FORWARD AIR CORP
Form 10-Q
April 30, 2008

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2008
Commission File No. 000-22490

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

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

Large accelerated filer x	Non-accelerated filer o	Accelerated filer o	Smaller reporting company o

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

Yes o No x

The number of shares outstanding of the registrant's common stock, $0.01 par value, as of April 28, 2008 was 28,827,854.

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Forward Air Corporation

Part I. Financial Information

Item 1. Financial Statements (Unaudited).

Forward Air Corporation
Condensed Consolidated Balance Sheets
(Dollars in thousands)
(Unaudited)

	March 31, 2008	December 31, 2007
Assets		
Current assets:		
Cash	$ 3,235	$ 4,909
Short-term investments	522	522
Accounts receivable, less allowance of $1,340 in 2008 and $1,142 in 2007	64,080	59,734
Income taxes receivable	2,476	--
Other current assets	5,946	6,285
Total current assets	76,259	71,450
Property and equipment	161,982	158,354
Less accumulated depreciation and amortization	58,121	55,322
Total property and equipment, net	103,861	103,032
Goodwill and other acquired intangibles:		
Goodwill	53,939	36,053
Other acquired intangibles, net of accumulated amortization of $4,634 in 2008 and $3,740 in 2007	29,097	29,991
Total goodwill and other acquired intangibles	83,036	66,044
Other assets	1,389	1,358
Total assets	$ 264,545	$ 241,884
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 14,354	$ 11,714
Accrued expenses	12,939	13,060
Income taxes payable	--	1,214
Current portion of debt and capital lease obligations	701	830
Total current liabilities	27,994	26,818
Debt and capital lease obligations, less current portion	41,359	31,486
Other long-term liabilities	4,605	4,476
Deferred income taxes	8,005	7,371
Shareholders' equity:		
Preferred stock	--	--
Common stock		
Authorized shares – 50,000,000		

Issued and outstanding shares – 28,756,065 in 2008 and 28,648,068 in 2007		287		286
Additional paid-in capital		2,855		--
Retained earnings		179,440		171,447
Total shareholders' equity		182,582		171,733
Total liabilities and shareholders' equity	$	264,545	$	241,884

The accompanying notes are an integral part of the financial statements

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

	Three months ended March 31, 2008	Three months ended March 31, 2007
Operating revenue:		
Forward Air		
Airport-to-airport	$ 82,059	$ 74,221
Logistics	12,253	8,184
Other	5,789	4,948
Forward Air Solutions		
Pool distribution	7,837	--
Total operating revenue	107,938	87,353
Operating expenses:		
Purchased transportation		
Forward Air		
Airport-to-airport	31,540	30,532
Logistics	9,180	6,146
Other	1,633	1,296
Forward Air Solutions		
Pool distribution	1,172	--
Total purchased transportation	43,525	37,974
Salaries, wages and employee benefits	26,447	19,013
Operating leases	4,851	3,735
Depreciation and amortization	3,698	2,380
Insurance and claims	2,260	1,702
Other operating expenses	10,507	6,710
Total operating expenses	91,288	71,514
Income from operations	16,650	15,839
Other income (expense):		
Interest expense	(301)	(40)
Other, net	154	753
Total other (expense) income	(147)	713
Income before income taxes	16,503	16,552
Income taxes	6,495	6,259
Net income	$ 10,008	$ 10,293
Net income per share:		
Basic	$ 0.35	$ 0.34
Diluted	$ 0.35	$ 0.34
Dividends	$ 0.07	$ 0.07
Weighted average shares outstanding:		
Basic	28,694	30,338
Diluted	28,982	30,665

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

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

	Three months ended	
	March 31, 2008	March 31, 2007
Operating activities:		
Net income	$ 10,008	$ 10,293
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,698	2,380
Share-based compensation	1,535	593
Loss (gain) on sale of property and equipment	16	(62)
Provision for loss (recovery) on receivables	95	(93)
Provision for revenue adjustments	996	655
Deferred income taxes	514	1,797
Tax (benefit) provision for stock options exercised	(725)	7
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(5,437)	(952)
Prepaid expenses and other current assets	459	(440)
Accounts payable and accrued expenses	2,614	(2,734)
Income taxes	(2,931)	(1,024)
Net cash provided by operating activities	10,842	10,420
Investing activities:		
Proceeds from disposal of property and equipment	4	188
Purchases of property and equipment	(2,645)	(22,570)
Proceeds from sales or maturities of available-for-sale securities	--	64,095
Purchases of available-for-sale securities	--	(44,520)
Acquisition of business	(18,526)	--
Other	(49)	(704)
Net cash used in investing activities	(21,216)	(3,511)
Financing activities:		
Payments of debt and capital lease obligations	(606)	(9)
Borrowings on line of credit	20,000	--
Payments on line of credit	(10,000)	--
Proceeds from exercise of stock options	956	196
Payments of cash dividends	(2,013)	(2,127)
Repurchase of common stock	--	(7,538)
Cash settlement of share-based awards for minimum tax withholdings	(362)	(220)
Tax benefit (provision) for stock options exercised	725	(7)
Net cash provided by (used in) financing activities	8,700	(9,705)
Net decrease in cash	(1,674)	(2,796)
Cash at beginning of period	4,909	8,231

Cash at end of period	$	3,235	$	5,435

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

Forward Air Corporation

Notes to Condensed Consolidated Financial Statements
(Unaudited, in thousands, except share and per share data)
March 31, 2008

1. Basis of Presentation

Forward Air Corporation's (the Company) services can be broadly classified into two principal segments: Forward Air, Inc. (Forward Air) and Forward Air Solutions, Inc. (FASI).

Through the Forward Air segment, the Company is 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 services provide 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.

FASI was formed in July 2007 in conjunction with the Company's acquisition of certain assets and liabilities of USA Carriers, Inc. ("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.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by United States generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The Company's operating results are subject to seasonal trends when measured on a quarterly basis, therefore operating results for the three month period ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to the consolidated financial statements and footnotes thereto included in the Forward Air Corporation Annual Report on Form 10-K for the year ended December 31, 2007.

The balance sheet at December 31, 2007 has been derived from the audited financial statements at that date, but does not include all of the financial information and notes required by United States generally accepted accounting principles for complete financial statements.

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

The accompanying consolidated financial statements of the Company include Forward Air Corporation and its subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

2. Recent Accounting Pronouncements

During September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157, Fair Value Measurements (“SFAS 157”), which is effective for fiscal years beginning after November 15, 2007 with earlier adoption encouraged. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position FAS 157-2, Effective Date of FASB Statement No. 157 which delayed the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until January 1, 2009. The Company adopted SFAS 157 on January 1, 2008 for all financial assets and liabilities, but the implementation did not have a significant impact on the Company's financial position or results of operations. The Company has not yet determined the impact the implementation of SFAS 157 will have on the Company’s non-financial assets and liabilities which are not recognized or disclosed on a recurring basis. However, the Company does not anticipate that the full adoption of SFAS 157 will significantly impact our consolidated financial statements.

Forward Air Corporation

Notes to Condensed Consolidated Financial Statements

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. The Company adopted SFAS 159 on January 1, 2008, but the implementation of SFAS 159 did not have a significant impact on the Company's financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations ("SFAS 141R"). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. This statement is effective for the Company beginning January 1, 2009. The Company is currently evaluating the potential impact of the adoption of SFAS 141R on its consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51 ("SFAS 160"). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This statement is effective for the Company beginning January 1, 2009. The Company is currently evaluating the potential impact of the adoption of SFAS 160 on its consolidated financial position, results of operations or cash flows.

3. Comprehensive Income

Comprehensive income includes any changes in the equity of the Company from transactions and other events and circumstances from non-owner sources. Comprehensive income for the three months ended March 31, 2008 and 2007 was $10,008 and $10,293, respectively. Comprehensive income approximated net income.

4. Fair Value

The Company's investments consist of state municipal bonds (often referred to as auction rate securities). The Company had a total of $522 in available-for-sale securities as of March 31, 2008 and December 31, 2007. These available-for-sale securities are remeasured to fair value on a recurring basis and are valued using level 1 inputs and the market approach as defined by SFAS 157.

5. Share-Based Payments

The Company accounts for its share-based payments using SFAS No. 123(R), Share-Based Payment ("SFAS 123R"), and elected the modified prospective transition method on January 1, 2006. Under the modified prospective transition method, awards that are granted, modified, repurchased or canceled after the date of adoption are measured and accounted for in accordance with SFAS 123R. Share-based awards that were granted prior to the effective date 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, the Company's Board of Directors accelerated the vesting of all outstanding and unvested stock options awarded to employees, officers and non-employee directors under the Company's stock option award plans. The primary purpose of the accelerated vesting of these options was to eliminate future compensation expense that the Company would otherwise have recognized in its statement of income with respect to these unvested options upon the adoption of SFAS 123R. As a result of the acceleration of the vesting of the Company's outstanding and unvested options in 2005, there was no additional compensation expense recognized during the three months ended March 31, 2008 and 2007 related to options granted prior to January 1, 2006.

Forward Air Corporation

Notes to Condensed Consolidated Financial Statements

Employee Activity

The Company's general practice has been to make a single annual grant to key employees and to generally make other grants only in connection with new employment or promotions. During 2006, the Company issued non-vested shares of common stock ("non-vested shares") to key employees as the form of share-based awards. However, in 2007 and 2008, the Company returned to granting stock options to key employees as the Company believes stock options more closely link long-term compensation with the Company's long-term goals. Stock options granted during the three months ended March 31, 2008 and 2007 expire seven years from the grant date and vest ratably over a three-year period. The share-based compensation for these stock options is recognized, net of estimated forfeitures, ratably over the requisite service period, or vesting period. Based on the Company's historical experience, forfeitures have been estimated. The Company used the Black-Scholes option-pricing model to estimate the grant-date fair value of options granted during the three months ended March 31, 2008 and 2007. The weighted-average fair values of options granted during the three months ended March 31, 2008 and 2007 were $9.15 and $11.19, respectively, and were estimated using the following weighted-average assumptions:

	Three months ended March 31,	
	2008	2007
Expected dividend yield	0.8%	0.8%
Expected stock price volatility	35.2%	37.0%
Weighted average risk-free interest rate	2.7%	4.7%
Expected life of options (years)	4.5	4.5

During the three months ended March 31, 2008 and 2007, share-based compensation expense for options granted to employees after December 31, 2005 was $926 and $285, respectively, and was recognized in salaries, wages and employee benefits. The total tax benefit related to the share-based expense for these options was $242 and $108 for the three months ended March 31, 2008 and 2007, respectively. Total compensation cost, net of estimated forfeitures, related to the options not yet recognized in earnings was $8,780 at March 31, 2008. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures. The following table summarizes the Company's employee stock option activity and related information for the three months ended March 31, 2008:

	Three months ended March 31, 2008			
	Options (000)	Weighted-Average Exercise Price	Aggregate Intrinsic Value (000)	Weighted-Average Remaining Contractual Term
Outstanding at beginning of period	2,246	$ 26		
Granted	383	30		
Exercised	(84)	11		
Forfeited	(19)	31		
Outstanding at end of period	2,526	$ 27	$ 9,795	6.1
Exercisable at end of period	1,501	$ 25	$ 9,287	5.9

Share-based compensation expense of $408 and $272 for non-vested shares granted to employees during 2006 was recognized in salaries, wages and employee benefits during the three months ended March 31, 2008 and 2007, respectively. The total tax benefit related to this share-based expense was $161 and $103 for the three months ended March 31, 2008 and 2007, respectively. Total compensation cost, net of estimated forfeitures, related to the non-vested shares granted to employees not yet recognized in earnings was $1,176 at March 31, 2008. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

Non-employee Director Activity

Share-based compensation expense of $202 and $35 for non-vested shares granted to non-employee directors was recognized in salaries, wages and employee benefits during the three months ended March 31, 2008 and 2007, respectively. The total tax benefit related to this share-based expense was $79 and $13 for the three months ended March 31, 2008 and 2007, respectively. Total compensation cost, net of estimated forfeitures, related to the non-vested shares granted to non-employee directors not yet recognized in earnings was $305 at March 31, 2008. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

In addition to the above activity, each May from 1995 to 2005 options were granted to the non-employee directors of the Company. The options have terms of ten years and are fully exercisable. At March 31, 2008, 111,875 options were outstanding and will expire between July 2010 and May 2015. At March 31, 2008, the total aggregate intrinsic value of these options was $1,011 and the weighted-average exercise price and remaining contractual term were $22 and 5.4 years, respectively.

6. Debt and Capital Lease Obligations

On October 10, 2007, the Company entered into a $100,000 senior credit facility. This new facility has a term of five years and includes an accordion feature, which allows for an additional $50,000 in borrowings on such terms and conditions as set forth in the Credit Agreement. The senior credit facility matures on October 10, 2012. The facility replaced the Company's previous $20,000 line of credit. The Company entered into this new, larger credit facility in order to fund potential acquisitions, the repurchase of its common stock, and for financing other general business purposes. Interest rates for advances under the facility are at LIBOR plus 0.6% to 0.9% based upon covenants related to total indebtedness to earnings (3.3% at March 31, 2008). The agreement contains certain covenants and restrictions, none of which are expected to significantly affect our operations or ability to pay dividends. No assets are pledged as collateral against the senior credit facility. As of March 31, 2008, the Company had $40,000 outstanding under the senior credit facility. At March 31, 2008, the Company had $54,530 of available borrowing capacity outstanding under the senior credit facility, not including the accordion feature, and had utilized $5,470 of availability for outstanding letters of credit.

7. Acquisition of Businesses

On March 17, 2008, the Company acquired certain assets and liabilities of Pinch Holdings, Inc. and its related company AFTCO Enterprises, Inc. and certain of their respective wholly-owned subsidiaries (Pinch). Pinch was a privately held provider of pool distribution, airport-to-airport, truckload, custom, and cartage services primarily in the Southwestern continental United States. Pinch generated approximately $35,000 in revenue during the year ended December 31, 2007. The acquisition of Pinch's pool distribution services expands the geographic footprint of the FASI segment in the Southwestern United States. In addition to providing additional tonnage density to the Forward Air airport-to-airport network, the acquisition of Pinch's cartage and truckload business provides an opportunity for Forward Air to expand its service options in the Southwestern United States. The purchased assets and liabilities and the results of operations of Pinch have been included in the consolidated financial statements since March 17, 2008.

The aggregate purchase price was $18,526, paid with the Company's available cash and borrowings from the Company's senior credit facility (see note 5). Under the purchase agreement, $1,825 of the purchase price was paid into an escrow account to protect the Company against potential unknown liabilities. The amount paid into escrow will be released to the sellers one year after the acquisition date.

The preliminary allocation of the purchase price is as follows:

	Pinch
Property and equipment	$ 1,008
Goodwill	17,868
Total assets acquired	18,876
Debt	350
Total liabilities assumed	350
Net assets acquired	$ 18,526

Forward Air Corporation

Notes to Condensed Consolidated Financial Statements

At March 31, 2008, the acquired assets have been included in the Forward Air segment. The assumed debt of $350 was settled on the date of purchase and there are no related amounts outstanding on March 31, 2008. The Company is still in the process of identifying and valuing all acquired assets and liabilities and will adjust the purchase price allocation, including assignment between segments, as required to reflect the final valuation.

On July 30, 2007, the Company acquired certain assets and liabilities of USAC. The purchased assets and liabilities and the results of operations of USAC have been included in the consolidated financial statements, in our FASI segment, 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. USAC generated approximately $32,000 in revenue during the year ended December 31, 2006. In conjunction with the Company's strategy to expand into new services complimentary to the airport-to-airport business, the acquisition provides the opportunity for the Company to introduce new services to new and existing customers and to drive efficiencies in existing businesses. The aggregate purchase price was $12,941, of which $12,704 was paid with the Company's available cash, and the remaining $237 is payable upon final settlement of purchased working capital. Under the purchase agreement, $1,250 of the purchase price was paid into an escrow account to protect the Company against potential unknown liabilities. The amount paid into escrow will be released to the sellers one year after the acquisition date.

On December 3, 2007, the Company acquired certain assets and liabilities of Black Hawk Freight Services, Inc. ("Black Hawk"). The purchased assets and liabilities and the results of operations of Black Hawk have been included in the consolidated financial statements, in our Forward Air segment, since December 3, 2007. Black Hawk was a privately held provider of airport-to-airport, truckload, custom, and cartage services that generated approximately $30,000 in revenue during the year ended December 31, 2006. The acquisition of Black Hawk operations are complimentary to those of the Forward Air segment and will increase the geographic footprint of the segment in the Midwestern United States. The aggregate purchase price was $35,242, paid with the Company's available cash and borrowings from the Company's senior credit facility. Under the purchase agreement, $3,500 of the purchase price was paid into an escrow account to protect the Company against potential unknown liabilities. The amount paid into escrow will be released to the sellers one year after the acquisition date.

Also during 2007, the Company acquired certain assets of two other operations for $681 in cash. The assets purchased were truckload and cargo handling customer relationships. These acquisitions were completed to expand existing logistics and other services currently provided.

Acquired customer relationships and non-compete agreements have weighted-average useful lives of 10.4 and 5.6 years, respectively. Amortization expense on acquired customer relationships and non-compete agreements during the three months ended March 31, 2008 and 2007 was $894 and $319, respectively.

The changes in the carrying value of goodwill for the three months ended March 31, 2008 are as follows:

	Forward Air	FASI	Total
Beginning balance, December 31, 2007	$ 32,344	$ 3,709	$ 36,053
Pinch acquisition	17,868	--	17,868
Adjustment to Black Hawk and USAC acquisitions	9	9	18
Ending balance, March 31, 2008	$ 50,221	$ 3,718	$ 53,939

Forward Air Corporation

Notes to Condensed Consolidated Financial Statements

8. Net Income Per Share

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

	Three months ended March 31, 2008	Three months ended March 31, 2007
Numerator:		
Numerator for basic and diluted net income per share - net income	$ 10,008	$ 10,293
Denominator:		
Denominator for basic net income per share - weighted-average shares	28,694	30,338
Effect of dilutive stock options and non-vested shares	288	327
Denominator for diluted net income per share - adjusted weighted-average shares	28,982	30,665
Basic net income per share	$ 0.35	$ 0.34
Diluted net income per share	$ 0.35	$ 0.34

9. Income Taxes

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

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109) ("FIN 48") on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a $1,397 increase in the liability for income tax contingencies, including related interest and penalties, which net of federal benefit of $420 was accounted for as a reduction to the January 1, 2007 balance of retained earnings. The liability for income tax contingencies at January 1, 2007, net of federal benefit was $977, which represents tax positions where the realization of the ultimate benefit is uncertain and the disallowance of which would affect the Company's annual effective income tax rate.

Included in the liability for unrecognized tax benefits at March 31, 2008 are tax positions of $1,151, which represents tax positions where the realization of the ultimate benefit is uncertain and the disallowance of which would affect the Company's annual effective income tax rate. Approximately $958 of the unrecognized tax benefits relate to a contingency involving two of our subsidiaries and taxability in a state. It is reasonably possible that within the next twelve months this matter may be settled with the applicable state, but a range of settlement cannot be determined at this time.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

There were no significant changes to the accruals for unrecognized tax benefits and related interest and penalties during the first quarter of 2008.

For the three months ended March 31, 2008 and 2007, the effective income tax rates varied from the statutory federal income tax rate of 35.0%, primarily as a result of the effect of state income taxes, net of the federal benefit and permanent differences between book and tax net income.

Forward Air Corporation

Notes to Condensed Consolidated Financial Statements

10. Shareholders' Equity

During the three months ended March 31, 2008 dividends of $0.07 per share were declared on common stock then outstanding. The quarterly dividends were paid on March 26, 2008. During the three months ended March 31, 2007 dividends of $0.07 per share were declared on common stock then outstanding. The quarterly dividends were paid on March 30, 2007. The Company expects to continue to pay regular quarterly cash dividends, though each subsequent quarterly dividend is subject to review and approval by the Board of Directors.

On November 17, 2005, the Company announced that its Board of Directors approved a stock repurchase program for up to three million shares of common stock (the “2005 Repurchase Plan”). In addition, on July 31, 2007, the Company’s Board of Directors approved an additional stock repurchase program for up to two million shares of the Company’s common stock (the “2007 Repurchase Plan”). No shares were repurchased during the three months ended March 31, 2008. For the three months ended March 31, 2007, the Company repurchased 242,200 shares of common stock, under the 2005 Repurchase Plan for $7,538, or $31.12 per share. As of March 31, 2008, no shares remained eligible for purchase under the 2005 Repurchase Plan and 1,788,827 shares remained eligible for repurchase under the 2007 Repurchase Plan.

11. Commitments and Contingencies

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

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

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

12. Segment Reporting

The Company operates in two reportable segments, based on differences in services provided. Forward Air provides time-definite transportation and logistics services to the deferred air freight market. FASI provides pool distribution services primarily to regional and national distributors and retailers.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies disclosed in Note 1 to the Consolidated Financial Statements included in our 2007 Annual Report on Form 10-K. Segment data includes intersegment revenues. Assets and costs of the corporate headquarters are allocated to the segments based on usage. The Company evaluates the performance of its segments based on net income. The Company’s business is conducted principally in the U.S. and Canada.

The following table summarizes segment information about net income and assets used by the chief operating decision maker of the Company in making decisions regarding allocation of assets and resources as of and for the three months ended March 31, 2008. No segment information has been presented for the three months ended March 31, 2007 as FASI did not exist until July 30, 2007 and all 2007 data would have been solely related to Forward Air.

Forward Air Corporation

Notes to Condensed Consolidated Financial Statements

	Three months ended March 31, 2008			
	Forward Air	FASI	Eliminations	Consolidated
External revenues	$ 100,101	$ 7,837	$ --	$ 107,938
Intersegment revenues	232	--	(232)	--
Depreciation and amortization	3,395	303	--	3,698
Stock-based compensation expense	1,509	26	--	1,535
Interest expense	288	13	--	301
Interest income	146	3	--	149
Income tax expense (benefit)	6,692	(197)	--	6,495
Net income (loss)	10,346	(338)	--	10,008
Total assets	260,212	17,418	(13,085)	264,545
Capital expenditures	2,460	185	--	2,645

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

Overview and Executive Summary

Through our Forward Air segment, we are a leading provider of time-definite surface transportation and related logistics services to the North American deferred air freight market. We offer our customers local pick-up and delivery (Forward Air Complete™) and scheduled surface transportation of cargo as a cost-effective, reliable alternative to air transportation. We transport cargo that must be delivered at a specific time, but is less time-sensitive than traditional air freight. This type of cargo is frequently referred to in the transportation industry as deferred air freight. We operate our Forward Air segment through a network of terminals located on or near airports in 83 cities in the United States and Canada, including a central sorting facility in Columbus, Ohio and eleven 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 subsidiary and reporting segment, Forward Air Solutions, Inc. (“FASI”), and in conjunction with the acquisition of USA Carriers, Inc. (“USAC”) we began providing 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 a twelve terminal network.

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, which will allow us to maintain revenue growth in challenging shipping environments.

Trends and Developments

During the three months ended March 31, 2008 we experienced significant revenue growth across all product lines and segments over the same period in the prior year. The revenue growth was primarily driven by our 2008 and 2007 acquisition activity, partially offset by challenging economic conditions. On March 17, 2008, we acquired certain assets and liabilities of Pinch Holdings, Inc. and its related company AFTCO Enterprises, Inc. and certain of their respective wholly-owned subsidiaries (“Pinch”). Pinch was a privately held provider of pool distribution, airport-to-airport, truckload, custom, and cartage services primarily to the Southwestern continental United States. Pinch generated approximately $35.0 million in revenue during the year ended December 31, 2007. The acquisition of Pinch’s pool distribution services expands the geographic footprint of the FASI segment in the Southwestern United States. In addition to providing additional tonnage density to the Forward Air airport-to-airport network, the acquisition of Pinch’s cartage and truckload business provides an opportunity for Forward Air to expand its service options in the Southwestern United States.

Further, on December 3, 2007 we acquired certain assets and liabilities of Black Hawk Freight Services, Inc. (“Black Hawk”) 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 assets and liabilities of USAC. Through this acquisition we began providing pool distribution services 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 our Forward Air Complete™ pick-up and delivery product, TLX and value-added handling services.

Despite providing different benefits, these acquisitions fit into our “Completing the Model” strategic initiative of using acquisitions to grow existing business and to expand into new services and lines of business that will provide for revenue growth in any market conditions. We will continue to evaluate acquisitions that can increase our penetration of a geographic area, add new customers, increase freight, or enable us to offer additional services.

During the three months ended March 31, 2008, we continued to experience a decrease in our income from operations as a percentage of operating revenue. The decrease in income from operations as a percentage of operating revenue was driven by changes in our revenue mix and increasing fuel expense. Revenue increases from our lower margin products have continued to outpace the revenue growth from our higher margin airport-to-airport service resulting in negative pressure on our operating margins. This change in revenue mix has been accelerated as a result of our recent acquisitions. In addition to the revenue mix, the recent acquisitions have increased the number of Company-employed drivers and Company-owned equipment. These increases have significantly increased our fuel expense as we, not an owner operator, are responsible for the fuel expense. During 2008, we expect lower year over year operating income margins as we anticipate increases in our other revenue streams to continue to outpace the increase in our airport-to-airport revenue and fuel expense will continue to increase significantly over prior periods.

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.

Results of Operations

The following table sets forth our consolidated historical financial data for the three months ended March 31, 2008 and 2007 (in millions):

	March 31, 2008	March 31, 2007	Change	% Change
Operating revenue	$ 107.9	$ 87.3	$ 20.6	23.6 %
Operating expenses:				
Purchased transportation	43.5	38.0	5.5	14.5
Salaries, wages, and employee benefits	26.4	19.0	7.4	38.9
Operating leases	4.8	3.7	1.1	29.7
Depreciation and amortization	3.7	2.4	1.3	54.2
Insurance and claims	2.3	1.7	0.6	35.3
Other operating expenses	10.5	6.7	3.8	56.7
Total operating expenses	91.2	71.5	19.7	27.6
Income from operations	16.7	15.8	0.9	5.7
Other income (expense):				
Interest expense	(0.3)	(0.1)	(0.2)	200.0
Other, net	0.1	0.8	(0.7)	(87.5)
Total other (expense) income	(0.2)	0.7	(0.9)	(128.6)
	16.5	16.5	--	--

Income before income taxes								
Income taxes		6.5		6.2		0.3	4.8	
Net income	$	10.0	$	10.3	$	(0.3)	(2.9)	%

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The following table sets forth our historical financial data by segment for the three months ended March 31, 2008 and 2007 (in millions):

	Three months ended
	March 31,