FORWARD AIR CORP
Form 10-K
February 27, 2008

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2007
Commission File No. 000-22490

FORWARD AIR CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

Common Stock, $0.01 par value (Title of class)	The NASDAQ Stock Market LLC (Name of exchange on which registered)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes x 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 definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2007 was approximately $998,430,784 based upon the $34.09 closing price of the stock as reported on The NASDAQ Stock Market LLC on that date. For purposes of this computation, all directors and executive officers of the registrant are assumed to be affiliates. This assumption is not a conclusive determination for purposes other than this calculation.

The number of shares outstanding of the registrant's common stock, $0.01 par value per share, as of February 21, 2008 was 28,806,022.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the 2008 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

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Forward Air Corporation

Introductory Note

This Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (the "Form 10-K") contains "forward-looking statements," as defined in Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are statements other than historical information or statements of current condition and relate to future events or our future financial performance. Some forward-looking statements may be identified by use of such terms as "believes," "anticipates," "intends," "plans," "estimates," "projects" or "expects." Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The following is a list of factors, among others, that could cause actual results to differ materially from those contemplated by the forward-looking statements: economic factors such as recessions, inflation, higher interest rates and downturns in customer business cycles, our inability to maintain our historical growth rate because of a decreased volume of freight moving through our network or decreased average revenue per pound of freight moving through our network, increasing competition and pricing pressure, surplus inventories, loss of a major customer, the creditworthiness of our customers and their ability to pay for services rendered, our ability to secure terminal facilities in desirable locations at reasonable rates, the inability of our information systems to handle an increased volume of freight moving through our network, changes in fuel prices, claims for property damage, personal injuries or workers' compensation, employment matters including rising health care costs, enforcement of and changes in governmental regulations, environmental and tax matters, the handling of hazardous materials, the availability and compensation of qualified independent owner-operators and freight handlers needed to serve our transportation needs and our inability to successfully integrate acquisitions. As a result of the foregoing, no assurance can be given as to future financial condition, cash flows or results of operations. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Part I

Item 1. Business

We were formed as a corporation under the laws of the state of Tennessee on October 23, 1981. We are a leading provider of time-definite surface transportation and related logistics services to the North American deferred air freight market. Through our airport-to-airport network we offer our customers 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 also offer our customers an array of logistics and other services including: expedited truckload (TLX); pool distribution; dedicated fleets; local pick-up and delivery; warehousing; customs brokerage; and shipment consolidation, deconsolidation and handling. These services are critical to our customers, that do not provide these logistics services themselves or that prefer to use one provider for all of their surface transportation needs.

We operate the airport to airport network through terminals located in 85 cities on or near airports in the United States and Canada, including a central sorting facility in Columbus, Ohio and ten regional hubs serving key markets. A typical shipment through this network consists of a pallet-load of freight, often consisting of electronics, telecommunications equipment, machine parts, trade show exhibit materials or medical equipment. During 2007, our average shipment weighed approximately 720 pounds. We utilize a flexible source of capacity made up of owner-operators and, to a lesser extent, other surface transportation providers, which results in a largely variable cost operating model with low capital requirements.

We market our airport-to-airport services primarily to air freight forwarders, integrated air cargo carriers, and passenger and cargo airlines. To serve this market, we offer customers a very high level of service with a focus on on-time, damage-free deliveries. We serve our customers by locating terminals on or near airports and maintaining regularly scheduled transportation service between major cities. We either receive shipments at our terminals or pick up shipments directly from our customers and transport them by truck (i) directly to the destination terminal; (ii) to our Columbus, Ohio central sorting facility; or (iii) to one of our ten regional hubs, where they are unloaded, sorted and reloaded. After reloading the shipments, we deliver them to the terminals nearest their destinations and then, if requested by the customer, on to a final designated site. We ship freight directly between terminals when justified by the volume of shipments. During 2007, approximately 21.0% of the freight we handled was for overnight delivery, approximately 60.7% was for delivery within two to three days and the balance was for delivery in four or more days. We generally do not market our airport-to-airport services directly to shippers (where such services might compete with our freight forwarder customers). Also, because we do not place significant size or weight restrictions on airport-to airport shipments, we generally do not compete directly with integrated air cargo carriers such as United Parcel Service, Federal Express and DHL Worldwide in the overnight delivery of small parcels. In 2007, our five largest customers accounted for approximately 21.8% of our operating revenue and no single customer accounted for more than 10.0% of our operating revenue.

Through our strategic initiative "Completing the Model" we continue to develop and implement complimentary services to the airport-to-airport network. Other complimentary services including expedited truckload (TLX); dedicated fleets; local pick-up and delivery; warehousing; customs brokerage; and shipment consolidation, deconsolidation and handling are critical to helping meet the changing needs of our customers and for efficiently using the people and resources of our airport-to-airport network.

In addition to these complimentary services, with the July 2007 acquisition of USA Carriers, Inc. ("USAC") we began pool distribution services throughout the Southeast, Midwest and Southwest 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. Our primary customers for this product are regional and nationwide distributors and retailers. We service these customers through an eleven terminal network.

Our Industry

As businesses minimize inventory levels, perform manufacturing and assembly operations in multiple locations and distribute their products through multiple channels, they have an increased need for expedited delivery services. Expedited shipments are those shipments for which the customer requires delivery the next day or within two to three days, usually by a specified time or within a specified time window. The Colography Group, Inc., an independent industry market research and consulting firm, estimates that the total U.S. expedited cargo market, including domestic air, domestic ground parcel, domestic less-than-truckload and U.S. air export will generate $107.6 billion in revenue in 2008. Also according to The Colography Group, Inc., the U.S. domestic air freight market accounts for approximately $37.5 billion, or 34.9%, of this market. Approximately 14.1%, of that market is made up of heavyweight overnight and deferred air freight, which is the portion of the market within which we primarily compete.

Shippers with expedited delivery requirements have four principal alternatives to transport freight: freight forwarders; integrated air cargo carriers; less-than-truckload carriers; and passenger and cargo airlines.

- Freight forwarders obtain requests for shipments from customers, make arrangements for transportation of the cargo by a third-party carrier and usually arrange for both delivery from the shipper to the carrier and from the carrier to the recipient.

- Integrated air cargo carriers provide pick-up and delivery services primarily using their own fleet of trucks and provide transportation services generally using their own fleet of aircraft.

- Less-than-truckload carriers also provide pick-up and delivery services through their own fleet of trucks. These carriers operate terminals where freight is unloaded, sorted and reloaded multiple times in a single shipment. This additional handling increases transit time, handling costs and the likelihood of cargo damage.

- Passenger or cargo airlines provide airport-to-airport service, but have limited cargo space and generally accept only shipments weighing less than 150 pounds.

Although expedited air freight is usually transported by aircraft, freight forwarders often elect to arrange for its transportation by truck, especially for shipments requiring deferred delivery. Generally, the cost of shipping freight, especially heavy freight, by truck is substantially less than shipping by aircraft. We believe there are several trends that are increasing demand for lower-cost truck transportation of expedited air freight. These trends include:

- Increased Outsourcing of Logistics Management to Third-Party Logistics Providers. Air freight forwarders are playing an increasingly important role in logistics management. As the growing emphasis on just-in-time processes has added to the complexity of logistics management, companies are finding it more advantageous to outsource their logistics management functions to third parties. According to the Council of Supply Chain Management Professionals, the United States' third-party logistics market grew at a compound annual rate of approximately 17.1% between 1995 and 2005. In contrast to integrated air cargo carriers and less-than-truckload carriers that are focused on utilizing their own fixed-cost assets, air freight forwarders can select from various transportation modes and suppliers to meet their customers' shipping requirements, thereby serving their customers less expensively. In addition, air freight forwarders generally handle shipments of any size and offer customized shipping options, unlike most integrated air cargo carriers and less-than-truckload carriers.

- Integrated Air Cargo Carriers' Focus on Overnight Freight. Integrated air cargo carriers that transport heavy freight are targeting their marketing efforts at higher yielding overnight freight in order to better utilize their high fixed-cost infrastructures. As a result, these carriers are outsourcing deferred freight to surface transportation providers like us.

- Reduced Airline Cargo Capacity. Since the 1980's, when the domestic airlines eliminated many of their all-cargo aircraft, growth in demand for air cargo services has generally outpaced the growth of aircraft cargo capacity. Airlines have decreased fleet sizes and are utilizing smaller aircraft, including more regional jets, in many markets. The short supply of air cargo space has resulted in increased demand for surface transportation of cargo.

Competitive Advantages

We believe that the following competitive advantages are critical to our success as a leading provider of time-definite surface transportation services and related logistics services to the deferred air freight market in North America:

- Focus on the Deferred Air Freight Market. We focus on providing time-definite surface transportation and related logistics services to the deferred air cargo industry. We believe that our focused approach has enabled us to provide a higher level of service in a more cost-effective manner than our competitors.

- Expansive Network of Terminals and Sorting Facilities. We have built a network of terminals and sorting facilities throughout the United States and Canada located on or near airports. We believe it would be difficult for a competitor to duplicate our network without the expertise and strategic facility locations we have acquired and without expending significant capital and management resources. Our network enables us to provide regularly scheduled service between most markets with low levels of freight damage or loss, all at rates generally significantly below air freight rates.

- Concentrated Marketing Strategy. We provide our deferred air freight services mainly to air freight forwarders, integrated air cargo carriers, and passenger and cargo airlines rather than directly serving shippers. We do not place significant size or weight restrictions on shipments and, therefore, we do not compete with delivery services such as United Parcel Service, Federal Express and DHL Worldwide in the overnight small parcel market. We believe that our customers prefer to purchase their transportation services from us because, among other reasons, we generally do not market our services to their shipper customers and, therefore, do not compete directly with them for customers.

- Superior Service Offerings. Our published deferred air freight schedule for transit times with specific cut-off and arrival times generally provides our customers with the predictability they need. In addition, our network of terminals allows us to offer our customers later cut-off times, a higher percentage of direct shipments (which reduces damage and lost time caused by additional sorting and reloading) and shorter delivery times than most of our competitors.

- Flexible Business Model. Rather than owning and operating our own trucks, we purchase most of our transportation requirements from owner-operators or truckload carriers. This allows us to respond quickly to changing demands and opportunities in our industry and to generate higher returns on assets because of our low capital requirements.

- Comprehensive Logistic and Other Service Offerings. We offer an array of logistic and other services including: expedited truckload (TLX), pick up and delivery (Forward Air Complete™), dedicated fleet, warehousing, customs brokerage and shipment consolidation and handling. These services are an essential part of many of our customers' transportation needs and are not offered by many of our competitors. We are able to provide these services utilizing our existing infrastructure and thereby are able to earn additional revenue without incurring significant additional fixed costs.

- Pool distribution services. During 2007, in conjunction with our acquisition of USAC, we launched our pool distribution service. This new business allows us to provide a new service offering to new and existing customers as well as provides additional opportunities for us to add density to our existing airport-to-airport network.

- Leading Technology Platform. We are committed to using information technology to increase the volume of freight we can handle in our network, improve visibility of shipment information and reduce our operating costs. Our technology allows us to provide our customers with electronic bookings and real-time tracking and tracing of shipments while in our network, complete shipment history, proof of delivery, estimated charges and electronic bill presentment. We continue to enhance our systems to permit us and our customers to access vital information through both the Internet and electronic data interchange. We continue to invest in information technology to the benefit of our customers and our business processes. The primary example of this development is our Terminal Automation

Program (“TAP”), a wireless application for all our terminals. The system enables individual operators to perform virtually all data entry from our terminal floor locations. The system provides immediate shipment updates, resulting in increased shipment accuracy and improved data timeliness. The TAP system not only reduces operational manpower, but also improves our on-time performance. Additionally, in order to support our Forward Air Complete service offering, we developed and installed a web-based system, which coordinates activities between our customers, operations personnel and external service providers.

Growth Strategy

Our growth strategy is to take advantage of our competitive strengths in the deferred air freight market in order to increase our profits and shareholder returns. Our "Completing the Model" strategic initiative is designed to facilitate this overall strategy. The goal of this initiative is to use our airport-to-airport network as the base for which to expand and launch new services that will allow us to grow in any economic environment. Principal components of our "Completing the Model" strategy include efforts to:

- Increase Freight Volume from Existing Customers. Many of our customers currently use us for only a portion of their overall transportation needs. In addition, many of our air freight forwarder customers are growing rapidly, and we expect that they will have a greater need for our services as their businesses grow. We will continue to market directly to these customers to capture additional freight volume. We also believe that there is significant potential for increased freight volume from passenger and cargo airlines, as well as from the integrated air cargo carriers.

- Develop New Customers. We continue to actively market our services to potential new customers, such as international freight forwarders. We believe air freight forwarders may move away from integrated air cargo carriers because those carriers charge higher rates, and away from less-than-truckload carriers because those carriers provide less reliable service and compete for the same customers as do the air freight forwarders In addition, we believe our comprehensive North American network and related logistics services are attractive to domestic and international airlines. In 2006, we introduced Forward Air Complete, our pick-up and delivery service, to help attract business from new and existing customers who require pick-up and delivery for their shipments.

- Improve Efficiency of Our Transportation Network. We constantly seek to improve the efficiency of our airport-to-airport network. Regional hubs and direct shuttles improve our efficiency by reducing the number of miles freight must be transported and reducing the number of times freight must be handled and sorted. As the volume of freight between key markets increases, we intend to continue to add direct shuttles. In 2007, we completed the purchase of two new facilities in Chicago, Illinois and Atlanta, Georgia and purchased land and began construction on a new regional terminal in Dallas/Fort Worth, Texas. Also, in 2006 we completed the expansion of our national hub in Columbus, Ohio. With these new and expanded facilities, we believe we will have the necessary space to grow our business in key gateway cities and to offer the additional services required by our "Completing the Model" strategy.

- Expand Logistics and Other Services. We continue to expand our logistics and other services to increase revenue and improve utilization of our terminal facilities and labor force. Because of the timing of the arrival and departure of cargo, our facilities are underutilized during certain portions of the day, allowing us to add logistics services without significantly increasing our costs. Therefore, we have added a number of services in the past few years, such as expedited truckload services, dedicated fleet, warehousing, customs brokerage and shipment consolidation and handling services. These services directly benefit our existing customers and increase our ability to attract new customers, particularly those air freight forwarders that cannot justify providing the services directly. These services are not offered by many transportation providers with whom we compete and are attractive to customers who prefer to use one provider for all of their transportation needs.

- Offer pool distribution services. During 2007, our newly-formed subsidiary Forward Air Solutions, Inc. acquired certain assets and liabilities of USAC. Through this acquisition, we now provide pool distribution services. 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. Pool distribution is a new service offering that we can offer to new and existing customers, which provides an important platform that will enable us to add density to our existing airport-to-airport network and further expand our Forward Air Complete, expedited truckload, and value-added handling services.

- Enhance Information Systems. We are committed to the continued enhancement of our information systems in ways that will continue to provide us competitive service advantages and increased productivity. We believe our enhanced systems assist us in capitalizing on new business opportunities with existing customers and developing relationships with new customers because of the customer-friendly, cost-saving features our systems provide, including our real-time tracking and tracing of shipments and electronic bill presentment.

- Pursue Strategic Acquisitions. We intend to continue to evaluate acquisitions that can increase our penetration of a geographic area, add new customers, increase freight volume and add new service offerings. In addition, we expect to explore acquisitions that may enable us to offer additional services. During 2007, we acquired certain assets and liabilities of two companies that met these criteria. In July 2007 we acquired certain assets and liabilities of USAC which has enabled us to offer pool distribution services. Then in December 2007 we acquired certain assets and liabilities of Black Hawk Freight Services, Inc. (“Black Hawk”) which increased the penetration of the airport-to-airport network in the Midwest. Since our inception, we have acquired certain assets and liabilities of ten businesses that met one or more of these criteria.

Operations

We operate in two reportable segments, based on differences in the services provided: Forward Air, Inc. (Forward Air) and Forward Air Solutions, Inc. (FASI).

Through Forward Air we are a leading provider of time-definite transportation and related logistics 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. Forward Air's logistics service provides expedited truckload brokerage and dedicated fleet services. Forward Air's other services include shipment consolidation and deconsolidation, warehousing, customs brokerage, and other handling. The Forward Air segment primarily provides its transportation services through a network of terminals located at or near airports in the United States and Canada. Forward Air's primary customers are air freight forwarders, integrated air cargo carriers and passenger and cargo airlines.

FASI was formed in July 2007 in conjunction with our acquisition of certain assets and liabilities of USAC. FASI provides pool distribution services throughout the Southeast, Midwest and Southwest 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. FASI's primary customers are national and regional retailers and distributors.

Forward Air

Airport-to-airport

We receive freight from air freight forwarders, integrated air cargo carriers and passenger and cargo airlines at our terminals, which are located on or near airports in the United States and Canada. We also pick up freight from customers at designated locations via our Forward Air Complete service. We consolidate and transport these shipments by truck through our network to our terminals nearest the ultimate destinations of the shipments. We operate regularly scheduled service to and from each of our terminals through our Columbus, Ohio central sorting facility or through one of our ten regional hubs. We also operate regularly scheduled shuttle service directly between terminals where the volume of freight warrants bypassing the Columbus, Ohio central sorting facility or a regional hub. When a shipment arrives at our terminal nearest its destination, the customer arranges for the shipment to be picked up and delivered to its final destination. Through our Forward Air Complete service, we will also deliver the freight for the customer to its final destination.

Terminals

Our airport-to-airport network consists of terminals located in the following 85 cities:

City	Airport Served	City	Airport Served
Albany, NY	ALB	Los Angeles, CA	LAX
Albuquerque, NM	ABQ	Louisville, KY	SDF
Atlanta, GA	ATL	Memphis, TN	MEM
Austin, TX	AUS	McAllen, TX*	MFE
Baltimore, MD	BWI	Miami, FL	MIA
Baton Rouge, LA*	BTR	Milwaukee, WI	MKE
Birmingham, AL*	BHM	Minneapolis, MN	MSP
Blountville, TN*	TRI	Mobile, AL*	MOB
Boston, MA	BOS	Moline, IA	MLI
Brownsville, TX*	BRO	Nashville, TN	BNA
Buffalo, NY	BUF	Newark, NJ	EWR
Burlington, IA	BRL	Newburgh, NY	SWF
Cedar Rapids, IA	CID	New Orleans, LA	MSY
Charleston, SC	CHS	New York, NY	JFK
Charlotte, NC	CLT	Norfolk, VA	ORF
Chicago, IL	ORD	Oklahoma City, OK	OKC
Cincinnati, OH	CVG	Omaha, NE	OMA
Cleveland, OH	CLE	Orlando, FL	MCO
Columbia, SC*	CAE	Pensacola, FL*	PNS
Columbus, OH	CMH	Philadelphia, PA	PHL
Corpus Christi, TX*	CRP	Phoenix, AZ	PHX
Dallas/Ft. Worth, TX	DFW	Pittsburgh, PA	PIT
Dayton, OH*	DAY	Portland, OR	PDX
Denver, CO	DEN	Raleigh, NC	RDU
Des Moines, IA	DSM	Richmond, VA	RIC
Detroit, MI	DTW	Rochester, NY	ROC
El Paso, TX	ELP	Sacramento, CA	SMF
Greensboro, NC	GSO	Salt Lake City, UT	SLC
Greenville, SC	GSP	San Antonio, TX	SAT
Hartford, CT	BDL	San Diego, CA	SAN
Harlingen, TX*	HRL	San Francisco, CA	SFO
Harrisburg, PA	MDT	Seattle, WA	SEA
Houston, TX	IAH	St. Louis, MO	STL
Huntsville, AL*	HSV	Syracuse, NY	SYR
Indianapolis, IN	IND	Tampa, FL	TPA
Jackson, MS*	JAN	Toledo, OH*	TOL
Jacksonville, FL	JAX	Tucson, AZ*	TUS
Kansas City, MO	MCI	Tulsa, OK	TUL
Knoxville, TN*	TYS	Washington, DC	IAD
Lafayette, LA*	LFT	Montreal, Canada*	YUL
Laredo, TX*	LRD	Ottawa, Canada*	YOW
Las Vegas, NV	LAS	Toronto, Canada	YYZ
Little Rock, AR	LIT		

* Denotes an independent agent location.

Independent agents operate 20 of our locations. These locations typically handle lower volumes of freight relative to our company-operated facilities.

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Direct Service and Regional Hubs

We operate direct terminal-to-terminal services and regional overnight service between terminals where justified by freight volumes. We currently provide regional overnight service to many of the markets within our network. Direct service allows us to provide quicker scheduled service at a lower cost because it allows us to minimize out-of-route miles and eliminate the added time and cost of handling the freight at our central or regional hub sorting facilities. Direct shipments also reduce the likelihood of damage because of reduced handling and sorting of the freight. As we continue to increase volume between various terminals, we intend to add other direct services. Where warranted by sufficient volume in a region, we utilize larger terminals as regional sorting hubs, which allows us to bypass our Columbus, Ohio central sorting facility. These regional hubs improve our operating efficiency and enhance customer service. We operate regional hubs in Atlanta, Charlotte, Dallas/Ft. Worth, Kansas City, Los Angeles, New Orleans, Newburgh, Orlando and San Francisco. In January 2008, we began operating a regional sorting center in our Chicago facility.

Shipments

The average weekly volume of freight moving through our network was approximately 32.8 million pounds per week in 2007. During 2007, our average shipment weighed approximately 720 pounds and shipment sizes ranged from small boxes weighing only a few pounds to large shipments of several thousand pounds. Although we impose no significant size or weight restrictions, we focus our marketing and price structure on shipments of 200 pounds or more. As a result, we typically do not directly compete with integrated air cargo carriers in the overnight delivery of small parcels. The table below summarizes the average weekly volume of freight moving through our network for each year since 1990.

Year	Average Weekly Volume in Pounds (In millions)
1990	1.2
1991	1.4
1992	2.3
1993	3.8
1994	7.4
1995	8.5
1996	10.5
1997	12.4
1998	15.4
1999	19.4
2000	24.0
2001	24.3
2002	24.5
2003	25.3
2004	28.7
2005	31.2
2006	32.2
2007	32.8

Logistics and Other Services

Customers increasingly demand more than the movement of freight from their transportation providers. To meet these demands, we continually seek ways to customize our logistics services and add new services. Logistics and other services increase our profit margins by increasing our revenue without corresponding increases in our fixed costs, as airport-to-airport assets and resources are largely used to provide the logistics and other services.

Our logistics and other services allow customers to access the following services from a single source:

- expedited truckload brokerage, or TLX;
- dedicated fleets;
- customs brokerage, such as assistance with U.S. Customs and Border Protection ("U.S. Customs") procedures for both import and export shipments;
- warehousing, dock and office space; and
- shipment consolidation and handling, such as shipment build-up and break-down and reconsolidation of air or ocean pallets or containers.

These services are critical to many of our air freight forwarder customers that do not provide logistics services themselves or that prefer to use one provider for all of their surface transportation needs.

Revenue and purchased transportation for our TLX and dedicated fleet services are largely determined by the number of miles driven. The table below summarizes the average miles driven per week to support our logistics services since 2003:

Year	Average Weekly Miles (In Thousands)
2003	211
2004	259
2005	248
2006	331
2007	529

Forward Air Solutions

Pool Distribution

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. Our pool distribution network consists of separate terminals located in the following 11 cities:

City
Albuquerque, NM
Dallas/Ft. Worth, TX
Denver, CO
Des Moines, IA
Greensboro, NC
Jacksonville, FL
Kansas City, MO
Lakeland, FL
Miami, FL
Nashville, TN
Tulsa, OK

Customers and Marketing

Our Forward Air wholesale customer base is primarily comprised of air freight forwarders, integrated air cargo carriers and passenger and cargo airlines. Our air freight forwarder customers vary in size from small, independent, single facility companies to large, international logistics companies such as SEKO Worldwide, AIT Worldwide Logistics, DHL Danzas, UPS Supply Chain Solutions and Pilot Air Freight. Because we deliver dependable service, integrated air cargo carriers such as UPS Cargo and DHL Worldwide Express use our network to provide overflow capacity and other services, including shipment of bigger packages and pallet-loaded cargo. Our passenger and cargo airline customers include British Airways, United Airlines and Virgin Atlantic. Our FASI pool distribution customers are primarily comprised of national and regional retailers and distributors, such as The Limited, GAP and Blockbuster.

We market our services through a sales and marketing staff located in major markets of the United States. Senior management also is actively involved in sales and marketing at the national account level and supports local sales initiatives. We have a strong commitment to strategically supporting the wholesale air cargo industry and focus on air freight forwarders, integrated air cargo carriers and passenger and cargo airlines that have time-sensitive shipping needs requiring customized services. We also participate in air cargo and retail trade shows and advertise our services through direct mail programs and through the Internet via www.forwardair.com. The information contained on our website is not part of this filing.

Technology and Information Systems

Our technology allows us to provide our customers with real-time tracking and tracing of shipments throughout the transportation process, complete shipment history, proof of delivery, estimated charges and electronic bill presentment. In addition, our customers are able to electronically transmit bookings to us from their own networks and schedule transportation and obtain tracking and tracing information. We continue to enhance our systems to permit our customers to obtain this information both through the Internet and through electronic data interchange. We have invested and expect to continue investing management and financial resources on maintaining and upgrading our information systems in an effort to increase the volume of freight we can handle in our network, improve the visibility of shipment information and reduce our operating costs. The ability to provide accurate, real-time information on the status of shipments is increasingly important and our efforts in this area could result in both competitive service advantages and increased productivity throughout our network. We believe our continuing technical enhancements will assist us in capitalizing on new business opportunities, capturing additional freight from existing customers, and attracting new customers.

We continue to enhance our TAP application and website service offerings in our continuing effort to automate and improve operations. TAP enables operation personnel to perform data entry from our terminal floor locations. This greatly reduces the need for data entry personnel and provides immediate shipment updates. The result is increased shipment accuracy and improved data timeliness. The TAP system improves our ability to provide accurate, real-time information, and results in both competitive service advantages and increased productivity throughout our network. Our Forward Air Complete website coordinates activities between our customers, operations personnel and external service providers. We believe that the TAP system, Forward Air Complete website and other technical enhancements will assist us in capitalizing on new business opportunities and could encourage customers to increase the volume of freight they send through our network.

Purchased Transportation

We contract for most of our transportation services on a per mile basis from owner-operators. The owner-operators own, operate and maintain their own tractors and employ their own drivers. Our freight handlers load and unload our trailers for hauling by owner-operators between our terminals.

We seek to establish long-term relationships with owner-operators to assure dependable service and availability. Historically, we have experienced significantly higher than industry average retention of owner-operators. We have established specific guidelines relating to safety records, driving experience and personal evaluations that we use to select our owner-operators. To enhance our relationship with the owner-operators, our per mile rates are generally above prevailing market rates. In addition, we typically offer our owner-operators and their drivers a consistent work schedule. Usually, schedules are between the same two cities, improving quality of work life for the owner-operators and their drivers and, in turn, increasing driver retention.

As a result of efforts to expand our logistics and other services, seasonal demands and volume surges in particular markets, we also purchase transportation from other surface transportation providers to handle overflow volume. Of the $164.4 million incurred for purchased transportation during 2007, we purchased 64.8% from owner-operators and 35.2% from other surface transportation providers.

Competition

The air freight and pool distribution transportation industries are highly competitive and very fragmented. Our competitors include regional trucking companies that specialize in handling deferred air freight and national and regional less-than-truckload carriers. To a lesser extent, we compete with integrated air cargo carriers and passenger and cargo airlines. We believe competition is based on service, primarily on-time delivery, flexibility and reliability, as well as rates. We offer our services at rates that generally are significantly below the charge to transport the same shipment to the same destination by air. We believe we have an advantage over less-than-truckload carriers because we deliver faster, more reliable service between many cities.

Seasonality

Historically, our operating results have been subject to seasonal trends when measured on a quarterly basis. The first quarter has traditionally been the weakest and the third and fourth quarters have traditionally been the strongest. Typically, this pattern has been the result of factors such as climate, national holidays, customer demand and economic conditions. Additionally, a significant portion of our revenue is derived from customers whose business levels are impacted by the economy. The impact of seasonal trends is more pronounced on our pool distribution business. First and second quarters are traditionally the weakest; third quarter, and most acutely fourth quarter, are traditionally the strongest.

Employees

As of December 31, 2007, we had 1,709 full-time employees, 551 of whom were freight handlers. Additionally as of that date, there were 928 part-time employees, of whom the majority were freight handlers. None of our employees are covered by a collective bargaining agreement. We recognize that our workforce, including our freight handlers, is one of our most valuable assets. The recruitment, training and retention of qualified employees are essential to support our continued growth and to meet the service requirements of our customers.

Risk Management and Litigation

Under U.S. Department of Transportation ("DOT") regulations, we are liable for property damage and personal injuries caused by owner-operators while they are operating on our behalf. We currently maintain liability insurance coverage that we believe is adequate to cover third-party claims. We have a self-insured retention of $0.5 million per occurrence for each vehicle and general liability claim. We may also be subject to claims for workers' compensation. We maintain workers' compensation insurance coverage that we believe is adequate to cover such claims. We have a self-insured retention of approximately $0.3 million for each such claim, except in Ohio, where we are a qualified self-insured entity with an approximately $0.4 million self-insured retention. We could incur claims in excess of our policy limits or incur claims not covered by our insurance.

From time to time, we are a party to litigation arising in the normal course of our business, most of which involve claims for personal injury, property damage related to the transportation and handling of freight, or workers' compensation. We do not believe that any of these pending actions, individually or in the aggregate, will have a materially adverse effect on our business, financial condition or results of operations.

Regulation

The DOT and various state agencies have been granted broad powers over our business. These entities generally regulate such activities as authorization to engage in property brokerage and motor carrier operations, safety and financial reporting. We are licensed through our subsidiaries by the DOT as a motor carrier and as a broker to arrange for the transportation of freight by truck. Our domestic customs brokerage operations are licensed by U.S. Customs. We are subject to similar regulation in the Dominion of Canada.

Service Marks

Through one of our subsidiaries, we hold federal trademark registrations or applications for federal trademark registration, associated with the following service marks: Forward Air, Inc.® , North America's Most Complete Roadfeeder Network®, Forward Air ™, Forward Air SolutionsSM, and Forward Air Complete™. These marks are of significant value to our business.

Website Access

We file reports with the Securities and Exchange Commission (the "SEC"), including annual reports on Form 10-K, quarterly reports on Form 10-Q and other reports from time to time. We are an electronic filer and the SEC maintains an Internet site at www.sec.gov that contains these reports and other information filed electronically. We make available free of charge through our website our Code of Ethics and our reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Our website address is www.forwardair.com. Please note that this website address is provided as an inactive textual reference only. The information provided on the website is not part of this report, and is therefore not incorporated by reference unless such information is otherwise specifically referenced elsewhere in this report.

Item 1A. Risk Factors

In addition to the other information in this Form 10-K and other documents we have filed with the SEC from time to time, the following factors should be carefully considered in evaluating our business. Such factors could affect results and cause results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, us. Some or all of these factors may apply to our business.

Our business is subject to general economic and business factors that are largely out of our control, any of which could have a materially adverse effect on our results of operations.

Our business is dependent upon a number of factors that may have a materially adverse effect on the results of our operations, many of which are beyond our control. These factors include increases or rapid fluctuations in fuel prices, capacity in the trucking industry, insurance premiums, self-insured retention levels and difficulty in attracting and retaining qualified owner-operators and freight handlers. Our profitability would decline if we were unable to anticipate and react to increases in our operating costs, including purchased transportation and labor, or decreases in the amount of revenue per pound of freight shipped through our system. As a result of competitive factors, we may be unable to raise our prices to meet increases in our operating costs, which could result in a materially adverse effect on our business, results of operations and financial condition.

Economic conditions may adversely affect our customers and the amount of freight available for transport. This may require us to lower our rates, and this may also result in lower volumes of freight flowing through our network. Customers encountering adverse economic conditions represent a greater potential for loss, and we may be required to increase our reserve for bad-debt losses.

Our results of operations may be affected by seasonal factors. Volumes of freight tend to be lower in the first quarter after the winter holiday season. In addition, it is not possible to predict the short or long-term effects of any geopolitical events on the economy or on customer confidence in the United States, or their impact, if any, on our future results of operations.

In order to continue growth in our business, we will need to increase the volume and revenue per pound of the freight shipped through our system.

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. The amount of freight shipped through our network and our revenue per pound depend on numerous factors, many of which are beyond our control, such as economic conditions and our competitors' pricing. Therefore, we cannot guarantee that the amount of freight shipped or the revenue per pound we realize on that freight will increase or even remain at current levels. If we fail to increase the volume of the freight shipped through our network or the revenue per pound of the freight shipped, we may be unable to maintain or increase our profitability.

Because a portion of our network costs are fixed, we will be adversely affected by any decrease in the volume or revenue per pound of freight shipped through our network.

Our operations, particularly our network of hubs and terminals, represent substantial fixed costs. As a result, any decline in the volume or revenue per pound of freight we handle may have an adverse effect on our operating margin and our results of operations. Typically, we do not have contracts with our customers and we cannot guarantee that our current customers will continue to utilize our services or that they will continue at the same levels. The actual shippers of the freight moved through our network include various manufacturers and distributors of electronics, telecommunications equipment, machine parts, trade show exhibit materials and medical equipment. Adverse business conditions affecting these shippers or adverse general economic conditions are likely to cause a decline in the volume of freight shipped through our network.

We operate in a highly competitive and fragmented industry, and our business will suffer if we are unable to adequately address downward pricing pressures and other factors that may adversely affect our operations and profitability.

The freight transportation industry is highly competitive, very fragmented and historically has had few barriers to entry. Our principal competitors include regional trucking companies that specialize in handling deferred air freight and national and regional less-than-truckload carriers. To a lesser extent, we compete with integrated air cargo carriers and passenger airlines. Our competition ranges from small operators that compete within a limited geographic area to companies with substantially greater financial and other resources, including greater freight capacity. We also face competition from air freight forwarders who decide to establish their own networks to transport deferred air freight. We believe competition is based on service, primarily on-time delivery, flexibility and reliability, as well as rates. Many of our competitors periodically reduce their rates to gain business, especially during times of economic decline. In the past several years, several of our competitors have reduced their rates to unusually low levels that we believe are unsustainable in the long-term, but that may materially adversely affect our business in the short-term. These competitors may cause a decrease in our volume of freight, require us to lower the prices we charge for our services and adversely affect both our growth prospects and profitability.

Claims for property damage, personal injuries or workers' compensation and related expenses could significantly reduce our earnings.

Under DOT regulations, we are liable for property damage and personal injuries caused by owner-operators while they are operating on our behalf. We currently maintain liability insurance coverage that we believe is adequate to cover third-party claims. We have a self-insured retention of $0.5 million per occurrence for each vehicle and general liability claim. We may also be subject to claims for workers' compensation. We maintain workers' compensation insurance coverage that we believe is adequate to cover such claims. We have a self-insured retention of approximately $0.3 million for each such claim, except in Ohio, where we are a qualified self-insured entity with an approximately $0.4 million self-insured retention. We could incur claims in excess of our policy limits or incur claims not covered by our insurance. Any claims beyond the limits or scope of our insurance coverage may have a material adverse effect on us. Because we do not carry "stop loss" insurance, a significant increase in the number of claims that we must cover under our self-insurance retainage could adversely affect our profitability. In addition, we may be unable to maintain insurance coverage at a reasonable cost or in sufficient amounts or scope to protect us against losses.

We have grown and may grow, in part, through acquisitions, which involve various risks, and we may not be able to identify or acquire companies consistent with our growth strategy or successfully integrate acquired businesses into our operations.

We have grown through acquisitions and we intend to pursue opportunities to expand our business by acquiring other companies in the future. Acquisitions involve risks, including those relating to:

- identification of appropriate acquisition candidates;
- negotiation of acquisitions on favorable terms and valuations;
- integration of acquired businesses and personnel;

- implementation of proper business and accounting controls;
- ability to obtain financing, on favorable terms or at all;
- diversion of management attention;
- retention of employees and customers; and
- unexpected liabilities.

Acquisitions also may affect our short-term cash flow and net income as we expend funds, potentially increase indebtedness and incur additional expenses. If we are not able to identify or acquire companies consistent with our growth strategy, or if we fail to successfully integrate any acquired companies into our operations, we may not achieve anticipated increases in revenue, cost savings and economies of scale, and our operating results may actually decline.

We may have difficulty effectively managing our growth, which could adversely affect our results of operations.

Our growth plans will place significant demands on our management and operating personnel. Our ability to manage our future growth effectively will require us to regularly enhance our operating and management information systems and to continue to attract, retain, train, motivate and manage key employees. If we are unable to manage our growth effectively, our business, results of operations and financial condition may be adversely affected.

If we fail to maintain and enhance our information technology systems, we may lose orders and customers or incur costs beyond expectations.

We must maintain and enhance our information technology systems to remain competitive and effectively handle higher volumes of freight through our network. We expect customers to continue to demand more sophisticated, fully integrated information systems from their transportation providers. If we are unable to maintain and enhance our information systems to handle our freight volumes and meet the demands of our customers, our business and results of operations will be adversely affected. If our information systems are unable to handle higher freight volumes and increased logistics services, our service levels and operating efficiency may decline. This may lead to a loss of customers and a decline in the volume of freight we receive from customers.

Our information technology systems are subject to risks that we cannot control.

Our information technology systems are dependent upon global communications providers, web browsers, telephone systems and other aspects of the Internet infrastructure that have experienced significant system failures and electrical outages in the past. While we take measures to ensure our major systems have redundant capabilities, our systems are susceptible to outages from fire, floods, power loss, telecommunications failures, break-ins and similar events. Despite our implementation of network security measures, our servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems. The occurrence of any of these events could disrupt or damage our information technology systems and inhibit our internal operations, our ability to provide services to our customers and the ability of our customers to access our information technology systems. This may result in the loss of customers or a reduction in demand for our services.

If we have difficulty attracting and retaining owner-operators or freight handlers, our results of operations could be adversely affected.

We depend on owner-operators for most of our transportation needs. In 2007, owner-operators provided 64.8% of our purchased transportation. Competition for owner-operators is intense, and sometimes there are shortages of available owner-operators. In addition, we need a large number of freight handlers to operate our business efficiently. During periods of low unemployment in the areas where our terminals are located, we may have difficulty hiring and retaining a sufficient number of freight handlers. If we have difficulty attracting and retaining enough qualified owner-operators or freight handlers, we may be forced to increase wages and benefits, which would increase our operating costs. This difficulty may also impede our ability to maintain our delivery schedules, which could make our service less competitive and force us to curtail our planned growth. If our labor costs increase, we may be unable to offset the increased labor costs by increasing rates without adversely affecting our business. As a result, our profitability may be reduced.

A determination by regulators that our independent owner-operators are employees rather than independent contractors could expose us to various liabilities and additional costs.

At times, the Internal Revenue Service, the Department of Labor and state authorities have asserted that owner-operators are “employees,” rather than “independent contractors.” One or more governmental authorities may challenge our position that the owner-operators we use are not our employees. A determination by regulators that our independent owner-operators are employees rather than independent contractors could expose us to various liabilities and additional costs including, but not limited to, employment-related expenses such as workers’ compensation insurance coverage and reimbursement of work-related expenses.

We operate in a regulated industry, and increased costs of compliance with, or liability for violation of, existing or future regulations could have a material adverse effect on our business.

The DOT and various state agencies have been granted broad regulatory powers over our business, and we are licensed by the DOT and U.S. Customs. If we fail to comply with any applicable regulations, our licenses may be revoked or we could be subject to substantial fines or penalties and to civil and criminal liability.

We are also subject to various environmental laws and regulations dealing with the handling of hazardous materials. Our operations involve the risks of fuel spillage or seepage. If we are involved in a spill or other accident involving hazardous substances, our business and operating results may be adversely affected. Changes to current environmental laws or regulations may increase our operating costs and adversely affect our results of operations.

The transportation industry is subject to legislative and regulatory changes that can affect the economics of our business by requiring changes in operating practices or influencing the demand for, and the cost of providing, transportation services. Heightened security concerns may continue to result in increased regulations, including the implementation of various security measures, checkpoints or travel restrictions on trucks.

In addition, there may be changes in applicable federal or state tax or other laws or interpretations of those laws. If this happens, we may incur additional taxes, as well as higher workers’ compensation and employee benefit costs, and possibly penalties and interest for prior periods. This could have an adverse effect on our results of operations.

We are dependent on our senior management team, and the loss of any such personnel could materially and adversely affect our business.

Our future performance depends, in significant part, upon the continued service of our senior management team. We cannot be certain that we can retain these employees. The loss of the services of one or more of these or other key personnel could have a material adverse effect on our business, operating results and financial condition. We must continue to develop and retain a core group of management personnel and address issues of succession planning if we are to realize our goal of growing our business. We cannot be certain that we will be able to do so.

If our employees were to unionize, our operating costs would likely increase.

None of our employees are currently represented by a collective bargaining agreement. However, we have no assurance that our employees will not unionize in the future, which could increase our operating costs and force us to alter our operating methods. This could have a material adverse effect on our operating results.

Our shareholder rights plan, charter and bylaws and provisions of Tennessee law could discourage or prevent a takeover that may be considered favorable.

We have a shareholder rights plan that may have the effect of discouraging unsolicited takeover proposals. The rights issued under the shareholder rights plan would cause substantial dilution to a person or group that attempts to acquire us on terms not approved in advance by our Board of Directors. In addition, our shareholder rights plan, charter and bylaws and provisions of Tennessee law may discourage, delay or prevent a merger, acquisition or change in control that may be considered favorable. These provisions could also discourage proxy contests and make it more difficult for shareholders to elect directors and take other corporate actions. Among other things, these provisions:

- authorize us to issue preferred stock, the terms of which may be determined at the sole discretion of our Board of Directors and may adversely affect the voting or economic rights of our shareholders; and

- establish advance notice requirements for nominations for election to the Board of Directors and for proposing matters that can be acted on by shareholders at a meeting.

Our shareholder rights plan, charter and bylaws and provisions of Tennessee law may discourage transactions that otherwise could provide for the payment of a premium over prevailing market prices for our common stock, $0.01 par value per share, and also could limit the price that investors are willing to pay in the future for shares of our common stock.

ItemUnresolved Staff Comments
1B.

None.

ItemProperties
2.

Properties and Equipment

Management believes that we have adequate facilities for conducting our business, including properties owned and leased. Management further believes that in the event replacement property is needed, it will be available on terms and at costs substantially similar to the terms and costs experienced by competitors within the transportation industry.

We lease our 37,500 square foot headquarters in Greeneville, Tennessee from the Greeneville-Greene County Airport Authority. The initial lease term ended in 2006 and has two ten-year and one five-year renewal options. During 2007 we renewed the lease through 2016.

We own our Columbus, Ohio central sorting facility. During 2006 we completed a $5.5 million expansion of this facility. The new expanded Columbus, Ohio facility is 125,000 square feet with 168 trailer doors. This premier facility can unload, sort and load upwards of 3.7 million pounds in five hours. In addition to the expansion, we process-engineered the freight sorting in the expanded building to improve handling efficiencies. The benefits will include reductions in the distance each shipment moves in the building to speed up the transfer process, less handling of freight to further improve service integrity and flexibility to operate multiple sorts at the same time.

In June and March 2007 we completed the purchase of new facilities near Atlanta, Georgia and Chicago, Illinois for $14.9 million and $22.3 million, respectively. The new Atlanta, Georgia facility is over 142,000 square feet with 118 trailer doors and approximately 12,000 square feet of office space. The new Chicago, Illinois facility is over 125,000 square feet with 110 trailer doors and over 10,000 square feet of office space. In addition, in February 2007, the Company acquired for $3.0 million 36.7 acres of land near Dallas/Fort Worth, Texas on which we are currently building a new regional hub facility. We anticipate completion of the Dallas/Fort Worth facility during late 2008.

We lease and maintain 74 additional terminals, including 11 pool distribution terminals, located at or near various airports in the United States and Canada. Lease terms are typically for three to five years. The remaining 20 terminals are agent stations operated by independent agents who handle freight for us on a commission basis.

We own the majority of trailers we use to move freight through our network. Substantially all of our trailers are 53' long, some of which have specialized roller bed equipment required to serve air cargo industry customers. The average age of our owned trailer fleet was approximately 3.0 years at December 31, 2007.

Item 3. Legal Proceedings

From time to time, we are a party to ordinary, routine litigation incidental to and arising in the normal course of our business, most of which involve claims for personal injury, property damage related to the transportation and handling of freight, or workers' compensation. We do not believe that any of these pending actions, individually or in the aggregate, will have a material adverse effect on our business, financial condition or results of operations.

ItemSubmission of Matters to a Vote of Security Holders
4.

During the fourth quarter of the fiscal year ended December 31, 2007, no matters were submitted to a vote of security holders through the solicitation of proxies or otherwise.

Executive Officers of the Registrant

Pursuant to Instruction 3 to Item 401(b) of Regulation S-K of the Securities Act and General Instruction G(3) to Form 10-K, the following information is included in Part I of this report. The ages listed below are as of December 31, 2007.

The following are our executive officers:

Name	Age	Position
Bruce A. Campbell	56	President and Chief Executive Officer
Rodney L. Bell	45	Chief Financial Officer, Senior Vice President and Treasurer
Craig A. Drum	52	Senior Vice President, Sales
Matthew J. Jewell	41	Executive Vice President and Chief Legal Counsel
Chris C. Ruble	45	Executive Vice President, Operations

There are no family relationships between any of our executive officers. All officers hold office at the pleasure of the Board of Directors.

Bruce A. Campbell has served as a director since April 1993, as President since August 1998, as Chief Executive Officer since October 2003 and as Chairman of the Board since May 2007. Mr. Campbell was Chief Operating Officer from April 1990 until October 2003 and Executive Vice President from April 1990 until August 1998. Prior to joining us, Mr. Campbell served as Vice President of Ryder-Temperature Controlled Carriage in Nashville, Tennessee from September 1985 until December 1989. Mr. Campbell also serves as a director of Greene County Bancshares.

Rodney L. Bell began serving as Chief Financial Officer, Senior Vice President and Treasurer in June 2006. Mr. Bell, who is a Certified Public Accountant, was appointed Chief Accounting Officer in February 2006 and continued to serve as Vice President and Controller, positions held since October 2000 and February 1995, respectively. Mr. Bell joined the Company in March 1992 as Assistant Controller after serving as a senior manager with the accounting firm of Adams and Plucker in Greeneville, Tennessee.

Craig A. Drum has served as Senior Vice President, Sales since July 2001 after joining us in January 2000 as Vice President, Sales for one of our subsidiaries. In February 2001, Mr. Drum was promoted to Vice President of National Accounts. Prior to January 2000, Mr. Drum spent most of his 24-year career in air freight with Delta Air Lines, Inc., most recently as the Director of Sales and Marketing - Cargo.

Matthew J. Jewell has served as Executive Vice President and Chief Legal Counsel since January 2008. From July 2002 until January 2008, he served as Senior Vice President and General Counsel. In October 2002, he was also appointed Secretary. From July 2002 until May 2004, Mr. Jewell was also the Senior Vice President, General Counsel and Secretary of Landair Corporation. From January 2000 until joining us in July 2002, Mr. Jewell was a partner with the law firm of Austin & Sparks, P.C. Mr. Jewell was an associate at Dennis, Corry & Porter, L.L.P. from July 1991 to December 1998 and a partner from January 1999 to January 2000.

Chris C. Ruble has served as Executive Vice President since August 2007. From October 2001 until August 2007, he served as Senior Vice President, Operations. He was a Regional Vice President from September 1997 to October 2001 and a regional manager from February 1997 to September 1997, after starting with us as a terminal manager in January 1996. From June 1986 to August 1995, Mr. Ruble served in various management capacities at Roadway Package System, Inc.

Part II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Our common stock, $0.01 par value per share ("Common Stock"), trades on The NASDAQ Global Select Stock Market™ under the symbol "FWRD." The following table sets forth the high and low sales prices for the Common Stock as reported by The NASDAQ Global Select Stock Market™ for each full quarterly period within the two most recent fiscal years.

2007	High	Low	Dividends
First Quarter	$ 35.32	$ 29.30	$ 0.07
Second Quarter	$ 35.78	$ 29.67	$ 0.07
Third Quarter	$ 41.90	$ 29.18	$ 0.07
Fourth Quarter	$ 34.93	$ 27.07	$ 0.07

2006	High	Low	Dividends
First Quarter	$ 39.49	$ 31.01	$ 0.07
Second Quarter	$ 41.05	$ 35.04	$ 0.07
Third Quarter	$ 43.67	$ 30.26	$ 0.07
Fourth Quarter	$ 37.58	$ 28.86	$ 0.07

There were approximately 392 shareholders of record of our Common Stock as of February 21, 2008.

Subsequent to December 31, 2007, our Board of Directors declared a cash dividend of $0.07 per share that will be paid on March 26, 2008 to shareholders of record at the close of business on March 12, 2008. We expect to continue to pay regular quarterly cash dividends, though each subsequent quarterly dividend is subject to review and approval by the Board of Directors.

There are no material restrictions on our ability to declare dividends.

None of our securities were sold during fiscal year 2007 without registration under the Securities Act.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2007 with respect to shares of our Common Stock that may be issued under existing equity compensation plans, including the 1992 Amended and Restated Stock Option and Incentive Plan (the "1992 Plan"), the 1999 Stock Option and Incentive Plan (the "1999 Plan"), the Non-Employee Director Stock Option Plan (the "NED Plan"), the 2000 Non-Employee Director Award (the "2000 NED Award"), the 2005

Employee Stock Purchase Plan (the “ESPP”) and the 2006 Non-Employee Director Stock Plan (the “2006 NED Plan”). Our shareholders have approved each of these plans.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a) (c)
Equity Compensation Plans Approved by Shareholders	2,463,172	$ 26.53	1,498,714
Equity Compensation Plans Not Approved by Shareholders	--	--	--
Total	2,463,172	$ 26.53	1,498,714

(a) Includes 57,005 shares of Common Stock issuable upon the exercise of options under the 1992 Plan. The 1992 Plan expired November 12, 2002. No additional options may be granted under the 1992 Plan.

(b) Includes the weighted-average exercise price of options outstanding under the 1992 Plan. Excludes purchase rights accruing under the ESPP, which has a shareholder-approved reserve of 500,000 shares. Under the ESPP, each eligible employee may purchase up to 2,000 shares of Common Stock at semi-annual intervals each year at a purchase price per share equal to 90.0% of the lower of the fair market value of the Common Stock at close of (i) the first trading day of an option period or (ii) the last trading day of an option period.

(c) Includes shares available for future issuance under the ESPP. As of December 31, 2007, an aggregate of 469,701 shares of Common Stock were available for issuance under the ESPP.

Stock Performance Graph

The following graph compares the percentage change in the cumulative shareholder return on our Common Stock with The NASDAQ Trucking and Transportation Stocks Index and The NASDAQ Global Select Stock Market™ Index commencing on the last trading day of December 2002 and ending on the last trading day of December 2007. The graph assumes a base investment of $100 made on December 31, 2002 and the respective returns assume reinvestment of all dividends. The comparisons in this graph are required by the SEC and, therefore, are not intended to forecast or necessarily be indicative of any future return on our Common Stock.

	2002	2003	2004	2005	2006	2007
Forward Air Corporation	100	142	230	285	226	243
NASDAQ Trucking and Transportation Stocks Index	100	135	172	188	199	206
NASDAQ Stock Market Index	100	150	162	165	181	201

Issuer Purchases of Equity Securities

The following table provides information with respect to purchases we made of shares of our Common Stock during each month in the quarter ended December 31, 2007.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program (1),(2)
October 1-31, 2007	845,000	$ 28.30	845,000	1,788,827
November 1-30, 2007	--	--	--	--
December 1-31, 2007	--	--	--	--
Total	845,000	$ 28.30	845,000	1,788,827

(1) On November 17, 2005, we announced that our Board of Directors approved a stock repurchase program for up to 3.0 million shares of our Common Stock with a term expiring November 18, 2008. The total eligible shares for repurchase were met during October 2007.
(2) On July 31, 2007, we announced that our Board of Directors approved a stock repurchase program for up to 2.0 million shares of our common stock.

Item 6. Selected Financial Data

The following table sets forth our selected financial data. The selected financial data should be read in conjunction with our consolidated financial statements and notes thereto, included elsewhere in this report.

	Year Ended December 31				
	2007	2006	2005	2004	2003
	(in thousands, except per share data)				
Income State Data:					
Operating revenue	$ 392,737	$ 352,758	$ 320,934	$ 282,197	$ 241,517
Income from operations	71,048	75,396	67,437	53,598	40,182
Operating margin (1)	18.1%	21.4%	21.0%	19.0%	16.6%
Net income	44,925	48,923	44,909	34,421	25,815
Net income per share:					
Basic	$ 1.52	$ 1.57	$ 1.41	$ 1.07	$ 0.81
Diluted	$ 1.50	$ 1.55	$ 1.39	$ 1.05	$ 0.79
Cash dividends declared per common share	$ 0.28	$ 0.28	$ 0.24	$ --	$ --
Balance Sheet Data (at end of period):					
Total assets	$ 241,884	$ 213,014	$ 212,600	$ 214,553	$ 175,087
Long-term obligations, net of current portion	31,486	796	837	867	907
Shareholders' equity	171,733	185,227	178,816	181,003	147,708

(1) Income from operations as a percentage of operating revenue.

Item 7. 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 our Forward Air segment through a network of terminals located on or near airports in 85 cities in the United States and Canada, including a central sorting facility in Columbus, Ohio and ten regional hubs serving key markets. We also offer our customers an array of logistics and other services including: expedited truckload brokerage (TLX); dedicated fleets; warehousing; customs brokerage; and shipment consolidation, deconsolidation and handling.

On July 30, 2007, through our newly formed subsidiary and reporting segment, Forward Air Solutions, Inc., we acquired certain assets and liabilities of USAC for approximately $12.9 million. The purchased assets and liabilities and the results of operations 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 continental United States. 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 other 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 2007 our logistics business continued to experience significant growth while revenues for our airport-to-airport service grew at a slower rate year over year due to challenging market conditions. Through our strategic initiative "Completing the Model" we are continuing our efforts to grow our business through additional services to provide for revenue growth in any market conditions. New services not only include complimentary services to the airport-to-airport network, such as pick-up and delivery, TLX, and value-added handling, but also include entirely new services, such as pool distribution, which provides the opportunity for us to reach out to a more diverse customer base.

We will be working to grow these additional services not only through organic development, but through strategic acquisitions. We intend to continue to evaluate acquisitions that can increase our penetration of a geographic area, add new customers or increase freight volume. In addition, we expect to explore acquisitions that enable us to offer additional services. For example, on December 3, 2007 we acquired certain assets and liabilities of Black Hawk Freight Services, Inc. (Black Hawk) for approximately $35.2 million to increase the penetration of our airport-to-airport network in the Midwest, Southwest and West continental United States. Also, on July 30, 2007, we acquired certain asset and liabilities of USAC. Through this acquisition we are now providing a new pool distribution service throughout the Southeast, Midwest and Southwest continental United States. Additionally, the acquisition of certain assets and liabilities of USAC provides an important operating platform that will enable further expansion of the Forward Air Complete™ pick-up and delivery product, TLX and value-added handling components of the "Completing the Model" strategic initiative. Despite providing separate benefits, both acquisitions fit into our goal of using strategic acquisitions to grow existing businesses and to expand into new lines of business.

During 2007, we experienced a decrease in our income from operations in total dollars and as a percentage of operating revenue. The decrease in income from operations as a percentage of operating revenue was mainly driven by increases in certain fixed and indirect costs and change in our business mix, which increased purchased transportation costs as a percentage of revenue. The decrease in income from operations in total dollars was mainly due to increases in fixed and indirect costs, such as share-based compensation, facility rent, and insurance and claims, outpacing the increase in operating revenue and gross profit. During 2008, we expect the increases in our other revenue streams to continue to outpace the increase in our airport-to-airport revenue, resulting in lower margins. However, we believe during 2007, the substantial majority of fixed cost increases were incurred and we expect to increase income from operations in terms of total dollars during 2008.

During 2007 we have continued to execute our plan to expand our facilities in key gateway cities. 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 new facilities in Chicago, Illinois and 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 FASI's acquisition of certain assets and liabilities of USAC, we began reporting our operations as two segments: Forward Air and FASI. 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 value-added handling services.

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

Reclassifications

Effective January 1, 2007 we reclassified certain 2006 and 2005 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 fuel surcharge revenue 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 the years ended December 31, 2007 and 2006 (in millions):

	2007	Percent of Revenue	2006	Percent of Revenue
Operating revenue				
Forward Air	$ 376.7	95.9%	$ 352.7	100.0%
FASI	16.0	4.1	--	--
Total	392.7	100.0	352.7	100.0
Purchased transportation				
Forward Air	162.4	43.1	146.7	41.6
FASI	2.0	12.5	--	--
Total	164.4	41.9	146.7	41.6
Salaries, wages and employee benefits				
Forward Air	82.0	21.8	74.4	21.1
FASI	6.8	42.5	--	--
Total	88.8	22.6	74.4	21.1
Operating leases				
Forward Air	15.8	4.2	14.5	4.1
FASI	1.0	6.3	--	--
Total	16.8	4.3	14.5	4.1
Depreciation and amortization				
Forward Air	10.4	2.8	8.9	2.5
FASI	0.5	3.1	--	--
Total	10.9	2.8	8.9	2.5
Insurance and claims				
Forward Air	7.2	1.9	6.0	1.7
FASI	0.5	3.1	--	--
Total	7.7	1.9	6.0	1.7
Other operating expenses				
Forward Air	30.3	8.0	26.8	7.6
FASI	2.8	17.5	--	--
Total	33.1	8.4	26.8	7.6
Income from operations				
Forward Air	68.6	18.2	75.4	21.4
FASI	2.4	15.0	--	--

Total	$	71.0	18.1%	$	75.4	21.4%

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The following table presents the components of the Forward Air segment's operating revenue and purchased transportation for the years ended December 31, 2007 and 2006 (in millions):

	2007	Percent of Revenue	2006	Percent of Revenue
Forward Air operating revenue				
Airport-to-airport	$ 313.2	83.1%	$ 301.5	85.5%
Logistics	42.6	11.3	31.3	8.9
Other	20.9	5.6	19.9	5.6
Total	$ 376.7	100.0%	$ 352.7	100.0%
Forward Air purchased transportation				
Airport-to-airport	$ 123.7	39.5%	$ 119.0	39.5%
Logistics	32.7	76.8	22.8	72.8
Other	6.0	28.7	4.9	24.6
Total	$ 162.4	43.1%	$ 146.7	41.6%

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Revenues

Operating revenue increased by $40.0 million, or 11.3%, to $392.7 million in 2007 from $352.7 million in 2006.

Forward Air

Forward Air operating revenue increased $24.0 million, or 6.8%, to $376.7 million in 2007 from $352.7 million in 2006. Forward Air revenue accounted for 95.9% and 100.0% of consolidated operating revenue during 2007 and 2006, respectively.

Airport-to-airport revenue, which is the largest component of Forward Air operating revenue, increased $11.7 million, or 3.9%, to $313.2 million in 2007 from $301.5 million in 2006. Airport-to-airport revenue accounted for 83.1% of the segment's operating revenue during 2007, compared to 85.5% during 2006. The increase in airport-to-airport revenue was driven by a 2.3% increase in tonnage and a 1.6% increase in revenue per pound, including the impact of fuel surcharges. The increase in tonnage was driven by new airport-to-airport business generated by Forward Air Complete, our pick-up and delivery product introduced during the second half of 2006, our December 2007 acquisition of Black Hawk, and the positive impact of a competitor ceasing operations during the fourth quarter of 2007. These increases were partially offset by a generally weak shipping environment. The increase in average revenue per pound substantially resulted from increased customer utilization of Forward Air Complete, increased fuel surcharges to offset rising fuel costs, and rate increases implemented in March 2007.

Logistics revenue, which is primarily truckload brokerage and priced on a per mile basis, increased $11.3 million, or 36.1%, to $42.6 million in 2007 from $31.3 million in 2006. The increase in logistics revenue is mainly the result of our "Completing the Model" strategic initiative to grow these services. We are placing emphasis on capturing a larger percentage of truckload opportunities and correspondingly increasing our access to sufficient truckload capacity through the use of third-party transportation providers. During 2007, we increased the number of miles driven to support our logistics revenue by 60.5%. The average revenue per mile of our logistics product, including the impact of fuel surcharges, decreased 15.0% for 2007 versus 2006. The decrease in our revenue per mile is largely due to the weak shipping environment and the change in our business mix resulting from our efforts to capture additional truckload opportunities as well as utilizing truckload opportunities to cost effectively position our owner-operators within our airport-to-airport network.

Other revenue, which includes warehousing services and terminal handling increased $1.0 million to $20.9 million, a 5.0% increase from $19.9 million for the same period in 2006. The increase was primarily due to increased handling and storage revenue due to new services offered through our newly expanded facilities.

FASI

FASI operating revenue of $16.0 million represents revenue earned through our new pool distribution service acquired with the acquisition of certain assets and liabilities of USAC on July 30, 2007. The pool distribution business is seasonal and operating revenues tend to be higher in the third and fourth quarters than the first and second quarters. Typically, this pattern is the result of factors such as national holidays, customer demand and economic conditions. Additionally, a significant portion of FASI's revenue is derived from customers whose business levels are impacted by the economy.

Purchased Transportation

Purchased transportation increased by $17.7 million, or 12.1%, to $164.4 million in 2007 from $146.7 million in 2006. As a percentage of consolidated operating revenue, purchased transportation was 41.9% during 2007 compared to 41.6% for 2006.

Forward Air

Forward Air purchased transportation increased by $15.7 million, or 10.7%, to $162.4 million for 2007 from $146.7 million for 2006. As a percentage of Forward Air operating revenue, purchased transportation was 43.1% during 2007 compared to 41.6% for 2006.

Purchased transportation costs for Forward Air's airport-to-airport network increased $4.7 million, or 3.9%, to $123.7 million for 2007 from $119.0 million for 2006. During 2007 and 2006, airport-to-airport purchased transportation costs as a percentage of airport-to-airport revenue was 39.5%. A 3.1% increase in miles driven for the airport-to-airport network accounted for $3.7 million of the increase in airport-to-airport purchased transportation. The increase in airport-to-airport miles was due to changes in Forward Air's shipping patterns during the first half of 2007 as a result of changes in business mix, such as increased shipments from our west coast terminals. Approximately $1.0 million of the increase in airport-to-airport purchased transportation is attributable to a 0.8% increase in cost per mile. The increase in the cost per mile is the result of increased customer utilization of Forward Air Complete, which was introduced during the second half of 2006.

Purchased transportation costs related to Forward Air's logistics revenue increased $9.9 million, or 43.4%, to $32.7 million for 2007 from $22.8 million for 2006. For 2007, logistics' purchased transportation costs represented 76.8% of logistics revenue versus 72.8% for 2006. During 2007, Forward Air increased the number of miles driven to support logistics revenue by 60.5%. The increase in miles accounted for a $13.7 million increase in logistics purchased transportation. However, the increase in logistics purchased transportation due to miles was partially offset by a $3.8 million decrease in logistics purchased transportation as a result of a 10.5% decrease in the logistics cost per mile. Logistics cost per mile decreased due to increased capacity resulting in improved purchasing power from third party transportation providers and to a lesser extent increased use of our less costly owner operator network. The increase in logistics purchased transportation costs as a percentage of revenue resulted from lower revenue per mile as discussed above partially offset by the decrease in our logistics cost per mile.

Purchased transportation costs related to Forward Air's other revenue increased $1.1 million, or 22.4%, to $6.0 million for 2007 from $4.9 million for 2006. Other purchased transportation costs as a percentage of other revenue increased to 28.7% of other revenue for 2007 from 24.6% for 2006. The increase in other purchased transportation is attributable to increased third party transportation services associated with new value added services.

FASI

FASI purchased transportation of $2.0 million represents costs associated with payment of drivers, both networked owner operators and third party transportation providers, for the transportation services provided to FASI. FASI purchased transportation was 12.5% of the segment's operating revenue. Due to the nature of the services provided FASI purchased transportation is lower as a percentage of revenue than our Forward Air segment as a larger percentage of the transportation services are performed by Company-employed drivers.

Salaries, Wages, and Benefits

Salaries, wages and employee benefits increased by $14.4 million, or 19.4%, to $88.8 million for 2007 from $74.4 million in 2006. As a percentage of total operating revenue, salaries, wages and employee benefits was 22.6% during 2007 compared to 21.1% for 2006.

Forward Air

Salaries, wages and employee benefits were 21.8% of Forward Air operating revenue for 2007 compared to 21.1% for 2006. The increase in salaries, wages and employee benefits as a percentage of revenue was attributable to increased costs for share-based compensation and workers compensation claims. Share-based compensation increased $2.4 million, or 0.6%
as a percentage of Forward Air operating revenue, due to the issuance of stock options and non-vested shares of common stock to key members of management and non-employee directors during 2007. In addition, workers' compensation expense increased $0.8 million, or 0.1% as a percentage of Forward Air operating revenue, primarily due to a $0.7 million adjustment recorded in June 2007 that resulted from our actuarial analysis of our reserves for workers' compensation claims. The remaining increase in total dollars is attributable to increases in our workforce to keep pace with the growth of Forward Air's business.

FASI

FASI salary, wages and employee benefits of $6.8 million represents costs associated with payment of employees, mainly Company drivers and employees located at our terminals since our acquisition of certain assets and liabilities of USAC on July 30, 2007. FASI salary, wages and employee benefits were 42.5% of the segment's operating revenue. FASI salary, wages and employee benefits are higher as a percentage of operating revenue than our Forward Air segment, as a larger percentage of the transportation services are performed by Company-employed drivers.

Operating Leases

Operating leases increased by $2.3 million, or 15.9%, to $16.8 million for 2007 from $14.5 million in 2006. Operating leases, the largest component of which is facility rent, were 4.3% of consolidated operating revenue for 2007 compared with 4.1% in 2006.

Forward Air

Operating leases were 4.2% of Forward Air operating revenue for 2007 compared with 4.1% in 2006. The increase in operating leases in total dollars and as a percentage of operating revenue between periods was attributable to higher rent costs associated with the expansion of certain facilities, offset by decreases in facility rent due to the opening of Company-owned facilities.

FASI

FASI operating leases of $1.0 million primarily represents facility rent for FASI's 11 facilities since our acquisition of certain assets and liabilities of USAC on July 30, 2007. FASI does not currently own any of its facilities. FASI operating leases were 6.3% of the segment's operating revenue.

Depreciation and Amortization

Depreciation and amortization increased $2.0 million, or 22.5%, to $10.9 million for 2007 from $8.9 million in 2006. Depreciation and amortization was 2.8% of consolidated operating revenue for 2007 compared with 2.5% in 2006.

Forward Air

Depreciation and amortization expense as a percentage of Forward Air operating revenue was 2.8% for 2007 compared to 2.5% in 2006. The increase in depreciation and amortization expense is due to increased depreciation related to our expanded national hub in Columbus, Ohio, our new facilities in Chicago, Illinois and Atlanta, Georgia, the implementation of TAP during the fourth quarter of 2006, new tractors and trailers purchased during 2007 and the latter portion of 2006 and one month of amortization on acquired Black Hawk intangible assets.

FASI

FASI depreciation and amortization of $0.5 million represents $0.3 million of depreciation on acquired equipment and $0.2 million of amortization on acquired intangible assets since our acquisition of certain assets and liabilities of USAC on July 30, 2007. FASI depreciation and amortization expense as a percentage of the segment's operating revenue was 3.1%.

Insurance and Claims

Insurance and claims expense increased $1.7 million, or 28.3%, to $7.7 million for 2007 from $6.0 million for 2006. Insurance and claims were 1.9% of consolidated operating revenue during 2007 compared with 1.7% in 2006.

Forward Air

Insurance and claims were 1.9% of Forward Air operating revenue during 2007 compared to 1.7% for 2006. The $1.2 million, or 20.0% increase in insurance and claims is primarily the result of increased insurance premiums, current vehicle claims and the associated legal fees. The increased insurance premiums and claims result from our increased fleet size.

FASI

FASI insurance and claims of $0.5 million represents the cost of insurance premiums, cargo claims, and accrued vehicle claims including the effects of actuarial valuations since our acquisition of certain assets and liabilities of USAC on July 30, 2007. FASI insurance and claims were 3.1% of the segment's operating revenue.

Other Operating Expenses

Other operating expenses increased $6.3 million, or 23.5%, to $33.1 million during 2007 from $26.8 million in 2006. Other operating expenses were 8.4% of consolidated operating revenue for 2007 compared with 7.6% in 2006.

Forward Air

Other operating expenses were 8.0% of Forward Air operating revenue for 2007 compared to 7.6% in 2006. The 0.4% increase in other operating expenses as a percentage of operating revenue was primarily attributable to taxes, utilities and permits associated with new or expanded facilities, facility relocation, specialized training for key employees, increased fuel costs and additional sales and marketing efforts due to the weak freight environment.

FASI

FASI other operating expenses of $2.8 million represent costs such as fuel costs for Company vehicles, routine vehicle maintenance, utilities for our facilities, and miscellaneous office and administrative expenses since our USAC acquisition on July 30, 2007. FASI other operating expenses were 17.5% of the segment's operating revenue. Other operating expenses are higher as a percentage of revenue than our Forward Air segment due to the higher utilization of Company-owned equipment.

Income from operations

Income from operations decreased by $4.4 million, or 5.8%, to $71.0 million for 2007 compared with $75.4 million in 2006. Income from operations was 18.1% of consolidated operating revenue for 2007 compared with 21.4% in 2006.

Forward Air

Income from operations decreased by $6.8 million, or 9.0%, to $68.6 million for 2007 compared with $75.4 million for 2006. Income from operations decreased as a percentage of Forward Air operating revenue to 18.2% for 2007 from 21.4% for 2006. The decrease in income from operations both in total dollars and as a percentage of operating revenue is attributable to increases in certain fixed and indirect costs, as outlined in the above discussion, outpacing the increase in operating revenue and gross profit. The decrease in income from operations as a percentage of revenue was also a result of the change in our business mix resulting from slower growth in revenue from the airport-to-airport service as a percentage of total revenue and increased revenue from less profitable services such as truckload service and Forward Air Complete.

FASI

FASI income from operations since our acquisition of certain assets and liabilities of USAC on July 30, 2007 was $2.4 million, or 15.0% of FASI revenue. As discussed above, we expect the pool distribution business to be highly seasonal and as a result of the timing of the USAC acquisition our 2007 results primarily include peak seasonal activity. Consequently, we believe our 2008 income from operations as a percentage of operating revenue will be lower than experienced during 2007.

Interest Expense

Interest expense increased by $0.4 million to $0.5 million for 2007 compared with $0.1 million in 2006. The increase in interest expense was mostly the result of $40.0 million in borrowings under our new line of credit facility primarily to fund our acquisition of Black Hawk in December 2007 and repurchases of our common stock.

Other Income, net

Other income, net was $1.8 million, or 0.4% of operating revenue, for 2007 compared with $3.2 million, or 0.9% as a percentage of operating revenue, for 2006. The decrease in other income was attributable to lower interest income due to decreased average investment balances as a result of cash used for stock repurchases, purchases of real property for new facilities, and the acquisition of certain assets and liabilities of USAC during 2007.

Provision for Income Taxes

The combined federal and state effective tax rate for 2007 was 37.9% compared to a rate of 37.7% for the same period in 2006. Our effective federal and state rate increased to provide for uncertain tax positions as required by Financial Accounting Standards Board ("FASB") Interpretation No. 48, Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109), ("FIN 48") and for the decrease in tax-exempt interest income during 2007 due to acquisitions, increased capital expenditures and stock repurchases. See further discussion of the impact of FIN 48 in the Impact of Recent Accounting Pronouncements section.

Net Income

As a result of the foregoing factors, net income decreased by $4.0 million, or 8.2%, to $44.9 million for 2007 compared to $48.9 million for 2006.

The following table sets forth our historical financial data for the years ended December 31, 2006 and 2005 (in millions):

	2006	Percent of Revenue	2005	Percent of Revenue
Operating revenue				
Forward Air	$ 352.7	100.0%	$ 320.9	100.0%
FASI	--	--	--	--
Total	352.7	100.0	320.9	100.0
Purchased transportation				
Forward Air	146.7	41.6	132.9	41.4
FASI	--	--	--	--
Total	146.7	41.6	132.9	41.4
Salaries, wages and employee benefits				
Forward Air	74.4	21.1	68.1	21.2
FASI	--	--	--	--
Total	74.4	21.1	68.1	21.2
Operating leases				
Forward Air	14.5	4.1	13.5	4.2
FASI	--	--	--	--
Total	14.5	4.1	13.5	4.2
Depreciation and amortization				
Forward Air	8.9	2.5	8.9	2.8
FASI	--	--	--	--
Total	8.9	2.5	8.9	2.8
Insurance and claims				
Forward Air	6.0	1.7	5.2	1.6
FASI	--	--	--	--
Total	6.0	1.7	5.2	1.6
Other operating expenses				
Forward Air	26.8	7.6	24.9	7.8
FASI	--	--	--	--
Total	26.8	7.6	24.9	7.8
Income from operations				
Forward Air	75.4	21.4	67.4	21.0
FASI	--	--	--	--
Total	$ 75.4	21.4%	$ 67.4	21.0%

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The following table presents the components of the Forward Air segment's revenue and purchased transportation for the years ended December 31, 2006 and 2005 (in millions):

Forward Air operating revenue	2006	Percent of revenue	2005	Percent of revenue
Airport-to-airport	$ 301.5	85.5%	$ 277.0	86.3%
Logistics	31.3	8.9	24.2	7.6
Other	19.9	5.6	19.7	6.1
Total	$ 352.7	100.0%	$ 320.9	100.0%
Forward Air purchased transportation				
Airport-to-airport	$ 119.0	39.5%	$ 110.9	40.0%
Logistics	22.8	72.8	17.1	70.7
Other	4.9	24.6	4.9	24.9
Total	$ 146.7	41.6%	$ 132.9	41.4%

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Revenues

Operating revenue increased by $31.8 million, or 9.9%, to $352.7 million for the year ended December 31, 2006 from $320.9 million for the year ended December 31, 2005. Airport-to-airport revenue, which is the largest component of our operating revenue, increased $24.5 million, or 8.8%, to $301.5 million, accounting for 85.5% of our total operating revenue during the year ended December 31, 2006 compared to 86.3% for the year ended December 31, 2005. Airport-to-airport revenue decreased as a percentage of total operating revenue is the result of the significant growth of our logistics revenue, which is discussed below. The 8.8% increase in airport-to-airport revenue was driven by an increase in tonnage and an increase in average revenue per pound. Tonnage that transited our network increased by 2.2% in the year ended December 31, 2006 compared with the year ended December 31, 2005. The increase in tonnage is a result of positive trends among our customer base and the acquisition of certain assets of U.S. Express Enterprises, Inc. ("USX") on May 28, 2005. These positive trends were offset by a decline in shipping demand during the last half of 2006, as demonstrated by the 3.0% decline in our average weight per shipment, despite a 5.3% increase in total shipments. Our airport-to-airport business is priced on a per pound basis and the average revenue per pound, including the impact of fuel surcharges, increased 6.6% for the year ended December 31, 2006 versus the year ended December 31, 2005. Average revenue per pound increased primarily as a result of rate increases implemented in March 2006, the introduction of Forward Air Complete and increased fuel surcharges to offset rising fuel costs.

Our logistics revenue, which is primarily truckload brokerage and priced on a per mile basis, increased $7.1 million, or 29.3%, to $31.3 million, accounting for 8.9% of our total operating revenue during the year ended December 31, 2006 compared to 7.6% for the year ended December 31, 2005. Logistics revenue increased despite the loss of a significant customer in the second half of 2005 who accounted for approximately $1.6 million in logistics revenue during the year ended December 31, 2005. The increase in logistics revenue is primarily attributable to our ability to capture a larger percentage of truckload opportunities as a result of our increased access to sufficient capacity through third-party transportation providers. During the year ended December 31, 2006, we increased the number of miles driven to support our logistics revenue by 32.6%. The increase in miles driven is a result of our continued efforts to grow our logistics business and obtain additional customers. The average revenue per mile of our logistics business, including the impact of fuel surcharges, decreased 2.6% for the year ended December 31, 2006 versus the year ended December 31, 2005. The decrease in our revenue per mile is primarily a result of a change in the mix of business.

Other revenue, which includes warehousing services and terminal handling and accounts for our final component of operating revenue, increased $0.2 million, or 1.0% to $19.9 million for the year ended December 31, 2006 from $19.7 million for the year ended December 31, 2005. The increase in other revenue is attributable to increases in other accessorial charges for special shipping needs, offset by decreases in terminal handling fees due to the customer loss discussed in logistics revenue.

Purchased Transportation

Purchased transportation increased by $13.8 million, or 10.4%, to $146.7 million for the year ended December 31, 2006 from $132.9 million for the year ended December 31, 2005. The increase in purchased transportation is primarily attributable to an increase of approximately 9.5% in miles driven and an approximate 0.9% increase in the total cost per mile for the year ended December 31, 2006 versus the year ended December 31, 2005. As a percentage of total operating revenue, purchased transportation increased to 41.6% during the year ended December 31, 2006 compared to 41.4% in the same period of 2005. For the year ended December 31, 2006, purchased transportation costs for our airport-to-airport network decreased to
39.5% of airport-to-airport revenue for the year ended December 31, 2006 versus 40.0% for the year ended December 31, 2005. The proportionate improvement resulted from better load factors, or more revenue per mile, for the year ended December 31, 2006. For the year ended December 31, 2006, logistics purchased transportation costs represented 72.8% of logistics revenue versus 70.7% for the year ended December 31, 2005. The increase resulted from decreased logistics revenue per mile discussed above and a 0.1% increase in our logistics cost per mile. Logistics cost per mile increased as a result of the use of more third-party transportation providers as opposed to our less costly fleet of owner-operators offset by lower third-party transportation provider rates due to our increased capacity and utilization. Other purchased transportation costs as a percentage of other revenue decreased to 24.6% of other revenue for the year ended December 31, 2006 from 24.9% for the year ended December 31, 2005. The decrease as a percentage of revenue is primarily attributable to a change in the revenue mix resulting from the customer loss discussed in the analysis of logistics revenue.

Salaries, Wages, and Benefits

Salaries, wages and employee benefits were 21.1% of operating revenue for the year ended December 31, 2006 compared to 21.2% for the same period of 2005. The decrease in salaries, wages and employee benefits as a percentage of operating revenue is attributable to operating efficiencies gained during the year. Salaries and wages, including payroll taxes, and workers' compensation insurance and expenses, which increased by $3.9 million, or 6.2%, declined 0.7% as a percentage of revenue. Salaries and wages and workers' compensation insurance and expenses increased to meet the additional demands of the increased tonnage through our network and increased logistics and other services provided to our customers, but declined as a percentage of revenue due to operating efficiencies gained during the year as a result of TAP and other management initiatives. This decrease as a percentage of revenue was offset by a $2.4 million, or 0.6% as a percentage of operating revenue, increase in health care costs due to increased participants in our health care plan, as well as a larger number of high dollar claims. Also, during 2006 we implemented Statement of Financial Accounting Standards ("SFAS") No. 123(R), Share-Based Payment ("SFAS 123R"), and issued non-vested shares of Common Stock to certain key employees. As a result we recognized $1.3 million, or 0.4% of operating revenue, in share-based compensation that is included in salaries, wages and employee benefits for the year ended December 31, 2006. However, this increase was offset in the year ended December 31, 2005 by a $1.3 million dollar, or 0.4% of operating revenue, charge resulting from the decision by our Board of Directors to accelerate the vesting of all of our outstanding and unvested stock options to employees, officers and non-employee directors in the fourth quarter of 2005.

Operating Leases

Operating leases, the largest component of which is facility rent, were 4.1% of operating revenue for the year ended December 31, 2006 compared with 4.2% for the year ended December 31, 2005. The decrease in operating leases as a percentage of operating revenue was attributable to the increase in operating revenue as operating lease expenses increased $1.0 million, or 7.4%, from the year ended December 31, 2005 to the year ended December 31, 2006. The increase is attributable to expansion of certain facilities resulting in higher facility rent.

Depreciation and Amortization

Depreciation and amortization expense as a percentage of operating revenue was 2.5% for the year ended December 31, 2006 compared to 2.8% for the year ended December 31, 2005. Depreciation and amortization expense was $8.9 million for the year ended December 31, 2006 and 2005. The decrease in depreciation and amortization expense as a percentage of operating revenue was attributable to the increase in operating revenue as depreciation and amortization remained consistent year over year. Depreciation decreased $1.1 million year over year due to the year ended December 31, 2005 including increased depreciation from the accelerated depreciation of trailers sold in the third and fourth quarters of 2005. Also, depreciation decreased $0.8 million due to several assets becoming fully depreciated during 2006. These decreases were offset by amortization expense increasing during the year ended December 31, 2006 by $0.5 million, or by five additional months of amortization, due to the purchase of certain assets of USX on May 28, 2005. The decreases were also offset by increased depreciation on new trailers and tractors purchased during late 2005 and 2006, as well the depreciation on our new TAP system which was fully implemented during 2006.

Insurance and Claims

Insurance and claims were 1.7% of operating revenue for the year ended December 31, 2006 compared to 1.6% for the year ended December 31, 2005 . The increase in insurance and claims is primarily the result of higher insurance premiums, offset by improved claims experience during the year ended December 31, 2006. Additionally, during the year ended December 31, 2005, an actuarial study of our loss development factor for vehicle liability claims was computed and the results of the study caused us to lower our loss development reserve for vehicle liability claims.

Other Operating Expenses

Other operating expenses were 7.6% of operating revenue for the year ended December 31, 2006 compared to 7.8% for the year ended December 31, 2005. The decrease in other operating expenses as a percentage of operating revenue was attributable to the increase in operating revenue as other operating expenses increased $1.9 million, from the year ended December 31, 2005 to the year ended December 31, 2006. The $1.9 million increase in other operating expenses is primarily attributable to a $0.7 million decrease in the gain on the sale of trailers due to the replacement of approximately half of the trailers in our fleet during 2005. The remaining increase in total other operating expenses is attributable to increases in volume related operating expenses, such as fuel, tires, and station handling fees.

Income from Operations

Income from operations increased by $8.0 million, or 11.9%, to $75.4 million for the year ended December 31, 2006 compared with $67.4 million for the same period in 2005. The increase in income from operations was primarily a result of the increase in operating revenue and operating expenses decreasing as a percentage of revenue.

Other Income, Net

Other income, net was $3.1 million, or 0.9% of operating revenue, for the year ended December 31, 2006 compared with $3.8 million, or 1.2% of operating revenue, for the year ended December 31, 2005. The decrease in other income in total dollars and as a percentage of operating revenue was attributable to the year ended December 31, 2005 including the $1.4 million gain from our lawsuit settlement with the City of Atlanta regarding property we owned adjacent to the Atlanta Hartsfield-Jackson International Airport. This decrease was offset by higher interest income earned during the year ended December 31, 2006 due to higher yields and average investment balances. The decrease was further offset by 2006 including a $0.3 million gain on the recovery of escrow funds related to a 2001 asset purchase.

Income Taxes

The combined federal and state effective tax rate for the year ended December 31, 2006 was 37.7% compared to a rate of 37.0% for the year ended December 31, 2005. The increase in the effective tax rate was primarily due to a decrease in tax-exempt interest income as a percentage of our total income before taxes.

Net Income

As a result of the foregoing factors, net income increased by $4.0 million, or 8.9%, to $48.9 million for the year ended December 31, 2006 compared with $44.9 million for the year ended December 31, 2005.

Discussion of Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with United States generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. We continuously evaluate our critical accounting policies and estimates, including those related to collectibility of accounts receivable, self-insurance loss reserves, income taxes, share-based compensation, and valuation of goodwill. We base our estimates on historical experience and on various assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our financial position and results of operations may be significantly different when reported under different conditions or when using different assumptions in the application of such policies. In the event estimates or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information.

We believe the following critical accounting policies require significant judgments and estimates in the preparation of our consolidated financial statements.

Allowance for Doubtful Accounts

We evaluate the collectibility of our accounts receivable based on a combination of factors. In circumstances in which management is aware of a specific customer’s inability to meet its financial obligations to us (for example, bankruptcy filings or accounts turned over for collection or litigation), we record a specific reserve for these bad debts against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we recognize reserves for these bad debts based on the length of time the receivables are past due. Specifically, amounts that are 90 days or more past due are reserved at 50.0%. If circumstances change (i.e., we experience higher than expected defaults or an unexpected material adverse change in a customer’s ability to meet its financial obligations to us), the estimates of the recoverability of amounts due to us could be changed by a material amount. Accounts are written off after all means of collection, including legal action, have been exhausted.

Allowance for Revenue Adjustments

Our allowance for revenue adjustments consists of amounts reserved for billing rate changes that are not captured upon load initiation. These adjustments generally arise: (i) when the sales department contemporaneously grants small rate changes ("spot quotes") to customers that differ from the standard rates in the system; (ii) when freight requires dimensionalization or is reweighed resulting in a different required rate; (iii) when billing errors occur; and (iv) when data entry errors occur. When appropriate, permanent rate changes are initiated and reflected in the system. We monitor the manual revenue adjustments closely through the employment of various controls that are in place to ensure that revenue recognition is not compromised and that fraud does not occur. During 2007, average revenue adjustments per month were approximately $0.2 million, on average revenue per month of approximately $32.7 million (less than 1.0% of monthly revenue). In order to estimate the allowance for revenue adjustments related to ending accounts receivable, we prepare an analysis that considers average monthly revenue adjustments and the average lag for identifying and quantifying these revenue adjustments. Based on this analysis, we establish an allowance for approximately 40-80 days (dependent upon experience in the last twelve months) of average revenue adjustments, adjusted for rebates and billing errors. The lag is periodically adjusted based on actual historical experience. Additionally, the average amount of revenue adjustments per month can vary in relation to the level of sales or based on other factors (such as personnel issues that could result in excessive manual errors or in excessive spot quotes being granted). Both of these significant assumptions are continually evaluated for validity.

Self-Insurance Loss Reserves

Given the nature of our operating environment, we are subject to vehicle and general liability, workers' compensation and health insurance claims. To mitigate a portion of these risks, we maintain insurance for individual vehicle and general liability claims exceeding $0.5 million and workers' compensation claims and health insurance claims exceeding approximately $0.3 million, except in Ohio, where we are a qualified self-insured entity with an approximately $0.4 million self-insured retention. The amount of self-insurance loss reserves and loss adjustment expenses is determined based on an estimation process that uses information obtained from both company-specific and industry data, as well as general economic information. The estimation process for self-insurance loss exposure requires management to continuously monitor and evaluate the life cycle of claims. Using data obtained from this monitoring and our assumptions about the emerging trends, management develops information about the size of ultimate claims based on its historical experience and other available market information. The most significant assumptions used in the estimation process include determining the trend in loss costs, the expected consistency in the frequency and severity of claims incurred but not yet reported to prior year claims, changes in the timing of the reporting of losses from the loss date to the notification date, and expected costs to settle unpaid claims. Management also monitors the reasonableness of the judgments made in the prior year's estimation process (referred to as a hindsight analysis) and adjusts current year assumptions based on the hindsight analysis. Additionally, we utilize actuarial analysis to evaluate open vehicle liability and workers' compensation claims and estimate the ongoing development exposure.

Income Taxes

The Company accounts for income taxes using the liability method, whereby deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to be recovered or settled.

Effective January 1, 2007, we adopted FIN 48. Accordingly, we report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. We recognize interest and penalties, if any, related to unrecognized tax benefits in interest expense and operating expenses, respectively. See further discussion of income tax contingencies in the Impact of Recent Accounting Pronouncements below.

Valuation of Goodwill

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, we conduct an annual (or more frequently if circumstances indicate possible impairment) impairment test of goodwill at the end of the second quarter of each year based on judgments regarding the market value of our Common Stock, ongoing profitability and cash flow of the underlying assets. Changes in strategy or market conditions could significantly impact these judgments and require adjustments to recorded asset balances. For example, if we had reason to believe that our recorded goodwill had become impaired due to decreases in the fair market value of the underlying business, we would have to take a charge to income for that portion of goodwill that we believe is impaired. The annual impairment test was conducted and it did not result in any impairment charges.

Share-Based Compensation

Prior to January 1, 2006, as permitted by SFAS No. 123, Accounting for Stock Based Compensation (“SFAS 123”), as amended by SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, we accounted for share-based payments to employees using Accounting Principles Board (“APB”) Opinion No. 25, Accounting for Stock Issued to Employees. As such, we generally recognized no compensation cost for employee stock options as options granted had exercise prices equal to the fair market value of our Common Stock on the date of grant. We also recorded no compensation expense in connection with our employee stock purchase plan as the purchase price of the stock paid by employees was not less than 85% of the fair market value of our Common Stock at the beginning and at the end of each purchase period.

Effective January 1, 2006, we adopted SFAS 123R and elected the modified prospective transition method. Under the modified prospective transition method, awards that are granted, modified, repurchased or canceled after the date of adoption should be measured and accounted for in accordance with SFAS 123R. Share-based awards that are granted prior to the effective date should continue to be valued in accordance with SFAS 123 and stock option expense for unvested options must be recognized in the statement of income. On December 31, 2005, our Board of Directors accelerated the vesting of all of our outstanding and unvested stock options awarded to employees, officers and non-employee directors under our stock option award plans. As a result of the acceleration of the vesting of our outstanding and unvested options in 2005, the Company recognized $1.3 million of stock–based compensation in 2005, but there was no additional compensation expense recognized during the years ended December 31, 2007 and 2006 related to options granted prior to January 1, 2006.

Our 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. In addition, we make annual grants to non-employee directors in conjunction with their annual election to our Board of Directors or at the time of their appointment to the Board of Directors. Prior to the implementation of SFAS 123R, we utilized stock options as our sole form of share-based awards. During the year ended December 31, 2006, we granted non-vested shares of Common Stock ("non-vested shares") to key employees, but returned to granting stock options during the year ended December 31, 2007. We returned to granting stock options to key employees, as we believe stock options more closely link long-term compensation with our long-term goals. For non-employee directors, we continued to issue non-vested shares during the year ended December 31, 2007.

Stock options granted during the year ended December 31, 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 our historical experience, forfeitures have been estimated. We used the Black-Scholes option-pricing model to estimate the grant-date fair value of options granted during the year ended December 31, 2007.

The fair value of non-vested shares' issued to employees during 2006 and non-employee directors during 2007 and 2006 were estimated using opening market prices for the business day of the grant. The share-based compensation for the non-vested shares is recognized, net of estimated forfeitures, ratably over the requisite service period, or vesting period, of three years. Forfeitures have been estimated based on our historical experience, but will be adjusted for future changes in forfeiture experience. We estimate the forfeitures of dividends paid on non-vested shares and record expense for the estimated forfeitures in accordance with SFAS 123R.

Under the ESPP, which has been approved by shareholders, we are authorized to issue shares of Common Stock to our employees. 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. As the ESPP does not qualify as non-compensatory under the requirements of SFAS 123R, we recognize share-based compensation on the date of purchase based on the difference between the purchase date fair market value and the employee purchase price.

Prior to the adoption of SFAS 123R, we presented all tax benefits for tax deductions resulting from the exercise of stock options as operating cash flows on our statements of cash flows. SFAS 123R requires the cash flows resulting from the tax benefits for tax deductions in excess of the compensation expense recorded for those options (excess tax benefits) to be classified as financing cash flows. Accordingly, we classified excess tax benefits as financing cash inflows rather than as operating cash inflows on our statement of cash flows for the years ended December 31, 2007 and 2006.

SFAS 123R also requires companies to calculate an initial “pool” of excess tax benefits available at the adoption date to absorb any unused deferred tax assets that may be recognized under SFAS 123R. The pool includes the net excess tax benefits that would have been recognized if we had adopted SFAS 123 for recognition purposes on its effective date. We have elected to calculate the pool of excess tax benefits under the alternative transition method described in Financial Accounting Standards Board (“FASB”) Staff Position No. FAS 123(R)-3, Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards, which also specifies the method we must use to calculate excess tax benefits reported on the statement of cash flows.

Impact of Recent Accounting Pronouncements

During June 2006, the FASB issued FIN 48, which was effective for us on January 1, 2007. 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. We adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, we recognized a $1.4 million increase in the liability for income tax contingencies, including related interest and penalties, which net of federal benefit of $0.4 million 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 was $1.0 million, which represents tax positions where the realization of the ultimate benefit is uncertain and the disallowance of which would affect our annual effective income tax rate.

We file income tax returns in the U.S. federal jurisdiction, various states, and Canada. With a few exceptions, we are no longer subject to U.S. federal, state and local, or Canadian examinations by tax authorities for years before 2003. The total liability balance at December 31, 2007 consists of state tax positions for which the realization of the ultimate benefit is uncertain and the disallowance of which would affect our annual effective income tax rate. These positions mainly consist of deductions taken on state tax returns for which the ultimate deductibility is highly uncertain and the position that certain subsidiaries are not subject to income taxes by certain states.

As permitted by FIN 48, we recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

During September 2006, the FASB issued Statement of Financial Accounting Standard ("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, SFAS 157 does not require any new fair value measurements. However, the application of SFAS 157 could change current practice. We currently plan to adopt SFAS 157 as of January 1, 2008, but are still evaluating the impact on our financial position and 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. We currently plan to adopt SFAS No. 159 on January 1, 2008, but are still evaluating the impact on our financial position and results of operations.

Liquidity and Capital Resources

We have historically financed our working capital needs, including capital purchases, with cash flows from operations and borrowings under our bank lines of credit. Net cash provided by operating activities totaled approximately $62.4 million for the year ended December 31, 2007 compared to approximately $52.5 million in 2006. For cash provided by operating activities, the $4.0 million decrease in net income and the $5.0 million increase in accounts receivable were offset by a $6.0 million increase in non-cash expenses such as depreciation and amortization and share-based compensation. Further offsetting the decrease in net income were reduced federal and state estimated tax payments and increases in our accounts payables outstanding. Current year estimated tax payments were reduced to take advantage of prior year overpayments. The increases in accounts receivable and accounts payable were driven by the increased activity associated with our 2007 acquisitions.

Net cash used in investing activities was approximately $34.1 million for the year ended December 31, 2007 compared with approximately $0.8 million provided by investing activities in 2006. Investing activities during the year ended December 31, 2007 consisted primarily of the purchases of our new Chicago, Illinois and Atlanta, Georgia facilities, the acquisition of certain assets and liabilities of USAC and Black Hawk and the purchase of land near Dallas/Fort Worth, Texas. Partially funding these activities were sales or maturities of our available-for-sale securities. Proceeds from the sales or maturities of our available-for-sale securities during the year ended December 31, 2007 were also used to fund stock repurchases as further outlined below in our discussion of cash used for financing activities.

Net cash used in financing activities totaled approximately $31.6 million for the year ended December 31, 2007 compared with approximately $45.4 million used in financing activities for 2006. The decrease in cash used in financing activities was primarily attributable to $30.0 million in net borrowings under our line of credit, offset by a $13.4 million increase in shares repurchased and a $3.3 million decrease in proceeds from the exercise of stock options. Borrowings from our line of credit were primarily used to fund the acquisition of Black Hawk and stock repurchases during the fourth quarter of 2007. Share repurchases increased and option proceeds decreased in 2007 over 2006 as a result of a decrease in the average market value of our shares making repurchases more attractive and the exercise of stock options less attractive.

On October 10, 2007 we entered into a new $100.0 million senior credit facility. The new facility has a term of five years and includes an accordion feature, which allows for an additional $50.0 million in borrowings on such terms and conditions as set forth in the credit agreement. Interest rates for advances under the senior credit facility are at LIBOR plus 0.6% to 0.9% based upon covenants related to total indebtness to earnings. The facility will replace our existing $20.0 million line of credit. We entered into this new, larger credit facility in order to fund potential acquisitions, repurchases of our common stock, and for financing other general business purposes. At December 31, 2007, we had $64.5 million of available borrowing capacity under the senior credit facility, not including the accordion feature, and had utilized $5.5 million of availability for outstanding letters of credit.

At December 31, 2007 our previous credit facility was still available as we transitioned our letters of credit to the new senior credit facility. Under the previous credit facility as long as we complied with the financial covenants and ratios, the credit facility permits us to borrow up to $20.0 million less the amount of any outstanding letters of credit. Interest rates for advances under the facility vary based on how our performance measures against covenants related to total indebtedness, cash flows, results of operations and other ratios. The facility bears interest at LIBOR plus 1.0% to 1.9% and is unsecured. The facility's expiration is April 2008. At December 31, 2007, we had no balance outstanding under the line of credit facility and had utilized approximately $2.8 million of availability for outstanding letters of credit.

During the year ended December 31, 2007, we completed our purchase of new facilities near Chicago, Illinois and Atlanta, Georgia for $22.3 million and $14.9 million, respectively. Deposits of $3.3 million and $1.5 million paid during 2006 were applied to the purchase price of the Chicago and Atlanta facilities, respectively. In addition, during February 2007, we paid approximately $3.0 million for land near Dallas/Fort Worth, Texas on which we are planning to build a new regional hub, which we estimate will be completed in 2008. We intend to fund the expenditures for the Dallas/Fort Worth regional hub through cash and short-term investments currently on our balance sheet, cash provided by operating activities, the sale of existing equipment and/or borrowings under our senior credit facility, if necessary.

On November 17, 2005, we announced that our Board of Directors approved a stock repurchase program for up to three million shares of common stock (the "2005 Repurchase Plan"). During the year ended December 31, 2007, we repurchased the remaining available shares of common stock under the 2005 Repurchase plan, or 1,613,327 shares, for $49.0 million, or $30.42 per share. During the year ended December 31, 2006, we repurchased 1,302,695 shares of common stock under the 2005 Repurchase Plan for $41.7 million, or $32.03 per share. During the year ended December 31, 2005, we repurchased 83,978 shares of common stock under the 2005 Plan for $3.2 million, or $38.23 per share. Also, during the year ended December 31, 2005, the Company repurchased an additional 1,558,350 shares of common stock for $49.1 million, or $31.47 per share, under a repurchase plan approved during 2002.

On July 31, 2007 our Board of Directors approved an additional stock repurchase program for up to two million shares of our common stock (the "2007 Repurchase Plan"). During the year ended December 31, 2007, we repurchased 211,173 shares of common stock under the 2007 Repurchase Plan for $6.1 million, or $28.68 per share. As of December 31, 2007, 1,788,827 shares of common stock remain that may be repurchased under the 2007 Repurchase Plan.

During the years ended December 31, 2007 and 2006, cash dividends of $0.28 per share were declared on common stock outstanding. 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.

Management believes that our available cash, investments, expected cash generated from future operations and borrowings under the available senior credit facility will be sufficient to satisfy our anticipated cash needs for at least the next twelve months.

Off-Balance Sheet Arrangements

At December 31, 2007, we had letters of credit outstanding from banks totaling $8.3 million required by our workers' compensation and vehicle liability insurance providers.

Contractual Obligations and Commercial Commitments

Our contractual obligations and other commercial commitments as of December 31, 2007 (in thousands) are summarized below:

Contractual Obligations	Payment Due Period				
	Total	Less Than 1 Year	2-3 Years	4-5 Years	After 5 Years
Capital lease obligations	$ 2,026	$ 323	$ 579	$ 411	$ 713
Other long-term debt	752	617	135	--	--
Operating leases	42,891	13,524	19,458	7,549	2,360
Senior credit facility	30,000	--	--	30,000	--
Total contractual cash obligations	$ 75,669	$ 14,464	$ 20,172	$ 37,960	$ 3,073

Not included in the above table are reserves for unrecognized tax benefits and for self insurance claims of $1.6 million and $6.2 million, respectively.

Related Party Transactions

Sky Night, LLC (“Sky Night”) is a limited liability corporation owned by the former Chairman of the Company’s Board who served until May 2005. During 2007, 2006 and 2005 we purchased air transportation services from Sky Night. In 2007, 2006 and 2005 air charter expense totaled $0.1 million per year.

During 2001, we entered into an agreement to sublease hangar space at our Greeneville, Tennessee headquarters to Sky Night. The initial term of the sublease was for 12 months. Currently, the hangar space is being sublet on a month-to-month basis.

Forward-Looking Statements

This report contains “forward-looking statements,” as defined in Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements are statements other than historical information or statements of current condition and relate to future events or our future financial performance. Some forward-looking statements may be identified by use of such terms as “believes,” “anticipates,” “intends,” “plans,” “estimates,” “projects” or “expects.” Su forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The following is a list of factors, among others, that could cause actual results to differ materially from those contemplated by the forward-looking statements: economic factors such as recessions, inflation, higher interest rates and downturns in customer business cycles, our inability to maintain our historical growth rate because of a decreased volume of freight moving through our network or decreased average revenue per pound of freight moving through our network, increasing competition and pricing pressure, surplus inventories, loss of a major customer, the creditworthiness of our customers and their ability to pay for services rendered, our ability to secure terminal facilities in desirable locations at reasonable rates, the inability of our information systems to handle an increased volume of freight moving through our network, changes in fuel prices, claims for property damage, personal injuries or workers’ compensation, employment matters including rising health care costs, enforcement of and changes in governmental regulations, environmental and tax matters, the handling of hazardous materials, the availability and compensation of qualified independent owner-operators and freight handlers needed to serve our transportation needs and our inability to successfully integrate acquisitions. As a result of the foregoing, no assurance can be given as to future financial condition, cash flows or results of operations. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk relates principally to changes in interest rates for borrowings under our senior credit facility. The senior credit facility, which represents an aggregate principal amount of $30.0 million at December 31, 2007, bears interest at variable rates. Based on our borrowings during 2007, a hypothetical increase in interest rates of 10.0% would have increased our annual interest expense by less than $0.1 million and would have decreased our annual cash flow from operations by less than $0.1 million.

Our only other debt are equipment notes and capital lease obligations totaling $2.3 million. These notes and lease obligations all bear interest at a fixed rate. Accordingly, there is no exposure to market risk related to these notes and capital lease obligations.

Our cash equivalents and short-term investments are also subject to market risk, primarily interest-rate and credit risk. Our investments are managed by outside professional managers within investment guidelines set by our management and approved by our Board of Directors. Such guidelines include security type, credit quality, and maturity and are intended to limit market risk by restricting the Company’s investments to high credit quality securities with relatively short-term maturities.

As of December 31, 2007, we had short-term investments of $0.5 million. Because of the short maturities of these instruments, a sudden change in market interest rates would not have a material impact on the fair value of the portfolio. We would not expect our operating results or cash flows to be materially affected by the effect of a sudden change in market interest rates on our portfolio.

Item 8. Financial Statements and Supplementary Data

The response to this item is submitted as a separate section of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

We maintain controls and procedures designed to ensure that we are able to collect the information required to be disclosed in the reports we file with the SEC, and to process, summarize and disclose this information within the time periods specified in the rules of the SEC. Based on an evaluation of our disclosure controls and procedures as of the end of the period covered by this report conducted by management, with the participation of the Chief Executive Officer and Chief Financial Officer, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective to ensure that we are able to collect, process and disclose the information we are required to disclose in the reports we file with the SEC within the required time periods.

Management’s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance to management and the Board of Directors regarding the preparation and fair presentation of financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2007. In making this assessment, management used the framework set forth by the Committee on Sponsoring Organizations of the Treadway Commission in Internal Control — Integrated Framework. Based on our assessment, we have concluded, as of December 31, 2007, that our internal control over financial reporting was effective based on those criteria.

On July 30, 2007, a new subsidiary Forward Air Solutions, Inc. was established through the acquired assets and assumed liabilities of USA Carriers, Inc., which constituted $17.9 million and $14.4 million of total assets and net assets, respectively, as of December 31, 2007 and $16.0 million and $1.4 million of revenues and net income, respectively, for the year then ended. We have excluded Forward Air Solutions, Inc. from our assessment of and conclusion on the effectiveness of our internal control over financial reporting.

Ernst & Young LLP, the independent registered accounting firm that audited the Company’s consolidated financial statements for the year ended December 31, 2007, has issued an attestation report on the Company’s internal control over financial reporting.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth quarter of 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Forward Air Corporation

We have audited Forward Air Corporation's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Forward Air Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Controls over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

As indicated in the accompanying Management's Report on Internal Controls over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Forward Air Solutions, Inc., which is included in the December 31, 2007 consolidated financial statements of Forward Air Corporation and constituted $17.9 million and $14.4 million of total assets and net assets, respectively, as of December 31, 2007 and $16.0 million and $1.4 million of revenues and net income, respectively for the year then ended. Our audit of internal controls over financial reporting of Forward Air Corporation also did not include an evaluation of the internal controls over financial reporting of Forward Air Solutions, Inc.

In our opinion, Forward Air Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Forward Air Corporation as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007 and our report dated February 25, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee
February 25, 2008

Item 9B. Other Information

Not applicable.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item with respect to our directors is incorporated herein by reference to our proxy statement for the 2008 Annual Meeting of Shareholders (the “2008 Proxy Statement”). The 2008 Proxy Statement will be filed with the SEC not later than 120 days subsequent to December 31, 2007.

Pursuant to Item 401(b) of Regulation S-K, the information required by this item with respect to our executive officers is set forth in Part I of this report.

Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to the 2008 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information required by this item is incorporated herein by reference to the 2008 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the 2008 Proxy Statement.

Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated herein by reference to the 2008 Proxy Statement.

Part IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) and (2) List of Financial Statements and Financial Statement Schedules.

The response to this portion of Item 15 is submitted as a separate section of this report.

(a)(3) List of Exhibits.

The response to this portion of Item 15 is submitted as a separate section of this report.

(b) Exhibits.

The response to this portion of Item 15 is submitted as a separate section of this report.

(c) Financial Statement Schedules.

The response to this portion of Item 15 is submitted as a separate section of this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Forward Air Corporation

Date: February 27, 2008	By:	/s/ Rodney L. Bell Rodney L. Bell Chief Financial Officer, Senior Vice President and Treasurer (Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Bruce A. Campbell Bruce A. Campbell	Chairman, President and Chief Executive Officer (Principal Executive Officer)	February 27, 2008
/s/ Rodney L. Bell Rodney L. Bell	Chief Financial Officer, Senior Vice President and Treasurer (Principal Financial Officer)	February 27, 2008
/s/ Michael P. McLean Michael P. McLean	Chief Accounting Officer, Vice President and Controller	February 27, 2008
/s/ Matthew J. Jewell Matthew J. Jewell	Executive Vice President, Chief Legal Officer And Secretary	February 27, 2008
/s/ Richard W. Hanselman Richard W. Hanselman	Lead Director	February 27, 2008

/s/ C. Robert Campbell	Director	February 27, 2008
C. Robert Campbell		
/s/ C. John Langley, Jr.	Director	February 27, 2008
C. John Langley, Jr.		
/s/ Tracy A. Leinbach	Director	February 27, 2008
Tracy A. Leinbach		
/s/ G. Michael Lynch	Director	February 27, 2008
G. Michael Lynch		
/s/ Ray A. Mundy	Director	February 27, 2008
Ray A. Mundy		
/s/ Gary L. Paxton	Director	February 27, 2008
Gary L. Paxton		
/s/ B. Clyde Preslar	Director	February 27, 2008
B. Clyde Preslar		

Annual Report on Form 10-K

Item 8, Item 15(a)(1) and (2), (a)(3), (b) and (c)

List of Financial Statements and Financial Statement Schedule

Financial Statements and Supplementary Data

Certain Exhibits

Financial Statement Schedule

Year Ended December 31, 2007

Forward Air Corporation

Greeneville, Tennessee

F-1

Forward Air Corporation

Form 10-K — Item 8 and Item 15(a)(1) and (2)

Index to Financial Statements and Financial Statement Schedule

The following consolidated financial statements of Forward Air Corporation are included as a separate section of this report:

The following financial statement schedule of Forward Air Corporation is included as a separate section of this report.

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Forward Air Corporation

We have audited the accompanying consolidated balance sheets of Forward Air Corporation as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Forward Air Corporation at December 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with U. S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, in 2007 the Company changed its method of accounting for income tax contingencies, and in 2006 the Company changed its method of accounting for share-based compensation.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Forward Air Corporation's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee
February 25, 2008

Forward Air Corporation
Consolidated Balance Sheets
(in thousands, except share data)

	December 31, 2007		December 31, 2006	
Assets				
Current assets:				
Cash	$	4,909	$	8,231
Short-term investments		522		61,650
Accounts receivable, less allowance of $1,142 in 2007 and $860 in 2006		59,734		48,486
Income taxes receivable		--		3,403
Inventories		558		501
Prepaid expenses and other current assets		3,941		4,114
Deferred income taxes		1,786		1,178
Total current assets		71,450		127,563
Property and equipment				
Land		16,928		2,611
Buildings		39,895		12,367
Equipment		95,690		82,646
Leasehold improvements		4,421		3,566
Construction in progress		1,420		--
Total property and equipment		158,354		101,190
Less accumulated depreciation and amortization		55,322		47,875
Net property and equipment		103,032		53,315
Goodwill and other acquired intangibles:				
Goodwill		36,053		15,588
Other acquired intangibles, net of accumulated amortization of $3,740 in 2007 and $2,019 in 2006		29,991		