



**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark One)

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

For the Quarterly period ended March 31, 2010

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-32172

**Express-1 Expedited Solutions, Inc.**

*(Exact name of small business issuer as specified in its charter)*

**Delaware**

*(State or other jurisdiction of incorporation or organization)*

**03-0450326**

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

**3399 South Lakeshore Drive, Suite 225**

**Saint Joseph, MI 49085**

*(Address of Principal Executive Offices)(Zip Code)*

**(269) 429-9761**

*(Issuer'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   
(Do not check if a smaller reporting company)

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

The Registrant has 32,035,218 shares of its common stock outstanding as of May 12, 2010.

**Express-1 Expedited Solutions, Inc.**  
**Form 10-Q**

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**Part I — Financial Information**

**Item 1 — Financial Statements**  
**Express-1 Expedited Solutions, Inc.**  
**Consolidated Balance Sheets**

|  | (Unaudited)<br>March 31, 2010 | December 31, 2009    |
|--|-------------------------------|----------------------|
| <b>ASSETS</b>  |                               |                      |
| <b>Current assets:</b>   |                               |                      |
| Cash   | \$ 920,000                    | \$ 495,000           |
| Accounts receivable, net of allowances of \$171,000 and \$225,000 respectively   | 17,668,000                    | 17,569,000           |
| Prepaid expenses   | 480,000                       | 158,000              |
| Deferred tax asset, current  | 413,000                       | 353,000              |
| Other current assets   | 356,000                       | 459,000              |
| <b>Total current assets</b>  | <u>19,837,000</u>             | <u>19,034,000</u>    |
| Property and equipment, net of \$2,802,000 and \$2,651,000 in accumulated depreciation, respectively                       | 2,695,000                     | 2,797,000            |
| Goodwill   | 16,959,000                    | 16,959,000           |
| Identifiable intangible assets, net of \$2,355,000 and \$2,198,000 in accumulated amortization, respectively               | 9,018,000                     | 9,175,000            |
| Loans and advances   | 177,000                       | 30,000               |
| Other long-term assets   | 1,067,000                     | 1,044,000            |
| <b>Total long term assets</b>  | <u>29,916,000</u>             | <u>30,005,000</u>    |
| <b>Total assets</b>  | <u>\$ 49,753,000</u>          | <u>\$ 49,039,000</u> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                               |                      |
| <b>Current liabilities:</b>  |                               |                      |
| Accounts payable   | \$ 7,215,000                  | \$ 6,769,000         |
| Accrued salaries and wages   | 325,000                       | 310,000              |
| Accrued expenses, other  | 3,715,000                     | 2,272,000            |
| Line of credit   | —                             | 6,530,000            |
| Current maturities of notes payable and capital leases   | 1,678,000                     | 1,215,000            |
| Other current liabilities  | 378,000                       | 968,000              |
| <b>Total current liabilities</b>   | <u>13,311,000</u>             | <u>18,064,000</u>    |
| Line of credit   | 1,521,000                     | —                    |
| Notes payable and capital leases, net of current maturities  | 3,346,000                     | 213,000              |
| Deferred tax liability, long-term  | 1,460,000                     | 1,156,000            |
| Other long-term liabilities  | 847,000                       | 1,202,000            |
| <b>Total long-term liabilities</b>   | <u>7,174,000</u>              | <u>2,571,000</u>     |
| <b>Stockholders' equity:</b>   |                               |                      |
| Preferred stock, \$.001 par value; 10,000,000 shares; no shares issued or outstanding                                      |                               | —                    |
| Common stock, \$.001 par value; 100,000,000 shares authorized; 32,215,218 shares issued; and 32,035,218 shares outstanding | 32,000                        | 32,000               |
| Additional paid-in capital   | 26,518,000                    | 26,488,000           |
| Treasury stock, at cost, 180,000 shares held   | (107,000)                     | (107,000)            |
| Accumulated earnings   | 2,825,000                     | 1,991,000            |
| <b>Total stockholders' equity</b>  | <u>29,268,000</u>             | <u>28,404,000</u>    |
| <b>Total liabilities and stockholders' equity</b>  | <u>\$ 49,753,000</u>          | <u>\$ 49,039,000</u> |

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

**Express-1 Expedited Solutions, Inc.**  
**Consolidated Statements of Operations**  
**(Unaudited)**

|   | <b>Three Months Ended</b> |                       |
|---|---------------------------|-----------------------|
|   | <b>March 31, 2010</b>     | <b>March 31, 2009</b> |
| <b>Revenues</b>   |                           |                       |
| Operating revenue   | \$ 31,642,000             | \$ 20,072,000         |
| <b>Expenses</b>   |                           |                       |
| Direct expense  | 26,043,000                | 16,856,000            |
| <b>Gross margin</b>   | 5,599,000                 | 3,216,000             |
| Sales general and administrative expense                          | 4,075,000                 | 3,243,000             |
| <b>Operating income (loss) from continuing operations</b>         | 1,524,000                 | (27,000)              |
| Other expense (income)  | 20,000                    | (10,000)              |
| Interest expense  | 20,000                    | 22,000                |
| <b>Income (loss) from continuing operations before income tax</b> | 1,484,000                 | (39,000)              |
| Income tax provision (benefit)                                    | 650,000                   | (14,000)              |
| <b>Income (loss) from continuing operations</b>                   | 834,000                   | (25,000)              |
| Income from discontinued operations, net of tax                   | —                         | 30,000                |
| <b>Net income</b>   | <u>\$ 834,000</u>         | <u>\$ 5,000</u>       |
| <b>Basic income per share</b>                                     |                           |                       |
| Income from continuing operations                                 | \$ 0.03                   | \$ —                  |
| Income from discontinued operations                               | —                         | —                     |
| Net income  | 0.03                      | —                     |
| <b>Diluted income per share</b>                                   |                           |                       |
| Income from continuing operations                                 | 0.03                      | —                     |
| Income from discontinued operations                               | —                         | —                     |
| Net income  | \$ 0.03                   | \$ —                  |
| <b>Weighted average common shares outstanding</b>                 |                           |                       |
| Basic weighted average common shares outstanding                  | 32,035,218                | 32,035,218            |
| Diluted weighted average common shares outstanding                | 32,577,352                | 32,150,601            |

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

**Express-1 Expedited Solutions, Inc.**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**

|  | <b>Three Months Ended March 31,</b> |                     |
|--|-------------------------------------|---------------------|
|  | <b>2010</b>                         | <b>2009</b>         |
| <b>Operating activities</b>  |                                     |                     |
| Net income   | \$ 834,000                          | \$ 5,000            |
| <b>Adjustments to reconcile net income to net cash from operating activities</b> |                                     |                     |
| Provisions for allowance for doubtful accounts                                   | (54,000)                            | (7,000)             |
| Depreciation & amortization expense  | 385,000                             | 276,000             |
| Stock compensation expense   | 30,000                              | 41,000              |
| Gain on disposal of equipment  | (1,000)                             | (31,000)            |
| <b>Changes in assets and liabilities, net of effects of acquisition:</b>         |                                     |                     |
| Account receivable   | (44,000)                            | 1,138,000           |
| Deferred tax expense   | 244,000                             | —                   |
| Other current assets   | 103,000                             | (539,000)           |
| Prepaid expenses   | (322,000)                           | 27,000              |
| Other Long-term assets and advances  | (246,000)                           | 91,000              |
| Accounts payable   | 446,000                             | (942,000)           |
| Accrued expenses   | 1,459,000                           | (40,000)            |
| Other liabilities  | (947,000)                           | (128,000)           |
| <b>Cash provided (used) by operating activities</b>                              | <u>1,887,000</u>                    | <u>(109,000)</u>    |
| <b>Investing activities</b>  |                                     |                     |
| Acquisition of businesses, net of cash acquired                                  | —                                   | (250,000)           |
| Payment of acquisition earn-out  | —                                   | (1,100,000)         |
| Payment for purchases of property and equipment                                  | (49,000)                            | (25,000)            |
| Proceeds from sale of property and equipment                                     | —                                   | 62,000              |
| <b>Cash flows used by investing activities</b>                                   | <u>(49,000)</u>                     | <u>(1,313,000)</u>  |
| <b>Financing activities</b>  |                                     |                     |
| Credit line, net activity  | (5,009,000)                         | 1,839,000           |
| Proceeds from credit facility renewal  | 5,000,000                           | —                   |
| Payments of term debt  | (1,404,000)                         | (335,000)           |
| <b>Cash flows (used) provided by financing activities</b>                        | <u>(1,413,000)</u>                  | <u>1,504,000</u>    |
| <b>Net increase in cash</b>  | 425,000                             | 82,000              |
| <b>Cash, beginning of period</b>   | 495,000                             | 1,107,000           |
| <b>Cash, end of period</b>   | <u>\$ 920,000</u>                   | <u>\$ 1,189,000</u> |
| <b>Supplemental disclosure of noncash activities:</b>                            |                                     |                     |
| Cash paid during the period for interest   | \$ 24,000                           | \$ 19,000           |
| Cash paid during the period for income taxes                                     | 173,000                             | 236,000             |
| <b>Acquisition of assets and liabilities (First Class 2009):</b>                 |                                     |                     |
| Property and equipment   |                                     | \$ 82,000           |
| Goodwill and other intangible assets   |                                     | 210,000             |
| Liabilities assumed  |                                     | (42,000)            |
| <b>Total purchase price paid in cash</b>   |                                     | <u>\$ 250,000</u>   |

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

**Express-1 Expedited Solutions, Inc.**  
**Consolidated Statement of Changes in Stockholders' Equity**  
**Three Months Ended March 31, 2010**  
**(Unaudited)**

|                                   | <u>Common Stock</u> |                  | <u>Treasury Stock</u> |                    | <u>Additional<br/>Paid In<br/>Capital</u> | <u>Accumulated<br/>Earnings</u> | <u>Total</u>        |
|-----------------------------------|---------------------|------------------|-----------------------|--------------------|---|---------------------------------|---------------------|
|                                   | <u>Shares</u>       | <u>Amount</u>    | <u>Shares</u>         | <u>Amount</u>      |   |                                 |                     |
| <b>Balance, December 31, 2009</b> | 32,215,218          | \$ 32,000        | (180,000)             | \$(107,000)        | \$26,488,000                              | \$1,991,000                     | \$28,404,000        |
| Stock option expense              |                     |                  |                       |                    | 30,000                                    |                                 | 30,000              |
| Net income                        |                     |                  |                       |                    |   | 834,000                         | 834,000             |
| <b>Balance, March 31, 2010</b>    | <u>32,215,218</u>   | <u>\$ 32,000</u> | <u>(180,000)</u>      | <u>\$(107,000)</u> | <u>\$26,518,000</u>                       | <u>\$2,825,000</u>              | <u>\$29,268,000</u> |

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

**Express-1 Expedited Solutions, Inc.**  
**Notes to Consolidated Financial Statements**  
**Three Months Ended March 31, 2010 and 2009**  
**(Unaudited)**

**1. Significant Accounting Principles**

***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements of Express-1 Expedited Solutions, Inc. (“we”, “us”, “our” or the “Company”) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and in accordance with the instructions to Form 10-Q. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted pursuant to those rules and regulations. However, we believe that the disclosures contained herein are adequate to make the information presented not misleading.

The financial statements reflect, in our opinion, all material adjustments (which include only normal recurring adjustments) necessary to fairly present our financial position at March 31, 2010 and December 31, 2009 and results of operations for the three month periods ended March 31, 2010 and 2009. The preparation of the financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Estimates have been prepared on the basis of the most current and best available information and actual results could differ materially from those estimates.

These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements and notes thereto for the fiscal year ended December 31, 2009 included in our Annual Report on Form 10-K as filed with the SEC and available on the SEC’s website ([www.sec.gov](http://www.sec.gov)). Results of operations in interim periods are not necessarily indicative of results to be expected for a full year.

***Revenue Recognition***

Within the Company’s Express-1 and Bounce Logistics business units, revenue is recognized at the time of freight delivery; with related costs of delivery being accrued as incurred and expensed within the same period in which the associated revenue is recognized. For these business units, the Company uses the following supporting criteria to determine revenue has been earned and should be recognized:

- Persuasive evidence that an arrangement exists,
- Services have been rendered,
- The sales price is fixed and determinable, and
- Collectability is reasonably assured.

Within its Concert Group Logistics business unit, the Company utilizes an alternative point in time to recognize revenue. Concert Group Logistics revenue and associated operating expenses are recognized on the date the freight is picked up from the shipper. This method of revenue recognition is not the preferred method of revenue recognition as prescribed within generally accepted accounting principles in the United States of America (US GAAP). This method recognizes revenue and associated expenses prior to the point in time that all services are completed; however, the use of this method does not result in a material difference. The Company has evaluated the impact of this alternative method on its consolidated financial statements and concluded that the impact is not material to the financial statements.

The Company reports revenue on a gross basis in accordance with US GAAP principles. The following facts justify our position of reporting revenue on a gross basis:

- The Company is the primary obligor and is responsible for providing the service desired by the customer.



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- The customer holds the Company responsible for fulfillment including the acceptability of the service.
- The Company has discretion in setting sales prices and as a result, its earnings vary.
- The Company has discretion to select its drivers, contractors, or other transportation providers (collectively, “service providers”) from among thousands of alternatives, and
- The Company bears credit risk on its receivables.

### **Stock-Based Compensation**

The Company has in place a stock option plan approved by the shareholders for 5,600,000 shares of its common stock. Through the plan, the Company offers stock options to employees and directors which assist in recruiting and retaining these individuals. Under the plan, the Company may also grant restricted stock awards, subject to the satisfaction by the recipient of certain conditions specified in the restricted stock grant.

Options generally become fully vested three to five years from the date of grant and expire five to ten years from the grant date. During the three-month period ended March 31, 2010, the Company granted 150,000 options to purchase shares of its common stock while cancelling or retiring 150,000 options in the same period. As of March 31, 2010 the Company has 3,143,000 options outstanding and an additional 2,457,000 options available for future grants under the existing plan.

The weighted-average fair value of each stock option recorded in expense for the three-month period ended March 31, 2010 was estimated on the date of grant using the Black-Scholes option pricing model and amortized over the requisite service period of the underlying options. The Company has used one grouping for the assumptions, as its option grants are primarily basic with similar characteristics. The expected term of options granted has been derived based upon the Company’s history of actual exercise behavior and represents the period of time that options granted are expected to be outstanding. Historical data was also used to estimate option exercises and employee terminations. Estimated volatility is based upon the Company’s historical market price at consistent points in a period equal to the expected life of the options. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant and the dividend yield is zero. The weighted average assumptions outlined in the table below were utilized in the calculations of compensation expense from option grants in the reporting period reflected.

|                         | Three Months Ended<br>March 31, |           |
|-------------------------|---------------------------------|-----------|
|                         | 2010                            | 2009      |
| Risk-free interest rate | 2.8%                            | 3.9%      |
| Expected life           | 5.8 years                       | 4.9 Years |
| Expected volatility     | 35%                             | 35%       |
| Expected dividend yield | none                            | none      |
| Grant date fair value   | \$0.53                          | \$0.33    |

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The following table summarizes the option activity for the three-month period ended March 31, 2010:

|  | <b>Options</b>   | <b>Weighted Average<br/>Exercise Price</b> | <b>Weighted Average<br/>Remaining Life</b> |
|--|------------------|--|--|
| <b>Outstanding at December 31, 2009</b>          | 3,143,000        | \$1.14                                     | 5.1 Years                                  |
| Granted  | 150,000          | 1.38                                       |  |
| Expired  | (150,000)        | 1.25                                       |  |
| Exercised  | —                | —  |  |
| <b>Outstanding at March 31, 2010</b>             | <b>3,143,000</b> | <b>1.15</b>                                | <b>5.3</b>                                 |
| <b>Outstanding exercisable at March 31, 2010</b> | <b>2,626,000</b> | <b>\$1.16</b>                              | <b>4.7</b>                                 |

For the three months ended March 31, 2010 and 2009, the Company recognized \$30,000 and \$41,000, respectively, in stock based compensation.

As of March 31, 2010, the Company had approximately \$180,000 of unrecognized compensation cost related to non-vested share-based compensation that is anticipated to be recognized over a weighted average period of approximately 1.1 years. Estimated remaining compensation expense related to existing share-based plans is \$78,000, \$68,000, \$30,000 and \$4,000 for the years ended December 31, 2010, 2011, 2012, and 2013, respectively.

At March 31, 2010, the aggregate intrinsic value of options outstanding was \$993,000 and the aggregate intrinsic value of options exercisable was \$804,000. The total fair value of options vested during the three months ended March 31, 2010 and 2009 was \$34,000 and \$162,000, respectively.

No options were exercised during the three-month periods ended March 31, 2010 and 2009.

### ***Use of Estimates***

The Company prepares its consolidated financial statements in conformity US GAAP. These principles require management to make estimates and assumptions that impact the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company reviews its estimates, including but not limited to: unbilled revenue, purchased transportation, recoverability of long-lived assets, accrual of acquisition earn-outs, recoverability of prepaid expenses, estimated legal accruals, valuation allowances for deferred taxes, valuation of investments and allowance for doubtful accounts, on a regular basis and makes adjustments based on historical experiences and existing and expected future conditions. These evaluations are performed and adjustments are made as information is available. Management believes that these estimates are reasonable and have been discussed with the audit committee; however, actual results could differ from these estimates.

### ***Reclassifications***

Certain prior year amounts shown in the accompanying consolidated financial statements have been reclassified to conform to the 2010 presentation. These reclassifications did not have any effect on total assets, total liabilities, total stockholders' equity or net income.

### ***Income Taxes***

Taxes on income are provided in accordance with US GAAP. Deferred income tax assets and liabilities are recognized for the expected future tax consequences of events that have been reflected in the consolidated financial statements. Deferred tax assets and liabilities are determined based on the differences between the book values and the tax basis of particular assets and liabilities, and the tax effects of net operating loss and capital loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in the tax rate is recognized as income or expense in the period that included the enactment date. A valuation allowance is provided to offset the net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company has evaluated its tax position and concluded no valuation allowance on its deferred tax assets is required, as of March 31, 2010. The Company had previously generated a significant federal net operating loss (NOL)

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deduction which had been utilized over the past several years. During 2009 the carry forward deduction was fully utilized and no further NOL benefits will be available for federal tax purposes during 2010. For state tax purposes an NOL still exists and as of March 31, 2010 the NOL benefit equals approximately \$1,900,000.

### **Goodwill**

Goodwill consists of the excess of cost over the fair value of net assets acquired in business combinations. The Company follows the provisions of US GAAP in its accounting of goodwill, which requires an annual impairment test for goodwill and intangible assets with indefinite lives. The first step of the impairment test requires that the Company determine the fair value of each reporting unit, and compare the fair value to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform a second more detailed impairment assessment. The second impairment assessment involves allocating the reporting unit's fair value to all of its recognized and unrecognized assets and liabilities in order to determine the implied fair value of the reporting unit's goodwill as of the assessment date. The implied fair value of the reporting unit's goodwill is then compared to the carrying amount of goodwill to quantify an impairment charge as of the assessment date. The Company performs the annual impairment testing during the third quarter unless events or circumstances indicate impairment of the goodwill may have occurred before that time.

The Company added \$687,000 of goodwill in the first quarter of 2009, as a result of the final earnout settlement related to the acquisition of certain assets and liabilities of Concert Group Logistics, LLC. For a more complete analysis of this item refer to **Footnote 7 — Related Party Transactions**.

### **Identified Intangible Assets**

The Company follows the provisions of US GAAP in its accounting of identified intangible assets, which establishes accounting standards for the impairment of long-lived assets such as property, plant and equipment and intangible assets subject to amortization. The Company reviews long-lived assets to be held-and-used for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows over the remaining useful life of a long-lived asset is less than its carrying amount, the asset is considered to be impaired. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. When fair values are not available, the Company estimates fair value using the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset. During the three-month periods ended March 31, 2010, and 2009, there was no impairment of intangible assets.

The Company added \$210,000 of identified intangible assets in the first quarter of 2009, based upon the acquisition of certain assets and liabilities from First Class Expediting Service, Inc (FCES). FCES was a Rochester Hills, Michigan based company providing regional expedited transportation in the Midwest. For financial reporting purposes, First Class is included in the operating results of Express-1. The Company has amortized the intangible assets over a range of 2-5 years. For each of the three-month periods ended March 31, 2010 and 2009, the Company recorded \$16,000 of amortization expense related to these assets.

### **Other Long-Term Assets**

Other long-term assets primarily consist of balances representing various deposits, and the long-term portion of the Company's non-qualified deferred compensation plan. Also included within this account classification are incentive payments to independent station owners within the Concert Group Logistics network. These payments are made by Concert Group Logistics to certain station owners as an incentive to join the network. These amounts are amortized over the life of each independent station contract and the unamortized portion is recoverable in the event of default under the terms of the agreements.

### **Estimated Fair Value of Financial Instruments**

The aggregated net fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments include cash, receivables, payables, accrued expenses and short-term borrowings. Fair values were assumed to approximate carrying values for these financial instruments since they are short-term in nature and their carrying amounts approximate fair values or they are receivable or payable on demand. The fair value of the Company's debt is estimated based upon the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of similar maturities.

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### **Earnings per Share**

Earnings per common share are computed in accordance with US GAAP which requires companies to present basic earnings per share and diluted earnings per share.

**Basic earnings per share** are computed by dividing net income by the weighted average number of shares of common stock outstanding during the period.

**Diluted earnings per share** are computed by dividing net income by the combined weighted average number of shares of common stock outstanding and dilutive options outstanding during the period.

|  | Three Months Ended |                 |
|--|--------------------|-----------------|
|  | March 31, 2010     | March 31, 2009  |
| Income (loss) from continuing operations | \$ 834,000         | \$ (25,000)     |
| Income from discontinued operations      | —                  | 30,000          |
| Net income                               | <u>\$ 834,000</u>  | <u>\$ 5,000</u> |
| Basic weighted shares outstanding        | 32,035,218         | 32,035,218      |
| Diluted weighted shares outstanding      | 32,577,352         | 32,150,601      |
| <b>Basic earnings per share</b>          |                    |                 |
| Income from continuing operations        | \$ 0.03            | \$ —            |
| Income from discontinued operations      | —                  | —               |
| Net income                               | 0.03               | —               |
| <b>Diluted earnings per share</b>        |                    |                 |
| Income from continuing operations        | 0.03               | —               |
| Income from discontinued operations      | —                  | —               |
| Net income                               | \$ 0.03            | \$ —            |

**Stock shares issued** — No shares of stock were issued during the three-month period ended March 31, 2010.

### **2. Recent Accounting Pronouncements**

The Company's management does not believe that recent codified pronouncements by the FASB will have a material impact on the Company's current or future financial statements.

### **3. Acquisitions**

#### **First Class**

In January of 2009, the Company purchased certain assets and liabilities from First Class Expediting Services Inc. (FCES). FCES was a Rochester Hills; Michigan based company providing regional expedited transportation in the Midwest. The Company paid the former owners of FCES \$250,000 in cash and received approximately \$40,000 of net assets consisting primarily of fixed assets net of related debt. The Company funded the transaction through cash available from working capital.

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For financial reporting purposes, First Class is included within the operating results of Express-1. The Company has recognized identifiable intangible assets of \$210,000 amortizable over a 2-5 year period.

### **LRG**

On October 1, 2009, CGL purchased certain assets and liabilities of Tampa, Florida based LRG International, Inc. (LRG), an international freight forwarder. The LRG purchase complements and expands CGL's ability to move international freight competitively. The transaction has an effective date of October 1, 2009. For financial reporting purposes, LRG is included within the operating results of CGL.

At closing, the Company paid the former owners of LRG \$2 million in cash. The Company used its existing line of credit to finance the transaction. On the one year anniversary of the purchase, the Company will pay the former owners \$500,000. The transaction also provides for two potential annual earn-out payments totaling \$900,000 provided certain performance criteria are met over a two year period. The Company recorded a liability of \$737,000 based on the estimated fair value for these earn-outs. The Company has the discretion of paying the additional consideration in the form of cash, stock or any combination thereof.

The following table sets forth the components of identifiable intangible assets associated with the acquisition of LRG:

|                                      | <u>Fair Value</u>   | <u>Useful Lives</u> |
|--------------------------------------|---------------------|---------------------|
| Trademark/name                       | \$ 220,000          | 5 years             |
| Association memberships              | 160,000             | 5 years             |
| Customer list                        | 1,410,000           | 12 years            |
| Non-compete agreements               | 60,000              | 5 years             |
| Total identifiable intangible assets | <u>\$ 1,850,000</u> |                     |

## **4. Commitments and Contingencies**

### ***Litigation***

In the ordinary course of business, the Company may be a party to a variety of legal actions. The Company does not currently anticipate any of these matters or any matters in the aggregate to have a materially adverse effect on the Company's business or its financial position or results of operations.

## **5. Debt**

### **Notes Payable and Capital Leases**

The Company enters into notes payable and capital leases with various third parties from time to time to finance certain operational equipment and other assets used in its business operations. Generally, these loans and capital leases bear interest at market rates, and are collateralized with equipment and certain assets of the Company.

The following table outlines the Company's debt obligations as of March 31, 2010 and December 31, 2009.

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|  | <u>Interest rates</u> | <u>Term (months)</u> | <u>As of March 31, 2010</u> | <u>As of December 31, 2009</u> |
|--|-----------------------|----------------------|-----------------------------|--------------------------------|
| Term notes payable   | 2.5%                  | 36                   | \$ 5,000,000                | \$ 1,400,000                   |
| Capital leases payable                                       | 5% - 18%              | 12 - 36              | 24,000                      | 28,000                         |
| Total notes payable and capital leases                       |                       |                      | 5,024,000                   | 1,428,000                      |
| Less: current maturities of notes payable and capital leases |                       |                      | 1,678,000                   | 1,215,000                      |
| Non-current maturities of notes payable and capital leases   |                       |                      | \$ 3,346,000                | \$ 213,000                     |

The Company entered into a new five million dollar term note March 31, 2010. Commencing April 30, 2010, the term note is payable in 36 consecutive monthly installments consisting of \$139,000 in monthly principal payments plus the unpaid interest accrued on the note. Interest is payable at the one-month LIBOR plus 2.25% (2.50% at March 31, 2010).

## **6. Revolving Credit Facilities**

### *Line of Credit*

On March 31, 2010, the Company entered a credit facility which provides for a receivables based line of credit of up to \$10.0 million. The Company may draw upon the receivables based line of credit the lesser of \$10.0 million or 80% of eligible accounts receivable, less amounts outstanding under letters of credit and 50% of the above term loan balance. The proceeds of the line of credit will be used exclusively for working capital purposes.

Substantially all the assets of the Company and wholly owned subsidiaries (Express-1, Inc., Concert Group Logistics, Inc., Bounce Logistics, Inc., and LRG International, Inc.) are pledged as collateral securing the Company's performance under the credit facility and in footnote 5 above. The line of credit bears interest based upon one-month LIBOR with an initial increment of 200 basis points.

The line of credit and term note carry certain covenants related to the Company's financial performance. Included among the covenants are a fixed charge coverage ratio and a total funded debt to earnings before interest, taxes, depreciation and amortization ratio. As of March 31, 2010, the Company was in compliance with all terms under the line of credit and the above term note and no events of default existed under the terms of the agreements.

The Company had outstanding standby letters of credit at March 31, 2010 of \$410,000 related to insurance policies either continuing in force or recently canceled. Amounts outstanding for letters of credit reduce the amount available under our line of credit, dollar-for-dollar.

Available capacity in excess of outstanding borrowings under the line was approximately \$8.1 million as limited by 80% of the Company's eligible receivables as of March 31, 2010. The line of credit carries a maturity date of March 31, 2012.

## **7. Related Party Transaction**

In January 2008, in conjunction with the Company's purchase of substantially all assets of Concert Group Logistics, LLC ("Concert Transaction"), Daniel Para, was appointed to the Board of Directors of the Company. Prior to the completion of the Concert Transaction, Mr. Para served as the Chief Executive Officer of Concert Group Logistics, LLC, and was its largest stockholder. The Company purchased substantially all the assets of Concert Group Logistics, LLC for \$9.0 million in cash, 4,800,000 shares of the Company's common stock and the assumption of certain liabilities. The transaction contained performance targets, whereby the former owners of Concert Group Logistics, LLC could earn up to \$2.0 Million of additional consideration. During March of 2009, the final earnout settlement with CGL was completed for consideration totaling \$1.2 million that included a \$1.1 million cash payment in addition to the forgiveness of an \$87,000 debt. The settlement included a general release between the Company and the former owners of Concert Group Logistics, LLC. Subsequent to the release, the Company has no future obligations related to the earnout provisions of the Concert Transaction. As the largest shareholder of Concert Group Logistics, LLC, Mr. Para received, either directly or through his family trusts and partnerships, approximately 85% of the proceeds transferred in the transaction. Immediately after the transaction, Mr. Para became the largest shareholder of the Company, through holdings attributable to himself and Dan Para Investments, LLC.

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In April 2009, the Company contracted the services of Daniel Para to serve as the Director of Business Development. Mr. Para will manage all Company activity related to mergers and acquisitions. His remuneration for these services was \$10,000 per month in 2009. For the three months ended March 31, 2010, his remuneration was \$22,500.

In January 2008, in conjunction with the Concert Group Logistics acquisition, the Company entered into a lease for approximately 6,000 square feet of office space located within an office complex at 1430 Branding Avenue, Downers Grove, Illinois 60515. The lease calls for, among other general provisions, rent payments in the amount of \$101,000, \$104,000 and \$107,000 to be paid for 2010 and the two subsequent years thereafter. The building is owned by an Illinois Limited Liability Company, which has within its ownership group, Daniel Para, the former CEO of Concert Group Logistics, LLC.

The above transactions are not necessarily indicative of amounts, terms and conditions that the Company may have received in transactions with unrelated third parties.

## 8. Operating Segments

The Company has three reportable segments based on the type of service provided, to its customers:

**Express-1, Inc. (Express-1)** — provides time critical expedited transportation to its customers. This typically involves dedicating one truck and driver to a load which has a specified time delivery requirement. Most of the services provided are completed through a fleet of exclusive use vehicles that are owned and operated by independent contract drivers. The use of non-owned resources to provide services minimizes the amount of capital investment required and is often described with the terms “non-asset” or “asset-light.” In January of 2009, certain assets and liabilities of First Class Expediting were purchased to complement the operations of Express-1. The financial reporting of this operation has been included with Express-1.

**Concert Group Logistics, Inc. (CGL)** — provides freight forwarding services through a chain of independently owned stations located throughout the United States. These stations are responsible for selling and operating freight forwarding transportation services within their geographic area under the authority of CGL. In October of 2009, certain assets and liabilities of LRG International were purchased to complement the operations of CGL. The financial reporting of this operation has been included with CGL.

**Bounce Logistics, Inc. (Bounce)** — provides premium truckload brokerage transportation services to their customers throughout the United States.

The costs of the Company’s Board of Directors, executive team and certain corporate costs associated with operating as a public company are referred to as “corporate” charges. In addition to the aforementioned items, the Company also commonly records items such as its income tax provision and other charges that are reported on a consolidated basis within the corporate classification item.

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Substantially all intercompany sales prices are market based. The Company evaluates performance based on operating income of the respective business segments.

The following schedule identifies select financial data for each of the business segments.

**Express-1 Expedited Solutions, Inc  
Segment Data**

|   | Express-1    | Concert Group<br>Logistics | Bounce      | Corporate    | Eliminations   | Total<br>Continuing<br>Operations | Discontinued<br>Operations<br>E-1 Dedicated |
|---|--------------|----------------------------|-------------|--------------|----------------|-----------------------------------|---|
| <b>Three Months Ended</b>                                   |              |                            |             |              |                |                                   |   |
| <b>March 31, 2010</b>                                       |              |                            |             |              |                |                                   |   |
| Revenues  | \$16,212,000 | \$12,938,000               | \$3,123,000 | \$ —         | \$ (631,000)   | \$31,642,000                      | —   |
| Operating income<br>(loss) from<br>continuing<br>operations | 1,649,000    | 256,000                    | 97,000      | (478,000)    |                | 1,524,000                         |   |
| Depreciation and<br>amortization                            | 167,000      | 207,000                    | 7,000       | 4,000        |                | 385,000                           |   |
| Interest expense  | —            | 14,000                     | 6,000       | —            |                | 20,000                            |   |
| Tax provision   | 688,000      | 102,000                    | 39,000      | (179,000)    |                | 650,000                           |   |
| Goodwill  | 7,737,000    | 9,222,000                  | —           | —            |                | 16,959,000                        |   |
| Total assets  | 22,796,000   | 23,472,000                 | 1,826,000   | 22,746,000   | (21,087,000)   | 49,753,000                        |   |
| <b>Three Months Ended</b>                                   |              |                            |             |              |                |                                   |   |
| <b>March 31, 2009</b>                                       |              |                            |             |              |                |                                   |   |
| Revenues  | 8,888,000    | 9,639,000                  | 1,780,000   |              | (235,000)      | 20,072,000                        | \$666,000                                   |
| Operating income<br>(loss) from<br>continuing<br>operations | 160,000      | 200,000                    | 41,000      | (428,000)    |                | (27,000)                          | 41,000                                      |
| Depreciation and<br>amortization                            | 180,000      | 88,000                     | 8,000       |              |                | 276,000                           | 1,000                                       |
| Interest expense  | —            | 15,000                     | 6,000       | 1,000        |                | 22,000                            | —   |
| Tax provision   | —            | —                          | —           | (14,000)     |                | (14,000)                          | \$ 11,000                                   |
| Goodwill  | 7,737,000    | 7,865,000                  | —           | —            |                | 15,602,000                        |   |
| Total assets  | \$ 8,701,000 | \$19,495,000               | \$1,079,000 | \$27,427,000 | \$(15,037,000) | \$41,665,000                      |   |

## 9. Discontinued Operations

During the fourth quarter of 2008, the Company discontinued its Express-1 Dedicated business unit. The Company had operated this unit under the terms of a dedicated contract to supply transportation services to a domestic automotive manufacturer.

Substantially all of the assets of Express-1 Dedicated have been redeployed in other operating units of the Company, and therefore, no impairment charges were recorded on the Company's financial statements during 2009. Management does not anticipate recording any additional material activity on its discontinued operations in future periods.

The following table reflects the revenue, operating expenses, gross margins, and net income of the Company's discontinued Express-1 Dedicated business unit for the three-month period ending March 31, 2009.

|  | <b>Three Months Ended<br/>March 31, 2009</b> |
|--|--|
| Operating revenue                                      | \$ 666,000                                   |
| Operating expense                                      | 542,000                                      |
| Gross margin   | 124,000                                      |
| Sales, general, and administrative expenses            | 83,000                                       |
| Income from continuing operations before tax provision | 41,000                                       |
| Tax provision  | 11,000                                       |
| Net income   | \$ 30,000                                    |

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

**Forward-Looking Statements.** This Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, included or incorporated by reference in this Form 10-Q which address activities, events or developments that the Company expects or anticipates will or may occur in the future, including such



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things as future capital expenditures (including the amount and nature thereof), finding suitable merger or acquisition candidates, expansion and growth of the Company's business and operations, and other such matters are forward-looking statements. These 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.

Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements. Factors that could adversely affect actual results and performance include, among others, potential fluctuations in quarterly operating results and expenses, government regulation, technology change and competition. Consequently, all of the forward-looking statements made in this Form 10-Q 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 Company assumes no obligations to update any such forward-looking statements.

### **Critical Accounting Policies**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions. In certain circumstances, those estimates and assumptions can affect amounts reported in the accompanying consolidated financial statements. We have made our best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. We do not believe there is a great likelihood that materially different amounts will be reported related to the accounting policies described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. Note 1 of the "Notes to Consolidated Financial Statements" in our Annual Report on Form 10-K for the year ended December 31, 2009, includes a summary of the significant accounting policies and methods used in the preparation of our consolidated financial statements. For the period ended March 31, 2010, there were no significant changes to our critical accounting policies.

### **New Pronouncements**

The Company's management does not believe that recent codified pronouncements by the FASB will have a material impact on the Company's current or future financial statements.

### **Executive Summary**

Express-1 Expedited Solutions, Inc. (the "Company," "we," "our" and "us"), a Delaware corporation, is a transportation services organization focused upon premium logistics solutions provided through its non-asset based or asset-light operating units. The Company's operations are provided through three distinct but complementary reporting units, each with its own President. Our wholly owned subsidiaries include; Express-1, Inc. ("Express-1"), Concert Group Logistics, Inc. ("Concert Group Logistics" or "CGL") and Bounce Logistics, Inc. ("Bounce Logistics", or "Bounce"). These operating units are more fully outlined in the following table.

| <u>Business Unit</u>    | <u>Primary Office Location</u> | <u>Premium Industry Niche</u> | <u>Initial Date</u> |
|-------------------------|--------------------------------|-------------------------------|---------------------|
| Express-1               | Buchanan, Michigan             | Expedited Transportation      | August 2004         |
| Concert Group Logistics | Downers Grove, Illinois        | Freight Forwarding            | January 2008        |
| Bounce Logistics        | South Bend, Indiana            | Premium Truckload Brokerage   | March 2008          |

Express-1 and Concert Group Logistics were both existing companies acquired as part of two separate acquisitions. Express-1, Inc. was formed in 1989, while Concert Group Logistics, LLC was formed in 2001. Bounce Logistics was a start-up operation formed in March 2008.

**Express-1, Inc. (Express-1)** — provides time critical expedited transportation to its customers. This typically involves dedicating one truck and driver to a load which has a specified time delivery requirement. Most of the services provided are completed through a fleet of exclusive use vehicles that are owned and operated by independent contract drivers. The use of non-owned resources to provide services minimizes the amount of capital investment required and is often described with the

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terms “non-asset” or “asset-light.” In January of 2009, certain assets and liabilities of First Class Expediting were purchased to complement the operations of Express-1. The financial reporting of this operation has been included with Express-1.

**Concert Group Logistics, Inc. (CGL)** — provides freight forwarding services through a chain of independently owned stations located throughout the United States. These stations are responsible for selling and operating freight forwarding transportation services within their geographic area under the authority of CGL. In October of 2009, certain assets and liabilities of LRG International were purchased to complement the operations of CGL. The financial reporting of this operation has been included with CGL.

**Bounce Logistics, Inc. (Bounce)** — provides premium truckload brokerage transportation services to their customers throughout the United States.

During the fourth quarter of 2008, the Company discontinued its Express-1 Dedicated business unit. The Company had operated this unit under the terms of a dedicated contract to supply transportation services to a domestic automotive manufacturer. The automotive manufacturer did not renew the contract and Express-1 Dedicated ceased operations in February of 2009. The financial results of this discontinued business unit for all reported periods are included as discontinued operations for reporting purposes.

Throughout our reports, we refer to the impact of fuel on our business. For purposes of these references, we have considered the impact of fuel surcharge revenues, and the related fuel surcharge expenses only as they relate to our Express-1 business unit. The expediting transportation industry commonly negotiates both fuel surcharges charged to its customers as well as fuel surcharges paid to its carriers. Therefore, we feel that this approach, most readily conveys the impact of fuel revenues, costs, and the resulting gross margin within this business unit.

Alternatively, within our other two units, Concert Group Logistics and Bounce Logistics, fuel charges to our customers are not commonly negotiated and identified separately from total revenue and the associated cost of transportation. We therefore, have not included an analysis of fuel surcharges for these two operating units. We believe this is a common practice within the freight forwarding and freight brokerage business sectors.

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

### ***For the three months ended March 31, 2010 compared to the three months ended March 31, 2009***

The following table is provided to allow users to visualize quarterly results within our major reporting classifications. The table does not replace the financial statements, notes thereto, or management discussion contained within this report on Form 10-Q. We encourage users to review these items for a more complete understanding of our financial position and results of operations.

**Express-1 Expedited Solutions, Inc.**  
**Summary Financial Table**  
**For the Three Months Ended March 31,**  
**(Unaudited)**

|   |                   |                   | <u>Quarter to Quarter Change</u> |                      | <u>Percent of Business Unit Revenue</u> |               |
|---|-------------------|-------------------|----------------------------------|----------------------|---|---------------|
|   | <u>2010</u>       | <u>2009</u>       | <u>In Dollars</u>                | <u>In Percentage</u> | <u>2010</u>                             | <u>2009</u>   |
| <b>Revenues</b>                                     |                   |                   |                                  |                      |   |               |
| Express-1   | \$ 16,212,000     | \$ 8,888,000      | \$ 7,324,000                     | 82.4%                | 51.2%                                   | 44.3%         |
| Concert Group Logistics                             | 12,938,000        | 9,639,000         | 3,299,000                        | 34.2%                | 40.9%                                   | 48.0%         |
| Bounce Logistics                                    | 3,123,000         | 1,780,000         | 1,343,000                        | 75.4%                | 9.9%                                    | 8.9%          |
| Intercompany eliminations                           | (631,000)         | (235,000)         | (396,000)                        | -168.5%              | -2.0%                                   | -1.2%         |
| <b>Total revenues</b>                               | <u>31,642,000</u> | <u>20,072,000</u> | <u>11,570,000</u>                | <u>57.6%</u>         | <u>100.0%</u>                           | <u>100.0%</u> |
| <b>Direct expenses</b>                              |                   |                   |                                  |                      |   |               |
| Express-1   | 12,542,000        | 6,876,000         | 5,666,000                        | 82.4%                | 77.4%                                   | 77.4%         |
| Concert Group Logistics                             | 11,528,000        | 8,752,000         | 2,776,000                        | 31.7%                | 89.1%                                   | 90.8%         |
| Bounce Logistics                                    | 2,604,000         | 1,463,000         | 1,141,000                        | 78.0%                | 83.4%                                   | 82.2%         |
| Intercompany eliminations                           | (631,000)         | (235,000)         | (396,000)                        | -168.5%              | 100.0%                                  | 100.0%        |
| <b>Total direct expenses</b>                        | <u>26,043,000</u> | <u>16,856,000</u> | <u>9,187,000</u>                 | <u>54.5%</u>         | <u>82.3%</u>                            | <u>84.0%</u>  |
| <b>Gross margin</b>                                 |                   |                   |                                  |                      |   |               |
| Express-1   | 3,670,000         | 2,012,000         | 1,658,000                        | 82.4%                | 22.6%                                   | 22.6%         |
| Concert Group Logistics                             | 1,410,000         | 887,000           | 523,000                          | 59.0%                | 10.9%                                   | 9.2%          |
| Bounce Logistics                                    | 519,000           | 317,000           | 202,000                          | 63.7%                | 16.6%                                   | 17.8%         |
| <b>Total gross margin</b>                           | <u>5,599,000</u>  | <u>3,216,000</u>  | <u>2,383,000</u>                 | <u>74.1%</u>         | <u>17.7%</u>                            | <u>16.0%</u>  |
| <b>Selling, general &amp; administrative</b>        |                   |                   |                                  |                      |   |               |
| Express-1   | 2,021,000         | 1,852,000         | 169,000                          | 9.1%                 | 12.5%                                   | 20.8%         |
| Concert Group Logistics                             | 1,154,000         | 687,000           | 467,000                          | 68.0%                | 8.9%                                    | 7.1%          |
| Bounce Logistics                                    | 422,000           | 276,000           | 146,000                          | 52.9%                | 13.5%                                   | 15.5%         |
| Corporate   | 478,000           | 428,000           | 50,000                           | 11.7%                | 1.5%                                    | 2.1%          |
| <b>Total selling, general &amp; administrative</b>  | <u>4,075,000</u>  | <u>3,243,000</u>  | <u>832,000</u>                   | <u>25.7%</u>         | <u>12.9%</u>                            | <u>16.2%</u>  |
| <b>Operating income from continuing operations</b>  |                   |                   |                                  |                      |   |               |
| Express-1   | 1,649,000         | 160,000           | 1,489,000                        | 930.6%               | 10.2%                                   | 1.8%          |
| Concert Group Logistics                             | 256,000           | 200,000           | 56,000                           | 28.0%                | 2.0%                                    | 2.1%          |
| Bounce Logistics                                    | 97,000            | 41,000            | 56,000                           | 136.6%               | 3.1%                                    | 2.3%          |
| Corporate   | (478,000)         | (428,000)         | (50,000)                         | -11.7%               | -1.5%                                   | -2.1%         |
| <b>Operating income from continuing operations</b>  | <u>1,524,000</u>  | <u>(27,000)</u>   | <u>1,551,000</u>                 | <u>5744.4%</u>       | <u>4.8%</u>                             | <u>-0.1%</u>  |
| Interest expense                                    | 20,000            | 22,000            | (2,000)                          | -9.1%                | 0.1%                                    | 0.1%          |
| Other expense                                       | 20,000            | (10,000)          | 30,000                           | 300.0%               | 0.1%                                    | 0.0%          |
| <b>Income from continuing operations before tax</b> | <u>1,484,000</u>  | <u>(39,000)</u>   | <u>1,523,000</u>                 | <u>3905.1%</u>       | <u>4.7%</u>                             | <u>-0.2%</u>  |
| Tax provision                                       | 650,000           | (14,000)          | 664,000                          | 4742.9%              | 2.1%                                    | -0.1%         |
| <b>Income from continuing operations</b>            | <u>834,000</u>    | <u>(25,000)</u>   | <u>859,000</u>                   | <u>3436.0%</u>       | <u>2.6%</u>                             | <u>-0.1%</u>  |
| Income from discontinued operations, net of tax     | —                 | 30,000            | (30,000)                         | -100.0%              | 0.0%                                    | 0.1%          |
| <b>Net income</b>                                   | <u>\$ 834,000</u> | <u>\$ 5,000</u>   | <u>\$ 829,000</u>                | <u>16580.0%</u>      | <u>2.6%</u>                             | <u>0.0%</u>   |

### **Consolidated Results**

The first quarter of 2010 represented a significant rebound from the first quarter of 2009. Of course, this was to be expected after the economic recession of 2009. Revenues for each of the business units saw significant increases as compared to 2009. In total, our revenues for the first quarter of 2010 were 58% greater than the comparable quarter in 2009. We believe that our focus on business diversity and investing resources in sales during 2009 has positioned the Company well as the economy emerges from the recession.

Direct expenses represent expenses attributable to freight transportation. During the first quarter of 2010, these expenses continued to maintain a direct relationship to our operating revenues. Our “asset light” operating model provides transportation capacity through variable cost transportation alternatives, and therefore enables us to control our operating costs as our volumes fluctuate. Our primary means of providing capacity are through our fleet of independent contractors and brokerage relationships. We view this operating model as a strategic advantage particularly in difficult economic times. Our overall gross margin increased to 18% for the first quarter of 2010 as compared to 16% for the first quarter of 2009 due in large part to improved margins at Concert Group Logistics. We believe that this is also a positive sign for the economy as overall industry capacity shortages coupled with economic improvements continue to put upward pressure on margins.

Selling, general, and administrative (SG&A) expenses increased by \$832,000 in the first quarter of 2010 compared to the same period in 2009, however, more importantly we have seen our SG&A costs as a percentage of revenue return to historic levels as we are becoming more efficient as our volumes increase. Our overall SG&A cost as a percentage of revenue for the first quarter of 2010 is 13% compared to 16% for the first quarter of 2009.

Net income for the quarter ended March 31, 2010 totaled \$834,000 compared to \$5,000 for the same quarters in 2009. This positive trend reflects the overall improvement in the economy in addition to efficiencies garnered during the economic downturn. This positive trend also reflects positive impacts due to acquisition activity over the past two years.

#### **Express-1**

Express-1 generated record quarterly revenues of \$16.2 million in the first quarter as revenue grew by 82% compared to the same period in 2009. Express-1 has historically rebounded quickly from recessions as the expediting industry in general is typically one of the first benefactors of a recovering economy. In addition, Express-1's continued investment in sales and customer diversification has paid off handsomely as it has expanded its presence into other markets.

Fuel prices have increased resulting in a corresponding increase in fuel surcharge as a percentage of revenue in the first quarter of 2010. For the three month period ended March 31, 2010 fuel surcharge revenues represented 11% of our revenue as compared to 8% in the same period in 2009. Rising fuel prices tend to have a negative impact on our gross margin since these revenues are substantially passed through to our owner operators. We believe that any negative margin impact from fuel will be offset by pricing adjustments allowed by the market due to tightening truck capacity.

Express-1's gross margin percentage remained at 23% for the first quarter of 2010 compared to the same quarter in 2009. We believe that margins will remain somewhat consistent moving forward as transportation cost pressures due to fuel increases and an overall lack of capacity will offset any upside gains that the market might allow on the revenue side.

Although, selling, general, and administrative (SG&A) expenses increased by \$169,000 in the first quarter of 2010 compared to the same period in 2009, we are encouraged that as a percentage to total revenue our SG&A costs have dropped during the first quarter to 12.5% as compared to 20.8% in the first quarter of 2009. The current percentage of 12.5% is consistent with historical trends and sustainable throughout the remainder of the year.

For the quarter ended March 31, 2010, Express-1 generated income from operations before tax of \$1,649,000 compared to \$160,000 in the same quarter in 2009. Management remains optimistic about the remainder of the year as the economy appears to be improving.

***Concert Group Logistics (CGL)***

CGL's first quarter revenues reflected a healthy rebound from 2009 levels and also represented a healthy increase from 2008 first quarter levels. Revenues of \$12.9 million compared favorably to revenues of \$9.6 million and \$10.5 million in 2009 and 2008, respectively. The purchase of certain assets and liabilities of LRG International in October of 2009 contributed to the healthy revenues and related margins in the first quarter.

Direct expenses consist primarily of payments for purchased transportation in addition to payments to CGL's independent station owners who control the overall operation of the freight move. As a percentage of CGL revenue, direct expenses represented 89% for the first quarter of 2010 compared to 91% for the same quarter in 2009. This overall gain in efficiency resulted in CGL's gross margin percentage improving from 9% in the first quarter of 2009 to 11% in the same quarter in 2010. We believe that the improved margin will be sustainable for the remainder of the year and is partly due to running LRG as a company owned station.

Selling, general, and administrative expenses increased in the first quarter of 2010 by \$467,000 as compared to the same period in 2009. These cost increases relate primarily to write-offs associated with the transition of the Minneapolis station to a company run station in addition to the administrative costs associated with running LRG as a company owned station. These increased costs with LRG are directly offset by decreases in direct expenses resulting in a higher gross margin percentage. As a percentage to revenue SG&A costs increased from 7% in the first quarter of 2009 to 9% in the first quarter of 2010. We anticipate the current SG&A percentage of revenue being sustained for the remainder of the year based on this slight change in our operating model.

For the quarter ended March 31, 2010, Concert Group Logistics generated income from operations before tax of \$256,000 representing an increase of 28% from the comparable period in 2009. Again, this is due primarily to the rebounding economy and the addition of the LRG operation in October of 2009. We continue to anticipate favorable results for the remainder of the year as compared to prior years.

Management continues to focus on the expansion of its independent station network, and is actively pursuing strategic opportunities. As of March 31, 2010 the Company maintained a network of 26 independent station owners as compared to 26 network stations as of March 31, 2009.

***Bounce Logistics***

Bounce also continues to see significant growth as its first quarter of 2010 revenues of \$3.1 million represented a 75% increase over 2009 revenues in the comparable period. We believe this is reflective of an improving economy and an aggressive growth strategy. We continue to be very optimistic about growth potential as Bounce enters its third year of operation.

In the first quarter of 2010 Bounce's direct transportation expenses increased to 83% as a percentage of revenue as compared to 82% in the comparable quarter in 2009. We believe this reflects an improving economy and a slight tightening of truck capacity in the marketplace. We continue to have confidence in Bounce's ability to grow and access truck capacity in 2010.

Selling, general, and administrative expenses increased by \$146,000 in the first quarter of 2010 compared to the same period in 2009. The increase on a quarter to quarter basis has resulted from costs associated with aggressive sales growth during the quarter.

The above items have resulted in Bounce generating operating income before tax of \$97,000 in the first quarter of 2010 compared to \$41,000 in the same period in 2009. Management continues to be optimistic regarding the future growth and profitability potential of Bounce moving forward in 2010.

## **Corporate**

Corporate costs for the first quarter of 2010 increased by \$50,000 as compared to the same quarter in 2009. We believe this is reflective of a shift in executive management focus from “cost containment” in 2009 to “growth” during the first quarter of 2010.

### **Liquidity and Capital Resources**

#### **General**

As of March 31, 2010, we had \$6.5 million of working capital with associated cash of \$920,000 compared with working capital of \$970,000 and cash of \$495,000 as of December 31, 2009. This represents an increase of \$5.6 million or 573% in working capital during the three-month period. The Company renewed its credit facility with PNC Bank formerly National City Bank on March 31, 2010. The renewal of the Company’s credit facility had a positive impact of approximately \$4.9 million on its working capital by converting the classification of both its term debt and line of credit to long term obligations based on the terms of the new agreement.

#### **Cash Flow**

During the three months ended March 31, 2010, \$1,887,000 in cash was generated from operations. The primary source of cash for the three month period was net income of \$834,000 and an increase of \$446,000 in accounts payable and \$1.5 million in accrued expenses. The primary use of cash for the quarter was an increase of \$322,000 in prepaid expenses representing the renewal of insurance policies in the first quarter and a decrease in other liabilities of \$947,000. During the same period in 2009, \$109,000 in cash was used in operating activities. The primary factors contributing to the use of cash were a decrease in accounts payable and other current liabilities of \$1.1 million and an increase in other current assets of \$539,000. The primary source of cash for the quarter was a reduction of \$1.3 million in accounts receivable partly due to the 2009 economic recession.

Investing activities required approximately \$49,000 during the three months ended March 31, 2010. During this period, cash was used to purchase \$49,000 in fixed assets. During the same period in 2009 we required \$1.3 million. During 2009 the cash was used to: 1) satisfy earn-out payments of \$1.1 million to the former owners of Concert Group Logistics, LLC and, 2) purchase \$250,000 in net assets related to the purchase of First Class Expediting Service, LLC in January of 2009.

Financing activities used approximately \$1.4 million for the three months ended March 31, 2010. Payments on the line of credit resulted in the primary use of cash. During the same period in 2009, financing activities generated approximately \$1.5 million, which were derived primarily from net draws on the company’s line of credit. Additionally, \$335,000 in payments on the company’s debt were made during the first quarter of 2009.

#### **Line of Credit and Term Note**

To ensure adequate near-term liquidity, we renewed our credit facilities with PNC Bank, on March 31, 2010. This \$15.0 million facility provides for a receivables based line of credit of up to \$10.0 million and a term loan of \$5.0 million. The Company may draw upon the receivables based line of credit the lesser of \$10.0 million or 80% of eligible accounts receivable, less amounts outstanding under letters of credit and 50% of the term loan balance. The proceeds of the line of credit will be used exclusively for working capital purposes. The proceeds of the term loan were used to:

- Pay off the \$1.1million balance of the previous term note which was entered into on January 31, 2008,
- Refinance \$2.0 million utilized to acquire the assets of LRG International, in October of 2009; and
- Reduce the balance on the previous line of credit initially established on January 31, 2008 by \$1.9 million.

Substantially all the assets of our Company and wholly owned subsidiaries (Express-1, Inc., Concert Group Logistics, Inc., Bounce Logistics, Inc., and LRG International, Inc.) are pledged as collateral securing our performance under the credit facilities. The credit facility bears interest based upon LIBOR with an initial increment of 200 basis points for the line of

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credit and 225 basis points for the term loan. The term loan is payable over a thirty-six month period and requires monthly principal payments of \$139,000 plus accrued interest.

The credit facilities carry certain covenants related to the Company's financial performance. Included among the covenants are a fixed charge coverage ratio and a total funded debt to earnings before interest, taxes, depreciation and amortization ratio. As of March 31, 2010, the Company was in compliance with all terms under the credit facility and no events of default existed under the terms of this agreement.

We had outstanding standby letters of credit at March 31, 2010 of \$410,000 related to insurance policies either continuing in force or recently canceled. Amounts outstanding for letters of credit reduce the amount available under our line of credit, dollar-for-dollar.

Available capacity in excess of outstanding borrowings under the line was approximately \$8.1 million as limited by 80% of the Company's eligible receivables as of March 31, 2010. The credit facility carries a maturity date of March 31, 2012

### **Options**

The following schedule represents those options that the Company has outstanding as of March 31, 2010. The schedule also segregates the options by expiration date and exercise price to better identify their potential for exercise. Additionally, the total approximate potential proceeds by year have been identified.

| <b>Option Expiration Dates</b> | <b>Options grouped by exercise price</b> |                 |                  |                  |                  | <b>Total Outstanding Options</b> | <b>Approximate Potential Proceeds</b> |
|--------------------------------|--|-----------------|------------------|------------------|------------------|----------------------------------|---------------------------------------|
|                                | <b>.50-.75</b>                           | <b>.76-1.00</b> | <b>1.01-1.25</b> | <b>1.26-1.50</b> | <b>1.51 &gt;</b> |                                  |                                       |
| 2010                           |  |                 | 450,000          |                  |                  | 450,000                          | \$ 563,000                            |
| 2011                           |  |                 | 125,000          |                  |                  | 125,000                          | 130,000                               |
| 2014                           |  | 50,000          |                  | 500,000          |                  | 550,000                          | 768,000                               |
| 2015                           | 500,000                                  |                 | 200,000          |                  |                  | 700,000                          | 603,000                               |
| 2016                           |  | 50,000          | 125,000          | 100,000          |                  | 275,000                          | 314,000                               |
| 2017                           |  |                 | 50,000           | 323,000          |                  | 373,000                          | 518,000                               |
| 2018                           |  | 290,000         | 105,000          |                  |                  | 395,000                          | 390,000                               |
| 2019                           | 25,000                                   | 75,000          | 25,000           |                  |                  | 125,000                          | 112,000                               |
| 2020                           |  |                 | 75,000           | 50,000           | 25,000           | 150,000                          | 207,000                               |
| <b>Totals</b>                  | <b>525,000</b>                           | <b>465,000</b>  | <b>1,155,000</b> | <b>973,000</b>   | <b>25,000</b>    | <b>3,143,000</b>                 | <b>\$3,605,000</b>                    |

### **Contractual Obligations**

The following table reflects all contractual obligations of our Company as of March 31, 2010.

| <b>Contractual Obligations</b>        | <b>Payments Due by Period</b> |                         |                     |                     |                          |
|---------------------------------------|-------------------------------|-------------------------|---------------------|---------------------|--------------------------|
|                                       | <b>Total</b>                  | <b>Less than 1 Year</b> | <b>1 to 3 Years</b> | <b>3 to 5 Years</b> | <b>More than 5 Years</b> |
| Term notes payable                    | \$ 5,000,000                  | \$ 1,667,000            | \$ 3,333,000        | \$ —                | \$ —                     |
| Capital leases payable                | 24,000                        | 11,000                  | 13,000              | —                   | —                        |
| Total note payable and capital leases | 5,024,000                     | 1,678,000               | 3,346,000           | —                   | —                        |
| Line of credit                        | 1,521,000                     | —                       | 1,521,000           | —                   | —                        |
| Operating leases                      | 1,028,000                     | 467,000                 | 533,000             | 28,000              | —                        |
| Earnout obligation — LRG*             | 1,400,000                     | 950,000                 | 450,000             | —                   | —                        |
| Employment contracts                  | 2,144,000                     | 1,144,000               | 1,000,000           | —                   | —                        |
| Total contractual cash obligations    | \$11,117,000                  | \$ 4,239,000            | \$ 6,850,000        | \$ 28,000           | \$ —                     |

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\* For additional information see **Footnote 3-Acquisitions**

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

Not Required.

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

*Evaluation of disclosure controls and procedures.* Under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of its disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of March 31, 2010. Based on their evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective.

*Changes in internal controls.* There were no changes in our internal controls over financial reporting during the first fiscal quarter of 2010 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**PART II — OTHER INFORMATION**

**Item 1. Legal Proceedings.**

From time-to-time, the Company is involved in various civil actions as part of its normal course of business. The Company is not a party to any litigation that is material to ongoing operations as defined in Item 103 of Regulation S-K as of the period ended March 31, 2010.

**Item 1A. Risk Factors.**

Not required

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

None

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

None

**Item 4. Removed and Reserved**

None

**Item 5. Other Information.**

None



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**Item 6. Exhibits**

| <u>Exhibit No.</u> | <u>Description</u>   |
|--------------------|--|
| 31.1               | Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 31.2               | Certification of the Interim Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32.1               | Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (This exhibit shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.)         |
| 32.2               | Certification of the Interim Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (This exhibit shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) |

**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Express-1 Expedited Solutions, Inc.

/s/ Michael R. Welch

Michael R. Welch  
Chief Executive Officer

/s/ John D. Welch

John D. Welch  
Interim Chief Financial Officer

Date: May 12, 2010

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**Exhibit Index**

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I, Michael R. Welch, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Express-1 Expedited Solutions, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Michael R. Welch  
Chief Executive Officer

Date: May 12, 2010

I, John D. Welch, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Express-1 Expedited Solutions, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ John D. Welch  
Interim Chief Financial Officer

Date: May 12, 2010

**WRITTEN STATEMENT OF THE CHIEF EXECUTIVE OFFICER****Pursuant to 18 U.S.C. Section 1350  
As adopted pursuant to section 906 of the Sarbanes-Oxley act of 2002**

Solely for the purposes of complying with 18 U.S.C. s.1350 as adopted pursuant to section 906 of the Sarbanes-Oxley act of 2002, I, the undersigned Chief Executive Officer of Express-1 Expedited Solutions, Inc. (the "Company"), hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2010, (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Michael R. Welch  
Chief Executive Officer

Date: May 12, 2010

**WRITTEN STATEMENT OF THE CHIEF FINANCIAL OFFICER****Pursuant to 18 U.S.C. Section 1350  
As adopted pursuant to section 906 of the Sarbanes-Oxley act of 2002**

Solely for the purposes of complying with 18 U.S.C. s.1350 as adopted pursuant to section 906 of the Sarbanes-Oxley act of 2002, I, the undersigned Chief Financial Officer of Express-1 Expedited Solutions, Inc. (the "Company"), hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2010, (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ John D. Welch  
Interim Chief Financial Officer

Date: May 12, 2010