XPO Logistics, Inc.
Form 10-K
February 14, 2019

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

Form 10-K

(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
or
¨ 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)

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

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

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
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 every Interactive Data File required to be submitted 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 such files). Yes ý No ¨

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

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	¨	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 Act). Yes ¨ No ý

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $12.0 billion as of June 30, 2018, based upon the closing price of the common stock on that date.

As of February 8, 2019, there were 109,194,970 shares of the registrant's common stock, par value $0.001 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Specified portions of the registrant's proxy statement, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the registrant's 2019 Annual Meeting of Stockholders (the "Proxy Statement"), are incorporated by reference into Part III of this Annual Report on Form 10-K. Except with respect to information specifically incorporated by reference in this Annual Report, the Proxy Statement is not deemed to be filed as part hereof.

XPO LOGISTICS, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2018
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PART I

Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 10-K and other written reports and oral statements we make from time to time contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (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,” “projec “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 Annual Report are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequence to or effects on the Company or its business or operations. The following discussion should be read in conjunction with the Company’s audited Consolidated Financial Statements and related Notes thereto included elsewhere in this Annual Report.

Forward-looking statements set forth in this Annual Report speak only as of the date hereof, and we do not undertake any obligation to update forward-looking statements to reflect subsequent events or circumstances, changes in expectations or the occurrence of unanticipated events, except as required by law.

ITEM 1. BUSINESS

Company Overview

XPO Logistics, Inc., a Delaware corporation, together with its subsidiaries (“XPO,” “XPO Logistics,” the “Company,” “we” o “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 most efficiently through their supply chains. Our revenue derives from a mix of key verticals, such as retail and e-commerce, food and beverage, consumer packaged goods and industrial. As of December 31, 2018, we operated with more than 100,000 employees and 1,535 locations in 32 countries and served over 50,000 customers.

We run our business on a global basis, with two reporting segments: Transportation and Logistics. In 2018, approximately 65% of our revenue came from Transportation; the other 35% came from Logistics. Within each segment, we have robust service offerings that are positioned to capitalize on fast-growing areas of customer demand. Substantially all of our services operate under the single brand of XPO Logistics.

Transportation Segment

We offer customers an unmatched transportation network of multiple modes, flexible capacity and route density to transport freight quickly and cost effectively from origin to destination. Our scale and service range are significant advantages — both for XPO, as competitive differentiators, and for our customers, who depend on us to provide reliable capacity under all market conditions.

Within our Transportation segment, as of December 31, 2018, our largest service offerings were freight brokerage and truckload, and less-than-truckload (“LTL”), which contributed 27% and 28%, respectively, to our consolidated revenue in 2018. By comparison, in 2017, freight brokerage and truckload and LTL contributed approximately 27%

and 29%, respectively, to our consolidated revenue. In 2016, freight brokerage and truckload and LTL contributed approximately 25% and 29%, respectively, to our consolidated revenue.

Globally, we are the second largest freight brokerage provider, and a top five provider of managed transportation based on the value of freight under management. Many of our transportation services hold market-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 expedited shipments; a top three provider of LTL transportation; and a top three provider of intermodal services, with a national drayage network. We are also a freight forwarder with a global network of ocean, air, ground and cross-border services.

In Europe, we provide full truckload transportation as dedicated and non-dedicated services using the Company's fleet, which is the largest owned road fleet in Europe, and as a brokered service using independent carriers. Our other transportation offerings in Europe are LTL transportation, which we provide through one of the largest LTL networks in Western Europe, and last mile logistics. Our total lane density in Europe covers the regions that produce approximately 90% of the eurozone's gross domestic product.

We use a blended model of owned, contracted and brokered capacity for truck transportation. This gives us extensive flexibility to provide solutions that best serve the interests of our customers and the Company. The non-asset portion of our model is predominately variable cost and includes our brokerage operations, as well as contracted capacity with independent providers. As of December 31, 2018, globally, we had approximately 12,000 independent carriers and 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 over 1,000,000 trucks on the road.

We employ professional drivers that transport goods for customers using our fleet of owned and leased trucks and trailers. Globally, our road fleet encompasses approximately 16,000 tractors and approximately 39,000 trailers, primarily related to our LTL operations in North America and our full truckload operations in Europe. These assets also provide supplemental capacity for our freight brokerage operations as needed. Our company overall is asset-light, with the revenue generated by activities directly associated with our owned assets accounting for less than a third of our revenue in 2018.

Logistics Segment

In our Logistics segment, which we sometimes refer to as supply chain or contract logistics, we have deep expertise in key verticals, and strong positions in fast-growing sectors, such as e-fulfillment, returns management and temperature-controlled warehousing. We provide a range of contract logistics services for customers, including value-added warehousing and distribution, omnichannel and e-commerce fulfillment, cold chain solutions, reverse logistics and surge management. In addition, our Logistics segment provides highly engineered, customized solutions and supply chain optimization services, such as volume flow management. Once we secure a logistics contract, the average tenure is approximately five years and the relationship can lead to a wider use of our services, such as inbound and outbound logistics. Our Logistics segment contributed approximately 35%, 34% and 32% to our consolidated revenue in each of the years ended December 31, 2018, 2017 and 2016, respectively.

We operate 190 million square feet (18 million square meters) of contract logistics facility space worldwide, making XPO the second largest contract logistics provider. Approximately 91 million square feet (8 million square meters) of our logistics space is in the United States, where we are a market leader in logistics capacity. Our expansive footprint makes us particularly attractive to large customers with multinational operations. Our logistics customers include many of the preeminent names in retail and e-commerce, food and beverage, technology, aerospace, wireless, industrial and manufacturing, chemical, agribusiness, life sciences and healthcare.

We also benefit from a strong position 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, making it difficult for many companies to handle fulfillment in-house while providing a high level of service. Demand in the e-commerce sector is characterized by strong seasonal surges in activity; the fourth quarter peak is typically the most dramatic, when holiday orders are placed online.

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 omnichannel services. Our experience with fast-growing e-commerce categories makes us a valuable partner to customers who

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want to outsource order fulfillment, product returns, testing, refurbishment, warranty management, refunding, order personalization and other value-added services. Together with our last mile expertise with heavy goods, our logistics capabilities provide e-commerce companies with superior control, flexible warehousing options and labor, advanced automation and a national network of home delivery hubs.

Operating Philosophy

We believe that our ability to provide customers with integrated, end-to-end supply chain solutions gives us a significant competitive advantage. Many customers, particularly large companies, prefer to use large, multimodal service providers to manage more than one aspect of the supply chain. Additionally, we have positioned the Company to capitalize on the ongoing growth in e-commerce, and on secular trends in demand, such as outsourcing and just-in-time inventory practices.

Two hallmarks of our operations are technology and sustainability.

We prioritize innovation because we believe that advanced technology is critical to continuously improving customer service, controlling costs and leveraging our scale. Our 2018 investment in technology was approximately $500 million, among the highest in our industry.

We concentrate our efforts in four areas of innovation: automation and intelligent machines, dynamic data science, the digital freight marketplace, and visibility and customer service, specifically in the e-commerce supply chain. Our global team of approximately 1,700 technology professionals can deploy proprietary software very rapidly on our cloud-based platform. Our focus is on developing innovations that differentiate our services, create benefits for our customers and value for our shareholders. For example, we have the ability to share data with our customers in real time, including visibility of orders moving through fulfillment and shipments in transit. Our technology gives us a birds-eye view of real-time market conditions and pricing for truckload, intermodal and LTL, and facilitates load assignments with our independent contractors, all of which greatly enhances customer service.

In addition, we have a strong commitment to sustainability. We own the largest natural gas truck fleet in Europe and we launched government-approved mega-trucks in Spain as two of numerous initiatives to reduce our carbon footprint. In 2018, we made substantial investments in fuel-efficient Freightliner Cascadia tractors in North America; these use EPA 2013-compliant and GHG14-compliant Selective Catalytic Reduction (“SCR”) technology. In Europe, our tractors are approximately 98% compliant with Euro V, EEV and Euro VI standards, making our fleet one of the most modern in the industry. Our Company has 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.

A number of our logistics facilities are ISO 14001-certified, which ensures environmental and other regulatory compliances. We monitor fuel emissions from forklifts, with protocols 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. We are committed to operating in a progressive and environmentally sound manner, with the greatest efficiency and the least waste possible.

Transportation Services

The Company’s Transportation segment includes freight brokerage (which encompasses truck brokerage, intermodal, drayage and expedite), last mile, LTL, full truckload, global forwarding and managed transportation services led by highly experienced operators.

Freight Brokerage

Our truck brokerage operations are non-asset-based: we place shippers’ freight with qualified carriers, primarily trucking companies. Customers offer loads to us via electronic data interchange, email, telephone and the internet on a daily basis. Truck brokerage services are priced on either a spot market or contract basis for shippers. We collect payments from our customers and pay the carriers for transporting customer loads. Our proprietary, cloud-based brokerage platform, Freight Optimizer, gives us real-time visibility into truckload supply and demand. Freight Optimizer is also the technology behind XPO Connect, our digital freight marketplace, which connects shippers and carriers in a virtual environment.

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Our intermodal operations are asset-light: we provide customers with container capacity, brokered rail transportation, drayage transportation via independent contractors, and on-site operational services. We lease or own approximately 9,500 53-ft. containers and approximately 5,000 chassis. We utilize this equipment, together with access to supplemental capacity, to meet our customers' intermodal requirements.

We have a sophisticated infrastructure in place to work with the railroads in providing the long-haul portion of freight shipments in containers, and we contract with independent drayage trucking companies for local pickup and delivery. We also provide customized electronic tracking and analysis of market prices and negotiated rates through our proprietary Rail Optimizer technology, which we use to determine the optimal configurations of truck and rail.

We offer our door-to-door intermodal services to a wide range of customers in North America, including large industrial and retail shippers, transportation intermediaries, such as intermodal marketing companies, and steamship lines. As of December 31, 2018, XPO was the third largest provider of intermodal services in North America, with one of the largest U.S. drayage networks, and a leading provider of intermodal services in the cross-border Mexico sector.

Our expedite operations are predominantly non-asset-based — we use a network of contracted owner-operators for expedited ground transportation, and an electronic bid platform for air charter loads. Another large component of our expedite offering is our proprietary transportation management platform, which awards loads electronically based on online bids by carriers. These transactions primarily happen on a machine-to-machine basis. Our technology initiates a new auction on the internet, and we take a fee for facilitating the process.

Our expedite services can be characterized as time-critical, time-sensitive or high priority freight shipments, many of which have special handling needs. Urgent needs for expedited transportation typically arise due to tight tolerances in a customer's supply chain, or some kind of disruption to the supply chain.

Expedite customers most often request our services on a per-load transactional basis through our offices or via our proprietary online portals. Only a small percentage of loads are scheduled for future delivery dates. We operate an ISO 9001:2008-certified call center that gives our customers on-demand status updates related to their expedited shipments. As of December 31, 2018, XPO was the largest manager of expedited freight shipments in North America.

Last Mile Logistics

Our last mile operations in North America and Europe primarily specialize in heavy goods, including appliances, furniture, large electronics and other items that are larger-than-parcel. As of December 31, 2018, XPO was the largest provider of last mile logistics for heavy goods in North America, having arranged approximately 40,000 deliveries a day on average in 2018.

Our last mile services are predominantly asset-light; we utilize independent contractors to perform transportation and over-the-threshold deliveries and installations. In North America, these services are facilitated through a large network of XPO last mile hubs. As of December 31, 2018, we had 85 hubs operating in North America, extending our footprint to within 125 miles of approximately 90% of the U.S. population and further reducing transit times for goods. We also have a small last mile business in Europe.

Last mile comprises the final stage of the delivery from a local distribution center or retail store to the end-customer's home or business, where additional services are often required. It is a fast-growing industry sector that serves blue chip retailers, e-commerce companies and smaller retailers that have limited in-house capabilities for deliveries and installations. Important aspects of last mile service are responsiveness to seasonal demand, economies of scale, advanced technology and an ability to maintain a consistently high quality of customer experience.

The last mile process often requires incremental services, such as unpacking, assembly, utility connection, installation and testing, as well as the removal of an old product. These additional services are commonly referred to as white-glove services. We use our proprietary technology platform to collect customer feedback, monitor carrier performance, manage capacity and encourage communication to protect the brands of the retailers, e-tailers and manufacturers we serve.

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Less-Than-Truckload (LTL)

In North America, our LTL operations are asset-based. We employ professional drivers, own a leading fleet of tractors and trailers for line-haul, pickup and delivery, and have a large network of terminals. We provide our customers with critical density and day-definite regional, inter-regional and transcontinental LTL freight services. As of December 31, 2018, XPO was a top three provider of LTL services in North America, offering more than 75,000 next-day and two-day lanes. Our coverage area in North America encompasses approximately 99% of all U.S. zip codes, with service within Canada, and cross-border with Mexico and Canada.

In Europe, our LTL operations utilize a blend of asset-based and asset-light capacity — both Company fleet and contracted carriers, with a network of terminals. We provide LTL services domestically in France, the United Kingdom and Spain. We also offer multinational LTL distribution throughout Europe.

Full Truckload

Our asset-based full truckload services operate almost entirely in Europe. For many customers, we function as a dedicated contract carrier, providing truckload capacity by utilizing our fleet of tractors and trailers, and our drivers. In addition, we provide transactional transportation of packaged goods, high cube products and bulk goods. We provide full truckload services domestically in France, the United Kingdom, Spain, Poland, Romania, Italy, Portugal and Slovakia, and internationally throughout Europe. As of December 31, 2018, XPO was a leading provider of full truckload transportation in Europe.

Global Forwarding

Our global forwarding operations are asset-light; we provide logistics services for domestic, cross-border and international shipments through our relationships with ground, air and ocean carriers and a network of Company and agent-owned offices. Our freight forwarding capabilities are not restricted by size, weight, mode or location, and therefore are potentially attractive to a wide market base.

As part of our global forwarding network, we operate subsidiaries as non-vessel-operating common carriers (“NVOCC”) to transport our customers’ freight by contracting with vessel operators. We are also a customs broker licensed by the U.S. Customs and Border Protection Service. This enables us to provide customs brokerage services to direct domestic importers, other freight forwarders and NVOCCs, and vessel-operating common carriers.

Managed Transportation

The Company is a top five global provider of managed transportation based on the value of freight under management. Our managed transportation offering includes a range of services provided to shippers who want to outsource some or all of their transportation modes, together with associated activities. These activities can include freight handling, such as consolidation and deconsolidation, labor planning, the facilitation of inbound and outbound shipments, cross-border customs management and documentation, claims processing, and third-party logistics supplier management, as well as other services. We categorize our managed transportation services as control tower solutions, managed expedite and dedicated capacity.

Logistics Services

Our Logistics segment, which we also refer to as Supply Chain, encompasses a range of services for the purpose of helping our customers control costs and increase efficiency. We provide differentiated and data-intensive contract logistics services for customers, including value-added warehousing and distribution, e-commerce fulfillment, cold chain solutions, reverse logistics, packaging and labeling, factory support, aftermarket support, inventory management and personalization services, such as laser etching. In addition, our Logistics segment provides highly engineered, customized solutions and supply chain optimization services, such as volume flow management, predictive analytics and advanced automation. Our Logistics operations are led by seasoned executives in North America and Europe who collaborate on multinational opportunities. As of December 31, 2018, XPO was the second largest global provider of contract logistics based on facility space, with one of the largest e-fulfillment platforms in Europe.

We utilize our technology and expertise to solve complex supply chain challenges and create transformative solutions for our customers. Examples include intelligent robots that support our warehouse employees, and

sophisticated analytics for demand forecasting. Our proprietary algorithms can predict the flow of goods and future returns, helping our e-commerce customers plan for peak inventory, capacity and labor levels.

Our logistics customers primarily operate in industries with high-growth outsourcing opportunities, such as retail and e-commerce, food and beverage, technology, aerospace, wireless, industrial and manufacturing, chemical, agribusiness, life sciences and healthcare. They have demanding requirements for quality standards, real-time data visibility, special handling, security, the management of large numbers of stock-keeping units, time-assured deliveries and management of seasonal surges in certain sectors, such as retail and e-commerce.

XPO Direct

XPO Direct is a shared-space distribution network that capitalizes on the strengths of our Logistics and Transportation segments in combination. This network of logistics warehouses and last mile hubs gives our customers flexible capacity and helps them speed order fulfillment and delivery. Our facilities serve as stockholding sites and cross-docks that can be utilized by multiple customers at the same time. Transportation needs are supported by our brokered, contracted and owned capacity.

XPO Direct gives companies a way to manage Business-to-Consumer and Business-to-Business fulfillment using our scale and capacity, without the capital investment of adding high-fixed-cost distribution centers. Our North American footprint positions goods within one-day and two-day ground transportation range of approximately 90% of the U.S. population and in close proximity to retail stores for inventory replenishment.

Our Strategy

Our strategy is to help customers manage their goods most efficiently through their supply chains, using our highly integrated network of people, technology and physical assets. We deliver value to customers in the form of process efficiencies, cost efficiencies, reliable outcomes, technological innovations and service that is both highly responsive and proactive.

As part of our strategy, we continuously seek to become more efficient in our own operations. We do this by looking for ways to leverage our strengths and serve customers as comprehensively as possible — our existing customers, and also companies in high-growth verticals where there is a need for multiple XPO services. As of December 31, 2018, 90 of our top 100 customers were using two or more of our service lines.

In addition, we have a comprehensive framework of processes for recruiting, training and mentoring our employees, and for marketing to the hundreds of thousands of prospective customers that can use our services. Most important to our growth, we have instilled a culture of collaboration that focuses our efforts on delivering results for our customers and our Company.

We will continue to grow the business in a disciplined manner, and with a compelling value proposition: XPO can provide innovative solutions for any company, of any size, with any combination of supply chain needs.

Management’s growth and optimization strategy for the Transportation segment is to:

- Market our diversified, multimodal offering to customers of all sizes, both new and existing accounts;
- Cross-sell our Transportation segment solutions to customers of our Logistics segment;
- Provide world-class solutions that satisfy our customers’ transportation-related supply chain goals;
- Recruit and retain quality drivers, and best utilize our driver and equipment capacities;
- Attract and retain quality independent owner-operators and independent brokered carriers for our carrier network;
- Recruit and retain quality sales and customer service representatives, and continuously improve employee productivity with state-of-the-art training and technology;
- Continue to develop cutting-edge transportation applications for our proprietary technology platform and make meaningful use of data; and

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- Integrate industry-best practices, with a focus on utilizing our advantages of scale to serve our customers efficiently and lower our administrative overhead.

Management's growth and optimization strategy for the Logistics segment is to:

- Develop additional business in verticals where the Company already has deep logistics expertise and a strong track record of successful relationships;
- Capture more share of spend with existing customers that could use our solutions for more of their supply chain needs, including both logistics and transportation;
- Expand our relationships with existing customers that have multinational business interests in North America, Europe and Asia;
- Cross-sell our Logistics segment solutions to customers of our Transportation segment;
- Market the significant advantages of XPO's proprietary logistics technology;
- Market the ability of XPO to produce reliable, business-specific results across our global logistics network in a consistent manner;
- Provide world-class solutions that meet our customers' goals for supply chain performance, growth management and stakeholder satisfaction; and
- Integrate industry-best practices, with a focus on utilizing our advantages of scale to serve our customers efficiently and lower our administrative overhead.

Technology and Intellectual Property

One of the ways in which we empower our employees to deliver superior service is through our proprietary technology. We believe that technology is a compelling differentiator in our industry. It represents one of the Company's largest categories of investment, reflecting our belief that the continual enhancement of our technology is critical to our success.

In 2018, we introduced numerous innovations, some of which are described here:

In our Logistics segment, we launched our proprietary, cloud-based warehouse management platform to integrate robotics and other advanced automation very rapidly into our operations. This is particularly advantageous in multi-site and multichannel environments. Our technology facilitates omnichannel distribution, lean manufacturing support, aftermarket support, supply chain optimization and transportation management. It links our XPO Direct distribution network and can predict where stock should be positioned in the network for the greatest efficiency.

We announced a partnership with a world leader in consumer packaged goods to co-create a 638,000-square-foot logistics center in the U.K. The site is scheduled to open in 2020 and will feature advanced sortation systems and robotics, as well as other state-of-the-art automation and an XPO technology laboratory. A digital ecosystem will integrate predictive data and intelligent machines, operating as both a think tank and a launch pad for our innovations.

We're deploying 5,000 additional robots throughout our logistics sites in North America and Europe. These are intelligent robots that collaborate with humans; the solution is designed to supplement our existing workforce and support future growth. These robots shorten order-to-shipment times, support same-day and next-day deliveries and help workers minimize walk-time and manual errors. As a separate initiative, we are using data-driven workforce planning tools in our warehouses to optimize productivity shift by shift.

In our Transportation segment, our XPO Connect digital freight marketplace operates as a fully automated, self-learning platform that connects shippers with carriers, both directly and through the Company. This technology gives customers direct access to our carrier transportation network and its predictive data, while carriers connect through our Drive XPO mobile app. As of December 31, 2018, we had more than 14,000 carrier signups for XPO Connect access.

In last mile, our technology delivers a consistent consumer experience with superior satisfaction levels. The system gathers real-time feedback post-delivery to help our customers build loyalty. This protects the brands of our e-tail

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and retail customers. We also use our proprietary applications to engage consumers in the delivery process for their heavy goods. Shoppers who buy large items from our customers online can track those orders in real time using our web portal, Google Home, Amazon Echo or Google Search. They can request personalized alerts, reschedule delivery times electronically and use our augmented reality tool to visualize the item inside their home.

In LTL, we launched a next-generation web integration that gives shippers access to more capabilities without custom programming, including delivery and pickup management tools, pricing and planning tools, and electronic document handling. We also developed proposal and pricing systems for LTL, with robust algorithms and profitability monitoring. Overall, we have improved the business intelligence we use internally for LTL pricing, workforce planning and network optimization.

The supply chain industry is wide open for disruptive thinking like this. Our position as a technology leader has led to important new advantages for our customers.

Customers and Markets

Our Company provides services to a variety of customers, ranging in size from small, entrepreneurial organizations to Fortune 500 companies and global leaders. We have a diversified base of more than 50,000 customers that minimizes our concentration risk: in 2018, approximately 11% of our revenue was attributable to our top five customers.

In addition, our markets are highly diversified. The customers we serve span every major industry and touch every part of the economy. Our revenue derives from a mix of key verticals, such as retail and e-commerce, food and beverage, consumer packaged goods and industrial.

Our transportation services are primarily marketed in North America and Europe, whereas our logistics and global forwarding networks serve global markets with concentrations in North America, Europe and Asia. For the full year 2018, approximately 59% of our revenue was generated in the United States, 13% came from France and 12% from the United Kingdom.

Competition

Transportation and logistics are highly competitive and fragmented marketplaces, with thousands of companies competing domestically and internationally. XPO competes on service, reliability, scope and scale of operations, technological capabilities and price. Our competitors include local, regional, national and international companies that offer the same services we provide — some with larger customer bases, significantly more resources and more experience than we have. Additionally, some of our customers have internal resources that can perform services we offer. Due in part to the fragmented nature of the industry, we must strive daily to retain existing business relationships and forge new relationships.

The health of the transportation and logistics industry will continue to be a function of domestic and global economic growth. However, we believe that we have positioned the Company in fast-growing sectors to benefit from secular trends in demand, such as e-commerce and outsourcing. Together with our scale, technology and company-specific initiatives, we believe that our positioning should keep us growing faster than the macro environment.

Regulation

Our operations are regulated and licensed by various governmental agencies in the United States and in the other countries where we conduct business. These regulations impact us directly and indirectly by regulating third-party transportation providers we use to transport freight for our customers.

Regulation Affecting Motor Carriers, Owner-Operators and Transportation Brokers. In the United States, our subsidiaries that operate as motor carriers have motor carrier licenses issued by the Federal Motor Carrier Safety Administration (“FMCSA”) of the U.S. Department of Transportation (“DOT”). In addition, our subsidiaries acting as property brokers have property broker licenses issued by the FMCSA. Our motor carrier subsidiaries and the third-party motor carriers we engage in the United States must comply with the safety and fitness regulations of the DOT, including those related to drug-testing, alcohol-testing, hours-of-service, records retention, vehicle inspection, driver qualification and minimum insurance requirements. Weight and equipment dimensions also are subject to government regulations. We also may become subject to new or more restrictive regulations relating to emissions, drivers' hours-of-service, independent contractor eligibility requirements, onboard reporting of operations, air cargo security and other matters affecting safety or operating methods. Other agencies, such as the U.S. Environmental Protection Agency ("EPA"), the Food and Drug Administration ("FDA"), the California Air Resources Board and the U.S. Department of Homeland Security ("DHS"), also regulate our equipment, operations and independent contractor drivers. Like our third-party support carriers, we are subject to a variety of vehicle registration and licensing requirements in certain states and local jurisdictions where we operate. In foreign jurisdictions where we operate, our operations are regulated by the appropriate governmental authorities.

In 2010, the FMCSA introduced the Compliance Safety Accountability program ("CSA"), which uses a Safety Management System ("SMS") to rank motor carriers on seven categories of safety-related data, known as Behavioral Analysis and Safety Improvement Categories, or "BASICs."

Although the CSA scores are not currently publicly available, this development is likely to be temporary. As a result, our fleet could be ranked worse or better than our competitors, and the safety ratings of our motor carrier operations could be impacted. Our network of third-party transportation providers may experience a similar result. A reduction in safety and fitness ratings may result in difficulty attracting and retaining qualified independent contractors and could cause our customers to direct their business away from XPO and to carriers with more favorable CSA scores, which would adversely affect our results of operations.

In addition, nearly all carriers and drivers that are required to maintain records of duty status, including certain of XPO's motor carrier subsidiaries and drivers, have been required to install and use electronic logging devices ("ELDs"). ELD installation and use may increase costs for independent contractors and other third-party support carriers who provide services to XPO and may impact driver recruitment.

Regulations Affecting our Subsidiaries Providing Ocean and Air Transportation. XPO Customs Clearance Solutions, LLC ("XCCS") and XPO GF America, Inc. ("XGFA"), two of the Company's subsidiaries, are licensed as U.S. Customs brokers by the U.S. Customs and Border Protection ("the CBP") of the DHS in each U.S. district where they perform services. All U.S. Customs brokers are required to maintain prescribed records and are subject to periodic audits by the CBP. In other jurisdictions where we perform customs brokerage services, our operations are licensed, where necessary, by the appropriate governmental authority.

Our subsidiaries offering expedited air charter transportation are subject to regulation by the Transportation Security Administration ("TSA") of the DHS regarding air cargo security for all loads, regardless of origin and destination. XPO Global Forwarding, Inc. ("XGF"), XGFA and XPO Air Charter, LLC are regulated as "indirect air carriers" by the DHS and the TSA. These agencies provide requirements, guidance and, in some cases, administer licensing requirements and processes applicable to the freight forwarding industry.

Regarding our international operations, XGF and XGFA are members of the International Air Transportation Association ("IATA"), a voluntary association of airlines and freight forwarders that outlines operating procedures for forwarders acting as agents or third-party intermediaries for IATA members. A substantial portion of XPO's international air freight business is transacted with other IATA members.

Additionally, XGF, XGFA and XCCS are each registered as an Ocean Transportation Intermediary ("OTI") and ocean freight forwarders by the U.S. Federal Maritime Commission ("FMC"), which establishes the qualifications, regulations and bonding requirements to operate as an OTI and ocean freight forwarder for businesses originating and terminating in the United States. XGF and XGFA are also licensed NVOCCs.

Our international freight forwarding operations make us subject to regulations of the U.S. Department of State, the U.S. Department of Commerce and the U.S. Department of Treasury, and to various laws and regulations of the other countries where we operate. These regulations cover matters, such as what commodities may be shipped to what destinations and to what end-users, unfair international trade practices, and limitations on entities with which we may conduct business.

Other Regulations. The Company is subject to a variety of other U.S. and foreign laws and regulations, including but not limited to, the Foreign Corrupt Practices Act and other anti-bribery and anti-corruption statutes.

Classification of Independent Contractors. Tax and other federal and state regulatory authorities, as well as private litigants, continue to assert that independent contractor drivers in the trucking industry are employees rather than

independent contractors. Federal legislators have introduced legislation in the past to make it easier for tax and other authorities to reclassify independent contractors as employees, including legislation to increase the recordkeeping requirements and heighten the penalties for companies who misclassify workers and are found to have violated overtime and/or wage requirements. Additionally, federal legislators have sought to abolish the current safe harbor allowing taxpayers that meet certain criteria to treat individuals as independent contractors if they are following a longstanding, recognized practice. Federal legislators also sought to expand the Fair Labor Standards Act to cover "non-employees" who perform labor or services for businesses, even if said non-employees are properly classified as independent contractors; require taxpayers to provide written notice to workers based upon their classification as either an employee or a non-employee; and impose penalties and fines for violations of the notice requirement and/or for misclassifications. Some states have launched initiatives to increase revenues from items such as unemployment, workers' compensation and income taxes, and the reclassification of independent contractors as employees could help states with those initiatives. Taxing and other regulatory authorities and courts apply a variety of standards in their determinations of independent contractor status. If XPO's independent contractor drivers are determined to be employees, we would incur additional exposure under some or all of the following: federal and state tax, workers' compensation, unemployment benefits, and labor, employment and tort laws, including for prior periods, as well as potential liability for employee benefits and tax withholdings.

Environmental Regulations. Our facilities and operations and our independent contractors are subject to various environmental laws and regulations dealing with the hauling, handling and disposal of hazardous materials, emissions from vehicles, engine-idling, fuel tanks and related fuel spillage and seepage, discharge and retention of storm water, and other environmental matters that involve inherent environmental risks. Similar laws and regulations may apply in many of the foreign jurisdictions in which we operate. We have instituted programs to monitor and control environmental risks and maintain compliance with applicable environmental laws and regulations. We may be responsible for the cleanup of any spill or other incident involving hazardous materials caused by our operations or business. In the past, we have been responsible for the costs of cleanup of diesel fuel spills caused by traffic accidents or other events, and none of these incidents materially affected our business or operations. We generally transport only hazardous materials rated as low-to-medium-risk, and a small percentage of our total shipments contains hazardous materials. We believe that our operations are in substantial compliance with current laws and regulations and we do not know of any existing environmental condition that reasonably would be expected to have a material adverse effect on our business or operating results. Future changes in environmental regulations or liabilities from newly discovered environmental conditions or violations (and any associated fines and penalties) could have a material adverse effect on our business, competitive position, results of operations, financial condition or cash flows. U.S. federal and state governments, as well as governments in certain foreign jurisdictions where we operate, have also proposed environmental legislation that could, among other things, potentially limit carbon, exhaust and greenhouse gas emissions. If enacted, such legislation could result in higher costs for new tractors and trailers, reduced productivity and efficiency, and increased operating expenses, all of which could adversely affect our results of operations.

Risk Management and Insurance

We maintain insurance for commercial automobile liability, truckers' commercial automobile liability, commercial general liability, cargo/warehouse legal liability, workers' compensation and employers' liability, and umbrella and excess umbrella liability, with coverage limits, deductibles and self-insured retention levels that we believe are reasonable given the varying historical frequency, severity and timing of claims. Certain actuarial assumptions and management judgments are made for insurance reserves and are subject to a degree of variability.

Seasonality

Our revenue and profitability are typically lower for the first quarter of the calendar year relative to the other quarters. We believe this is due in part to the post-holiday reduction in demand experienced by many of our customers, which leads to more capacity in the non-expedited and service-critical markets and, in turn, less demand for expedited and premium shipping services. In addition, the productivity of our tractors and trailers, independent contractors and transportation providers generally decreases during the winter season because inclement weather impedes operations. It is not possible to reliably predict whether the Company's historical revenue and profitability trends will continue to occur in future periods.

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Employees

As of December 31, 2018, the Company had more than 100,000 full-time and part-time employees. Our employee base is one of our most critical resources, and we view the recruitment, training and retention of qualified employees as being essential to our ongoing success. We believe that we have good relations with our employees, with strong programs in place for communication and professional development.

Executive Officers of the Registrant

The following information relates to each of our executive officers:

Name	Age	Position
Bradley S. Jacobs	62	Chairman of the Board and Chief Executive Officer
Troy A. Cooper	49	President
Kenneth R. Wagers III	47	Chief Operating Officer and Interim President, LTL–North America
Sarah J.S. Glickman	49	Acting Chief Financial Officer
Mario A. Harik	38	Chief Information Officer

Bradley S. Jacobs has served as XPO’s chief executive officer and chairman of the Board of Directors since September 2011. Mr. Jacobs is also the managing director of Jacobs Private Equity, LLC, which is the Company’s second largest stockholder. Prior to XPO, he led two public companies: United Rentals, Inc. (NYSE: URI), which he co-founded in 1997, and United Waste Systems, Inc., which he founded in 1989. Mr. Jacobs served as chairman and chief executive officer of United Rentals for its first six years, and as executive chairman for an additional four years. With United Waste Systems, he served eight years as chairman and chief executive officer. Previously, Mr. Jacobs founded Hamilton Resources (UK) Ltd. and served as its chairman and chief operating officer. This followed the co-founding of his first venture, Amerex Oil Associates, Inc., where he was chief executive officer.

Troy A. Cooper has served as XPO’s president since April 2018, after formerly serving as XPO’s chief operating officer from 2014 to 2018, and as Transportation segment leader. From September 2015 to September 2017 he also served as chief executive officer and chairman of XPO Logistics Europe. Mr. Cooper joined the Company in September 2011 as vice president of finance. Prior to XPO, Mr. Cooper served as vice president and group controller with United Rentals, Inc., where he was responsible for field finance functions and helped to integrate over 200 acquisitions in the United States, Canada and Mexico. Earlier, he held controller positions with United Waste Systems, Inc. and OSI Specialties, Inc. (formerly a division of Union Carbide, Inc.). He began his career in public accounting with Arthur Andersen and Co. and has a degree in accounting from Marietta College.

Kenneth R. Wagers has served as XPO’s chief operating officer since April 2018, and additionally serves as interim president of the Company’s North American less-than-truckload business unit. Mr. Wagers has more than two decades of experience in the supply chain sector, including senior positions with Amazon.com, Dr Pepper Snapple Group and UPS. From 2013 until he joined the Company, he served as Amazon’s head of finance, worldwide transportation and logistics. For Dr Pepper Snapple Group, he held supply chain leadership positions in consumer packaged goods. Over 17 years with UPS, he was instrumental in the expansion of 3PL services, including UPS Supply Chain Solutions. Mr. Wagers holds a master’s degree in finance from Georgia State University.

Sarah J.S. Glickman has served as XPO’s acting chief financial officer since August 2018. Ms. Glickman served as XPO’s Senior Vice President, Corporate Finance from June 2018 to August 2018. Ms. Glickman’s more than 25 years of senior finance experience include her position as chief financial officer of business services for Novartis from January 2017 to May 2018, executive roles with Honeywell International from March 2006 to November 2016 and, prior to Honeywell, Bristol-Myers Squibb. During her 11 years with Honeywell, she served as chief financial officer of the fluorine products business, and as head of internal audit and director of finance operations. With Honeywell and Bristol-Myers Squibb, she held senior positions in corporate controllership and accounting, financial controls and compliance. Ms. Glickman began her career at PricewaterhouseCoopers. She is a CPA and a Chartered Accountant with a degree in economics from the University of York (UK).

Mario A. Harik has served as XPO’s chief information officer since November 2011. Mr. Harik has built comprehensive IT organizations, overseen the implementation of extensive proprietary platforms, and consulted to

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Fortune 100 companies. His prior positions include chief information officer and senior vice president of research and development with Oakleaf Waste Management; chief technology officer with Tallan, Inc.; co-founder of G3 Analyst, where he served as chief architect of web and voice applications; and architect and consultant with Adea Solutions. Mr. Harik holds a master's degree in engineering, information technology from Massachusetts Institute of Technology, and a degree in engineering, computer and communications from the American University of Beirut, Lebanon.

Corporate Information and Availability of Reports

XPO Logistics, Inc. was incorporated in Delaware on May 8, 2000. Our executive office is located in the United States at Five American Lane, Greenwich, Connecticut 06831. Our telephone number is (855) 976-6951. Our stock is listed on the New York Stock Exchange ("NYSE") under the symbol XPO.

Our corporate website is www.xpo.com. We make available on this website, free of charge, access to our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, specialized disclosure reports on Form SD, Proxy Statements on Schedule 14A and amendments to those materials filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after we electronically submit such material to the SEC. We also make available on our website copies of materials regarding our corporate governance policies and practices, including the XPO Logistics, Inc. Corporate Governance Guidelines, Code of Business Ethics and the charters relating to the committees of our Board of Directors. You also may obtain a printed copy of the foregoing materials by sending a written request to: Investor Relations, XPO Logistics, Inc., Five American Lane, Greenwich, Connecticut 06831.

ITEM 1A. RISK FACTORS

The following are important factors that could affect our financial performance and could cause actual results for future periods to differ materially from our anticipated results or other expectations, including those expressed in any forward-looking statements made in this Annual Report on Form 10-K or our other filings with the SEC or in oral presentations such as telephone conferences and webcasts open to the public. You should carefully consider the following factors and consider these in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 and our Consolidated Financial Statements and related Notes in Item 8.

Economic recessions and other factors that reduce freight volumes, both in North America and Europe, could have a material adverse impact on our business.

The transportation industry in North America and Europe historically has experienced cyclical fluctuations in financial results due to economic recession, downturns in the business cycles of our customers, increases in the prices charged by third-party carriers, interest rate fluctuations and other U.S. and global economic factors beyond our control. During economic downturns, a reduction in overall demand for transportation services will likely reduce demand for our services and exert downward pressures on our rates and margins. In periods of strong economic growth, demand for limited transportation resources can result in increased network congestion and operating inefficiencies. In addition, any deterioration in the economic environment subjects our business to various risks that may have a material impact on our operating results and future prospects. These risks may include the following:

- A reduction in overall freight volumes reduces our opportunities for growth. In addition, if a downturn in our customers' business cycles causes a reduction in the volume of freight shipped by those customers, our operating results could be adversely affected;
- Some of our customers may experience financial distress, file for bankruptcy protection, go out of business, or suffer disruptions in their business and may not be able to pay us. In addition, some customers may not pay us as quickly as they have in the past, causing our working capital needs to increase;
- A significant number of our transportation providers may go out of business and we may be unable to secure sufficient equipment capacity or services to meet our commitments to our customers; and
- We may not be able to appropriately adjust our expenses to changing market demands. In order to maintain high variability in our business model, it is necessary to adjust staffing levels when market demand

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changes. In periods of rapid change, it is more difficult to match our staffing levels to our business needs. In addition, we have other expenses that are primarily variable but are fixed for a period of time, as well as certain significant fixed expenses, and we may not be able to adequately adjust them in a period of rapid change in market demand.

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

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

- Competition from other transportation services companies, some of which offer different services or have a broader coverage network, more fully developed information technology systems and greater capital resources than we do;
- A reduction in the rates charged by our competitors to gain business, especially during times of declining economic growth, which may limit our ability to maintain or increase our rates, maintain our operating margins or achieve significant growth in our business;
- Shippers soliciting bids from multiple transportation providers for their shipping needs, which may result in the depression of freight rates or loss of business to competitors;
- The establishment by our competitors of cooperative relationships to increase their ability to address shipper needs;
- Decisions by our current or prospective customers to develop or expand internal capabilities for some of the services we provide; and
- The development of new technologies or business models that could result in our disintermediation in certain businesses, such as freight brokerage.

Our profitability may be materially adversely impacted if our investments in equipment, service centers and warehouses do not match customer demand for these resources or if there is a decline in the availability of funding sources for these investments.

Our LTL and full truckload operations require significant investments in equipment and freight service centers. The amount and timing of our capital investments depend on various factors, including anticipated freight volume levels and the price and availability of appropriate property for service centers and newly-manufactured tractors. If our anticipated service center and/or fleet requirements differ materially from actual usage, our capital-intensive business units, specifically LTL and full truckload, may have too much or too little capacity.

Our contract logistics operations can require a significant commitment of capital in the form of shelving, racking and other warehousing systems that may be required to implement warehouse-management services for our customers. To the extent that a customer defaults on its obligations under its agreement with us, we could be forced to take a significant loss on the unrecovered portion of this capital cost.

Our investments in equipment and service centers depend on our ability to generate cash flow from operations and our access to credit, debt and equity capital markets. A decline in the availability of these funding sources could adversely affect our financial condition and results of operations.

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 if 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 that we were not able to identify prior to the acquisition and that could adversely affect our financial condition and results; we have experienced challenges of this nature relating to the infrastructure and systems of our businesses that we recently acquired. Also, we may not realize all synergies we anticipate from past and potential future acquisitions. Among the synergies that we currently expect to realize are cross-selling opportunities to our existing customers, network synergies and other operational synergies. 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 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; they are a key component of our customer-facing services and internal growth strategy. In general, we expect our customers to continue to demand more sophisticated, fully integrated information systems from their transportation and logistics 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 and logistics industries 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

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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, regulatory and enforcement focus on data protection has heightened 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.

Our substantial indebtedness could adversely affect our financial condition.

We have substantial outstanding indebtedness, which could:

- Negatively affect our ability to pay principal and interest on our debt or dividends on our Series A Preferred Stock;
- Increase our vulnerability to general adverse economic and industry conditions;
- Limit our ability to fund future capital expenditures and working capital, to engage in future acquisitions or development activities, or to otherwise realize the value of our assets and opportunities fully because of the need to dedicate a substantial portion of our cash flow from operations to payments of interest and principal or to comply with any restrictive terms of our debt;
- Limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- Impair our ability to obtain additional financing or to refinance our indebtedness in the future; and
- Place us at a competitive disadvantage compared to our competitors that may have proportionately less debt.

Our inability to generate sufficient cash flows to satisfy our debt obligations, or to refinance our indebtedness on commercially reasonable terms or at all, could materially and adversely affect our financial position and results of operations. Further, failure to comply with the covenants under our indebtedness may have a material adverse impact on our operations. If we fail to comply with the covenants under any of our indebtedness, and are unable to obtain a waiver or amendment, such failure may result in an event of default under our indebtedness. We may not have sufficient liquidity to repay or refinance our indebtedness if such indebtedness were accelerated upon an event of default.

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Under the terms of our outstanding indebtedness, we may not be able to incur substantial additional indebtedness in the future, which could further exacerbate the risks described above.

The execution of our strategy could depend on our ability to raise capital in the future, and our inability to do so could prevent us from achieving our growth objectives.

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

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

In our global forwarding, last mile and freight brokerage operations, we do not own or control the transportation assets that deliver our customers' freight, and we do not employ the people directly involved in delivering this freight. In addition, in our freight brokerage businesses (particularly our over-the-road expedite operations and intermodal drayage operations) and in our last mile business, we engage independent contractors who own and operate their own equipment. Accordingly, we are dependent on third parties to provide truck, rail, ocean, air and other transportation services and to report certain events to us, including delivery information and cargo claims. This reliance on third parties could cause delays in reporting certain events, including our ability to recognize revenue and claims in a timely manner.

Our inability to maintain positive relationships with independent transportation providers could significantly limit our ability to serve our customers on competitive terms. If we are unable to secure sufficient equipment or other transportation services to meet our commitments to our customers or provide our services on competitive terms, our operating results could be materially and adversely affected, and our customers could shift their business to our competitors temporarily or permanently. Our ability to secure sufficient equipment or other transportation services to meet our commitments to our customers or provide our services on competitive terms is subject to inherent risks, many of which are beyond our control, including the following:

- Equipment shortages in the transportation industry, particularly among contracted truckload carriers and railroads;
- Interruptions or stoppages in transportation services as a result of labor disputes, seaport strikes, network congestion, weather-related issues, "Acts of God" or acts of terrorism;
- Changes in regulations impacting transportation;
- Increases in operating expenses for carriers, such as fuel costs, insurance premiums and licensing expenses, that result in a reduction in available carriers; and
- Changes in transportation rates.

Increases in driver compensation and difficulties attracting and retaining drivers could adversely affect our revenues and profitability.

Our LTL services in North America and Europe and our full truckload services in Europe are conducted primarily with employee drivers. Recently, there has been intense competition for qualified drivers in the transportation industry due to a shortage of drivers. The availability of qualified drivers may be affected from time to time by changing workforce demographics, competition from other transportation companies and industries for employees, the availability and affordability of driver training schools, changing industry regulations, and the demand for drivers in the labor market. If the industry-wide shortage of qualified drivers continues, these business lines will likely continue to experience difficulty in attracting and retaining enough qualified drivers to fully satisfy customer demands. As a result of the current highly-competitive labor market for drivers, our LTL and full truckload operations may be required to increase driver compensation and benefits in the future, or face difficulty meeting customer demands, all of which could adversely affect our profitability. Additionally, a shortage of drivers could result in the underutilization of our truck fleet, lost revenue, increased costs for purchased transportation or increased costs for driver recruitment.

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Increases in independent contractor driver rates or other necessities in attracting and retaining qualified independent contractor drivers could adversely affect our profitability and ability to replenish or grow our independent contractor driver networks.

Our freight brokerage and intermodal businesses operate through fleets of vehicles that are owned and operated by independent contractors. Our last mile business also operates through a fleet of independent contract carriers that supply their own vehicles, drivers and helpers. These independent contractors are responsible for maintaining and operating their own equipment and paying their own fuel, insurance, licenses and other operating costs. Turnover and bankruptcy among independent contractor drivers often limit the pool of qualified independent contractor drivers and increase competition for their services. In addition, regulations such as the FMCSA Compliance Safety Accountability program may further reduce the pool of qualified independent contractor drivers. Thus, our continued reliance on independent contractor drivers could limit our ability to grow our ground transportation networks.

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

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

Our business may be materially adversely affected by labor disputes.

Our business in the past has been, and in the future could be, adversely affected by strikes and labor negotiations affecting seaports, labor disputes between railroads and their union employees, or by a work stoppage at one or more railroads or local trucking companies servicing rail or port terminals, including work disruptions involving owner-operators under contract with our local trucking operations. Port shutdowns and similar disruptions to major points in national or international transportation networks, most of which are beyond our control, could result in terminal embargoes, disrupt equipment and freight flows, depress volumes and revenues, increase costs and have other negative effects on our operations and financial results.

Labor disputes involving our customers could affect our operations. If our customers are unable to negotiate new labor contracts and our customers' plants experience slowdowns or closures as a result, our revenue and profitability could be negatively impacted. In particular, our Logistics segment derives a substantial portion of its revenue from the operation and management of facilities that are often located in close proximity to a customer's manufacturing plant and are integrated into the customer's production line process. We may experience significant revenue loss and shutdown costs, including costs related to early termination of leases, causing our business to suffer if clients are affected by strikes or other labor disputes, close their plants or significantly modify their capacity or supply chains at a plant that our Logistics segment services.

XPO Logistics Europe's business activities require a large amount of labor, which represents one of its most significant costs, and it is essential that we maintain good relations with employees, trade unions and other staff representative institutions. A deteriorating economic environment may result in tensions in industrial relations, which may lead to industrial action within our European operations and this could have a direct impact on our business operations. Generally, any deterioration in industrial relations in our European operations could have an adverse effect on our revenues, earnings, financial position and outlook.

Efforts by labor organizations to organize employees at certain locations in North America, if successful, may result in increased costs and decreased efficiencies at those locations.

Since 2014, in the United States, the International Brotherhood of Teamsters ("Teamsters") has attempted to organize employees at several of the Company's LTL locations and two Supply Chain locations, and the International Association of Machinists ("Machinists") has attempted to organize a small number of mechanics at

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three LTL maintenance shops. In 2018, the United Automobile, Aerospace and Agricultural Implement Workers of America ("UAW") attempted to organize warehouse workers at one Supply Chain location. The majority of our employees involved in these organizing efforts rejected union representation. As of January 1, 2019, our employees have voted in favor of union representation in nine of the 23 union elections held since 2014, with approximately 520 employees voting in favor and 560 employees voting against representation. In October 2017, a majority of the employees of the North Haven, Connecticut Supply Chain location who had voted for Teamsters representation petitioned the Company to withdraw recognition of the Teamsters as the employees' representative and the Company withdrew this recognition. In addition, the Company continues to challenge the results of one election held in 2014 for an LTL location in Los Angeles, California pursuant to a petition that had been filed by the Teamsters. The remaining seven locations where employees had voted in favor of union representation are in negotiations for an initial collective bargaining agreement. Since 2014, the Teamsters have withdrawn six petitions seeking elections on behalf of approximately 230 LTL employees prior to the election being held, and the Machinists withdrew one petition for an LTL election on behalf of six individuals. We cannot predict with certainty whether further organizing efforts may result in the unionization of any additional locations domestically. If successful, these efforts may result in increased costs and decreased efficiencies at the specific locations where representation is elected. We do not expect the impact, if any, to extend to our larger organization or the service of our customer base.

Certain of our businesses rely on owner-operators and contract carriers to conduct their operations, and the status of these parties as independent contractors, rather than employees, is being challenged.

We are involved in numerous lawsuits, including putative class action lawsuits, multi-plaintiff and individual lawsuits, and state tax and other administrative proceedings that claim that our contract carriers or owner-operators or their drivers should be treated as our employees, rather than independent contractors, or that certain of our 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. In addition, we incur certain costs, including legal fees, in defending the status of these parties as independent contractors.

While we believe that our contract carriers and owner-operators and their drivers are properly classified as independent contractors rather than as employees, adverse decisions have been rendered recently in certain cases pending against us, including with respect to determinations that certain of our contract carriers and owner-operators are improperly classified. Certain of these decisions are subject to appeal, but we cannot provide assurance that we will determine to pursue any appeal or that any such appeal will be successful. Adverse final outcomes in these matters could, among other things, entitle certain of our contract carriers and owner-operators and their drivers to reimbursement with respect to certain expenses and to the benefit of wage-and-hour laws and result in employment and withholding tax and benefit liability for us, and could result in changes to the independent contractor status of our contract carriers and owner-operators. Changes to state laws governing the definition of independent contractors could also impact the status of our contract carriers and owner-operators. Adverse final outcomes in these matters or changes to state laws could cause us to change our business model, which could have a material adverse effect on our business strategies, financial condition, results of operations or cash flows. These claims involve potentially significant classes that could involve thousands of claimants and, accordingly, significant potential damages and litigation costs, and could lead others to bring similar claims.

The results of these matters cannot be predicted with certainty and an unfavorable resolution of one or more of these matters could have a material adverse effect on our financial condition, results of operations or cash flows.

Our overseas operations subject us to various operational and financial risks that could adversely affect our business.

The services we provide outside of the United States subject us to risks resulting from changes in tariffs, trade restrictions, trade agreements, tax policies, difficulties in managing or overseeing foreign operations and agents, different liability standards, issues related to compliance with anti-corruption laws such as the Foreign Corrupt Practices Act and the U.K. Bribery Act, data protection, trade compliance, and intellectual property laws of countries which do not protect our rights in our intellectual property, including our proprietary information systems, to the same extent as the laws of the United States. The occurrence or consequences of any of these factors may restrict our

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ability to operate in the affected region and/or decrease the profitability of our operations in that region. As we expand our business in foreign countries, we will also be exposed to increased risk of loss from foreign currency fluctuations and exchange controls.

Our European business heavily relies on subcontracting and we use a large number of temporary employees in these operations. Any failure to properly manage our subcontractors or temporary employees in Europe could have a material adverse impact on our revenues, earnings, financial position and outlook.

We operate in Europe through our majority-owned subsidiary, XPO Logistics Europe SA. Subcontracting plays a key role in our European operations and we subcontract approximately 55% of our transport operations in the region. As a result, we are exposed to various risks related to managing our subcontractors, such as the risk that they do not fulfill their assignments in a satisfactory manner or within the specified deadlines. Such failures could compromise our ability to fulfill our commitments to our customers, comply with applicable regulations or otherwise meet our customers' expectations. In some situations, the poor execution of services by our subcontractors could result in a customer terminating a contract. Such failures by our subcontractors could harm our reputation and ability to win new business and could lead to our being liable for contractual damages. Furthermore, in the event of a failure by our subcontractors to fulfill their assignments in a satisfactory manner, we could be required to perform unplanned work or additional services in line with the contracted service, without receiving any additional compensation. Lastly, some of our subcontractors in Europe may not be insured or may not have sufficient resources available to handle any claims from customers resulting from potential damage and losses relating to their performance of services on our behalf. As a result, the non-compliance by our subcontractors with their contractual or legal obligations may have a material adverse effect on our business and financial condition.

XPO Logistics Europe also makes significant use of temporary staff. We cannot guarantee that temporary employees are as well-trained as our other employees. Specifically, we may be exposed to the risk that temporary employees may not perform their assignments in a satisfactory manner or may not comply with our safety rules in an appropriate manner, whether as a result of their lack of experience or otherwise. If such risks materialize, they could have a material adverse effect on our business and financial condition.

We are involved in multiple lawsuits and are subject to various claims that could result in significant expenditures and impact our operations.

The nature of our business exposes us to the potential for various types of claims and litigation. In addition to the matters described in the risk factor "Certain of our businesses rely on owner-operators and contract carriers to conduct their operations, and the status of these parties as independent contractors, rather than employees, is being challenged," we are subject to claims and litigation related to labor and employment, personal injury, vehicular accidents, cargo and other property damage, business practices, environmental liability and other matters, including with respect to claims asserted under various theories of agency and employer liability notwithstanding our independent contractor relationships with our transportation providers. Claims against us may exceed the amount of insurance coverage that we have or may not be covered by insurance at all. Businesses that we acquire also increase our exposure to litigation. Material increases in the frequency or severity of vehicular accidents, liability claims or workers' compensation claims, or the unfavorable resolution of claims, or our failure to recover, in full or in part, under indemnity provisions with transportation providers, could materially and adversely affect our operating results. Our involvement in the transportation of certain goods, including but not limited to hazardous materials, could also increase our exposure in the event that we or one of our contracted carriers is involved in an accident resulting in injuries or contamination. In addition, significant increases in insurance costs or the inability to purchase insurance as a result of these claims could reduce our profitability.

An increase in the number and/or severity of self-insured claims or an increase in insurance premiums could have an adverse effect on us.

We use a combination of self-insurance programs and large-deductible purchased insurance to provide for the costs of employee medical, vehicular collision and accident, cargo and workers' compensation claims. Our estimated liability for self-retained insurance claims reflects certain actuarial assumptions and judgments, which are subject to a degree of variability. We reserve for anticipated losses and expenses and periodically evaluate and adjust our claims reserves to reflect our experience. Estimating the number and severity of claims, as well as related judgment or settlement amounts, is inherently difficult. This, along with legal expenses, incurred but not reported claims, and other uncertainties can cause unfavorable differences between actual self-insurance costs and our reserve estimates. Accordingly, our ultimate results may differ from our estimates, which could result in losses over our reserved amounts. We periodically evaluate our level of insurance coverage and adjust insurance levels based on targeted risk tolerance and premium expense. An increase in the number and/or severity of self-insured claims or an increase in insurance premiums could have an adverse effect on us, while higher self-insured retention levels may increase the impact of loss occurrences on our results of operations.

In addition, the cost of providing benefits under our medical plans is dependent on a variety of factors, including governmental laws and regulations, healthcare cost trends, claims experience and healthcare decisions by plan participants. As a result, we are unable to predict how the cost of providing benefits under medical plans will affect our financial condition, results of operations or cash flows.

We are currently subject to securities class action litigation and may be subject to similar litigation in the future. Such matters can be expensive, time-consuming and have a material adverse effect on our business, results of operations and financial condition.

We are currently subject to securities class action litigation alleging violations of securities laws, which could harm our business and require us to incur significant costs. In December 2018, two purported class action lawsuits were filed against us and certain of our officers alleging that we made false and misleading statements and purporting to assert claims for violations of the federal securities laws, and seeking unspecified compensatory damages and other relief. One class action lawsuit has since been voluntarily dismissed. While we believe that we have a number of valid defenses to the claims described above and intend to vigorously defend ourselves in the remaining class action lawsuit, the matter is in the early stages of litigation and no assessment can be made as to the likely outcome of the matter or whether it will be material to us. Also, we may be subject to additional suits or proceedings in the future and litigation of this type may require significant attention from management and could result in significant legal expenses, settlement costs or damage awards that could have a material impact on our financial position, results of operations and cash flows.

We are subject to risks associated with defined benefit plans for our current and former employees, which could have a material adverse effect on our earnings and financial position.

We maintain defined benefit pension plans and a postretirement medical plan. Our defined benefit pension plans include funded and unfunded plans in the United States and the United Kingdom. A decline in interest rates and/or lower returns on funded plan assets may cause increases in the expense and funding requirements for these defined benefit pension plans and for our postretirement medical plan. Despite past amendments that froze our defined benefit pension plans to new participants and curtailed benefits, these pension plans remain subject to volatility associated with interest rates, inflation, returns on plan assets, other actuarial assumptions and statutory funding requirements. In addition to being subject to volatility associated with interest rates, our postretirement medical plan remains subject to volatility associated with actuarial assumptions and trends in healthcare costs. Any of the aforementioned factors could lead to a significant increase in the expense of these plans and a deterioration in the solvency of these plans, which could significantly increase the Company’s contribution requirements. As a result, we are unable to predict the effect on our financial statements associated with our defined benefit pension plans and our postretirement medical plan.

Because of our floating rate credit facilities, we may be adversely affected by interest rate changes.

The Second Amended and Restated Revolving Loan Credit Agreement, as amended (the “ABL Facility”), the senior secured term loan credit agreement, as amended (the “Term Loan Facility”) and the unsecured credit agreement (the “Unsecured Credit Agreement”), provide for an interest rate based on London Interbank Offered Rate (“LIBOR”) or a Base Rate, as defined in the agreements, plus an applicable margin. Our European trade receivables securitization program (the “Receivables Securitization Program”) provides for an interest rate at lenders’ cost of funds plus an applicable margin. Our financial position may be affected by fluctuations in interest rates since the ABL Facility, Term Loan Facility, Unsecured Credit Agreement and Receivables Securitization Program are subject to floating interest rates. Refer to Item 7A, “Quantitative and Qualitative Disclosures about Market Risk” for the impact on interest expense of a hypothetical 100 basis point increase in the interest rate. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political

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conditions and other factors beyond our control. A significant increase in interest rates could have an adverse effect on our financial position and results of operations.

We are exposed to currency exchange rate fluctuations because a significant proportion of our assets, liabilities and earnings are denominated in foreign currencies.

We present our financial statements in U.S. dollars, but we have a significant proportion of our net assets and income in non-U.S. dollar currencies, primarily the euro and British pound sterling. Consequently, a depreciation of non-U.S. dollar currencies relative to the U.S. dollar could have an adverse impact on our financial results as further discussed below under Item 7A, "Quantitative and Qualitative Disclosures about Market Risk."

The economic uncertainties relating to eurozone monetary policies may cause the value of the euro to fluctuate against other currencies. Currency volatility contributes to variations in our sales of products and services in impacted jurisdictions. For example, in the event that one or more European countries were to replace the euro with another currency, our sales into such countries, or in Europe generally, would likely be adversely affected until stable exchange rates are established. Accordingly, fluctuations in currency exchange rates could adversely affect our business and financial condition and the business of the combined company.

The United Kingdom's expected exit from the European Union could have a material adverse effect on our business and results of operations.

Following a referendum in June 2016 in which voters in the United Kingdom ("U.K.") approved an exit from the European Union ("EU"), the U.K. government initiated a process to leave the EU (a process often referred to as "Brexit") and has begun negotiating the terms of the U.K.'s future relationship with the EU. The likely exit of the U.K. from the EU will have uncertain impacts on our transportation and logistics operations in Europe. In 2018, we derived approximately 38% of our revenue from the U.K. and Europe, including 12% from the U.K. Any adverse consequences of Brexit, such as a deterioration in the U.K.'s and/or EU's economic condition, currency exchange rates, bilateral trade agreements or regulation of trade, including the potential imposition of tariffs, could reduce demand for our services in the U.K. and/or the EU, negatively impact the value of our defined benefit pension plans in the U.K., or otherwise have a negative impact on our operations, financial condition and results of operations.

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

We may fund any future acquisitions or our capital requirements from time to time, in whole or part, through sales or issuances of our common stock or equity-based securities, subject to prevailing market conditions and our financing needs. Future equity financing will dilute the interests of our then-existing stockholders, and future sales or issuances of a substantial number of shares of our common stock or other equity-related securities may adversely affect the market price of our common stock.

We do not own, and may not acquire, all of the outstanding shares of XPO Logistics Europe SA, the majority-owned subsidiary through which we conduct our European operations.

We currently own 86.25% of the outstanding shares of XPO Logistics Europe, the majority-owned subsidiary through which we conduct our European operations. We may not acquire the remaining shares of XPO Logistics Europe. French law only permits "squeeze out" mergers when a holder owns more than 95% of the outstanding shares. Since we do not wholly-own XPO Logistics Europe, we will not have access to all of its cash flow to service our debt, as we will only receive a prorated portion of any dividend based on our ownership percentage. In addition, we will be subject to limitations on our ability to enter into transactions with XPO Logistics Europe that are not on arms-length terms, which could limit synergies that we could otherwise achieve between our North American and European operations. We also may not be able to consolidate XPO Logistics Europe with XPO Logistics France SAS, XPO's 100% owned French holding company, for tax purposes. Moreover, XPO Logistics Europe would be forced to continue as a listed public company in France, thereby incurring certain recurring costs.

Volatility in fuel prices impacts our fuel surcharge revenues and may impact our profitability.

We are subject to risks associated with the availability and price of fuel, which are subject to political, economic and market factors that are outside of our control.

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Fuel expense constitutes one of the greatest costs to our LTL and full truckload carrier operations, as well as to our fleet of independent contractor drivers and third-party transportation providers who complete the physical movement of freight arranged by our other business operations. Accordingly, we may be adversely affected by the timing and degree of fluctuations and volatility in fuel prices. As is customary in our industry, most of our customer contracts include fuel-surcharge revenue programs or cost-recovery mechanisms to mitigate the effect of the fuel price increase over base amounts established in the contract. However, these fuel surcharge mechanisms may not capture the entire amount of the increase in fuel prices, and they also feature a lag between the payment for fuel and collection of the surcharge revenue. Market pressures may limit our ability to assess fuel surcharges in the future. The extent to which we are able to recover fuel cost charges in full may also vary depending on the degree to which we are not compensated due to empty and out-of-route miles or from engine idling during cold or warm weather.

Decreases in fuel prices reduce the cost of transportation services and accordingly, will reduce our revenues and may reduce margins for certain lines of business. Significant changes in the price or availability of fuel in future periods, or significant changes in our ability to mitigate fuel price increases through the use of fuel surcharges, could have a material adverse impact on our operations, fleet capacity and ability to generate both revenues and profits.

Extreme or unusual weather conditions can disrupt our operations, impact freight volumes, and increase our costs, all of which could have a material adverse effect on our business results.

Certain weather conditions such as floods, ice and snow can disrupt our operations. Increases in the cost of our operations, such as snow removal at our locations, towing and other maintenance activities, frequently occur during the winter months. Natural disasters such as hurricanes and flooding can also impact freight volumes and increase our costs.

Issues related to the intellectual property rights on which our business depends, whether related to our failure to enforce our own rights or infringement claims brought by others, could have a material adverse effect on our business, financial condition and results of operations.

We use both internally developed and purchased technologies in conducting our business. Whether internally developed or purchased, it is possible that users of these technologies could be claimed to infringe upon or violate the intellectual property rights of third parties. In the event that a claim is made against us by a third party for the infringement of intellectual property rights, any settlement or adverse judgment against us, either in the form of increased costs of licensing or a cease and desist order in using the technology, could have an adverse effect on us and our results of operations.

We also rely on a combination of intellectual property rights, including copyrights, trademarks, domain names, trade secrets, intellectual property licenses and other contractual rights, to establish and protect our intellectual property and technology. Any of our owned or licensed intellectual property rights could be challenged, invalidated, circumvented, infringed or misappropriated; our trade secrets and other confidential information could be disclosed in an unauthorized manner to third parties or we may fail to secure the rights to intellectual property developed by our employees, contractors and others. Efforts to enforce our intellectual property rights may be time-consuming and costly, distract management’s attention and resources and ultimately be unsuccessful. Moreover, our failure to develop and properly manage new intellectual property could adversely affect our market positions and business opportunities. Our failure to obtain, maintain and enforce our intellectual property rights could therefore have a material adverse effect on our business, financial condition and results of operations.

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

Our operations are regulated and licensed by various governmental agencies in the United States and in foreign countries in which we operate. These regulatory agencies have authority and oversight of domestic and international transportation services and related activities, licensure, motor carrier operations, safety and security and other matters. We must comply with various insurance and surety bond requirements to act in the capacities for which we are licensed. Our subsidiaries and independent contractors must also comply with applicable regulations and requirements of various agencies. Through our subsidiaries and business units, we hold various licenses required to carry out our domestic and international services. These licenses permit us to provide services as a motor carrier, property broker, indirect air carrier, OTI, NVOCC, freight forwarder, air freight forwarder, and ocean freight

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forwarder. We also are subject to regulations and requirements promulgated by, among others, the DOT, FMCSA, DHS, CBP, TSA, FMC, IATA, the Canada Border Services Agency and various other international, domestic, state, and local agencies and port authorities. Certain of our businesses engage in the transportation of hazardous materials, which subjects us to regulations with respect to transportation of such materials and environmental regulations in the case of any accidents that occur during the transportation of materials and result in discharge of such materials. Our failure to maintain our required licenses, or to comply with applicable regulations, could have a material adverse impact on our business and results of operations. See the "Regulation" section of this Annual Report on Form 10-K under the caption titled "Business" for more information.

Future laws and regulations may be more stringent and require changes to our operating practices that influence the demand for transportation services or require us to incur significant additional costs. We are unable to predict the impact that recently enacted and future regulations may have on our businesses. In particular, it is difficult to predict which and in what form CSA, the ELD mandate or any other FMCSA regulations may be modified or enforced and what impact any such regulation may have on motor carrier operations or the aggregate number of trucks that provide hauling capacity to the Company. Higher costs incurred by us as a result of future new regulations, or by our independent contractors or third-party transportation providers who pass increased costs on to us, could adversely affect our results of operations to the extent we are unable to obtain a corresponding increase in price from our customers.

Failure to comply with trade compliance laws and regulations applicable to our operations may subject us to liability and result in mandatory or voluntary disclosures to government agencies of transactions or dealings involving sanctioned countries, entities or individuals.

As a result of our acquisition activities, we acquired companies with business operations outside the U.S., some of which were not previously subject to certain U.S. laws and regulations, including trade sanctions administered by the U.S. Department of Treasury, Office of Foreign Assets Control ("OFAC"). In the course of implementing our compliance processes with respect to the operations of these acquired companies, we have identified a number of transactions or dealings involving countries and entities that are subject to U.S. economic sanctions. As disclosed in our reports filed with the SEC, we filed initial voluntary disclosure of such matters with OFAC in August 2016. In August 2018, OFAC addressed these matters by responding with a cautionary letter to us. To our knowledge, OFAC is considering no further action in response to the voluntary disclosure filed by us in August 2016. We may, in the future, identify additional transactions or dealings involving sanctioned countries, entities or individuals. The transactions or dealings that we have identified to date, or other transactions or dealings that we may identify in the future, could result in negative consequences to us, including government investigations, penalties and reputational harm.

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

Under applicable SEC rules, our Chairman and Chief Executive Officer, Mr. Bradley S. Jacobs, beneficially owns approximately 15% of our outstanding common stock as of December 31, 2018. This concentration of share ownership may adversely affect the trading price for our common stock because investors may perceive disadvantages in owning stock in companies with concentrated stockholders. Our preferred stock votes together with our common stock on an "as-converted" basis on all matters, except as otherwise required by law, and separately as a class with respect to certain matters implicating the rights of holders of shares of the preferred stock. Accordingly, Mr. Jacobs can exert substantial influence over our management and affairs and matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions, such as mergers, consolidations or the sale of substantially all of our assets. Consequently, this concentration of ownership may have the effect of delaying or preventing a change of control, including a merger, consolidation, or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change of control would benefit our other stockholders. Additionally, significant fluctuations in the levels of ownership of our largest stockholders, including shares beneficially owned by Mr. Jacobs, could impact the volume of trading, liquidity and market price of our common stock.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 31, 2018, the Company and its subsidiaries operated approximately 1,535 locations, primarily in North America and Europe, including approximately 331 locations owned or leased by our customers. These facilities are located in all 48 states of the contiguous United States as well as globally.

Segment (Location)	Leased Facilities	Owned Facilities	Customer Facilities (2)	Total
Transportation (North America)	371	144	5	520
Transportation (Europe)	164	30	—	194
Transportation (Other) (1)	10	—	—	10
Logistics (North America)	200	1	131	332
Logistics (Europe)	210	9	173	392
Logistics (Other) (1)	55	—	22	77
Corporate	9	1	—	10
Total	1,019	185	331	1,535

(1) Other represents locations primarily in Asia.

(2) Locations owned and leased by customers.

We lease our current executive office located in Greenwich, Connecticut, as well as our national operations center in Charlotte, North Carolina. As of December 31, 2018, we owned a shared-services center in Portland, Oregon and the facility at which we conduct a portion of our expedited transportation operations in Buchanan, Michigan. In addition, we owned 138 freight service centers for our LTL business and 39 properties throughout Europe. We believe that our facilities are sufficient for our current needs.

ITEM 3. LEGAL PROCEEDINGS

We are involved, and will continue to be involved, in numerous legal proceedings arising out of the conduct of our 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 putative class action lawsuits, multi-plaintiff and individual lawsuits and state tax and other administrative proceedings that claim either that our owner-operators or contract carriers should be treated as employees, rather than independent contractors, or that certain of our 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. Additionally, we are subject to shareholder litigation regarding our public filings with the SEC. For additional information about these matters, please refer to Note 17—Commitments and Contingencies to the Consolidated Financial Statements.

We do not believe that the ultimate resolution of any matters to which we are presently party will have a material adverse effect on our results of operations, financial condition or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on our financial condition, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

Common Stock

Our common stock is listed on the New York Stock Exchange ("NYSE") under the symbol XPO.

As of February 8, 2019, there were approximately 210 record holders of our common stock, based upon data available to us from our transfer agent. We have never paid, and have no immediate plans to pay, cash dividends on our common stock.

Issuer Purchases of Equity Securities

(In millions, except per share data)	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
October 1, 2018 through October 31, 2018	—	$ —	—	$ —
November 1, 2018 through November 30, 2018	—	—	—	—
December 1, 2018 through December 31, 2018	10	53.46	10	464
Total	10	$ 53.46	10	$ 464

(1) Based on settlement date.

(2) On December 14, 2018, our Board of Directors authorized share repurchases of up to $1 billion of our common stock. For further details, refer to Note 13—Stockholders' Equity to the Consolidated Financial Statements. In January and February 2019, we repurchased 8 million shares for an aggregate value of $464 million. This completed the authorized repurchase program. On February 13, 2019, our Board of Directors authorized a new share repurchase of up to $1.5 billion of our common stock. We are not obligated to repurchase any specific number of shares, and may suspend or discontinue the program at any time.

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Stock Performance Graph

The graph below compares the cumulative five-year total return of holders of our common stock with the cumulative total returns, including reinvestment of any dividends, of the Russell 2000 Index, the Dow Jones Transportation Average Index and the Russell MidCap index. The rules of the SEC require that if an index is selected that is different from the index used in the immediately preceding fiscal year, the total return must be compared with both the newly-selected index and the index used in the immediately preceding year. The graph in our 2017 Annual Report on 10-K included a comparison of our common stock with the Russell 2000 Index and the Dow Jones Transportation Average Index. However, the Russell MidCap index, of which we are a component, generally includes companies with more comparable market capitalization to us than the Russell 2000 index. As a result, we believe that the Russell MidCap index is a more appropriate index and have included both the Russell 2000 and the Russell MidCap indices in the graph. The graph tracks the performance of a $100 investment in our common stock and in each index from December 31, 2013 to December 31, 2018.

	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18
XPO Logistics, Inc.	$100.00	$155.50	$103.65	$164.17	$348.38	$216.96
Russell 2000	$100.00	$104.89	$100.26	$121.63	$139.44	$124.09
Dow Jones Transportation Average	$100.00	$125.07	$104.11	$127.36	$151.58	$132.90
Russell MidCap	$100.00	$113.22	$110.46	$125.70	$148.97	$135.48

Unregistered Sales of Equity Securities and Use of Proceeds

During the year ended December 31, 2018, pursuant to the Investment Agreement dated as of June 13, 2011 by and among Jacobs Private Equity, LLC (“JPE”) and the other investors party thereto (collectively with JPE, the “Investors”) the Company issued 53,500 unregistered shares of its common stock as a result of the cashless exercise

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of warrants by certain shareholders and 7,143 unregistered shares of its common stock as a result of the exercise of warrants by certain shareholders for cash resulting in the receipt of $50,001 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.

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth our selected historical and quarterly consolidated financial data. During 2014 and 2015, we made a number of acquisitions, including the 2015 acquisitions of Con-way, Inc. and Norbert Dentressangle, and have included the results of operations of the acquired businesses from the date of acquisition. Additionally, we divested our North American Truckload operation in the fourth quarter of 2016. As a result, our period to period results of operations vary depending on the dates and sizes of these acquisitions and divestitures. Accordingly, this selected financial data is not necessarily comparable or indicative of our future results. This financial data should be read together with our Consolidated Financial Statements and related notes, Management's Discussion and Analysis of Financial Condition and Results of Operations, and other financial data appearing elsewhere in this Annual Report.

	As of or For the Years Ended December 31,				
(In millions, except per share data)	2018	2017	2016	2015	2014
Operating Results:					
Revenue	$17,279	$15,381	$14,619	$7,623	$2,357
Operating income (loss) [1]	704	582	464	(29)	(41)
Income (loss) before income taxes	566	261	107	(283)	(90)
Net income (loss) [2]	444	360	85	(192)	(64)
Net income (loss) attributable to common shareholders [3]	390	312	63	(246)	(107)
Per Share Data:					
Basic earnings (loss) per share	$3.17	$2.72	$0.57	$(2.65)	$(2.00)
Diluted earnings (loss) per share	2.88	2.45	0.53	(2.65)	(2.00)
Financial Position:					
Total assets	$12,270	$12,602	$11,698	$12,643	$2,749
Long-term debt, less current portion	3,902	4,418	4,732	5,273	580
Preferred stock	41	41	42	42	42
Total equity	3,970	4,010	3,038	3,061	1,655

(1) Operating income for 2017 and 2016 reflects the retrospective effects from the January 1, 2018 adoption of Accounting Standard Update 2017-07, Compensation - Retirement Benefits (Topic 715): "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." See Note 2—Basis of Presentation and Significant Accounting Policies to the Consolidated Financial Statements in Item 8 for further information.

(2) As discussed further in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," our net income for 2017 included a $173 million benefit related to the revaluation of our net deferred tax liabilities as a result of the Tax Cuts and Jobs Act (the "Tax Act").

(3) Net loss attributable to common shareholders for the years ended December 31, 2015 and 2014 reflect beneficial conversion charges of $52 million on Series C Preferred Stock and $41 million on Series B Preferred Stock, respectively, that were recorded as deemed distributions during the third quarter of 2015 and the fourth quarter of 2014, respectively.

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The Company's unaudited results of operations for each of the quarters in the years ended December 31, 2018 and 2017 are summarized below:

(In millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter (2) (3)
2018				
Revenue	$ 4,192	$ 4,363	$ 4,335	$ 4,389
Operating income	141	228	209	126
Net income	79	159	115	91
Net income attributable to common shareholders (1)	67	138	101	84
Basic earnings per share (1)	0.56	1.14	0.81	0.67
Diluted earnings per share (1)	0.50	1.03	0.74	0.62
2017				
Revenue	$ 3,540	$ 3,760	$ 3,887	$ 4,194
Operating income	104	175	177	126
Net income	25	57	71	207
Net income attributable to common shareholders (1)	19	47	57	189
Basic earnings per share (1)	0.18	0.43	0.49	1.57
Diluted earnings per share (1)	0.16	0.38	0.44	1.42

(1) The sum of the quarterly Net income (loss) attributable to common shareholders and earnings per share may not equal annual amounts due to differences in the weighted-average number of shares outstanding during the respective periods and the impact of the two-class method of calculating earnings per share.

(2) The fourth quarter of 2018 included a litigation charge of $26 million, a gain on the sale of an equity investment of $24 million and a restructuring charge of $19 million.

(3) The fourth quarter of 2017 included a debt extinguishment loss of $22 million and a tax benefit of $173 million resulting from the enactment of the Tax Act.

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ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

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. We are organized into two reportable segments: Transportation and Logistics. The Transportation segment provides freight brokerage, last mile, less-than-truckload (“LTL”), full truckload, global forwarding and managed transportation services. The Logistics segment, which we also refer to as supply chain, provides differentiated and data-intensive contract logistics services for customers, including value-added warehousing and distribution, e-commerce fulfillment, cold chain solutions, reverse logistics, packaging and labeling, factory support, aftermarket support, inventory management and personalization services, such as laser etching. In addition, our Logistics segment provides highly engineered, customized solutions and supply chain optimization services, such as volume flow management, predictive analytics and advanced automation.

Our 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.

Consolidated Summary Financial Table

	For the Years Ended December 31,			Percent of Revenue		
(Dollars in millions)	2018	2017	2016	2018	2017	2016
Revenue	$17,279	$15,381	$14,619	100.0 %	100.0 %	100.0 %
Cost of transportation and services	9,013	8,132	7,887	52.2 %	52.9 %	54.0 %
Direct operating expense	5,725	5,006	4,616	33.1 %	32.5 %	31.6 %
SG&A expense	1,837	1,661	1,652	10.6 %	10.8 %	11.3 %
Operating income	704	582	464	4.1 %	3.8 %	3.2 %
Other expense (income)	(109)	(57)	(34)	(0.6)%	(0.4)%	(0.2)%
Foreign currency loss (gain)	3	58	(40)	— %	0.4 %	(0.3)%
Debt extinguishment loss	27	36	70	0.2 %	0.2 %	0.5 %
Interest expense	217	284	361	1.3 %	1.8 %	2.5 %
Income before income tax provision (benefit)	566	261	107	3.3 %	1.7 %	0.8 %
Income tax provision (benefit)	122	(99)	22	0.7 %	(0.6)%	0.2 %
Net income	$444	$360	$85	2.6 %	2.3 %	0.6 %

Year Ended December 31, 2018 Compared with Year Ended December 31, 2017

Our consolidated revenue for 2018 increased by 12.3% to $17.3 billion, from $15.4 billion in 2017. The increase primarily was driven by growth in our European and North American contract logistics businesses, and by the expansion of our transportation businesses, most notably our LTL, freight brokerage and last mile service offerings. Foreign currency movement contributed to revenue growth by approximately 1.6 percentage points in 2018.

During the fourth quarter of 2018, our largest customer curtailed its business with us, resulting in a decrease in revenue of $46 million. In early 2019, this same customer further downsized the balance of its business with us. Based on 2018 data, we estimate that the downsizing will negatively impact our full-year 2019 revenue by approximately $600 million, or approximately two-thirds of the revenue that this customer’s business generated for our Company in 2018.

Cost of transportation and services includes the cost of providing or procuring freight transportation for XPO customers and salaries paid to employee drivers in our truckload and LTL businesses.

Cost of transportation and services increased by 10.8% in 2018 to $9,013 million, from $8,132 million in 2017. As a percentage of revenue, Cost of transportation and services decreased to 52.2% in 2018, from 52.9% in 2017. The reduction as a percentage of revenue was primarily driven by a higher mix of contract logistics revenue, and by net revenue margin improvement in freight brokerage. Net revenue is defined as Revenue less Cost of transportation and services. Net revenue margin is defined as net revenue as a percentage of Revenue.

Direct operating expenses are both fixed and variable expenses and consist of operating costs related to our contract logistics facilities, last mile warehousing facilities, LTL service centers and European LTL network. Direct operating costs consist mainly of personnel costs, facility and equipment expenses, such as rent, utilities, equipment maintenance and repair, costs of materials and supplies, information technology expenses, depreciation expense, and gains and losses on sales of property and equipment.

Direct operating expense in 2018 was $5,725 million, or 33.1% of revenue, compared with $5,006 million, or 32.5% of revenue, in 2017. The increase as a percentage of revenue primarily was driven by a higher mix of contract logistics revenue and higher temporary labor costs related to an increase in the number of new Logistics contract startups. In 2018, Direct operating expense included $6 million of gains on the sale of property and equipment.

Sales, general and administrative expense (“SG&A”) primarily consists of salary and benefit costs for executive and certain administration functions, depreciation and amortization expense, professional fees, facility costs, bad debt expense and legal costs.

SG&A was $1,837 million in 2018, or 10.6% of revenue, compared with $1,661 million, or 10.8% of revenue, in 2017. The improvement in SG&A as a percentage of revenue primarily reflects lower professional fees and lower bonus and share-based compensation expenses, partially offset by costs of $26 million for independent contractor matters incurred in late 2018.

Other expense (income) for 2018 was $109 million of income, compared with $57 million of income in 2017. Components of Other expense (income) that contributed to the increase were: net periodic pension income of $72 million in 2018, compared with $42 million in 2017; a gain of $24 million related to the sale of an equity investment in a private company; and a gain of $9 million related to a terminated swap.

Foreign currency loss was $3 million in 2018, compared with $58 million in 2017. Foreign currency loss in 2018 primarily reflects realized losses on foreign currency option and forward contracts, as well as foreign currency transaction and remeasurement losses, almost entirely offset by unrealized gains on foreign currency option and forward contracts. Foreign currency loss in 2017 primarily reflects unrealized and realized losses on foreign currency option and forward contracts, partially offset by foreign currency transaction and remeasurement losses. For additional information on our foreign currency option and forward contracts, see Note 10—Derivative Instruments to the Consolidated Financial Statements.

Debt extinguishment losses were $27 million and $36 million in 2018 and 2017, respectively. Debt extinguishment losses in 2018 included $17 million for the partial redemption of our 6.50% senior notes due 2022 (“Senior Notes due 2022”) and $10 million for the refinancing of our senior secured term loan credit agreement, as amended (the “Term Loan Facility”). Debt extinguishment losses in 2017 includes $8 million for the refinancing of our Term Loan Facility, $23 million for the redemption of the 5.75% senior notes due June 2021 (“Senior Notes due 2021”) and $5 million for the redemption of the 7.25% senior notes due 2018 (“Senior Notes due 2018”). See Liquidity and Capital Resources below for further information.

Interest expense for 2018 decreased 23.6% to $217 million, from $284 million in 2017. The decrease in interest expense reflects a reduction in average total indebtedness, as well as lower rates attributable to our 2018 refinancings.

Our consolidated income before income taxes in 2018 was $566 million, compared with $261 million in 2017. The increase was driven by higher operating income in our Transportation and Logistics segments, primarily due to revenue growth, reduced interest expense, lower foreign currency losses and higher pension income. With respect to our U.S. operations, income before taxes increased by $41 million in 2018, compared with the prior year, primarily reflecting a $78 million increase in operating income, a $73 million decrease in borrowing costs and a $50 million increase in other income, including a gain of $24 million from the sale of an equity investment, partially offset by $166 million of foreign currency losses. With respect to our non-U.S. operations, income before taxes increased by

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$264 million, reflecting $220 million of foreign currency gain. The foreign currency gain realized by our non-U.S. operations in 2018 was partially offset by the foreign currency loss in our U.S. operations due to hedging strategies, and to naturally offsetting positions of intercompany loans between the entities.

Our effective income tax rates in 2018 and 2017 were 21.6% and (38.2)%, respectively. Primary impacts to the 2018 effective tax rate were: $26 million of excess tax benefit from stock-based compensation; and a $4 million benefit associated with the deduction of foreign taxes paid in prior years. Primary impacts to the 2017 effective tax rate were: a $173 million tax benefit related to the Tax Cuts and Jobs Act (the "Tax Act"); an $18 million benefit due to differences between foreign tax rates and the U.S. tax rate; $13 million of incremental expense due to changes in uncertain tax positions; a $10 million benefit due to the revaluation of deferred tax liabilities resulting from enacted tax law changes in France and Belgium that lowered the statutory tax rates; and $9 million of excess benefit from stock-based compensation.

The Tax Act includes numerous changes to existing U.S. tax law. We have carefully evaluated the Tax Act, and although we anticipate that ongoing regulatory guidance will be issued, our accounting for the enactment date effects is complete. We have analyzed the various provisions of the Tax Act and their impact on our operations and financial statements, and have reached the following final conclusions:

- The reduction in the U.S. corporate federal statutory tax rate from 35% to 21% required a one-time revaluation of our net deferred tax liabilities which resulted in a tax benefit of $173 million recorded as of December 31, 2017. No modifications were required during 2018.
- The Tax Act required a one-time tax on the mandatory deemed repatriation of accumulated foreign earnings as of December 31, 2017. We did not incur a tax liability on the mandatory repatriation.
- We did not incur U.S. tax liabilities from the Tax Act provision for the Base Erosion and Anti-Abuse Tax ("BEAT") as of December 31, 2018.
- We did incur U.S. tax liabilities from the Tax Act provision for the Global Intangible Low-Taxed Income ("GILTI") as of December 31, 2018 in the amount of $8 million. We made a policy decision to record GILTI as part of period cost.

Fourth Quarter 2018 Items

Fourth quarter 2018 includes the previously discussed litigation costs of $26 million (see also Note 17—Commitments and Contingencies to the Consolidated Financial Statements) and a gain on the sale of an equity investment of $24 million. Additionally, our fourth quarter 2018 results reflect a restructuring charge of $19 million (see also Note 6—Restructuring Charges to the Consolidated Financial Statements) and a decrease in stock compensation expense of $44 million, compared with fourth quarter 2017. The restructuring charge and stock compensation expense have been reflected within SG&A in the Consolidated Statements of Income. Upon successful completion of the restructuring initiatives in 2019, we expect to achieve annualized pre-tax cost savings of approximately $55 million to $60 million.

Year Ended December 31, 2017 Compared with Year Ended December 31, 2016

Our consolidated revenue for 2017 increased by 5.2% to $15.4 billion, from $14.6 billion in 2016. The increase primarily was driven by growth in our European contract logistics business, improvement in weight per day in our North American LTL business, and by the expansion of our North American truck brokerage and last mile businesses. These benefits to 2017 revenue were partially offset by the October 2016 divestiture of our North American Truckload operation, which had revenue of $432 million in 2016.

Cost of transportation and services increased by 3.1% in 2017 to $8,132 million, from $7,887 million in 2016. As a percentage of revenue, Cost of transportation and services decreased to 52.9% in 2017, from 54.0% in 2016. The reduction as a percentage of revenue was primarily driven by a lower mix of managed transportation revenue in North America and a higher mix of contract logistics revenue in Europe, partially offset by higher third-party transportation costs in freight brokerage and last mile operations.

Direct operating expense in 2017 was $5,006 million, or 32.5% of revenue, compared with $4,616 million, or 31.6% of revenue, in 2016. The increase as a percentage of revenue primarily was driven by higher costs for payroll and temporary labor to support growth in our contract logistics business, and by the sale of the truckload business. These impacts were partially offset by our implementation of cost-saving initiatives and the improved dock efficiency we realized in our North American LTL business.

SG&A was $1,661 million in 2017, or 10.8% of revenue, compared with $1,652 million, or 11.3% of revenue, in 2016. The improvement in SG&A as a percentage of revenue primarily reflects savings from shared services, centralized procurement initiatives, lower professional fees, and technology-enabled labor efficiencies in our North American brokerage and intermodal businesses.

Other expense (income) for 2017 was $57 million of income, compared with $34 million of income in 2016. The primary driver of the increase was net periodic pension income of $42 million in 2017, compared with $24 million in 2016.

Foreign currency impact was a loss of $58 million in 2017, compared with a gain of $40 million in 2016. The loss in 2017 primarily reflects a $49 million loss on unrealized foreign currency option and forward contracts, due to the strengthening of the euro and the British pound sterling relative to the U.S. dollar. The gain in 2016 primarily was due to a $40 million gain on unrealized foreign currency option and forward contracts.

Debt extinguishment losses were $36 million and $70 million in 2017 and 2016, respectively. Debt extinguishment losses in 2017 include $8 million for the refinancing of our Term Loan Facility, $23 million for the redemption of the Senior Notes due 2021 and $5 million for the redemption of the Senior Notes due 2018. Debt extinguishment losses in 2016 include $35 million from the redemption of the Senior Notes due 2019, $18 million from the refinancing of the Term Loan Facility, and $17 million from the repurchase of Term Loan Facility debt.

Interest expense for 2017 decreased 21.3% to $284 million, from $361 million in 2016. The decrease in interest expense reflects a reduction in average total indebtedness, as well as lower rates attributable to our recent refinancings. The reduction in average total indebtedness reflects our utilization of the proceeds from the sale of our North American Truckload operation in October 2016 to repurchase $555 million of outstanding indebtedness.

Our consolidated income before income taxes for 2017 was $261 million, compared with $107 million for 2016. The increase was driven by significantly higher operating income in our Transportation and Logistics segments, primarily due to revenue growth, cost-saving initiatives and technology-enabled labor efficiencies, and by reduced interest expense, partially offset by foreign currency losses. With respect to our U.S. operations, income before taxes increased by $348 million in 2017, compared with the prior year, reflecting a $127 million increase in foreign currency gain, a $110 million decrease in borrowing costs, a $92 million increase in operating income, and a $19 million increase in other income. With respect to our non-U.S. operations, income before taxes decreased by $194 million, reflecting a $208 million increase in foreign currency loss. The foreign currency loss realized by our non-U.S. operations in 2017 was partially offset by a gain in our U.S. operations due to hedging strategies and naturally offsetting positions of intercompany loans between the entities. The significant difference between U.S. income before tax of $278 million and non-U.S. loss before tax of $17 million reflects the fact that foreign currency movements benefited our U.S. operations and negatively impacted our non-U.S. operations in 2017.

Our effective income tax rates in 2017 and 2016 were (38.2)% and 20.9%, respectively. Primary impacts to the 2017 effective tax rate were: a $173 million benefit related to the Tax Act; an $18 million benefit due to differences between foreign tax rates and the U.S. tax rate; $13 million of incremental expense due to changes in uncertain tax positions; a $10 million benefit due to the revaluation of deferred tax liabilities resulting from enacted tax law changes in France and Belgium that lowered the statutory tax rates; and $9 million of excess benefit from stock-based compensation. Primary impacts to the 2016 effective tax rate were: a $13 million benefit due to the revaluation of deferred tax liabilities resulting from an enacted tax law change in France that lowered the statutory tax rate; and a $5 million benefit from stock-based compensation.

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Transportation Segment
Summary Financial Table

	For the Years Ended December 31,			Percent of Transportation Revenue		
(In millions)	2018 (1)	2017 (1)	2016 (1)	2018	2017	2016
Revenue	$11,343	$10,276	$9,976	100.0%	100.0%	100.0%
Operating income	646	547	459	5.7 %	5.3 %	4.6 %

(1) Certain minor organizational changes were made in 2018 related to our managed transportation business. Managed transportation previously had been included in the Logistics segment; as of January 1, 2018, it is reflected in the Transportation segment. Prior period information was recast to conform to the current year presentation.

Note: Total depreciation and amortization for the Transportation segment included in Cost of transportation and services, Direct operating expense and SG&A was $461 million, $447 million and $456 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Year Ended December 31, 2018 Compared with Year Ended December 31, 2017

Revenue in our Transportation segment increased by 10.4% to $11.3 billion in 2018, compared with $10.3 billion in 2017. The increase was led by growth in our freight brokerage, LTL and last mile businesses in North America, as well as our transportation business in the United Kingdom. Foreign currency movement contributed to revenue growth by approximately 1.2 percentage points in 2018.

Operating income in our Transportation segment increased to $646 million in 2018, compared with $547 million in 2017. The improvement primarily was driven by revenue growth, improved profitability in our global freight brokerage business, operating margin improvement in our North America LTL business, and the expansion of our dedicated truckload business in Europe.

Year Ended December 31, 2017 Compared with Year Ended December 31, 2016

Revenue in our Transportation segment increased by 3.0% to $10.3 billion in 2017, compared with $10.0 billion in 2016. This increase primarily was driven by 16.6% revenue growth in our U.S. last mile business, 16.8% growth in U.S. freight brokerage business, and a 5.1% increase in weight per day in our North American LTL business. The impact of these items was partially offset by the divestiture of our North American Truckload operation, which had revenue of $432 million in 2016, and lower revenue in our global forwarding and managed transportation businesses.

Operating income in our Transportation segment increased in 2017 to $547 million, compared with $459 million in 2016. The improvement was primarily driven by strong revenue growth, a reduction in direct operating expenses due to the implementation of cost-saving initiatives and the improved dock efficiency we realized in our North American LTL business, and lower SG&A from centralized support functions in European transportation and technology-enabled labor efficiencies in our North American freight brokerage business. These gains were partially offset by our sale of the North American Truckload operation.

Logistics Segment
Summary Financial Table

	For the Years Ended December 31,			Percent of Logistics Revenue		
(In millions)	2018 (1)	2017 (1)	2016 (1)	2018	2017	2016
Revenue	$6,065	$5,229	$4,761	100.0%	100.0%	100.0%
Operating income	216	202	165	3.5 %	3.9 %	3.5 %

(1) Certain minor organizational changes were made in 2018 related to our managed transportation business. Managed transportation previously had been included in the Logistics segment; as of January 1, 2018, it is reflected in the Transportation segment. Prior period information was recast to conform to the current year presentation.

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Note: Total depreciation and amortization for the Logistics segment included in Cost of transportation and services, Direct operating expense and SG&A was $244 million, $203 million and $185 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Year Ended December 31, 2018 Compared with Year Ended December 31, 2017

Revenue in our Logistics segment increased by 16.0% to $6.1 billion in 2018, compared with $5.2 billion in 2017. The increase in revenue primarily was driven by strong demand for contract logistics in Europe and North America, led by the growth of e-commerce logistics. In Europe, the largest gains came from the fashion, food and beverage, and retail sectors. In North America, the largest gains came from the omnichannel retail and consumer packaged goods sectors. Foreign currency movement contributed to revenue growth by approximately 2.4 percentage points in 2018.

Operating income in our Logistics segment increased in 2018 to $216 million, compared with $202 million in 2017. The improvement primarily was driven by strong revenue growth and site productivity improvements. This was partially offset by higher direct operating costs, largely related to new contract startups that required more temporary labor, payroll and purchased services, and higher bad debt expense.

Year Ended December 31, 2017 Compared with Year Ended December 31, 2016

Revenue in our Logistics segment increased by 9.8% to $5.2 billion in 2017, compared with $4.8 billion in 2016. The increase in revenue primarily was driven by strong demand for contract logistics in Europe and North America. European logistics revenue growth reflected a significant benefit from new e-commerce and cold chain contract startups in the United Kingdom, Italy and the Netherlands. In North America, the largest gains came from the e-commerce, industrial and consumer packaged goods sectors.

Operating income in our Logistics segment increased in 2017 to $202 million, compared with $165 million in 2016. The improvement primarily was driven by strong revenue growth. This was partially offset by an increase in direct operating costs and SG&A, largely related to new contract startups that required more temporary labor and payroll.

Liquidity and Capital Resources

Our principal existing sources of cash are cash generated from operations, borrowings available under the Second Amended and Restated Revolving Loan Credit Agreement (the “ABL Facility”) and proceeds from the issuance of other debt. Availability under the ABL Facility of $704 million as of December 31, 2018 is based on a borrowing base of $934 million, as well as outstanding letters of credit of $230 million. In addition, we use trade accounts receivable securitization and factoring programs as part of managing our cash flows and to offset the impact of certain customers extending payment terms.

	December 31,	
(In millions)	2018	2017
Cash and cash equivalents	$502	$397
Working capital	375	591

The decrease in working capital of $216 million during 2018 was primarily due to higher short-term borrowings, including an unsecured credit facility entered into in December 2018 (“Unsecured Credit Agreement”) described below, and an accrual as of December 31, 2018 related to our share repurchases, partially offset by higher cash and cash equivalents in 2018.

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 liquidity will be sufficient to support our existing operations over the next 12 months.

Unsecured Credit Facility

In December 2018, we entered into a $500 million Unsecured Credit Agreement with Citibank, N.A., which matures on December 23, 2019. As of December 31, 2018, we had borrowed $250 million under the Unsecured Credit

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Agreement. We made a second borrowing of $250 million in January 2019. We used the proceeds of both borrowings to finance a portion of our share repurchases as described below. Our borrowings under the Unsecured Credit Agreement will initially bear interest at a rate equal to the London Interbank Offered Rate ("LIBOR") or Alternate Base Rate ("ABR") plus an applicable margin of 3.50%, in the case of LIBOR loans, and 2.50% in the case of ABR loans. The margin is subject to two increases, of 50 basis points each, if any amounts remain outstanding under the Unsecured Credit Agreement on certain dates. The interest rate on outstanding borrowings as of December 31, 2018 was 6.01%.

Redemption of Senior Notes due 2022

In July 2018, we redeemed $400 million of the then $1.6 billion outstanding Senior Notes due 2022 that were originally issued in 2015. The redemption price for the Senior Notes due 2022 was 103.25% of the principal amount, plus accrued and unpaid interest up to, but excluding, the date of redemption. The redemption was primarily funded using proceeds from the settlement of the forward sale agreements, described below. In connection with the redemption, we recognized a loss on debt extinguishment of $17 million in 2018.

Refinancing of Term Loans

In February 2018, we entered into a Refinancing Amendment (Amendment No. 3 to the Credit Agreement) (the "Third Amendment"), pursuant to which, the outstanding $1,494 million principal amount of term loans under the Term Loan Credit Agreement (the "Former Term Loans") were replaced with $1,503 million in aggregate principal amount of new term loans (the "Present Term Loans"). The Present Term Loans have substantially similar terms as the Former Term Loans, except with respect to the interest rate and maturity date applicable to the Present Term Loans, prepayment premiums in connection with certain voluntary prepayments and certain other amendments to the restrictive covenants. Proceeds from the Present Term Loans were used to refinance the Former Term Loans and to pay interest, fees and expenses in connection therewith.

The interest rate margin applicable to the Present Term Loans was reduced from 1.25% to 1.00%, in the case of base rate loans, and from 2.25% to 2.00%, in the case of LIBOR loans (with the LIBOR floor remaining at 0.0%). The interest rate on the Present Term Loans was 4.51% as of December 31, 2018. The Present Term Loans will mature on February 23, 2025. The refinancing resulted in a debt extinguishment charge of $10 million, which was recognized in 2018.

In March 2017, we entered into a Refinancing Amendment (Amendment No. 2 to the Credit Agreement) (the "Second Amendment"), pursuant to which the outstanding $1,482 million principal amount of term loans under the Term Loan Credit Agreement (the "Existing Term Loans") were replaced with $1,494 million in aggregate principal amount of new term loans (the "Current Term Loans"). The Current Term Loans have substantially similar terms as the Existing Term Loans, other than the applicable interest rate and prepayment premiums in respect to certain voluntary prepayments. Proceeds from the Current Term Loans were used primarily to refinance the Existing Term Loans and to pay interest, fees and expenses in connection therewith.

The interest rate margin applicable to the Current 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 refinancing resulted in a debt extinguishment charge of $8 million in 2017.

In August 2016, we entered into a Refinancing Amendment (the "First Amendment"), pursuant to which the outstanding $1,592 million principal amount of term loans under the Term Loan Credit Agreement (the "Old Term Loans") were replaced with a like aggregate principal amount of new term loans (the "New Term Loans"). The New Term Loans have substantially similar terms as the Old Term Loans, other than the applicable interest rate and prepayment premiums in respect to certain voluntary prepayments. Of the $1,592 million of term loans that were refinanced, $1,197 million were exchanged and represent a non-cash financing activity. The interest rate margin applicable to the New Term Loans was reduced from 3.50% to 2.25%, in the case of base rate loans, and from 4.50% to 3.25%, in the case of LIBOR loans. In connection with this refinancing, various lenders exited the syndicate and we recognized a debt extinguishment loss of $18 million in 2016.

In addition, pursuant to the First Amendment, we borrowed $400 million of Incremental Term B-1 Loans (the "Incremental Term B-1 Loans") and an additional $50 million of Incremental Term B-2 Loans (the "Incremental

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Term B-2 Loans”). The New Term Loans, Incremental Term B-1 Loans and Incremental Term B-2 Loans all have identical terms, other than with respect to the original issue discounts, and will mature on October 30, 2021.

Redemption of Senior Notes due 2021

In December 2017, we redeemed all of our outstanding Senior Notes due 2021 that were originally issued in 2015. The redemption price for the Senior Notes due 2021 was 102.875% of the principal amount, plus accrued and unpaid interest up to, but excluding, the date of redemption. The redemption was funded using cash on hand at the date of the redemption. The loss on debt extinguishment of $23 million was recognized in 2017.

Redemption of Senior Notes due 2018

In August 2017, we redeemed all of our outstanding Senior Notes due 2018. The Senior Notes due 2018 were assumed in connection with our 2015 acquisition of Con-way, Inc. (“Con-way”). The redemption price for the Senior Notes due 2018 was 102.168% of the principal amount, plus accrued and unpaid interest up to, but excluding, the date of redemption. The redemption was funded using cash on hand at the date of the redemption. The loss on debt extinguishment of $5 million was recognized in 2017.

Receivables Securitization and Factoring

We use trade accounts receivable securitization and factoring programs as part of managing our cash flows. We account for transfers under our factoring arrangements as sales because we sell full title and ownership in the underlying receivables and have met the criteria for control of the receivables to be considered transferred. We account for transfers under our securitization program as either sales or secured borrowings based on an evaluation of whether we have transferred control.

In October 2017, XPO Logistics Europe SA (“XPO Logistics Europe”), in which we hold an 86.25% controlling interest, entered into a European trade receivables securitization program for a term of three years co-arranged by Crédit Agricole and HSBC. Under the terms of the program, XPO Logistics Europe, or one of its wholly-owned subsidiaries in the United Kingdom or France, sells trade receivables to XPO Collections Designated Activity Company Limited (“XCDAL”), a wholly-owned bankruptcy remote special purpose entity of XPO Logistics Europe. The receivables are funded by senior variable funding notes denominated in the same currency as the corresponding receivables. XCDAL is considered a variable interest entity and it is consolidated by XPO Logistics Europe based on its control of the entity’s activities. The receivables balance under this program are reported as Accounts receivable in our Consolidated Balance Sheets and the related notes are included in our Long-term debt. The receivables securitization program provides additional liquidity to fund XPO Logistics Europe’s operations.

In the first quarter of 2018, the aggregate maximum amount available under the program was increased from €270 million to €350 million (approximately $401 million as of December 31, 2018). Additionally, in the fourth quarter of 2018, the program was amended and a portion of the receivables transferred from XCDAL are now accounted for as sales. As of December 31, 2018, the remaining borrowing capacity, which considers receivables that are collateral for the notes as well as receivables which have been sold, was $0. The weighted-average interest rate as of December 31, 2018 for the program was 1.09%.

As of December 31, 2018, in connection with the securitization program, we sold receivables of $231 million and received cash of $179 million and a deferred purchase price receivable of $52 million. For our factoring programs, as of December 31, 2018, we sold receivables of $248 million and received cash of $246 million. As of December 31, 2017, for our factoring programs, we sold receivables of $119 million and received cash of $119 million.

Share Repurchases

On December 14, 2018, our Board of Directors authorized share repurchases of up to $1 billion of our common stock. The repurchase authorization permits us to repurchase shares in both open market and private repurchase transactions, with the timing and number of shares repurchased dependent on a variety of factors, including price, general business and market conditions, alternative investment opportunities and funding considerations. Through December 31, 2018, based on the settlement date, we purchased and retired 10 million shares of our common stock having an aggregate value of $536 million at an average price of $53.46 per share. In January and February 2019,

based on the settlement date, we purchased and retired 8 million shares of our common stock having an aggregate value of $464 million at an average price of $59.47 per share, which completed the authorized repurchase program. The share repurchases were funded by the unsecured credit facility and available cash. On February 13, 2019, our Board of Directors authorized a new share repurchase of up to $1.5 billion of our common stock. We are not obligated to repurchase any specific number of shares, and may suspend or discontinue the program at any time.

Equity Offering and Forward Sale Agreements

In July 2017, we completed a registered underwritten offering of 11 million shares of our common stock at a public offering price of $60.50 per share (the "Offering"). Of the 11 million shares of common stock, five million shares were offered directly by us and six million shares were offered in connection with forward sale agreements (the "Forward Sale Agreements") described below. The Offering closed on July 25, 2017.

We received proceeds of $290 million ($288 million net of fees and expenses) from the sale of five million shares of common stock in the Offering. We used the net proceeds of the shares issued and sold by us in the Offering for general corporate purposes.

In connection with the Offering, we 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 we agreed to sell, and each Forward Counterparty agreed to purchase, three million shares of our common stock (or six million shares of our common stock in the aggregate) subject to the terms and conditions of the Forward Sale Agreements, including our 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 was the public offering price of our common stock for the primary offering of the five million shares described above, less the underwriting discount) and was subject to certain adjustments pursuant to the terms of the Forward Sale Agreements. Consistent with our strategy to grow our business in part through acquisitions, we entered into the Forward Sale Agreements to provide additional available cash for such acquisitions, among other general corporate purposes. In July 2018, we physically settled the forwards in full by delivering six million shares of common stock to the Forward Counterparties for net cash proceeds to us of $349 million. As a part of our ordinary course treasury management activities, we applied these net cash proceeds to the repayment of the Senior Notes due 2022 as described above, thereby reducing our overall outstanding debt and interest expense.

Loan Covenants and Compliance

As of December 31, 2018, we were in compliance with the covenants and other provisions of our debt agreements. Any failure to comply 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

Our cash flows from operating, investing and financing activities, as reflected on the Consolidated Statements of Cash Flows, are summarized as follows:

	Years Ended December 31,		
(In millions)	2018	2017	2016
Net cash provided by operating activities	$1,102	$785	$622
Net cash (used in) provided by investing activities	(400)	(386)	142
Net cash used in financing activities	(620)	(366)	(681)
Effect of exchange rates on cash, cash equivalents and restricted cash	(17)	16	(4)
Net increase in cash, cash equivalents and restricted cash	$65	$49	$79

During 2018, we: (i) generated cash from operating activities of $1,102 million, (ii) received proceeds of $349 million from our forward sale settlement and (iii) generated proceeds from sales of assets of $143 million. We used cash during this period principally to: (i) purchase property and equipment of $551 million, (ii) repurchase common stock of $536 million, (iii) make payments on long-term debt and capital leases of $119 million, (iv) make

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payments, net of proceeds, of $100 million on our ABL facility, (v) make payments for tax withholdings on restricted shares of $53 million and (vi) make repurchases, net of proceeds, of $151 million on our debt.

During 2017, we: (i) generated cash from operating activities of $785 million, (ii) generated proceeds from sales of assets of $118 million, (iii) generated proceeds from common stock offerings of $288 million and (iv) received proceeds of $70 million, net of repayments, on our ABL facility. We used cash during this period principally to: (i) purchase property and equipment of $504 million, (ii) make repurchases, net of proceeds, of $568 million on our debt, (iii) make payments on long-term debt and capital leases of $106 million, (iv) make payments for debt issuance costs in connection with the European trade securitization program of $17 million and (v) make payments for tax withholdings on restricted shares of $17 million.

Cash flows from operating activities for 2018 increased by $317 million compared with 2017, due to higher cash-related net income of $196 million and net movements in operating assets and liabilities of $121 million. The increase in cash-related net income was due primarily to higher revenues in our transportation and logistics segments. The changes in the balances of operating assets and liabilities in 2018 compared with 2017 resulted primarily from a lower accounts receivable position on a year-over-year basis, partially offset by the timing of working capital payments. As discussed above, the lower accounts receivable position in 2018 as compared with 2017 reflects higher sales of trade receivables under our securitization and factoring programs in 2018. In particular, in exchange for the sales, we received cash of $179 million (securitization) and $246 million (factoring) as of December 31, 2018, and $119 million (factoring) as of December 31, 2017. Additionally, cash flows from operating activities was favorably impacted by $41 million of lower interest payments in 2018 compared with 2017, due to lower average debt balances and lower interest rates in 2018 due to refinancings.

Cash flows from operating activities for 2017 increased by $163 million compared with 2016, due to higher cash-related net income of $239 million, partially offset by net movements in operating assets and liabilities of $76 million. The increase in cash-related net income was due primarily to higher revenues in our transportation and logistics segments. The changes in the balances of operating assets and liabilities in 2017 compared with 2016 resulted primarily from higher revenues, which led to a higher accounts receivable position on a year-over-year basis, partially offset by the timing of working capital payments. Additionally, cash flows from operating activities was favorably impacted by lower interest of $89 million paid in 2017 compared with 2016, due to lower average debt balances and more favorable interest rates in 2017, primarily from the redemption of our Senior Notes due 2019 and advantageous debt refinancings.

Investing activities used $400 million of cash in 2018 compared with $386 million used in 2017 and $142 million generated in 2016. During 2018, we used $551 million of cash to purchase fixed assets and received $143 million of cash from the sale of assets. During 2017, we used $504 million of cash to purchase fixed assets and received $118 million of cash from the sale of assets. During 2016, we received $548 million of cash from the sale of our North American Truckload operation, used $483 million to purchase fixed assets and received $69 million of cash from the sale of assets.

Financing activities used $620 million of cash in 2018, compared with $366 million used in 2017 and $681 million used in 2016. The primary use of cash in 2018 was the $1,225 million repurchase of debt, consisting of the refinancing of the Former Term Loans and the partial redemption of our Senior Notes due 2022, the $536 million repurchase of common stock and the $119 million repayment of debt and capital leases. The main sources of cash from financing activities in 2018 was the $1,064 million of net proceeds from the issuance of debt, consisting of the refinancing of the term loan, amounts received from secured borrowing transactions under our European trade securitization program and amounts received under the Unsecured Credit Agreement, and $349 million of proceeds from our forward sale settlement. In 2017, our primary use of cash was the $1,387 million repurchase of debt and the $106 million repayment of debt and capital leases. The main source of cash from financing activities in 2017 was the $802 million of net proceeds from the issuance of long-term debt, and $288 million net proceeds from the issuance of common stock. In 2016, our primary use of cash was the $1,889 million repurchase of debt and the $151 million repayment of debt and capital leases. The main source of cash from financing activities in 2016 was the $1,352 million of net proceeds from the issuance of long-term debt.

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Defined Benefit Pension Plans

We maintain defined benefit plans for certain employees in the U.S. and internationally. The largest of these plans include the funded U.S. plan and the unfunded U.S. plan (collectively, the “U.S. Plans”) and the funded U.K. plan, which we refer to as defined benefit pension plans. Historically, we have realized income, rather than expense, from these plans. We generated aggregate income from our U.S. and U.K. plans of $74 million in 2018, $44 million in 2017 and $28 million in 2016. The plans have been generating income due to their funded status and because they do not allow for new plan participants or additional benefit accruals.

Defined benefit pension plan amounts are calculated using various actuarial assumptions and methodologies. Assumptions include discount rates, inflation rates, expected long-term rate of return on plan assets, mortality rates, and other factors. The assumptions used in recording the projected benefit obligations and fair value of plan assets represent our best estimates based on available information regarding historical experience and factors that may cause future expectations to differ. Differences in actual experience or changes in assumptions could materially impact our obligation and future expense or income.

Discount Rate

In determining the appropriate discount rate, we are assisted by actuaries who utilize a yield-curve model based on a universe of high-grade corporate bonds (rated AA or better by Moody’s, S&P or Fitch rating services). The model determines a single equivalent discount rate by applying the yield curve to expected future benefit payments.

The discount rates used in determining the net periodic benefit costs and benefit obligations are as follows:

	U.S. Qualified Plans		U.S. Non-Qualified Plans		U.K. Plan	
	2018	2017	2018	2017	2018	2017
Discount rate - net periodic benefit costs	3.14% - 3.38%	3.83% - 4.35%	2.84% - 3.21%	4.35 %	2.21%	2.70%
Discount rate - benefit obligations	4.18% - 4.39%	3.55% - 3.71%	3.93% - 4.28%	3.21% - 3.60%	2.85%	2.53%

An increase or decrease of 25 basis points in the discount rate would decrease or increase our 2018 pre-tax pension income by $2 million each for the U.S. qualified plans and U.K. plan, respectively.

In 2018, we changed how we estimate the interest cost component of net periodic cost for our U.S. and U.K. pension benefit plans. Previously, we estimated the interest cost component utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation. The new estimate utilizes a full yield curve approach in the estimation of this component by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to each of the underlying projected cash flows based on time until payment. The new estimate provides a more precise measurement of interest costs by improving the correlation between projected benefit cash flows and their corresponding spot rates. The change does not affect the measurement of our U.S. and U.K. pension benefit obligation and has been accounted for as a change in accounting estimate and thus applied prospectively.

Rate of Return on Plan Assets

We estimate the expected return on plan assets using current market data as well as historical returns. The expected return on plan assets is based on estimates of long-term returns and considers the plans’ anticipated asset allocation over the course of the next year. The plan assets are managed pursuant to a long-term allocation strategy that seeks to mitigate volatility in the plans’ funded status by increasing participation in fixed-income investments over time. This strategy was developed by analyzing a variety of diversified asset-class combinations in conjunction with the projected liabilities of the plans.

For the year ended December 31, 2018, our expected return on plan assets was $92 million for the U.S. Plans and $67 million for the U.K. plan, compared to the actual return on plan assets of $(113) million for the U.S. Plans and $(35) million for the U.K. plan. The actual annualized return on plan assets for the U.S. Plans for 2018 was approximately (6)%, which was below the expected return on asset assumption for the year due to negative performance in a challenging long duration fixed income market environment, which represented over 80% of the

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portfolio, and negative performance from the domestic and international equity markets. The actual annualized return on plan assets for the U.K. plan for 2018 was approximately (3)%, which was below the expected return on asset assumption for the year due to a fall in the plan's liability driven investments portfolio, which represents approximately 50% of the plan's assets due to a rise in nominal and real gilt yields over the year, as well as negative performance from equity and credit markets over the year. An increase or decrease of 25 basis points in the expected return on plan assets would increase or decrease our 2018 pre-tax pension income by $4 million for the U.S. qualified plans and $3 million for the U.K. plan.

Actuarial Gains and Losses

Changes in the discount rate and/or differences between the expected and actual rate of return on plan assets results in unrecognized actuarial gains or losses. For our defined benefit pension plans, accumulated unrecognized actuarial losses were $53 million for the U.S. Plans and gains of $5 million for the U.K. plan as of December 31, 2018. The portion of the unrecognized actuarial gain/loss that exceeds 10% of the greater of the projected benefit obligation or the fair value of plan assets at the beginning of the year is amortized and recognized as income/expense over the estimated average remaining life expectancy of plan participants. We do not expect to recognize any amortization of actuarial gain or loss in our net periodic benefit expense (income) for 2019.

Lump Sum Payout

During 2017, we offered eligible former employees who had not yet commenced receiving their pension benefit an opportunity to receive a lump sum payout of their vested pension benefit. On December 1, 2017, in connection with this offer, one of our pension plans paid $142 million from pension plan assets to those who accepted this offer, thereby reducing our pension benefit obligations. The transaction had no cash impact on us but did result in a non-cash pre-tax pension settlement gain of $1 million. As a result of the lump sum payout, we re-measured the funded status of our pension plan as of the settlement date. To calculate this pension settlement gain, we utilized a discount rate of 4.35% through the measurement date and 3.83% thereafter.

Effect on Results

The effects of the defined benefit pension plans on our results consist primarily of the net effect of the interest cost on plan obligations for the U.S. Plans and the U.K. plan, and the expected return on plan assets. We estimate that the defined benefit pension plans will contribute annual pre-tax income in 2019 of $24 million for the U.S. Plans and $30 million for the U.K. plan.

Funding

In determining the amount and timing of pension contributions for the U.S. Plans, we consider our cash position, the funded status as measured by the Pension Protection Act of 2006 and generally accepted accounting principles, and the tax deductibility of contributions, among other factors. We made $5 million of contributions to the U.S. Non-Qualified Plans in 2018 and $5 million of contributions in 2017; we estimate that we will make $5 million of contributions to the U.S. Non-Qualified Plans in 2019. We made no contributions to the U.S. Qualified Plans in 2018 and 2017. We do not anticipate making any contributions to the U.S. Qualified Plans in 2019.

For the U.K. plan, the amount and timing of pension contributions are determined in accordance with U.K. pension codes and trustee negotiations. We made contributions of $3 million and $13 million to the U.K. plan in 2018 and 2017, respectively. We estimate that we will make $3 million of contributions to the U.K. plan in 2019.

For additional information, refer to Note 12—Employee Benefit Plans to the Consolidated Financial Statements.

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Contractual Obligations

The following table reflects our contractual obligations as of December 31, 2018:

	Payments Due by Period				
(In millions)	Total	2019	2020-2021	2022-2023	Thereafter
Contractual obligations					
Capital leases payable	$310	$61	$ 115	$ 95	$ 39
Operating leases	2,436	577	827	509	523
Purchase commitments	97	49	41	7	—
Debt (excluding capital leases)	4,126	322	262	1,737	1,805
Interest on debt (1)	1,200	228	400	282	290
Total contractual cash obligations	$8,169	$1,237	$ 1,645	$ 2,630	$ 2,657

(1) Estimated interest payments have been calculated based on the principal amount of debt and the applicable interest rates as of December 31, 2018.

As of December 31, 2018, our Consolidated Balance Sheet reflects a long-term liability of $444 million for deferred taxes and $29 million for gross unrecognized tax benefits. As the timing of future cash outflows for these liabilities is uncertain, they are excluded from the above table. Actual amounts of contractual cash obligations may differ from estimated amounts due to changes in foreign currency exchange rates. We anticipate net capital expenditures to be between $400 million and $450 million in 2019.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with U.S. generally accepted accounting principles. A summary of our significant accounting policies is contained in Note 2—Basis of Presentation and Significant Accounting Policies to the Consolidated Financial Statements. In applying many accounting principles, we make assumptions, estimates and/or judgments that are often subjective and may change based on changing circumstances or changes in our analysis. Material changes in these assumptions, estimates and/or judgments have the potential to materially alter our results of operations. We have identified below our accounting policies that we believe could potentially produce materially different results if we were to change underlying assumptions, estimates and/or judgments. Although actual results may differ from estimated results, we believe the estimates are reasonable and appropriate.

Evaluation of Goodwill

Goodwill consists of the excess of cost over the fair value of net assets acquired in business combinations. Goodwill is tested for impairment annually, or more frequently if an event or circumstance indicates that an impairment loss may have been incurred. Application of the goodwill impairment test requires judgment, including the identification of reporting units, the assignment of assets and liabilities to reporting units, the assignment of goodwill to reporting units, and a determination of the fair value of each reporting unit.

As more fully described in Note 2—Basis of Presentation and Significant Accounting Policies to the Consolidated Financial Statements, Accounting Standards Update ("ASU") 2017-04, Intangibles - Goodwill and Other (Topic 350): "Simplifying the Accounting for Goodwill Impairment," which we adopted in connection with our annual goodwill impairment test as of August 31, 2017, dictates that goodwill impairment, if any, is measured at the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of goodwill.

Accounting guidance allows entities to perform a qualitative assessment (a "step-zero" test) before performing a quantitative analysis. If an entity determines that it is not more-likely-than-not that the fair value of a reporting unit is less than its carry amount, the entity does not need to perform a quantitative analysis for that reporting unit. The qualitative assessment includes review of macroeconomic conditions, industry and market considerations, internal cost factors and overall financial performance, among other factors.

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For our 2018 goodwill assessment, we performed a step-zero qualitative analysis for all six of our reporting units. For our 2017 goodwill assessment, we performed a step-zero qualitative analysis for five of our reporting units and elected to proceed directly to a step one quantitative analysis for one reporting unit. Based on the qualitative assessments performed each year, we concluded that it is not more likely than not that the fair value of our reporting units was less than their carrying amounts, and therefore further quantitative analysis was not performed. For the years ended December 31, 2018 and 2017, we did not recognize any goodwill impairment.

We estimate the fair value of our reporting units using an income approach based on the present value of estimated future cash flows, discounted at an appropriate risk-adjusted rate. The discount rates reflect management's judgment and are based on a risk adjusted weighted-average cost of capital utilizing industry market data of businesses similar to the reporting units. Inherent in our preparation of cash flow projections are assumptions and estimates derived from a review of our operating results, business plans, expected growth rates, cost of capital and tax rates. We also make certain forecasts about future economic conditions, interest rates and other market data. Many of the factors used in assessing fair value are outside the control of management, and these assumptions and estimates may change in future periods. Changes in assumptions or estimates could materially affect the estimate of the fair value of a reporting unit, and therefore could affect the likelihood and amount of potential impairment.

Self-Insurance Accruals

We use a combination of self-insurance programs and large-deductible purchased insurance to provide for the costs of medical, casualty, liability, vehicular, cargo and workers' compensation claims. We periodically evaluate the level of insurance coverage and adjust our insurance levels based on risk tolerance and premium expense. The measurement and classification of self-insured costs requires the consideration of historical cost experience, demographic and severity factors, and judgments about current and expected levels of cost per claim and retention levels. These methods provide estimates of the undiscounted liability associated with claims incurred as of the balance sheet date, including estimates of claims incurred but not reported. We believe the actuarial methods are appropriate for measuring these self-insurance accruals. However, based on the number of claims and the length of time from incurrence of the claims to ultimate settlement, the use of any estimation method is sensitive to the assumptions and factors described above. Accordingly, changes in these assumptions and factors can affect the estimated liability and those amounts may be different than the actual costs paid to settle the claims.

Income Taxes

Our annual effective tax rate is based on our income and statutory tax rates in the various jurisdictions in which we operate. Judgment and estimates are required in determining our tax expense and in evaluating our tax positions, including evaluating uncertainties. We review our tax positions quarterly and as new information becomes available. Our effective tax rate in any financial statement period may be materially impacted by changes in the mix and/or level of earnings by taxing jurisdiction.

Deferred income tax assets represent amounts available to reduce income taxes payable in future years. Such assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating losses and tax credit carryforwards. We evaluate the recoverability of these future tax deductions and credits by assessing all available evidence, including the reversal of deferred tax liabilities, carrybacks available, and historical and projected pre-tax profits generated by operations. Valuation allowances are established when, in management's judgment, it is more likely than not that its deferred tax assets will not be realized. In assessing the need for a valuation allowance, management weighs the available positive and negative evidence, including limitations on the use of tax losses and other carryforwards due to changes in ownership, historic information, and projections of future sources of taxable income that include and exclude future reversals of taxable temporary differences.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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Interest Rate Risk
Term Loan Facility. As of December 31, 2018, we had an aggregate principal amount outstanding of $1,503 million on our Term Loan Facility. The interest rate fluctuates based on LIBOR or a Base Rate, as defined in the agreement, plus an applicable margin of 2.00%, in the case of LIBOR loans, and 1.00%, in the case of Base Rate loans. Assuming an average annual aggregate principal amount outstanding of $1,503 million, a hypothetical 1% increase in the interest rate would have increased our annual interest expense by $15 million.
ABL Facility. We have exposure to changes in interest rates on our ABL Facility. The interest rates on our ABL Facility fluctuate based on LIBOR or a Base Rate plus an applicable margin. Assuming our $1.0 billion ABL Facility was fully drawn throughout 2018, a hypothetical 1% change in the interest rate would have increased our annual interest expense by $10 million.
Trade Securitization Program. As of December 31, 2018, our trade securitization program had an outstanding debt balance of $283 million. The interest rates on our Trade Securitization Program fluctuate based on lenders' cost of funds plus an applicable margin. Assuming our $401 million trade securitization program was fully drawn through secured borrowings throughout 2018, a hypothetical 1% increase in the interest rate would have increased our annual interest expense by $4 million.
Unsecured Credit Facility. We have exposure to changes in interest rates on our Unsecured Credit Facility. The interest rates on our Unsecured Credit Facility fluctuate based on LIBOR or a Base Rate plus an applicable margin. Assuming our $500 million Unsecured Credit Facility was fully drawn as of December 31, 2018, a hypothetical 1% change in the interest rate would have increased our annual interest expense by $5 million.
Asset Financing. As of December 31, 2018, we had outstanding $55 million aggregate principal amount of Asset Financing. Most of the Asset Financing has floating interest rates that subject us to risk resulting from changes in short-term (primarily Euribor) interest rates. Assuming an average annual aggregate principal amount outstanding of $55 million, a hypothetical 1% increase in the interest rate would increase our annual interest expense by less than $1 million.
We also have risk related to our fixed-rate debt. As of December 31, 2018, we had an aggregate of $2.1 billion of indebtedness (excluding capital leases) that bears interest at fixed rates. A 1% decrease in market interest rates as of December 31, 2018 would increase the fair value of our fixed-rate indebtedness by approximately 4%. For additional information concerning our debt, see Note 11—Debt to the Consolidated Financial Statements.
Foreign Currency Exchange Risk
We have a significant proportion of our net assets and income in non-U.S. dollar ("USD") currencies, primarily the euro ("EUR") and British pound sterling ("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 or the GBP relative to the USD could have an adverse impact on our financial results.
In connection with the issuances of the Senior Notes due 2023 and the Senior Notes due 2022, we entered into certain cross-currency swap agreements to partially manage the related foreign currency exchange risk by effectively converting a portion of the fixed-rate USD-denominated Senior Notes due 2023 and the Senior Notes due 2022, including the semi-annual interest payments, to fixed-rate, EUR-denominated debt. The risk management objective is to manage a portion of the foreign currency risk relating to net investments in subsidiaries denominated in foreign currencies.
In order to mitigate against the risk of a reduction in the value of foreign currency earnings before interest, taxes, depreciation and amortization for those Company operations that use the EUR or the GBP as their functional currency, we use foreign currency option contracts.
As of December 31, 2018, a uniform 10% strengthening in the value of the USD relative to the EUR would have resulted in a decrease in net assets of $52 million. As of December 31, 2018, a uniform 10% strengthening in the value of the USD relative to the GBP would have resulted in a decrease in net assets of $30 million. These theoretical calculations assume that an instantaneous, parallel shift in exchange rates occurs, which is not consistent with our actual experience in foreign currency transactions. Fluctuations in exchange rates also affect the volume of sales or the foreign currency sales price as competitors' services become more or less attractive. The sensitivity

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analysis of the impact of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency prices.

Commodity Price Risk

We are exposed to the impact of market fluctuations in the price of diesel fuel purchased for use in Company-owned vehicles. During the year ended December 31, 2018, diesel prices fluctuated by as much as 17.4% in France, 17.7% in the United Kingdom, and 14.2% in the United States. However, we include price adjustment clauses or cost-recovery mechanisms in many of our customer contracts in the event of a change in the cost to purchase fuel. The clauses mean that substantially all fluctuations in the purchase price of diesel, except for short-term economic fluctuations, can be passed on to customers in the sales price. Therefore, a hypothetical 10% change in the price of diesel would not be expected to materially affect our financial performance over the long term.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of XPO Logistics, Inc.:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of XPO Logistics, Inc. and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income (loss), cash flows, and changes in equity for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Controls over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations

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of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

We have served as the Company's auditor since 2011.

Charlotte, North Carolina

February 14, 2019

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XPO Logistics, Inc.
Consolidated Balance Sheets

	December 31,	
(In millions, except per share data)	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$502	$397
Accounts receivable, net of allowances of $52 and $42, respectively	2,596	2,725
Other current assets	590	466
Total current assets	3,688	3,588
Property and equipment, net of $1,585 and $1,110 in accumulated depreciation, respectively	2,605	2,664
Goodwill	4,467	4,564
Identifiable intangible assets, net of $706 and $560 in accumulated amortization, respectively	1,253	1,435
Other long-term assets	257	351
Total long-term assets	8,582	9,014
Total assets	$12,270	$12,602
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,258	$1,251
Accrued expenses	1,480	1,526
Short-term borrowings and current maturities of long-term debt	367	104
Other current liabilities	208	116
Total current liabilities	3,313	2,997
Long-term debt	3,902	4,418
Deferred tax liability	444	419
Employee benefit obligations	153	162
Other long-term liabilities	488	596
Total long-term liabilities	4,987	5,595
Stockholders' equity:		
Convertible perpetual preferred stock, $0.001 par value; 10 shares authorized; 0.07 of Series A shares issued and outstanding as of December 31, 2018 and 2017, respectively	41	41
Common stock, $0.001 par value; 300 shares authorized; 116 and 120 shares issued and outstanding as of December 31, 2018 and 2017, respectively	—	—
Additional paid-in capital	3,311	3,590
Retained earnings (accumulated deficit)	377	(43)
Accumulated other comprehensive (loss) income	(154)	16
Total stockholders' equity before noncontrolling interests	3,575	3,604
Noncontrolling interests	395	406
Total equity	3,970	4,010
Total liabilities and equity		