

FORWARD AIR CORP
Form 10-K
February 26, 2009

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, 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 or
organization)

62-1120025
(I.R.S. Employer
Identification No.)

430 Airport Road
Greenville, 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)
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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 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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of

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the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark 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 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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting Company <input type="checkbox"/>
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(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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2008 was approximately \$992,342,913 based upon the \$34.60 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 20, 2009 was 28,941,358.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the 2009 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

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Introductory Note

This Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (this “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 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. Our operations can be broadly classified into two principal segments: Forward Air, Inc. (“Forward Air”) and Forward Air Solutions, Inc. (“FASIF”).

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 82 cities in the United States and Canada, including a central sorting facility in Columbus, Ohio and 11 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.

Through our Forward Air segment, 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 11 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 2008, approximately 22.5% of the freight we handled was for overnight delivery, approximately 60.1% 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 and Federal Express in the overnight delivery of small parcels. In 2008, Forward Air's five largest customers accounted for approximately 21.6% of Forward Air's operating revenue and no single customer accounted for more than 10.0% of Forward Air's operating revenue.

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.

Through our FASI segment, which we formed in July 2007 in conjunction with our acquisition of certain assets and liabilities of USA Carriers, Inc. ("USAC), we provide pool distribution services throughout the Mid-Atlantic, Southeast, Midwest and Southwest continental United States. Pool distribution involves managing high-frequency handling and distribution of time-sensitive product to numerous destinations in specific geographic regions. Our primary customers for pool distribution are regional and nationwide distributors and retailers, such as mall, strip mall and outlet based retail chains. We service these customers through a network of terminals and service centers located in 19 cities. FASI's two largest customers accounted for approximately 43.9% of FASI's operating revenue, but revenues from these two customers did not exceed 10.0% of our consolidated revenue. No other customers accounted for more than 10.0% of FASI's operating revenue.

Our Industry

As businesses minimize inventory levels, close local distribution centers, perform manufacturing and assembly operations in multiple locations and distribute their products through multiple channels, they have an increased need for expedited or time definite delivery services. Expedited or time definite 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.

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

Although expedited or time definite freight is often transported by aircraft, freight forwarders and shippers often elect to arrange for its transportation by truck, especially for shipments requiring deferred delivery within two to three days. 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:

- 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.
- Full truckload carriers provide transportation services generally using their own fleet of trucks. A freight forwarder or shipper must have a shipment of sufficient size to justify the cost of a full truckload. These cost benefit concerns can inhibit the flexibility often required by freight forwarders or shippers.
- Passenger or cargo airlines provide airport-to-airport service, but have limited cargo space and generally accept only shipments weighing less than 150 pounds.

Competitive Advantages

We believe that the following competitive advantages are critical to our success in both our Forward Air and FASI segments:

- **Focus on Specific Freight Markets.** Our Forward Air segment focuses on providing time-definite surface transportation and related logistics services to the deferred air cargo industry. Our FASI segment focuses on providing high-quality pool distribution services to retailers and nationwide distributors of retail products. This focused approach enables 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 Forward Air 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 Forward Air network without the expertise and strategic facility locations

we have acquired and without expending significant capital and management resources. Our expansive Forward Air 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.

Primarily through acquisitions we have created a FASI network of terminals and service centers throughout the Mid-Atlantic, Southeast, Midwest and Southwest continental United States. The pool distribution market is very fragmented and our competition primarily consists of regional and local providers. We believe through our network of FASI terminals and service locations we can offer our pool distribution customers comprehensive, high-quality service across the majority of the continental United States.

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

FASI provides pool distribution services primarily to regional and nationwide distributors and retailers, such as mall, strip mall and outlet based retail chains.

- **Superior Service Offerings.** Forward Air’s published deferred air freight schedule for transit times with specific cut-off and arrival times generally provides Forward Air customers with the predictability they need. In addition, our network of Forward Air 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.

Our network of FASI terminals allows us the opportunity to provide deliveries to a wider range of locations than most pool distribution providers with increased on-time performance.

- **Flexible Business Model.** Rather than owning and operating our own trucks, Forward Air purchases most of its transportation requirements from owner-operators or truckload carriers. This allows Forward Air to respond quickly to changing demands and opportunities in our industry and to generate higher returns on assets because of the lower capital requirements.

Primarily as a result of the structure of our acquisition targets and the nature of pool distribution services, FASI utilizes a higher percentage of Company-employed drivers and Company-owned equipment. However, as the conditions of individual markets and requirements of our customers allow we are increasing the usage of owner-operators in our pool distribution business.

- **Comprehensive Logistic and Other Service Offerings.** Forward Air offers 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 Forward Air customers’ transportation needs and are not offered by many of our competitors. Forward Air is able to provide these services utilizing existing infrastructure and thereby able to earn additional revenue without incurring significant additional fixed costs.
- **Leading Technology Platform.** We are committed to using information technology to improve our Forward Air and FASI operations. Through improved information technology, we believe we can increase the volume of freight we handle in our networks, improve visibility of shipment information and reduce our operating costs. Our Forward Air 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 Forward Air systems to permit us and our customers to access vital information through both the Internet and electronic data interchange. We have continued to invest in information technology for Forward Air 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 utilized in all our Forward Air 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.

We are committed to developing the same superior level of information technology for FASI. One of the challenges FASI faces is the integration of many different software applications utilized by not only the companies FASI acquired but our individual customers as well. Our goal is to create a comprehensive system that will provide our pool distribution customers with the same level of visibility, interactivity and flexibility as experienced by our Forward Air customers.

- **Strong Balance Sheet and Availability of Funding.** Our asset-light business model and strong market position in the deferred air freight market provides the foundation for operations that produce excellent

cash flow from operations even in challenging conditions. Our strong balance sheet can also be a competitive advantage. Our competitors, particularly in the pool distribution market, are mainly regional and local operations and may struggle to maintain operations in the current economic environment. The threat of financial instability may encourage new and existing customers to use a more financially secure transportation provider, such as FASI.

Growth Strategy

Our growth strategy is to take advantage of our competitive strengths 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 Forward Air and FASI for only a portion of their overall transportation needs. We believe we can increase freight volumes from existing customers by offering more comprehensive services that address all of the customer’s transportation needs, such as Forward Air Complete, our direct to door pick-up and delivery service. By offering additional services that can be integrated with our existing business we believe we will attract additional business from existing customers.
- **Develop New Customers.** We continue to actively market our Forward Air 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 Forward Air’s comprehensive North American network and related logistics services are attractive to domestic and international airlines. Forward Air Complete can also help attract business from new customers who require pick-up and delivery for their shipments.

By expanding our network of FASI terminals, we believe we can attract new customers and new business from existing customers by offering our services across multiple regions of the continental United States.

- **Improve Efficiency of Our Transportation Network.** We constantly seek to improve the efficiency of our airport-to-airport and FASI networks. Regional hubs and direct shuttles improve Forward Air’s 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.

We can improve our FASI operations by improving the efficiencies of our daily and weekly routes and the cartons handled per hour on our docks. We are constantly looking to improve our route efficiencies by consolidating loads and utilizing owner-operators when available. During 2008, we also began to invest in conveyor systems for our FASI terminals to increase productivity of our cargo handlers.

- **Expand Logistics and Other Services.** We continue to expand our logistics and other services to increase revenue and improve utilization of our Forward Air terminal facilities and labor force. Because of the timing of the arrival and departure of cargo, our Forward Air facilities are under-utilized during certain portions of the day, allowing us to add logistics services without significantly increasing our costs. Therefore, we have added a number of Forward Air logistic services in the past few years, such as TLX (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.

- **Expand Pool Distribution Services and Integrate with our Forward Air Services.** In addition to increasing our revenue from traditional pool distribution services we are working to integrate our Forward Air and FASI service offerings. Through this process we are able to offer customers linehaul or truckload services, with handling and sorting at the origin and destination terminal, and final distribution to one or many locations utilizing FASI pool distribution or Forward Air Complete.
- **Enhance Information Systems.** We are committed to the continued development and enhancement of our information systems in ways that will continue to provide us competitive service advantages and increased productivity. We believe our enhanced systems have and will assist us in capitalizing on new business opportunities with existing customers and developing relationships with new customers.

- 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. Since our inception, we have acquired certain assets and liabilities of twelve businesses that met one or more of these criteria. During 2008 and 2007, we acquired certain assets and liabilities of four companies that met these criteria.
- Ø In July 2007, we acquired certain assets and liabilities of USAC which provided the base from which we launched our FASI pool distribution services.
- Ø In December 2007, we acquired certain assets and liabilities of Black Hawk Freight Services, Inc. (“Black Hawk”) which increased the penetration of our Forward Air airport-to-airport network in the Midwest.
- Ø In March 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. This acquisition gave FASI a presence primarily in Texas and strengthens the position of our Forward Air network in the Southwest United States.
- Ø In September 2008, we acquired certain assets and liabilities of Service Express, Inc. (“Service Express”). The acquisition of Service Express, a privately-held provider of pool distribution services, helped us expand FASI’s geographic footprint in the Mid-Atlantic and Southeastern continental United States.

Operations

We operate in two reportable segments, based on differences in the services provided: Forward Air and 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. Forward Air’s activities can be broadly classified into three categories of services: airport-to-airport, logistics and other.

Through our FASI segment we provide pool distribution services throughout the Mid-Atlantic, Southeast, Midwest and Southwest continental United States. Pool distribution involves managing high-frequency handling and distribution of time-sensitive product to numerous destinations in specific geographic regions.

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 eleven 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, or we, in the alternative, through our Forward Air Complete service, deliver the freight for the customer to its final destination.

Terminals

Our airport-to-airport network consists of terminals located in the following 82 cities:

City	Airport Served	City	Airport Served
		Los Angeles, CA	LAX
Albany, NY	ALB	Louisville, KY	SDF
Albuquerque, NM*	ABQ	Memphis, TN	MEM
Atlanta, GA	ATL	McAllen, TX	MFE
Austin, TX	AUS	Baltimore, MD	BWI