complete. We have implemented procedures in connection with our international trade compliance programs that are designed to prevent such activities from recurring and we do not intend to provide any such unauthorized services in the future.

Item 6. Exhibits.

| Exhibit Number | Description |
|---|---|
| 31.1 | Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2017. |
| 31.2 | Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2017. |
| 32.1 * | Certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2017. |
| 32.2 * | Certification of the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2017. |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase. |

*Furnished herewith.

SIGNATURES

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

XPO Logistics, Inc.

By: /s/ Bradley S. Jacobs
Bradley S. Jacobs
Chief Executive Officer
(Principal Executive Officer)

By: /s/ John J. Hardig
John J. Hardig
Chief Financial Officer
(Principal Financial Officer)

Date: August 4, 2017