FORWARD AIR CORP
Form 10-Q
November 01, 2007

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2007
Commission File No. 000-22490

FORWARD AIR CORPORATION

(Exact name of registrant as specified in its charter)

Tennessee	**62-1120025**
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
430 Airport Road	
Greeneville, Tennessee	**37745**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(423) 636-7000**

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 x No ¨

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

The number of shares outstanding of the registrant's common stock, $0.01 par value, as of October 29, 2007 was 29,008,593.

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Forward Air Corporation

Part I. Financial Information

Item 1. Financial Statements (Unaudited)

Forward Air Corporation
Condensed Consolidated Balance Sheets
(In thousands, except share and per share data)
(Unaudited)

	September 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash	$ 8,306	$ 8,231
Short-term investments	10,600	61,650
Accounts receivable, less allowance of $1,094 in 2007 and $860 in 2006	55,665	48,486
Other current assets	6,073	9,196
Total current assets	80,644	127,563
Property and equipment	152,044	101,190
Less accumulated depreciation and amortization	52,675	47,875
Total property and equipment, net	99,369	53,315
Goodwill and other acquired intangibles:		
Goodwill	15,588	15,588
Other acquired intangibles, net of accumulated amortization of $3,211 in 2007 and $2,019 in 2006	18,925	10,731
Total goodwill and other acquired intangibles	34,513	26,319
Other assets	1,438	5,817
Total assets	$ 215,964	$ 213,014
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 9,689	$ 7,949
Accrued expenses	10,780	11,144
Current portion of debt and capital lease obligations	859	40
Total current liabilities	21,328	19,133
Debt and capital lease obligations, less current portion	983	796
Other long-term liabilities	3,370	1,271
Deferred income taxes	7,457	6,587
Shareholders' equity:		
Preferred stock	--	--
Common stock, $0.01 par value:		
Authorized shares - 50,000,000		
Issued and outstanding shares - 29,483,257 in 2007 and 30,372,082 in 2006	295	304

Additional paid-in capital		1,896		--
Retained earnings		180,635		184,923
Total shareholders' equity		182,826		185,227
Total liabilities and shareholders' equity	$	215,964	$	213,014

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

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Forward Air Corporation
Condensed Consolidated Statements of Income
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Operating revenue:				
Forward Air				
Airport-to-airport	$ 75,671	$ 77,220	$ 227,128	$ 223,118
Logistics	11,785	8,236	30,650	21,964
Other	5,220	4,985	15,399	14,468
Forward Air Solutions				
Pool distribution	5,070	--	5,070	--
Total operating revenue	97,746	90,441	278,247	259,550
Operating expenses:				
Purchased transportation				
Forward Air				
Airport-to-airport	29,779	30,794	90,049	86,214
Logistics	9,255	5,949	23,551	15,726
Other	1,530	1,196	4,303	3,568
Forward Air Solutions				
Pool distribution	720	--	720	--
Total purchased transportation	41,284	37,939	118,623	105,508
Salaries, wages and employee benefits	22,026	18,385	61,004	55,508
Operating leases	4,474	3,750	12,091	10,619
Depreciation and amortization	2,855	2,083	7,729	6,534
Insurance and claims	1,649	1,556	5,251	4,747
Other operating expenses	8,554	6,940	22,492	20,123
Total operating expenses	80,842	70,653	227,190	203,039
Income from operations	16,904	19,788	51,057	56,511
Other income (expense):				
Interest expense	(55)	(17)	(136)	(58)
Other, net	304	793	1,525	2,314
Total other income	249	776	1,389	2,256
Income before income taxes	17,153	20,564	52,446	58,767
Income taxes	6,400	7,839	19,925	22,013
Net income	$ 10,753	$ 12,725	$ 32,521	$ 36,754
Net income per share:				
Basic	$ 0.36	$ 0.41	$ 1.09	$ 1.18
Diluted	$ 0.36	$ 0.41	$ 1.08	$ 1.16
Dividends	$ 0.07	$ 0.07	$ 0.21	$ 0.21
Weighted average shares outstanding:				
Basic	29,472	30,863	29,868	31,247
Diluted	29,866	31,235	30,229	31,704

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

Forward Air Corporation
Condensed Consolidated Statements of Cash Flows
(Unaudited, in thousands)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Operating activities:		
Net income	$ 32,521	$ 36,754
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,729	6,534
Share-based compensation	2,429	923
Gain on sale of property and equipment	(215)	(143)
Provision for (recovery) loss on receivables	(23)	134
Provision for revenue adjustments	1,801	1,571
Deferred income taxes	1,212	66
Tax benefit of stock options exercised	(362)	(1,549)
Changes in operating assets and liabilities, net of acquired assets and liabilities:		
Accounts receivable	(6,727)	(9,153)
Prepaid expenses and other current assets	3,913	51
Accounts payable and accrued expenses	1,478	2,985
Net cash provided by operating activities	43,756	38,173
Investing activities:		
Proceeds from disposal of property and equipment	327	3,275
Purchases of property and equipment	(44,613)	(9,914)
Deposits in escrow for construction of facilities	--	(4,793)
Acquisition of business, net of cash acquired	(12,983)	--
Proceeds from sales or maturities of available-for-sale securities	133,310	193,905
Purchases of available-for-sale securities	(82,260)	(175,705)
Other	(881)	42
Net cash (used in) provided by investing activities	(7,100)	6,810
Financing activities:		
Payments of debt and capital lease obligations	(207)	(28)
Payments on line of credit	--	(1,504)
Proceeds from exercise of stock options	881	4,231
Payments of cash dividends	(6,293)	(6,548)
Common stock issued under employee stock purchase plan	138	115
Repurchase of common stock	(31,220)	(38,774)
Cash settlement of share-based awards for minimum tax withholdings	(242)	--
Tax benefit of stock options exercised	362	1,549
Net cash used in financing activities	(36,581)	(40,959)
Net increase in cash	75	4,024
Cash at beginning of period	8,231	332
Cash at end of period	$ 8,306	$ 4,356

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

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Forward Air Corporation
Notes to Condensed Consolidated Financial Statements
(Unaudited, in thousands, except share and per share data)
September 30, 2007

1. Basis of Presentation

The Company's services can be broadly classified into two principal businesses: Forward Air, Inc. (Forward Air) and Forward Air Solutions, Inc. (FASL). Through the Forward Air business the Company is a leading provider of time-definite transportation and related logistic services to the North American deferred air freight market and its activities can be broadly classified into three categories of services. Forward Air's airport-to-airport service operates a comprehensive national network for the time-definite surface transportation of deferred air freight. The airport-to-airport service offers customers local pick-up and delivery and scheduled surface transportation of cargo as a cost effective, reliable alternative to air transportation. The Company's logistics service provides expedited truckload brokerage and dedicated fleet services. The Company's other services include shipment consolidation and deconsolidation, warehousing, customs brokerage, and other handling. Forward Air primarily provides its transportation services through a network of terminals located at or near airports in the United States and Canada.

FASL was formed in July 2007 in conjunction with the Company's acquisition of certain asset and liabilities of USA Carriers, Inc (USAC). FASL provides pool distribution services throughout the Southeast, Midwest and Southwest of the continental United States. Pool distribution involves the consolidation and shipment of several smaller less than truckload shipments to a common area or region. Once at the regional destination, the consolidated loads are then deconsolidated and delivered to their unique destinations.

In connection with the USAC acquisition, the Company reorganized its management reporting structure along these lines of business. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 131, *Disclosures about Segments of an Enterprise and Related Information* ("SFAS 131"), the Company has evaluated the segment reporting requirements and determined that it now has two reporting segments.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by United States generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. For further information, refer to the consolidated financial statements and notes thereto included in the Forward Air Corporation Annual Report on Form 10-K for the year ended December 31, 2006.

Further, revenues and associated purchased transportation by service line have been disclosed on the face of the Condensed Consolidated Statements of Income and reclassifications have been made to prior year revenue and purchased transportation to conform with the 2007 presentation.

2. Recent Accounting Pronouncements

During June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109)* ("FIN 48"), which is effective for fiscal years beginning after December 15, 2006. This interpretation was issued to clarify the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The guidance prescribed in FIN 48 establishes a recognition threshold of more likely than not that a tax position will be sustained upon examination. The measurement attribute of FIN 48 requires that a tax position be measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a $1,397 increase in the liability for income tax contingencies, including related interest and penalties, which net of federal benefit of $420 was accounted for as a reduction to the January 1, 2007 balance of retained earnings. The liability for income tax contingencies at January 1, 2007, net of federal benefit, is $977 which represents tax positions where the realization of the ultimate benefit is uncertain and the disallowance of which would affect the Company's annual effective income tax rate.

During September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), which is effective for fiscal years beginning after November 15, 2007 with earlier adoption encouraged. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly,

Forward Air Corporation
Notes to Condensed Consolidated Financial Statements

2. Recent Accounting Pronouncements (continued):

SFAS 157 does not require any new fair value measurements. However, the application of SFAS 157 could change current practice. The Company plans to adopt SFAS 157 on January 1, 2008, but the implementation of SFAS 157 is not expected to have a significant impact on the Company's financial position or results of operations.

During February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115* ("SFAS 159"), which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The implementation of SFAS 159 is not expected to have a significant impact on the Company's financial position or results of operations.

3. Comprehensive Income

Comprehensive income includes any changes in the equity of the Company from transactions and other events and circumstances from non-owner sources. Comprehensive income for the three and nine months ended September 30, 2007 was $10,753 and $32,521 respectively. Comprehensive income for the three and nine months ended September 30, 2006 was $12,725 and $36,754, respectively. In each case, comprehensive income approximated net income.

4. Share-Based Payments

The Company accounts for share-based payments using SFAS No. 123 (Revised 2004), *Share-Based Payment* ("SFAS 123R"), and elected the modified prospective transition method on January 1, 2006. SFAS 123R requires share-based payments to employees, including grants of stock options, non-vested shares of common stock and purchases under employee stock purchase plans, to be recognized in the Company's statements of income based on their fair values. On December 31, 2005, the Company's Board of Directors accelerated the vesting of all outstanding and unvested stock options awarded to employees, officers and non-employee directors under the Company's stock option award plans. The primary purpose of the accelerated vesting of these options was to eliminate future compensation expense that the Company would otherwise have recognized in its statement of income with respect to these unvested options upon the adoption of SFAS 123R. As a result of the acceleration of the vesting of the Company's outstanding and unvested options in 2005, there was no additional compensation expense recognized during the three and nine months ended September 30, 2007 and 2006 related to options granted prior to January 1, 2006.

Employee Activity

The Company's general practice has been to make a single annual grant to key employees and to generally make other grants only in connection with new employment or promotions. During 2006, the Company issued non-vested shares of common stock ("non-vested shares") to key employees as the form of share-based awards. However, in 2007 the Company elected to issue stock options to key employees, as the Company believes stock options more closely link long-term compensation with the long-term goals of the Company. Stock options issued during the three and nine months ended September 30, 2007 expire seven years from the grant date and vest ratably over a three-year period. The share-based compensation for these stock options will be recognized, net of estimated forfeitures, ratably over the requisite service period, or vesting period. Based on the Company's historical experience, forfeitures have been estimated. The Company used the Black-Scholes option-pricing model to estimate the grant-date fair value of options granted during the three and nine months ended September 30, 2007. The weighted-average fair values of options granted during the three and nine months ended September 30, 2007 were $11.53 and $11.20, respectively, and were estimated using the following weighted-average assumptions:

	September 30, 2007	
	Three Months Ended	**Nine Months Ended**
Expected dividend yield	0.8%	0.8%
Expected stock price volatility	37.0%	37.0%
Weighted average risk-free interest rate	4.3%	4.7%
Expected life of options (years)	4.5	4.5

Forward Air Corporation
Notes to Condensed Consolidated Financial Statements

4. Share-Based Payments (continued):

Share-based compensation expense for options granted during the three and nine months ended September 30, 2007 was $448 and $1,170, respectively, and was recognized in salaries, wages and employee benefits. The total tax benefit related to the share-based expense for these options was $170 and $445 for the three and nine months ended September 30, 2007, respectively. Total compensation cost, net of estimated forfeitures, related to the options not yet recognized in earnings was $4,326 at September 30, 2007. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures. The following tables summarize the Company's employee stock option activity and related information for the three and nine months ended September 30, 2007:

	Three months ended September 30, 2007			
	Options (000)	Weighted-Average Exercise Price	Aggregate Intrinsic Value (000)	Weighted-Average Remaining Contractual Term
Outstanding at June 30, 2007	1,999	$ 26		
Granted	22	35		
Exercised	(44)	20		
Forfeited	--	--		
Outstanding at September 30, 2007	1,977	$ 26	$ 14,139	6.3
Exercisable at September 30, 2007	1,414	$ 23	$ 13,533	6.2

	Nine months ended September 30, 2007			
	Options (000)	Weighted-Average Exercise Price	Aggregate Intrinsic Value (000)	Weighted-Average Remaining Contractual Term
Outstanding at December 31, 2006	1,475	$ 23		
Granted	572	32		
Exercised	(59)	20		
Forfeited	(11)	30		
Outstanding at September 30, 2007	1,977	$ 26	$ 14,139	6.3
Exercisable at September 30, 2007	1,414	$ 23	$ 13,533	6.2

Share-based compensation expense of $321 and $918 for non-vested shares granted to employees during 2006 was recognized in salaries, wages and employee benefits during the three and nine months ended September 30, 2007, respectively. The total tax benefit related to this share-based expense was $122 and $349 for the three and nine months ended September 30, 2007, respectively. Share-based compensation expense of $306 and $843 for non-vested shares granted to employees during 2006 was recognized in salaries, wages and employee benefits during the three and nine months ended September 30, 2006, respectively. The total tax benefit related to this share-based expense was

$117 and $316 for the three and nine months ended September 30, 2006, respectively. Total compensation cost, net of estimated forfeitures, related to the non-vested shares not yet recognized in earnings was $1,762 at September 30, 2007. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

Forward Air Corporation
Notes to Condensed Consolidated Financial Statements

4. Share-Based Payments (continued):

Under the 2005 Employee Stock Purchase Plan (the "ESPP"), which has been approved by shareholders, the Company is authorized to issue up to a remaining 474,030 shares of common stock to employees of the Company. These shares may be issued at a price equal to 90% of the lesser of the market value on the first day or the last day of each six-month purchase period. Common stock purchases are paid for through periodic payroll deductions and/or up to two large lump sum contributions. For the nine months ended September 30, 2007, participants under the plan purchased 5,049 shares at an average price of $27.32 per share. For the nine months ended September 30, 2006, participants under the plan purchased 3,529 shares at an average price of $32.58 per share. The weighted-average fair value of each purchase right under the ESPP granted for the nine months ended September 30, 2007, which is equal to the discount from the market value of the common stock at the end of each six month purchase period, was $6.78 per share. The weighted-average fair value of each purchase right under the ESPP granted for the nine months ended September 30, 2006, was $8.15 per share. Share-based compensation expense of $34 and $29 was recognized in salaries, wages and employee benefits, during the nine months ended September 30, 2007 and 2006, respectively. The total tax benefit related to the share-based expense was $13 and $11 for the nine months ended September 30, 2007 and 2006, respectively.

Non-Employee Director Activity

On May 22, 2007, the Company's shareholders approved the Company's Amended and Restated Non-Employee Director Stock Plan (the "Amended Plan"). The Amended Plan is designed to better enable the Company to attract and retain well-qualified persons for service as directors of the Company. Under the Amended Plan, on the first business day after each Annual Meeting of Shareholders, each non-employee director will automatically be granted an award (the "Annual Grant"), in such form and size as the Board determines from year to year. Unless otherwise determined by the Board, Annual Grants will become vested and nonforfeitable one year after the date of grant so long as the non-employee director's service with the Company does not earlier terminate. Each director may elect to defer receipt of the shares under a non-vested share award until the director terminates service on the Board of Directors. If a director elects to defer receipt, the Company will issue deferred stock units to the director, which do not represent actual ownership in shares and the director will not have voting rights or other incidents of ownership until the shares are issued. However, the Company will credit the director with dividend equivalent payments in the form of additional deferred stock units for each cash dividend payment made by the Company. After approval of the Amended Plan, 14,268 non-vested shares and 4,756 deferred stock units were issued to the Company's non-employee directors with a weighted-average fair value of $33.64. The share-based compensation for these awards are recognized, net of estimated forfeitures, ratably over the requisite service period, or vesting period, of one year. Share-based compensation expense related to the Amended Plan of $137 and $183 was recognized in salaries, wages and employee benefits during the three and nine months ended September 30, 2007, respectively. The total tax benefit related to the share-based expense was $52 and $70 for the three and nine months ended September 30, 2007. Total compensation cost, net of estimated forfeitures, related to the non-vested shares and deferred stock units not yet recognized in earnings was $366 at September 30, 2007. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

During the three and nine months ended September 30, 2007 share-based compensation expense of $39 and $121, respectively, was recognized in salaries, wages and employee benefits for non-vested shares granted to non-employees directors since May 2006 under the Company's 2006 Non-Employee Director Stock Plan (the "2006 Plan"). The total tax benefit related to this share-based expense was $15 and $46 for the three and nine months ended September 30, 2007, respectively. During the three and nine months ended September 30, 2006 share-based compensation expense of $35 and $47, respectively, was recognized in salaries, wages and employee benefits for non-vested shares granted to non-employee directors under the 2006 Plan. The total tax benefit related to this share-based expense was $13 and $18 for the three and nine months ended September 30, 2006, respectively. Total compensation cost, net of estimated forfeitures, related to these non-vested shares granted to non-employee directors not yet recognized in earnings was $261 at September 30, 2007. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

In addition to the above activity, each May from 1995 to 2005 options were granted to the non-employee directors of the Company. The options have terms of ten years and are fully exercisable. At September 30, 2007, 111,875 options were outstanding and will expire between July 2010 and May 2015. At September 30, 2007, the total aggregate intrinsic value of these options was $1,206 and the weighted-average exercise price and remaining contractual term were $22 and 5.9 years, respectively.

Forward Air Corporation
Notes to Condensed Consolidated Financial Statements

4. Share-Based Payments (continued)

Dividends

Dividends paid on non-vested shares that are subsequently forfeited prior to vesting are required by SFAS 123R to be recorded to expense instead of as a direct reduction to retained earnings. SFAS 123R requires dividend forfeitures to be estimated. Estimated dividend forfeitures recorded to share-based compensation during the three and nine months ended September 30, 2007 were $1 and $3, respectively. Estimated dividend forfeitures recorded to share-based compensation during the three and nine months ended September 30, 2006 were $2 and $4.

5. Net Income Per Share

The following table sets forth the computation of basic and diluted income per share (in thousands, except per share data):

	Three months ended		Nine months ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Numerator:				
Numerator for basic and diluted net income per share - net income	$ 10,753	$ 12,725	$ 32,521	$ 36,754
Denominator:				
Denominator for basic net income per share - weighted- average shares	29,472	30,863	29,868	31,247
Effect of dilutive stock options and non-vested shares	394	372	361	457
Denominator for diluted net income per share - adjusted weighted-average shares	29,866	31,235	30,229	31,704
Basic net income per share	$ 0.36	$ 0.41	$ 1.09	$ 1.18
Diluted net income per share	$ 0.36	$ 0.41	$ 1.08	$ 1.16

For the three months ended September 30, 2007 and 2006, the number of options and non-vested shares that could potentially dilute net income per share in the future, but that were not included in the computation of net income per diluted share because to do so would have been anti-dilutive for the periods presented, were approximately 134,697 and 129,100, respectively. For the nine months ended September 30, 2007 and 2006 the number of options and non-vested shares that could potentially dilute net income per share in the future, but that were not included in the computation of net income per diluted share because to do so would have been anti-dilutive for the periods presented, were approximately 147,441 and 6,994, respectively.

6. Property

In June 2007 the Company completed the purchase of a new regional hub near Atlanta, Georgia for $14,870. The deposit of $1,478 paid in September 2006, previously included in noncurrent other assets, was applied to this purchase price.

In March 2007 the Company completed the purchase of a new terminal near Chicago, Illinois for $22,312. The deposit of $3,316 paid in July 2006, previously included in noncurrent other assets, was applied to this purchase price.

In addition, in February 2007, the Company acquired land near Dallas/Fort Worth, Texas for $3,043 on which the Company plans to build a new regional hub facility. The Company anticipates completion of this facility during 2008.

Forward Air Corporation
Notes to Condensed Consolidated Financial Statements

7. Income Taxes

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, various states and Canada. With a few exceptions, the Company is no longer subject to U.S. federal, state and local, or Canadian examinations by tax authorities for years before 2003.

The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a $1,397 increase in the liability for income tax contingencies, including related interest and penalties, which net of federal benefit of $420 was accounted for as a reduction to the January 1, 2007 balance of retained earnings. The liability for income tax contingencies at January 1, 2007, net of federal benefit is $977, which represents tax positions where the realization of the ultimate benefit is uncertain and the disallowance of which would affect the Company's annual effective income tax rate.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. At January 1, 2007, the Company had accrued $181 and $196 for the potential payment of interest and penalties, respectively. During the three and nine months ended September 30, 2007, the company accrued an additional $25 and $73, respectively, for potential interest and penalties. Also, the Company accrued $42 and $118 of income tax expense for uncertain tax positions taken during the three and nine months ended September 30, 2007, respectively.

For the three and nine months ended September 30, 2007 and 2006, the effective income tax rates varied from the statutory federal income tax rate of 35.0%, primarily as a result of the effect of state income taxes, net of the federal benefit and permanent differences between book and tax net income.

8. Shareholders' Equity

During the nine months ended September 30, 2007, three regular quarterly dividend payments of $0.07 per share were declared on common stock outstanding on August 30, 2007, May 25, 2007 and March 15, 2007. The quarterly dividends were paid on September 14, 2007, June 8, 2007 and March 30, 2007. During the nine months ended September 30, 2006, three regular quarterly dividend payments of $0.07 per share were declared on common stock outstanding on August 25, 2006, May 26, 2006 and March 17, 2006. The quarterly dividends were paid on September 8, 2006, June 9, 2006 and March 31, 2006. The Company expects to continue to pay regular quarterly cash dividends, though each subsequent quarterly dividend is subject to review and approval by the Board of Directors.

On November 17, 2005, the Company announced that its Board of Directors approved a stock repurchase program for up to three million shares of common stock (the "2005 Repurchase Plan"). In addition, on July 31, 2007, the Company's Board of Directors approved an additional stock repurchase program for up to two million shares of the Company's common stock. For the nine months ended September 30, 2007, the Company repurchased 979,500 shares of common stock under the 2005 Repurchase Plan for $31,220 or $31.87 per share. For the three and nine months ended September 30, 2006, the Company repurchased 1,041,649 and 1,202,695 shares of common stock, respectively, under the 2005 Repurchase Plan for $33,003 or $31.68 per share and $38,774 or $32.24 per share, respectively. As of September 30, 2007, 2,633,827 shares remain that may be repurchased under the Board of Director approved repurchase plans.

9. Commitments and Contingencies

The primary claims in the Company’s business are workers’ compensation, property damage, vehicle liability and medical benefits. Most of the Company’s insurance coverage provides for self-insurance levels with primary and excess coverage which management believes is sufficient to adequately protect the Company from catastrophic claims. In the opinion of management, adequate provision has been made for all incurred claims up to the self-insured limits, including provision for estimated claims incurred but not reported.

The Company estimates its self-insurance loss exposure by evaluating the merits and circumstances surrounding individual known claims, by performing hindsight analysis to determine an estimate of probable losses on claims incurred but not reported, and through the use of actuarial calculations. Such losses could be realized immediately as the events underlying the claims have already occurred as of the balance sheet dates.

Forward Air Corporation
Notes to Condensed Consolidated Financial Statements

9. Commitments and Contingencies (continued)

Because of the uncertainty of the ultimate resolution of outstanding claims, as well as uncertainty regarding claims incurred but not reported, it is possible that management's provision for these losses could change materially in the near term. However, no estimate can currently be made of the range of additional loss that is at least reasonably possible.

10. Acquisition

On July 30, 2007, the Company acquired certain assets and liabilities of USAC. The purchased assets and liabilities and the results of operations of USAC have been included in the consolidated financial statements since July 30, 2007. USAC was a well-established transportation service provider with 11 facilities that specialized in pool distribution services throughout the Southeast, Midwest and Southwest of the continental United States. Pool distribution involves the consolidation and shipment of several smaller less than truckload shipments to a common area or region. Once at the regional destination, the consolidated loads are then deconsolidated and delivered to their unique destinations. The acquisition provides the opportunity for the Company to introduce new services to new and existing customers and to drive efficiencies in existing businesses.

The aggregate purchase price was $12,983, paid with the Company's available cash. Under the purchase agreement, $1,250 of the purchase price was paid into an escrow account to protect the Company against potential unknown liabilities. The acquisition has been accounted for using the purchase method in accordance with SFAS No. 141, *Business Combinations*. Accordingly, the total purchase price has been allocated to the assets acquired and liabilities assumed based on preliminary estimated fair values at acquisition. The Company will adjust the purchase price as required to reflect the final valuation.

	At July 30, 2007
Current assets	$ 2,260
Property and equipment	3,425
Intangible assets	8,705
Other noncurrent assets	215
Total assets acquired	14,605
Current liabilities	408
Debt	1,214
Total liabilities	1,622

assumed	
Net assets acquired	$ 12,983

Of the $8,705 in acquired intangible assets, $8,505 and $200 were preliminarily assigned to customer lists and non-compete agreements, respectively. The customer lists and non-compete agreements are being amortized on a straight-line basis over 10 years. No pro forma disclosures have been included in these financial statements as USAC was immaterial to the consolidated financial statements taken as a whole.

11. Segment Reporting

The Company's services can be broadly classified into two principal businesses: Forward Air and FASL. Through Forward Air, the Company is a leading provider of time-definite transportation and related logistic services to the North American deferred air freight market. FASL was created in July 2007 in conjunction with the Company's USAC acquisition. FASL provides pool distribution services throughout the Southeast, Midwest and Southwest of the continental United States.

In connection with the third quarter acquisition of certain assets and liabilities of USAC, the Company reorganized its management reporting structure along these lines of business. In accordance with SFAS 131, the Company has evaluated the segment reporting requirements and determined that it now has two reporting segments.

Forward Air Corporation
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11. Segment Reporting (continued):

The following table summarizes information about net income and segment assets used by the chief operating decision maker of the Company in making decisions regarding allocation of assets and resources as of and for the three and nine months ended September 30, 2007. No segment information has been presented for the three and nine months ended September 30, 2006 as FASL did not exist until July 30, 2007 and all 2006 data would have been solely related to Forward Air.

Three months ending September 30, 2007

	Forward Air	FASL	Eliminations	Consolidated
External revenues	$ 92,676	$ 5,070	$ --	$ 97,746
Intersegment revenues	9	--	(9)	--
Depreciation and amortization	2,594	261	--	2,855
Stock-based compensation expense	943	3	--	946
Interest expense	40	15	--	55
Interest income	299	2	--	301
Income tax expense	6,220	180	--	6,400
Net income	10,475	278	--	10,753
Total assets	213,342	15,615	(12,993)	215,964
Capital expenditures	5,705	373	--	6,078

Nine months ending September 30, 2007

	Forward Air	FASL	Eliminations	Consolidated
External revenues	$ 273,177	$ 5,070	$ --	$ 278,247
Intersegment revenues	9	--	(9)	--
Depreciation and amortization	7,468	261	--	7,729
Stock-based compensation expense	2,426	3	--	2,429
Interest expense	121	15	--	136
Interest income	1,523	2	--	1,525
Income tax expense	19,745	180	--	19,925
Net income	32,243	278	--	32,521

Total assets	213,342	15,615	(12,993)	215,964
Capital expenditures	44,240	373	--	44,613

12. Subsequent Event

On October 10, 2007, the Company entered into a $100 million senior credit facility. This new facility has a term of five years and includes an accordion feature, which allows for an additional $50 million in borrowings on such terms and conditions as set forth in the Credit Agreement. The facility will replace the Company's existing $20 million line of credit. The Company entered into this new, larger credit facility in order to fund potential acquisitions, the repurchase of its common stock, and for financing other general business purposes.

On October 30, 2007 the Company’s Board of Directors declared a dividend payment for $0.07 per share on common stock outstanding on November 30, 2007. The dividend will be paid on December 14, 2007.

On October 30, 2007 the Company entered into a new employment agreement with the Chief Executive Officer and Chairman of the Board. The agreement expires on December 31, 2010, but will automatically extend for additional one year terms unless either party provides written notice of non-renewal no less than six months prior to the expiration of the then-pending term.

In addition, during October 2007, the Company repurchased 845,000 shares of common stock under Board of Director approved repurchase plans for $23,914 or $28.30 per share.

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

Overview and Executive Summary

Through our Forward Air segment, we are a leading provider of time-definite surface transportation and related logistics services to the North American deferred air freight market. We offer our customers local pick-up and delivery (Forward Air Complete™) and scheduled surface transportation of cargo as a cost-effective, reliable alternative to air transportation. We transport cargo that must be delivered at a specific time, but is less time-sensitive than traditional air freight. This type of cargo is frequently referred to in the transportation industry as deferred air freight. We operate through a network of 81 terminals located on or near airports in the United States and Canada, including a central sorting facility in Columbus, Ohio and nine regional hubs serving key markets. We also offer our customers an array of logistic and other services including: expedited truckload brokerage (TLX); dedicated fleets; warehousing; customs brokerage; and shipment consolidation, deconsolidation and handling.

On July 30, 2007, we acquired certain assets and liabilities of USAC for approximately $13.0 million. The purchased assets and liabilities and the results of operation of USAC have been included in our consolidated financial statements since July 30, 2007. USAC was a well-established transportation service provider with 11 facilities that specialized in pool distribution services throughout the Southeast, Midwest and Southwest of the continental United States. Pool distribution involves the consolidation and shipment of several smaller less than truckload shipments to a common area or region. Once at the regional destination, the consolidated loads are then deconsolidated and delivered to their unique destinations. The acquisition provides the opportunity for us to introduce new services to new and existing customers and to drive efficiencies in existing businesses.

Our operations, particularly our network of hubs and terminals, represent substantial fixed costs. Consequently, our continued growth depends in significant part on our ability to increase the amount and revenue per pound of the freight shipped through our network and to grow complimentary lines of businesses, such as pool distribution and TLX, that will allow us to maintain revenue growth in challenging shipping environments. In addition, a key factor to success is our ability to efficiently manage our purchased transportation costs through efficient use of our owner-operator fleet and more expensive third-party transportation providers.

Trends and Developments

During the three months ended September 30, 2007 our logistics business continued to experience significant growth while revenues for our airport-to-airport service decreased for the third quarter over prior year due to the continued challenging market conditions. We are continuing our efforts to grow our business through additional products so as to ensure revenue growth in any market conditions. Through our strategic initiative "Completing the Model" we continue to develop and implement complementary services to the airport-to-airport network, such as pick-up and delivery, truckload brokerage, value-added handling and airline road feeder services. Most significantly on July 30, 2007 through our newly formed subsidiary, Forward Air Solutions Inc. (FASL), we acquired certain asset and liabilities of USAC. Through this acquisition we now provide pool distribution services throughout the Southeast, Midwest and Southwest of the continental United States. Pool distribution involves the consolidation and shipment of several smaller less than truckload shipments to a common area or region. Once at a regional destination, the consolidated loads are then deconsolidated and delivered to their unique destinations. The acquisition provides us the opportunity to provide an additional service to existing and new customers and an important operating platform that will enable further expansion of the Forward Air Complete™ pick-up and delivery product, TLX truckload brokerage and value-added handling components of the "Completing the Model" strategic initiative.

Also, during the three months ended September 30, 2007, we continued to experience decreases in our operating income in total dollars and as a percentage of operating revenue mainly driven by increased purchased transportation costs. The increased purchased transportation costs were primarily the product of changes in our business mix due to the implementation of the "Completing the Model" strategic initiatives and the weakness in our airport-to-airport business.

In February 2007, we purchased land in Dallas/Fort Worth, Texas for the construction of a new regional hub. We also completed our purchase of a new terminal near Chicago, Illinois and a new regional hub in Atlanta, Georgia during March and June 2007, respectively. With these facilities we believe we will have room to grow our business in key gateway cities and to offer additional services such as value-added handling.

Segments

Effective July 30, 2007 in conjunction with FASL's acquisition of certain assets and liabilities of USAC, we restructured our organization into two segments: Forward Air and FASL. As the creation of the second segment was the result of our July 2007 acquisition, no reclassification of prior year financial information was necessary.

Our Forward Air segment includes our pre-existing airport-to-airport and TLX services as well as our other accessorial related services such as warehousing; customs brokerage; and shipment consolidation, deconsolidation and handling services.

Our FASL segment includes our pool distribution business and the related assets and liabilities purchased from USAC.

Reclassifications

Effective January 1, 2007 we reclassified certain 2006 revenue components of the Forward Air segment between our three product lines to be consistent with current year classifications. Primarily, we reclassified Forward Air Complete revenue from other revenue to airport-to-airport revenue as management views Forward Air Complete as an extension of our airport-to-airport network. Also, portions of the 2006 fuel surcharge were reclassified between airport-to-airport and logistics revenue to be consistent with current year presentation.

Results of Operations

The following table sets forth our historical financial data for operating revenue; purchased transportation; salaries, wages and employee benefits; operating leases; depreciation and amortization; insurance and claims; other operating expenses; and income from operations for the three months ended September 30, 2007 and 2006 (in millions):

	2007	Percent of Revenue	2006	Percent of Revenue
Operating Revenue				
Forward Air	$ 92.7	94.8%	$ 90.4	100.0%
FASL	5.1	5.2	--	--
Total	97.8	100.0	90.4	100.0
Purchased transportation				
Forward Air	40.6	43.8	37.9	41.9
FASL	0.7	13.7	--	--
Total	41.3	42.2	37.9	41.9
Salaries, wages and employee benefits				
Forward air	19.7	21.3	18.4	20.4
FASL	2.3	45.1	--	--
Total	22.0	22.5	18.4	20.4