FORWARD AIR CORP
Form 10-K
February 26, 2009

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2008
Commission File No. 000-22490

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

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

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

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

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

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

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

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 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 (Do not check if a smaller reporting company)	Smaller reporting Company o

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2008 was approximately $992,342,913 based upon the $34.60 closing price of the stock as reported on The NASDAQ Stock Market LLC on that date. For purposes of this computation, all directors and executive officers of the registrant are assumed to be affiliates. This assumption is not a conclusive determination for purposes other than this calculation.

The number of shares outstanding of the registrant's common stock, $0.01 par value per share as of February 20, 2009 was 28,941,358.

DOCUMENTS INCORPORATED BY REFERENCE

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

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Forward Air Corporation

Introductory Note

This Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (this "Form 10-K") contains "forward-looking statements," as defined in Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are statements other than historical information or statements of current condition and relate to future events or our future financial performance. Some forward-looking statements may be identified by use of such terms as "believes," "anticipates," "intends," "plans," "estimates," "projects" or "expects." Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The following is a list of factors, among others, that could cause actual results to differ materially from those contemplated by the forward-looking statements: economic factors such as recessions, inflation, higher interest rates and downturns in customer business cycles, our inability to maintain our historical growth rate because of a decreased volume of freight or decreased average revenue per pound of freight moving through our network, increasing competition and pricing pressure, surplus inventories, loss of a major customer, the creditworthiness of our customers and their ability to pay for services rendered, our ability to secure terminal facilities in desirable locations at reasonable rates, the inability of our information systems to handle an increased volume of freight moving through our network, changes in fuel prices, claims for property damage, personal injuries or workers' compensation, employment matters including rising health care costs, enforcement of and changes in governmental regulations, environmental and tax matters, the handling of hazardous materials, the availability and compensation of qualified independent owner-operators and freight handlers needed to serve our transportation needs and our inability to successfully integrate acquisitions. As a result of the foregoing, no assurance can be given as to future financial condition, cash flows or results of operations. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Part I

Item 1. Business

We were formed as a corporation under the laws of the State of Tennessee on October 23, 1981. Our operations can be broadly classified into two principal segments: Forward Air, Inc. ("Forward Air") and Forward Air Solutions, Inc. ("FASI").

Through our Forward Air segment, we are a leading provider of time-definite surface transportation and related logistics services to the North American deferred air freight market. We offer our customers local pick-up and delivery (Forward Air Complete™) and scheduled surface transportation of cargo as a cost-effective, reliable alternative to air transportation. We transport cargo that must be delivered at a specific time but is less time-sensitive than traditional air freight. This type of cargo is frequently referred to in the transportation industry as deferred air freight. We operate our Forward Air segment through a network of terminals located on or near airports in 82 cities in the United States and Canada, including a central sorting facility in Columbus, Ohio and 11 regional hubs serving key markets. We also offer our customers an array of logistics and other services including: expedited truckload brokerage ("TLX"); dedicated fleets; warehousing; customs brokerage; and shipment consolidation, deconsolidation and handling.

Through our Forward Air segment, we market our airport-to-airport services primarily to air freight forwarders, integrated air cargo carriers, and passenger and cargo airlines. To serve this market, we offer customers a very high level of service with a focus on on-time, damage-free deliveries. We serve our customers by locating terminals on or near airports and maintaining regularly scheduled transportation service between major cities. We either receive shipments at our terminals or pick up shipments directly from our customers and transport them by truck (i) directly to the destination terminal; (ii) to our Columbus, Ohio central sorting facility; or (iii) to one of our 11 regional hubs, where they are unloaded, sorted and reloaded. After reloading the shipments, we deliver them to the terminals nearest their destinations and then, if requested by the customer, on to a final designated site. We ship freight directly between terminals when justified by the volume of shipments. During 2008, approximately 22.5% of the freight we handled was for overnight delivery, approximately 60.1% was for delivery within two to three days and the balance was for delivery in four or more days. We generally do not market our airport-to-airport services directly to shippers (where such services might compete with our freight forwarder customers). Also, because we do not place significant size or weight restrictions on airport-to-airport shipments, we generally do not compete directly with integrated air cargo carriers such as United Parcel Service and Federal Express in the overnight delivery of small parcels. In 2008, Forward Air's five largest customers accounted for approximately 21.6% of Forward Air's operating revenue and no single customer accounted for more than 10.0% of Forward Air's operating revenue.

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

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

Our Industry

As businesses minimize inventory levels, close local distribution centers, perform manufacturing and assembly operations in multiple locations and distribute their products through multiple channels, they have an increased need for expedited or time definite delivery services. Expedited or time definite shipments are those shipments for which the customer requires delivery the next day or within two to three days, usually by a specified time or within a specified time window.

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

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

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

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

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

- Full truckload carriers provide transportation services generally using their own fleet of trucks. A freight forwarder or shipper must have a shipment of sufficient size to justify the cost of a full truckload. These cost benefit concerns can inhibit the flexibility often required by freight forwarders or shippers.

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

Competitive Advantages

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

- Focus on Specific Freight Markets. Our Forward Air segment focuses on providing time-definite surface transportation and related logistics services to the deferred air cargo industry. Our FASI segment focuses on providing high-quality pool distribution services to retailers and nationwide distributors of retail products. This focused approach enables us to provide a higher level of service in a more cost-effective manner than our competitors.

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

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

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

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

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

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

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

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

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

- Leading Technology Platform. We are committed to using information technology to improve our Forward Air and FASI operations. Through improved information technology, we believe we can increase the volume of freight we handle in our networks, improve visibility of shipment information and reduce our operating costs. Our Forward Air technology allows us to provide our customers with electronic bookings and real-time tracking and tracing of shipments while in our network, complete shipment history, proof of delivery, estimated charges and electronic bill presentment. We continue to enhance our Forward Air systems to permit us and our customers to access vital information through both the Internet and electronic data interchange. We have continued to invest in information technology for Forward Air to the benefit of our customers and our business processes. The primary example of this development is our Terminal Automation Program ("TAP"), a wireless application utilized in all our Forward Air terminals. The system enables individual operators to perform virtually all data entry from our terminal floor locations. The system provides immediate shipment updates, resulting in increased shipment accuracy and improved data timeliness. The TAP system not only reduces operational manpower, but also improves our on-time performance. Additionally, in order to support our Forward Air Complete service offering, we developed and installed a web-based system, which coordinates activities between our customers, operations personnel and external service providers.

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

- Strong Balance Sheet and Availability of Funding. Our asset-light business model and strong market position in the deferred air freight market provides the foundation for operations that produce excellent cash flow from operations even in challenging conditions. Our strong balance sheet can also be a competitive advantage. Our competitors, particularly in the pool distribution market, are mainly regional and local operations and may struggle to maintain operations in the current economic environment. The threat of financial instability may encourage new and existing customers to use a more financially secure transportation provider, such as FASI.

Growth Strategy

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

- Increase Freight Volume from Existing Customers. Many of our customers currently use Forward Air and FASI for only a portion of their overall transportation needs. We believe we can increase freight volumes from existing customers by offering more comprehensive services that address all of the customer's transportation needs, such as Forward Air Complete, our direct to door pick-up and delivery service. By offering additional services that can be integrated with our existing business we believe we will attract additional business from existing customers.

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

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

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

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

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

- Expand Pool Distribution Services and Integrate with our Forward Air Services. In addition to increasing our revenue from traditional pool distribution services we are working to integrate our Forward Air and FASI service offerings. Through this process we are able to offer customers linehaul or truckload services, with handling and sorting at the origin and destination terminal, and final distribution to one or many locations utilizing FASI pool distribution or Forward Air Complete.

- Enhance Information Systems. We are committed to the continued development and enhancement of our information systems in ways that will continue to provide us competitive service advantages and increased productivity. We believe our enhanced systems have and will assist us in capitalizing on new business opportunities with existing customers and developing relationships with new customers.

- Pursue Strategic Acquisitions. We intend to continue to evaluate acquisitions that can increase our penetration of a geographic area, add new customers, increase freight volume and add new service offerings. In addition, we expect to explore acquisitions that may enable us to offer additional services. Since our inception, we have acquired certain assets and liabilities of twelve businesses that met one or more of these criteria. During 2008 and 2007, we acquired certain assets and liabilities of four companies that met these criteria.

Ø In July 2007, we acquired certain assets and liabilities of USAC which provided the base from which we launched our FASI pool distribution services.

Ø In December 2007, we acquired certain assets and liabilities of Black Hawk Freight Services, Inc. ("Black Hawk") which increased the penetration of our Forward Air airport-to-airport network in the Midwest.

Ø In March 2008, we acquired certain assets and liabilities of Pinch Holdings, Inc. and its related company AFTCO Enterprises, Inc. and certain of their respective wholly-owned subsidiaries ("Pinch"). Pinch was a privately-held provider of pool distribution, airport-to-airport, truckload, custom, and cartage services primarily to the Southwestern continental United States. This acquisition gave FASI a presence primarily in Texas and strengthens the position of our Forward Air network in the Southwest United States.

Ø In September 2008, we acquired certain assets and liabilities of Service Express, Inc. ("Service Express"). The acquisition of Service Express, a privately-held provider of pool distribution services, helped us expand FASI's geographic footprint in the Mid-Atlantic and Southeastern continental United States.

Operations

We operate in two reportable segments, based on differences in the services provided: Forward Air and FASI. Through Forward Air we are a leading provider of time-definite transportation and related logistics services to the North American deferred air freight market. Forward Air's activities can be broadly classified into three categories of services: airport-to-airport, logistics and other.

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

Forward Air

Airport-to-airport

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

Terminals

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

City	Airport Served	City	Airport Served
Albany, NY	ALB	Los Angeles, CA	LAX
Albuquerque, NM*	ABQ	Louisville, KY	SDF
Atlanta, GA	ATL	Memphis, TN	MEM
Austin, TX	AUS	McAllen, TX	MFE
Baltimore, MD	BWI	Miami, FL	MIA
Baton Rouge, LA*	BTR	Milwaukee, WI	MKE
Birmingham, AL*	BHM	Minneapolis, MN	MSP
Blountville, TN*	TRI	Mobile, AL*	MOB
Boston, MA	BOS	Moline, IA	MLI
Buffalo, NY	BUF	Nashville, TN	BNA
Burlington, IA	BRL	Newark, NJ	EWR
Cedar Rapids, IA	CID	Newburgh, NY	SWF
Charleston, SC	CHS	New Orleans, LA	MSY
Charlotte, NC	CLT	New York, NY	JFK
Chicago, IL	ORD	Norfolk, VA	ORF
Cincinnati, OH	CVG	Oklahoma City, OK	OKC
Cleveland, OH	CLE	Omaha, NE	OMA
Columbia, SC*	CAE	Orlando, FL	MCO
Columbus, OH	CMH	Pensacola, FL*	PNS
Corpus Christi, TX*	CRP	Philadelphia, PA	PHL
Dallas/Ft. Worth, TX	DFW	Phoenix, AZ	PHX
Dayton, OH*	DAY	Pittsburgh, PA	PIT
Denver, CO	DEN	Portland, OR	PDX

Des Moines, IA	DSM	Raleigh, NC	RDU
Detroit, MI	DTW	Richmond, VA	RIC
El Paso, TX	ELP	Rochester, NY	ROC
Greensboro, NC	GSO	Sacramento, CA	SMF
Greenville, SC	GSP	Salt Lake City, UT	SLC
Hartford, CT	BDL	San Antonio, TX	SAT
Harrisburg, PA	MDT	San Diego, CA	SAN
Houston, TX	IAH	San Francisco, CA	SFO
Huntsville, AL*	HSV	Seattle, WA	SEA
Indianapolis, IN	IND	St. Louis, MO	STL
Jackson, MS*	JAN	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

* Denotes an independent agent location.

Independent agents operate 17 of our 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, Kansas City, Los Angeles, New Orleans, Newark, Newburgh, Orlando and San Francisco.

Shipments

The average weekly volume of freight moving through our network was approximately 34.2 million pounds per week in 2008. During 2008, our average shipment weighed approximately 756 pounds and shipment sizes ranged from small boxes weighing only a few pounds to large shipments of several thousand pounds. Although we impose no significant size or weight restrictions, we focus our marketing and price structure on shipments of 200 pounds or more. As a result, we typically do not directly compete with integrated air cargo carriers in the overnight delivery of small parcels. The table below summarizes the average weekly volume of freight moving through our network for each year since 1990.

Year	Average Weekly Volume in Pounds (In millions)
1990	1.2
1991	1.4
1992	2.3
1993	3.8
1994	7.4
1995	8.5
1996	10.5
1997	12.4
1998	15.4
1999	19.4
2000	24.0
2001	24.3
2002	24.5
2003	25.3
2004	28.7
2005	31.2
2006	32.2
2007	32.8
2008	34.2

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

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

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

Year	Average Weekly Miles (In thousands)
2003	211
2004	259
2005	248
2006	331
2007	529
2008	676

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.

We continue to expand the geographic footprint of our FASI pool distribution business, primarily through acquisitions. On September 8, 2008, we acquired certain assets and liabilities of Service Express. The acquisition of Service Express helped us expand our geographic footprint in the Mid-Atlantic and Southeastern continental United States. On March 17, 2008, we acquired certain assets and liabilities of Pinch. The acquisition of Pinch's pool distribution services expanded the geographic footprint of FASI into Texas and the Southwestern United States. During 2008, we added locations in Alabama, Georgia, Maryland, Nevada, North Carolina, Texas and Virginia. Our pool distribution network consists of terminals and service locations in the following 19 cities:

City	
Albuquerque, NM	Kansas City, MO
Atlanta, GA	Lakeland, FL
Baltimore, MD	Las Vegas, NV
Charlotte, NC	Miami, FL
Dallas/Ft. Worth, TX	Montgomery, AL
Denver, CO	Nashville, TN

Des Moines, IA	Richmond, VA
Greensboro, NC	San Antonio, TX
Houston, TX	Tulsa, OK
Jacksonville, FL	

Customers and Marketing

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

Our FASI pool distribution customers are primarily comprised of national and regional retailers and distributors, such as The Limited, The Marmaxx Group, The GAP, Blockbuster and Aeropostale. We also conduct business with other pool distribution providers.

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. The information contained on our website is not part of this filing.

Technology and Information Systems

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

We have invested and expect to continue investing management and financial resources on maintaining and upgrading our information systems, particularly for our FASI operations, in an effort to increase the volume of freight we can handle in our networks, improve the visibility of shipment information and reduce our operating costs. The ability to provide accurate, real-time information on the status of shipments is increasingly important to our customers and our efforts in this area could result in both competitive service advantages, and increased productivity throughout our networks. We believe our continuing technical enhancements will assist us in capitalizing on new business opportunities, capturing additional freight from existing customers, and attracting new customers.

Purchased Transportation

We contract for most of our Forward Air transportation services on a per mile basis from owner-operators. FASI also utilizes owner-operators for certain of its transportation services, but relies more on Company-employed drivers. The owner-operators own, operate and maintain their own tractors and employ their own drivers. Our freight handlers load and unload our trailers for hauling by owner-operators between our terminals.

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

As a result of efforts to expand our logistics and other services, seasonal demands and volume surges in particular markets, we also purchase transportation from other surface transportation providers to handle overflow volume. Of the $189.0 million incurred for purchased transportation during 2008, we purchased 66.3% from owner-operators and 33.7% from other surface transportation providers.

Competition

The air freight and pool distribution transportation industries are highly competitive and very fragmented. Our Forward Air and FASI competitors primarily include regional trucking companies and regional 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 on service, primarily 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 climate, national holidays, customer demand and economic conditions. Additionally, a significant portion of our revenue is derived from customers whose business levels are impacted by the economy. The impact of seasonal trends is more pronounced on our pool distribution business. The pool distribution business is seasonal and operating revenues and results tend to be higher in the third and fourth quarters than in the first and second quarters.

Employees

As of December 31, 2008, we had 2,021 full-time employees, 559 of whom were freight handlers. Also, as of that date, we had an additional 649 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 materially adverse effect on our business, financial condition or results of operations.

Regulation

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

Service Marks

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

Website Access

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

Item 1A. Risk Factors

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

The severe economic downturn has resulted in weaker demand for ground transportation services, which may continue to have a significant negative impact on us.

We are experiencing significantly weaker demand for our airport-to-airport and pool distribution services driven by the severe downturn in the economy. We began to experience weakening demand late in 2008, and this weakness has continued into 2009. We are adjusting the size of our owner-operator fleet and reducing employee headcount to compensate for the drop in demand. If the economic downturn persists or worsens, demand for our services may continue to weaken. No assurance can be given that our reductions or other steps we may take will be adequate to offset the effects of reduced demand.

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

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

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

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

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

Our continued growth depends in significant part on our ability to increase the amount and revenue per pound of the freight shipped through the 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.

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 our customers and we cannot guarantee that our current customers will continue to utilize our services or that they will continue at the same levels. The actual shippers of the freight moved through our networks include various manufacturers and distributors of electronics, telecommunications equipment, machine parts, trade show exhibit materials and medical equipment. Adverse business conditions affecting these shippers or adverse general economic conditions are likely to cause a decline in the volume of freight shipped through our networks.

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

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

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

Under DOT regulations, we are liable for property damage and personal injuries caused by owner-operators 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.

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

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

- identification of appropriate acquisition candidates;
- negotiation of acquisitions on favorable terms and valuations;
- integration of acquired businesses and personnel;
- implementation of proper business and accounting controls;
- ability to obtain financing, on favorable terms or at all;

- diversion of management attention;
- retention of employees and customers;
- unexpected liabilities; and
- potential erosion of operating profits as new acquisitions may be unable to achieve profitability comparable with our core airport-to-airport business.

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.

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 $40.7 million of recorded net intangible assets on our consolidated balance sheet at December 31, 2008. 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 a possible impairment, we would be required to record a non-cash impairment charge to our statement of 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 $50.2 million on our consolidated balance sheet at December 31, 2008. Goodwill is also assessed for impairment annually for each of our reportable segments. This assessment includes comparing the fair value of each reportable segment to the carrying value of the assets assigned to each reportable segment. If the carrying value of the reportable segment was to exceed our estimated fair value of the reportable segment, we would then be required to estimate the fair value of the individual assets and liabilities within the reportable segment 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 statement of income, which could have a material adverse effect on our earnings.

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

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

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

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

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

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

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

We depend on owner-operators for most of our transportation needs. In 2008, owner-operators provided 66.3% of our purchased transportation. Competition for owner-operators is intense, and sometimes there are shortages of available owner-operators. In addition, we need a large number of freight handlers to operate our business efficiently. During periods of low unemployment in the areas where our terminals are located, we may have difficulty hiring and retaining a sufficient number of freight handlers. If we have difficulty attracting and retaining enough qualified owner-operators or freight handlers, we may be forced to increase wages and benefits, which would increase our operating costs. This difficulty may also impede our ability to maintain our delivery schedules, which could make our service less competitive and force us to curtail our planned growth. If our labor costs increase, we may be unable to offset the increased labor costs by increasing rates without adversely affecting our business. As a result, our profitability may be reduced.

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

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

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

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

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

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

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

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

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

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

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

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

We have a shareholder rights plan that is scheduled to expire on May 18, 2009, that may have the effect of discouraging unsolicited takeover proposals. The rights issued under the shareholder rights plan would cause substantial dilution to a person or group that attempts to acquire us on terms not approved in advance by our Board of Directors. In addition, our shareholder rights plan, charter and bylaws and provisions of Tennessee law may discourage, delay or prevent a merger, acquisition or change in control that may be considered favorable. These provisions could also discourage proxy contests and make it more difficult for shareholders to elect directors and take other corporate actions. Among other things, these provisions:

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

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

Our shareholder rights plan, charter and bylaws and provisions of Tennessee law may discourage transactions that otherwise could provide for the payment of a premium over prevailing market prices for our common stock, $0.01 par value per share, and also could limit the price that investors are willing to pay in the future for shares of our common stock (“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. During 2006, we completed a $5.5 million expansion of this 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.

In June and March 2007, we completed the purchase of facilities near Atlanta, Georgia and Chicago, Illinois for $14.9 million and $22.3 million, respectively. The Atlanta, Georgia facility is over 142,000 square feet with 118 trailer doors and approximately 12,000 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. In addition, in February 2007, the Company acquired for $3.0 million 36.7 acres of land near Dallas/Fort Worth, Texas on which we are currently building a new regional hub facility. We anticipate completion of the Dallas/Fort Worth facility in the third quarter of 2009.

We lease and maintain 81 additional terminals, including 19 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 17 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, 2008, we had 2,219 owned trailers in our fleet with an average age of approximately 3.7 years. In addition, as a result of our recent acquisitions, at December 31, 2008, we also have 127 leased trailers in our fleet.

Through our recent acquisitions we have also increased the size of our tractor and straight truck fleets. At December 31, 2008, we had 307 owned tractors and straight trucks in our fleet, with an average age of approximately 5.0 years. In addition, at December 31, 2008, we also had 185 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 or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

During the fourth quarter of the fiscal year ended December 31, 2008, no matters were submitted to a vote of security holders through the solicitation of proxies or otherwise.

Executive Officers of the Registrant

Pursuant to Instruction 3 to Item 401(b) of Regulation S-K of the Securities Act and General Instruction G(3) to Form 10-K, the following information is included in Part I of this report. The ages listed below are as of December 31, 2008.

The following are our executive officers:

Name	Age	Position
Bruce A. Campbell	57	President and Chief Executive Officer
Rodney L. Bell	46	Chief Financial Officer, Senior Vice President and Treasurer
Craig A. Drum	53	Senior Vice President, Sales
Matthew J. Jewell	42	Executive Vice President, Chief Legal Officer and Secretary
Chris C. Ruble	46	Executive Vice President, Operations

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

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

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

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

Matthew J. Jewell has served as Executive Vice President and Chief Legal 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.

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.

2008	High	Low	Dividends
First Quarter	$ 36.86	$ 25.55	$ 0.07
Second Quarter	39.09	32.54	0.07
Third Quarter	38.58	25.77	0.07
Fourth Quarter	28.16	17.31	0.07

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

There were approximately 433 shareholders of record of our Common Stock as of February 4, 2009.

Subsequent to December 31, 2008, our Board of Directors declared a cash dividend of $0.07 per share that will be paid on March 26, 2009 to shareholders of record at the close of business on March 11, 2009. We expect to continue to pay regular quarterly cash dividends, though each subsequent quarterly dividend is subject to review and approval by the Board of Directors.

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

None of our securities were sold during fiscal year 2008 without registration under the Securities Act.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2008 with respect to shares of our Common Stock that may be issued under existing equity compensation plans, including the 1992 Amended and Restated Stock Option and Incentive Plan (the "1992 Plan"), the 1999 Stock Option and Incentive Plan (the "1999 Plan"), the Non-Employee Director Stock Option Plan (the "NED Plan"), the 2000 Non-Employee Director Award (the "2000 NED Award"), the 2005 Employee Stock Purchase Plan (the "ESPP") and the Amended and Restated Non-Employee Director Stock Plan (the "Amended Plan"). Our shareholders have approved each of these plans.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (a)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (b)
Equity Compensation Plans Approved by Shareholders	2,577,691	$ 26.74	4,121,170
Equity Compensation Plans Not Approved by Shareholders	--	--	--
Total	2,577,691	$ 26.74	4,121,170

(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, 2008, an aggregate of 459,324 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 2003 and ending on the last trading day of December 2008. The graph assumes a base investment of $100 made on December 31, 2003 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.

	2003	2004	2005	2006	2007	2008
Forward Air Corporation	100	163	201	159	172	132
	100	127	139	147	152	107

NASDAQ Trucking and Transportation Stocks Index						
NASDAQ Stock Market Index	100	109	110	121	134	81

Issuer Purchases of Equity Securities

No shares of our Common Stock were repurchased by the Company during the quarter ended December 31, 2008.

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, 2008	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004
	(In thousands, except per share data)				
Income Statement Data:					
Operating revenue	$ 474,436	$ 392,737	$ 352,758	$ 320,934	$ 282,197
Income from operations	70,285	71,048	75,396	67,437	53,598
Operating margin (1)	14.8%	18.1%	21.4%	21.0%	19.0%
Net income	42,542	44,925	48,923	44,909	34,421
Net income per share:					
Basic	$ 1.48	$ 1.52	$ 1.57	$ 1.41	$ 1.07
Diluted	$ 1.47	$ 1.50	$ 1.55	$ 1.39	$ 1.05
Cash dividends declared per common share	$ 0.28	$ 0.28	$ 0.28	$ 0.24	$ --
Balance Sheet Data (at end of period):					
Total assets	$ 307,527	$ 241,884	$ 213,014	$ 212,600	$ 214,553
Long-term obligations, net of current portion	53,035	31,486	796	837	867
Shareholders' equity	216,434	171,733	185,227	178,816	181,003

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

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

Overview and Executive Summary

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 deferred air freight market. We offer our customers local pick-up and delivery (Forward Air Complete™) and scheduled surface transportation of cargo as a cost-effective, reliable alternative to air transportation. We transport cargo that must be delivered at a specific time, but is less time-sensitive than traditional air freight. This type of cargo is frequently referred to in the transportation industry as deferred air freight. We operate our Forward Air segment through a network of terminals located on or near airports in 82 cities in the United States and Canada, including a central sorting facility in Columbus, Ohio and 11 regional hubs serving key markets. We also offer our customers an array of logistics and other services including: expedited truckload brokerage (TLX); dedicated fleets; warehousing; customs brokerage; and shipment consolidation, deconsolidation and handling.

On July 30, 2007, through our subsidiary and reporting segment, FASI, and in conjunction with the acquisition of USAC, we began providing 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 continued growth depends in significant part on our ability to increase the amount of freight and the revenue per pound 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

Acquisitions

During the year ended December 31, 2008 we experienced revenue growth across all product lines and segments. The revenue growth was primarily driven by our 2008 and 2007 acquisitions and was partially offset by the challenging economic conditions of 2008.

On September 8, 2008, we acquired certain assets and liabilities of Service Express. Service Express was a privately-held provider of pool distribution services primarily in the Mid-Atlantic and Southeastern continental United States. Service Express generated approximately $39.0 million in revenue during the year ended December 31, 2007. The acquisition of Service Express' pool distribution services added to the geographic footprint of the FASI segment in the Mid-Atlantic and Southeastern United States.

On March 17, 2008, we acquired certain assets and liabilities of Pinch. Pinch was a privately-held provider of pool distribution, airport-to-airport, truckload, custom, and cartage services primarily to the Southwestern continental United States. Pinch generated approximately $35.0 million in revenue during the year ended December 31, 2007. The acquisition of Pinch's pool distribution services expanded the geographic footprint of the FASI segment in the Southwestern United States. In addition, it provided additional tonnage density to the Forward Air airport-to-airport network, and the acquisition of Pinch's cartage and truckload business provided an opportunity for Forward Air to expand its service options in the Southwestern United States.

Further, on December 3, 2007 we acquired certain assets and liabilities of Black Hawk for approximately $35.2 million to increase the penetration of our airport-to-airport network in the Midwest continental United States. Also, on July 30, 2007, we acquired certain assets and liabilities of USAC for approximately $12.9 million. Through this acquisition we began providing pool distribution services throughout the Southeast, Midwest and Southwest continental United States.

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

Results of Operations

During the year ended December 31, 2008, despite the increase in revenue driven primarily by the above acquisitions, we experienced a year-over-year decrease in our income from operations. The year-over-year decrease in income from operations was largely due to the current economic recession and the resulting decrease in our business levels during the fourth quarter of 2008. The depressed fourth quarter 2008 earnings were driven by the decrease in airport-to-airport revenue during the fourth quarter of 2008 versus the same period in 2007 and lower than expected FASI revenue and results of operations. The significant decline in airport-to-airport revenue was driven by an over 10.0% decrease in the tonnage shipped through our network during the fourth quarter of 2008 compared to the same period in 2007. The decline in airport-to-airport tonnage was directly related to the current economic recession. The economic recession was also largely responsible for lower than expected revenue and reduced year-over-year fourth quarter earnings in our FASI segment. FASI's net income was approximately $0.9 million less in the fourth quarter of 2008 versus the fourth quarter of 2007 as depressed revenues due to the economic environment prevented us from achieving results comparable with 2007.

Increases in revenues from our logistics services, mainly TLX, and FASI offset the decline in airport-to-airport revenue; however these services, are not as profitable and did not generate comparable operating results with our airport-to-airport business. We expect these year-over-year decreases to continue into 2009, as our airport-to-airport business continues to experience large year-over-year decreases in business levels.

Also, declining fuel prices may adversely affect our revenues in 2009. 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. The decline in tonnage levels combined with the year-over-year decline in diesel fuel prices could result in a significant reduction in our net fuel surcharge revenue during 2009.

Segments

Effective July 30, 2007, in conjunction with FASI's acquisition of certain assets and liabilities of USAC, we began reporting our operations as two segments: Forward Air and FASI.

Our Forward Air segment includes our airport-to-airport, Forward Air Complete, and TLX services as well as our other accessorial related services such as warehousing; customs brokerage; and value-added handling services.

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

Results of Operations

The following table sets forth our historical financial data for the years ended December 31, 2008 and 2007 (in millions):

	Year ended			
	December 31, 2008	December 31, 2007	Change	Percent Change
Operating revenue	$ 474.4	$ 392.7	$ 81.7	20.8 %
Operating expenses:				
Purchased transportation	189.0	164.4	24.6	15.0
Salaries, wages, and employee benefits	116.5	88.8	27.7	31.2
Operating leases	24.4	16.8	7.6	45.2
Depreciation and amortization	16.6	10.9	5.7	52.3
Insurance and claims	8.1	7.7	0.4	5.2
Fuel expense	11.5	2.4	9.1	379.2
Other operating expenses	38.0	30.7	7.3	23.8
Total operating expenses	404.1	321.7	82.4	25.6
Income from operations	70.3	71.0	(0.7)	(1.0)
Other income (expense):				
Interest expense	(1.2)	(0.5)	(0.7)	140.0
Other, net	0.3	1.8	(1.5)	(83.3)
Total other (expense) income	(0.9)	1.3	(2.2)	(169.2)
Income before income taxes	69.4	72.3	(2.9)	(4.0)
Income taxes	26.9	27.4	(0.5)	(1.8)
Net income	$ 42.5	$ 44.9	$ (2.4)	(5.3)%

The following table sets forth our historical financial data for the years ended December 31, 2008 and 2007 (in millions):

	Year ended					
	December 31, 2008	Percent of Revenue	December 31, 2007	Percent of Revenue	Change	Percent Change
Operating revenue						
Forward Air	$ 421.2	88.8%	$ 376.8	95.9%	$ 44.4	11.8 %
FASI	55.3	11.6	16.0	4.1	39.3	245.6
Intercompany Eliminations	(2.1)	(0.4)	(0.1)	--	(2.0)	2,000.0
Total	474.4	100.0	392.7	100.0	81.7	20.8
Purchased transportation						
Forward Air	179.9	42.7	162.4	43.1	17.5	10.8
FASI	11.2	20.2	2.1	13.1	9.1	433.3
Intercompany Eliminations	(2.1)	100.0	(0.1)	100.0	(2.0)	2,000.0
Total	189.0	39.9	164.4	41.9	24.6	15.0
Salaries, wages and employee benefits						
Forward Air	92.5	22.0	82.0	21.8	10.5	12.8
FASI	24.0	43.4	6.8	42.5	17.2	252.9
Total	116.5	24.6	88.8	22.6	27.7	31.2
Operating leases						
Forward Air	18.5	4.4	15.8	4.2	2.7	17.1
FASI	5.9	10.7	1.0	6.3	4.9	490.0
Total	24.4	5.1	16.8	4.3	7.6	45.2
Depreciation and amortization						
Forward Air	14.4	3.4	10.4	2.8	4.0	38.5
FASI	2.2	4.0	0.5	3.1	1.7	340.0
Total	16.6	3.5	10.9	2.8	5.7	52.3
Insurance and claims						
Forward Air	7.3	1.7	7.2	1.9	0.1	1.4
FASI	0.8	1.4	0.5	3.1	0.3	60.0
Total	8.1	1.7	7.7	1.9	0.4	5.2
Fuel expense						
Forward Air	5.8	1.4	1.3	0.3	4.5	346.2
FASI	5.7	10.3	1.1	6.9	4.6	418.2
Total	11.5	2.4	2.4	0.6	9.1	379.2

Other operating expenses									
Forward Air		32.1	7.6		29.0	7.7		3.1	10.7
FASI		5.9	10.7		1.7	10.6		4.2	247.1
Total		38.0	8.0		30.7	7.8		7.3	23.8
Income (loss) from operations									
Forward Air		70.7	16.8		68.7	18.2		2.0	2.9
FASI		(0.4)	(0.7)		2.3	14.4		(2.7)	(117.4)
Total	$	70.3	14.8%	$	71.0	18.1%	$	(0.7)	(1.0)%

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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, 2008 and 2007 (in millions):

	2008	Percent of Revenue	2007	Percent of Revenue	Change	Percent Change
Forward Air revenue						
Airport-to-airport	$ 336.2	79.8%	$ 313.2	83.1%	$ 23.0	7.3%
Logistics	59.9	14.2	42.7	11.3	17.2	40.3
Other	25.1	6.0	20.9	5.6	4.2	20.1
Total	$ 421.2	100.0%	$ 376.8	100.0%	$ 44.4	11.8%
Forward Air purchased transportation						
Airport-to-airport	$ 128.9	38.3%	$ 123.7	39.5%	$ 5.2	4.2%
Logistics	44.5	74.3	32.7	76.6	11.8	36.1
Other	6.5	25.9	6.0	28.7	0.5	8.3
Total	$ 179.9	42.7%	$ 162.4	43.1%	$ 17.5	10.8%

Year ended December 31, 2008 compared to Year ended December 31, 2007

Revenues

Operating revenue increased by $81.7 million, or 20.8%, to $474.4 million for the year ended December 31, 2008 from $392.7 million for the year ended December 31, 2007.

Forward Air

Forward Air operating revenue increased $44.4 million, or 11.8%, to $421.2 million from $376.8 million, accounting for 88.8% of consolidated operating revenue for the year ended December 31, 2008. Airport-to-airport revenue, which is the largest component of our consolidated operating revenue, increased $23.0 million, or 7.3%, to $336.2 million from $313.2 million, accounting for 79.8% of the segment's operating revenue during the year ended December 31, 2008 compared to 83.1% for the year ended December 31, 2007. The increase in airport-to-airport revenue was driven by our recent acquisitions, increased utilization of Forward Air Complete and increased net fuel surcharge revenue. Revenue for Forward Air Complete, our pick-up and delivery service for the airport-to-airport network increased $11.4 million in 2008 over 2007 due to increased customer utilization of the service. Also, net fuel surcharge revenue increased $12.4 million in 2008 over 2007 primarily driven by the increase in tonnage and fuel prices during the second and third quarters of 2008. These increases were slightly offset by a $0.8 million decrease in our base airport-to-airport revenue. The 4.4% increase in tonnage that transited our network was offset by a 4.5% decrease in average revenue per pound before fuel surcharge and Forward Air Complete revenues. The increase in tonnage was primarily driven by the increased activity resulting from our acquisitions of Pinch and Black Hawk in March 2008 and December 2007, respectively, offset by the impact of the economic recession on our airport-to-airport network during the second half of 2008, but most acutely in the fourth quarter of 2008. Average revenue per pound before net fuel surcharge and Forward Air Complete revenues decreased due to a shift in our business mix to shorter distance lower price per pound routes. This shift was primarily the result of new business obtained with the Pinch and Black Hawk acquisitions as well as increased business from international and domestic airlines.

Logistics revenue, which is primarily truckload brokerage (TLX) and priced on a per mile basis, increased $17.2 million, or 40.3%, to $59.9 million in the year ended December 31, 2008 from $42.7 million in the year ended December 31, 2007. The increase in logistics revenue is the result of our continuing efforts as part of our “Completing the Model” strategic initiative to grow TLX and $4.0 million in new revenue from service lines obtained through the Pinch and Black Hawk acquisitions. We continue to place emphasis on capturing a larger percentage of truckload opportunities and correspondingly increasing our access to sufficient truckload capacity through the expansion of our owner-operator fleet and the use of third-party transportation providers. Through these efforts, we increased the number of miles driven to support our TLX revenue by 27.9% during the year ended December 31, 2008 compared to the year ended December 31, 2007. The average revenue per mile of our TLX product, including the impact of fuel surcharges, increased 2.1% for the year ended December 31, 2008 versus the year ended December 31, 2007. The increase in revenue per mile is mainly attributable to increased fuel surcharges to offset increased fuel costs.

Other revenue, which includes warehousing services and terminal handling, accounts for the final component of Forward Air operating revenue. Other revenue increased $4.2 million to $25.1 million for the year ended December 31, 2008, a 20.1% increase from $20.9 million for the year ended December 31, 2007. The increase was primarily due to increased cartage, handling and storage revenue due to new services offered through our recently expanded facilities. The increased cartage revenue is also the result of new business obtained in conjunction with the Pinch and Black Hawk acquisitions.

FASI

FASI operating revenue increased $39.3 million to $55.3 million for the year ended December 31, 2008 from $16.0 million for the year ended December 31, 2007. The increase in revenue is the result of additional activity from the Pinch acquisition on March 17, 2008 and the Service Express acquisition on September 8, 2008. In addition, the year ended December 31, 2008 includes a full twelve months of revenue compared to only five months for the year ended December 31, 2007, as FASI began operations on July 30, 2007 in conjunction with the acquisition of USAC.

Intercompany Eliminations

Intercompany eliminations of $2.1 million are the result of truckload and airport-to-airport services Forward Air provided to FASI during the year ended December 31, 2008. FASI also provides cartage services to Forward Air.

Purchased Transportation

Purchased transportation increased by $24.6 million, or 15.0%, to $189.0 million for the year ended December 31, 2008 from $164.4 million for the year ended December 31, 2007. As a percentage of total operating revenue, purchased transportation was 39.9% during the year ended December 31, 2008 compared to 41.9% for the year ended December 31, 2007.

Forward Air

Forward Air's purchased transportation increased by $17.5 million, or 10.8%, to $179.9 million for the year ended December 31, 2008 from $162.4 million for the year ended December 31, 2007. The increase in purchased transportation is primarily attributable to an increase of approximately 6.4% in miles driven in addition to a 4.1% increase in the total cost per mile for the year ended December 31, 2008 versus the year ended December 31, 2007. As a percentage of segment operating revenue, Forward Air purchased transportation was 42.7% during the year ended December 31, 2008 compared to 43.1% for the year ended December 31, 2007.

Purchased transportation costs for our airport-to-airport network increased $5.2 million, or 4.2%, to $128.9 million for the year ended December 31, 2008 from $123.7 million for the year ended December 31, 2007. For the year ended December 31, 2008, purchased transportation for our airport-to-airport network decreased to 38.3% of airport-to-airport revenue from 39.5% for the year ended December 31, 2007. The $5.2 million increase is attributable to a 1.2% increase in miles driven by our network of owner-operators or third party transportation providers plus a 3.0% increase in cost per mile. The change in miles increased purchased transportation by $1.5 million while the change in cost per mile increased purchased transportation $3.7 million. Miles driven by our network of owner-operators or third party transportation providers increased to support the increased revenue activity, mainly in the first half of 2008 as discussed above. The increase in cost per mile is attributable to increased customer utilization of Forward Air Complete mitigated by increased utilization of our network of owner-operators as opposed to more costly third party transportation providers. Additionally, the increase in cost per mile was also offset by the increased use of Company-employed drivers. The increase in the number of Company-employed drivers and their use in the airport-to-airport network is mainly a result of the Pinch and Black Hawk acquisitions. The cost for the Company-employed drivers is included in salaries, wages and benefits instead of purchased transportation.

Purchased transportation costs for our logistics revenue increased $11.8 million, or 36.1%, to $44.5 million for the year ended December 31, 2008 from $32.7 million for the year ended December 31, 2007. For the year ended December 31, 2008, logistics' purchased transportation costs represented 74.3% of logistics revenue versus 76.6% for the year ended December 31, 2007. The 36.1% increase is partially attributable to a $2.3 million increase in costs associated with new logistics business obtained through the acquisition of Pinch and Black Hawk. The remaining increase is attributable to a 27.9% increase in miles driven by our network of owner-operators or third party transportation providers plus a 0.9% increase in the related cost per mile. Miles driven by our network of owner-operators or third party transportation providers increased to support our continuing efforts to grow our TLX business as discussed above, and accounted for $9.1 million of the increase in logistics purchased transportation. The change in the cost per mile increased the logistics purchased transportation by $0.4 million. The increase in cost per mile was mostly the result of increased rates from third party transportation providers mostly offset by increased use of our network of owner-operators. The decrease in logistics transportation as a percentage of revenue is the result of the favorable change in business mix as well as the addition of the new services from the Pinch and Black Hawk acquisitions.

Purchased transportation costs related to our other revenue increased $0.5 million, or 8.3%, to $6.5 million for the year ended December 31, 2008 from $6.0 million for the year ended December 31, 2007. Other purchased transportation costs as a percentage of other revenue decreased to 25.9% of other revenue for the year ended December 31, 2008 from 28.7% for the year ended December 31, 2007. The improvement in other purchased transportation costs as a percentage of other revenue is attributable to the use of Company-employed drivers to provide the transportation services associated with new business obtained from the Pinch and Black Hawk acquisitions.

FASI

FASI purchased transportation increased to $11.2 million for the year ended December 31, 2008 from $2.1 million for the year ended December 31, 2007. FASI purchased transportation as a percentage of revenue was 20.2% for the year ended December 31, 2008 compared to 13.1% for the year ended December 31, 2007. The increase in purchased transportation is mainly due to our continued expansion of the FASI business through the acquisitions of Pinch and Service Express in March 2008 and September 2008, respectively. In addition, the year ended 2008 includes a full twelve months of FASI activity compared to only five months for the year ended December 31, 2007, as FASI began operations on July 30, 2007. Purchased transportation has increased as a percentage of FASI revenue mainly due to the increased use of owner-operators particularly in conjunction with the acquisition of Pinch.

Intercompany Eliminations

Intercompany eliminations increased to $2.1 million and are the result of truckload and airport-to-airport services Forward Air provided to FASI during the year ended December 31, 2008. During the year ended December 31, 2008, FASI also provided cartage services to Forward Air.

Salaries, Wages, and Benefits

Salaries, wages and employee benefits increased by $27.7 million, or 31.2%, to $116.5 million in the year ended 2008 from $88.8 million in the same period of 2007. As a percentage of total operating revenue, salaries, wages and employee benefits was 24.6% during the year ended December 31, 2008 compared to 22.6% for the same period in 2007.

Forward Air

Salaries, wages and employee benefits of Forward Air increased by $10.5 million, or 12.8%, to $92.5 million in the year ended December 31, 2008 from $82.0 million for the year ended December 31, 2007. Salaries, wages and employee benefits were 22.0% of Forward Air’s operating revenue in the year ended December 31, 2008 compared to 21.8% for the year ended December 31, 2007. The increase in salaries, wages and employee benefits as a percentage of revenue was the result of increases in health insurance costs and share-based compensation offset by decreases in workers’ compensation and employee incentive costs.

Employee incentives decreased $0.4 million, or 0.2% as a percentage of revenue for the year ended December 31, 2008 as compared to the year ended December 31, 2007. The decrease was due to a reduction of annual incentives for key employees due to failures to achieve performance goals. During the fourth quarter of 2008, salaries, wages and employee benefits were reduced by $1.5 million as we reduced accruals for annual senior management incentives as annual earnings goals were not met. Comparatively, we increased salaries, wages and employee benefits by $1.1 million during the fourth quarter of 2007 for annual incentives to senior management.

Workers’ compensation costs decreased approximately $1.1 million, or 0.3% as a percentage of Forward Air operating revenue. The year-over-year difference is primarily due to a $0.7 million increase in our workers’ compensation loss reserves recorded in 2007 that resulted from an actuarial analysis. The remaining decrease is due to 2008 reductions in our workers’ compensation loss reserves as a result of lower claims experience than projected in previous periods.

Share-based compensation increased $2.4 million, or 0.5% as a percentage of Forward Air operating revenue, due to the annual grants of stock options and non-vested shares of common stock to key members of management and non-employee directors from 2006 to the present. Health insurance costs increased $1.8 million and 0.3% as a percentage of Forward Air operating revenue. The increase is driven by an increase in plan participants primarily as a result of our Pinch and Black Hawk acquisitions in March 2008 and December 2007, respectively.

The remaining increase in total dollars is attributable to the increased headcount of mainly terminal and Company-employed drivers associated with our acquisitions of Pinch and Black Hawk.

FASI

FASI salaries, wages and employee benefits increased to $24.0 million for the year ended December 31, 2008 compared to $6.8 million for the year ended December 31, 2007. The $17.2 million increase is mainly attributable to the year ended 2008 including twelve months of expense while 2007 included only five months, as FASI was not operating until July 30, 2007. As a percentage of FASI operating revenue, salaries, wages and benefits increased to 43.4% for the year ended December 31, 2008 compared to 42.5% for the year ended December 31, 2007. 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 as opposed to independent owner-operators. The increase in salaries, wages and employee benefits as a percentage of revenue is attributable to the acquisition of Service Express in September 2008. The terminals we acquired with the Service Express acquisition utilize a much higher percentage of contract labor for its dock personnel than used by preexisting FASI terminals. Contract labor is more expensive in the short term than Company-employed cargo handlers and dock personnel. We will evaluate the proper utilization of contract labor in these terminals during the first quarter of 2009.

Operating Leases

Operating leases increased by $7.6 million, or 45.2%, to $24.4 million in the year ended December 31, 2008 from $16.8 million in the year ended December 31, 2007. Operating leases, the largest component of which is facility rent, were 5.1% of consolidated operating revenue for the year ended December 31, 2008 compared with 4.3% for the year ended December 31, 2007.

Forward Air

Operating leases increased $2.7 million and 17.1% to $18.5 million in the year ended December 31, 2008 from $15.8 million for the year ended December 31, 2007. Operating leases were 4.4% of Forward Air operating revenue for the year ended December 31, 2008 compared with 4.2% for the year ended December 31, 2007. The increase in operating leases in total dollars was attributable to $1.5 million in higher facility rent expense associated with the assumption of additional facilities as a result of the Pinch and Black Hawk acquisitions and the expansion of certain facilities. Operating leases also increased $1.2 million for trailer and tractor leases assumed in conjunction with the acquisitions of Pinch and Black Hawk.

FASI

FASI operating lease expense increased $4.9 million to $5.9 million for the year ended December 31, 2008 from $1.0 million for the year ended December 31, 2007. Approximately $2.8 million of the increase was attributable to higher facility rent expense due to the increased number of terminals resulting from the Pinch and Service Express acquisitions. Operating leases also increased $2.1 million for trailer, tractor, and straight truck leases assumed in conjunction with the acquisitions of Pinch and Service Express. The increase in operating lease expense, both for facilities and equipment, is also attributable to the year ended 2008 including twelve months of lease expense while 2007 included only five months, as FASI was not operating until July 30, 2007. The increase in lease expense for tractors, straight trucks and trailers is the primary reason for the increase in operating leases as a percentage of revenue.

Depreciation and Amortization

Depreciation and amortization increased $5.7 million, or 52.3%, to $16.6 million in the year ended December 31, 2008 from $10.9 million for the year ended December 31, 2007. Depreciation and amortization was 3.5% of consolidated operating revenue for the year ended December 31, 2008 compared with 2.8% for the year ended December 31, 2007.

Forward Air

Depreciation and amortization expense as a percentage of Forward Air operating revenue was 3.4% in the year ended December 31, 2008 compared to 2.8% for the year ended December 31, 2007. The increase in depreciation and amortization expense as a percentage of revenue is primarily due to a $2.1 million, or 0.5% as a percentage of revenue, increase in amortization expense for intangible assets associated with the acquisitions of Pinch and Black Hawk. The remaining increase represents depreciation on new forklifts and other miscellaneous equipment and assets.

FASI

FASI depreciation and amortization increased $1.7 million to $2.2 million for the year ended December 31, 2008 from $0.5 million for the year ended December 31, 2007. Depreciation and amortization expense as a percentage of FASI operating revenue was 4.0% in the year ended December 31, 2008 compared to 3.1% for the year ended

December 31, 2007. The increase in depreciation and amortization expense as a percentage of revenue is partially due to a $0.6 million, or 0.4% as a percentage of revenue, increase in amortization expense for intangible assets associated with the Service Express, Pinch and USAC acquisitions. The remainder of the increase is attributable to a full year of depreciation on assets acquired from USAC and increased depreciation from tractors, trailers and other equipment assumed in conjunction with our acquisitions of Pinch and Service Express.

Insurance and Claims

Insurance and claims expense increased $0.4 million, or 5.2%, to $8.1 million for the year ended December 31, 2008 from $7.7 million for the year ended December 31, 2007. Insurance and claims were 1.7% of consolidated operating revenue during 2008 compared with 1.9% in 2007.

Forward Air

Insurance and claims as a percentage of Forward Air operating revenue was 1.7% in the year ended December 31, 2008 compared to 1.9% for the year ended December 31, 2007. The $0.1 million and 1.4% increase in insurance and claims for the year ended 2008 compared to the year ended December 31, 2007 is the result of increased insurance premiums resulting from the increased number of owner-operators, Company-employed drivers, and rolling stock equipment in our fleet.

FASI

FASI insurance and claims increased $0.3 million to $0.8 million for the year ended December 31, 2008 from $0.5 million for the year ended December 31, 2007. As a percentage of operating revenue, insurance and claims was 1.4% for the year ended December 31, 2008 compared to 3.1% for the year ended December 31, 2007. The decrease as a percentage of revenue is attributable to the increase in revenue outpacing the increase in claims and insurance premiums.

Fuel Expense

Fuel expense increased $9.1 million, to $11.5 million in the year ended December 31, 2008 from $2.4 million in the year ended December 31, 2007. Fuel expense was 2.4% of consolidated operating revenue for the year ended December 31, 2008 compared with 0.6% for the year ended December 31, 2007.

Forward Air

Fuel expense was 1.4% of Forward Air operating revenue in the year ended December 31, 2008 compared to 0.3% in the year ended December 31, 2007. The $4.5 million increase was primarily attributable to the increased number of Company-employed drivers and Company-owned or operated equipment as a result of the Pinch and Black Hawk acquisitions in March 2008 and December 2007, respectively. Also increasing fuel expense was the significant year-over-year increase in average diesel fuel prices during the second and third quarters of 2008.

FASI

FASI fuel expense increased $4.6 million, to $5.7 million in the year ended December 31, 2008 from $1.1 million in the year ended December 31, 2007. Fuel expenses were 10.3% of FASI operating revenue in the year ended December 31, 2008 compared to 6.9% for the year ended December 31, 2007. 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 owned and leased tractors assumed with the Pinch and Service Express acquisitions. The increase is also attributable to the year ended 2008 including a full year of FASI activity as opposed to only five months for 2007. Also increasing fuel expense was the significant year-over-year increase in average diesel fuel prices during the second and third quarters of 2008.

Other Operating Expenses

Other operating expenses increased $7.3 million, or 23.8%, to $38.0 million in the year ended December 31, 2008 from $30.7 million for the year ended December 31, 2007. Other operating expenses were 8.0% of consolidated operating revenue for the year ended December 31, 2008 compared with 7.8% in the same period of 2007.

Forward Air

Other operating expenses were 7.6% of Forward Air operating revenue in the year ended December 31, 2008 compared to 7.7% for the year ended December 31, 2007. The 0.1% decrease in other operating expenses as a percentage of operating revenue is the result of efforts to control discretionary costs by reducing expenses such as management training, marketing and travel. In addition, during the year ended December 31, 2008 other operating expenses were reduced by $0.2 million related to the reversal of previous accruals for fines and penalties associated with the settlement of a dispute with a state taxing authority. The dispute was settled with the state taxing authority for less than the amount previously reserved.

FASI

FASI other operating expenses increased $4.2 million to $5.9 million for the year ended December 31, 2008 compared to $1.7 million for the year ended December 31, 2007. The $4.2 million increase is mainly attributable to the year ended 2008, including twelve months of expense while 2007 included only five months, as FASI was not operating until July 30, 2007. FASI other operating expenses for the year ended December 31, 2008 were 10.7% of the segment's operating revenue compared to 10.6% for the December 31, 2007. Other operating expenses are higher as a percentage of revenue than our Forward Air segment due to the higher utilization of Company-owned or leased vehicles resulting in higher maintenance and related expenses.

Income from Operations

Income from operations decreased by $0.7 million or 1.0%, to $70.3 million for the year ended December 31, 2008 compared with $71.0 million for the year ended December 31, 2007. Income from operations was 14.8% of consolidated operating revenue for the year ended December 31, 2008 compared with 18.1% for the year ended December 31, 2007.

Forward Air

Income from operations increased by $2.0 million, or 2.9%, to $70.7 million for the year ended December 31, 2008 compared with $68.7 million for the year ended December 31, 2007. The increase in income from operations was primarily a result of increased revenues partially offset by increased costs for salaries, wages and benefits, operating leases and depreciation and amortization. Income from operations as a percentage of Forward Air operating revenue was 16.8% for the year ended December 31, 2008 compared with 18.2% for the year ended December 31, 2007. The decrease in income from operations as a percentage of revenue was the result of increasing volumes from our lower margin services, such as TLX, and declining airport-to-airport volumes mainly during the fourth quarter of 2008 due to the economic recession.

FASI

FASI results from operations decreased approximately $2.7 million to a $0.4 million loss from operations for the year ended December 31, 2008 from income of operations of $2.3 million for the year ended December 31, 2007. The decrease in FASI results from operations is mainly driven by integration costs that resulted from the March 17, 2008 acquisition of Pinch. These costs primarily impacted salaries, wages, and employee benefits, operating leases and other operating expenses. The loss from operations as a percentage of FASI operating revenue was (0.7)% for the year ended December 31, 2008 compared with 14.4% income from operations as a percentage of revenue for the year ended December 31, 2007. As discussed above, the pool distribution business is highly seasonal and as a result of the timing of the USAC acquisition, our 2007 results primarily included peak seasonal activity. Consequently, our 2007 results were better than we would expect for a full year of operations, such as 2008, which would include less positive results from the non-peak periods of operations. In addition, FASI's fourth quarter of 2008 income from operations of $0.5 million was $1.3 million less than the $1.8 million of income from operations for the fourth quarter of 2007. This was primarily the result of lower peak season volumes than anticipated due to the current economic recession.

Interest Expense

Interest expense increased $0.7 million to $1.2 million for the year ended December 31, 2008 compared to $0.5 million for the year ended December 31, 2007. The increase in interest expense was mostly the result of net borrowings under our line of credit facility used to fund our acquisitions of Service Express, Pinch and Black Hawk in September 2008, March 2008 and December 2007, respectively. These increases were net of a $0.1 million reduction of interest expense resulting from the settlement of a dispute with a state taxing authority during the year ended December 31, 2008. The dispute was settled with the state taxing authority for less than the amount previously reserved.

Other Income, Net

Other income, net was $0.3 million for the year ended December 31, 2008 compared with $1.8 million for the year ended December 31, 2007. The decrease in other income was attributable to reduced tax-exempt interest income due to decreased average cash and investment balances as a result of cash used for the acquisition of USAC in July 2007 and stock repurchases during the fourth quarter of 2007.

Provision for Income Taxes

The combined federal and state effective tax rate for the year ended 2008 was 38.7% compared to a rate of 37.9% for the year ended December 31, 2007. Our effective federal and state rate increased to provide for the decrease in tax-exempt interest income as discussed above and the disallowance of share-based compensation on qualified stock options. However, during the year ended December 31, 2008 we reduced the provision for state income taxes by $0.3 million, net of federal benefit, for the settlement of a dispute with a state taxing authority. The dispute was settled with the state taxing authority for less than the previously reserved amount.

Net Income

As a result of the foregoing factors, net income decreased by $2.4 million, or 5.3%, to $42.5 million for the year ended December 31, 2008 compared to $44.9 million for the year ended December 31, 2007.

Results of Operations

The following table sets forth our historical consolidated financial data for the year ended December 31, 2007 and 2006 (in millions):

	Year ended			
	December 31, 2007	December 31, 2006	Change	Percent Change
Operating revenue	$ 392.7	$ 352.7	$ 40.0	11.3 %
Operating expenses:				
Purchased transportation	164.4	146.7	17.7	12.1
Salaries, wages, and employee benefits	88.8	74.4	14.4	19.4
Operating leases	16.8	14.5	2.3	15.9
Depreciation and amortization	10.9	8.9	2.0	22.5
Insurance and claims	7.7	6.0	1.7	28.3
Fuel expense	2.4	1.0	1.4	140.0
Other operating expenses	30.7	25.8	4.9	19.0
Total operating expenses	321.7	277.3	44.4	16.0
Income from operations	71.0	75.4	(4.4)	(5.8)
Other income (expense):				
Interest expense	(0.5)	(0.1)	(0.4)	400.0
Other, net	1.8	3.2	(1.4)	(43.8)
Total other (expense) income	1.3	3.1	(1.8)	(58.1)
Income before income taxes	72.3	78.5	(6.2)	(7.9)
Income taxes	27.4	29.6	(2.2)	(7.4)
Net income	$ 44.9	$ 48.9	$ (4.0)	(8.2)%

The following table sets forth our historical financial data for the years ended December 31, 2007 and 2006 (in millions):

	2007	Percent of Revenue	2006	Percent of Revenue	Change	Percent Change
Operating revenue						
Forward Air	$ 376.8	95.9%	$ 352.7	100.0%	$ 24.1	6.8 %
FASI	16.0	4.1	--	--	16.0	100.0
Intercompany Eliminations	(0.1)	--	--	--	(0.1)	100.0
Total	392.7	100.0	352.7	100.0	40.0	11.3
Purchased transportation						
Forward Air	162.4	43.1	146.7	41.6	15.7	10.7
FASI	2.1	13.1	--	--	2.1	100.0
Intercompany Eliminations	(0.1)	100.0	--	--	(0.1)	100.0
Total	164.4	41.9	146.7	41.6	17.7	12.1
Salaries, wages and employee benefits						
Forward Air	82.0	21.8	74.4	21.1	7.6	10.2
FASI	6.8	42.5	--	--	6.8	100.0
Total	88.8	22.6	74.4	21.1	14.4	19.4
Operating leases						
Forward Air	15.8	4.2	14.5	4.1	1.3	9.0
FASI	1.0	6.3	--	--	1.0	100.0
Total	16.8	4.3	14.5	4.1	2.3	15.9
Depreciation and amortization						
Forward Air	10.4	2.8	8.9	2.5	1.5	16.9
FASI	0.5	3.1	--	--	0.5	100.0
Total	10.9	2.8	8.9	2.5	2.0	22.5
Insurance and claims						
Forward Air	7.2	1.9	6.0	1.7	1.2	20.0
FASI	0.5	3.1	--	--	0.5	100.0
Total	7.7	1.9	6.0	1.7	1.7	28.3
Fuel expense						
Forward Air	1.3	0.3	1.0	0.3	0.3	30.0
FASI	1.1	6.9	--	--	1.1	100.0
Total	2.4	0.6	1.0	0.3	1.4	140.0

Other operating expenses									
Forward Air		29.0	7.7		25.8	7.3		3.2	12.4
FASI		1.7	10.6		--	--		1.7	100.0
Total		30.7	7.8		25.8	7.3		4.9	19.0
Income (loss) from operations									
Forward Air		68.7	18.2		75.4	21.4		(6.7)	(8.9)
FASI		2.3	14.4		--	--		2.3	100.0
Total	$	71.0	18.1%	$	75.4	21.4%	$	(4.4)	(5.8)%

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

	2007	Percent of Revenue	2006	Percent of Revenue	Change	Percent Change
Forward Air revenue						
Airport-to-airport	$ 313.2	83.1%	$ 301.5	85.5%	$ 11.7	3.9%
Logistics	42.7	11.3	31.3	8.9	11.4	36.4
Other	20.9	5.6	19.9	5.6	1.0	5.0
Total	$ 376.8	100.0%	$ 352.7	100.0%	$ 24.1	6.8%
Forward Air purchased transportation						
Airport-to-airport	$ 123.7	39.5%	$ 119.0	39.5%	$ 4.7	3.9%
Logistics	32.7	76.6	22.8	72.8	9.9	43.4
Other	6.0	28.7	4.9	24.6	1.1	22.4
Total	$ 162.4	43.1%	$ 146.7	41.6%	$ 15.7	10.7%

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

Revenues

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

Forward Air

Forward Air operating revenue increased $24.1 million, or 6.8%, to $376.8 million in 2007 from $352.7 million in 2006. Forward Air revenue accounted for 95.9% and 100.0% of consolidated operating revenue during 2007 and 2006, respectively.

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

Logistics revenue, which is primarily truckload brokerage and priced on a per mile basis, increased $11.4 million, or 36.4%, to $42.7 million in 2007 from $31.3 million in 2006. The increase in logistics revenue is mainly the result of our "Completing the Model" strategic initiative to grow these services. We are placing emphasis on capturing a larger percentage of truckload opportunities and correspondingly increasing our access to sufficient truckload capacity through the use of third-party transportation providers. During 2007, we increased the number of miles driven to support our logistics revenue by 60.5%. The average revenue per mile of our logistics product, including the impact of fuel surcharges, decreased 15.0% for 2007 versus 2006. The decrease in our revenue per mile is largely due to the weak shipping environment and the change in our business mix resulting from our efforts to capture additional truckload opportunities as well as utilizing truckload opportunities to cost effectively position our owner-operators within our airport-to-airport network.

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

FASI

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

Intercompany Eliminations

Intercompany eliminations of $0.1 million are the result of truckload and airport-to-airport services Forward Air provided to FASI during the year ended December 31, 2007.

Purchased Transportation

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

Forward Air

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

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

Purchased transportation costs related to Forward Air's logistics revenue increased $9.9 million, or 43.4%, to $32.7 million for 2007 from $22.8 million for 2006. For 2007, logistics' purchased transportation costs represented 76.6% of logistics revenue versus 72.8% for 2006. During 2007, Forward Air increased the number of miles driven to support logistics revenue by 60.5%. The increase in miles accounted for a $13.7 million increase in logistics purchased transportation. However, the increase in logistics purchased transportation due to miles was partially offset by a $3.8 million decrease in logistics purchased transportation as a result of a 10.5% decrease in the logistics cost per mile. Logistics cost per mile decreased due to increased capacity resulting in improved purchasing power from third party transportation providers and to a lesser extent increased use of our less costly owner-operator network. The increase in logistics purchased transportation costs as a percentage of revenue resulted from lower revenue per mile as discussed above partially offset by the decrease in our logistics cost per mile.

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

FASI

FASI purchased transportation of $2.1 million represents costs associated with payment of drivers, both networked owner-operators and third party transportation providers, for the transportation services provided to FASI. FASI purchased transportation was 13.1% of the segment's operating revenue. Due to the nature of the services provided FASI purchased transportation is lower as a percentage of revenue than our Forward Air segment as a larger percentage of the transportation services are performed by Company-employed drivers.

Intercompany Eliminations

Intercompany eliminations of $0.1 million are the result of truckload and airport-to-airport services Forward Air provided to FASI during the year ended December 31, 2007.

Salaries, Wages, and Benefits

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

Forward Air

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

FASI

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

Operating Leases

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

Forward Air

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

FASI

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

Depreciation and Amortization

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

Forward Air

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

FASI

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

Insurance and Claims

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

Forward Air

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

FASI

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

Fuel Expense

Fuel expense increased $1.4 million, to $2.4 million for the year ended December 31, 2007 from $1.0 million for the year ended December 31, 2006. Fuel expense was 0.6% of consolidated operating revenue for the year ended December 31, 2007 compared with 0.3% for the year ended December 31, 2006.

Forward Air

Fuel expense increased $0.3 million, to $1.3 million for the year ended December 31, 2007 from $1.0 million for the year ended December 31, 2006. Fuel expense was 0.3% of Forward Air operating revenue for the year ended December 31, 2007 and 2006.

FASI

FASI fuel expense was $1.1 million for the year ended December 31, 2007. The increase is the result of our acquisition of certain assets and liabilities of USAC on July 30, 2007. FASI fuel expense will generally be higher as a percentage of operating revenue than Forward Air's fuel expense due to the higher utilization of Company-employed drivers and Company-owned equipment.

Other Operating Expenses

Other operating expenses increased $4.9 million, or 19.0%, to $30.7 million during 2007 from $25.8 million in 2006. Other operating expenses were 7.8% of consolidated operating revenue for 2007 compared with 7.3% in 2006.

Forward Air

Other operating expenses were 7.7% of Forward Air operating revenue for 2007 compared to 7.3% in 2006. The 0.4% increase in other operating expenses as a percentage of operating revenue was primarily attributable to taxes, utilities and permits associated with new or expanded facilities, facility relocation, specialized training for key employees and additional sales and marketing efforts due to the weak freight environment.

FASI

FASI other operating expenses of $1.7 million represent costs such as routine vehicle maintenance, utilities for our facilities, and miscellaneous office and administrative expenses since our USAC acquisition on July 30, 2007. FASI other operating expenses were 10.6% of the segment's operating revenue. Other operating expenses are higher as a percentage of revenue than our Forward Air segment due to the higher utilization of Company-owned equipment.

Income from operations

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

Forward Air

Income from operations decreased by $6.7 million, or 8.9%, to $68.7 million for 2007 compared with $75.4 million for 2006. Income from operations decreased as a percentage of Forward Air operating revenue to 18.2% for 2007 from 21.4% for 2006. The decrease in income from operations both in total dollars and as a percentage of operating revenue is attributable to increases in certain fixed and indirect costs, as outlined in the above discussion, outpacing the increase in operating revenue and gross profit. The decrease in income from operations as a percentage of revenue was also a result of the change in our business mix resulting from slower growth in revenue from the airport-to-airport service as a percentage of total revenue and increased revenue from less profitable services such as truckload service and Forward Air Complete.

FASI

FASI income from operations since our acquisition of certain assets and liabilities of USAC on July 30, 2007 was $2.3 million, or 14.4% of FASI revenue. As discussed above, we expect the pool distribution business to be highly seasonal and as a result of the timing of the USAC acquisition our 2007 results primarily include peak seasonal activity. Consequently, we believe our 2008 income from operations as a percentage of operating revenue will be lower than experienced during 2007.

Interest Expense

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

Other Income, net

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

Provision for Income Taxes

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

Net Income

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

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 2008, average revenue adjustments per month were approximately $0.4 million, on average revenue per month of approximately $39.5 million (approximately 1.0% of monthly revenue). In order to estimate the allowance for revenue adjustments related to ending accounts receivable, we prepare an analysis that considers average monthly revenue adjustments and the average lag for identifying and quantifying these revenue adjustments. Based on this analysis, we establish an allowance for approximately 40-80 days (dependent upon experience in the last twelve months) of average revenue adjustments, adjusted for rebates and billing errors. The lag is periodically adjusted based on actual historical experience. Additionally, the average amount of revenue adjustments per month can vary in relation to the level of sales or based on other factors (such as personnel issues that could result in excessive manual errors or in excessive spot quotes being granted). Both of these significant assumptions are continually evaluated for validity.

Self-Insurance Loss Reserves

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

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

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

Effective January 1, 2007, we adopted FIN 48. Accordingly, we report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. We recognize interest and penalties, if any, related to unrecognized tax benefits in interest expense and operating expenses, respectively.

Valuation of Goodwill

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets ("SFAS 142"), we conduct an annual (or more frequently if circumstances indicate possible impairment) impairment test of goodwill for each reportable segment at the end of the second quarter of each year. The tests are based on judgments regarding the market value of our Common Stock, ongoing profitability and cash flow of the reportable segments and underlying assets. Changes in strategy or market conditions could significantly impact these judgments and require adjustments to recorded asset balances. For example, if we had reason to believe that our recorded goodwill had become impaired due to decreases in the fair market value of the underlying business, we would have to take a charge to income for that portion of goodwill that we believe is impaired. The annual impairment test was conducted and it did not result in any impairment charges. In addition, at December 31, 2008, we considered whether any impairment indicators existed and no impairment charges were incurred.

Share-Based Compensation

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

Effective January 1, 2006, we adopted SFAS No. 123(R), Share-Based Payment ("SFAS 123R") and elected the modified prospective transition method. Under the modified prospective transition method, awards that are granted, modified, repurchased or canceled after the date of adoption should be measured and accounted for in accordance with SFAS 123R. Share-based awards that are granted prior to the effective date should continue to be valued in accordance with SFAS 123 and stock option expense for unvested options must be recognized in the statement of income. On December 31, 2005, our Board of Directors accelerated the vesting of all of our outstanding and unvested stock options awarded to employees, officers and non-employee directors under our stock option award plans. As a result of the acceleration of the vesting of our outstanding and unvested options in 2005, the Company recognized $1.3 million of stock–based compensation in 2005, but there was no additional compensation expense recognized during the years ended December 31, 2008, 2007 and 2006 related to options granted prior to January 1, 2006.

Our general practice has been to make a single annual grant to key employees and to generally make other grants only in connection with new employment or promotions. In addition, we make annual grants to non-employee directors in conjunction with their annual election to our Board of Directors or at the time of their appointment to the Board of Directors. Prior to the implementation of SFAS 123R, we utilized stock options as our sole form of share-based awards. During the year ended December 31, 2006, we granted non-vested shares of Common Stock ("non-vested shares") to key employees, but returned to granting stock options during the year ended December 31, 2007. We returned to granting stock options to key employees, as we believe stock options more closely link long-term compensation with our long-term goals. For non-employee directors, we continued to issue non-vested shares during the year ended December 31, 2008.

Stock options granted during the years ended December 31, 2008 and 2007 expire seven years from the grant date and vest ratably over a three-year period. The share-based compensation for these stock options will be recognized, net of estimated forfeitures, ratably over the requisite service period, or vesting period. Based on our historical experience, forfeitures have been estimated. We used the Black-Scholes option-pricing model to estimate the grant-date fair value of options granted during the years ended December 31, 2008 and 2007.

The fair value of non-vested shares' issued to employees during 2006 and non-employee directors during 2008, 2007 and 2006 were estimated using opening market prices for the business day of the grant. The share-based compensation for the non-vested shares is recognized, net of estimated forfeitures, ratably over the requisite service period or vesting period. Forfeitures have been estimated based on our historical experience, but will be adjusted for future changes in forfeiture experience. We estimate the forfeitures of dividends paid on non-vested shares and record expense for the estimated forfeitures in accordance with SFAS 123R.

Under the ESPP, which has been approved by shareholders, we are authorized to issue shares of Common Stock to our employees. These shares may be issued at a price equal to 90% of the lesser of the market value on the first day or the last day of each six-month purchase period. Common Stock purchases are paid for through periodic payroll deductions and/or up to two large lump sum contributions. As the ESPP does not qualify as non-compensatory under the requirements of SFAS 123R, we recognize share-based compensation on the date of purchase based on the difference between the purchase date fair market value and the employee purchase price.

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

Impact of Recent Accounting Pronouncements

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

During February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115 (“SFAS 159”), which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. We adopted SFAS 159 on January 1, 2008, but did not elect the fair value measurement for any new assets or liabilities.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (“SFAS 141R”). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. This statement is effective for us beginning January 1, 2009. The impact of SFAS 141R will depend on the nature of any business combinations subsequent to January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51 ("SFAS 160"). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This statement is effective for us beginning January 1, 2009. The adoption of SFAS 160 will not have a significant impact on our financial position, results of operations and cash flows as we do not have any noncontrolling interests.

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 $59.1 million for the year ended December 31, 2008 compared to approximately $62.4 million for the year ended December 31, 2007. The $3.3 million decrease in cash provided by operating activities for the year ended December 31, 2008 compared to the year ended December 31, 2007 is mainly attributable to increased estimated income tax payments and prepaid expenses, such as rent, offset by increased cash from operations after non-cash items. The increase in cash paid for income taxes was the result of increased earnings expectations during 2008 which were mainly driven by our 2008 and 2007 acquisitions. Earnings shortfalls from expectations resulted in overpayment of income taxes and income tax receivable balances at December 31, 2008. The increase in prepaid assets was the result of increased activity, such as prepaid insurance premiums, attributable to our 2008 and 2007 acquisitions. Improvement in cash collected from accounts receivable was mostly offset by increases in cash payments to vendors for operating expenses.

Net cash used in investing activities was approximately $56.2 million for the year ended December 31, 2008 compared with approximately $34.1 million used in investing activities during the year ended December 31, 2007. Investing activities during the year ended December 31, 2008 consisted primarily of the acquisition of certain assets and liabilities of Service Express and Pinch as well as capital expenditures, most of which were for our new terminal in Dallas/Fort Worth, Texas. The acquisitions were funded by borrowings from our line of credit. The cash used in investing activities during 2007, for items such as the purchase of certain assets and liabilities of USAC and Black Hawk and purchases of property and equipment, were offset by cash received from the liquidation of our short term investments.

Net cash provided by financing activities totaled approximately $14.3 million for the year ended December 31, 2008 compared with approximately $31.6 million used in financing activities for the year ended December 31, 2007. The change in cash provided by financing activities was primarily attributable to $55.1 million reduction in share repurchases from 2007 to 2008, net of a $10.0 reduction in net borrowings under our line of credit in 2008 compared to 2007. Current year net borrowings from our line of credit were used to partially fund the acquisitions of Service Express and Pinch.

On October 10, 2007, we entered into a $100.0 million senior credit facility. The facility has a term of five years and includes an accordion feature, which if approved by our lender, allows for an additional $50.0 million in borrowings on such terms and conditions as set forth in the credit agreement. Interest rates for advances under the senior credit facility are at LIBOR plus 0.6% to 0.9% based upon covenants related to total indebtness to earnings. The facility replaced our previous $20.0 million line of credit. We entered into this new, larger credit facility in order to fund potential acquisitions, repurchases of our common stock, and for financing other general business purposes. At December 31, 2008, we had $42.2 million of available borrowing capacity under the senior credit facility, not including the accordion feature, and had utilized $7.8 million of availability for outstanding letters of credit.

On November 17, 2005, we announced that our Board of Directors approved a stock repurchase program for up to three million shares of common stock (the “2005 Repurchase Plan”). In addition, on July 31, 2007, our Board of Directors approved an additional stock repurchase program for up to two million shares of our common stock (the “2007 Repurchase Plan”). No shares were repurchased during the year ended December 31, 2008. For the year ended December 31, 2007, the Company repurchased 1,613,327 shares, for $49.0 million or $30.42 per share under the 2005 Repurchase Plan and repurchased an additional 211,173 shares of common stock under the 2007 Repurchase Plan for $6.1 million, or $28.68 per share. As of December 31, 2008, no shares remained eligible for purchase under the 2005 Repurchase Plan and 1,788,827 shares remained eligible for repurchase under the 2007 Repurchase Plan.

During the year ended December 31, 2007, we completed our purchase of new facilities near Chicago, Illinois and Atlanta, Georgia for $22.3 million and $14.9 million, respectively. Deposits of $3.3 million and $1.5 million paid during 2006 were applied to the purchase price of the Chicago and Atlanta facilities, respectively. In addition, during February 2007, we paid approximately $3.0 million for land near Dallas/Fort Worth, Texas on which we are building a new regional hub, which we estimate will be completed in 2009. At December 31, 2008 we have capitalized in construction in progress approximately $13.9 million for the construction of the Dallas/Forth Worth regional hub. We anticipate completion of this new regional hub during the third quarter of 2009 and expect to incur an additional $14.0 in capital expenditures during 2009 to complete its construction. We intend to fund the expenditures for the Dallas/Fort Worth regional hub through cash currently on our balance sheet, cash provided by operating activities, the sale of existing equipment and/or borrowings under our senior credit facility, if necessary.

During the first, second, third and fourth quarters of 2008, 2007 and 2006, cash dividends of $0.07 per share were declared on common stock outstanding. 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 senior credit facility will be sufficient to satisfy our anticipated cash needs for at least the next twelve months.

Off-Balance Sheet Arrangements

At December 31, 2008, we had letters of credit outstanding from banks totaling $7.8 million required by our workers' compensation and vehicle liability insurance providers.

Contractual Obligations and Commercial Commitments

Our contractual obligations and other commercial commitments as of December 31, 2008 (in thousands) are summarized below:

Contractual Obligations	Payment Due Period				
	Total	2009	2010-2011	2012-2013	2014 and Thereafter
Capital lease obligations	$ 5,077	$ 1,629	$ 1,824	$ 1,020	$ 604
Other long-term debt	168	147	21	--	--
Operating leases	73,556	19,958	28,927	12,714	11,957
Senior credit facility	50,000	--	--	50,000	--
Total contractual cash obligations	$ 128,801	$ 21,734	$ 30,772	$ 63,734	$ 12,561

Not included in the above table are reserves for unrecognized tax benefits and for self insurance claims of $0.6 million and $7.1 million, respectively.

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. 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 senior credit facility. The senior credit facility, which represents an aggregate principal amount of $50.0 million at December 31, 2008, bears interest at variable rates. Based on our outstanding borrowings at December 31, 2008, a hypothetical increase in our senior credit facility borrowing rate of 150 basis points, or an increase in the total effective interest rate from 1.0% to 2.5%, 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 equipment notes and capital lease obligations totaling $4.6 million. These notes and lease obligations all bear interest at a fixed rate. Accordingly, there is no exposure to market risk related to these notes and capital lease obligations.

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 equivalents and short-term investments 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, 2008. 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, 2008. 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, 2008, that our internal control over financial reporting was effective based on those criteria.

On March 17, 2008 and September 8, 2008, we acquired certain assets and liabilities of Pinch and Service Express, which are included in the 2008 consolidated financial statements of Forward Air Corporation and constituted $11.2 million and $12.6 million of total revenues, respectively, for the year ended December 31, 2008. We have excluded the internal controls over financial reporting of these acquired businesses from our assessment of and conclusion on the effectiveness of our internal control over financial reporting.

Ernst & Young LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements for the year ended December 31, 2008, 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 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Forward Air Corporation

We have audited Forward Air Corporation's internal control over financial reporting as of December 31, 2008, 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.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Service Express, Inc. and Pinch Holdings, Inc, which are included in the 2008 consolidated financial statements of Forward Air Corporation and constituted $11.2 million and $12.6 million of total revenues, respectively, for the year ended December 31, 2008. Our audit of internal control over financial reporting of Forward Air Corporation also did not include an evaluation of the internal control over financial reporting of the certain assets and liabilities acquired by Forward Air Corporation through the Service Express, Inc. and Pinch Holding, Inc. acquisitions.

In our opinion, Forward Air Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Forward Air Corporation as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 and our report dated February 23, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee
February 23, 2009

Item 9B. Other Information

Not applicable.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item with respect to our directors is incorporated herein by reference to our proxy statement for the 2009 Annual Meeting of Shareholders (the "2009 Proxy Statement"). The 2009 Proxy Statement will be filed with the SEC not later than 120 days subsequent to December 31, 2008.

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

Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to the 2009 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 2009 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 2009 Proxy Statement.

Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated herein by reference to the 2009 Proxy Statement.

Part IV

Item 15. Exhibits, Financial Statement Schedules

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

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

(a)(3) List of Exhibits.

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

(b) Exhibits.

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

(c) Financial Statement Schedules.

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

SIGNATURES

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

Forward Air Corporation

Date: February 26, 2009

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

Forward Air Corporation

By: /s/ Michael P. McLean
Michael P. McLean
Chief Accounting Officer, Vice President
and Controller (Principal Accounting Officer)

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

Signature	Title	Date
/s/ Bruce A. Campbell Bruce A. Campbell	Chairman, President and Chief Executive Officer (Principal Executive Officer)	February 26, 2009
/s/ Rodney L. Bell Rodney L. Bell	Chief Financial Officer, Senior Vice President and Treasurer (Principal Financial Officer)	February 26, 2009
/s/ Michael P. McLean Michael P. McLean	Chief Accounting Officer, Vice President and Controller	February 26, 2009
/s/ G. Michael Lynch G. Michael Lynch	Lead Director	February 26, 2009

/s/ C. Robert Campbell C. Robert Campbell	Director	February 26, 2009
/s/ Richard W. Hanselman Richard W. Hanselman	Director	February 26, 2009
/s/ C. John Langley, Jr. C. John Langley, Jr.	Director	February 26, 2009
/s/ Tracy A. Leinbach Tracy A. Leinbach	Director	February 26, 2009
/s/ Ray A. Mundy Ray A. Mundy	Director	February 26, 2009
/s/ Gary L. Paxton Gary L. Paxton	Director	February 26, 2009

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, 2008

Forward Air Corporation

Greeneville, Tennessee

Forward Air Corporation

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

Index to Financial Statements and Financial Statement Schedule

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

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

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Forward Air Corporation

We have audited the accompanying consolidated balance sheets of Forward Air Corporation as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. 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, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, in 2007 the Company changed its method of accounting for income tax contingencies.

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, 2008, 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 23, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee
February 23, 2009

Forward Air Corporation
Consolidated Balance Sheets
(Dollars in thousands)

	December 31, 2008	December 31, 2007
Assets		
Current assets:		
Cash	$ 22,093	$ 4,909
Accounts receivable, less allowance of $2,531 in 2008 and $1,142 in 2007	57,206	59,734
Income taxes receivable	3,427	--
Inventories	669	558
Prepaid expenses and other current assets	6,089	4,463
Deferred income taxes	2,105	1,786
Total current assets	91,589	71,450
Property and equipment:		
Land	16,928	16,928
Buildings	39,895	39,895
Equipment	107,983	95,690
Leasehold improvements	5,049	4,421
Construction in progress	16,522	1,420
Total property and equipment	186,377	158,354
Less accumulated depreciation and amortization	63,401	55,322
Net property and equipment	122,976	103,032
Goodwill and other acquired intangibles:		
Goodwill	50,230	36,053
Other acquired intangibles, net of accumulated amortization of $8,103 in 2008 and $3,740 in 2007	40,708	29,991
Total net goodwill and other acquired intangibles	90,938	66,044
Other assets	2,024	1,358
Total assets	$ 307,527	$ 241,884

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

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

	December 31, 2008	December 31, 2007
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 11,633	$ 11,714
Accrued payroll and related items	3,652	4,474
Insurance and claims accruals	4,620	3,345
Payables to owner-operators	2,563	2,916
Collections on behalf of customers	612	930
Other accrued expenses	1,480	1,395
Income taxes payable	--	1,214
Current portion of capital lease obligations	1,455	213
Current portion of long-term debt	147	617
Total current liabilities	26,162	26,818
Capital lease obligations, less current portion	3,014	1,351
Long-term debt, less current portion	50,021	30,135
Other long-term liabilities	3,055	4,476
Deferred income taxes	8,841	7,371
Commitments and contingencies (Note 8)		
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 – 28,893,850 in 2008 and 28,648,068 in 2007	289	286
Additional paid-in capital	10,249	--
Retained earnings	205,896	171,447
Total shareholders' equity	216,434	171,733
Total liabilities and shareholders' equity	$ 307,527	$ 241,884

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

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

	Year ended		
	December 31, 2008	December 31, 2007	December 31, 2006
Operating revenue:			
Forward Air			
Airport-to-airport	$ 334,860	$ 313,162	$ 301,551
Logistics	59,290	42,626	31,321
Other	25,133	20,923	19,886
Forward Air Solutions			
Pool distribution	55,153	16,026	--
Total operating revenue	474,436	392,737	352,758
Operating expenses:			
Purchased transportation			
Forward Air			
Airport-to-airport	128,785	123,658	119,011
Logistics	44,560	32,727	22,767
Other	6,425	6,049	4,943
Forward Air Solutions			
Pool distribution	9,315	2,003	--
Total purchased transportation	189,085	164,437	146,721
Salaries, wages and employee benefits	116,504	88,803	74,448
Operating leases	24,403	16,761	14,458
Depreciation and amortization	16,615	10,824	8,934
Insurance and claims	8,099	7,685	5,967
Fuel expense	11,465	2,421	1,010
Other operating expenses	37,980	30,758	25,824
Total operating expenses	404,151	321,689	277,362
Income from operations	70,285	71,048	75,396
Other income (expense):			
Interest expense	(1,236)	(491)	(81)
Other, net	362	1,756	3,229
Total other income (expense)	(874)	1,265	3,148
Income before income taxes	69,411	72,313	78,544
Income taxes	26,869	27,388	29,621
Net income	$ 42,542	$ 44,925	$ 48,923
Net income per share:			
Basic	$ 1.48	$ 1.52	$ 1.57
Diluted	$ 1.47	$ 1.50	$ 1.55
Weighted average shares outstanding:			
Basic	28,808	29,609	31,091

Diluted	29,025	29,962	31,521
Dividends per share:	$ 0.28	$ 0.28	$ 0.28

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

Forward Air Corporation
Consolidated Statements of Shareholders' Equity
(In thousands, except per share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Total Shareholders' Equity
Balance at December 31, 2005	31,361	$ 314	$ --	$ 178,502	$ 178,816
Net and comprehensive income for 2006	--	--	--	48,923	48,923
Exercise of stock options	305	3	4,359	--	4,362
Common stock issued under employee stock purchase plan	9	--	268	--	268
Share-based compensation	--	--	1,307	--	1,307
Dividends ($0.28 per share)	--	--	--	(8,694)	(8,694)
Common stock repurchased under stock repurchase plan	(1,303)	(13)	(7,901)	(33,808)	(41,722)
Income tax benefit from stock options exercised	--	--	1,967	--	1,967
Balance at December 31, 2006	30,372	304	--	184,923	185,227
Adoption of FIN 48	--	--	--	(977)	(977)
Net and comprehensive income for 2007	--	--	--	44,925	44,925
Exercise of stock options	57	--	1,017	--	1,017
Common stock issued under employee stock purchase plan	9	--	259	--	259
Share-based compensation	--	--	3,710	--	3,710
Dividends ($0.28 per share)	--	--	--	(8,305)	(8,305)
Vesting of previously non-vested shares	42	--	--	--	--
Cash settlement of share-based awards for minimum tax withholdings	(8)	--	(250)	--	(250)
	(1,824)	(18)	(5,997)	(49,119)	(55,134)

Common stock repurchased under stock repurchase plan					
Income tax benefit from stock options exercised	--	--	1,261	--	1,261
Balance at December 31, 2007	28,648	286	--	171,447	171,733
Net and comprehensive income for 2008	--	--	--	42,542	42,542
Exercise of stock options	191	2	3,083	--	3,085
Common stock issued under employee stock purchase plan	10	--	255	--	255
Share-based compensation	--	--	6,269	(2)	6,267
Dividends ($0.28 per share)	--	--	2	(8,091)	(8,089)
Vesting of previously non-vested shares	56	1	(1)	--	--
Cash settlement of share-based awards for minimum tax withholdings	(11)	--	(389)	--	(389)
Income tax benefit from stock options exercised	--	--	1,030	--	1,030
Balance at December 31, 2008	28,894	$ 289	$ 10,249	$ 205,896	$ 216,434

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

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

	Year ended December 31, 2008	December 31, 2007	December 31, 2006
Operating activities:			
Net income	$ 42,542	$ 44,925	$ 48,923
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	16,615	10,824	8,934
Share-based compensation	6,267	3,710	1,307
Loss (gain) on disposal of property and equipment	171	(172)	(42)
Provision for loss (recovery) on receivables	903	(33)	(223)
Provision for revenue adjustments	4,259	2,312	2,095
Deferred income taxes	1,151	596	(136)
Tax benefit for stock options exercised	(1,030)	(1,261)	(1,967)
Changes in operating assets and liabilities, net of acquisitions			
Accounts receivable	(2,376)	(11,474)	(6,516)
Prepaid expenses and other current assets	(2,102)	291	407
Accounts payable and accrued expenses	(2,665)	6,606	(4,058)
Income taxes	(4,652)	6,069	3,743
Net cash provided by operating activities	59,083	62,393	52,467
Investing activities:			
Proceeds from disposal of property and equipment	87	574	3,665
Purchases of property and equipment	(26,699)	(47,026)	(15,454)
Deposits in escrow for construction of new terminals	--	--	(4,793)
Proceeds from sales or maturities of available-for-sale securities	--	143,410	