FORWARD AIR CORP
Form 10-K
February 15, 2013

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, 2012
Commission File No. 000-22490

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

Tennessee	62-1120025
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

430 Airport Road Greeneville, Tennessee	37745
(Address of principal executive offices)	(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	The NASDAQ Stock Market LLC
(Title of class)	(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 þ No o

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 o No þ

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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 þ 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 definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting Company o

(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 o No þ

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2012 was approximately $922,515,140 based upon the $32.27 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 11, 2013 was 29,602,342.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the proxy statement for the 2013 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, 2012 (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. Except as required by law, 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. (“FASI”).

Through our Forward Air segment, we are a leading provider of time-definite surface transportation and related logistics services to the North American expedited ground 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 87 cities in the United States and Canada, including a central sorting facility in Columbus, Ohio and 12 regional hubs serving key markets. We also offer our customers an array of logistics and other services including: expedited full truckload (“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 freight forwarders, integrated air cargo carriers, and passenger and cargo airlines. To serve this market, we offer customers a high level of service with a focus on on-time, damage-free deliveries. We serve our customers by locating our terminals on or near airports and maintaining regularly scheduled transportation service between major cities. We either receive shipments at our terminals or if instructed to do so pick up shipments directly from our customers. We then transport the freight

by truck (i) directly to the destination terminal; (ii) to our Columbus, Ohio central sorting facility; or (iii) to one of our 12 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 tonnage volume.

During 2012, approximately 23.9% of the freight we handled was for overnight delivery, approximately 61.3% 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 2012, Forward Air’s ten largest customers accounted for approximately 47.2% of Forward Air’s operating revenue and no single customer accounted for more than 10.0% of Forward Air’s operating revenue.

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We continue to develop and implement complimentary services to the airport-to-airport network. Our complimentary services including TLX full truckload; 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, we provide pool distribution services throughout the Mid-Atlantic, Southeast, Midwest and Southwest continental United States. Pool distribution involves managing high-frequency, last mile 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 specialty 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 three largest customers accounted for approximately 61.9% of FASI's 2012 operating revenue, but revenues from these three 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 regional and 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 several principal alternatives to transport freight: freight forwarders; integrated air cargo carriers; less-than-truckload carriers; full 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 a single shipment is unloaded, sorted and reloaded multiple times. This additional handling increases transit time, handling costs and the likelihood of cargo damage or theft.
- 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 North American expedited ground freight market. 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 developed 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 with the expertise and strategic facility locations we have acquired 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 which in general are significantly below air freight rates.

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We have established 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 that through our network of FASI terminals and service locations we can offer our pool distribution customers comprehensive, high-quality, consistent service across the majority of the continental United States.

- Concentrated Marketing Strategy. Forward Air provides our expedited ground freight services mainly to 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 specialty retailers, such as mall, strip mall and outlet-based retail chains.

- Superior Service Offerings. Forward Air's published expedited ground 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 shortens transit times) and earlier delivery times than most of our competitors. Our network of FASI terminals allows us the opportunity to provide precision deliveries to a wider range of locations than most pool distribution providers with increased on-time performance. Recent economic uncertainty resulted in reduced inventory levels and increased shippers' need for reliable, expedited delivery. We believe the trend of minimal inventories and increased expedited shipping will continue, and that our network of terminals and expedited capabilities put us in an excellent position to benefit from these trends.
- Flexible Business Model. Rather than owning and operating our own fleet of trucks, Forward Air purchases most of its transportation requirements from owner-operators or truckload carriers. Due to the nature of pool distribution services, FASI utilizes a higher percentage of Company-employed drivers and Company-owned equipment than Forward Air. However, as the conditions of individual markets and requirements of our customers allow, we utilize owner-operators in our pool distribution business. This approach allows us to respond quickly to changing demands and opportunities in our industry and to generate higher returns on assets because of the lower capital requirements.
- Comprehensive Logistic and Other Service Offerings. Through our two segments we offer an array of logistic and other services including: 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 often able to provide these services utilizing existing infrastructure and thereby earning additional revenue without incurring significant additional fixed costs.
- Leading Technology Platform. We are committed to using information technology to improve our 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 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 have continued to invest in information technology to the benefit of our customers and our business processes.
- Strong Balance Sheet and Availability of Funding. Our asset-light business model and strong market position in the expedited ground freight market provides the foundation for operations that have produced 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 an uncertain 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 goal is to use our established networks as the base from which to expand and launch new services that will allow us to grow in any economic environment. Principal components of our efforts include:

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- Increase Freight Volume from Existing Customers. Many of our customers currently use us 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™ ("Complete"), our direct to door pick-up and delivery service. By offering additional services that can be integrated with our existing services, we believe we will attract additional business from existing customers. In 2012, 23.1% of airport-to-airport linehaul shipments had a Complete component. We believe increasing this Complete attachment rate is a key to growing the revenue of our airport-to-airport service.
- Develop New Customers. We continue to actively market our services to potential new customers. In our Forward Air segment, we believe freight forwarders will continue to 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 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. In our pool distribution business, we are emphasizing the development of relationships with customers who have peak volume seasons outside of the traditional fourth quarter peak season in order to stabilize FASI's earnings throughout the calendar year. We are currently targeting customers from industries such as hospitality, healthcare, lawn and garden and publishing. We continue to evaluate plans to expand FASI's terminal footprint by opening FASI operations in select Forward Air terminals. We believe the utilization of existing Forward Air terminals will allow us to increase our FASI revenues with minimal addition of fixed costs.
- Improve Efficiency of Our Transportation Network. We constantly seek to improve the efficiency of our networks. Regional hubs and direct shuttles improve Forward Air's efficiency by reducing the number of miles freight must be transported and the number of times freight must be handled and sorted. As the volume of freight between key markets increases, we intend to continue adding direct shuttles. In key gateway cities we have constructed or expanded terminals. With these expanded facilities, we believe we have the necessary space to grow our business in key gateway cities and to offer additional services. We are working to improve our FASI operations by increasing the efficiencies of our daily and weekly transportation routes and the cartons handled per hour on our docks. We are constantly looking to improve FASI route efficiencies by consolidating loads and utilizing owner-operators when available. We are investing in conveyor systems for certain FASI terminals to increase the productivity of our cargo handlers. Finally, we are actively looking to reduce or eliminate the number of duplicate facilities in cities which have both Forward Air and FASI terminals. We have combined Forward Air and FASI facilities in Dallas/Fort Worth, Texas, Des Moines, Iowa, Denver, Colorado, Kansas City, Missouri, Nashville, Tennessee, Richmond, Virginia and Tulsa, Oklahoma, and will continue this process in upcoming years as the expiration of leases and business volumes allow.
- 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 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 logistic services in the past few years, such as TLX, 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 customers 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 expand FASI's customer base beyond retail and 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 and 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 continue to evaluate and pursue acquisitions that can increase our penetration of a geographic area, add new customers, add new business verticals, increase freight volume and add new service offerings. In addition, we expect to explore acquisitions that may enable us to offer additional services. Acquisitions may affect our short-term cash flow and net income as we expend funds, potentially increase indebtedness and incur additional expenses.

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 expedited ground 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 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, through one of our 12 regional hubs or, as volumes require, direct point-to-point service. 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.

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Terminals

Our airport-to-airport network consists of terminals located in the following 87 cities:

City	Airport Served	City	Airport Served
Albany, NY	ALB	Louisville, KY	SDF
Albuquerque, NM*	ABQ	Memphis, TN	MEM
Allentown, PA*	ABE	McAllen, TX	MFE
Atlanta, GA	ATL	Miami, FL	MIA
Austin, TX	AUS	Milwaukee, WI	MKE
Baltimore, MD	BWI	Minneapolis, MN	MSP
Baton Rouge, LA*	BTR	Mobile, AL*	MOB
Birmingham, AL*	BHM	Moline, IA	MLI
Blountville, TN*	TRI	Montgomery, AL*	MGM
Boston, MA	BOS	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
Fort Wayne, IN*	FWA	Salt Lake City, UT	SLC
Grand Rapids, MI*	GRR	San Antonio, TX	SAT
Greensboro, NC	GSO	San Diego, CA	SAN
Greenville, SC	GSP	San Francisco, CA	SFO
Hartford, CT	BDL	Seattle, WA	SEA
Harrisburg, PA	MDT	Shreveport, LA*	SHV
Houston, TX	IAH	South Bend, IN*	SBN
Huntsville, AL*	HSV	St. Louis, MO	STL
Indianapolis, IN	IND	Syracuse, NY	SYR
Jacksonville, FL	JAX	Tampa, FL	TPA
Kansas City, MO**	MCI	Toledo, OH*	TOL
Knoxville, TN*	TYS	Tucson, AZ*	TUS
Lafayette, LA*	LFT	Tulsa, OK**	TUL
Laredo, TX	LRD	Washington, DC	IAD
Las Vegas, NV	LAS	Montreal, Canada*	YUL
Little Rock, AR*	LIT	Toronto, Canada	YYZ
Los Angeles, CA	LAX		

* Denotes an independent agent location.

** Denotes a location with combined Forward Air and FASI operations.
*** Denotes a location in which Forward Air is an agent for FASI.

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Independent agents operate 22 of our Forward Air locations. These locations typically handle lower volumes of freight relative to our Company-operated facilities.

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 allow 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, Chicago, Dallas/Ft. Worth, Denver, Kansas City, Los Angeles, New Orleans, Newark, Newburgh, Orlando, and Sacramento.

Shipments

The average weekly volume of freight moving through our network was approximately 34.9 million pounds per week in 2012. During 2012, our average shipment weighed approximately 637 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 1997.

Year	Average Weekly Volume in Pounds (In millions)
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
2008	34.2
2009	28.5
2010	32.6
2011	34.0
2012	34.9

Logistics and Other Services

Our 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 primarily 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 full truckload, or TLX;
- dedicated fleet;
- customs brokerage, such as assistance with U.S. Customs and Border Protection ("U.S. Customs") procedures for both import and export shipments;

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- warehousing, dock and office space;
- drayage and intermodal;
- hotshot or ad-hoc ultra expedited services; 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 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 service, which is the largest component of our Logistics revenue, are largely determined by the number of miles driven. The table below summarizes the average miles driven per week to support our TLX service since 2003:

Year	Average Weekly Miles (In thousands)
2003	211
2004	259
2005	248
2006	331
2007	529
2008	676
2009	672
2010	788
2011	876
2012	1,005

Forward Air Solutions (FASI)

Pool Distribution

Through our FASI segment we provide pool distribution services through a network of terminals and service locations in 19 cities 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 this product are regional and nationwide distributors and retailers, such as mall, strip mall and outlet-based retail chains. However, in order to reduce the seasonal volatility of FASI's revenue, we are focused on diversifying the FASI customer base to include customers from industries such as hospitality, health care, lawn and garden and publishing.

Our pool distribution network consists of terminals and service locations in the following 19 cities:

City	
Atlanta, GA	Lakeland, FL
Baltimore, MD	Las Vegas, NV
Charlotte, NC	Miami, FL
Columbus, OH*	Montgomery, AL
Dallas/Ft. Worth, TX**	Nashville, TN**
Denver, CO**	Raleigh, NC
Des Moines, IA**	Richmond, VA**
Houston, TX	San Antonio, TX
Jacksonville, FL	Tulsa, OK**
Kansas City, MO**	

* Denotes a location in which Forward Air is an agent for FASI.
** Denotes a location with combined Forward Air and FASI operations.

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Customers and Marketing

Our Forward Air wholesale customer base is primarily comprised of freight forwarders, integrated air cargo carriers and passenger and cargo airlines. Our freight forwarder customers vary in size from small, independent, single facility companies to large, international logistics companies such as SEKO Worldwide, AIT Worldwide Logistics, Expeditors International of Washington, Associated Global, UPS Supply Chain Solutions, FedEx Corporation and Pilot Air Freight. Because we deliver dependable service, integrated air cargo carriers such as UPS Cargo, FedEx Corporation 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 United Airlines and Delta.

Our FASI pool distribution customers are primarily comprised of national and regional retailers and distributors, such as The Limited, The Marmaxx Group, The GAP, and Aeropostale. However, in order to reduce the seasonal volatility of FASI's revenue, we are focused on diversifying the FASI customer base to include customers from industries such as hospitality, health care, lawn and garden and publishing.

We market all 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 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 and www.forwardairsolutions.com. The information contained on our websites is not part of this filing and is therefore not incorporated by reference unless such information is otherwise specifically referenced elsewhere in this report.

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 develop and enhance our systems to permit our customers to obtain this information both through the Internet and through electronic data interchange.

We continue to enhance our operational applications and website service offerings in our continuing effort to automate and improve our operations. Our Forward Air Complete™ website coordinates activities between our customers, operations personnel and external service providers. We believe that our systems, websites 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.

We continued to make significant investments in technology for FASI. We continued our development of FASI driven enhancements to our existing applications. These enhancements, collectively known as FASTRACS, are designed specifically to meet the retail distribution business demands, and make use of the most modern wireless technologies available. FASTRACS has been implemented for a select group of customers and is being designed so as to be the primary technology platform for all future customers.

Purchased Transportation

We contract with owner-operators for most of our transportation services. The owner-operators own, operate and maintain their own tractors and employ their own drivers. Our freight handlers load and unload our trailers and vehicles 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 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 or along a consistent route, 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 $252.7 million incurred for purchased transportation during 2012, we purchased 59.8% from owner-operators and 40.2% from other surface transportation providers.

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Competition

The expedited ground freight and pool distribution segments of the transportation industry are highly competitive and very fragmented. Our Forward Air and FASI competitors primarily include national and regional truckload and less-than-truckload carriers. To a lesser extent, Forward Air also competes with integrated air cargo carriers and passenger and cargo airlines.

We believe competition is based primarily on service, on-time delivery, flexibility and reliability, as well as rates. We offer our Forward Air services at rates that generally are significantly below the charge to transport the same shipment to the same destination by air. We believe Forward Air has an advantage over less-than-truckload carriers because Forward Air delivers faster, more reliable service between many cities. We believe FASI has an advantage over its competitors due to its presence in several regions across the continental United States allowing us to provide consistent, high-quality service to our customers regardless of location.

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 economic conditions, customer demand, weather and national holidays. Additionally, a significant portion of our revenue is derived from customers whose business levels are impacted by the economy. The impact of seasonal trends and the economy is more pronounced on our pool distribution business. The pool distribution business is seasonal and operating revenues and results tend to improve in the third and fourth quarters compared to the first and second quarters.

Employees

As of December 31, 2012, we had 1,007 full-time employees, 611 of whom were freight handlers. Also, as of that date, we had an additional 1,121 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 is 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 and Company-employed drivers 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 vehicle and general liability claims. 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 material adverse effect on our business, financial condition or results of operations.

Regulation

The DOT and various state and federal 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 property 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 Canada.

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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 Solutions ®, Forward Air TLX™, 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 Business Conduct and Ethics and our reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Our website addresses are www.forwardair.com and www.forwardairsolutions.com. Our goal is to maintain our website as a portal through which investors can easily find or navigate to pertinent information about us. 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 material adverse effect on our results of operations.

Our business is dependent upon a number of factors that may have a material 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 material 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 consumer confidence in the United States, or their impact, if any, on our future results of operations.

In order to grow our business, we will need to increase the volume and revenue per pound of the freight shipped through our networks.

Our growth depends in significant part on our ability to increase the amount and revenue per pound of freight shipped through our networks. The amount of freight shipped through our networks 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 networks or the revenue per pound of the freight shipped, we may be unable to maintain or increase our profitability.

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Our rates, overall revenue and expenses are subject to volatility.

Our rates are subject to change based on competitive pricing and market factors. Our overall transportation rates consist of base transportation and fuel surcharge rates. Our base transportation rates exclude fuel surcharges and are set based on numerous factors such as length of haul, freight class and weight per shipment. The base rates are subject to change based on competitive pricing pressures and market factors. Most of our competitors impose fuel surcharges, but there is no industry standard for the calculation of fuel surcharge rates. Our fuel surcharge rates are set weekly based on the national average for fuel prices as published by the U.S. Department of Energy ("DOE") and our fuel surcharge table. Historically, we have not adjusted our method for determining fuel surcharge rates.

Our net fuel surcharge revenue is the result of our fuel surcharge rates and the tonnage transiting our networks. The fuel surcharge revenue is then netted with the fuel surcharge we pay to our owner-operators and third party transportation providers. Fluctuations in tonnage levels, related load factors, and fuel prices may subject us to volatility in our net fuel surcharge revenue. This potential volatility in net fuel surcharge revenue may adversely impact our overall revenue, base transportation revenue plus net fuel surcharge revenue, and results of operations.

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 networks.

Our operations, particularly our networks 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, Forward Air does not have contracts with its customers. FASI does have contracts with its customers but these contracts typically have terms allowing cancellation within 30 to 60 days. As a result, 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 networks include various manufacturers, distributors and/or retailers of electronics, clothing, 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 networks.

We operate in highly competitive and fragmented segments of our 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 segments of the freight transportation industry we participate in are highly competitive, very fragmented and historically have few barriers to entry. Our principal competitors include national and regional truckload and less-than-truckload carriers. To a lesser extent, we also 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 freight forwarders who decide to establish their own networks to transport expedited ground freight. We believe competition is based primarily on service, 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 and Company-employed drivers 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 vehicle and general liability claims. 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.

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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, at favorable terms or at all;
- diversion of management attention;
- retention of employees and customers;
- unexpected liabilities;
- potential erosion of operating profits as new acquisitions may be unable to achieve profitability comparable with our core airport-to-airport business; and
- detrimental issues not discovered during due diligence.

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, our operating results may actually decline and acquired goodwill may become impaired.

Severe economic downturns like the recession experienced in 2008 and 2009 can result in weaker demand for ground transportation services, which may have a significant negative impact on our results of operations.

During 2008 and 2009, we experienced significantly weaker demand for our airport-to-airport and pool distribution services as a result of the severe downturn in the economy. During the time in question, we adjusted the size of our owner-operator fleet and reduced employee headcount to compensate for the drop in demand. If the economic downturn persisted or worsened, demand for our services may have continued to weaken. No assurance can be given that reductions in owner-operators and employees or other steps we may take during similar times in the future will be adequate to offset the effects of reduced demand. If we experience another economic downturn it may have a negative impact on our results of operations.

We could be required to record a material non-cash charge to income if our recorded intangible assets or goodwill are determined to be impaired.

We have $22.1 million of recorded net definite-lived intangible assets on our consolidated balance sheet at December 31, 2012. Our definite-lived intangible assets primarily represent the value of customer relationships and non-compete agreements that were recorded in conjunction with our various acquisitions. We review our long-lived assets, such as our definite-lived intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is recognized on these assets when the sum of undiscounted estimated cash flows expected to result from the use of the asset is less than the carrying value. If such measurement indicates an impairment, we would be required to record a non-cash impairment charge to our consolidated statement of comprehensive income in the amount that the carrying value of these assets exceed the estimated fair value of the assets.

We also have recorded goodwill of $43.3 million on our consolidated balance sheet at December 31, 2012. Goodwill is assessed for impairment annually (or more frequently if circumstances indicate possible impairment) for each of our reporting units. This assessment includes comparing the fair value of each reporting unit to the carrying value of the assets assigned to each reporting unit. If the carrying value of the reporting unit was to exceed our estimated fair value of the reporting unit, we would then be required to estimate the fair value of the individual assets and liabilities within the reporting unit to ascertain the amount of fair value of goodwill and any potential impairment. If we determine that our fair value of goodwill is less than the related book value, we could be required to record a non-cash impairment charge to our consolidated statement of comprehensive income, which could have a material adverse effect on our earnings.

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The estimation of fair value related to the impairment test for goodwill is particularly sensitive to projected financial information used in the calculations. Earnings estimated to be generated by our Forward Air segment are expected to continue supporting the carrying value of its goodwill. The FASI segment is currently facing the challenges of building, expanding and diversifying its revenue base. If FASI's efforts are significantly delayed, future estimates of projected financial information may be reduced, and the Company may be required to record an impairment charge against the carrying value of FASI's goodwill.

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, cyber-attacks 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 hamper our internal operations, our ability to provide services to our customers and the ability of our customers to access our information technology systems. A material network breach in the security of our information technology systems could include the theft of our intellectual property or trade secrets. To the extent that any disruptions or security breach results in a loss or damage to our data, or in inappropriate disclosure of confidential information, it could cause significant damage to our reputation, affect our relationships with our customers, reduce the demand for our services, lead to claims against us and ultimately harm our business. In addition, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

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 2012, owner-operators provided 59.8% 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.

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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 and federal 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.

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 subject to various environmental laws and regulations, and costs of compliance with, or liabilities for violations of, existing or future laws and regulations could significantly increase our costs of doing business.

Our operations are subject to environmental laws and regulations dealing with, among other things, the handling of hazardous materials and discharge and retention of stormwater. We operate in industrial areas, where truck terminals and other industrial activities are located, and where groundwater or other forms of environmental contamination may have occurred. Our operations involve the risks of fuel spillage, environmental damage, and hazardous waste disposal, among others. If we are involved in a spill or other accident involving hazardous substances, or if we are found to be in violation of applicable environmental laws or regulations, it could significantly increase our cost of doing business. Under specific environmental laws and regulations, we could be held responsible for all of the costs relating to any contamination at our past or present terminals and at third-party waste disposal sites. If we fail to comply with applicable environmental laws and regulations, we could be subject to substantial fines or penalties and to civil and criminal liability.

In addition, as global warming issues become more prevalent, federal and local governments and our customers are beginning to respond to these issues. This increased focus on sustainability may result in new regulations and customer requirements that could negatively affect us. This could cause us to incur additional direct costs or to make changes to our operations in order to comply with any new regulations and customer requirements, as well as increased indirect costs or loss of revenue resulting from, among other things, our customers incurring additional compliance costs that affect our costs and revenues. We could also lose revenue if our customers divert business from us because we have not complied with their sustainability requirements. These costs, changes and loss of revenue could have a material adverse affect on our business, financial condition and 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.

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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 charter and bylaws and provisions of Tennessee law could discourage or prevent a takeover that may be considered favorable.

Our 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 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 and also could limit the price that investors are willing to pay in the future for shares of our Common Stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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. The 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 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.

We also own facilities near Dallas/Fort Worth, Texas, Chicago, Illinois and Atlanta, Georgia. The Dallas/Fort Worth, Texas facility has over 216,000 square feet with 134 trailer doors and approximately 28,000 square feet of office space. The Chicago, Illinois facility is over 125,000 square feet with 110 trailer doors and over 10,000 square feet of

office space. The Atlanta, Georgia facility is over 142,000 square feet with 118 trailer doors and approximately 12,000 square feet of office space.

We lease and maintain 72 additional terminals, including our pool distribution terminals, located in major cities throughout the United States and Canada. Lease terms for these terminals are typically for three to five years. The remaining 22 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 networks. Substantially all of our trailers are 53' long, some of which have specialized roller bed equipment required to serve air cargo industry customers. At December 31, 2012, we had 2,746 owned trailers in our fleet with an average age of approximately 5.7 years. In addition, at December 31, 2012, we also had 54 leased trailers in our fleet.

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At December 31, 2012, we had 389 owned tractors and straight trucks in our fleet, with an average age of approximately 4.8 years. In addition, at December 31, 2012, we also had 35 leased tractors and straight trucks in our fleet.

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, results of operations or cash flow.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

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

Our 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 Common Stock as reported by The NASDAQ Global Select Stock Market™ for each full quarterly period within the two most recent fiscal years.

2012	High	Low	Dividends
First Quarter	$37.39	$31.78	$0.07
Second Quarter	37.12	30.17	0.07
Third Quarter	36.66	30.28	0.10
Fourth Quarter	35.09	29.65	0.10

2011	High	Low	Dividends
First Quarter	$32.30	$26.34	$0.07
Second Quarter	35.53	29.76	0.07
Third Quarter	36.32	23.70	0.07
Fourth Quarter	34.19	24.10	0.07

There were approximately 442 shareholders of record of our Common Stock as of January 15, 2013.

Subsequent to December 31, 2012, our Board of Directors declared a cash dividend of $0.10 per share that will be paid in the first quarter of 2013. 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.

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

None of our securities were sold during fiscal year 2012 without registration under the Securities Act.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2012 with respect to shares of our Common Stock that may be issued under existing equity compensation plans, the 1999 Stock Option and Incentive Plan (the "1999 Plan"), the Amended and Restated Stock Option and Incentive Plan ("1999 Amended 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 Amended and Restated Non-Employee Director Stock Plan (the "Amended Plan"). Our shareholders have approved each of these plans.

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Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued upon Exercise or Vesting of Outstanding/Unvested Shares, Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
		(a)	(b)
Equity Compensation Plans Approved by Shareholders	3,189,542	$26	2,202,531
Equity Compensation Plans Not Approved by Shareholders	—	—	—
Total	3,189,542	$26	2,202,531

(a) Excludes purchase rights accruing under the ESPP, which has an original 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.

(b) Includes shares available for future issuance under the ESPP. As of December 31, 2012, an aggregate of 421,122 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 2007 and ending on the last trading day of December 2012. The graph assumes a base investment of $100 made on December 31, 2007 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.

The performance graph and related information shall not be deemed "soliciting material" or be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference into such filing.

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	2007	2008	2009	2010	2011	2012
Forward Air Corporation	$100	$77	$80	$90	$102	$111
Nasdaq Trucking and Transportation Stocks Index	100	70	73	96	81	85
Nasdaq Global Select Stock Market Index	100	60	87	102	100	116

Issuer Purchases of Equity Securities

No shares of our Common Stock were repurchased by the Company during the year ended December 31, 2012.

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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, 2012	December 31, 2011	December 31, 2010	December 31, 2009	December 31, 2008
	(In thousands, except per share data)				
Income Statement Data:					
Operating revenue	$584,446	$536,402	$483,939	$417,410	$474,436
Income from operations	83,532	77,110	53,739	18,550	70,285
Operating margin (1)	14.3 %	14.4 %	11.1 %	4.4 %	14.8 %
Net income	52,668	47,199	32,036	9,802	42,542
Net income per share:					
Basic	$1.82	$1.62	$1.11	$0.34	$1.48
Diluted	$1.78	$1.60	$1.10	$0.34	$1.47
Cash dividends declared per common share	$0.34	$0.28	$0.28	$0.28	$0.28
Balance Sheet Data (at end of period):					
Total assets	$399,187	$341,151	$348,796	$316,730	$307,527
Long-term obligations, net of current portion	58	333	50,883	52,169	53,035
Shareholders' equity	351,671	286,902	256,086	224,507	216,434

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

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview and Executive Summary

Our operations can be broadly classified into two principal segments: Forward Air and FASI.

Through our Forward Air segment, we are a leading provider of time-definite surface transportation and related logistics services to the North American expedited ground 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 87 cities in the United States and Canada, including a central sorting facility in Columbus, Ohio and 12 regional hubs serving key markets. We also offer our customers an array of logistics and other services including: TLX; warehousing; customs brokerage; and shipment consolidation, deconsolidation and handling.

FASI provides 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 this product 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.

Our operations, particularly our network of hubs and terminals, represent substantial fixed costs. Consequently, our ability to increase our earnings depends in significant part on our ability to increase the amount of freight and the revenue per pound or carton for the freight shipped through our networks and to grow other lines of businesses, such as TLX, which will allow us to maintain revenue growth in challenging shipping environments.

Trends and Developments

Results from Operations

During the year ended December 31, 2012, we experienced a 8.9% and 8.3% increase in our consolidated revenues and income from operations, respectively, compared to the year ended December 31, 2011. Forward Air revenue and income from operations increased 8.0% and 6.5%, respectively. Forward Air revenue increases were driven by the airport-to-airport and logistics service lines. Airport-to-airport increased primarily on higher utilization of Forward Air Complete™ ("Complete") and increases in our price per pound. Our airport-to-airport price per pound increased on general rate increases initiated in September 2012 and June 2011. Volumes or tonnage shipped through our airport-to-airport business increased 2.5% in 2012 compared to 2011, but volume gains were mainly in the first half of 2012 as volumes were down slightly year-over-year in the second half of 2012. The logistics revenue increase was attributable to higher TLX revenue on an increase in miles driven partially offset by a decline in our TLX revenue per mile.

FASI revenue increased 16.1% during the year ended December 31, 2012 compared to the year ended December 31, 2011. In conjunction with the revenue growth, FASI's income from operations improved $1.4 million and over 200%, from $0.6 million in 2011 to $2.0 million during 2012. The increase in revenue and the corresponding increase in operating income was the result of new business wins in the fourth quarters of 2012 and 2011.

Our net fuel surcharge revenue is the result of our fuel surcharge rates, which are set weekly using the national average for diesel price per gallon, and the tonnage transiting our network. For the majority of 2012 higher diesel prices and improved volumes did combine to increase our net fuel surcharge revenue by 5.0% during the year end December 31, 2012 compared to the year ended December 31, 2011.

Goodwill

In accordance with our accounting policy, we conducted our annual impairment assessments and tests of goodwill for each reporting unit as of June 30, 2012 and no impairment charges were required. As of December 31, 2012, the carrying value of goodwill related to the Forward Air and FASI segments was $37.9 million and $5.4 million, respectively. Based on our qualitative assessment of Forward Air we believed it was more likely than not that the fair value of the reporting unit continued to exceed the reporting unit's carrying value. During the second quarter of 2012, we prepared an estimation of the FASI reporting unit's fair value. The estimation of fair value related to the impairment test for goodwill is particularly sensitive to projected financial

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information used in the calculations. Our FASI segment is currently facing the challenges of building, expanding and diversifying its revenue base. If FASI's efforts are significantly delayed, future estimates of projected financial information may be reduced, and we may be required to record an impairment charge against the carrying value of FASI's goodwill.

Results of Operations

The following table sets forth our historical financial data for the years ended December 31, 2012 and 2011 (in millions):

	Year ended December 31, 2012	December 31, 2011	Change	Percent Change
Operating revenue	$584.4	$536.4	$48.0	8.9 %
Operating expenses:				
Purchased transportation	252.7	223.0	29.7	13.3
Salaries, wages, and employee benefits	135.0	130.7	4.3	3.3
Operating leases	28.0	27.1	0.9	3.3
Depreciation and amortization	21.1	21.0	0.1	0.5
Insurance and claims	11.3	8.8	2.5	28.4
Fuel expense	10.0	10.0	—	—
Other operating expenses	42.8	38.7	4.1	10.6
Total operating expenses	500.9	459.3	41.6	9.1
Income from operations	83.5	77.1	6.4	8.3
Other income (expense):				
Interest expense	(0.4)	(0.6)	0.2	(33.3)
Other, net	—	0.1	(0.1)	(100.0)
Total other expense	(0.4)	(0.5)	0.1	(20.0)
Income before income taxes	83.1	76.6	6.5	8.5
Income taxes	30.4	29.4	1.0	3.4
Net income	$52.7	$47.2	$5.5	11.7 %

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The following table sets forth our historical financial data by segment for the years ended December 31, 2012 and 2011 (in millions):

	Year ended December 31, 2012	Percent of Revenue	December 31, 2011	Percent of Revenue	Change	Percent Change
Operating revenue						
Forward Air	$ 501.7	85.9 %	$ 464.5	86.6 %	$ 37.2	8.0 %
FASI	85.0	14.5	73.2	13.6	11.8	16.1
Intercompany eliminations	(2.3)	(0.4)	(1.3)	(0.2)	(1.0)	76.9
Total	584.4	100.0	536.4	100.0	48.0	8.9
Purchased transportation						
Forward Air	231.4	46.1	206.0	44.4	25.4	12.3
FASI	23.3	27.4	18.2	24.9	5.1	28.0
Intercompany eliminations	(2.0)	87.0	(1.2)	92.3	(0.8)	66.7
Total	252.7	43.3	223.0	41.6	29.7	13.3
Salaries, wages and employee benefits						
Forward Air	103.1	20.6	101.3	21.8	1.8	1.8
FASI	31.9	37.5	29.4	40.2	2.5	8.5
Total	135.0	23.1	130.7	24.4	4.3	3.3
Operating leases						
Forward Air	20.4	4.1	19.7	4.2	0.7	3.6
FASI	7.6	9.0	7.4	10.1	0.2	2.7
Total	28.0	4.8	27.1	5.0	0.9	3.3
Depreciation and amortization						
Forward Air	16.4	3.3	16.8	3.6	(0.4)	(2.4)
FASI	4.7	5.5	4.2	5.7	0.5	11.9
Total	21.1	3.6	21.0	3.9	0.1	0.5
Insurance and claims						
Forward Air	8.9	1.8	7.2	1.6	1.7	23.6
FASI	2.4	2.8	1.6	2.2	0.8	50.0
Total	11.3	1.9	8.8	1.6	2.5	28.4
Fuel expense						
Forward Air	4.2	0.8	4.4	0.9	(0.2)	(4.5)
FASI	5.8	6.8	5.6	7.6	0.2	3.6
Total	10.0	1.7	10.0	1.9	—	—
Other operating expenses						
Forward Air	35.8	7.1	32.6	7.0	3.2	9.8
FASI	7.3	8.6	6.2	8.5	1.1	17.7
Intercompany eliminations	(0.3)	13.0	(0.1)	7.7	(0.2)	200.0
Total	42.8	7.3	38.7	7.2	4.1	10.6

Income from operations									
Forward Air	81.5	16.2		76.5	16.5		5.0	6.5	
FASI	2.0	2.4		0.6	0.8		1.4	233.3	
Total	$ 83.5	14.3	%	$ 77.1	14.4	%	$ 6.4	8.3	%

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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, 2012 and 2011 (in millions):

	2012	Percent of Revenue	2011	Percent of Revenue	Change	Percent Change
Forward Air revenue						
Airport-to-airport	$ 391.2	78.0 %	$ 362.1	78.0 %	$ 29.1	8.0 %
Logistics	84.2	16.8	74.7	16.1	9.5	12.7
Other	26.3	5.2	27.7	5.9	(1.4)	(5.1)
Total	$ 501.7	100.0 %	$ 464.5	100.0 %	$ 37.2	8.0 %
Forward Air purchased transportation						
Airport-to-airport	$ 160.7	41.1 %	$ 143.0	39.5 %	$ 17.7	12.4 %
Logistics	63.5	75.4	56.2	75.2	7.3	13.0
Other	7.2	27.4	6.8	24.5	0.4	5.9
Total	$ 231.4	46.1 %	$ 206.0	44.4 %	$ 25.4	12.3 %

Year ended December 31, 2012 compared to Year ended December 31, 2011

Revenues

Operating revenue increased by $48.0 million, or 8.9%, to $584.4 million for the year ended December 31, 2012 from $536.4 million for the year ended December 31, 2011.

Forward Air

Forward Air operating revenue increased $37.2 million, or 8.0%, to $501.7 million from $464.5 million, accounting for 85.9% of consolidated operating revenue for the year ended December 31, 2012. Airport-to-airport revenue, which is the largest component of our consolidated operating revenue, increased $29.1 million, or 8.0%, to $391.2 million from $362.1 million, accounting for 78.0% of the segment's operating revenue during the years ended December 31, 2012 and 2011. An increase in tonnage and our base revenue per pound, excluding net fuel surcharge revenue and Forward Air Complete™ ("Complete") revenue, accounted for $13.1 million of the increase in airport-to-airport revenue. Our airport-to-airport business is priced on a per pound basis and the average revenue per pound, excluding the impact of fuel surcharges and Complete, increased 1.9% for the year ended December 31, 2012 versus the year ended December 31, 2011. Tonnage that transited our network increased by 2.5% during the year ended December 31, 2012 compared with the year ended December 31, 2011. Average base revenue per pound increased as a result of general rate increases implemented in September 2012 and June 2011. The remaining increase in airport-to-airport revenue is the result of increased net fuel surcharge revenue and Complete pick-up and delivery revenue. Net fuel surcharge revenue increased $2.6 million, or 8.3%, during the year ended December 31, 2012 as compared to the year ended December 31, 2011 as a result of higher average fuel prices and increased overall business volumes. Complete pick-up and delivery revenue increased $13.4 million, or 34.1%, during the year ended December 31, 2012 compared to 2011. The increase in Complete revenue is attributable to an increased attachment rate of the Complete service to our standard airport-to-airport service to 23.1% in 2012 compared to 15.5% in 2011 and the overall improvement in airport-to-airport tonnage volumes during the year ended December 31, 2012 compared to the year ended December 31, 2011.

Logistics revenue, which is primarily TLX and priced on a per mile basis, increased $9.5 million, or 12.7%, to $84.2 million for the year ended December 31, 2012 from $74.7 million for the year ended December 31, 2011. TLX revenue increased $9.4 million year-over-year as miles driven to support our TLX revenue increased 14.7%, but the

mileage increase was partially offset by a 0.8% decline in TLX average revenue per mile. The change in miles and average revenue per mile is mainly attributable to a change in customer mix. The remaining $0.1 million increase in Logistics revenue was attributable to other non-mileage based services.

Other revenue, which includes warehousing services and terminal handling, accounts for the final component of Forward Air operating revenue. Other revenue decreased $1.4 million, or 5.1%, to $26.3 million during the year ended December 31, 2012 from $27.7 million during the year ended December 31, 2011. The decrease in revenue was primarily due to ceasing certain dedicated local pick up and delivery services in the fourth quarter of 2011.

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FASI

FASI operating revenue increased $11.8 million, or 16.1%, to $85.0 million for the year ended December 31, 2012 from $73.2 million for the year ended December 31, 2011. The increase in revenue was mostly attributable to new business wins for new and previously existing customers. Approximately $1.7 million of the new business was from new customers, including non-specialty retailers. Another $2.3 million of revenue was attributable to truckload direct to store business for a previously existing customer that started in the fourth quarter of 2011. The remainder of the FASI revenue increase was attributable to higher volumes as well as new market wins from existing customers.

Intercompany Eliminations

Intercompany eliminations increased $1.0 million, or 76.9%, to $2.3 million during the year ended December 31, 2012 from $1.3 million during the year ended December 31, 2011. The intercompany eliminations are the result of truckload, airport-to-airport and handling services Forward Air provided to FASI. FASI also provided cartage and handling services to Forward Air.

Purchased Transportation

Purchased transportation increased by $29.7 million, or 13.3%, to $252.7 million for the year ended December 31, 2012 from $223.0 million for the year ended December 31, 2011. As a percentage of total operating revenue, purchased transportation was 43.3% during the year ended December 31, 2012 compared to 41.6% for the year ended December 31, 2011.

Forward Air

Forward Air's purchased transportation increased by $25.4 million, or 12.3%, to $231.4 million for the year ended December 31, 2012 from $206.0 million for the year ended December 31, 2011. The increase in purchased transportation is primarily attributable to an increase of approximately 8.2% in miles driven and a 3.8% increase in the total cost per mile for the year ended December 31, 2012 versus the year ended December 31, 2011. As a percentage of segment operating revenue, Forward Air purchased transportation was 46.1% during the year ended December 31, 2012 compared to 44.4% for the year ended December 31, 2011.

Purchased transportation costs for our airport-to-airport network increased $17.7 million, or 12.4%, to $160.7 million for the year ended December 31, 2012 from $143.0 million for the year ended December 31, 2011. For the year ended December 31, 2012, purchased transportation for our airport-to-airport network increased to 41.1% of airport-to-airport revenue from 39.5% for the year ended December 31, 2011. The $17.7 million increase is partially attributable to a 5.4% increase in miles driven by our network of owner-operators or third party transportation providers in addition to a 1.2% increase in cost per mile paid to our network of owner-operators or third party transportation providers. The increase in miles increased purchased transportation by $6.3 million while the increase in cost per mile increased purchased transportation $1.5 million. Miles driven by our network of owner-operators or third party transportation providers increased in conjunction with the tonnage increase discussed above and a shift in our customer mix. The 1.2% increase in airport-to-airport cost per mile was mostly the result of increased utilization of more costly third party transportation providers as opposed to our network of owner-operators and increased rates paid to third party transportation providers and our network of owner operators. The increase in the rates paid to third party transportation providers and our network of owner operators was largely attributable to a shift in business and customer mix and the impact of these changes on the routes driven. The remaining increase was attributable to a $9.9 million increase in third party transportation costs associated with the increased Complete volumes discussed above.

Purchased transportation costs for our logistics revenue increased $7.3 million, or 13.0%, to $63.5 million for the year ended December 31, 2012 from $56.2 million for the year ended December 31, 2011. For the year ended December 31, 2012, logistics' purchased transportation costs represented 75.4% of logistics revenue versus 75.2% for the year ended December 31, 2011. The increase in logistics' purchased transportation was largely attributable to a $7.2 million, or 13.9%, increase in TLX purchased transportation. Miles driven to support our TLX revenue increased 14.7% but the cost per mile decreased 0.7% year-over-year. The improvement in the cost per mile was the result of increased utilization of our network of owner-operators, as opposed to more costly third party transportation providers. Other non-mileage based logistics' purchased transportation costs increased $0.1 million in 2012 compared to 2011.

Purchased transportation costs related to our other revenue increased $0.4 million, or 5.9%, to $7.2 million for the year ended December 31, 2012 from $6.8 million for the year ended December 31, 2011. Other purchased transportation costs as a percentage of other revenue increased to 27.4% of other revenue for the year ended December 31, 2012 from 24.5% for the year ended December 31, 2011. The increase in other purchased transportation costs as a percentage of revenue is primarily attributable to the cessation of certain, dedicated local pick up and delivery business in the fourth quarter of 2011. This business was primarily

serviced by Company-employed drivers so revenues were reduced without a corresponding decrease in other purchased transportation. Also, contributing to the increase as a percentage of revenue was the adverse impact on other terminal revenue of the slowing airport-to-airport tonnage growth during the second half of 2012 compared to the same period in 2011. Further, certain new airport-to-airport linehaul business required the use of local pick-up and delivery services. This new business required us to incur other purchased transportation costs without direct corresponding other revenue.

FASI

FASI purchased transportation increased $5.1 million, or 28.0%, to $23.3 million for the year ended December 31, 2012 from $18.2 million for the year ended December 31, 2011. FASI purchased transportation as a percentage of revenue was 27.4% for the year ended December 31, 2012 compared to 24.9% for the year ended December 31, 2011. The increase in FASI purchased transportation in total dollars and as a percentage of revenue was attributable to our continued efforts to convert from Company-employed drivers to owner-operators and certain new business having an increased linehaul component which increased the utilization of owner-operators and third-party transportation providers.

Intercompany Eliminations

Intercompany eliminations increased $0.8 million, or 66.7%, to $2.0 million during the year ended December 31, 2012 from $1.2 million during the year ended December 31, 2011. The intercompany eliminations are the result of truckload and airport-to-airport services Forward Air provided to FASI during the year end December 31, 2012. FASI also provided cartage services to Forward Air.

Salaries, Wages, and Benefits

Salaries, wages and employee benefits increased $4.3 million, or 3.3%, to $135.0 million for the year ended December 31, 2012 from $130.7 million for the year ended December 31, 2011. As a percentage of total operating revenue, salaries, wages and employee benefits was 23.1% during the year ended December 31, 2012 compared to 24.4% in December 31, 2011.

Forward Air

Salaries, wages and employee benefits of Forward Air increased by $1.8 million, or 1.8%, to $103.1 million for the year ended December 31, 2012 from $101.3 million for the year ended December 31, 2011. Salaries, wages and employee benefits were 20.6% of Forward Air's operating revenue for the year ended December 31, 2012 compared to 21.8% for the year ended December 31, 2011. The increase in salaries, wages and employee benefits in total dollars is attributable to a $4.1 million increase in employee wages and benefits net of a $2.3 million decrease in employee incentive expense. Employee wages and benefits increased in conjunction with the revenue volume increases discussed previously. The decrease in employee incentives was largely due to failures to meet revenue and operating income goals during 2012. The improvement as a percentage of revenue is attributable to the increase in revenue outpacing the increase in salaries, wages and employee benefits.

FASI

Salaries, wages and employee benefits of FASI increased by $2.5 million, or 8.5%, to $31.9 million for the year ended December 31, 2012 from $29.4 million for the year ended December 31, 2011. As a percentage of FASI operating revenue, salaries, wages and benefits decreased to 37.5% for the year ended December 31, 2012 compared to 40.2% for the year ended December 31, 2011. FASI salaries, 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. The increase in salaries, wages and employee benefits in total dollars is due to increased wages and benefits for terminal employees, which increased in conjunction with the revenue volume increases discussed previously. Approximately 0.9% of the the improvement in salaries, wages and employee benefits as a percentage of revenue is the result of certain new business being primarily linehaul based and requiring no significant salaries, wages and benefits. Also, during 2012 we continued our efforts to shift, wherever feasible, from Company-employed drivers to owner-operators or third party transportation providers. As a result we reduced pay to Company-employed drivers by 0.7% as a percentage of revenue. The remaining improvement as a percentage of revenue is the increase in revenue outpacing the increase in salaries, wages and employee benefits.

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Operating Leases

Operating leases increased by $0.9 million, or 3.3%, to $28.0 million for the year ended December 31, 2012 from $27.1 million in the year ended December 31, 2011. Operating leases, the largest component of which is facility rent, were 4.8% of consolidated operating revenue for the year ended December 31, 2012 compared with 5.0% for the year ended December 31, 2011.

Forward Air

Operating leases increased $0.7 million, or 3.6%, to $20.4 million for the year ended December 31, 2012 from $19.7 million for the year ended December 31, 2011. Operating leases were 4.1% of Forward Air's operating revenue for the year ended December 31, 2012 compared with 4.2% for the year ended December 31, 2011. The $0.7 million increase was the result of a $0.4 million increase in facility rent and $0.3 million increase in trailer rentals. Facility rent increased due to new or renewed lease agreements that become effective during 2012. Trailer rentals increased $0.2 million on trailer rentals associated with our non-mileage based Logistics operations and $0.1 million to provide additional capacity in support of the higher revenue volumes discussed above.

FASI

Operating leases increased $0.2 million, or 2.7%, to $7.6 million for the year ended December 31, 2012 from $7.4 million for the year ended December 31, 2011. Operating leases were 9.0% of FASI operating revenue for the year ended December 31, 2012 compared with 10.1% for the year ended December 31, 2011. The $0.2 million increase was attributable to increased trailer rentals in conjunction with the higher revenue volumes discussed above.

Depreciation and Amortization

Depreciation and amortization increased $0.1 million, or 0.5%, to $21.1 million for the year ended December 31, 2012 from $21.0 million for the year ended December 31, 2011. Depreciation and amortization was 3.6% of consolidated operating revenue for the year ended December 31, 2012 compared with 3.9% for the year ended December 31, 2011.

Forward Air

Depreciation and amortization decreased $0.4 million, or 2.4%, to $16.4 million for the year ended December 31, 2012 from $16.8 million for the year ended December 31, 2011. Depreciation and amortization expense as a percentage of Forward Air operating revenue was 3.3% in the year ended December 31, 2012 compared to 3.6% for the year ended December 31, 2011. Depreciation decreased year-over-year as certain internally developed software and older trailers became fully depreciated, but these decreases were partially offset by depreciation on new trailers purchased during 2012.

FASI

Depreciation and amortization increased $0.5 million, or 11.9%, to $4.7 million for the year ended December 31, 2012 from $4.2 million for the year ended December 31, 2011. Depreciation and amortization expense as a percentage of FASI operating revenue was 5.5% for the year ended December 31, 2012 compared to 5.7% for the year ended December 31, 2011. The increase in FASI depreciation and amortization is largely due to new vehicles and terminal conveyor equipment purchased during 2012.

Insurance and Claims

Insurance and claims expense increased $2.5 million, or 28.4%, to $11.3 million for the year ended December 31, 2012 from $8.8 million for the year ended December 31, 2011. Insurance and claims was 1.9% of consolidated operating revenue during 2012 compared with 1.6% in 2011.

Forward Air

Forward Air insurance and claims expense increased $1.7 million, or 23.6%, to $8.9 million for the year ended December 31, 2012 from $7.2 million for the year ended December 31, 2011. Insurance and claims as a percentage of Forward Air's operating revenue was 1.8% in the year ended December 31, 2012 compared to 1.6% for the year ended December 31, 2011. The increase in Forward Air insurance and claims was driven by a $0.7 million increase in cargo claims, a $0.8 million increase in vehicle accident repairs and a $0.4 million increase in professional fees associated with litigating vehicle accident claims. These increases were offset by a $0.2 million reduction in reserves for accident claims.

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FASI

FASI insurance and claims increased $0.8 million to $2.4 million for the year ended December 31, 2012 from $1.6 million for the year ended December 31, 2011. As a percentage of operating revenue, insurance and claims was 2.8% for the year ended December 31, 2012 compared to 2.2% for the year ended December 31, 2011. The increase in FASI insurance and claims was largely attributable to a $0.5 million increase in cargo claims primarily from our specialty retail customers, a $0.2 million increase in vehicle accident repairs and $0.1 million increase in reserves for accident claims.

Fuel Expense

Fuel expense was $10.0 million in the year ended December 31, 2012 and 2011. Fuel expense was 1.7% of consolidated operating revenue for the year ended December 31, 2012 compared to 1.9% for the year ended December 31, 2011.

Forward Air

Forward Air fuel expense decreased $0.2 million, or 4.5%, to $4.2 million for the year ended December 31, 2012 from $4.4 million in the year ended December 31, 2011. Fuel expense was 0.8% of Forward Air's operating revenue for the years ended December 31, 2012 compared to 0.9% for the year ended December 31, 2011. The decrease in fuel expense resulted from the cessation of certain dedicated local pick up and delivery services in the fourth quarter of 2011 which was performed mostly by Company-owned vehicles. This decrease was partially offset by increased average fuel prices.

FASI

FASI fuel expense increased $0.2 million, or 3.6%, to $5.8 million for the year ended December 31, 2012 from $5.6 million for the year ended December 31, 2011. Fuel expenses were 6.8% of FASI operating revenue during the year ended December 31, 2012 compared to 7.6% for the year ended December 31, 2011. FASI fuel expense is significantly higher as a percentage of operating revenue than Forward Air's fuel expense, as FASI utilizes a higher ratio of Company-employed drivers and Company-owned or leased vehicles in its operations than Forward Air. The increase in FASI fuel expense was mostly the result of increased Company miles associated with the higher business volumes discussed previously and changes in average fuel prices.

Other Operating Expenses

Other operating expenses increased $4.1 million, or 10.6%, to $42.8 million for the year ended December 31, 2012 from $38.7 million for the year ended December 31, 2011. Other operating expenses were 7.3% of consolidated operating revenue for the year ended December 31, 2012 compared with 7.2% for the year ended December 31, 2011.

Forward Air

Forward Air other operating expenses increased $3.2 million, or 9.8%, to $35.8 million for the year ended December 31, 2012 from $32.6 million for the year ended December 31, 2011. Forward Air other operating expenses were 7.1% of operating revenue for the year ended December 31, 2012 compared to 7.0% for the year ended December 31, 2011. The increase in other operating expenses in total dollars is attributable to increased variable costs, such as vehicle maintenance and dock and terminal supplies, during the year ended December 31, 2012 compared to the year end December 31, 2011. The increase in other operating expenses as a percentage of revenue during 2012 compared to 2011 was attributable to a $0.4 million, or 0.1% as a percentage of revenue, increase in

reserves for bad debts.

FASI

FASI other operating expenses increased $1.1 million, or 17.7%, to $7.3 million for the year ended December 31, 2012 compared to $6.2 million for the year ended December 31, 2011. FASI other operating expenses were 8.6% of operating revenue for the year ended December 31, 2012 compared to 8.5% for the year ended December 31, 2011. The increase in FASI's other operating expenses is partially attributable to increases in variable dock and maintenance costs in conjunction with the increased revenue volumes discussed previously. Also, contributing to the increase in total dollars and as a percentage of revenue, was $0.2 million incurred for the implementation of certain strategic initiatives during the first quarter of 2012.

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Intercompany Eliminations

Intercompany eliminations were $0.3 million during the year ended December 31, 2012 compared to $0.1 million for the year ended December 31, 2011. The intercompany eliminations are for agent station services Forward Air and FASI provided one another during the years ended December 31, 2012 and 2011.

Income from Operations

Income from operations increased by $6.4 million, or 8.3%, to $83.5 million for the year ended December 31, 2012 compared with $77.1 million for the year ended December 31, 2011. Income from operations was 14.3% of consolidated operating revenue for the year ended December 31, 2012 compared with 14.4% for the year ended December 31, 2011.

Forward Air

Forward Air income from operations increased by $5.0 million, or 6.5%, to $81.5 million for the year ended December 31, 2012 compared with $76.5 million for the year ended December 31, 2011. Forward Air's income from operations was 16.2% of operating revenue for the year ended December 31, 2012 compared with 16.5% for the year ended December 31, 2011. The increase in income from operations was primarily the result of the increased revenue discussed previously. The 0.3% decline in operating income as a percentage of revenue was due to the increases in insurance and claims and purchased transportation partially offset by the leverage on fixed costs obtained from the increase in Forward Air revenue.

FASI

FASI income from operations improved by $1.4 million to $2.0 million for the year ended December 31, 2012 from $0.6 million for the year ended December 31, 2011. FASI income from operations was 2.4% of operating revenue for the year ended December 31, 2012 compared 0.8% of operating revenue for the year ended December 31, 2011. The improvement in FASI's results from operations was primarily attributable to higher revenue volumes associated with new business wins partially offset by increased cargo claims and costs incurred to implement strategic initiatives.

Interest Expense

Interest expense was $0.4 million for the year ended December 31, 2012 and decreased $0.2 million, or 33.3%, from $0.6 million for the year ended December 31, 2011. Decrease in interest expense was primarily attributable to the maturity of capital lease arrangements and the corresponding decrease in associated interest expense.

Other, Net

Other, net decreased $0.1 million from $0.1 million for the year ended December 31, 2011. Decline is due to declining interest rates on our cash accounts and lower average cash on hand during 2012.

Provision for Income Taxes

The combined federal and state effective tax rate for the year ended December 31, 2012 was 36.7% compared to an effective rate of 38.4% for the year ended December 31, 2011. The decrease in our effective tax rate is attributable to federal refunds we have received and accrued for prior years resulting from a change in an income tax reporting position.

Net Income

As a result of the foregoing factors, net income increased by $5.5 million, or 11.7%, to $52.7 million for the year ended December 31, 2012 compared to $47.2 million for the year ended December 31, 2011.

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Results of Operations

The following table sets forth our historical financial data for the years ended December 31, 2011 and 2010 (in millions):

	Year ended December 31, 2011	December 31, 2010	Change	Percent Change
Operating revenue	$ 536.4	$ 483.9	$ 52.5	10.8 %
Operating expenses:				
Purchased transportation	223.0	201.4	21.6	10.7
Salaries, wages, and employee benefits	130.7	129.1	1.6	1.2
Operating leases	27.1	26.3	0.8	3.0
Depreciation and amortization	21.0	20.4	0.6	2.9
Insurance and claims	8.8	8.4	0.4	4.8
Fuel expense	10.0	8.5	1.5	17.6
Other operating expenses	38.7	36.1	2.6	7.2
Total operating expenses	459.3	430.2	29.1	6.8
Income from operations	77.1	53.7	23.4	43.6
Other income (expense):				
Interest expense	(0.6)	(0.7)	0.1	(14.3)
Other, net	0.1	0.1	—	—
Total other expense	(0.5)	(0.6)	0.1	(16.7)
Income before income taxes	76.6	53.1	23.5	44.3
Income taxes	29.4	21.1	8.3	39.3
Net income	$ 47.2	$ 32.0	$ 15.2	47.5 %

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The following table sets forth our historical financial data by segment for the years ended December 31, 2011 and 2010 (in millions):

	Year ended December 31, 2011	Percent of Revenue	December 31, 2010	Percent of Revenue	Change	Percent Change
Operating revenue						
Forward Air	$464.5	86.6 %	$412.9	85.3 %	$51.6	12.5 %
FASI	73.2	13.6	72.5	15.0	0.7	1.0
Intercompany eliminations	(1.3)	(0.2)	(1.5)	(0.3)	0.2	(13.3)
Total	536.4	100.0	483.9	100.0	52.5	10.8
Purchased transportation						
Forward Air	206	44.4	185.8	45.0	20.2	10.9
FASI	18.2	24.9	16.9	23.3	1.3	7.7
Intercompany eliminations	(1.2)	92.3	(1.3)	86.7	0.1	(7.7)
Total	223	41.6	201.4	41.6	21.6	10.7
Salaries, wages and employee benefits						
Forward Air	101.3	21.8	98.3	23.8	3	3.1
FASI	29.4	40.2	30.8	42.5	(1.4)	(4.5)
Total	130.7	24.4	129.1	26.7	1.6	1.2
Operating leases						
Forward Air	19.7	4.2	18.6	4.5	1.1	5.9
FASI	7.4	10.1	7.7	10.6	(0.3)	(3.9)
Total	27.1	5.0	26.3	5.4	0.8	3.0
Depreciation and amortization						
Forward Air	16.8	3.6	16.5	4.0	0.3	1.8
FASI	4.2	5.7	3.9	5.4	0.3	7.7
Total	21	3.9	20.4	4.2	0.6	2.9
Insurance and claims						
Forward Air	7.2	1.6	6.2	1.5	1.0	16.1
FASI	1.6	2.2	2.2	3.0	(0.6)	(27.3)
Total	8.8	1.6	8.4	1.7	0.4	4.8
Fuel expense						
Forward Air	4.4	0.9	3.8	0.9	0.6	15.8
FASI	5.6	7.6	4.7	6.5	0.9	19.1
Total	10	1.9	8.5	1.8	1.5	17.6
Other operating expenses						
Forward Air	32.6	7.0	29.8	7.2	2.8	9.4
FASI	6.2	8.5	6.5	9.0	(0.3)	(4.6)
Intercompany eliminations	(0.1)	7.7	(0.2)	13.3	0.1	(50.0)
Total	38.7	7.2	36.1	7.5	2.6	7.2

Income (loss) from operations									
Forward Air	76.5	16.5		53.9	13.1		22.6	41.9	
FASI	0.6	0.8		(0.2)	(0.3)		0.8	(400.0)	
Total	$77.1	14.4	%	$53.7	11.1	%	$23.4	43.6	%

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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, 2011 and 2010 (in millions):

	2011	Percent of Revenue		2010	Percent of Revenue		Change	Percent Change	
Forward Air revenue									
Airport-to-airport	$ 362.1	78.0	%	$ 322.2	78.0	%	$ 39.9	12.4	%
Logistics	74.7	16.1		65.6	15.9		9.1	13.9	
Other	27.7	5.9		25.1	6.1		2.6	10.4	
Total	$ 464.5	100.0	%	$ 412.9	100.0	%	$ 51.6	12.5	%
Forward Air purchased transportation									
Airport-to-airport	$ 143.0	39.5	%	$ 129.3	40.1	%	$ 13.7	10.6	%
Logistics	56.2	75.2		50.2	76.5		6.0	12.0	
Other	6.8	24.5		6.3	25.1		0.5	7.9	
Total	$ 206.0	44.4	%	$ 185.8	45.0	%	$ 20.2	10.9	%

Year ended December 31, 2011 compared to Year ended December 31, 2010

Revenues

Operating revenue increased by $52.5 million, or 10.8%, to $536.4 million for the year ended December 31, 2011 from $483.9 million for the year ended December 31, 2010.

Forward Air

Forward Air operating revenue increased $51.6 million, or 12.5%, to $464.5 million from $412.9 million, accounting for 86.6% of consolidated operating revenue for the year ended December 31, 2011. Airport-to-airport revenue, which is the largest component of our consolidated operating revenue, increased $39.9 million, or 12.4%, to $362.1 million from $322.2 million, accounting for 78.0% of the segment's operating revenue during the years ended December 31, 2011 and 2010. An increase in tonnage and in our base revenue per pound, excluding net fuel surcharge revenue and Forward Air Complete™ ("Complete") revenue, accounted for $20.3 million of the increase in airport-to-airport revenue. Our airport-to-airport business is priced on a per pound basis and the average revenue per pound, excluding the impact of fuel surcharges and Complete, increased 2.5% for the year ended December 31, 2011 versus the year ended December 31, 2010. Tonnage that transited our network increased by 4.9% during the year ended December 31, 2011 compared with the year ended December 31, 2010. Average base revenue per pound increased as a result of general rate increases implemented in June 2011 and May 2010. The remaining increase in airport-to-airport revenue is the result of increased net fuel surcharge revenue and Complete pick-up and delivery revenue. Net fuel surcharge revenue increased $11.2 million, or 56.4%, during the year ended December 31, 2011 as compared to the year ended December 31, 2010 as a result of higher average fuel prices and increased overall business volumes. Complete pick-up and delivery revenue increased $8.4 million, or 27.4%, during the year ended December 31, 2011 compared to 2010. The increase in Complete revenue is attributable to an increased attachment rate of the Complete service to our standard airport-to-airport service to 15.5% in 2011 compared to 13.6% in 2010 and the overall improvement in airport-to-airport tonnage volumes during the year ended December 31, 2011 compared to the year ended December 31, 2010.

Logistics revenue, which is primarily TLX and priced on a per mile basis, increased $9.1 million, or 13.9%, to $74.7 million for the year ended December 31, 2011 from $65.6 million for the year ended December 31, 2010. TLX revenue increased $8.4 million year-over-year as TLX average revenue per mile increased approximately 2.3% and

miles driven to support our TLX revenue increased 11.6%. The increase in miles and average revenue per mile is mainly attributable to new business wins. The remaining $0.7 million increase in logistics revenue was attributable to increases in other non-mileage based logistic revenues, such as drayage services. The increase in non-mileage based services was in conjunction with the improvement in TLX business volumes.

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Other revenue, which includes warehousing services and terminal handling, accounts for the final component of Forward Air operating revenue. Other revenue increased $2.6 million, or 10.4%, to $27.7 million during the year ended December 31, 2011 from $25.1 million during the year ended December 31, 2010. The increase in revenue was primarily due to increases in other pick-up and delivery services as well as handling and sorting services that primarily increased in conjunction with the increase in our airport-to-airport business.

FASI

FASI operating revenue increased $0.7 million, or 1.0%, to $73.2 million for the year ended December 31, 2011 from $72.5 million for the year ended December 31, 2010. FASI's year-over-year revenue growth was impeded by customer losses during 2010 which were mostly offset by new business wins during 2011. In particular, during the second quarter of 2010, we ceased providing services to one of FASI’s largest customers at the time. These customer losses resulted in approximately $5.4 million less FASI revenue in 2011 compared to 2010, but these losses were mostly offset by new customer wins and increased fuel surcharge revenue.

Intercompany Eliminations

Intercompany eliminations decreased $0.2 million, or 13.3%, to $1.3 million during the year ended December 31, 2011 from $1.5 million during the year ended December 31, 2010. The intercompany eliminations are the result of truckload and airport-to-airport services Forward Air provided to FASI. FASI also provided cartage and station agent services to Forward Air. The decrease in intercompany eliminations was the result of reduced airport-to-airport and truckload services Forward Air provided to FASI.

Purchased Transportation

Purchased transportation increased by $21.6 million, or 10.7%, to $223.0 million for the year ended December 31, 2011 from $201.4 million for the year ended December 31, 2010. As a percentage of total operating revenue, purchased transportation was 41.6% during the years ended December 31, 2011 and 2010.

Forward Air

Forward Air’s purchased transportation increased by $20.2 million, or 10.9%, to $206.0 million for the year ended December 31, 2011 from $185.8 million for the year ended December 31, 2010. The increase in purchased transportation is primarily attributable to an increase of approximately 7.7% in miles driven and a 3.0% increase in the total cost per mile for the year ended December 31, 2011 versus the year ended December 31, 2010. As a percentage of segment operating revenue, Forward Air purchased transportation was 44.4% during the year ended December 31, 2011 compared to 45.0% for the year ended December 31, 2010.

Purchased transportation costs for our airport-to-airport network increased $13.7 million, or 10.6%, to $143.0 million for the year ended December 31, 2011 from $129.3 million for the year ended December 31, 2010. For the year ended December 31, 2011, purchased transportation for our airport-to-airport network decreased to 39.5% of airport-to-airport revenue from 40.1% for the year ended December 31, 2010. The $13.7 million increase is attributable to a 6.1% increase in miles driven by our network of owner-operators or third party transportation providers in addition to a 2.1% increase in cost per mile paid to our network of owner-operators or third party transportation providers. The increase in miles increased purchased transportation by $6.6 million while the increase in cost per mile increased purchased transportation $2.3 million. Miles driven by our network of owner-operators or third party transportation providers increased in conjunction with the tonnage increase discussed above. The 2.1% increase in airport-to-airport cost per mile was mostly the result of increased utilization of more costly third party transportation providers as opposed to our network of owner-operators and various changes to the compensation

packages for our network of owner operators. We increased our use of third party transportation provides in order to fill the capacity required by the increased business volumes discussed above. The remaining increase was attributable to a $4.8 million increase in third party transportation costs associated with the increased Complete volumes and attachment rates discussed above.

Purchased transportation costs for our logistics revenue increased $6.0 million, or 12.0%, to $56.2 million for the year ended December 31, 2011 from $50.2 million for the year ended December 31, 2010. For the year ended December 31, 2011, logistics' purchased transportation costs represented 75.2% of logistics revenue versus 76.5% for the year ended December 31, 2010. The increase in logistics' purchased transportation was largely attributable to the $5.5 million, or 11.8%, increase in TLX purchased transportation. Miles driven to support our TLX revenue increased 11.6% but the cost per mile was consistent year-over-year. Other non-mileage based logistics' purchased transportation costs related to our drayage and other services increased $0.5 million.

Purchased transportation costs related to our other revenue increased $0.5 million, or 7.9%, to $6.8 million for the year ended December 31, 2011 from $6.3 million for the year ended December 31, 2010. Other purchased transportation costs as a percentage of other revenue decreased to 24.5% of other revenue for the year ended December 31, 2011 from 25.1% for the year ended December 31, 2010. The decrease in other purchased transportation costs as a percentage of other revenue is attributable to the reduced use of more costly third party transportation providers, as opposed to Company-employed drivers or our network of owner-operators, to provide the transportation services associated with our other revenues, such as freight and container transfers and other miscellaneous pick-up and delivery services. In addition, the decrease in other purchased transportation costs is also attributable to rate reductions received from pick-up and delivery transportation providers in certain large markets.

FASI

FASI purchased transportation increased $1.3 million, or 7.7%, to $18.2 million for the year ended December 31, 2011 from $16.9 million for the year ended December 31, 2010. FASI purchased transportation as a percentage of revenue was 24.9% for the year ended December 31, 2011 compared to 23.3% for the year ended December 31, 2010. The increase in FASI purchased transportation in total dollars and as a percentage of revenue was attributable to our continued efforts to convert from Company-employed drivers to owner-operators and certain new business having an increased linehaul component which increased the utilization of owner-operators and third-party transportation providers.

Intercompany Eliminations

Intercompany eliminations decreased $0.1 million, or 7.7%, to $1.2 million during the year ended December 31, 2011 from $1.3 million during the year ended December 31, 2010. The intercompany eliminations are the result of truckload and airport-to-airport services Forward Air provided to FASI during the year end December 31, 2011. FASI also provided cartage services to Forward Air. The decrease in intercompany eliminations was the result of reduced airport-to-airport and truckload services Forward Air provided to FASI.

Salaries, Wages, and Benefits

Salaries, wages and employee benefits increased $1.6 million, or 1.2%, to $130.7 million for the year ended December 31, 2011 from $129.1 million for the year ended December 31, 2010. As a percentage of total operating revenue, salaries, wages and employee benefits was 24.4% during the year ended December 31, 2011 compared to 26.7% in December 31, 2010.

Forward Air

Salaries, wages and employee benefits of Forward Air increased by $3.0 million, or 3.1%, to $101.3 million for the year ended December 31, 2011 from $98.3 million for the year ended December 31, 2010. Salaries, wages and employee benefits were 21.8% of Forward Air's operating revenue for the year ended December 31, 2011 compared to 23.8% for the year ended December 31, 2010. The reduction in salaries, wages, and benefits as a percentage of revenue is primarily attributable to a $1.9 million, or 0.6% as a percentage of revenue, decrease in workers' compensation losses. The decrease in workers' compensation losses resulted from a current year reduction of workers' compensation loss development reserves as a result of the current year actuary analysis as well as reduced current year claims. Also, contributing to the improvement in salaries, wages and benefits was a 0.3% decline in employee incentives as a percentage of revenue. The decrease in employee incentives as a percentage of revenue was largely due to reduced accruals for quarterly and annual performance goals. The remaining improvement in salaries, wages and employee benefits as a percentage of revenue is the result of the increase in revenue outpacing the increase in salaries, wages and employee benefits. The increase in salaries, wages and employee benefits in total dollars is largely due to

increased variable wages, primarily dock and terminal employees, which increased in conjunction with the volume increases discussed previously.

FASI

Salaries, wages and employee benefits of FASI decreased by $1.4 million, or 4.5%, to $29.4 million for the year ended December 31, 2011 from $30.8 million for the year ended December 31, 2010. As a percentage of FASI operating revenue, salaries, wages and benefits decreased to 40.2% for the year ended December 31, 2011 compared to 42.5% for the year ended December 31, 2010. FASI salaries, 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. The decrease in salaries, wages and employee benefits as a percentage of revenue is attributable to reduced dock wages, Company-employed driver pay, workers' compensation and health insurance claims and administrative compensation. As noted above, to move FASI to a more variable cost structure, we continued to shift, wherever feasible, from Company-employed drivers to owner-operators. As a result, we reduced pay to Company-employed drivers by 0.5% as a percentage of revenue. Also, for the year ended December 31, 2011 we reduced our dock wages by 0.6% as a percentage of revenue compared to the year ended December 31, 2010. The

improvement in dock wages is largely the result of efficiencies gained by installing conveyor systems in our larger facilities and replacing contract labor with Company-employed dock personnel. Workers' compensation claims and groups insurance also decreased approximately 0.8% as a percentage of revenue on improved current year claim experience and reductions of workers' compensation loss development reserves as a result of the current year actuary analysis . The remaining improvement in salaries, wages and employee benefits as a percentage of revenue is the result of reduced administrative salaries and benefits as a result of our on-going efforts to control FASI costs.

Operating Leases

Operating leases increased by $0.8 million, or 3.0%, to $27.1 million for the year ended December 31, 2011 from $26.3 million in the year ended December 31, 2010. Operating leases, the largest component of which is facility rent, were 5.0% of consolidated operating revenue for the year ended December 31, 2011 compared with 5.4% for the year ended December 31, 2010.

Forward Air

Operating leases increased $1.1 million, or 5.9%, to $19.7 million for the year ended December 31, 2011 from $18.6 million for the year ended December 31, 2010. Operating leases were 4.2% of Forward Air's operating revenue for the year ended December 31, 2011 compared with 4.5% for the year ended December 31, 2010. The $1.1 million increase was the result of a $0.5 million increase in facility rent and $0.6 million increase in trailer rentals. Facility rent increased as certain existing terminals were relocated to larger facilities during the last half of 2010. Trailer rentals increased to provide additional capacity until new trailers were purchased during the third quarter of 2011.

FASI

Operating leases decreased $0.3 million, or 3.9%, to $7.4 million for the year ended December 31, 2011 from $7.7 million for the year ended December 31, 2010. Operating leases were 10.1% of FASI's operating revenue for the year ended December 31, 2011 compared with 10.6% for the year ended December 31, 2010. The $0.3 million decrease was attributable to lower facility rent and reduced costs for leased tractors and vehicles. Office rent decreased $0.1 million due to a full year of rent savings on the consolidation of over-lapping facilities with Forward Air. Leased tractors and vehicles declined $0.2 million as leased equipment was replaced with either owner-operator units or Company-owned units.

Depreciation and Amortization

Depreciation and amortization increased $0.6 million, or 2.9%, to $21.0 million for the year ended December 31, 2011 from $20.4 million for the year ended December 31, 2010. Depreciation and amortization was 3.9% of consolidated operating revenue for the year ended December 31, 2011 compared with 4.2% for the year ended December 31, 2010.

Forward Air

Depreciation and amortization increased $0.3 million, or 1.8%, to $16.8 million for the year ended December 31, 2011 from $16.5 million for the year ended December 31, 2010. Depreciation and amortization expense as a percentage of Forward Air operating revenue was 3.6% in the year ended December 31, 2011 compared to 4.0% for the year ended December 31, 2010. The increase in depreciation is attributable to a $0.5 million increase in depreciation on forklifts and new computers and related equipment offset by a $0.1 million decrease in trailer and tractor depreciation and a $0.1 million decrease in building amortization. The decrease in trailer and tractor depreciation was attributable to older equipment becoming fully depreciated partially offset by depreciation on new trailers and tractors purchased in the third quarter of 2011. The decline in building amortization is due to the termination of a facility capital lease

during the third quarter of 2010.

FASI

Depreciation and amortization increased $0.3 million, or 7.7%, to $4.2 million for the year ended December 31, 2011 from $3.9 million for the year ended December 31, 2010. Depreciation and amortization expense as a percentage of FASI operating revenue was 5.7% for the year ended December 31, 2011 compared to 5.4% for the year ended December 31, 2010. The $0.3 million increase is primarily attributable to new tractors, vehicles and conveyor systems purchased during the second half of 2010 and the first half of 2011.

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Insurance and Claims

Insurance and claims expense increased $0.4 million, or 4.8%, to $8.8 million for the year ended December 31, 2011 from $8.4 million for the year ended December 31, 2010. Insurance and claims was 1.6% of consolidated operating revenue during 2011 compared with 1.7% in 2010.

Forward Air

Forward Air insurance and claims expense increased $1.0 million, or 16.1%, to $7.2 million for the year ended December 31, 2011 from $6.2 million for the year ended December 31, 2010. Insurance and claims as a percentage of Forward Air's operating revenue was 1.6% in the year ended December 31, 2011 compared to 1.5% for the year ended December 31, 2010. The increase in insurance and claims was the result of a $0.7 million increase in reserves for claims and loss development and a $0.5 million increase in accident related vehicle damage. These increases were partially offset by a $0.2 million decline in legal and professional fees associated with vehicle and cargo claims. The $0.7 million increase in reserves for claims and loss development is attributable to increased known reserves for certain accidents and additional loss development required by the current year actuary analysis. The increase in accident related vehicle damage is primarily the result of damage repairs required on rented trailers and tractors.

FASI

FASI insurance and claims decreased $0.6 million to $1.6 million for the year ended December 31, 2011 from $2.2 million for the year ended December 31, 2010. As a percentage of operating revenue, insurance and claims was 2.2% for the year ended December 31, 2011 compared to 3.0% for the year ended December 31, 2010. The $0.6 million decrease is attributable to reduced cargo claims. We attribute the decline in cargo claims to improvements in our security and processes to investigate and resolve missing or damaged freight.

Fuel Expense

Fuel expense increased $1.5 million, or 17.6%, to $10.0 million in the year ended December 31, 2011 from $8.5 million in the year ended December 31, 2010. Fuel expense was 1.9% of consolidated operating revenue for the year ended December 31, 2011 compared to 1.8% for the year ended December 31, 2010.

Forward Air

Forward Air fuel expense increased $0.6 million, or 15.8%, to $4.4 million for the year ended December 31, 2011 from $3.8 million in the year ended December 31, 2010. Fuel expense was 0.9% of Forward Air's operating revenue for the years ended December 31, 2011 and 2010. The increase in total dollars is attributable to increased mileage activity as well as increased average fuel prices during the year ended December 31, 2011 compared to the year ended December 31, 2010.

FASI

FASI fuel expense increased $0.9 million, or 19.1%, to $5.6 million for the year ended December 31, 2011 from $4.7 million for the year ended December 31, 2010. Fuel expenses were 7.6% of FASI operating revenue during the year ended December 31, 2011 compared to 6.5% for the year ended December 31, 2010. FASI fuel expense is significantly higher as a percentage of operating revenue than Forward Air's fuel expense, as FASI utilizes a higher ratio of Company-employed drivers and Company-owned or leased vehicles in its operations than Forward Air. The increase in FASI fuel expense was attributable to the increase in average fuel prices during the year ended December 31, 2011 as compared to the year ended December 31, 2010 net of reductions in miles driven by Company-owned or

leased units.

Other Operating Expenses

Other operating expenses increased $2.6 million, or 7.2%, to $38.7 million for the year ended December 31, 2011 from $36.1 million for the year ended December 31, 2010. Other operating expenses were 7.2% of consolidated operating revenue for the year ended December 31, 2011 compared with 7.5% for the year ended December 31, 2010.

Forward Air

Forward Air other operating expenses increased $2.8 million, or 9.4%, to $32.6 million for the year ended December 31, 2011 from $29.8 million for the year ended December 31, 2010. Forward Air other operating expenses were 7.0% of operating revenue for the year ended December 31, 2011 compared to 7.2% for the year ended December 31, 2010. The increase in other

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operating expenses is attributable to increased variable costs, such as vehicle maintenance and dock supplies, during the year ended December 31, 2011, and the other operating expenses for the year ended December 31, 2010 being reduced by a $0.7 million gain on the termination of a capital lease. Forward Air variable costs increased during the year ended December 31, 2011, in conjunction with the shipping volume increases discussed previously, and decreased as a percentage of revenue as these increases were outpaced by the increase in Forward Air revenue.

FASI

FASI other operating expenses decreased $0.3 million, or 4.6%, to $6.2 million for the year ended December 31, 2011 compared to $6.5 million for the year ended December 31, 2010. FASI other operating expenses were 8.5% of operating revenue for the year ended December 31, 2011 compared to 9.0% for the year ended December 31, 2010. The $0.3 million decrease is attributable to reductions in dock supplies and savings from combining facilities with Forward Air. The FASI customer losses discussed above were largely responsible for a $0.1 million decrease in dock supplies due to the discontinued customers' packing requirements. FASI's utility, property taxes and other facility related costs were reduced by approximately $0.2 million primarily due to a full year of cost reductions associated with combining certain locations with Forward Air facilities.

Intercompany Eliminations

Intercompany eliminations were $0.1 million during the year ended December 31, 2011 compared to $0.2 million for the year ended December 31, 2010. The intercompany eliminations are for agent station services FASI provided to Forward Air during the years ended December 31, 2011 and 2010.

Income from Operations

Income from operations increased by $23.4 million, or 43.6%, to $77.1 million for the year ended December 31, 2011 compared with $53.7 million for the year ended December 31, 2010. Income from operations was 14.4% of consolidated operating revenue for the year ended December 31, 2011 compared with 11.1% for the year ended December 31, 2010.

Forward Air

Income from operations increased by $22.6 million, or 41.9%, to $76.5 million for the year ended December 31, 2011 compared with $53.9 million for the year ended December 31, 2010. Forward Air's income from operations was 16.5% of operating revenue for the year ended December 31, 2011 compared with 13.1% for the year ended December 31, 2010. The increase in income from operations was primarily the result of the increased revenue discussed previously and the resulting positive leverage the additional revenue provides against the fixed costs of the Forward Air network. Also, as discussed previously, contributing to the improvement in results was the favorable workers' compensation reserve adjustment partially offset by increased reserves for vehicle accidents.

FASI

FASI results from operations improved by $0.8 million to $0.6 million of income from operations for the year ended December 31, 2011 from a loss from operations of $0.2 million for the year ended December 31, 2010. FASI's income from operations was 0.8% of operating revenue for the year ended December 31, 2011 compared with the loss from operations being 0.3% of operating revenue for the year ended December 31, 2010. The improvement in FASI's results from operations was primarily driven by lower health and workers' compensation losses, the discontinuance of low yield business and continuing efforts to improve operating efficiencies and control variable and controllable costs such as cargo claims.

Interest Expense

Interest expense was $0.6 million for the year ended December 31, 2011 and decreased $0.1 million, or 14.3%, from $0.7 million for the year ended December 31, 2010. Decrease in interest expense was primarily attributable to the maturity of capital lease arrangements and the corresponding decrease in associated interest expense.

Other, Net

Other, net was income of $0.1 million for the years ended December 31, 2011 and 2010.

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Provision for Income Taxes

The combined federal and state effective tax rate for the year ended December 31, 2011 was 38.4% compared to a rate of 39.7% for the year ended December 31, 2010. The decrease in our effective tax rate is primarily attributable to the reenactment of certain tax credits which originally expired in 2009 but were extended through 2011 and made retroactive for 2010. At this time the related tax credits have expired and will not be available in 2012, unless extended by Congress.

Further reducing our effective tax rate was a $0.1 million reduction of income tax contingency reserves due to the lapsing of statutes on certain state income tax filings. Finally, contributing to the decrease in our effective tax rate is the increase in our net income before income taxes combined with reductions in non-deductible expenses such as share-based compensation for incentive stock options.

Net Income

As a result of the foregoing factors, net income increased by $15.2 million, or 47.5%, to $47.2 million for the year ended December 31, 2011 compared to $32.0 million for the year ended December 31, 2010.

Discussion of Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP"). The preparation of financial statements in accordance with GAAP requires our management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Our estimates and assumptions are based on historical experience and changes in the business environment. However, actual results may differ from estimates under different conditions, sometimes materially. Critical accounting policies and estimates are defined as those that are both most important to the portrayal of our financial condition and results and require management's most subjective judgments.

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% for Forward Air and 25.0% for FASI. 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 2012, average revenue adjustments per month were approximately $0.2 million, on average revenue per month of approximately $48.7 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 preceding 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.

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Self-Insurance Loss Reserves

Given the nature of our operating environment, we are subject to vehicle and general liability, workers' compensation and employee 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 employee 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, changes in the timing of the reporting of losses from the loss date to the notification date, and expected costs to settle unpaid claims. We utilize semi-annual actuarial analysis to evaluate the open vehicle liability and workers' compensation claims and estimate the ongoing development exposure.

Changes in the inputs described above, such as claim life cycles, severity of claims and trends in loss costs, can result in material changes to our self-insurance loss reserves. Historically, significant changes in one assumption or changes in several assumptions have resulted in both increases and decreases to self-insurance loss reserves. Based on facts and circumstances one significant claim, such as a dock or vehicle accident, could result in an immediate increase in our self-insurance loss reserves of at least $0.3 million to $0.5 million, our self-insured retention limits. Significant facts and circumstances for a claim would involve the degree of injuries, whether fatalities occurred, the amount of property damage, the degree of our involvement and whether or not our employees or representatives followed our processes and procedures. However, changes in the above variables could also reduce our self-insurance loss reserves. For example, during the second quarter of 2012, we reduced our workers' compensation loss reserve by approximately $1.1 million as the result of improvements in our loss experience and in the severity of claims incurred over a certain period of time.

Revenue Recognition

Operating revenue and related costs are recognized as of the date shipments are completed. The transportation rates we charge our customers consist of base transportation rates and fuel surcharge rates. The revenues earned and related direct freight expenses incurred from our base transportation services are recognized on a gross basis in revenue and in purchased transportation. Transportation revenue is recognized on a gross basis as we are the primary obligor. The fuel surcharges billed to customers and paid to owner-operators and third party transportation providers are recorded on a net basis in revenue as we are not the primary obligor with regards to the fuel surcharges.

Income Taxes

We account 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. Also, 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.

At December 31, 2012, we had state net operating loss carryforwards of $7.4 million for certain legal entities that will expire between 2013 and 2028. The use of these state net operating losses is limited to the future taxable income of separate legal entities. Based on expectations of future taxable income, management believes that it is more likely than not that the results of operations for the related legal entities will not generate sufficient taxable income to realize the net operating loss benefits for these state loss carryforwards. As a result, a valuation allowance has been provided for these state loss carryforwards. The valuation allowance on these certain state loss carryforwards was approximately $0.3 million at December 31, 2012.

Valuation of Goodwill

We test our goodwill for impairment annually or more frequently if events or circumstances indicate impairment may exist. Examples of such events or circumstances could include a significant change in business climate or a loss of significant customers. We complete our annual analysis of our reporting units as of the last day of our second quarter, June 30th. We first consider our operating segment and related components in accordance with U.S. GAAP. Goodwill is allocated to reporting units that are expected to benefit from the business combinations generating the goodwill. We have two reporting units - Forward Air and FASI. In evaluating reporting units, we first assess qualitative factors to determine whether it is more likely than not that the

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fair value of either of its reporting units is less than its carrying amount, including goodwill. When performing the qualitative assessment, we consider the impact of factors including, but not limited to, macroeconomic and industry conditions, overall financial performance of each reporting unit, litigation and new legislation. If based on the qualitative assessments, we believe it is more likely than not that the fair value of either reporting unit is less than the reporting unit's carrying amount we will prepare an estimation of the respective reporting unit's fair value. If this estimation of fair value indicates that impairment potentially exists, we will then measure the amount of the impairment, if any. Goodwill impairment exists when the calculated implied fair value of goodwill is less than its carrying value.

We determine the fair value of our reporting units based on a combination of a market approach, which considers comparable companies, and the income approach, using a discounted cash flow model. Under the market approach, valuation multiples are derived based on a selection of comparable companies and applied to projected operating data for each reporting unit to arrive at an indication of fair value. Under the income approach, the discounted cash flow model determines fair value based on the present value of management prepared projected cash flows over a specific projection period and a residual value related to future cash flows beyond the projection period. Both values are discounted using a rate which reflects our best estimate of the weighted average cost of capital of a market participant, and is adjusted for appropriate risk factors. We believe the most sensitive estimate used in our income approach is the management prepared projected cash flows. Consequently, we perform sensitivity tests to ensure reductions of the present value of the projected cash flows by at least 10% would not adversely impact the results of the goodwill impairment tests. Historically, we have equally weighted the income and market approaches as we believed the quality and quantity of the collected information were approximately equal.

In 2012, based on our qualitative assessment we did not perform an estimation of Forward Air's fair value, but did perform a fair value estimation for FASI. In 2011, we performed a fair value calculation for Forward Air which indicated that the fair value of Forward Air exceeded the book value by almost 400.0%. Our 2012 calculations for FASI indicated that, as of June 30, 2012, the fair value of FASI exceeded their carrying value by approximately 28.0%. For our 2012 analysis the significant assumptions used for the income approach were 10 years of projected net cash flows, discount rate of 20.0% and a long-term growth rate of 5.0%. These estimates used to calculate the fair value of FASI change from year to year based on operating results, market conditions, and other factors. Changes in these estimates and assumptions could materially affect the determination of the reporting unit's fair value and goodwill impairment for the reporting unit. For example, during the first quarter of 2009, we determined there were indicators of potential impairment of the goodwill assigned to the FASI segment. This determination was based on the continuing economic recession, declines in current market valuations, FASI operating losses in excess of expectations and reductions of projected net cash flows. As a result, we performed an interim impairment test as of March 31, 2009. Based on the results of the interim impairment test, we concluded that an impairment loss was probable and could be reasonably estimated. Consequently, we recorded a goodwill impairment charge of $7.0 million related to the FASI segment during the first quarter of 2009.

Earnings estimated to be generated by our Forward Air segment are expected to continue supporting the $37.9 million carrying value of its goodwill. Our FASI segment is currently facing the challenges of building, expanding and diversifying its revenue base. If FASI's efforts are significantly delayed, future estimates of projected financial information may again be significantly reduced, and we may be required to record an impairment charge up to the $5.4 million carrying value of FASI's goodwill.

Share-Based Compensation

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. For employees, we have granted stock options, non-vested shares and performance shares. For non-employee directors, we have granted non-vested shares annually beginning in 2006.

Stock options typically expire seven years from the grant date and vest ratably over a three-year period. The share-based compensation for stock options are recognized, net of estimated forfeitures, ratably over the requisite service period, or vesting period. Forfeitures were estimated based on our historical experience. We used the Black-Scholes option-pricing model to estimate the grant-date fair value of options granted. The following table contains the weighted-average assumptions used to estimate the fair value of options granted. These assumptions are highly subjective and changes in these assumptions can materially affect the fair value estimate.

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	December 31, 2012	December 31, 2011	December 31, 2010
Expected dividend yield	0.9 %	1.0 %	1.3 %
Expected stock price volatility	46.6 %	44.9 %	45.7 %
Weighted average risk-free interest rate	0.8 %	2.4 %	2.5 %
Expected life of options (years)	4.2	4.6	4.5

The fair value of non-vested shares issued were estimated using the closing 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. Forfeitures are estimated based on our historical experience, but will be adjusted for future changes in forfeiture experience.

We have also granted performance shares to key employees. Under the terms of the performance share agreements, on the third anniversary of the grant date, we will issue to the employees a calculated number of common stock shares based on the three year performance of our common stock share price as compared to the share price performance of a selected peer group. No shares may be issued if the share price performance outperforms 30% or less of the peer group, but the number of shares issued may be doubled if the share price performs better than 90% of the peer group. The share-based compensation for performance shares are recognized, net of estimated forfeitures, ratably over the requisite service period, or vesting period. The fair value of the performance shares was estimated using a Monte Carlo simulation. The following table contains the weighted-average assumptions used to estimate the fair value of performance shares granted. These assumptions are highly subjective and changes in these assumptions can materially affect the fair value estimate.

	Year ended December 31, 2012	December 31, 2011
Expected stock price volatility	40.8 %	47.7 %
Weighted average risk-free interest rate	0.4 %	1.4 %

Under the ESPP, which has been approved by our shareholders, we are authorized to issue shares of Common Stock to our employees. These shares may be issued at a price equal to 90.0% 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. 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.

Operating Leases

Certain operating leases include rent increases during the initial lease term. For these leases, we recognize the related rental expenses on a straight-line basis over the term of the lease, which includes any rent holiday period, and records the difference between the amounts charged to operations and amount paid as rent as a rent liability. Leasehold improvements are amortized over the shorter of the estimated useful life or the initial term of the lease.

Liquidity and Capital Resources

We have historically financed our working capital needs, including capital expenditures, with cash flows from operations and borrowings under our bank lines of credit.

Net cash provided by operating activities totaled approximately $68.6 million for the year ended December 31, 2012 compared to approximately $77.0 million for the year ended December 31, 2011. The $8.4 million decrease in cash

provided by operating activities is mainly attributable to increases in cash used for estimated tax payments, trade accounts payable and prepaid assets. Due to increases in our income from operations over recent years we had to increase our estimated federal and state income tax prepayments in 2012 by $12.5 million compared to 2011. The timing of payments associated with trade accounts payable and prepaid assets accounted for an additional $2.9 million increase in cash used for operations. These increases in cash used were partially offset by a $3.7 million increase in earnings after consideration of non-cash items and a $3.3 million increase in cash collected from accounts receivable.

Net cash provided by operating activities of $77.0 million for the year ended December 31, 2011 compared to approximately $54.0 million for the year ended December 31, 2010. The increase in cash provided by operating activities is mainly attributable

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to a $19.3 million increase in net earnings after consideration of non-cash items and a $5.0 million decrease in cash used to fund payables and other assets. These sources of cash were offset by a $1.3 million reduction in cash provided by accounts receivable. The decrease in cash used to fund payables and other assets was primarily attributable to increased income taxes payable as current income tax expenses increased by a larger amount than our estimated tax payments. The decrease in cash from accounts receivable is largely attributable to the increase in business volumes during the year ended December 31, 2011, resulting in revenues that were not collected until early 2012.

Net cash used in investing activities was approximately $20.7 million for the year ended December 31, 2012 compared with approximately $19.7 million used in investing activities during the year ended December 31, 2011. Investing activities during the years ended December 31, 2012 and 2011 consisted primarily of capital expenditures for new tractors, trailers and vehicles to replace aging units. The $0.9 million and $1.3 million of proceeds from disposals of property and equipment for the years ended December 31, 2012 and 2011, respectively, were primarily from sales of older vehicles replaced by the 2012 and 2011 capital expenditures.

Net cash used in investing activities of $19.7 million for the year ended December 31, 2011 compared with approximately $13.9 million used in investing activities during the year ended December 31, 2010. The increase in cash used in investing activities from the year ended December 31, 2010 to the year ended December 31, 2011 was attributable to increased capital expenditures for new trailers and other rolling stock.

Net cash provided by financing activities totaled approximately $5.5 million for the year ended December 31, 2012 and increased $78.5 million compared with $73.0 million used in financing activities during the year ended December 31, 2011. The increase in cash from financing activities is mainly attributable to the year ended December 31, 2011 including a $50.0 million payment on our line of credit and $26.1 million of common stock share repurchases. In addition, during the year ended December 31, 2012, cash received from the exercise of stock options increased $4.8 million compared to the year ended December 31, 2011. These increases from financing activities were partially offset by a $1.8 million increase in dividend payments. Dividends increased on new shares issued through stock option exercises and our Board of Directors during the third quarter of 2012 increasing the quarterly cash dividend from our historic $0.07 per share to $0.10 per share.

Net cash used in financing activities totaled $73.0 million for the year ended December 31, 2011 compared with approximately $7.6 million used in financing activities during the year ended December 31, 2010. Cash used in financing activities for the year ended December 31, 2011 mainly included a $50.0 million payment on our line of credit, $26.1 million used for the repurchase of our common stock, $8.2 million used for our quarterly dividend payments and $0.6 million of scheduled capital lease payments. The increase from the year ended December 31, 2010 to December 31, 2011 in cash used for financing activities is attributable to the payment on our line of credit and the repurchases of our shares during 2011. There was no comparable activity in 2010. These 2011 uses of cash were partially offset by a $11.7 million increase in cash from the exercise of stock options and the related tax benefit compared to 2010.

In February 2012, we entered into a new $150.0 million credit facility. This facility has a term of five years and matures in February 2017. Interest rates for advances under the facility are LIBOR plus 1.1% based upon covenants related to total indebtedness to earnings (1.3% at December 31, 2012). The agreement contains certain covenants and restrictions related to new indebtedness, investment types and dispositions of property. None of the covenants are expected to significantly affect our operations or ability to pay dividends. No assets are pledged as collateral against the credit facility. As of December 31, 2012, we had no borrowings outstanding under the credit facility. At December 31, 2012, we had utilized $10.6 million of availability for outstanding letters of credit and had $139.4 million of available borrowing capacity under this credit facility.

In July 2007, our Board of Directors approved a stock repurchase program ("Repurchase Plan") for up to two million shares of our common stock. No shares were repurchased during the year ended December 31, 2012. During the year ended December 31, 2011, we repurchased 973,768 shares of common stock under the Repurchase Plan for $26.1 million, or an average cost of $26.80 per share. As of December 31, 2012, 815,059 shares remain that may be repurchased under the Repurchase Plan.

During the first and second quarters of 2012 and each quarter of 2011 and 2010, our Board of Directors declared a cash dividend of $0.07 per share of Common Stock. During the third and fourth quarter of 2012, our Board of Directors declared a cash dividend of $0.10 per share of Common Stock. We expect to continue to pay regular quarterly cash dividends, though each subsequent quarterly dividend is subject to review and approval by our Board of Directors.

We believe that our available cash, investments, expected cash generated from future operations and borrowings under the available credit facility will be sufficient to satisfy our anticipated cash needs for at least the next twelve months. However, we continue to evaluate and pursue acquisitions that can increase our penetration of a geographic area, add new customers, add new business verticals, increase freight volume and add new service offerings. In addition, we expect to explore acquisitions that

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may enable us to offer additional services. Acquisitions may affect our short-term cash flow, liquidity and net income as we expend funds, potentially increase indebtedness and incur additional expenses.

Off-Balance Sheet Arrangements

At December 31, 2012, we had letters of credit outstanding from banks totaling $10.6 million required primarily 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, 2012 (in thousands) are summarized below:

Contractual Obligations	Payment Due Period				
	Total	2013	2014-2015	2016-2017	2018 and Thereafter
Capital lease obligations	$344	$286	$58	$—	—
Equipment purchase commitments	24,987	24,987	—	—	—
Operating leases	71,894	19,371	31,751	15,049	5,723
Total contractual cash obligations	$97,225	$44,644	$31,809	$15,049	$5,723

Not included in the above table are reserves for unrecognized tax benefits and for self insurance claims of $0.3 million and $9.9 million, respectively. The equipment purchase commitments are for various trailers, vehicles and forklifts. All of the above commitments are expected to be funded by cash on hand and cash flows from operations.

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 and fuel prices. Our interest rate exposure relates principally to changes in interest rates for borrowings under our credit facility. The credit facility, for which no balance was outstanding at or during December 31, 2012, bears interest at variable rates. However, based on our average outstanding borrowings during 2011, a hypothetical increase in our credit facility borrowing rate of 150 basis points, or an increase in the total effective interest rate from 1.3% to 2.8%, would increase our annual interest expense by approximately $0.8 million and would have decreased our annual cash flow from operations by approximately $0.8 million.

Our only other debt is capital lease obligations totaling $0.3 million. These lease obligations all bear interest at a fixed rate. Accordingly, there is no exposure to market risk related to these capital lease obligations.

We are exposed to the effects of changes in the price and availability of diesel fuel, as more fully discussed in Item 1A, "Risk Factors."

Our cash and cash equivalents are also subject to market risk, primarily interest-rate and credit risk.

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

Our management, including our principal executive and principal financial officers, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2012. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in this annual report on Form 10-K has been appropriately recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, to allow timely decisions regarding required disclosure. Based on that evaluation, our principal executive and principal financial officers have concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

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, 2012. 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, 2012, that our internal control over financial reporting was effective based on those criteria.

Ernst & Young LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements for the year ended December 31, 2012, 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 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Forward Air Corporation

We have audited Forward Air Corporation's internal control over financial reporting as of December 31, 2012, 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 Control 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.

In our opinion, Forward Air Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have 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, 2012 and 2011, and the related consolidated statements of comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2012 of Forward Air Corporation and our report dated February 15, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee

February 15, 2013

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Item 9B. Other Information

Not applicable.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

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, 2012.

The following are our executive officers:

Name	Age	Position
Bruce A. Campbell	61	Chairman, President and Chief Executive Officer
Rodney L. Bell	50	Chief Financial Officer, Senior Vice President and Treasurer
Craig A. Drum	57	Senior Vice President, Sales
Matthew J. Jewell	46	Executive Vice President, Chief Legal Officer and Secretary
Chris C. Ruble	50	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.

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 (inactive), 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 Officer 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, Operations 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.

Other information required by this item with respect to our directors is incorporated herein by reference to our proxy statement for the 2013 Annual Meeting of Shareholders (the “2013 Proxy Statement”). The 2013 Proxy Statement will be filed with the SEC not later than 120 days subsequent to December 31, 2012.

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Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to the 2013 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 2013 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 2013 Proxy Statement.

Item 14. Principle Accounting Fees and Services

The information required by this item is incorporated herein by reference to the 2013 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.

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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 15, 2013

By: /s/ Rodney L. Bell

Rodney L. Bell
Chief Financial Officer, Senior Vice President
and Treasurer (Principal Financial Officer)

By: /s/ Michael P. McLean

Michael P. McLean
Chief Accounting Officer, Vice President
and Controller (Principal Accounting Officer)

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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 15, 2013
/s/ Rodney L. Bell Rodney L. Bell	Chief Financial Officer, Senior Vice President and Treasurer (Principal Financial Officer)	February 15, 2013
/s/ Michael P. McLean Michael P. McLean	Chief Accounting Officer, Vice President and Controller (Principal Accounting Officer)	February 15, 2013
/s/ Tracy A. Leinbach Tracy A. Leinbach	Lead Director	February 15, 2013
/s/ Ron W. Allen Ron W. Allen	Director	February 15, 2013
/s/ C. Robert Campbell C. Robert Campbell	Director	February 15, 2013
/s/ C. John Langley, Jr. C. John Langley, Jr.	Director	February 15, 2013
/s/ Larry D. Leinweber Larry D. Leinweber	Director	February 15, 2013
/s/ G. Michael Lynch G. Michael Lynch	Director	February 15, 2013
/s/ Ray A. Mundy Ray A. Mundy	Director	February 15, 2013
/s/ Gary L. Paxton Gary L. Paxton	Director	February 15, 2013

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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, 2012

Forward Air Corporation

Greeneville, Tennessee

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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:

	Page No.
Report of Ernst & Young LLP, Independent Registered Public Accounting Firm	F-3
Consolidated Balance Sheets — December 31, 2012 and 2011	F-4
Consolidated Statements of Comprehensive Income — Years Ended December 31, 2012, 2011 and 2010	F-6
Consolidated Statements of Shareholders' Equity — Years Ended December 31, 2012, 2011 and 2010	F-7
Consolidated Statements of Cash Flows — Years Ended December 31, 2012, 2011 and 2010	F-8
Notes to Consolidated Financial Statements — December 31, 2012	F-9

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

Schedule II - Valuation and Qualifying Accounts	S-1

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.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Forward Air Corporation

We have audited the accompanying consolidated balance sheets of Forward Air Corporation, as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. 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 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, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, 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. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as whole, present fairly in all material respects the information set forth therein.

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, 2012, 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 15, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee
February 15, 2013

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Forward Air Corporation
Consolidated Balance Sheets
(Dollars in thousands)

	December 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$112,182	$58,801
Accounts receivable, less allowance of $1,444 in 2012 and $1,503 in 2011	75,262	70,922
Inventories	901	881
Prepaid expenses and other current assets	8,769	7,102
Deferred income taxes	1,282	2,011
Total current assets	198,396	139,717
Property and equipment:		
Land	16,928	16,928
Buildings	65,727	65,457
Equipment	149,571	134,275
Leasehold improvements	5,973	5,778
Construction in progress	939	697
Total property and equipment	239,138	223,135
Less accumulated depreciation and amortization	105,581	93,267
Net property and equipment	133,557	129,868
Goodwill and other acquired intangibles:		
Goodwill	43,332	43,332
Other acquired intangibles, net of accumulated amortization of $26,028 in 2012 and $21,462 in 2011	22,102	26,668
Total net goodwill and other acquired intangibles	65,434	70,000
Other assets	1,800	1,566
Total assets	$399,187	$341,151

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

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Forward Air Corporation
Consolidated Balance Sheets (Continued)
(Dollars in thousands)

	December 31, 2012	December 31, 2011
Liabilities and Shareholders’ Equity		
Current liabilities:		
Accounts payable	$11,168	$12,392
Accrued payroll and related items	5,623	7,739
Insurance and claims accruals	5,475	4,806
Payables to owner-operators	3,978	3,197
Collections on behalf of customers	457	473
Other accrued expenses	943	385
Income taxes payable	—	4,386
Current portion of capital lease obligations	276	552
Total current liabilities	27,920	33,930
Capital lease obligations, less current portion	58	333
Other long-term liabilities	7,098	8,860
Deferred income taxes	12,440	11,126
Commitments and contingencies (Note 7)		
Shareholders’ equity:		
Preferred stock, $0.01 par value: Authorized shares - 5,000,000; no shares issued	—	—
Common stock, $0.01 par value: Authorized shares - 50,000,000; issued and outstanding shares - 29,194,761 in 2012 and 28,553,286 in 2011	292	285
Additional paid-in capital	64,644	42,212
Retained earnings	286,735	244,405
Total shareholders’ equity	351,671	286,902
Total liabilities and shareholders’ equity	$399,187	$341,151

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

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

	Year ended		
	December 31, 2012	December 31, 2011	December 31, 2010
Operating revenue:			