

Roadrunner Transportation Systems, Inc.

Form 10-Q

November 12, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2010

Commission file number: 001-34734

ROADRUNNER TRANSPORTATION SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware

20-2454942

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

**4900 S. PENNSYLVANIA AVE.
CUDAHY, WISCONSIN 53110**

(Address of principal executive offices) (Zip code)

(414) 615-1500

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Number of shares of common stock, \$0.01 par value, of registrant outstanding at November 8, 2010: 30,099,210.

**ROADRUNNER TRANSPORTATION SYSTEMS, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2010**

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ROADRUNNER TRANSPORTATION SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Dollars in thousands, except share amounts)

	September 30, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,254	\$ 2,176
Accounts receivable, net	72,948	57,887
Deferred income taxes	1,578	1,578
Prepaid expenses and other current assets	11,761	8,501
Total current assets	87,541	70,142
PROPERTY AND EQUIPMENT, NET	7,000	7,518
OTHER ASSETS:		
Goodwill	246,889	244,671
Other noncurrent assets	6,542	10,950
Total other assets	253,431	255,621
TOTAL ASSETS	\$ 347,972	\$ 333,281
LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS INVESTMENT		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$	\$ 8,768
Accounts payable	36,835	31,184
Accrued expenses and other liabilities	11,504	12,152
Total current liabilities	48,339	52,104
LONG-TERM DEBT, net of current maturities	27,814	130,167
OTHER LONG-TERM LIABILITIES	5,446	4,627
PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION	5,000	5,000
Total liabilities	86,599	191,898
COMMITMENTS AND CONTINGENCIES (NOTE 9)		
REDEEMABLE COMMON STOCK		1,740

Redeemable common stock \$.01 par value; 259,800 shares issued and outstanding

STOCKHOLDERS INVESTMENT:

Series B convertible preferred stock; 1,792 shares issued and outstanding		13,950
Class A common stock \$.01 par value; 14,567 shares issued and outstanding		147
Class B common stock \$.01 par value; 299 shares authorized; 283 shares issued and outstanding		3
Common stock \$.01 par value; 100,000 shares authorized; 30,096 and 3,092 shares issued and outstanding	301	31
Additional paid-in capital	261,649	125,803
Retained deficit	(577)	(291)
Total stockholders investment	261,373	139,643

TOTAL LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS INVESTMENT

\$ 347,972 \$ 333,281

See notes to unaudited condensed consolidated financial statements.

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ROADRUNNER TRANSPORTATION SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Revenues	\$ 163,690	\$ 124,670	\$ 466,222	\$ 355,390
Operating expenses:				
Purchased transportation costs	128,629	98,150	363,732	278,468
Personnel and related benefits	15,826	13,171	45,514	38,895
Other operating expenses	10,502	7,848	29,623	24,299
Depreciation and amortization	747	745	2,364	2,163
Acquisition transaction expenses	57	520	389	520
IPO related expenses			1,500	
Total operating expenses	155,761	120,434	443,122	344,345
Operating income	7,929	4,236	23,100	11,045
Interest expense:				
Interest on long-term debt	504	3,199	7,752	9,344
Dividends on preferred stock subject to mandatory redemption	50	50	150	150
Total interest expense	554	3,249	7,902	9,494
Loss on early extinguishment of debt			15,916	
Income (loss) before provision (benefit) for income taxes	7,375	987	(718)	1,551
Provision (benefit) for income taxes	2,991	371	(432)	812
Net income (loss)	4,384	616	(286)	739
Accretion of Series B preferred stock		490	765	1,442
Net income (loss) available to common stockholders	\$ 4,384	\$ 126	\$ (1,051)	\$ (703)

Earnings (loss) per share available to common stockholders:

Basic	\$	0.15	\$	0.01	\$	(0.04)	\$	(0.04)
Diluted	\$	0.14	\$	0.01	\$	(0.04)	\$	(0.04)

Weighted average common stock outstanding:

Basic	30,052	17,574	24,316	17,504
Diluted	31,089	17,824	24,316	17,504

See notes to unaudited condensed consolidated financial statements.

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ROADRUNNER TRANSPORTATION SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

	Nine Months Ended	
	September 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$ (286)	\$ 739
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,944	2,680
Gain on disposal of buildings and equipment	(186)	(2)
Loss on early extinguishment of debt	2,224	
Deferred interest	2,728	1,840
Share-based compensation	373	562
Provision for bad debts and freight bill adjustments	586	607
Deferred tax (benefit) provision	(432)	812
Changes in:		
Accounts receivable	(15,327)	(7,090)
Prepaid expenses and other assets	(4,641)	(2,592)
Accounts payable	5,252	(921)
Accrued expenses	(694)	345
Other liabilities	664	(9)
Net cash used in operating activities	(6,795)	(3,029)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Restricted cash	4,066	934
Acquisition of business, net of cash acquired	(1,910)	(7,221)
Capital expenditures	(1,396)	(1,876)
Proceeds from sale of buildings and equipment	235	86
Net cash provided by (used in) investing activities	995	(8,077)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under old revolving credit facilities	28,810	56,685
Payments under old revolving credit facilities	(64,470)	(47,235)
Borrowings under new revolving credit facilities, net of issuance costs	43,213	
Payments under new revolving credit facilities	(16,275)	
Long-term debt borrowings	1,184	4,340
Long-term debt payments	(107,213)	(5,665)
Proceeds from issuance of common stock, net of issuance costs	119,903	4,250
Reduction of capital lease obligation	(274)	(168)
Net cash provided by financing activities	4,878	12,207

NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(922)	1,101
CASH AND CASH EQUIVALENTS:		
Beginning of period	2,176	1,400
End of period	\$ 1,254	\$ 2,501

SUPPLEMENTAL CASH FLOWS INFORMATION:

Cash paid for interest	\$ 8,762	\$ 8,393
Cash paid for income taxes (net of refunds)	\$ 251	\$ 203
Noncash Series B convertible preferred stock dividend	\$ 765	\$ 1,441

See notes to unaudited condensed consolidated financial statements.

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Roadrunner Transportation Systems, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

1. Basis of Presentation, Organization, Nature of Business and Significant Accounting Policies

Nature of Business

Roadrunner Transportation Systems, Inc. (the Company) is headquartered in Cudahy, Wisconsin and has three operating segments, which are also reportable segments: less-than-truckload (LTL), truckload brokerage (TL) and transportation management solutions (TMS). Within the LTL business, the Company operates 17 service centers throughout the United States, complemented by relationships with over 200 delivery agents. Within the TL business, the Company operates nine dispatch offices and is augmented by 56 independent agents. The TMS business provides a one-stop transportation and logistics solution. The Company, from pickup to delivery, leverages relationships with a diverse group of third-party carriers to provide scalable capacity and reliable, customized service to customers in North America. The Company operates primarily in the United States.

On February 29, 2008, Thayer I Hidden Creek Partners II, L.P. (THCP II), through an indirect majority-owned subsidiary, GTS Acquisition Sub, Inc. (GTS), acquired all of the outstanding capital stock of Group Transportation Services, Inc. and all of the outstanding membership units of GTS Direct, LLC (the Transaction). THCP II is an affiliate of Thayer Equity Investors V, L.P., the controlling shareholder of the Company. GTS was formed on February 12, 2008 and there were no substantive operations from date of inception until the Transaction on February 29, 2008. On May 18, 2010, GTS merged with a wholly owned subsidiary of the Company (the GTS Merger).

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. The Company believes such statements include all adjustments (consisting only of normal recurring adjustments) necessary for the fair presentation of its financial position, results of operations and cash flows at the dates and for the periods indicated. Pursuant to the requirements of the Securities and Exchange Commission (SEC) applicable to interim financial statements, the accompanying financial statements do not include all disclosures required by GAAP for annual financial statements. While the Company believes the disclosures presented are adequate, these unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2009 contained in the Company's Prospectus filed pursuant to Rule 424(b) under the Securities Act of 1933, as amended, with the SEC on May 13, 2010. Operating results for the periods presented in this report are not necessarily indicative of the results that may be expected for the calendar year ending December 31, 2010, or any other interim period.

Principles of Consolidation

Transfers of net assets or exchanges of equity interests between entities under common control do not constitute business combinations. Because the Company and GTS had the same control group immediately before and after the GTS Merger, the GTS Merger has been accounted for as a combination of entities under common control on a historical cost basis in a manner similar to a pooling of interests. The accompanying condensed consolidated financial statements have been prepared as if the GTS Merger occurred on February 29, 2008, the date of common control. Accordingly, the accompanying condensed consolidated financial statements include the results of operations of GTS for all periods presented. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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2. Restricted Cash

In December 2008, the Company deposited \$5.0 million into a restricted cash account pursuant to the terms of the Keep Well Agreement entered into in conjunction with the issuance of its Series B Convertible Preferred Stock. The agreement terminates when all funds are used or all senior debt obligations have been paid in full. On May 18, 2010, the Company retired all outstanding senior debt obligations and the Keep Well Agreement was terminated and the restricted cash balance of \$4.1 million was released. At December 31, 2009, restricted cash of \$4.1 million is included in other noncurrent assets in the accompanying condensed consolidated balance sheets.

3. Acquisitions

On September 15, 2009, GTS acquired all of the outstanding membership interests of Mesca Freight Services, LLC (Mesca) for purposes of expanding its current market presence and service offerings in the TMS segment. Mesca operates as a non-asset based, third-party logistics provider from its headquarters in Maine. Total consideration was \$9.1 million, including \$1.8 million of cash acquired. A working capital adjustment in the amount of \$0.1 million was paid by GTS in 2010. The acquisition price and related financing fees of approximately \$0.1 million were financed with proceeds from the sale of common stock by GTS of \$4.2 million and borrowings under a credit facility of \$4.4 million. GTS incurred \$0.6 million of transaction expenses related to this acquisition.

In addition to cash paid at closing, the Mesca purchase agreement calls for contingent consideration in the form of an earnout. The former owners of Mesca are entitled to receive a payment equal to the amount by which Mesca's earnings before income taxes, depreciation and amortization, as defined in the purchase agreement, exceeds \$1.6 million for the years ending December 31, 2010 and 2011. Approximately \$2.4 million has been included in goodwill and is included in the TMS segment.

On December 7, 2009, GTS acquired all of the outstanding stock of Great Northern Transportation Services, Inc. (GNTS) for purposes of expanding its current market presence and service offerings in the TMS segment. GNTS is an agent of Mesca and operates from New Hampshire. Total consideration was \$1.7 million, including \$0.2 million of cash acquired. The acquisition price was financed with proceeds from the sale of common stock by GTS of \$0.9 million and borrowings under a credit facility of \$0.9 million. GTS incurred \$0.2 million of transaction expenses related to this acquisition.

In addition to cash paid at closing, the GNTS purchase agreement calls for contingent consideration in the form of an earnout. The former owner of GNTS is entitled to receive a payment equal to the amount by which GNTS' earnings before income taxes, depreciation and amortization, as defined in the purchase agreement exceeds \$0.6 million for the years ending December 31, 2010 and 2011. Approximately \$0.2 million has been included in goodwill and is included in the TMS segment.

In connection with the acquisitions of Mesca and GNTS, the carrying amount of the contingent consideration was revalued to fair value as of September 30, 2010, resulting in recording \$0.1 million of expense, which is included in interest on long-term debt in the accompanying condensed statements of operations for the three and nine months ended September 30, 2010.

On December 11, 2009, the Company acquired certain assets of Bullet Freight Systems, Inc. (Bullet) for purposes of expanding its market presence and service offerings in the LTL segment. Bullet operates as a common and contract motor carrier pursuant to U.S. Department of Transportation authority and is engaged primarily in transportation of less-than-truckload shipments. Bullet has operations based out of four service centers and operates throughout the United States. Total consideration was \$27.2 million. The acquisition price and related financing fees of approximately \$1.1 million were financed with borrowings under credit facilities of \$8.8 million and the issuance of \$19.5 million face value of junior subordinated notes, including \$3.0 million issued to the selling shareholders. In conjunction with the issuance of the junior subordinated notes, the Company issued warrants with a fair value of \$3.0 million. The Company incurred \$0.5 million of transaction expenses related to this acquisition.

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On February 12, 2010, GTS acquired all the outstanding stock of Alpha Freight Systems, Inc. (Alpha) for purposes of expanding its current market presence and service offerings in the TMS segment. Total consideration was \$2.0 million, including \$0.1 million of cash acquired. The acquisition price was financed with proceeds from the sale of common stock by GTS of \$1.0 million and borrowings under a credit facility of \$1.2 million. GTS incurred \$0.2 million of transaction expenses related to this acquisition. The Company anticipates that the goodwill associated with the first quarter 2010 acquisition of Alpha will be deductible for tax purposes.

The following is a summary of the allocation of the purchase price paid to the fair value of the net assets (in thousands):

	Mesca	GNTS	Bullet	Alpha
Accounts receivable	\$ 1,895	\$ 706	\$ 3,940	\$ 519
Other current assets	69			8
Property and equipment	170		170	25
Goodwill	8,986	1,643	26,068	1,869
Customer relationship intangible assets	246		800	
Other noncurrent assets	1	1	46	
Accounts payable and other liabilities	(4,010)	(819)	(3,819)	(511)
	\$ 7,357	\$ 1,531	\$ 27,205	\$ 1,910

The Mesca, GNTS, Bullet and Alpha goodwill is a result of acquiring and retaining their existing workforces and expected synergies from integrating their operations into the Company.

4. Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price of all acquisitions over the estimated fair value of the net assets acquired.

The following is a rollforward of goodwill from December 31, 2009 to September 30, 2010 (in thousands):

	LTL	TL	TMS	Total
Goodwill balance as of December 31, 2009	\$ 185,058	\$ 25,776	\$ 33,837	\$ 244,671
Acquisition of Alpha			1,869	1,869
Adjustment to the Bullet acquisition	349			349
Goodwill balance as of September 30, 2010	\$ 185,407	\$ 25,776	\$ 35,706	\$ 246,889

Intangible assets consist of customer relationships acquired from business acquisitions. Intangible assets at September 30, 2010 and December 31, 2009 are as follows (in thousands):

		September 30, 2010			December 31, 2009		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Customer relationships	TL	\$ 1,800	\$ 1,440	\$ 360	\$ 1,800	\$ 1,170	\$ 630
Customer relationships	LTL	800	120	680	800		800
Customer relationships	TMS	546	204	342	546	122	424
Total customer relationships		\$ 3,146	\$ 1,764	\$ 1,382	\$ 3,146	\$ 1,292	\$ 1,854

The customer relationships intangible assets are amortized over their five-year useful life.

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Accounting guidance on fair value measurements for certain financial assets and liabilities requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

- Level 1 Quoted market prices in active markets for identical assets or liabilities.
- Level 2 Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3 Unobservable inputs reflecting the reporting entity's own assumptions or external inputs from inactive markets.

A financial asset or liability's classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement.

The following table presents information as of September 30, 2010 and December 31, 2009, about the Company's financial liabilities, the contingent purchase price related to acquisitions that are measured at fair value on a recurring basis, according to the valuation techniques the Company used to determine their fair values (in thousands):

December 31, 2009

	Level 1	Level 2	Level 3	Fair Value
Contingent purchase price related to acquisitions	\$	\$	\$ 2,705	\$ 2,705
Total liabilities at fair value	\$	\$	\$ 2,705	\$ 2,705

September 30, 2010

	Level 1	Level 2	Level 3	Fair Value
Contingent purchase price related to acquisitions	\$	\$	\$ 2,906	\$ 2,906
Total liabilities at fair value	\$	\$	\$ 2,906	\$ 2,906

In measuring the fair value of the contingent payment liability, the Company used an income approach that considers the expected future earnings of the acquired businesses and the resulting contingent payments, discounted at a risk-adjusted rate.

The table below sets forth a reconciliation of the Company's beginning and ending Level 3 financial liability balance for the three months ended and nine months ended September 30, 2010 (in thousands):

Balance as of June 30, 2010	\$ 2,838
Adjustment to contingent purchase obligation	68
Balance as of September 30, 2010	\$ 2,906
Balance as of December 31, 2009	\$ 2,705
Adjustment to contingent purchase obligation	201
Balance as of September 30, 2010	\$ 2,906

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Long-term debt consisted of the following (in thousands):

	September 30, 2010	December 31, 2009
Senior debt:		
Revolving credit facility	\$ 27,814	\$
Revolving credit facility RRTS		35,660
Revolving credit facility GTS		950
Term loans RRTS		34,500
Term loans GTS		9,925
Total senior debt	27,814	81,035
Subordinated notes		41,134
Junior subordinated notes, net of unaccreted discount of \$3.0 million		16,766
Total debt	27,814	138,935
Less: Current maturities		(8,768)
Total long-term debt, net of current maturities	\$ 27,814	\$ 130,167

In connection with the Company's initial public offering (IPO), the Company entered into a new credit agreement on May 18, 2010 with U.S. Bank National Association. The credit agreement is five-year, \$55 million revolving credit facility collateralized by all assets of the Company and is subject to a borrowing base equal to 85% of the Company's eligible receivables. The new credit agreement contains certain financial covenants, including a minimum fixed charge coverage ratio and a maximum cash flow leverage ratio. Borrowings under the credit agreement will bear interest at either (a) the Eurocurrency Rate (as defined in the credit agreement), plus an applicable margin in the range of 2.5% to 3.0%, or (b) the Base Rate (as defined in the credit agreement), plus an applicable margin in the range of 1.5% to 2.0%. The revolving credit facility also provides for the issuance of up to \$8.0 million in letters of credit. As of September 30, 2010, the Company had outstanding letters of credit totaling \$5.3 million. Total availability under the revolving credit facility was \$21.9 million as of September 30, 2010. At September 30, 2010, the interest rate on the revolving credit facility was 3.0%.

The Company used the IPO proceeds to prepay \$40.4 million of outstanding debt under the RRTS credit facility, \$42.8 million to retire senior subordinated notes and accrued interest, and \$31.8 million to retire the junior subordinated notes and accrued interest, including prepayment penalties of \$10.6 million. The remaining amount of debt under the old RRTS and GTS credit agreements was paid with the proceeds from the new credit agreement on May 18, 2010.

7. Earnings (Loss) per Share

Basic earnings (loss) per common share is calculated by dividing net income (loss) available to common stockholders by the weighted average number of common stock outstanding during the period. For the three months ended September 30, 2010, diluted earnings per share is calculated by dividing net income by the weighted average stock outstanding plus stock equivalents that would arise from the assumed exercise of stock options and conversion of warrants using the treasury stock method. For the three months ended September 30, 2009, diluted earnings per share is calculated by dividing net income by the weighted average stock outstanding plus stock equivalents that would arise from the assumed exercise of stock options using the treasury stock method. Conversion of warrants was not assumed as they were deemed anti-dilutive. For the nine months ended September 30, 2010 and 2009, respectively, diluted earnings per share did not assume this same exercise of stock options or conversion of warrants as they were deemed anti-dilutive due to the net loss available to common stockholders. There is no difference, for any of the periods

presented, in the amount of net income (loss) available to common stockholders used in the computation of basic and diluted earnings per share.

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On May 7, 2010, the Company effected a 149.314-for-one stock split of all outstanding shares of its Class A common stock, Class B common stock, and Series B preferred stock. The condensed consolidated financial statements have been retrospectively restated to reflect this stock split.

The following table reconciles basic weighted average stock outstanding to diluted weighted average stock outstanding (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Basic weighted average stock outstanding	30,052	17,574	24,316	17,504
Effect of dilutive securities:				
Employee stock options	471	251		
Warrants	566			
Dilutive weighted average stock outstanding	31,089	17,824	24,316	17,504

The Company had additional stock options and warrants outstanding representing 3.1 million and 3.3 million shares as of September 30, 2010 and 2009, respectively. These shares were not included in the computation of diluted earnings per share because they were not assumed to be exercised under the treasury stock method or were anti-dilutive.

8. Income Taxes

The effective income tax rate was 40.1% for the three months ended September 30, 2010, compared with 37.6% for the three months ended September 30, 2009. For the nine months ended September 30, 2010, the effective income tax rate was 60.2% compared with 52.4% for the nine months ended September 30, 2009. In determining the quarterly provision for income taxes, the Company used an estimated annual effective tax rate, which was based on expected annual income, statutory tax rates, and its best estimate of non-deductible and non-taxable items of income and expense. Income tax expense varies from the amount computed by applying the federal corporate income tax rate of 35.0% to income before income taxes primarily due to state income taxes, net of federal income tax effect, Canadian income taxes, and adjustments for permanent differences.

9. Commitments and Contingencies*Redeemable Common Stock*

Certain shares of the Company's outstanding Class A common stock were issued in 2006 and classified as mezzanine equity. These shares, held by current and former employees of the Company, were subject to redemption at fair value by the Company in the event of death or disability of the holder, as defined, during a seven-year period from the date of original issuance. On June 30, 2010, all of these former and current employees waived their right to have these shares repurchased by the Company. As a result, the condensed consolidated financial statements reflect these shares as common stock as of September 30, 2010.

Series A Redeemable Preferred Stock

In March 2007, the Company issued and had outstanding 5,000 shares of non-voting Series A Preferred Stock (Series A Preferred Stock), which are mandatorily redeemable by the Company at \$1,000 per share, in cash, on November 30, 2012. The Series A Preferred Stock receives cash dividends annually on April 30 at an annual rate equal to \$40 per share, and if such dividends are not paid when due, such annual dividend rate shall increase to \$60 per share and continue to accrue without interest until such delinquent payments are made. At September 30, 2010 and December 31, 2009, \$92,000 and \$142,000 is recorded as a current liability, respectively. The holders of the Series A Preferred Stock are restricted from transferring such shares and the Company has a first refusal right and may elect to repurchase the shares prior to the mandatory November 30, 2012 redemption. Upon liquidation and certain transactions treated as liquidations, as defined in the Company's Certificate of Incorporation, the Series A Preferred Stock has liquidation preferences over the Company's common stock. The number of issued and outstanding shares of Series A Preferred Stock, the \$1,000 per share repurchase price, and the annual cash dividends are all subject to

equitable adjustment whenever there is a stock split, stock dividend, combination, recapitalization, reclassification or other similar event. As long as there is Series A Preferred Stock outstanding, no dividends may be declared or paid on common stock of the Company.

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Series B Convertible Preferred Stock

In December 2008, the Company issued and had outstanding 1,791,768 shares of Series B Convertible Preferred Stock (Series B Preferred Stock), which were convertible, at the option of the holder, at \$6.70 per share into Class A common stock. The Series B Preferred Stock were entitled to receive a dividend payable in cash when, as and if declared by the Board of Directors of the Company at the rate of 15% per annum on each share of Series B Preferred Stock outstanding, compounding quarterly. To the extent not paid, dividends accumulate. The Series B Preferred Stock, including accumulated dividends, was converted into 2,082,766 shares of common stock immediately prior to the closing of the IPO.

Contingencies

In the ordinary course of business, the Company is a defendant in several property and other claims. In the aggregate, the Company does not believe any of these claims will have a material impact on its consolidated financial statements. The Company maintains liability insurance coverage for claims in excess of \$0.5 million per occurrence and cargo coverage for claims in excess of \$0.1 million per occurrence. Management believes it has adequate insurance to cover losses in excess of the deductible amount. As of September 30, 2010, the Company had reserves for estimated uninsured losses of \$2.7 million.

10. Related Party Transactions

As part of the 2007 acquisition of Big Rock Transportation, Inc., Midwest Carriers, Inc., Sargent Trucking, Inc., B&J Transportation, Inc., and Smith Truck Brokers, Inc. (collectively, Sargent), the Company was required to pay an earnout to the former Sargent owners and now Series A Preferred Stock holders. At both September 30, 2010 and December 31, 2009, \$0.8 million related to the amounts earned in 2006 and 2007 was classified as a long-term liability. The Company's obligation to make further contingent payments to the former Sargent owners terminated as of December 31, 2009.

As part of the Bullet acquisition, the Company issued eight-year warrants exercisable for an aggregate 268,765 shares of Class A common stock payable to the former Bullet owners. These warrants were exercised in July of 2010. Additionally, certain existing stockholders and their affiliates also received eight-year warrants exercisable for an aggregate 1,388,620 shares of Class A common stock payable to existing stockholders and their affiliates.

The Company entered into a consulting and non-compete agreement in 2006 with a former employee. The consulting fee is \$0.1 million per year through 2016.

11. Segment Reporting

The Company determines its operating segments based on the information utilized by the chief operating decision maker, the Company's Chief Executive Officer, to allocate resources and assess performance. Based on this information, the Company has determined that it has three operating segments, which are also reportable segments: LTL, TL and TMS.

These reportable segments are strategic business units through which the Company offers different services. The Company evaluates the performance of the segments primarily based on their respective revenues and operating income. Accordingly, interest expense and other non-operating items are not reported in segment results. In addition, the Company has disclosed a corporate segment, which is not an operating segment and includes IPO related expenses, acquisition transaction expenses, corporate salaries and stock-based compensation expense.

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The following table reflects certain financial data of the Company's reportable segments (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues:				
LTL	\$ 107,235	\$ 83,715	\$ 304,840	\$ 234,531
TL	39,090	32,953	114,898	100,576
TMS	18,004	8,618	48,227	21,780
Eliminations	(639)	(616)	(1,743)	(1,497)
Total	\$ 163,690	\$ 124,670	\$ 466,222	\$ 355,390
Operating Income:				
LTL	\$ 5,156	\$ 3,166	\$ 17,424	\$ 8,046
TL	1,558	1,348	4,555	3,455
TMS	1,792	468	4,049	818
Corporate	(577)	(746)	(2,928)	(1,274)
Total operating income	\$ 7,929	\$ 4,236	\$ 23,100	\$ 11,045
Interest expense	554	3,249	7,902	9,494
Loss on early extinguishment of debt			15,916	
Income (loss) before provision (benefit) for income taxes	\$ 7,375	\$ 987	\$ (718)	\$ 1,551
Depreciation and Amortization:				
LTL	\$ 384	\$ 443	\$ 1,296	\$ 1,265
TL	188	156	551	467
TMS	175	146	517	431
Total	\$ 747	\$ 745	\$ 2,364	\$ 2,163
Capital Expenditures:				
LTL	\$ 397	\$ 174	\$ 898	\$ 1,543
TL	223	180	376	300
TMS	27	10	122	33
Total	\$ 647	\$ 364	\$ 1,396	\$ 1,876
Assets:				
LTL			\$ 255,604	\$ 245,508
TL			49,456	45,967
TMS			43,045	42,520
Corp				
Eliminations			(133)	(714)

Total	\$	347,972	\$	333,281
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12. Subsequent Events

We have evaluated subsequent events through the date of issuance and have determined that there were no subsequent events that have occurred through that date.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our condensed consolidated financial statements and the related notes and other financial information included in our Quarterly Report on Form 10-Q. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from the forward-looking statements. Among the factors that could cause actual results to differ materially are the factors discussed in the section Item 1A Risk Factors of Part II below and elsewhere in this Quarterly Report. This discussion and analysis should also be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations relating to our results for the year ended December 31, 2009, set forth in our prospectus filed with the Securities and Exchange Commission on May 13, 2010.

Company Overview

We are a leading non-asset based transportation and logistics service provider offering a full suite of solutions, including customized and expedited less-than-truckload (LTL), truckload (TL) brokerage, transportation management solutions (TMS), intermodal brokerage (transporting a shipment by more than one mode, primary via rail and truck), and domestic and international air. We utilize a proprietary web-enabled technology system and a broad third-party network of transportation providers, comprised of independent contractors (ICs) and purchased power, to serve a diverse customer base in terms of end market focus and annual freight expenditures. Although we service large national accounts, we primarily focus on small to mid-size shippers, which we believe represent an expansive and underserved market. Our business model is highly scalable and flexible, featuring a variable cost structure that requires minimal investment in transportation equipment and facilities, thereby enhancing free cash flow generation and returns on our invested capital and assets.

We determine our operating segments based on the information utilized by our chief operating decision maker, our Chief Executive Officer, to allocate resources and assess performance. Based on this information, we have determined that we operate three operating segments, which are also reportable segments: LTL, TL, and TMS.

Our LTL business involves the pickup, consolidation, linehaul, deconsolidation, and delivery of LTL shipments throughout the United States and into Mexico, Puerto Rico, and Canada. With a network of 17 leased service centers and over 200 third-party delivery agents, we employ a point-to-point LTL model that we believe serves as a competitive advantage over the traditional hub and spoke LTL model in terms of faster transit times, lower incidence of damage, and reduced fuel consumption.

Within our TL brokerage business, we arrange the pickup and delivery of TL freight through our network of nine company dispatch offices and 56 independent brokerage agents primarily located throughout the Eastern United States and Canada. We offer temperature-controlled, dry van, and flatbed services and specialize in the transport of refrigerated foods, poultry, and beverages. We believe this specialization provides consistent shipping volume year-over-year.

Within our TMS business we offer a one-stop transportation and logistics solution, including access to the most cost-effective and time-sensitive modes of transportation within our broad network. Specifically, our TMS offering includes pricing, contract management, transportation mode and carrier selection, freight tracking, freight bill payment and audit, cost reporting and analysis, and dispatch. Our customized TMS offering is designed to allow our customers to reduce operating costs, redirect resources to core competencies, improve supply chain efficiency, and enhance customer service.

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Our success principally depends on our ability to generate revenues through our network of sales personnel and independent brokerage agents and to deliver freight in all modes safely, on time, and cost-effectively through a suite of solutions tailored to the needs of each client. Customer shipping demand, over-the-road freight tonnage levels, and equipment capacity, which are subject to overall economic conditions, ultimately drive increases or decreases in our revenues. Our ability to operate profitably and generate cash is also impacted by the average over-the-road length of haul, pricing dynamics, customer mix, and our ability to manage costs effectively. Within our LTL business, we typically generate revenues by charging our customers a rate based on shipment weight, distance hauled, and commodity type. This amount is typically comprised of a base rate, a fuel surcharge, and any applicable service fees. Within our TL brokerage business, we typically charge a flat rate negotiated on each load based upon the industry factors noted above and in place at the time of the freight movement. Within our TMS business, we typically charge a variable rate on each shipment in addition to transaction or service fees appropriate for the solution we have developed for a specific customer's needs.

We incur costs that are directly related to the transportation of freight, including purchased transportation costs and commissions paid to our brokerage agents. We also incur indirect costs associated with the transportation of freight that include other operating costs, such as insurance and claims. In addition, we incur personnel-related costs and other operating expenses, collectively discussed herein as other operating expenses, essential to administering our operations. We continually monitor all components of our cost structure and establish annual budgets, which are generally used to benchmark costs incurred on a monthly basis.

Purchased transportation costs within our LTL business represent amounts we pay to ICs or purchased power providers and are generally contractually agreed-upon rates. Purchased transportation costs within our TL brokerage business are typically based on negotiated rates for each load hauled. We pay commissions to each brokerage agent based on a percentage of margin generated. Within our TMS business, purchased transportation costs include payments made to our purchased power providers, which are generally contractually agreed-upon rates. Purchased transportation costs are the largest component of our cost structure and are generally higher as a percentage of revenues within our TL brokerage business than within our LTL and TMS businesses. Our purchased transportation costs typically increase or decrease in proportion to revenues.

Our ability to maintain or grow existing tonnage levels is impacted by overall economic conditions, shipping demand, and over-the-road freight capacity in North America, as well as by our ability to offer a competitive solution in terms of pricing, safety, and on-time delivery. We have experienced significant fluctuations in year-over-year tonnage levels in recent years.

The industry pricing environment also impacts our operating performance. Our LTL pricing is typically measured by billed revenue per hundredweight, often referred to as *yield*, and is dictated primarily by factors such as average shipment size, shipment frequency and consistency, average length of haul, freight density, and customer and geographic mix. Pricing within our TL brokerage business generally has fewer influential factors than pricing within our LTL business, but is also typically driven by shipment frequency and consistency, average length of haul, and customer and geographic mix. Since we offer both LTL and TL shipping as part of our TMS offering, pricing within our TMS segment is impacted by similar factors. The pricing environment for all of our operations generally becomes more competitive during periods of lower industry tonnage levels and increased capacity within the over-the-road freight sector.

The transportation industry is dependent upon the availability of adequate fuel supplies. Our LTL business typically charges a fuel surcharge based on changes in diesel fuel prices compared to a national index. Although revenues from fuel surcharges generally more than offset increases in fuel costs, other operating costs have been, and may continue to be, impacted by fluctuating fuel prices. The total impact of higher energy prices on other nonfuel-related expenses is difficult to ascertain. We cannot predict future fuel price fluctuations, the impact of higher energy prices on other cost elements, recoverability of higher fuel costs through fuel surcharges, and the effect of fuel surcharges on our overall rate structure or the total price that we will receive from our customers. Depending on the changes in the fuel rates and the impact on costs in other fuel- and energy-related areas, operating margins could be impacted. Whether fuel prices fluctuate or remain constant, our operating income may be adversely affected if competitive pressures limit our ability to recover fuel surcharges. The operating income of our TL brokerage and TMS businesses is not impacted

directly by changes in fuel rates as we are able to pass through fuel costs to our customers.

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The following table sets forth, for the periods indicated, summary LTL, TL, TMS, corporate, and consolidated statement of operations data. Such revenue data for our LTL, TL, and TMS business segments are expressed as a percentage of consolidated revenues. Other statement of operations data for our LTL, TL, and TMS business segments are expressed as a percentage of segment revenues. Consolidated statement of operations data are expressed as a percentage of consolidated revenues.

(In thousands, except for % s)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010		2009		2010		2009	
	\$	% of Rev	\$	% of Rev	\$	% of Rev	\$	% of Rev
Revenues:								
LTL	\$ 107,235	65.5%	\$ 83,715	67.1%	\$ 304,840	65.4%	\$ 234,531	66.0%
TL	39,090	23.9%	32,953	26.4%	114,898	24.6%	100,576	28.3%
TMS	18,004	11.0%	8,618	6.9%	48,227	10.3%	21,780	6.1%
Eliminations	(639)	(0.4%)	(616)	(0.5%)	(1,743)	(0.4%)	(1,497)	(0.4%)
Total	\$ 163,690	100.0%	\$ 124,670	100.0%	\$ 466,222	100.0%	\$ 355,390	100.0%
Purchased transportation costs:								
LTL	81,661	76.2%	62,995	75.2%	228,303	74.9%	174,255	74.3%
TL	34,577	88.5%	29,034	88.1%	101,820	88.6%	88,758	88.2%
TMS	13,030	72.4%	6,737	78.2%	35,352	73.3%	16,952	77.8%
Eliminations	(639)	(0.4%)	(616)	(0.5%)	(1,743)	(0.4%)	(1,497)	(0.4%)
Total	128,629	78.6%	98,150	78.7%	363,732	78.0%	278,468	78.4%
Net Revenues ⁽¹⁾:								
LTL	25,574	23.8%	20,720	24.8%	76,537	25.1%	60,276	25.7%
TL	4,513	11.5%	3,919	11.9%	13,078	11.4%	11,818	11.8%
TMS	4,974	27.6%	1,881	21.8%	12,875	26.7%	4,828	22.2%
Total	35,061	21.4%	26,520	21.3%	102,490	22.0%	76,922	21.6%
Other operating expenses ⁽²⁾:								
LTL	20,034	18.7%	17,111	20.4%	57,817	19.0%	50,965	21.7%
TL	2,767	7.1%	2,415	7.3%	7,972	6.9%	7,896	7.9%
TMS	3,007	16.7%	1,267	14.7%	8,309	17.2%	3,579	16.4%
Corporate	577	0.4%	746	0.6%	2,928	0.6%	1,274	0.4%
Total	26,385	16.1%	21,539	17.3%	77,026	16.5%	63,714	17.9%
Depreciation and amortization:								
LTL	384	0.4%	443	0.5%	1,296	0.4%	1,265	0.5%
TL	188	0.5%	156	0.5%	551	0.5%	467	0.5%

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TMS	175	1.0%	146	1.7%	517	1.1%	431	2.0%
Total	747	0.5%	745	0.6%	2,364	0.5%	2,163	0.6%
Operating income:								
LTL	5,156	4.8%	3,166	3.8%	17,424	5.7%	8,046	3.4%
TL	1,558	4.0%	1,348	4.1%	4,555	4.0%	3,455	3.4%
TMS	1,792	10.0%	468	5.4%	4,049	8.4%	818	3.8%
Corporate	(577)	(0.4%)	(746)	(0.6%)	(2,928)	(0.6%)	(1,274)	(0.4%)
Total	7,929	4.8%	4,236	3.4%	23,100	5.0%	11,045	3.1%
Interest expense	554	0.3%	3,249	2.6%	7,902	1.7%	9,494	2.7%
Loss on early extinguishment of debt		0.0%		0.0%	15,916	3.4%		0.0%
Income (loss) before provision (benefit) for income taxes	7,375	4.5%	987	0.8%	(718)	(0.2%)	1,551	0.4%
Provision (benefit) for income taxes	2,991	1.8%	371	0.3%	(432)	(0.1%)	812	0.2%
Net income (loss)	4,384	2.7%	616	0.5%	(286)	(0.1%)	739	0.2%
Accretion of Series B preferred stock		0.0%	490	0.4%	765	0.2%	1,442	0.4%
Net income (loss) available to common stockholders	\$ 4,384	2.7%	\$ 126	0.1%	\$ (1,051)	(0.2%)	\$ (703)	(0.2%)

(1) Reflects revenues less purchased transportation costs.

(2) Reflects the sum of the personnel and related benefits, other operating expenses, acquisition

transaction
expenses, and
IPO related
expenses.

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Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009

Revenues

Consolidated revenues increased by \$39.0 million, or 31.3%, to \$163.7 million during the third quarter of 2010 from \$124.7 million during the third quarter of 2009.

LTL revenues increased by \$23.5 million, or 28.1%, to \$107.2 million during the third quarter of 2010 from \$83.7 million during the third quarter of 2009. This reflects quarter-over-quarter LTL tonnage growth of 19.2%, driven by a 19.9% increase in the number of LTL shipments, slightly offset by a 0.6% decline in weight per shipment. Our LTL tonnage increase was primarily driven by new customer growth, but a portion resulted from the acquisition of certain assets of Bullet in December 2009. In addition to growth in tonnage and shipments, our revenue per hundredweight including fuel surcharges increased during the quarter by 7.3%. This reflects increased fuel prices quarter-over-quarter and an increase in revenue per hundredweight excluding fuel of 5.2%, which resulted from the stabilization in the LTL pricing environment, our yield improvement initiatives and a change in freight mix. Sequentially from second quarter of 2010, yield without fuel surcharges improved 2.8% during the third quarter of 2010.

TL brokerage revenues increased by \$6.1 million, or 18.6%, to \$39.1 million during the third quarter of 2010 from \$33.0 million during the third quarter of 2009, primarily due to a slight increase in the number of loads, quarter-over-quarter increase of approximately 13% in revenue per load, and the expansion of our TL brokerage agent network.

TMS revenues increased by \$9.4 million, or 108.9%, to \$18.0 million during the third quarter of 2010 from \$8.6 million during the third quarter of 2009, primarily as a result of the addition of new customers and the acquisition of two TMS businesses during the second half of 2009 and one business during the first quarter of 2010, which are not reflected prior to their respective acquisition dates.

Purchased Transportation Costs

Purchased transportation costs increased by \$30.5 million, or 31.1%, to \$128.6 million during the third quarter of 2010 from \$98.2 million during the third quarter of 2009.

LTL purchased transportation costs increased by \$18.6 million, or 29.6%, to \$81.6 million during the third quarter of 2010 from \$63.0 million during the third quarter of 2009, and increased as a percentage of LTL revenues to 76.2% from 75.2%. This increase was primarily the result of tighter capacity in the truckload market, which caused an increase in rates paid to our third-party linehaul carriers. Excluding fuel surcharges our average linehaul cost per mile increased to \$1.26 during the third quarter of 2010 from \$1.16 experienced during the third quarter of 2009 through the first quarter of 2010. This increase from \$1.16 to \$1.26 negatively impacted our purchased transportation costs as a percent of revenues by approximately 2.5% of net revenue margin. These linehaul cost increases were partially offset by our yield improvement initiatives.

TL purchased transportation costs increased by \$5.5 million, or 19.1%, to \$34.6 million during the third quarter of 2010 from \$29.1 million during the third quarter of 2009, and increased slightly as a percentage of TL revenues to 88.5% from 88.1%, primarily due to rising truckload rates not yet passed on to contract customers, expansion of our truckload brokerage agent network, and payment of related commissions to new agents.

TMS purchased transportation costs increased by \$6.3 million, or 93.4%, to \$13.0 million during the third quarter of 2010 from \$6.7 million during the third quarter of 2009, and decreased as a percentage of TMS revenues to 72.4% from 78.2%. This primarily resulted from recent acquisitions, which expanded the TMS offering to include a broader range of services.

Other Operating Expenses

Other operating expenses, which reflect the sum of the personnel and related benefits, other operating expenses, acquisition transaction expenses, and IPO related expenses line items shown in our condensed consolidated statements of operations, increased by \$4.8 million, or 22.5%, to \$26.4 million during the third quarter of 2010 from \$21.5 million during the third quarter of 2009.

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Within our LTL business, other operating expenses increased by \$2.9 million, or 17.1%, to \$20.0 million during the third quarter of 2010 from \$17.1 million during the third quarter of 2009, primarily as a result of the Bullet acquisition and increased dock cost related to revenue growth. Due to our scalable operating model and targeted cost reduction initiatives, LTL other operating expenses as a percentage of LTL revenues decreased to 18.7% during the third quarter of 2010 from 20.4% during the third quarter of 2009.

Within our TL brokerage business, other operating expenses increased by \$0.4 million, or 14.6%, to \$2.8 million during the third quarter of 2010 from \$2.4 million during the third quarter of 2009. As a percentage of TL brokerage revenues, this represents a slight decrease to 7.1% from 7.3% and is primarily due to increases in market pricing and tonnage, as well as continued expansion of our TL brokerage agent network.

Within our TMS business, other operating expenses increased to \$3.0 million during the third quarter of 2010 from \$1.3 million during the third quarter of 2009, primarily as a result of recent TMS acquisitions completed during the second half of 2009 and the first quarter of 2010. As a percentage of TMS revenues, this represents an increase to 16.7% from 14.7%

Other operating expenses that were not allocated to our LTL, TL, or TMS businesses declined to \$0.6 million during the third quarter of 2010 from \$0.8 million during the third quarter of 2009. The \$0.6 million incurred during the third quarter of 2010 primarily represents corporate salaries and stock-based compensation expense. The \$0.8 million incurred during the third quarter of 2009 primarily represents acquisition transaction expenses and stock-based compensation expense.

Depreciation and Amortization

Depreciation and amortization was \$0.7 million during both the third quarter of 2010 and the third quarter of 2009. Within our LTL business, depreciation and amortization was \$0.4 million during both the third quarter of 2010 and the third quarter of 2009. Depreciation and amortization within our TL business was \$0.2 million during both the third quarter of 2010 and the third quarter of 2009. Within our TMS business, depreciation and amortization was \$0.1 million during both the third quarter of 2010 and the third quarter of 2009.

Operating Income

Operating income increased by \$3.7 million, or 87.2%, to \$7.9 million during the third quarter of 2010 from \$4.2 million during the third quarter of 2009. As a percentage of revenues, operating income increased to 4.8% during the third quarter of 2010 from 3.4% during the third quarter of 2009.

Within our LTL business, operating income increased by \$2.0 million, or 62.9%, to \$5.2 million from \$3.2 million, which represents an increase as a percentage of LTL revenues to 4.8% from 3.8%.

Within our TL business, operating income increased by \$0.3 million, or 15.6%, to \$1.6 million from \$1.3 million, which represents a slight decrease as a percentage of TL brokerage revenues to 4.0% from 4.1%.

Within our TMS business, operating income increased by \$1.3 million to \$1.8 million from \$0.5 million, which represents an increase as a percentage of TMS revenues to 10.0% from 5.4%.

Interest Expense

Interest expense decreased by \$2.6 million, or 82.9%, to \$0.6 million during the third quarter of 2010 from \$3.2 million during the third quarter of 2009, primarily attributable to the reduction of our outstanding indebtedness resulting from the application of the net proceeds from our IPO, partially offset by incremental debt financing to support the Bullet acquisition and the recent TMS acquisitions.

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Income Tax

Income tax provision was \$3.0 million during the third quarter of 2010 compared to \$0.4 million during the third quarter of 2009. The effective tax rate was 40.6% during the third quarter of 2010 compared to 37.6% during the third quarter of 2009. The effective income tax rate in each quarter varies from the federal statutory rate of 35.0% primarily due to state and Canadian income taxes as well as the impact of items causing permanent differences.

Net Income Available to Common Stockholders

Net income available to common stockholders was \$4.4 million during the third quarter of 2010 compared to net income of \$0.1 million during the third quarter of 2009. Net income available to common stockholders during the third quarter of 2009 was impacted by \$0.5 million of accretion of Series B preferred stock dividends. Upon completion of our IPO, our shares of Series B preferred stock were converted into shares of our common stock and such accretion was eliminated as of the date of conversion.

Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009

Revenues

Consolidated revenues increased by \$110.8 million, or 31.2%, to \$466.2 million during the first nine months of 2010 from \$355.4 million during the first nine months of 2009.

As a result of the addition of new customers and improvements in our LTL pricing, LTL revenues increased by \$70.3 million, or 30.0%, to \$304.8 million during the first nine months of 2010 from \$234.5 million during the first nine months of 2009. During the first nine months of 2010, our LTL tonnage increased by 24.4% over the first nine months of 2009, driven by a 22.7% increase in the number of LTL shipments and a 1.4% increase in weight per shipment. Our LTL tonnage increase was primarily driven by new customer growth, but a portion resulted from the acquisition of certain assets of Bullet in December 2009. In addition to growth in tonnage and shipments, our revenue per hundredweight including fuel surcharges increased 5.3% year-over-year, reflecting increased fuel prices, stabilization in the LTL pricing environment, and our yield improvement initiatives.

TL brokerage revenues increased by \$14.3 million, or 14.2%, to \$114.9 million during the first nine months of 2010 from \$100.6 million during the first nine months of 2009, primarily due to increases in market pricing and tonnage, as well as the expansion of our TL brokerage agent network.

TMS revenues increased by \$26.4 million, or 121.4%, to \$48.2 million during the first nine months of 2010 from \$21.8 million during the first nine months of 2009, primarily as a result of the addition of new customers and the acquisition of two TMS businesses during the second nine months of 2009 and one business during the first quarter of 2010, which are not reflected prior to their respective acquisition dates.

Purchased Transportation Costs

Purchased transportation costs increased by \$85.2 million, or 30.6%, to \$363.7 million during the first nine months of 2010 from \$278.5 million during the first nine months of 2009.

LTL purchased transportation costs increased by \$54.1 million, or 31.0%, to \$228.3 million during the first nine months of 2010 from \$174.2 million during the first nine months of 2009, and increased modestly as a percentage of LTL revenues to 74.9% from 74.3%. This is primarily a result of rising fuel costs and tighter capacity in the truckload market. Tighter capacity caused an increase in rates paid to our third-party linehaul carriers. These factors were partially offset by improved freight density throughout our network and increased utilization of our flexible base of independent contractors.

TL purchased transportation costs increased by \$13.0 million, or 14.7%, to \$101.8 million during the first nine months of 2010 from \$88.8 million during the first nine months of 2009, and increased slightly as a percentage of TL revenues to 88.6% from 88.2%, primary due to expansion of our TL brokerage agent network and payment of related commissions to new agents.

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TMS purchased transportation costs increased by \$18.3 million, or 108.5%, to \$35.3 million during the first nine months of 2010 from \$17.0 million during the first nine months of 2009, and decreased as a percentage of TMS revenues to 73.3% from 77.8%. This primarily resulted from recent acquisitions, which expanded the TMS offering to include higher margin services.

Other Operating Expenses

Other operating expenses (which reflect the sum of the personnel and related benefits, other operating expenses, acquisition transaction expenses, and transaction and IPO related expenses line items shown in our condensed consolidated statements of operations) increased by \$13.3 million, or 20.9%, to \$77.0 million during the first nine months of 2010 from \$63.7 million during the first nine months of 2009.

Within our LTL business, other operating expenses increased by \$6.9 million, or 13.4%, to \$57.8 million during the first nine months of 2010 from \$50.9 million during the first nine months of 2009, primarily as a result of the Bullet acquisition and increased dock costs related to revenue growth. Due to our scalable operating model and targeted cost reduction initiatives, LTL other operating expenses as a percentage of LTL revenues decreased to 19.0% during the first nine months of 2010 from 21.7% during the first nine months of 2009.

Within our TL brokerage business, other operating expenses increased by \$0.1 million, or 1.0%, to \$8.0 million during the first nine months of 2010 from \$7.9 million during the first nine months of 2009. As a percentage of TL brokerage revenues, however, this represents a decrease to 6.9% from 7.9% and is primarily due to increases in market pricing and tonnage, as well as continued expansion of our TL brokerage agent network.

Within our TMS business, other operating expenses increased to \$8.3 million during the first nine months of 2010 from \$3.6 million during the first nine months of 2009 as a result of recent acquisitions. As a percentage of TMS revenues, other operating expenses increased to 17.2% during the first nine months of 2010 from 16.4% during the first nine months of 2009, primarily due to acquisitions of during the fourth quarter of 2009 and first quarter of 2010.

Other operating expenses that were not allocated to our LTL, TL, or TMS businesses increased to \$2.9 million during the first nine months of 2010 from \$1.3 million during the first nine months of 2009. The \$2.9 million incurred during the first nine months of 2010 primarily represents acquisition transaction expenses, IPO related expenses, corporate salaries, and stock-based compensation expense. The \$1.3 million incurred during the first nine months of 2009 primarily represents acquisition transaction expenses, management agreement expenses, and stock-based compensation expense.

Depreciation and Amortization

Depreciation and amortization increased to \$2.4 million during the first nine months of 2010 from \$2.2 million during the first nine months of 2009. Within our LTL business, depreciation and amortization was \$1.3 million during both the first nine months of 2010 and the first nine months of 2009. Depreciation and amortization within our TL business was \$0.6 million during the first nine months of 2010 and \$0.5 million during the first nine months of 2009. Within our TMS business, depreciation and amortization was \$0.5 million during the first nine months of 2010 and \$0.4 million during the first nine months of 2009.

Operating Income

Operating income increased by \$12.1 million, or 109.1%, to \$23.1 million during the first nine months of 2010 from \$11.0 million during the first nine months of 2009. As a percentage of revenues, operating income increased to 5.0% during the first nine months of 2010 from 3.1% during the first nine months of 2009.

Within our LTL business, operating income increased by \$9.3 million, or 116.6%, to \$17.4 million from \$8.1 million, which represents an increase as a percentage of LTL revenues to 5.7% from 3.4%.

Within our TL business, operating income increased by \$1.1 million, or 31.8%, to \$4.5 million from \$3.4 million, which represents an increase as a percentage of TL brokerage revenues to 4.0% from 3.4%.

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Within our TMS business, operating income increased by \$3.3 million to \$4.1 million from \$0.8 million, which represents an increase as a percentage of TMS revenues to 8.4% from 3.8%.

Interest Expense

Interest expense decreased by \$1.6 million, or 16.8%, to \$7.9 million during the first nine months of 2010 from \$9.5 million during the first nine months of 2009, primarily attributable to the reduction of our outstanding indebtedness with net proceeds from our IPO, partially offset by incremental debt financing to support the Bullet acquisition and recent TMS segment acquisitions.

Loss on Early Extinguishment of Debt

In connection with the refinancing of our credit agreement upon completion of our IPO, we incurred a one-time loss on early extinguishment of debt of \$15.9 million during the first nine months of 2010. This charge consisted of (i) \$10.6 million of prepayment penalties, (ii) the payment of \$2.6 million of unaccreted discount on our junior subordinated notes, (iii) the non-cash write-off of \$2.2 million of deferred debt issuance costs, and (iv) the payment of legal and other miscellaneous fees of \$0.5 million.

Income Tax

Income tax benefit was \$0.4 million during the first nine months of 2010 compared to a provision of \$0.8 million during the first nine months of 2009. The effective tax rate was 60.2% during the first nine months of 2010 compared to 52.4% during the first nine months of 2009. The effective income tax rate in each period varies from the federal statutory rate of 35.0% primarily due to state and Canadian income taxes as well as the impact of items causing permanent differences.

Net Loss Available to Common Stockholders

Net loss available to common stockholders was \$1.1 million during the first nine months of 2010 compared to a net loss of \$0.7 million during the first nine months of 2009. Net loss available to common stockholders during the first nine months of 2010 was impacted by \$0.8 million of accretion of Series B preferred stock dividends, compared to an impact of \$1.4 million during the first nine months of 2009. Upon completion of our IPO, our shares of Series B preferred stock were converted into shares of our common stock and such accretion was eliminated as of the date of conversion.

Liquidity and Capital Resources

Historically, our primary sources of cash have been borrowings under our revolving credit facility, sale of subordinated notes, equity contributions, and cash flows from operations. Our primary cash needs are to fund normal working capital requirements, to finance capital expenditures, and to repay our indebtedness. As of September 30, 2010, we had \$1.3 million in cash and cash equivalents, \$37.9 million in net working capital, and \$21.9 million of availability under our credit facility.

On May 18, 2010, we consummated our IPO. The net proceeds we received from this offering were \$115.0 million, after deducting underwriting discounts, commissions and related expenses. We used the IPO proceeds to prepay \$40.4 million of outstanding debt under our previous credit facility, \$42.8 million to retire subordinated notes and accrued interest and \$31.8 million to retire the junior subordinated notes and accrued interest, including prepayment penalties of \$10.6 million.

In connection with our IPO, we entered into a new credit agreement on May 18, 2010 with U.S. Bank National Association, a national banking association, acting as administrative agent for the lender group. The credit agreement consists of a revolving line of credit up to a maximum aggregate amount of \$55 million, of which up to \$5 million may be used for Swing Line Loans (as defined in the credit agreement) and up to \$8 million may be used for letters of credit. The credit facility matures on May 18, 2015.

Advances under the credit agreement will bear interest at either (a) the Eurocurrency Rate (as defined in the credit agreement), plus an applicable margin in the range of 2.5% to 3.0%, or (b) the Base Rate (as defined in the credit agreement), plus an applicable margin in the range of 1.5% to 2.0%.

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Our credit agreement requires us to meet financial tests, including a minimum fixed charge coverage ratio and a maximum cash flow leverage ratio. In addition, our credit agreement contains negative covenants limiting, among other things, additional indebtedness, capital expenditures, transactions with affiliates, additional liens, sales of assets, dividends, investments and advances, prepayments of debt, mergers and acquisitions, and other matters customarily restricted in such agreements. Our credit agreement also contains customary events of default, including payment defaults, breaches of representations and warranties, covenant defaults, events of bankruptcy and insolvency, failure of any guaranty or security document supporting the credit agreement to be in full force and effect, and a change of control of our business. As of September 30, 2010, we are in compliance with all debt covenants.

We used \$43.3 million of borrowings under the new facility, together with restricted cash of \$4.1 million, to retire our remaining outstanding debt, as well as to pay \$4.6 million of transaction and financing expenses.

On June 4, 2010, we consummated the sale of an additional 403,286 shares of common stock pursuant to a partial exercise of the over-allotment option to purchase additional shares granted to the underwriters of our IPO. The net proceeds from this exercise were \$5.3 million, after deducting underwriting discounts, commissions and related expenses. We used the proceeds to repay \$5.3 million of outstanding debt under our new credit facility.

Cash Flows

A summary of operating, investing and financing activities are shown in the following table (in thousands):

	Nine Months Ended	
	September 30,	
	2010	2009
Net Cash (used in) provided by:		
Operating activities	\$ (6,795)	\$ (3,029)
Investing activities	995	(8,077)
Financing activities	4,878	12,207
Net change in cash and cash equivalents	\$ (922)	\$ 1,101

Cash Flows from Operating Activities

Cash used in our operating activities primarily consists of net loss adjusted for certain non-cash items, including depreciation and amortization, deferred interest, share-based compensation, provision for bad debts, deferred taxes and the effect of changes in working capital and other activities.

The difference between our \$0.3 million net loss and the \$6.8 million cash used in operating activities was primarily attributable to a \$15.3 million increase in our accounts receivable and a \$4.6 million increase in prepaid and other assets, partially offset by a \$5.3 million increase in our payables and a variety of non-cash charges, including \$2.7 million of deferred interest, a \$2.2 million loss on early extinguishment of debt, and \$2.9 million of depreciation and amortization.

Cash Flows from Investing Activities

Cash provided by investing activities was \$1.0 million during the first nine months of 2010, which primarily reflects the release of restricted cash of \$4.1 million, \$1.9 million used for a business acquisition and \$1.4 million of capital expenditures used to support our operations.

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Cash Flows from Financing Activities

Cash provided by financing activities was \$4.9 million during the first nine months of 2010, which primarily reflects net payments of \$114.8 million on our credit facilities and other long-term debt, proceeds from the issuance of common stock of \$119.9 million and payments of \$0.3 million for capital leases.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that we make estimates and assumptions. In certain circumstances, those estimates and assumptions can affect amounts reported in the accompanying condensed consolidated financial statements and related footnotes. In preparing our financial statements, we have made our best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable. Application of the accounting policies described below involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. The following is a brief discussion of our critical accounting policies and estimates.

Goodwill and Other Intangibles

Goodwill represents the excess of purchase price over the estimated fair value assigned to the net tangible and identifiable intangible assets of a business acquired. Goodwill is tested for impairment at least annually using a two-step process that begins with an estimation of the fair value at the reporting unit level. Our reporting units are our operating segments as this is the lowest level for which discrete financial information is prepared and regularly reviewed by management. The impairment test for goodwill involves comparing the fair value of a reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, a second step is required to measure the goodwill impairment loss. The second step includes hypothetically valuing all the tangible and intangible assets of the reporting unit as if the reporting unit had been acquired in a business combination. Then, the implied fair value of the reporting unit's goodwill is compared to the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, we recognize an impairment loss in an amount equal to the excess, not to exceed the carrying amount. For purposes of our impairment test, the fair value of our reporting units are calculated based upon an average of an income fair value approach and market fair value approach.

Other intangible assets recorded consist of definite lived customer lists. We evaluate our other intangible assets for impairment when current facts or circumstances indicate that the carrying value of the assets to be held and used may not be recoverable.

Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial reporting basis and the tax basis of assets and liabilities at enacted tax rates expected to be in effect when such amounts are recovered or settled. The use of estimates by management is required to determine income tax expense, deferred tax assets and any related valuation allowance and deferred tax liabilities. The determination of a valuation allowance is based on estimates of future taxable income by jurisdiction in which the deferred tax assets will be recoverable. In making such a determination, all available positive and negative evidence, scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations, is considered. When evaluating the need for a valuation allowance as of September 30, 2010, we considered that we achieved cumulative net income before provision for income taxes for the most recent three years, after considering the impact of offering expenses. Further, we expect to achieve cost savings from the restructuring and synergies related to the Bullet acquisition and a reduction of interest expense related to debt restructuring that will further increase our ability to realize the benefits of the net operating loss carry forwards. The tax deductibility of the goodwill related to our acquisitions will reduce taxable income in future years; however, under our current structure, we estimate that we will generate taxable income in 2010 and will utilize all existing net operating losses carry forwards before their expiration. These estimates can be affected by a number of factors, including possible tax audits or general economic conditions or competitive pressures that could affect future taxable income. Although management believes that the estimates are reasonable, the deferred tax asset and any related valuation allowance will need to be adjusted if

management's estimates of future taxable income differ from actual taxable income. An adjustment to the deferred tax asset and any related valuation allowance could materially impact the consolidated results of operations. At September 30, 2010 and December 31, 2009, there was no valuation allowance recorded.

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At December 31, 2009 we had \$37.1 million of gross federal net operating losses which are available to reduce federal income taxes in future years and expire in the years 2025 through 2029. We are subject to federal and state tax examinations for all tax years subsequent to December 31, 2005. Although the pre-2006 years are no longer subject to examinations by the Internal Revenue Service and various state taxing authorities, NOL carryforwards generated in those years may still be adjusted upon examination by the IRS or state taxing authorities if they have been or will be used in the future.

Revenue Recognition

LTL revenue is recorded when all of the following have occurred: an agreement of sale exists; pricing is fixed or determinable; and collection of revenue is reasonably assured. We use a percentage of completion method to recognize revenue, which results in an allocation of revenue between reporting periods based on the distinctive phases of each LTL transaction completed in each reporting period, with expenses recognized as incurred. Management believes that this is the most appropriate method for LTL revenue recognition based on the multiple distinct phases of a typical LTL transaction, which is in contrast to the single phase of a typical TL transaction.

TL revenue is recorded when all of the following have occurred: an agreement of sale exists; pricing is fixed or determinable; delivery has occurred; and our obligation to fulfill a transaction is complete and collection of revenue is reasonable assured. This occurs when we complete the delivery of a shipment.

TMS transportation revenue and related transportation costs are recognized when the shipment has been delivered by a third-party carrier. Fee for services revenue is recognized when the services have been rendered. At the time of delivery or rendering of services, as applicable, our obligation to fulfill a transaction is complete and collection of revenue is reasonably assured. We offer volume discounts to certain customers. Revenue is reduced as discounts are earned.

We typically recognize revenue on a gross basis, as opposed to a net basis, because we bear the risks and benefits associated with revenue-generated activities by, among other things, (1) acting as a principal in the transaction, (2) establishing prices, (3) managing all aspects of the shipping process, and (4) taking the risk of loss for collection, delivery and returns. Certain TMS transactions to provide specific services are recorded at the net amount charged to the client due to the following factors: (A) We do not have latitude in establishing pricing, and (B) We do not bear the risk of loss for delivery and returns; these items are the risk of the carrier.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Risk

In our LTL and TL businesses, our primary market risk centers on fluctuations in fuel prices, which can affect our profitability. Diesel fuel prices fluctuate significantly due to economic, political, and other factors beyond our control. Our ICs and purchased power pass along the cost of diesel fuel to us, and we in turn attempt to pass along some or all of these costs to our customers through fuel surcharge revenue programs. There can be no assurance that our fuel surcharge revenue programs will be effective in the future. Market pressures may limit our ability to pass along our fuel surcharges.

Interest Rate Risk

We have exposure to changes in interest rates on our revolving credit facility. The interest rate on our credit facility fluctuates based on the prime rate or LIBOR plus an applicable margin. Assuming our \$55.0 million revolving credit facility was fully drawn, a 1.0% increase in the borrowing rate would increase our annual interest expense by \$0.5 million. We do not use derivative financial instruments for speculative trading purposes and are not engaged in any interest rate swap agreements.

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ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures.

We maintain a system of disclosure controls and procedures for financial reporting to give reasonable assurance that information required to be disclosed in our reports submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. These controls and procedures also give reasonable assurance that information required to be disclosed in such reports is accumulated and communicated to management to allow timely decisions regarding required disclosures.

Our Chief Executive Officer and Chief Financial Officer, together with management, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2010, pursuant to Rule 13a-15(e) of the Exchange Act. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) were effective such that information relating to the Company, including our consolidated subsidiaries, required to be disclosed in our SEC reports, (i) is recorded, processed, summarized and reported within the time frames specified in SEC rules and forms, and (ii) is accumulated and communicated to Company management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely discussion regarding disclosure.

Changes in Internal Control over Financial Reporting.

There has been no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls.

Our management, including our principal executive officer and chief financial officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls also can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, we are involved in litigation and proceedings in the ordinary course of our business. We are not currently involved in any legal proceeding that we believe would have a material adverse effect on our business or financial condition.

ITEM 1A. RISK FACTORS.

An investment in our common stock involves a high degree of risk. You should carefully consider the factors described in our prospectus filed with the Securities and Exchange Commission, or the SEC, pursuant to Rule 424(b) under the Securities Act of 1933, as amended, on May 13, 2010 in analyzing an investment in our common stock. If any of such risks occur, our business, financial condition, and results of operations would likely suffer, the trading price of our common stock could fall, and you could lose all or part of the money you paid for our common stock.

In addition, the risk factors and uncertainties could cause our actual results to differ materially from those projected in our forward-looking statements, whether made in this report or other documents we file with the SEC, or our annual or quarterly reports to stockholders, future press releases, or orally, whether in presentations, responses to questions, or otherwise.

ITEM 6. EXHIBITS.

- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
- 32.1 Section 1350 Certification of Chief Executive Officer
- 32.2 Section 1350 Certification of Chief Financial Officer

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SIGNATURES

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

Roadrunner Transportation Systems, Inc.

Date: November 11, 2010

By: /s/ Mark A. DiBlasi
Name: Mark A. DiBlasi
Title: President and Chief Executive Officer

Date: November 11, 2010

By: /s/ Peter R. Armbruster
Name: Peter R. Armbruster
Title: Vice President Finance,
Chief Financial Officer,
Secretary, and Treasurer