Forward Air Corporation

Notice of 2007 Annual Meeting of Shareholders, Proxy Statement and 2006 Annual Report

Forward Air Corporation

Dear Fellow Shareholders:

The Forward Air team delivered strong results in 2006 despite encountering an extremely challenging freight environment in the second half of the year. While we were able to achieve strong double digit growth in operating revenue and earnings per share in the first two quarters of 2006, we, like many transportation and logistics companies, fell victim to the freight slowdown in the third and fourth quarters and were not able to post as robust revenue and earnings growth as we had anticipated and have traditionally enjoyed. Nevertheless, for the year, we still managed to achieve new milestones in operating revenue, income and margins. These accomplishments were made possible by the hard work, discipline and dedication of our employees and independent contractors, and we thank them for their valuable contributions. Here are the financial highlights for the year:

- Record operating revenue of $352.7 million, a 9.9% increase versus fiscal 2005. Our focus on both yield and tonnage improvements, combined with improved productivity, delivered an industry-leading operating profit margin of 21.4%.

- Record net income of $48.9 million, an 8.9% increase from last year. Earnings per share increased 11.5% to $1.55, another record for us.

- Cash and investments at year-end of $69.9 million and total debt of less than $1 million. For the year, we generated more than $52.5 million in operating cash flow.

Other highlights for the year include:

- For the 8th year in a row, Forward Air made Forbes Magazine's annual list of the "200 Best Small Companies," one of only seven companies to make the list for eight or more consecutive years.

- We introduced a new service offering called Forward Air Complete™, which expands the footprint and reach of our airport-to-airport network by allowing our customers to arrange for freight to be picked up from and/or delivered to a customer-designated site.

- We entered into a three year strategic initiative with DHL Global Forwarding to be its primary provider of expedited ground-based transportation.

- We entered into strategic initiatives with Pilot Air Freight and United Airlines.

- We spent $41.7 million repurchasing nearly 1.3 million of our shares.

- We increased our quarterly cash dividend by 16.7% to $0.07 per share of common stock in an effort to return more value to you, our shareholders.

- We strengthened our network infrastructure by completing an expansion of our Columbus, Ohio national hub. The newly-expanded facility has 125,000 square feet of warehouse space with 168 trailer doors and enables us to unload, sort and load upwards of 3.7 million pounds of freight in five hours.

- We commenced terminal building projects in Chicago, Atlanta and Dallas by purchasing property and beginning construction of larger, better designed terminals for each of these key gateway cities. We believe that these new facilities will strengthen our network, enhance our revenue opportunities, and cement our control of strategic terminal locations while providing room for growth and expansion.

In February of this year, we announced a new strategic initiative for 2007 that we named "Completing the Model." Simply put, this initiative is designed to accelerate revenue growth on four specific service offerings: Forward Air Complete, truckload brokerage, value-added handling and airline road feeder services. We identified these particular service offerings because they compliment our airport-to-airport product by either adding freight to our existing network and/or capturing additional revenue on freight already in the network. We experienced some success in each of these areas in 2006 and have committed additional financial, human and other necessary resources to build upon those successes in 2007 in an effort to return more value to you, our shareholders. We are mindful of the current prevailing conditions in the freight environment and believe that this new initiative is our best opportunity to increase the return on your investment in our company. We thank you for your continued support of Forward Air.

Sincerely yours,

Richard W. Hanselman
Chairman of the Board

Bruce A. Campbell
President and Chief Executive Officer

Forward Air Corporation

April 19, 2007

Dear Fellow Shareholder:

On behalf of the Board of Directors and management of Forward Air Corporation, you are cordially invited to attend the Annual Meeting of Shareholders on Tuesday, May 22, 2007, at 8:00 a.m., EDT, in the Catalpa Room at The Ritz-Carlton Lodge, Reynolds Plantation, One Lake Oconee Trail, Greensboro, Georgia 30642.

YOUR VOTE IS IMPORTANT. Whether or not you plan to attend the meeting in person, please vote and submit your proxy over the Internet, by telephone or by completing, signing, dating and returning the enclosed proxy in the envelope provided as promptly as possible. If you attend the meeting and desire to vote in person, you may do so even though you have previously sent a proxy.

I hope you will be able to join us, and we look forward to seeing you at the meeting.

Sincerely yours,

Bruce A. Campbell
President and Chief Executive Officer

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FORWARD AIR CORPORATION
430 Airport Road
Greeneville, Tennessee 37745

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 22, 2007

To the Shareholders of Forward Air Corporation:

The Annual Meeting of Shareholders of Forward Air Corporation (the “Company”) will be held on Tuesday, May 22, 2007, beginning at 8:00 a.m., EDT, in the Catalpa Room at The Ritz-Carlton Lodge, Reynolds Plantation, One Lake Oconee Trail, Greensboro, Georgia 30642.

Attendance at the Annual Meeting will be limited to shareholders, those holding proxies from shareholders and representatives of the press and financial community. To gain admission to the Annual Meeting, you will need to show that you are a shareholder of the Company. If your shares are registered in your name and you plan to attend the Annual Meeting, please retain and bring the top portion of the enclosed proxy card as your admission ticket. If your shares are in the name of your broker or bank, or you received your proxy materials electronically, you will need to bring evidence of your stock ownership, such as your most recent brokerage account statement.

The purposes of this meeting are:

1. To elect eight members of the Board of Directors with terms expiring at the next Annual Meeting of Shareholders in 2008;

2. To ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm of the Company;

3. To approve the Amended and Restated Non-Employee Director Stock Plan; and

4. To transact such other business as may properly come before the meeting and at any adjournment or postponement thereof.

We will make available a list of shareholders of record as of the March 15, 2007 record date for inspection by shareholders during normal business hours from April 23, 2007 until May 21, 2007 at the Company’s principal place of business, 430 Airport Road, Greeneville, Tennessee 37745. The list also will be available to shareholders at the meeting.

Only shareholders of the $0.01 par value common stock of the Company of record at the close of business on March 15, 2007 are entitled to notice of and to vote at the Annual Meeting. Shareholders are cordially invited to attend the meeting in person.

It is important that your shares be represented at the Annual Meeting. Whether or not you expect to attend the meeting, please vote and submit your proxy over the Internet, by telephone or by mail. Please refer to the proxy card for specific voting instructions. You may revoke your proxy at any time before it is voted.

By Order of the Board of Directors,

Matthew J. Jewell
Senior Vice President, General Counsel and Secretary

Greeneville, Tennessee
April 19, 2007

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FORWARD AIR CORPORATION
430 Airport Road
Greeneville, Tennessee 37745
(423) 636-7000

PROXY STATEMENT
FOR
ANNUAL MEETING OF SHAREHOLDERS

This Proxy Statement is furnished to the shareholders of Forward Air Corporation (the "Company") in connection with the solicitation of proxies by the Board of Directors (the "Board") for use at the Annual Meeting of Shareholders to be held on Tuesday, May 22, 2007, beginning at 8:00 a.m., EDT, in the Catalpa Room at The Ritz-Carlton Lodge, Reynolds Plantation, One Lake Oconee Trail, Greensboro, Georgia 30642, and any adjournment thereof, for the purposes set forth in the foregoing Notice of Annual Meeting of Shareholders. This proxy material was first mailed to shareholders on or about April 19, 2007.

You can ensure that your shares are voted at the Annual Meeting by submitting your instructions over the Internet, by telephone or by completing, signing, dating and returning the enclosed proxy in the envelope provided. You may revoke your proxy at any time before it is exercised by voting in person at the Annual Meeting or by delivering written notice of your revocation to, or a subsequent proxy to, the Secretary of the Company at its principal executive offices. Each proxy will be voted **FOR** Proposals 1, 2 and 3 if no contrary instruction is indicated in the proxy, and in the discretion of the persons named in the proxy on any other matter that may properly come before the shareholders at the Annual Meeting.

Shareholders are entitled to one vote for each share of common stock held of record at the close of business on March 15, 2007 (the "Record Date"). There were 30,391,176 shares of our $0.01 par value common stock issued and outstanding on the Record Date. The presence, in person or by proxy, of a majority of those shares will constitute a quorum at the Annual Meeting.

The affirmative vote of a plurality of the votes cast by the shareholders entitled to vote at the Annual Meeting is required for the election of directors. A properly executed proxy marked **"Withhold Authority"** with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted in determining whether there is a quorum. Therefore, so long as a quorum is present, withholding authority will have no effect on whether one or more directors is elected.

Any matter that properly comes before the Annual Meeting will be approved if the number of shares of common stock voted in favor of the proposal exceeds the number of shares of common stock voted against it. A properly executed proxy marked **"Abstain"** with respect to a proposal will not be voted on that proposal, although it will be counted in determining whether there is a quorum. Therefore, as long as a quorum is present, abstaining from any proposal that properly comes before the Annual Meeting will have no effect on whether the proposal is approved.

Brokers who hold shares for the accounts of their clients who do not receive voting instructions may not vote for certain of the proposals contained in this Proxy Statement unless specifically instructed to do so by their clients. Proxies that are returned to us where brokers have received instructions to vote on one or more proposal(s) but have not received instructions to vote on other proposal(s) are referred to as "broker non-votes" with respect to the proposal(s) not voted upon. Broker non-votes are included in determining the presence of a quorum.

The Company will bear the cost of soliciting proxies for the Annual Meeting. Our officers and employees may also solicit proxies by mail, telephone, e-mail or facsimile transmission. They will not be paid additional remuneration for their efforts. Upon request, we will reimburse brokers, dealers, banks and trustees, or their nominees, for reasonable expenses incurred by them in forwarding proxy material to beneficial owners of shares of our common stock.

PROPOSAL 1 - ELECTION OF DIRECTORS

At the date of this Proxy Statement, our Board is comprised of eight directors, seven of whom are non-employee directors. There are eight nominees for election at the Annual Meeting of Shareholders, each to hold office until the next Annual Meeting of Shareholders or until a successor has been duly elected and qualified. **The Board of Directors recommends a vote FOR the election of the eight nominees named below. Duly executed proxies will be so voted unless record holders specify a contrary choice on their proxies.** If for any reason a nominee is unable to serve as a director, it is intended that the proxies solicited hereby will be voted for such substitute nominee as the Board may propose, or the Board may reduce the number of directors. The Board has no reason to expect that the nominees will be unable to serve and, therefore, at this time it does not have any substitute nominees under consideration. Proxies cannot be voted for a greater number of persons than the number named.

Shareholder Vote Requirement

The nominees for election shall be elected by a plurality of the votes cast by the shares of common stock entitled to vote at the Annual Meeting. Shareholders have no right to vote cumulatively for directors. Each share shall have one vote for each directorship to be filled on the Board of Directors.

Director Nominees

The following persons are the nominees for election to serve as directors. There are no family relationships between any of the director nominees. Each director nominee is standing for re-election by the shareholders except for Tracy A. Leinbach, who is standing for election for the first time. A third-party search firm initially identified Ms. Leinbach as a Board candidate to the Corporate Governance and Nominating Committee and, after a screening process and recommendation by the Committee, the Board elected Ms. Leinbach as a new director on March 29, 2007. Certain information relating to the nominees, furnished by the nominees, is set forth below. The ages set forth below are accurate as of the date of this Proxy Statement.

BRUCE A. CAMPBELL — Director since 1993
Greeneville, Tennessee — Age 55

Mr. Campbell has served as a director since April 1993, as President since August 1998 and as Chief Executive Officer since October 2003. 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 the Company, 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, Inc.

C. ROBERT CAMPBELL Director since 2005
Coral Gables, Florida Age 62

Mr. Campbell has been Executive Vice President and Chief Financial Officer of MasTec, Inc., a leading communications and energy infrastructure service provider in North America, since October 2004. Mr. Campbell has over 25 years of senior financial management experience. From January 2002 to October 2004, Mr. Campbell was executive vice president and chief financial officer for TIMCO Aviation Services, Inc. From April 1998 to June 2000, Mr. Campbell was the president and chief executive officer of BAX Global, Inc., and from March 1995 to March 1998, he was executive vice president-finance and chief financial officer for Advantica Restaurant Group, Inc. Mr. Campbell is a Certified Public Accountant.

RICHARD W. HANSELMAN Director since 2004
Nashville, Tennessee Age 79

Mr. Hanselman has served as Chairman of the Board of the Company since May 2005. Mr. Hanselman was a director of ArvinMeritor, Inc., a global supplier of a broad range of systems, modules and components to the motor vehicle industry, from July 2000 until his retirement from its Board in January 2007. Mr. Hanselman was a director of Arvin Industries, Inc. from 1983 until it merged with ArvinMeritor, Inc. Mr. Hanselman was the non-executive chairman of the board of Health Net, Inc., a managed care provider, from May 1999 until December 2003, and he continued to serve as a director until May 2005. Mr. Hanselman also served as a director of predecessor corporations of Health Net, Inc. Formerly, Mr. Hanselman was chairman, president and chief executive officer of Genesco, Inc. from May 1980 until January 1986. In addition, Mr. Hanselman is an Honorary Trustee of the Committee for Economic Development.

C. JOHN LANGLEY, JR. Director since 2004
Knoxville, Tennessee Age 61

Dr. Langley is The Supply Chain and Logistics Institute Professor of Supply Chain Management and a member of the faculty of the School of Industrial and Systems Engineering at the Georgia Institute of Technology. Dr. Langley serves as Director of Supply Chain Executive Programs at Georgia Tech and as Executive Director of the Supply Chain Executive Forum. Prior to his September 2001 appointment with Georgia Tech, Dr. Langley served as a Professor at the University of Tennessee since September 1973, where most recently he was the Dove Distinguished Professor of Logistics and Transportation. Dr. Langley also is a director of UTi Worldwide Inc.

TRACY A. LEINBACH Director since 2007
Miami, Florida Age 47

Ms. Leinbach served as Executive Vice President and Chief Financial Officer of Ryder System, Inc., a global leader in supply chain, warehousing and transportation management solutions, from March 2003 until her retirement in February 2006. Ms. Leinbach served as Executive Vice President of Ryder's Fleet Management Solutions from March 2001 to March 2003, Senior Vice President, Sales and Marketing from September 2000 to March 2001, and she was Senior Vice President, Field Management from July 2000 to September 2000. Ms. Leinbach also served as Managing Director-Europe of Ryder Transportation Services from January 1999 to July 2000 and previously she had served Ryder Transportation Services as Senior Vice President and Chief Financial Officer from 1998 to January 1999, Senior Vice President, Business Services from 1997 to 1998, and Senior Vice President, Purchasing and Asset Management for six months during 1996. From 1985 to 1996, Ms. Leinbach held various financial positions in Ryder subsidiaries.

G. MICHAEL LYNCH Director since 2005
Bloomfield Hills, Michigan Age 64

Mr. Lynch is Executive Vice President and Chief Financial Officer and a member of the Strategy Board for Federal-Mogul Corporation. Federal-Mogul is a global manufacturer and marketer of automotive component parts. Prior to joining Federal-Mogul in July 2000, Mr. Lynch worked at Dow Chemical Company, where he was vice president and controller. Mr. Lynch also spent 29 years at Ford Motor Company, where his most recent position was controller, automotive components division, which ultimately became Visteon. While at Ford, Mr. Lynch held a number of varied financial assignments, including executive vice president and chief financial officer of Ford New Holland. Mr. Lynch also sits on the board of Champion Enterprises, Inc.

RAY A. MUNDY Director since 2000
St. Louis, Missouri Age 62

Dr. Mundy has served as director of the Center for Transportation Studies and Barriger Endowed Professor of Transportation and Logistics at the University of Missouri since January 2000. From January 1996 until December 1999, he was the Taylor Distinguished Professor of Logistics and Transportation at the University of Tennessee. Also, while at the University of Tennessee, Dr. Mundy managed its Transportation Management & Policies Studies program and was one of the directors of its Supply Chain Forum. Additionally, Dr. Mundy serves as a consultant to both the public and private sectors and sits on advisory boards for Internet, transportation and logistics companies.

B. CLYDE PRESLAR Director since 2004
Tampa, Florida Age 52

Mr. Preslar served as Executive Vice President and Chief Financial Officer of Cott Corporation, the world's leading supplier of retailer brand carbonated soft drinks, from August 2005 until December 2006. From April 1996 until August 2005, Mr. Preslar was chief financial officer and vice president of Lance, Inc., and was its secretary from February 2002 until August 2005. Mr. Preslar was director of finance at Black & Decker Corporation from July 1989 until April 1996. Mr. Preslar is a Certified Public Accountant and a Certified Management Accountant. Mr. Preslar also is a director of Alliance One International, Inc.

CORPORATE GOVERNANCE

Independent Directors

The Company's common stock is listed on The NASDAQ Stock Market LLC ("Nasdaq"). Nasdaq requires that a majority of the directors be "independent directors," as defined in Nasdaq Marketplace Rule 4200. Generally, a director does not qualify as an independent director if the director (or in some cases, members of the director's immediate family) has, or in the past three years has had, certain material relationships or affiliations with the Company, its external or internal auditors, or other companies that do business with the Company. The Board has affirmatively determined that seven of the Company's eight current directors have no other direct or indirect relationships with the Company and therefore are independent directors on the basis of Nasdaq's standards and an analysis of all facts specific to each director. The independent directors are C. Robert Campbell, Richard W. Hanselman, C. John Langley, Jr., Tracy A. Leinbach, G. Michael Lynch, Ray A. Mundy and B. Clyde Preslar.

Corporate Governance Guidelines

The Board of Directors has adopted Corporate Governance Guidelines that give effect to Nasdaq's requirements related to corporate governance and various other corporate governance matters. The Company's Corporate Governance Guidelines, as well as the charters of the Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee, are available on the Company's website at www.forwardair.com and are available in print by contacting the Corporate Secretary by mail at Forward Air Corporation, 430 Airport Road, Greeneville, Tennessee 37745, or by telephone at (423) 636-7000.

Non-Employee Director Meetings

Pursuant to the Company's Corporate Governance Guidelines, the Company's non-employee directors meet in executive session without management on a regularly scheduled basis, but not less frequently than quarterly. The non-executive Chairman presides at such executive sessions or, in his or her absence, a non-employee director designated by such non-executive Chairman.

Interested parties who wish to communicate with the Chairman of the Board or the non-employee directors as a group should follow the procedures found below under "Corporate Governance — Shareholder Communications."

Director Nominating Process

The Corporate Governance and Nominating Committee evaluates a candidate for director who was recommended by a shareholder in the same manner as a candidate recommended by other means. Shareholders wishing to communicate with the Corporate Governance and Nominating Committee concerning potential director candidates may do so by corresponding with the Corporate Secretary at Forward Air Corporation, 430 Airport Road, Greeneville, Tennessee 37745, and including the name and biographical data of the individual being suggested.

All recommendations should include the written consent of the nominee to be nominated for election to the Company's Board of Directors. To be considered, the Company must receive recommendations at least 120 calendar days prior to the one year anniversary of the Company's proxy statement date for the prior year's Annual Meeting of Shareholders and include all required information to be considered. In the case of the 2008 Annual Meeting of Shareholders, this deadline is December 21, 2007. All recommendations will be brought to the attention of the Corporate Governance and Nominating Committee.

The Corporate Governance and Nominating Committee annually reviews the appropriate experience, skills and characteristics required of Board members in the context of the current membership of the Board. This assessment includes among other relevant factors in the context of the perceived needs of the Board at that time, the possession of such knowledge, experience, skills, expertise and diversity to enhance the Board's ability to manage and direct the affairs and business of the Company.

The Company's Board of Directors has established the following process for the identification and selection of candidates for director. The Corporate Governance and Nominating Committee, in consultation with the Chairman of the Board, periodically examines the composition of the Board and determines whether the Board would better serve its purposes with the addition of one or more directors. If the Corporate Governance and Nominating Committee determines that adding a new director is advisable, the Committee initiates the search, working with other directors and management and, if appropriate or necessary, a third-party search firm that specializes in identifying director candidates.

The Corporate Governance and Nominating Committee will consider all appropriate candidates proposed by management, directors and shareholders. Information regarding potential candidates shall be presented to the Corporate Governance and Nominating Committee, and the Committee shall evaluate the candidates based on the needs of the Board at that time and issues of knowledge, experience, skills, expertise and diversity, as set forth in the Company's Corporate Governance Guidelines. Potential candidates will be evaluated according to the same criteria, regardless of whether the candidate was recommended by shareholders, the Corporate Governance and Nominating Committee, another director, Company management, a search firm or another third party. The Corporate Governance and Nominating Committee will submit any recommended candidate(s) to the full Board of Directors for approval and recommendation to the shareholders.

Shareholder Communications

Shareholders who wish to communicate with the Board, a Board committee or any such other individual director or directors may do so by sending written communications addressed to the Board of Directors, a Board committee or such individual director or directors, c/o Corporate Secretary, Forward Air Corporation, 430 Airport Road, Greeneville, Tennessee 37745. All communications will be compiled by the General Counsel of the Company and forwarded to the members of the Board to whom the communication is directed or, if the communication is not directed to any particular member(s) of the Board, the communication shall be forwarded to all members of the Board of Directors.

Annual Performance Evaluations

The Company's Corporate Governance Guidelines provide that the Board of Directors shall conduct an annual evaluation to determine, among other matters, whether the Board and the Committees are functioning effectively. The Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee are also required to each conduct an annual self-evaluation. The Corporate Governance and Nominating Committee is responsible for overseeing this self-evaluation process.

Code of Ethics

The Board of Directors has adopted a Code of Ethics that applies to all Company employees, officers and directors, which is available on the Company's website at www.forwardair.com. The Code of Ethics complies with Nasdaq and Securities and Exchange Commission (the "SEC") requirements, including procedures for the confidential, anonymous submission by employees or others of any complaints or concerns about the Company or its accounting practices, internal accounting controls or auditing matters. The Company will also mail the Code of Ethics to any shareholder who requests a copy. Requests may be made by contacting the Corporate Secretary as described above under "Corporate Governance — Corporate Governance Guidelines."

Board Attendance

The Company's Corporate Governance Guidelines provide that all directors are expected to attend all meetings of the Board and committees on which they serve and are also expected to attend the Annual Meeting of Shareholders. During 2006, the Board of Directors held five meetings. All of the incumbent directors attended at least 75% of the aggregate number of meetings of the Board of Directors and meetings of committees of the Board on which they served during 2006. Six of the seven incumbent director nominees attended the 2006 Annual Meeting of Shareholders.

Board Committees

The Board presently has four standing committees: an Executive Committee, an Audit Committee, a Compensation Committee and a Corporate Governance and Nominating Committee. With the exception of the Executive Committee, each committee has authority to engage legal counsel or other experts or consultants as it deems appropriate to carry out its responsibilities. In addition, the Board has determined that each member of the Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee is "independent," as defined in Nasdaq Marketplace Rule 4200, and that each member is free of any relationship that would interfere with his or her individual exercise of independent judgment. Additional information regarding the functions of the Board's committees, the number of meetings held by each committee during 2006 and their present membership is set forth below.

The Board nominated each of the nominees for election as a director and each nominee currently is a director. Assuming election of all of the director nominees, following is a list of persons who will constitute the Company's Board of Directors following the meeting, including their current committee assignments.

Name	**Committees**
Bruce A. Campbell	Executive
C. Robert Campbell	Audit and Compensation
Richard W. Hanselman	Executive
C. John Langley, Jr.	Compensation (Chair) and Corporate Governance and Nominating
Tracy A. Leinbach	*
G. Michael Lynch	Audit and Corporate Governance and Nominating
Ray A. Mundy	Corporate Governance and Nominating (Chair)
B. Clyde Preslar	Audit (Chair) and Compensation

*The Board elected Ms. Leinbach as a director on March 29, 2007 and she currently does not serve on a committee.

Executive Committee. The Executive Committee is authorized, to the extent permitted by law and the Bylaws of the Company, to act on behalf of the Board of Directors on all matters that may arise between regular meetings of the Board upon which the Board of Directors would be authorized to act, subject to certain materiality restrictions established by the Board. During 2006, there were no meetings of the Executive Committee.

Audit Committee. The Audit Committee engages the Company's independent registered public accounting firm, considers the fee arrangement and scope of the audit, reviews the financial statements and the independent registered public accounting firm's report, considers comments made by such firm with respect to the Company's internal control structure, and reviews the internal audit process and internal accounting procedures and controls with the Company's financial and accounting staff. A more detailed description of the Audit Committee's duties and responsibilities can be found in the Audit Committee Report on page 25 of this Proxy Statement and in the Audit Committee Charter. A current copy of the written charter of the Audit Committee is attached as Appendix A to this Proxy Statement and is available on the Company's website at www.forwardair.com.

The Board of Directors has determined that each member of the Audit Committee, B. Clyde Preslar (Chair), C. Robert Campbell and G. Michael Lynch, meets the definition of an "audit committee financial expert," as that term is defined by the rules and regulations of the SEC. The Audit Committee held seven meetings during 2006.

Compensation Committee. The Compensation Committee is responsible for determining the overall compensation levels of certain of the Company's executive officers and administering the Company's employee incentive plans and other employee benefit plans. In addition, it approves the Compensation Discussion and Analysis for inclusion in the proxy statement (see page 14 of this Proxy Statement). A current copy of the written charter of the Compensation Committee is available on the Company's website at www.forwardair.com. The Compensation Committee held four meetings during 2006.

Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee is responsible for identifying individuals qualified to become Board members and recommending them to the full Board for consideration. This responsibility includes all potential candidates, whether initially recommended by management, other Board members or shareholders. In addition, the Committee makes recommendations to the Board for Board committee assignments, develops and annually reviews corporate governance guidelines for the Company, and otherwise oversees corporate governance matters. In addition, the Committee coordinates an annual performance review for the Board, Board committees and individual director nominees. The Committee periodically reviews and makes recommendations to the Board regarding director compensation for the Board's approval. Also, the Committee oversees management succession planning.

A description of the Committee's policy regarding director candidates nominated by shareholders appears in "Corporate Governance — Director Nominating Process" above. A current copy of the written charter of the Corporate Governance and Nominating Committee is available on the Company's website at www.forwardair.com. The Corporate Governance and Nominating Committee held four meetings during 2006.

DIRECTOR COMPENSATION

The general policy of the Board is that compensation for non-employee directors should be a mix of cash and equity-based compensation. The Company does not pay employee directors for Board service in addition to their regular employee compensation.

The Corporate Governance and Nominating Committee, which consists solely of independent non-employee directors, has the primary responsibility to review and consider any revisions to the non-employee director compensation program. In accordance with the Committee's recommendations, the Board revised the non-employee directors' cash compensation program effective May 24, 2006 as follows:

- increased the non-employee Chairman of the Board's annual cash retainer from $50,000 to $77,500;
- increased all other non-employee directors' annual cash retainer from $20,000 to $27,500;
- increased the Audit Committee Chair's annual cash retainer from $10,000 to $15,000;
- added an annual cash retainer of $7,500 for the Corporate Governance and Nominating Committee and Compensation Committee Chairs;
- increased all non-Chair Audit Committee members' fees from $5,000 to $7,500;
- maintained the $1,500 per in-person meeting fee; and

- maintained the $750 per teleconference meeting fee.

No additional fee is paid for committee meetings held on the same day as Board meetings. All directors are reimbursed reasonable travel expenses for meetings attended in person. In addition, the Company reimburses directors for expenses associated with participation in continuing director education programs.

In addition, effective May 24, 2006, shareholders of the Company adopted the 2006 Non-Employee Director Stock Plan (the "2006 Director Stock Plan"), which replaced and terminated the 1996 Non-Employee Director Stock Option Plan (the "1996 Plan"). The 2006 Director Stock Plan provides for each non-employee director to receive an automatic annual grant of 2,250 restricted shares of common stock, subject to a three-year vesting schedule. Under the 1996 Plan, non-employee directors received an automatic annual grant of an option for the purchase of 7,500 shares of common stock.

See Proposal 3, "Approval of the Amended and Restated Non-Employee Director Stock Plan" on page 27 of this Proxy Statement.

The following table shows the compensation we paid in 2006 to our incumbent non-employee directors. The Company does not pay employee directors for Board service in addition to their regular employee compensation.

Name	Fees Paid in Cash ($)	Stock Awards ($) (1)	Dividends ($) (2)	Total ($)
Richard W. Hanselman	$66,621	$15,868	$473	$82,962
C. Robert Campbell	40,794	15,868	473	57,135
C. John Langley, Jr.	38,066	15,868	473	54,407
G. Michael Lynch	44,544	15,868	473	60,885
Ray A. Mundy	40,316	15,868	473	56,657
B. Clyde Preslar	51,055	15,868	473	67,396

(1) Represents the proportionate amount of the total fair value of non-vested restricted shares and deferred stock unit awards recognized by the Company as an expense in 2006 for financial accounting purposes, disregarding for this purpose the estimate of forfeitures related to service-based vesting conditions.

(2) Represents dividend payments or dividend equivalents on non-vested restricted shares or deferred stock unit awards granted during 2006. These dividend payments are nonforfeitable.

The following table indicates the aggregate number of outstanding options, deferred restricted stock units or non-vested restricted shares held by each incumbent director at the end of 2006 and those shares or units that have not yet vested.

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Shares or Units of Stock Held That Have Not Vested (#)
Richard W. Hanselman	18,750	2,250
C. Robert Campbell	--	2,250
C. John Langley, Jr.	10,625	2,250
G. Michael Lynch	--	2,250
Ray A. Mundy	63,750	2,250
B. Clyde Preslar	18,750	2,250

Certain Relationships and Related Person Transactions

We review all relationships and transactions in which the Company and our directors and executive officers or their immediate family members are participants to determine whether such persons have a direct or indirect material interest. Other than as provided in the Audit Committee Charter, the Company does not have a written policy governing related person transactions. The Company's legal staff is primarily responsible for the development and implementation of processes and controls to obtain information from the directors and executive officers with respect to related person transactions and for then determining, based on the facts and circumstances, whether the Company or a related person has a direct or indirect material interest in the transaction. As required under SEC rules, transactions that are determined to be directly or indirectly material to the Company or a related person are disclosed in the Company's proxy statement. In addition, the Audit Committee reviews and approves or ratifies any related person transaction that is required to be disclosed. In the course of its review and approval or ratification of a disclosable related person transaction, the Committee considers:

- the nature of the related person's interest in the transaction;
- the material terms of the transaction, including, without limitation, the amount and type of transaction;
- the importance of the transaction to the related person;
- the importance of the transaction to the Company;
- whether the transaction would impair the judgment of a director or executive officer to act in the best interest of the Company; and
- any other matters the Committee deems appropriate.

Any member of the Audit Committee who is a related person with respect to a transaction under review may not participate in the deliberations or vote respecting approval or ratification of the transaction, provided, however, that such director may be counted in determining the presence of a quorum at a meeting of the committee that considers the transaction.

Based on information provided by the directors, director nominees and executive officers, and the Company's legal department, the Audit Committee determined that there are no related person transactions to be reported in this Proxy Statement.

C. John Langley, Jr. serves as a director of UTi Worldwide, Inc. In its ordinary course of business, the Company provided transportation services to UTi Worldwide, Inc. during 2006 and may continue to do so in the future.

Compensation Committee Interlocks and Insider Participation

During all of 2006, the Compensation Committee was fully comprised of independent non-employee directors. Since May 23, 2006, C. John Langley, Jr. (Chair), C. Robert Campbell and B. Clyde Preslar have been members of the Compensation Committee.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information with respect to the beneficial ownership of shares of our outstanding common stock held as of the Record Date by (i) each director and director nominee; (ii) our Chief Executive Officer, Chief Financial Officer, each of the next three most highly compensated executive officers and a former executive officer, as required under SEC rules (collectively, the "Named Executive Officers"); and (iii) all directors and executive officers as a group. The table also sets forth information as to any person, entity or group known to the Company to be the beneficial owner of 5% or more of the Company's common stock as of December 31, 2006.

Under the rules of the SEC, a person is deemed to be a "beneficial owner" of a security if that person has or shares the power to vote or direct the voting of the security, has or shares the power to dispose of or direct the disposition of the security, or has the right to acquire the security within 60 days. Except as otherwise indicated, the shareholders listed in the table are deemed to have sole voting and investment power with respect to the common stock owned by them on the dates indicated above. Shareholders of non-vested restricted shares included in the table are entitled to voting and dividend rights.

	Shares Beneficially Owned		
Name and Address of Beneficial Owner (1)	**Number**		**Percent (%) (2) (3)**
Directors, Nominees and Named Executive Officers			
Bruce A. Campbell	469,661	(4)	1.5
C. Robert Campbell	--	(5)	*
Andrew C. Clarke	38,113	(6)	*
Richard W. Hanselman	21,750	(7)	*
C. John Langley, Jr.	13,550	(8)	*
Tracy A. Leinbach	--		*
G. Michael Lynch	2,750	(9)	*
Ray A. Mundy	66,997	(10)	*
B. Clyde Preslar	21,375	(7)	*
Rodney L. Bell	250,141	(11)	*
Craig A. Drum	81,943	(12)	*
Matthew J. Jewell	203,468	(13)	*
Chris C. Ruble	138,335	(14)	*
All directors and executive officers as a group (14 persons)	1,313,083	(15)	4.3
Other Principal Shareholders			
Wellington Management Company, LLP	4,132,407	(16)	13.5
Columbia Wanger Asset Management, L.P.	2,200,000	(17)	7.2
Federated Investors, Inc.	2,025,891	(18)	6.6
Kayne Anderson Rudnick Investment Management, LLC	1,867,503	(19)	6.1

* Less than one percent.

(1) The business address of each listed director, nominee and Named Executive Officer is c/o Forward Air Corporation, 430 Airport Road, Greeneville, Tennessee 37745.

(2) The percentages shown for directors, nominees and executive officers are based on 30,391,176 shares of common stock outstanding on the Record Date.

(3) The percentages shown for other principal shareholders are based on 30,498,931 shares of common stock outstanding on December 31, 2006.

(4) Includes 10,053 non-vested restricted shares and 424,459 options that are fully exercisable; however, 50,000 of such options are subject to certain exercise restrictions pursuant to an Option Restriction Agreement between Mr. Campbell and the Company.

(5) Excludes 2,250 deferred stock units and 18.74 dividend equivalent rights.

(6) Includes 36,988 shares held jointly by Mr. Clarke and his wife and 1,125 shares held by his wife as custodian for their minor children. Mr. Clarke resigned as Chief Financial Officer, Senior Vice President and Treasurer effective June 2, 2006.

(7) Includes 2,250 non-vested restricted shares and 18,750 options that are fully exercisable.
(8) Includes 2,250 non-vested restricted shares and 10,625 options that are fully exercisable.
(9) Includes 2,250 non-vested restricted shares.
(10) Includes 2,250 non-vested restricted shares and 63,750 options that are fully exercisable.
(11) Includes 8,666 non-vested restricted shares and 213,186 options that are fully exercisable; however, 63,750 of such options are subject to certain exercise restrictions pursuant to an Option Restriction Agreement between Mr. Bell and the Company.
(12) Includes 6,666 non-vested restricted shares and 71,250 options that are fully exercisable; however, 45,000 of such options are subject to certain exercise restrictions pursuant to an Option Restriction Agreement between Mr. Drum and the Company.
(13) Includes 7,333 non-vested restricted shares and 190,402 options that are fully exercisable; however, 63,750 of such options are subject to certain exercise restrictions pursuant to an Option Restriction Agreement between Mr. Jewell and the Company.
(14) Includes 7,000 non-vested restricted shares and 127,500 options that are fully exercisable; however, 63,750 of such options are subject to certain exercise restrictions pursuant to an Option Restriction Agreement between Mr. Ruble and the Company.
(15) Includes 55,134 non-vested restricted shares and 1,138,672 options that are fully exercisable; however, 286,250 of such options are subject to certain exercise restrictions pursuant to Option Restriction Agreements between the Named Executive Officers and the Company.
(16) Wellington Management Company, LLP ("Wellington"), 75 State Street, Boston, Massachusetts 02109, reported beneficial ownership of the shares as of December 31, 2006 in a Schedule 13G/A filed with the SEC. Wellington, an investment adviser, reported having shared voting power over 3,066,057 shares and dispositive power over 4,132,407 shares and no sole voting or dispositive over the shares.
(17) Columbia Wanger Asset Management, L.P. ("WAM") and Columbia Acorn Trust ("CAT"), 227 West Monroe Street, Suite 3000, Chicago, Illinois 60606, reported beneficial ownership of the shares as of December 31, 2006 in a Schedule 13G/A filed with the SEC. WAM, an investment adviser, and CAT, a Massachusetts business trust advised by WAM, reported having sole voting power over 2,050,000 shares, sole dispositive power over 2,200,000 shares, shared voting power over 150,000 shares and no shared dispositive power over the shares.
(18) Federated Investors, Inc. ("Federated"), Federated Investors Tower, Pittsburg, Pennsylvania 15222, reported beneficial ownership of the shares as of December 31, 2006 in a Schedule 13G/A filed with the SEC. All of Federated's shares were reported as being held in the Voting Shares Irrevocable Trust (the "Trust"), for which John F. Donahue, Rhodora J. Donahue and J. Christopher Donahue act as trustees (collectively, the "Trustees"). Federated, a parent holding company, and the Trust were reported to have sole voting and dispositive power over the shares and no shared voting or dispositive power over the shares. Each of the Trustees was reported to have shared voting and dispositive power over the shares and no sole voting or dispositive power over the shares. Each of Federated, the Trust and the Trustees declared that this information should not be construed as an admission that they were the beneficial owners of the shares and expressly disclaimed beneficial ownership of the shares.
(19) Kayne Anderson Rudnick Investment Management, LLC ("Kayne Anderson"), 1800 Avenue of the Stars, Second Floor, Los Angeles, California 90067, reported beneficial ownership of the shares as of December 31, 2006 in a Schedule 13G/A filed with the SEC. Kayne Anderson, an investment adviser, reported having sole voting and dispositive power over the shares and no shared voting or dispositive power over the shares.

EXECUTIVE COMPENSATION

Compensation Discussion And Analysis

Overview of Compensation Program

The Compensation Committee (for purposes of this analysis, the "Committee") of the Board is comprised of three independent, non-employee directors. The Committee has the responsibility for establishing and monitoring adherence to the Company's executive compensation philosophy and implementing compensation programs consistent with such philosophy. The Committee reviews and approves the Company's goals and objectives relevant to the compensation of the Chief Executive Officer ("CEO") and the other Named Executive Officers (each of whom is identified in the Summary Compensation Table on page 20 of this Proxy Statement). The Committee then evaluates the performance of the Named Executive Officers in light of these established goals and objectives to determine the compensation of the Named Executive Officers, including base pay, annual incentive pay, long-term equity incentive pay and any other benefits and/or perquisites.

Compensation Philosophy and Objectives

The Committee believes that the most effective executive compensation program is one that is designed to attract, develop, reward and retain quality management talent in order to facilitate the Company's achievement of its annual, long-term and strategic goals. The Committee believes that such a philosophy will properly align our executives' interests with our shareholders' interests by creating a pay-for-performance culture at the executive level, with the ultimate objective of increasing shareholder value. It is the Committee's philosophy that executive compensation should recognize the contributions of individual executives to the Company's goals and objectives, and should be competitive with compensation provided by both the Company's functional industry peers as well as financial peers. The Committee believes that while executive compensation should be directly linked to performance, it should also be an incentive for executives to continually improve performance.

In order to meet its goals of attracting, developing, rewarding and retaining superior executive management, the Committee utilizes a compensation package that considers the compensation of similarly situated executives at peer organizations, the length of tenure of the executive, and value of the executive to the organization. Additionally, the Committee utilizes annual cash incentives tied directly to the Company's performance measured against established goals. Finally, the Committee awards long-term compensation to its executives to recognize and reward past performance of the Company measured against established goals, to encourage retention of its executive management team, to encourage the Company's executives to hold a long-term stake in the Company and to align the executives' long-term compensation directly with the shareholder's long-term value.

Employment Agreement with Bruce A. Campbell

There is an Employment Agreement between Bruce A. Campbell and the Company, which was effective January 24, 2006, and is for a term ending on the day before the annual meeting of shareholders in 2008. The term automatically extends for one additional year unless otherwise terminated by the Board of Directors or Mr. Campbell upon notice. Under the Employment Agreement, Mr. Campbell will receive an annual base salary of no less than $400,000. In addition, Mr. Campbell is eligible to receive long-term equity incentive awards under the Company's 1999 Stock Option and Incentive Plan (the "1999 Plan"), or such other plans that the Company may adopt. Mr. Campbell will be eligible to receive an annual year-end cash bonus dependent upon the achievement of performance objectives by Mr. Campbell and the Company as established by the Compensation Committee. The Employment Agreement provides that Mr. Campbell will be entitled to the same fringe benefits as are generally available to the Company's executive officers.

Under the Employment Agreement, the Company may terminate Mr. Campbell at any time with or without "just cause," as defined in the Employment Agreement. If the Company should terminate Mr. Campbell without just cause, he would be entitled to receive (i) his base salary for the longer of one year from the date of termination or the remainder of the then-pending term of the Employment Agreement; (ii) any unpaid bonus amounts previously earned; and (iii) continued insurance coverage for one year from the date of such termination. Mr. Campbell would not be entitled to any unearned salary, bonus or other benefits if the Company were to terminate him for just cause.

Mr. Campbell also may terminate the Employment Agreement at any time; however, he would not be entitled to any unearned salary, bonus or other benefits if he does so absent circumstances resulting from a "change of control" or "material change in duties," each as defined in the Employment Agreement. In the event of a change of control or material change in duties, Mr. Campbell would have two options. Mr. Campbell may resign and receive (i) his base salary for twelve months following the date of the change of control or material change in duties; (ii) a cash bonus equal to the prior year's year-end cash bonus, plus any unpaid bonus amounts previously earned; (iii) any other payments due, including, among others, accrued and unpaid vacation pay; (iv) immediate acceleration of any stock options which are not then exercisable; and (v) continued insurance coverage for one year following the date of the change of control or material change in duties. Alternatively, Mr. Campbell could continue to serve as President and CEO of the Company for the duration of the term of the Employment Agreement or until he or the Company terminates it. The Employment Agreement also contains non-competition, non-solicitation and non-disclosure provisions following termination.

The Company does not have employment agreements with any other of its Named Executive Officers.

Role of Executive Officers in Compensation Decisions

The Committee makes all compensation decisions related to the CEO subject to and consistent with the terms of the employment agreement between the Company and the CEO. The CEO makes recommendations regarding base salary, annual incentive pay and long-term equity incentive awards for the other Named Executive Officers and provides the Committee with justification for such awards. Specifically, the CEO will review the performance of each of the other Named Executive Officers for the Committee and then make compensation recommendations. While the Committee gives great weight to the recommendations of the CEO, it has full discretion and authority to make the final decision on the salaries, annual incentive awards and long-term equity incentive awards as to all of the Named Executive Officers.

Setting Executive Compensation

Based on the foregoing objectives, the Committee has structured the Company's annual and long-term incentive-based cash and non-cash executive compensation to motivate executives to achieve the business goals set by the Company and to reward the executives for achieving such goals. In furtherance of this goal, in 2005, the Committee engaged Ernst & Young LLP's Human Capital Group, an outside global human resources consulting firm, to conduct a review of its total compensation program for the CEO, Chief Financial Officer and other key executives. The Human Capital Group provided the Committee with relevant market data and alternatives to consider when making compensation decisions for the Named Executive Officers.

In making compensation decisions, the Committee compares each element of total compensation against a group of publicly-traded functional industry peers and a group of financial peers (collectively, the "Peer Group"). The functional industry peers consist of a variety of publicly-traded transportation and logistics companies, which while having a median revenue size larger than the Company, most accurately resemble the Company in model and performance in the transportation sector. The financial peers consist of a variety of publicly-traded companies that have similar financial traits as the Company in such areas as, but not limited to, net sales, EBITDA and ROE. The financial peers are not direct competitors but they serve as good comparisons because of their financial size and performance. Since the completion of this study, the Committee has updated the Peer Group compensation data by reviewing publicly-available information relating to the Peer Group's compensation practices.

The Peer Group for the fiscal year ended December 31, 2006 consisted of the following companies:

- EGL, Inc.
- Heartland Express, Inc.
- Knight Transportation, Inc.
- Old Dominion Freight Line, Inc.
- UTi Worldwide, Inc.
- Cedar Fair, LP
- Commonwealth Telephone Enterprises, Inc.
- Franklin Electric Co., Inc.
- Expeditors International of Washington, Inc.
- Hub Group, Inc.
- Landstar System, Inc.
- Pacer International, Inc.
- ACE Cash Express, Inc.
- Celadon Group, Inc.
- Ennis, Inc.
- ESCO Technologies, Inc.
- Hydril Company.

The Committee establishes base salaries for the Named Executive Officers at approximately the 50th percentile of executive pay for executives holding similar positions in the Peer Group. Variations to this objective may occur as dictated by the experience level of the individual, the value of the individual executive to the Company, as well as market and other factors.

Annual incentive payments to the Named Executive Officers are tied to annual financial goals which include payments of up to 50% of the executive's base pay for reaching a pre-established annual "target" performance goal and up to 100% of the executive's base pay for reaching a pre-established annual "stretch" performance goal. The Committee has discretion as to the amount of the incentive awards to the Company's executives for results that fall below the "target" performance goal, between the "target" and "stretch" goals or which exceed the "stretch" goal.

2006 Executive Compensation Components

For the fiscal year ended December 31, 2006, the principal components of compensation for Named Executive Officers were:

- base salary;
- performance-based incentive compensation;
- long-term equity incentive compensation;
- retirement and other benefits (available to all employees); and
- perquisites and other personal benefits.

Base Salary

The Company provides its Named Executive Officers and other employees with base salaries to compensate them for services rendered during the fiscal year. Base salary ranges for the Named Executive Officers are determined for each executive based on his position and responsibility and by reference to the Peer Group data. The Committee uses the median, or 50th percentile, Peer Group base salary for similarly situated executives as one of the factors in considering an executive's base salary. Additionally, the Committee conducts an internal review of each executive's compensation, both individually and compared to other Named Executive Officers, including factors such as level of experience and qualifications of the individual, scope of responsibilities and future potential, goals and objectives established for the executive as well as the executive's past performance. Review and adjustments to the base salaries for the Named Executive Officers and other executives at the Company are made on an annual basis as part of the Company's overall performance review process (or upon a promotion or change in the executive's duties). The base salaries for the Named Executive Officers for the fiscal year ended December 31, 2006 are set forth in the "Salary" column of the Summary Compensation Table on page 20 of this Proxy Statement.

Performance-Based Incentive Compensation

Annual Cash Incentive. The Committee adopts an incentive performance plan every year upon which the executives' performance and incentive pay will be based. In reviewing these plans, the Committee tries to ensure that the plan will promote high performance and achievement, encourage growth in shareholder value, and promote and encourage retention of the Company's executive talent. The plan adopted by the Committee for the fiscal year ended December 31, 2006 set "target" and "stretch" operating income goals for the annual cash incentive award. The Committee set the annual cash incentive amount at 50% of the executive's base pay for reaching the "target" performance goal and up to 100% of the executive's base pay for reaching the "stretch" performance goal. The Committee had discretion as to the amount, if any, of any annual incentive awards to the Company's executives for results that fell below the "target" performance goal, between the "target" and "stretch" goals or which exceeded the "stretch" goal. The Committee met in February of this year to determine whether the Company's prior-year performance merited payment to the executives under the annual incentive plan and, if so, to determine the amount of such incentive award. The annual incentive awards made to the Named Executive Officers for the Company's performance for the fiscal year ended December 31, 2006 are set forth in the "Bonus" column of the Summary Compensation Table on page 20 of this Proxy Statement.

Long-Term Equity Incentive Awards

The Named Executive Officers receive incentive awards under the Company's 1999 Plan. The Committee is charged with administration of the 1999 Plan and has the sole authority to make awards under the 1999 Plan. The Committee has the discretion to award stock options, non-vested restricted shares of common stock, stock appreciation rights and other forms of long-term equity incentives under the 1999 Plan. Annual long-term equity incentive awards to executives are made at the Committee's regularly scheduled meeting in February. Additionally, newly hired or promoted executives may receive their stock option or non-vested restricted share awards on or soon after their date of hire or promotion.

In making individual awards under the 1999 Plan, the Committee considers a number of factors including the Company's past financial performance, individual performance of each executive, the retention goal of such a long-term equity incentive award, the grant date value of any proposed award, the other compensation components for the executive, equity plan compensation dilution, the executive's stock ownership and option holdings and long-term equity incentive awards to executives holding similar positions within the Peer Group.

During 2006, the Committee awarded non-vested restricted shares to the Named Executive Officers. The awards have a vesting period of three years and vest equally over that three-year period. Under the 1999 Plan, the recipients of these non-vested restricted shares are entitled to vote the shares and receive dividends on the shares; however, the shares shall not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of until they vest pursuant to the terms of the 1999 Plan. Other than the vesting schedule established by the restricted share awards, such shares will vest upon the death or disability of the recipient, as well as a "Change in Control," as such term is defined in the 1999 Plan.

Awards made to the Named Executive Officers under the 1999 Plan for the fiscal year ended December 31, 2006 are set forth in the Grants of Plan-Based Awards for Fiscal 2006 Table on page 22 of this Proxy Statement.

Stock Ownership Guidelines

Although the Company encourages ownership of Company common stock by the Named Executive Officers, no written required ownership guidelines have been established.

Retirement and Other Benefits

All full-time Company employees are entitled to participate in the Company's 401(k) retirement plan. Under the Company's 401(k) retirement plan, the Company will match 25% of an employee's contribution up to 6% of the employee's salary, subject to the rules and regulations on maximum contributions by individuals under such a plan. Matching contributions to the Named Executive Officers for the fiscal year ended December 31, 2006 are reflected in the "401(k) Match" column of the All Other Compensation Table on page 21 of this Proxy Statement.

Additionally, all full-time employees of the Company are eligible after one year of continuous service to the Company to participate in the Company's 2005 Employee Stock Purchase Plan (the "2005 ESPP"). Under the terms of the 2005 ESPP, eligible employees of the Company can purchase Company common stock through payroll deduction and lump sum contributions at a discounted price. The purchase price for such shares of common stock for each Option Period, as described in the 2005 ESPP, will be the lower of: (a) 90% of the closing market price on the first trading day of an Option Period (there are two Option Periods each year—January 1 to June 30 and July 1 to December 31) or; (b) 90% of the closing market price on the last trading day of the Option Period. Under the 2005 ESPP, no Company employee shall purchase more than 2,000 shares of Company common stock per Option Period or shares of common stock having a market value of more that $25,000 per calendar year, as calculated under the 2005 ESPP.

Other than as described above, the Company does not have or provide any supplemental executive retirement plan, or similar plan that provides for specified retirement payments or benefits. Moreover, the Company does not have or provide any defined contribution or other plan that provides for the deferral of compensation on a basis that is not tax-qualified.

Potential Payments upon Termination or Change in Control

Under the 1999 Plan, any non-vested restricted shares, options or other forms of equity-based compensation will vest upon a "Change in Control," as such term is defined in the 1999 Plan. The market value of all non-vested restricted shares held by the Named Executive Officers as of December 31, 2006, which would vest upon a Change in Control are set forth in the "Market Value of Shares of Stock That Have

Not Vested" column of the Outstanding Equity Awards at Fiscal Year-End Table on page 23 of this Proxy Statement.

Perquisites and Other Personal Benefits

The Company provides its Named Executive Officers with perquisites and other personal benefits that the Company and the Committee believe are reasonable and consistent with its overall compensation program to better enable the Company to attract and retain superior employees for key positions. The Committee periodically reviews the levels of perquisites and other personal benefits provided to the Named Executive Officers. The Named Executive Officers are provided a monthly car allowance and reimbursement of certain commuting expenses. The amounts of such benefits received by each Named Executive Officer for the fiscal year ended December 31, 2006 are set forth in the "Car Allowance and Commuting Expenses" column of the All Other Compensation Table on page 21 of this Proxy Statement.

Additionally, the Named Executive Officers are eligible to participate in the Company's health, dental, disability and other insurance plans on the same terms and at the same cost as such plans are available to all of the Company's full-time employees.

Tax and Accounting Implications

Deductibility of Executive Compensation. As part of its role, the Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), which provides that the Company may not deduct compensation of more than $1,000,000 that is paid to certain individuals. The Company believes that compensation paid under the management incentive plans is generally fully deductible for federal income tax purposes. However, in certain situations, the Committee may approve compensation that will not meet these requirements in order to ensure competitive levels of total compensation for its executive officers. In this regard, for fiscal 2006, any amount of base salary in excess of $1,000,000 for any Named Executive Officer would not be deductible for federal income tax purposes.

Compensation Committee Report on Executive Compensation

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included on page 14 of this Proxy Statement.

Submitted by:

C. John Langley, Jr., Chairman
C. Robert Campbell
B. Clyde Preslar

The Compensation Committee of the Board of Directors

Summary Compensation Table

The following table shows the compensation earned in 2006 by the Named Executive Officers as of December 31, 2006.

Name and Principal Positions	Year	Salary ($)	Bonus ($) (1)	Stock Awards ($) (2)	All Other Compensation ($) (3)	Total ($)
Bruce A. Campbell Chief Executive Officer and President	2006	$393,132	$200,000	$166,571	$18,793	$778,496
Rodney L. Bell (4) Chief Financial Officer, Senior Vice President and Treasurer	2006	223,246	120,000	125,615	18,883	487,744
Matthew J. Jewell Senior Vice President, General Counsel and Secretary	2006	231,465	120,000	121,504	21,110	494,079
Chris C. Ruble Senior Vice President, Operations	2006	218,191	112,500	115,981	19,732	466,404
Craig A. Drum Senior Vice President, Sales	2006	204,917	105,000	110,458	20,000	440,375
Andrew C. Clarke (4) Chief Financial Officer, Senior Vice President and Treasurer	2006	110,435	--	--	60,967	171,402

(1) Represents the Company meeting its 2006 "target" goal for operating income. Under the 2006 annual cash incentive plan, each Named Executive Officer was paid a cash incentive equal to 50% of his respective base salary as of December 31, 2006.

(2) Represents the proportionate amount of the total fair value of awards of non-vested restricted shares of common stock recognized by the Company as an expense in 2006 for financial accounting purposes, disregarding for this purpose the estimate of forfeitures related to service-based vesting conditions. The fair values of these awards and the amounts expensed in 2006 were determined in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payments*, disregarding adjustments for forfeiture assumptions. The awards for which expense is shown in this table include the awards described in the Grants of Plan-Based Awards for Fiscal 2006 Table on page 22 of this Proxy Statement. The assumptions used in determining the grant date fair values of these awards are set forth in the notes to the Company's consolidated financial statements, which are included in our Annual Report on Form 10-K for the year ended December 31, 2006 filed with the SEC. Pursuant to the terms of the Company's 1999 Plan, upon his resignation Mr. Clarke forfeited 12,000 non-vested restricted shares granted to him during 2006. The forfeited non-vested restricted shares had a grant date fair value of $433,800, which is not included in this column.

(3) See the All Other Compensation Table on page 21 of this Proxy Statement for additional information.

(4) Rodney L. Bell was promoted to Chief Financial Officer, Senior Vice President and Treasurer effective June 2, 2006. Previously, Mr. Bell served as Chief Accounting Officer, Vice President, and Controller. Also, effective June 2, 2006, Andrew C. Clarke resigned as Chief Financial Officer, Senior Vice President and Treasurer.

All Other Compensation Table

The following table shows the components of "all other compensation" earned in 2006 by the Named Executive Officers as of December 31, 2006.

Name and Principal Positions	Total All Other ($)	Payroll Taxes ($) (1)	Car Allowance and Commuting Expenses ($) (2)	Dividends (3)	401(k) Match ($) (4)	Long-Term Disability Insurance ($) (5)
Bruce A. Campbell Chief Executive Officer and President	$18,793	$ --	$11,194	$4,222	$2,743	$634
Rodney L. Bell (6) Chief Financial Officer, Senior Vice President and Treasurer	18,883	2,616	10,510	3,080	2,043	634
Matthew J. Jewell Senior Vice President, General Counsel and Secretary	21,110	3,876	9,739	3,080	3,781	634
Chris C. Ruble Senior Vice President, Operations	19,732	5,089	9,000	2,940	2,069	634
Craig A. Drum Senior Vice President, Sales	20,000	5,302	9,000	2,800	2,264	634
Andrew C. Clarke (6) Chief Financial Officer, Senior Vice President and Treasurer	60,967	51,667	5,496	1,680	1,807	317

(1) This column reports payment by the Company on behalf of the Named Executive Officers for payroll taxes incurred in conjunction with the exercise of nonqualified stock options.
(2) The Company provides a $9,000 annual car allowance plus reimbursement of certain commuting expenses to officers.
(3) Represents dividend payments on non-vested restricted shares granted during 2006. These dividend payments are nonforfeitable.
(4) The amount shown represents the Company's contributions to the 401(k) Plan.
(5) Represents premiums paid by the Company for long-term disability insurance for officers of the Company.
(6) Rodney L. Bell was promoted to Chief Financial Officer, Senior Vice President and Treasurer effective June 2, 2006. Previously, Mr. Bell served as Chief Accounting Officer, Vice President, and Controller. Also, effective June 2, 2006, Andrew C. Clarke resigned as Chief Financial Officer, Senior Vice President and Treasurer.

Grants of Plan-Based Awards for Fiscal 2006

The following table shows the plan-based awards granted to the Named Executive Officers in 2006.

Name	Grant Date	All Other Stock Awards; Numbers of Shares of Stock or Units (1) (2)	Grant Date Fair Value of Stock and Option Awards
Bruce A. Campbell	02/12/2006	15,080	$545,142
Rodney L. Bell (3)	02/12/2006	10,000	361,500
	06/02/2006	2,000	77,960
Matthew J. Jewell	02/12/2006	11,000	397,650
Chris C. Ruble	02/12/2006	10,500	379,575
Craig A. Drum	02/12/2006	10,000	361,500
Andrew C. Clarke (3)	02/12/2006	12,000	433,800

(1) Represents non-vested restricted shares granted under the 1999 Plan.
(2) Each grant vests equally over a three-year period commencing on the one year anniversary of the grant date.
(3) Rodney L. Bell was promoted to Chief Financial Officer, Senior Vice President and Treasurer effective June 2, 2006. Previously, Mr. Bell served as Chief Accounting Officer, Vice President, and Controller. Also, effective June 2, 2006, Andrew C. Clarke resigned as Chief Financial Officer, Senior Vice President and Treasurer. Pursuant to the terms of the 1999 Plan, upon his resignation Mr. Clarke forfeited the 12,000 non-vested restricted shares granted to him during 2006.

Outstanding Equity Awards at Fiscal Year-End

The following table shows information about outstanding equity awards at December 31, 2006.

Name and Principal Positions	Option Awards			Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable (1)	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares of Stock That Have Not Vested (#) (2)**	**Market Value of Shares of Stock That Have Not Vested ($) (3)**
Bruce A. Campbell	57,005	$ 4.17	01/01/2009		
Chief Executive Officer	172,453	13.25	02/07/2013		
and President	45,001	20.21	10/27/2013		
	150,000	28.97	02/14/2015		
				15,080	$436,264
Rodney L. Bell (4)	70,686	23.17	02/03/2010		
Chief Financial Officer,	30,000	18.82	02/04/2014		
Senior Vice President and	112,500	28.97	02/14/2015		
Treasurer				10,000	289,300
				2,000	57,860
Matthew J. Jewell	37,500	21.88	07/01/2012		
Senior Vice President,	10,402	13.25	02/07/2013		
General Counsel and	30,000	18.82	02/04/2014		
Secretary	112,500	28.97	02/04/2015		
				11,000	318,230
Chris C. Ruble	15,000	18.82	02/04/2014		
Senior Vice President,	112,500	28.97	02/14/2015		
Operations				10,500	303,765
Craig A. Drum	15,000	18.82	02/04/2014		
Senior Vice President,	56,250	28.97	02/14/2015		
Sales				10,000	289,300
Andrew C. Clarke (4)	--	--	--	--	--
Chief Financial Officer,					
Senior Vice President and					
Treasurer					

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(1) Effective December 31, 2005, all outstanding stock options were fully exercisable as the result of the Company's Board of Directors accelerating the vesting of all outstanding stock options awarded to employees, officers and non-employee directors under the Company's stock option award plans. However, portions of these options are subject to certain exercise restrictions pursuant to Option Restriction Agreements between the Company and the Named Executive Officers. The Option Restriction Agreements primarily prevent the Named Executive Officers during their employment with the Company from exercising the underlying options until the original exercisable date prior to the vesting acceleration by the Board of Directors. These restrictions lapse upon termination of the officers' employment. The following table sets forth the scheduled lapsing of the option exercise restrictions.

Date Restriction Lapses	Mr. Campbell Amounts Lapsing (#)	Mr. Bell Amounts Lapsing (#)	Mr. Jewell Amounts Lapsing (#)	Mr. Ruble Amounts Lapsing (#)	Mr. Drum Amounts Lapsing (#)
02/04/2007	--	7,500	7,500	7,500	7,500
02/14/2007	50,000	28,125	28,125	28,125	18,750
02/04/2008	--	7,500	7,500	7,500	7,500
02/14/2008	50,000	28,125	28,125	28,125	18,750
02/14/2009	--	28,125	28,125	28,125	18,750

(2) Each grant vests equally over a three-year period commencing on the one year anniversary of the grant date.
(3) The market value is based on the closing price of the Company's common stock on Nasdaq on December 29, 2006, which was $28.93.
(4) Rodney L. Bell was promoted to Chief Financial Officer, Senior Vice President and Treasurer effective June 2, 2006. Previously, Mr. Bell served as Chief Accounting Officer, Vice President, and Controller. Also, effective June 2, 2006, Andrew C. Clarke resigned as Chief Financial Officer, Senior Vice President and Treasurer.

Option Exercises and Stock Vested

The following table shows information about option exercises during 2006.

	Option Awards	
Name	Number of Shares Acquired on Exercise (#)	Valued Realized Upon Exercise ($) (1)
Bruce A. Campbell	7,547	$ 196,901
Rodney L. Bell (2)	7,500	180,413
	4,316	73,164
Matthew J. Jewell	10,000	267,500
Chris C. Ruble	20,000	418,700
	7,500	155,850
Craig A. Drum	26,250	365,663
Andrew C. Clarke (2)	15,000	342,900
	17,266	246,250
	258,984	3,220,365

(1) The value realized upon exercise is based on the current market price at the time of exercise less the option exercise price.
(2) Rodney L. Bell was promoted to Chief Financial Officer, Senior Vice President and Treasurer effective June 2, 2006. Previously, Mr. Bell served as Chief Accounting Officer, Vice President, and Controller. Also, effective June 2, 2006, Andrew C. Clarke resigned as Chief Financial Officer, Senior Vice President and Treasurer.

Audit Committee Report

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls. In fulfilling its oversight responsibilities, the Audit Committee reviewed the audited financial statements in the 2006 Annual Report with management and the Company's independent registered public accounting firm, Ernst & Young LLP, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements. The Committee's function is more fully described in its charter, which is attached as Appendix A to this Proxy Statement. The Committee reviews the charter on an annual basis. The Board annually reviews the definition of independence under Nasdaq's listing standards for audit committee members and has determined that each member of the Committee meets that standard.

Management is responsible for the preparation, presentation and integrity of the Company's financial statements, accounting and financial reporting principles, internal controls and procedures designed to ensure compliance with accounting standards, and applicable laws and regulations. Ernst & Young LLP is responsible for performing an independent audit and reporting on the consolidated financial statements of the Company and its subsidiaries, management's assessment of the effectiveness of the Company's internal controls over financial reporting, and the effectiveness of the Company's internal controls over financial reporting.

The Audit Committee has been updated quarterly on management's process to assess the adequacy of the Company's system of internal controls over financial reporting, the framework used to make the assessment, and management's conclusions on the effectiveness of the Company's internal controls over financial reporting. The Audit Committee has also discussed with representatives of Ernst & Young LLP the Company's internal control assessment process, management's assessment with respect thereto and the firm's audit of the Company's system of internal controls over financial reporting.

The Committee has reviewed and discussed the audited financial statements of the Company for the fiscal year ended December 31, 2006 with the Company's management and has discussed with Ernst & Young LLP the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board ("PCAOB") in Rule 3200T. In addition, Ernst & Young LLP has provided, and the Audit Committee has received, written disclosures and the letter required by Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees," as adopted by the PCAOB in Rule 3200T.

In performing all of these functions, the Audit Committee acts in an oversight capacity. The Audit Committee reviews the Company's quarterly reports on Form 10-Q and annual reports Form 10-K prior to filing with the SEC. In its oversight role the Audit Committee relies on the work and assurances of the Company's management, which has the primary responsibility for establishing and maintaining adequate internal controls over financial reporting and for preparing the financial statements, and other reports, and of the independent registered public accountants, who are engaged to audit and report on the consolidated financial statements of the Company and its subsidiaries, management's assessment of the effectiveness of the Company's internal controls over financial reporting, and the effectiveness of the Company's internal controls over financial reporting.

Based on these reviews and discussions, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 for filing with the SEC.

In addition, the Audit Committee has discussed with Ernst & Young LLP their independence from management and the Company and considered the compatibility of non-audit services with Ernst & Young LLP's independence.

B. Clyde Preslar, Chairman
C. Robert Campbell
G. Michael Lynch

Independent Registered Public Accounting Firm

The Audit Committee has appointed Ernst & Young LLP to serve as the Company's independent registered public accounting firm for 2007, subject to ratification of the appointment by the shareholders of the Company. The fees billed by Ernst & Young LLP for services rendered to the Company and its subsidiaries in 2006 and 2005 were as follows:

	2006	**2005**
Audit Fees (1)	$668,216	$711,093
Audit-Related Fees (2)	59,502	60,000
Tax Fees (2)	167,119	199,742
All Other Fees (2)	2,500	66,148

(1) Includes fees and expenses related to the audit and interim reviews of the Company's financial statements, the audit of management's assessment of the effectiveness of the Company's internal controls over financial reporting, and the effectiveness of the Company's internal controls over financial reporting for the fiscal year notwithstanding when the fees and expenses were billed or when the services were rendered.

(2) Includes fees and expenses for services rendered from January through December of the fiscal year notwithstanding when the fees and expenses were billed.

Pre-Approval Policies and Procedures

The Audit Committee has adopted a policy that requires advance approval of all audit, audit-related, tax services and other services performed by the independent registered public accounting firm. The policy provides for pre-approval by the Audit Committee of specifically defined audit and non-audit services. The Audit Committee must approve the permitted service before the independent registered public accounting firm is engaged to perform it. During 2006 and as of the date of this Proxy Statement, the Audit Committee pre-approved all of these services.

PROPOSAL 2 – RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed Ernst & Young LLP to serve as the Company's independent registered public accounting firm for 2007. As in the past, the Board has determined that it would be desirable to request ratification of the appointment by the shareholders of the Company. If the shareholders do not ratify the appointment of Ernst & Young LLP, the Audit Committee will reconsider the appointment of the independent registered public accounting firm.

A representative of Ernst & Young LLP is not expected to be present at the Annual Meeting, and thus, is not expected to make a statement or be available to respond to appropriate questions.

Shareholder Vote Requirement

This Proposal will be approved if the votes cast in favor of the Proposal exceed the votes cast against it. Unless otherwise directed therein, the proxies solicited hereby will be voted for approval of Ernst & Young LLP.

The Board of Directors recommends that shareholders vote FOR ratification of appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for 2007.

PROPOSAL 3 – APPROVAL OF THE AMENDED AND RESTATED NON-EMPLOYEE DIRECTOR STOCK PLAN

Last year, our shareholders approved the Company's adoption of the 2006 Non-Employee Director Stock Plan (the "2006 Director Stock Plan"), which provides for the annual grant of a fixed number of shares of restricted stock to our non-employee directors as part of their annual compensation. At this year's Annual Meeting, the Board of Directors asks shareholders to approve an amendment and restatement of the 2006 Director Stock Plan, to be known as the Forward Air Corporation Amended and Restated Non-Employee Director Stock Plan (the "2007 Director Stock Plan"). The Board of Directors recommends approval of the 2007 Director Stock Plan in order to provide the Company flexibility to grant different types of stock-based awards to the non-employee directors and flexibility to adjust the size of the grants to take into account such factors as the Company's performance and changes in the value of the Company's common stock.

Currently, under the 2006 Director Stock Plan, each non-employee director receives on the first business day following each Annual Meeting of Shareholders an automatic grant of 2,250 restricted shares of common stock that are subject to a three-year ratable vesting schedule. If the 2007 Director Stock Plan is approved, the Board of Directors will have discretion, in lieu of this fixed annual grant, to grant restricted or unrestricted shares or nonqualified stock options in such quantities and subject to such terms and conditions as the Board of Directors will determine from year to year.

The Company reserved 200,000 shares of its common stock for issuance under the 2006 Director Stock Plan which is projected to enable the Company to operate the plan for approximately eight to ten years. Since its inception, 11,250 shares of the Company's common stock and 2,250 deferred stock units have been awarded to our incumbent non-employee directors under the 2006 Director Stock Plan and 186,500 shares remain available for issuance. These remaining shares will be issuable under the 2007 Director Stock Plan if it is approved. We are not asking shareholders to approve any additional shares for issuance under the 2007 Director Stock Plan.

The following description of the principal features of the 2007 Director Stock Plan is qualified in its entirety by reference to the applicable provisions of the plan document. The full text of the 2007 Director Stock Plan is attached to this Proxy Statement as Appendix B.

If the Company's shareholders do not approve the 2007 Director Stock Plan, the Company will continue to operate the 2006 Director Stock Plan in its current form. Please write to the Secretary at the address on the cover of this Proxy Statement to request a copy of the 2006 Director Stock Plan. A copy of the 2006 Director Stock Plan was included as Appendix A to the Company's Proxy Statement filed with the SEC on April 24, 2006, and consequently is also available for viewing on the Internet at the SEC's website at www.sec.gov.

Summary of Material Provisions of the 2007 Director Stock Plan

Purpose: The 2007 Director Stock Plan is designed to better enable the Company to attract and retain well-qualified persons for service as directors of the Company. The plan provides directors with an opportunity to increase their ownership interest in the Company and thereby increase their personal interest in the Company's continued success.

Eligibility: All members of the Board of Directors who are not employees or officers of the Company will participate in the 2007 Director Stock Plan. As of April 19, 2007, seven directors are eligible to participate.

Shares Subject to the Plan: The 2007 Director Stock Plan authorizes the issuance of up to 200,000 shares of the common stock of the Company with respect to awards in the form of restricted or unrestricted shares and nonqualified stock options. The number of shares underlying awards granted under the 2006 Director Stock Plan since its inception count against this 200,000 share limit. If any of the awarded shares or options are forfeited or otherwise terminate unexercised, the corresponding shares will be restored to the 2007 Director Stock Plan and will be available for regrant. The number and kind of shares issuable under the 2007 Director Stock Plan, and with respect to outstanding and subsequent awards, will be adjusted to reflect any reorganization, recapitalization, stock split, reverse stock split, stock dividend, exchange or combination of shares, merger, consolidation, rights offering, or any change in capitalization of the Company. The common stock issued under the 2007 Director Stock Plan will come from authorized but unissued shares of common stock, treasury shares, purchases by the Company on the open market or from any other proper source.

Administration: The Company's Board of Directors is the plan administrator. As such, the Board of Directors has the power to construe the plan, to determine all questions arising under the plan and to adopt and amend rules and regulations for the administration of the plan. Such power includes the discretion to determine the form, size, timing and vesting of awards, and such discretion may be exercised with respect to future or then-outstanding awards and need not be exercised uniformly among all directors.

Grants of Awards: On the first business day after each Annual Meeting of the Shareholders, each non-employee director will automatically be granted an award in such form and quantity as the Board of Directors determines from year to year. Anyone who becomes an eligible director of the Company at a time other than the date of an Annual Meeting of Shareholders will receive, within 30 days of becoming an eligible director, a pro-rata grant reflecting the balance of the period remaining until the next Annual Meeting of Shareholders. Awards will be in the form of restricted or unrestricted shares or nonqualified stock options. The number of shares that will be allocated under awards to eligible directors in the future is not presently determinable.

Terms and Conditions of Restricted Shares: Each grant of restricted shares will be evidenced by an award agreement setting forth the terms and conditions of the award. All restricted share awards will be non-vested and forfeitable when granted. The restricted shares will become vested and nonforfeitable one year after grant, unless the Board of Directors determines otherwise. Until vested, the director may not sell, assign, pledge or otherwise dispose of the shares, but otherwise will have all incidents of ownership of such shares.

Unless the Board of Directors determines otherwise, the director will forfeit the non-vested shares upon ceasing to serve as a director for any reason other than death or disability. Non-vested restricted shares become fully vested if the director dies or becomes totally disabled. When the restricted shares become vested and nonforfeitable, the restrictions on transfer lapse. Even though a restricted share award may be non-vested at the time, the director will receive dividend payments on the restricted shares when dividends are paid to the Company's shareholders.

Terms and Conditions of Unrestricted Shares: Unrestricted shares are fully vested, nonforfeitable and freely transferable upon grant.

Terms and Conditions of Options: Each grant of options will be evidenced by an award agreement setting forth the terms and conditions of the award. Unless the Board of Directors determines otherwise, all options become exercisable one year after the grant date. Once an option becomes exercisable, it remains exercisable to the extent not exercised until its expiration date or earlier termination. The Board of Directors will determine the term of options, but in no event will options expire later than ten years after the grant date. If a director's service with the Company terminates due to death or disability, his or her outstanding options become fully exercisable and will remain exercisable for one year thereafter or, if earlier, until the expiration date. If a director's service with the Company terminates for any other reason, unless the Board of Directors determines otherwise, his or her options which are not then exercisable will be cancelled and the remaining options will remain exercisable for 90 days thereafter or, if earlier, until the expiration date. Options are exercisable only by the director during his or her lifetime and may not be transferred other than by will or the laws of descent and distribution unless the Board of Directors provides otherwise.

The exercise price per share of an option is 100% of the fair market value of a share of Company common stock as of the grant date. For this purpose, "fair market value" as of a given date means (i) the closing sale price for the shares of Company common stock on Nasdaq or any national exchange on which such shares are traded on such date (or if such market or exchange was not open for trading on such date or no shares of Company common stock traded on that date, the next preceding date on which it was open and the shares did trade); or (ii) if the Company stock is not listed on Nasdaq or on an established and recognized exchange, such value as the Board of Directors, in good faith, determines based on such relevant facts, which may include opinions of independent experts, as may be available to the Board of Directors.

Elective Deferral of Shares: Each director may elect to defer receipt of the shares under a restricted or unrestricted share award, but not an option award, until the director terminates service on the Board of Directors. Any such election must be made in accordance with applicable federal tax laws and is irrevocable once made. If a director elects to defer receipt of shares, the Company will create a bookkeeping reserve account to which it will credit a number of stock units under the director's name equal to the number of restricted or unrestricted shares that the director otherwise would have received on the respective grant date. Each stock unit represents the right to receive one share of common stock of the Company in the future when the director's service terminates, subject to the same vesting terms and conditions that apply to the restricted share awards, as applicable. The stock units do not represent actual ownership in shares and the director will not have voting rights or other incidents of ownership until the shares are issued. The Company will, however, credit dividend equivalent payments in the form of additional, vested stock units to the bookkeeping reserve account on each cash dividend payment date.

Change of Control Transactions. Upon a change of control of the Company, non-vested restricted shares become fully vested and nonforfeitable and unexercised options not then exercisable become fully exercisable. In addition, upon a change of control of the Company, all outstanding options not exercised prior to or upon the change of control will terminate at the effective time of such change of control unless provision is made in connection with the transaction for the continuation, assumption or settlement of such options by, or for the substitution of equivalent options of, the surviving or successor entity or a parent thereof. All stock units will be settled in shares of Company common stock or in cash at the discretion of the Board of Directors upon the change of control or as soon as practicable thereafter but in no event later than the close of the calendar year in which the change of control occurs.

A "change of control" means the happening of any of the following:

(i) the acquisition, other than from the Company, in one or more transactions by any person (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company), of the beneficial ownership of more than a majority of (A) the then-outstanding shares of the securities of the Company, or (B) the combined voting power of the then-outstanding securities of the Company entitled to vote generally in the election of directors (the "Company Voting Stock");

(ii) the closing of a sale or other conveyance of all or substantially all of the assets of the Company;

(iii) upon the effective time of any merger, share exchange, consolidation or other business combination involving the Company if immediately after such transaction persons who hold a majority of the outstanding voting securities entitled to vote generally in the election of directors of the surviving entity (or the entity owning 100% of such surviving entity) are not persons who, immediately prior to such transaction, held the Company Voting Stock; or

(iv) when, during any period of two consecutive years during the existence of the plan, the individuals who, at the beginning of such period, constitute the Board of Directors cease for any reason to constitute at least a majority of the members of the Board of Directors. Persons who were elected by or on the recommendation or approval of at least two-thirds of the members of the Board of Directors who were in office at the beginning of such period are deemed to have been in office during the two-year period for purposes of this provision.

Term of the Plan; Amendments: The 2007 Director Stock Plan will become effective on the day after the date of this year's Annual Meeting of Shareholders if it is approved by the shareholders and will supersede the terms of the 2006 Director Stock Plan. It will continue in effect indefinitely until all shares of common stock approved for issuance under the 2007 Director Stock Plan have been issued, unless the Board of Directors acts to terminate the plan sooner. The Board of Directors may amend, suspend or terminate the 2007 Director Stock Plan or any portion of it at any time as it determines appropriate, without further action by the Company's shareholders, except to the extent required by applicable law or by any stock exchanges upon which the common stock may be listed; provided, however, that no action of the Board of Directors to amend, suspend or terminate the plan may impair a director's rights with respect to any grant of an award previously made under the plan without the director's consent. The 2007 Director Stock Plan also may be amended by the Board of Directors at any time, retroactively if required in the opinion of the Company, in order to ensure that the plan complies with the requirements of Section 409A of the Code.

U.S. Federal Income Tax Consequences

The following discussion of the U.S. federal income tax consequences relating to the 2007 Director Stock Plan is based on present U.S. federal tax laws and regulations. This is not a complete description of the U.S. federal tax laws. A non-employee director may be subject to certain U.S. state and local taxes and non-U.S. taxes, which are not described below.

Options: A non-employee director recognizes no income when the options are granted. Upon exercising the options, the non-employee director recognizes compensation income equal to the excess of the fair market value of the underlying shares on that date over the exercise price. Upon the sale of the stock, the non-employee director recognizes capital gain or loss equal to the difference between the sale proceeds and the fair market value of the stock on the exercise date. The capital gain or loss is long-term if the stock was held for more than one year; otherwise it is short-term. The Company generally may deduct the compensation recognized by the non-employee director.

Restricted Shares: A non-employee director generally recognizes no income when the restricted shares are granted. However, the non-employee director may elect to recognize income equal to the fair market value of the underlying shares on the grant date. When the restricted shares vest, a non-employee director who did not recognize income on the grant date recognizes compensation equal to the fair market value of the underlying shares on that vesting date. Alternatively, a non-employee director who elected to recognize income on the grant date does not recognize, on the vesting date, the gain in or loss of value of the underlying shares. Such gain or loss will be recognized when the restricted shares are transferred. The Company generally may deduct an amount equal to the income recognized by the non-employee director on the grant date or the vesting date, as applicable.

Unrestricted Shares: A non-employee director recognizes income when the unrestricted shares are granted. The Company generally may deduct an amount equal to the income recognized by the non-employee director.

Stock Units: A non-employee director recognizes no income when the stock units are granted. When the stock units are settled, the non-employee director will recognize income for the year of the settlement equal to the fair market value of the shares received. Upon selling those shares, the non-employee director recognizes capital gain or loss equal to the sale price less the fair market value of the shares on the settlement date. The Company generally may deduct an amount equal to the income recognized by the non-employee director on the settlement date. The grant of stock units under the Plan is intended to comply with Section 409A of the Code. If any of the Plan terms subjects a non-employee director to gross income inclusion, interest, or additional tax under Section 409A of the Code, those terms are inapplicable.

Shareholder Vote Requirement

This Proposal will be approved if the votes cast in favor of the Proposal exceed the votes cast against it. Unless otherwise directed therein, the proxies solicited hereby will be voted for approval of the Amended and Restated Non-Employee Director Stock Plan.

The Board of Directors recommends that shareholders vote FOR approval of the Amended and Restated Non-Employee Director Stock Plan.

Other Matters

The Board of Directors knows of no other matters that may come before the meeting; however, if any other matters should properly come before the meeting or any adjournment thereof, it is the intention of the persons named in the proxy to vote the proxy in accordance with their best judgment.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the disclosure requirements of Item 405 of Regulation S-K require the directors and executive officers of the Company, and any persons holding more than 10% of any class of equity securities of the Company, to report their ownership of such equity securities and any subsequent changes in that ownership to the SEC, Nasdaq and the Company. Based solely on a review of the reports that have been filed by or on behalf of such persons in this regard and written representations from our directors and executive officers that no other reports were required, during and for the fiscal year ended December 31, 2006, all Section 16(a) filing requirements applicable to the Company's directors, executive officers and greater than 10% shareholders were complied with, except that the accrual of dividend equivalent rights on previously granted restricted stock units was not timely reported on one Form 4 by C. Robert Campbell.

Deadline for Submission to Shareholders of Proposals to be Presented at the 2008 Annual Meeting of Shareholders

Any proposal intended to be presented for action at the 2008 Annual Meeting of Shareholders by any shareholder of the Company must be received by the Secretary of the Company at its principal executive offices not later than December 21, 2007 in order for such proposal to be considered for inclusion in the Company's proxy statement and form of proxy relating to its 2008 Annual Meeting of Shareholders. Nothing in this paragraph shall be deemed to require the Company to include any shareholder proposal which does not meet all the requirements for such inclusion established by Rule 14a-8 of the Exchange Act.

For other shareholder proposals to be timely (but not considered for inclusion in the proxy statement for the 2008 Annual Meeting of Shareholders), a shareholder's notice must be received by the Secretary of the Company not later than March 5, 2008 and the proposal and the shareholder must comply with Rule 14a-4 under the Exchange Act. In the event that a shareholder proposal intended to be presented for action at the next Annual Meeting is not received prior to March 5, 2008, proxies solicited by the Board of Directors in connection with the Annual Meeting will be permitted to use their discretionary voting authority with respect to the proposal, whether or not the proposal is discussed in the proxy statement for the Annual Meeting.

Householding of Annual Meeting Materials

Some banks, brokers and other nominee record holders may be participating in the practice of "householding" proxy statements and annual reports. This means that only one copy of this Notice of 2007 Annual Meeting of Shareholders, Proxy Statement and 2006 Annual Report may have been sent to multiple shareholders in your household. We will promptly deliver a separate copy of each document to you if you write the Company's Secretary at Forward Air Corporation, 430 Airport Road, Greeneville, Tennessee 37745, or call (423) 636-7000. If you want to receive separate copies of the Notice of Annual Meeting of Shareholders, Proxy Statement and Annual Report in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank, broker or other nominee record holder, or, if the shares are not held in "street name," you may contact the Company at the above address and phone number.

Miscellaneous

It is important that proxies be returned promptly to avoid unnecessary expense. Therefore, shareholders who do not expect to attend the Annual Meeting in person are urged, regardless of the number of shares of common stock owned, to please vote and submit your proxy over the Internet, by telephone or by completing, signing, dating and returning the enclosed proxy in the envelope provided as promptly as possible. If you attend the meeting and desire to vote in person, you may do so even though you have previously sent a proxy.

A copy of the Company's Annual Report on Form 10-K for the year ended December 31, 2006 is included within the Annual Report provided with this Proxy Statement. The Annual Report does not constitute a part of the proxy solicitation material. Copies of exhibits filed with the Form 10-K are available upon written request. Requests should be made in writing to Matthew J. Jewell, Secretary of the Company, at Forward Air Corporation, 430 Airport Road, Greeneville, Tennessee 37745.

By Order of the Board of Directors,

Matthew J. Jewell
Senior Vice President, General Counsel and Secretary

Greeneville, Tennessee
April 19, 2007

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APPENDIX A

FORWARD AIR CORPORATION

AUDIT COMMITTEE CHARTER

ORGANIZATION

This charter governs the operations of the Audit Committee (the "Committee") of Forward Air Corporation (the "Company"). The Committee shall review and reassess this charter at least annually and obtain the approval of the board of directors. The Committee shall be appointed by the board of directors and shall comprise of at least three directors, each of whom shall meet the independence and qualification requirements of The Nasdaq Stock Market, Inc., Section 104(m)(3) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations of the Securities and Exchange Commission (the "SEC"). The Committee should also disclose, in accordance with applicable regulatory requirements, whether any member of the Committee is a "financial expert" as defined by the SEC. In fulfilling its responsibilities, the Committee may delegate responsibilities to a subcommittee consisting of one or more members of the Committee.

STATEMENT OF POLICY

The Committee shall provide assistance to the board of directors in its oversight of the Company's financial statements and the financial reporting process, the systems of internal accounting and financial controls, the internal audit process, the annual independent audit of the Company's financial statements, and the legal compliance and ethics programs as established by management and the board.

In so doing, it is the responsibility of the Committee to maintain free and open communication among the Committee, independent auditors, internal audit personnel and management of the Company and the Committee shall from time to time meet separately in executive session with the independent auditors, internal audit personnel and management. In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company. The Committee shall have the authority to engage independent counsel and other advisers, as it deems necessary to carry out its duties, and the Company shall provide for appropriate funding, as determined by the Committee for the payment of (a) compensation to the independent auditor(s) engaged for the purpose of preparing or issuing the audit report or performing other audit, review or attest services for the Company; (b) compensation to any independent advisers employed by the Committee; and (c) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties. The Committee will work closely with management and independent auditors to promote accurate, high-quality, and timely disclosure of financial and other information to the board, the public markets and shareholders.

RESPONSIBILITIES AND PROCESSES

The primary responsibility of the Committee is to oversee the Company's financial reporting process on behalf of the board and report the results of its activities to the board. The Committee recognizes that management is responsible for preparing the Company's financial statements, and that the independent auditors are responsible for auditing those financial statements. The Committee should take the appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices and ethical behavior.

The following shall be the principal recurring processes of the Committee in carrying out its oversight responsibilities. The processes are set forth as a guide with the understanding that the Committee may supplement them as appropriate. In carrying out its responsibilities, the Committee believes its policies and procedures should remain flexible, in order to best react to changing conditions and circumstances, and to ensure to the directors and shareholders that the corporate accounting and reporting practices of the Company are in accordance with all requirements and are of the highest quality.

- The Committee shall have a clear understanding with management and the independent auditors that the independent auditors are ultimately accountable to the board and the Committee, as representatives of the Company's shareholders. The Committee shall have the ultimate authority and responsibility to select, appoint, compensate, evaluate and, where appropriate, replace the independent auditors. The Committee shall discuss with the auditors their objectivity and independence from management and the Company and matters included in the formal written statement required by the Independence Standards Board which delineates all relationships between the independent auditors and the Company. Annually, the Committee shall review and appoint the Company's independent auditors, subject to ratification by the shareholders at the Annual Meeting. In the event that the shareholders do not ratify the Committee's appointment of independent auditors, the Committee will reconsider the appointment. The Committee will ensure the independence of the outside auditors through the pre-approval of all audit and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent auditors, subject to and in accordance with Section 10A(i) of the Exchange Act and the Committee's pre-approval policy, as it may be amended from time to time.

- The Committee shall discuss with the independent auditors and with Company financial management and internal audit personnel the overall scope and plans for audits including the scope of the proposed audit for the current year, audit procedures to be utilized, and the adequacy of audit staffing and compensation. At the conclusion thereof, the Committee shall review such audit, including any comments or recommendations of the independent auditors. Also, the Committee shall discuss with management and the independent auditors the adequacy and effectiveness of the accounting and financial controls, including the Company's system to monitor and manage business risk, and legal and ethical compliance programs. Further, the Committee shall meet separately with the independent auditors, with and without management present, to discuss the results of their examinations.

- The Committee shall review with the Company's financial and accounting personnel the adequacy and effectiveness of the accounting and financial controls of the Company, and elicit any recommendations for the improvement of such internal control procedures or particular areas where new or more detailed controls or procedures are desirable. The Committee shall, at least annually, meet with the Company's financial and accounting personnel for a report including the review of any related party transactions and any issues that may affect in any material way the financial reporting process, the financial risks of the Company and the internal control systems of the Company. Further, the Committee periodically should review Company policy statements to determine their adherence to the code of conduct. The Committee shall also monitor and oversee the Company’s legal compliance programs and code of business conduct and ethics.

- The Committee shall establish procedures for (i) the receipt, retention and treatment of complaints and concerns received by the Company regarding accounting, internal accounting controls or auditing or related matters and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

- The Committee shall review the interim financial statements with management and the independent auditors prior to the filing of the Company's Quarterly Report on Form 10-Q. Also, the Committee shall discuss the results of the quarterly review and any other matters required to be communicated to the Committee by the independent auditors under generally accepted auditing standards. Review of the quarterly financial statements by the independent auditors and Committee will occur prior to the public release of such quarterly financial results. Review of the Form 10-Q by the independent auditors and Committee will occur prior to the Company’s filing of the Form 10-Q. The chair of the Committee may represent the entire Committee for the purposes of this review.

- The Committee shall review with management and the independent auditors the financial statements to be included in the Company's Annual Report on Form 10-K (or the annual report to shareholders, if distributed prior to the filing of Form 10-K). The Committee shall review with the independent auditors (i) all critical accounting policies and practices to be used; (ii) all alternative treatments of financial information within GAAP that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors; and (iii) other material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences. The Committee shall also discuss with the independent auditors their judgment about the quality, not merely the acceptability, of accounting principles relied upon therein, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements, as well as matters affecting the quality of the Company’s financial reporting and the fairness of the presentation in the financial statements of the financial condition and the financial risks of the Company. Also, the Committee shall discuss the results of the annual audit and any other matters required to be communicated to the Committee by the independent auditors under generally accepted auditing standards. Based on such review and discussion, the Committee shall consider whether to recommend to the Company’s board of directors that the audited financial statements be included in the Company’s Annual Report on Form 10-K.

- The Committee shall review disclosures made to the Committee by the Company's Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer and internal audit personnel regarding: (i) any significant deficiencies in the design or operation of internal controls of the Company which could adversely affect the Company's ability to record, process, summarize and report financial data; and (ii) any fraud, material or otherwise, that involves management or other senior personnel.

APPENDIX B

FORWARD AIR CORPORATION

AMENDED AND RESTATED NON-EMPLOYEE DIRECTOR STOCK PLAN

SECTION 1. **Establishment; Purpose**.

Effective May 24, 2006, Forward Air Corporation, a Tennessee corporation (the "*Company*"), established and currently maintains the 2006 Non-Employee Director Stock Plan (the "*2006 NED Plan*") to attract and retain well-qualified persons for service as directors of the Company and to provide directors with an opportunity to increase their ownership interest in the Company and, thereby, increase their personal interest in the Company's continued success. The Company's Board of Directors (the "*Board*") now finds it desirable and in the best interests of the Company and its shareholders to amend and restate the 2006 NED Plan as set forth herein and to be known hereafter as the Amended and Restated Non-Employee Director Stock Plan (the "*Plan*"). The Plan, upon its approval by the Company's shareholders, shall be a continuation of the 2006 NED Plan under these amended and restated terms.

Under the Plan, the Company may grant non-employee directors equity compensation in the from of restricted shares (the "*Restricted Shares*") of the $0.01 par value common stock of the Company (the "*Common Stock*"), unrestricted shares of Common Stock (the "*Unrestricted Shares*" and, together with the Restricted Shares, the "*Award Shares*"), and nonqualified stock options (the "*Options*") for the purchase of Common Stock (all such grants are referred to individually as an "*Award*" and collectively as "*Awards*").

SECTION 2. **Administration**.

Responsibility and authority to administer and interpret the provisions of the Plan shall be conferred upon the Board. The Board shall, subject to the provisions of the Plan, have the power to construe the Plan, to determine all questions arising thereunder and to adopt and amend rules and regulations for the administration of the Plan. Without limiting the foregoing, the Board shall have the discretion to determine the form, size, timing and vesting of Awards, and such discretion may be exercised with respect to future or then-outstanding Awards and need not be exercised uniformly among all directors. The Board may employ attorneys, consultants, accountants or other persons, and the Board, the Company and its officers shall be entitled to rely upon the advice, opinions or valuations of any such persons. All usual and reasonable expenses of the Board shall be paid by the Company. All actions taken and all interpretations and determinations made by the Board in good faith shall be final and binding upon all recipients who have received Awards, the Company and other interested persons. No member of the Board shall be personally liable for any action, determination or interpretation taken or made in good faith with respect to the Plan or Awards made hereunder, and all members of the Board shall be fully indemnified and protected by the Company in respect of any such action, determination or interpretation.

SECTION 3. **Shares of Common Stock Subject to the Plan**.

(a) Number of Shares Issuable Under the Plan. Subject to Section 3(b), up to 200,000 shares of Common Stock may be issued with respect to grants of Awards under the Plan (inclusive of Awards granted under the 2006 NED Plan prior to its amendment and restatement herein). In the event that any Awards, or portions of an Award, granted under the Plan, or Stock Units credited to a bookkeeping reserve account with respect to deferred Award Shares, terminate unexercised or are canceled, surrendered or forfeited for any reason, then the number of Award Shares and Stock Units or the number of shares underlying the Options which terminated unexercised or were canceled, surrendered or forfeited shall be added to the remaining number of shares of Common Stock for which Awards may be issued under the Plan.

(b) Adjustments. The Board shall appropriately adjust the exercise price of outstanding Options and the maximum number and kind of shares subject to the Plan, Stock Units credited under the Plan, outstanding Awards and subsequent Awards in the event of reorganization, recapitalization, stock split, reverse stock split, stock dividend, exchange or combination of shares, merger, consolidation, rights offering or any change in capitalization of the Company.

(c) Source of Shares. The Common Stock issued under the Plan will come from authorized but unissued shares of Common Stock, treasury shares, purchases by the Company on the open market or from any other proper source. The Company will set aside and reserve for issuance under the Plan the number of shares set forth in Section 3(a), as adjusted.

SECTION 4. **Eligibility**.

All directors of the Company who are neither employees of the Company nor officers of the Company shall be eligible participants in the Plan.

SECTION 5. **Grants of Awards**.

(a) Annual Grants. Each individual who serves as a director of the Company and is, on the grant date, an eligible participant shall automatically be granted an Award, in such form and size as the Board determines from year to year (the "*Annual Grant*"), on the first business day after each Annual Meeting of Shareholders of the Company at which directors are elected (an "*Annual Meeting*"). Each Annual Grant shall be evidenced by a written agreement or other evidence of issuance (an "*Award Agreement*") in such form acceptable to the Company and not inconsistent with the terms and conditions specified in the Plan.

(b) Pro-Rata Grants. Each person who first becomes an eligible director on a date other than the date of an Annual Meeting shall receive, within 30 days of the date such person is appointed as or first becomes a non-employee director, a pro-rata grant of a number of Award Shares or Options, depending on the form of Annual Grant granted on the first business day following the last preceding Annual Meeting (the "*Preceding Annual Grant*"), equal to the number, rounded up to the nearest whole number, determined by multiplying the shares underlying the Preceding Annual Grant by a fraction, (i) the numerator of which is the number of whole and partial months during the period measured from the date of appointment as an eligible director until the next following May 1st, and (ii) the denominator of which is 12.

SECTION 6. **Terms and Conditions of Award Shares**.

Award Shares may be granted with or without restrictions. The terms and conditions of such Awards shall be as set forth below.

(a) Unrestricted Shares. Unrestricted Shares are vested, nonforfeitable and freely transferable when granted under the Plan.

(b) Restricted Shares.

(i) Vesting. Restricted Shares are non-vested and forfeitable when granted under the Plan. Unless otherwise determined by the Board, Restricted Shares shall become vested and nonforfeitable one year after the date of grant so long as the director's service with the Company has not earlier terminated. If the director's service with the Company terminates due to death or total disability, the Restricted Shares that have not previously become vested and nonforfeitable shall become vested and nonforfeitable as of the date that the director's service with the Company so terminates. If the director's service with the Company terminates for any reason other than death or total disability, then, unless the Board determines otherwise, all Restricted Shares that are not then vested and nonforfeitable will be immediately forfeited by the director and transferred to the Company upon such termination at no cost to the Company.

(ii) Restrictions on Transfer. Until the Restricted Shares become vested and nonforfeitable, the Restricted Shares may not be assigned, transferred, pledged, hypothecated or disposed of in any way (whether by operation of law or otherwise), except by will or the laws of descent and distribution, and shall not be subject to execution, attachment or similar process. The Company shall not be required to (i) transfer on its books any Restricted Shares that have been sold or transferred in contravention of the Plan or (ii) treat as the owner of shares, or otherwise accord voting, dividend, distribution or liquidation rights to, any transferee to whom Restricted Shares have been transferred in contravention of the Plan.

(iii) Shareholder Rights; Share Certificates. Each participating director shall be reflected on the Company's books as the owner of record of the Restricted Shares as of the date of grant and shall possess all incidents of ownership of such shares, subject to Section 6(b)(ii), including the right to receive cash dividends with respect to such shares and to vote such shares; provided, that shares of Common Stock distributed in connection with a stock split or stock dividend shall be subject to restrictions on transfer and a risk of forfeiture to the same extent as the Restricted Shares with respect to which such shares are distributed. The Company will hold the share certificates for safekeeping, or otherwise retain the shares in uncertificated book entry form, until the Restricted Shares become vested and nonforfeitable. Until the Restricted Shares become vested and nonforfeitable, any share certificates representing such shares will include a legend to the effect that the director may not sell, assign, transfer, pledge or hypothecate the Restricted Shares. All regular cash dividends on the Restricted Shares held by the Company will be paid directly to the director. As soon as practicable after vesting of the Restricted Shares, the Company will deliver such shares in uncertificated book entry form or in certificate form to the director, or deliver such shares electronically or in certificate form to the director's designated broker on the director's behalf.

SECTION 7. **Terms and Conditions of Options**.

(a) Exercisability. Unless the Board determines otherwise, the Options shall become exercisable one year after the date of grant so long as the director's service with the Company has not earlier terminated. Once an Option has become exercisable, it shall remain exercisable, to the extent not exercised, until its expiration date or earlier termination pursuant to Section 7(b).

(b) Post-Termination Exercise. If a director's service with the Company terminates due to the director's death or total disability, the outstanding Options granted to such director shall become exercisable in full and shall remain exercisable for a period of one year thereafter but not beyond their expiration date. If a director's service with the Company terminates for any other reason, unless the Board determines otherwise, all Options granted to such director which are not then exercisable shall be canceled and the remaining Options shall continue to be exercisable for 90 days thereafter but not beyond their expiration date.

(c) Exercise Price. The exercise price per share for each Option granted under the Plan shall be 100% of the Fair Market Value (as defined below) of a share of Common Stock as of the date of grant. "*Fair Market Value*" as of a given date for purposes of the Plan and any Award Agreement means (i) the closing sale price for the shares on The NASDAQ Stock Market or any national exchange on which shares of Common Stock are traded on such date (or if such market or exchange was not open for trading on such date or no shares of Common Stock traded on that day but were listed for trade, the next preceding date on which it was open and the shares of Common Stock did trade); or (ii) if the Common Stock is not listed on The NASDAQ Stock Market or on an established and recognized exchange, such value as the Board, in good faith, shall determine based on such relevant facts, which may include opinions of independent experts, as may be available to the Board.

(d) Method of Exercise. Unless the Board determines otherwise, payment of the exercise price shall be in cash, in shares of Common Stock valued at their Fair Market Value on the date of exercise, or both, as elected by the director.

(e) Restrictions on Transfer. The Options shall be exercisable only by the director during his or her lifetime and may not be transferred other than by will or the laws of descent and distribution unless the Board determines otherwise.

(f) Expiration of the Options. The Options shall expire, if not sooner exercised or terminated, as of such date determined by the Board and set forth in the applicable Award Agreement; provided, however, that no Option shall expire later than 10 years after its date of grant.

SECTION 8. **Deferral of Award Shares**.

(a) Deferral of Award Shares. Directors may elect to defer receipt of Award Shares in accordance with the election procedures set forth below. If a director elects to defer the receipt of Award Shares, the number of Award Shares deferred shall be credited as Stock Units to a bookkeeping reserve account established for the director under the Plan as of the date that the Award Shares otherwise would have been issued to the director. Each Stock Unit shall represent the right to receive one share of Common Stock when the director incurs a separation from service with the Company (a "*Separation From Service*") within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "*Code*"), provided that the Stock Unit is or has become vested and nonforfeitable on or before such date. Stock Units representing deferred Restricted Shares shall become vested and nonforfeitable at the same time and subject to the same conditions as the corresponding Restricted Shares to which they relate would have become vested and nonforfeitable but for their deferral of issuance.

(b) Settlement of Stock Units. Except as provided in Section 9(a), all vested Stock Units shall be settled upon the date that the director incurs a Separation From Service with the Company or as soon as practicable thereafter but in no event later than the close of the calendar year in which the Separation From Service occurs or such later date as may be permitted under Section 409A of the Code. Except as provided in Section 9(a), all vested Stock Units shall be settled in the form of shares of Common Stock issued to the director or the director's estate as applicable, provided that any vested fractional Stock Units credited to a director's bookkeeping reserve account shall be settled in cash. If the director's service with the Company terminates for any reason other than death or total disability, all Stock Units that are not then vested will be immediately forfeited by the director.

(c) Deferral Election Procedures. All deferral elections shall be made in accordance with the following procedures:

(i) An election pursuant to Section 8(a) shall be made by the director by executing and delivering a deferral agreement, in the form approved by the Company, to the Secretary of the Company. The deferral agreement shall become effective with respect to such director as of the first day of January following the date such deferral agreement is received by the Secretary of the Company; provided, however, that in the case of the first year in which the director becomes eligible to participate in the Plan, the director may execute and deliver a deferral agreement to the Secretary of the Company before or within 30 days after the date the individual becomes an eligible director to be effective as of the first day following the date such deferral agreement is received by the Secretary of the Company. A director's election shall continue in effect, unless earlier modified by the director, until the director no longer serves as a director of the Company or, if earlier, until the director ceases to participate in the Plan.

(ii) A director may unilaterally modify a deferral agreement (either to terminate, increase or decrease the portion of the director's future grants of Award Shares which are subject to deferral) by providing a written modification of the deferral agreement, in a form approved by the Company, to the Secretary of the Company. The modification shall become effective as of the first day of January following the date such written modification is received by the Secretary of the Company.

(iii) The Board may from time to time establish policies or rules consistent with the requirements of Section 409A of the Code, to govern the manner in which deferrals of Award Shares may be made.

(d) Rights in Respect of Deferred Award Shares. Award Shares that are deferred shall not represent an actual ownership in shares of Common Stock and the director shall have no voting or other rights as a shareholder in respect of Stock Units credited to the director's bookkeeping reserve account. On each cash dividend payment date with respect to shares of Common Stock, each director who has Stock Units credited to a bookkeeping reserve account under the Plan on the record date for such dividend shall have credited to such account, as a dividend equivalent payment, additional Stock Units which shall be fully vested. The number of additional Stock Units to be so credited shall equal: (i) the product of (x) the per-share cash dividend payable, multiplied by (y) the total number of Stock Units which have not been settled or forfeited as of the record date for such dividend, divided by (ii) the Fair Market Value (as defined in Section 7(c)) of one share of Common Stock on the payment date of such dividend. If the unit holder's Stock Units have been settled after the record date but prior to the dividend payment date, any Stock Units that would be credited pursuant to the preceding sentence shall be settled on or as soon as practicable after the dividend payment date.

(e) Transferability of Rights. No director shall have the right to assign any right or interest in any Stock Unit or shares of Common Stock subject to a Stock Unit, or to cause or permit any encumbrance, pledge or charge of any nature to be imposed on any such Stock Unit or shares of Common Stock so deferred or any such right or interest, other than by will or the laws of descent and distribution.

SECTION 9. **Change of Control**.

(a) Acceleration of Vesting, Exercisability, and Award Termination upon Change of Control. In the event of a "Change of Control" (as defined below), (1) all Restricted Shares, Options and Stock Units awarded under the Plan not previously vested, exercisable and nonforfeitable shall become fully vested, exercisable and nonforfeitable as of the date of, and immediately before, such Change of Control; (2) all outstanding Options not exercised prior to or upon the Change of Control will terminate at the effective time of such Change of Control unless provision is made in connection with the transaction for the continuation, assumption or settlement of such Options by, or for the substitution of equivalent options of, the surviving or successor entity or a parent thereof; and (3) all Stock Units credited to accounts as of the Change of Control will be settled in shares or in cash at the discretion of the Board upon the Change of Control or as soon as practicable thereafter but in no event later than the close of the calendar year in which the Change of Control occurs.

(b) Definition of Change of Control. For purposes of this Section 9, a "*Change of Control*" means the happening of any of the following:

(i) the acquisition (other than from the Company) in one or more transactions by any Person, as defined in this Section 9(b), of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended) of more than a majority of (A) the then-outstanding shares of the securities of the Company, or (B) the combined voting power of the then-outstanding securities of the Company entitled to vote generally in the election of directors (the "*Company Voting Stock*");

(ii) the closing of a sale or other conveyance of all or substantially all of the assets of the Company;

(iii) the effective time of any merger, share exchange, consolidation or other business combination involving the Company if immediately after such transaction persons who hold a majority of the outstanding voting securities entitled to vote generally in the election of directors of the surviving entity (or the entity owning 100% of such surviving entity) are not persons who, immediately prior to such transaction, held the Company Voting Stock; or

(iv) when, during any period of two consecutive years during the existence of the Plan, the individuals who, at the beginning of such period, constitute the Board cease for any reason to constitute at least a majority thereof; provided, however, that a director who was not a director at the beginning of such period shall be deemed to have satisfied the two-year requirement if such director was elected by, or on the recommendation of or with the approval of, at least two-thirds of the directors who were directors at the beginning of such period (either actually or by prior operation of this Section 9(b)(iv)).

For purposes of this Section 9(b), a "*Person*" means any individual, entity or group within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended, other than (A) the Company, (B) any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or (C) any corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company.

SECTION 10. **Amendment or Discontinuance**.

The Board may amend, suspend or terminate the Plan or any portion thereof at any time as it determines appropriate, without further action by the Company's shareholders, except to the extent required by applicable law or by any stock exchanges upon which the Common Stock may be listed; provided, however, that no action of the Board to amend, suspend or terminate the Plan may impair a director's rights with respect to any Awards or Stock Units previously made under the Plan without the director's consent. Notwithstanding the foregoing, the Plan may be amended by the Board at any time, retroactively if required in the opinion of the Company, in order to ensure that the Plan complies with the requirements of Section 409A of the Code. No such amendment shall be considered prejudicial to any interest of a director.

SECTION 11. **Effective Date and Term of Plan**.

The Plan as herein amended and restated shall become effective on the day after the date of the 2007 Annual Meeting of Shareholders of the Company, subject to the approval of a majority of the shareholders of the Company. Unless sooner terminated by the Board, the Plan shall continue in effect indefinitely until all shares of Common Stock approved for issuance under the Plan by the shareholders of the Company have been issued. Awards and Stock Units granted prior to termination of the Plan shall, notwithstanding termination of the Plan, continue to be effective and shall be governed by the Plan.

SECTION 12. **Continuation of Director or Other Status**.

Nothing in the Plan or in any instrument executed pursuant to the Plan or any action taken pursuant to the Plan shall be construed as creating or constituting evidence of any agreement or understanding, express or implied, that the Company will retain a participant as a director or in any other capacity for any period of time or at a particular retainer or other rate of compensation, as conferring upon any participant any legal or other right to continue as a director or in any other capacity, or as limiting, interfering with or otherwise affecting the provisions of the Company's charter, bylaws or the Tennessee Business Corporation Act relating to the removal of directors.

SECTION 13. **The Company's Rights**.

The existence of the Plan, grants of Awards, or crediting of Stock Units shall not affect in any way the right or power of the Company or its shareholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or other stocks with preference ahead of or convertible into, or otherwise affecting the Common Stock or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of the Company's assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

SECTION 14. **No Trust or Fund Created**.

Neither the Plan nor any Awards or crediting of Stock Units to a bookkeeping reserve account shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and a director or any other person. To the extent that any director or other person acquires a right to receive payments from the Company pursuant to the Plan, such right shall be no greater than the right of any unsecured general creditor of the Company.

SECTION 15. **Governing Law**.

The Plan and all determinations made and actions taken pursuant to the Plan shall be governed by the laws of the State of Tennessee pertaining to contracts made and to be performed wholly within such jurisdiction.

SECTION 16. **409A Savings Clause**.

It is intended that the Plan comply with Section 409A of the Code. The Plan shall be administered, interpreted and construed in a manner consistent with such Section. Should any provision of the Plan not comply with the provisions of Section 409A of the Code, that provision shall have no effect on the remaining parts of the Plan and the Plan shall be construed and enforced as if such provision had never been inserted herein.

SECTION 17. **Compliance with Laws**.

To the extent the Company is unable to or the Board deems it infeasible to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance of any shares under the Plan, the Company shall be relieved of any liability with respect to the failure to issue such shares as to which such requisite authority shall not have been obtained.

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, 2006
Commission File No. 000-22490

FORWARD AIR CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2006 was approximately $1,277,374,667 based upon the $40.73 closing price of the stock as reported on The NASDAQ Stock Market LLC on that date. For purposes of this computation, all directors and executive officers of the registrant are assumed to be affiliates. This assumption is not a conclusive determination for purposes other than this calculation.

The number of shares outstanding of the registrant's common stock, $0.01 par value per share, as of February 21, 2007 was 30,406,692.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the 2007 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

Table of Contents

Forward Air Corporation

Introductory Note

This Annual Report on Form 10-K for the fiscal year ended December 31, 2006 (the "Form 10-K") contains "forward-looking statements," as defined in Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are statements other than historical information or statements of current condition and relate to future events or our future financial performance. Some forward-looking statements may be identified by use of such terms as "believes," "anticipates," "intends," "plans," "estimates," "projects" or "expects." Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The following is a list of factors, among others, that could cause actual results to differ materially from those contemplated by the forward-looking statements: economic factors such as recessions, inflation, higher interest rates and downturns in customer business cycles, our inability to maintain our historical growth rate because of a decreased volume of freight moving through our network or decreased average revenue per pound of freight moving through our network, increasing competition and pricing pressure, surplus inventories, loss of a major customer, the creditworthiness of our customers and their ability to pay for services rendered, our ability to secure terminal facilities in desirable locations at reasonable rates, the inability of our information systems to handle an increased volume of freight moving through our network, changes in fuel prices, claims for property damage, personal injuries or workers' compensation, employment matters including rising health care costs, enforcement of and changes in governmental regulations, environmental and tax matters, the handling of hazardous materials, the availability and compensation of qualified independent owner-operators and freight handlers needed to serve our transportation needs and our inability to successfully integrate acquisitions. As a result of the foregoing, no assurance can be given as to future financial condition, cash flows or results of operations. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Part I

Item 1. Business

We were formed as a corporation under the laws of the state of Tennessee on October 23, 1981. We are a leading provider of time-definite surface transportation and related logistics services to the North American deferred air freight market. We offer our customers scheduled surface transportation of cargo as a cost effective, reliable alternative to air transportation. We transport cargo that must be delivered at a specific time, but is less time-sensitive than traditional air freight. This type of cargo is frequently referred to in the transportation industry as deferred air freight. We operate through a network of 81 terminals located on or near airports in the United States and Canada, including a central sorting facility in Columbus, Ohio and nine regional hubs serving key markets. Our typical shipment consists of a pallet-load of freight, often consisting of electronics, telecommunications equipment, machine parts, trade show exhibit materials or medical equipment. During 2006, our average shipment weighed over 720 pounds. We utilize a flexible source of capacity made up of owner-operators and, to a lesser extent, other surface transportation providers, which results in a largely variable cost operating model with low capital requirements.

We also offer our customers an array of logistic and other services including: exclusive-use vehicles (commonly referred to as truck brokerage); dedicated fleets; local pick-up and delivery; warehousing; customs brokerage; and shipment consolidation, deconsolidation and handling. These services are critical to our air freight forwarder customers, which are businesses that arrange transportation of cargo for third parties, that do not provide these logistics services themselves or that prefer to use one provider for all of their surface transportation needs.

We market our 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 nine 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 2006, approximately 20.8% of the freight we handled was for overnight delivery, approximately 60.6% 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 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 shipments, we generally do not compete directly with integrated air cargo carriers such as United Parcel Service, Federal Express and DHL Worldwide in the overnight delivery of small parcels. In 2006, our five largest customers accounted for approximately 27.6% of our operating revenue and no single customer accounted for more than 10.0% of our operating revenue.

Our Industry

As businesses minimize inventory levels, perform manufacturing and assembly operations in multiple locations and distribute their products through multiple channels, they have an increased need for expedited delivery services. Expedited shipments are those shipments for which the customer requires delivery the next day or within two to three days, usually by a specified time or within a specified time window. The Colography Group, Inc., an independent industry market research and consulting firm, estimates that the total U.S. expedited cargo market, including domestic air, domestic ground parcel, domestic less-than-truckload and U.S. air export will generate $107.6 billion in revenue in 2007. Also according to The Colography Group, Inc., the U.S. domestic air freight market accounts for approximately $37.5 billion, or 34.9%, of this market. Approximately 14.1%, of that market is made up of heavyweight overnight and deferred air freight, which is the portion of the market within which we primarily compete.

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

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

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

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

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

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

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

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

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

Competitive Advantages

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

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

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

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

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

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

- *Comprehensive Logistic and Other Service Offerings.* We offer an array of logistic and other services including: exclusive-use vehicles (commonly referred to as truck brokerage), dedicated fleet, warehousing, customs brokerage and shipment consolidation and handling. In addition, during 2006 we introduced our new pick-up and delivery service called Forward Air Complete™, whereby we arrange for cargo to be picked up from and/or delivered to a customer-designated site. These services are an essential part of many of our customers' transportation needs and are not offered by many of our competitors.

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

- *Technology Advances.* We have continued to invest in information technology to the benefit of our customers and our business processes. In 2006, we substantially completed the development and installation of our Terminal Automation Program ("TAP"), a new wireless application for our Company-operated terminals. The new system enables individual operators to perform virtually all data entry from our terminal floor locations. The new system provides immediate shipment updates, resulting in increased shipment accuracy and improved data timeliness. We believe that the TAP system not only will reduce operational manpower compared to our previous operation, but also will improve our on-time performance. Additionally, in order to support our new Forward Air Complete service offering, we developed and installed a web-based system, which coordinates activities between our customers, operations personnel and external service providers.

Growth Strategy

Our growth strategy is to take advantage of our competitive strengths in the deferred air freight market in order to increase our profits and shareholder returns. Principal components of our growth strategy include efforts to:

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

- *Develop New Customers.* We continue to actively market our services to potential new air freight forwarder customers, such as international freight forwarders. We believe air freight forwarders may move away from integrated air cargo carriers because those carriers charge higher rates, and away from less-than-truckload carriers because those carriers provide less reliable service and compete for the same customers as do the air freight forwarders. In addition, we believe our comprehensive North American network and related logistics services are attractive to domestic and international airlines.

- *Improve Efficiency of Our Transportation Network.* We constantly seek to improve the efficiency of our network without changing our infrastructure or incurring significant capital expenditures. Regional hubs and direct shuttles improve our efficiency by reducing the number of miles freight must be transported and reducing the number of times freight must be handled and sorted. As the volume of freight between key markets increases, we intend to continue to add direct shuttles. In 2006, we substantially completed a project to expand our national hub in Columbus, Ohio. The new expanded Columbus, Ohio facility is 125,000 square feet with 168 trailer doors. This premier facility can unload, sort and load upwards of 3.7 million pounds in five hours. In addition to the expansion, we process-engineered the freight sorting in the expanded building to improve handling efficiencies. The benefits will include reductions in the distance each shipment moves in the building to speed up the transfer process, less handling of freight to further improve service integrity and flexibility to operate multiple sorts at the same time.

- *Expand Logistic and Other Services.* We continue to expand our logistic and other services to increase revenue and improve utilization of our terminal facilities and labor force. Because of the timing of the arrival and departure of cargo, our facilities are underutilized during certain portions of the day, allowing us to add logistics services without significantly increasing our costs. Therefore, we have added a number of services in the past few years, such as exclusive-use transportation services, dedicated fleet, warehousing, customs brokerage and shipment consolidation and handling services. In 2006, we introduced Forward Air Complete, our new pick-up and delivery service. 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.

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

- *Pursue Strategic Acquisitions.* We intend to continue to evaluate acquisitions that can increase our penetration of a geographic area, add new customers or increase freight volume. In addition, we expect to explore acquisitions that may enable us to offer additional logistics services. Since our inception, we have acquired certain assets of nine of our competitors that met one or more of these criteria.

Operations

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 new 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 nine regional hubs. We also operate regularly scheduled shuttle service directly between terminals where the volume of freight warrants bypassing the Columbus, Ohio central sorting facility or a regional hub. When a shipment arrives at our terminal nearest its destination, the customer arranges for the shipment to be picked up and delivered to its final destination. Through our Forward Air Complete service, we will also deliver the freight for the customer to its final destination.

Terminals

Our network consists of terminals located in the following 81 cities:

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

*Denotes an independent agent location.

Independent agents operate 22 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 allows us to bypass our Columbus, Ohio central sorting facility. These regional hubs improve our operating efficiency and enhance customer service. We operate regional hubs in Atlanta, Charlotte, Dallas/Ft. Worth, Kansas City, Los Angeles, New Orleans, Newburgh, Orlando and San Francisco.

Shipments

The average weekly volume of freight moving through our network was approximately 32.2 million pounds per week in 2006. During 2006, our average shipment weighed over 720 pounds and shipment sizes ranged from small boxes weighing only a few pounds to large shipments of several thousand pounds. Although we impose no significant size or weight restrictions, we focus our marketing and price structure on shipments of 200 pounds or more. As a result, we typically do not directly compete with integrated air cargo carriers in the overnight delivery of small parcels. The table below summarizes the average weekly volume of freight moving through our network for each year since 1990.

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

Logistic and Other Services

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

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

- exclusive-use vehicles, commonly referred to as truck brokerage;
- 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.

Customers and Marketing

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

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

Technology and Information Systems

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

In 2006, we fully implemented TAP, a new program, in our continuing effort to automate and improve terminal operations, and a new website to support our new Forward Air Complete service offering. TAP enables operation personnel to perform data entry from our terminal floor locations. This greatly reduces the need for data entry personnel and provides immediate shipment updates. The result is increased shipment accuracy and improved data timeliness. We believe the TAP system will improve our ability to provide accurate, real-time information, and will result in both competitive service advantages and increased productivity throughout our network. The Forward Air Complete website coordinates activities between our customers, operations personnel and external service providers. We believe that the TAP system, Forward Air Complete website and other technical enhancements will assist us in capitalizing on new business opportunities and could encourage customers to increase the volume of freight they send through our network.

Purchased Transportation

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

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

As a result of efforts to expand our logistics and other services, seasonal demands and volume surges in particular markets, we also purchase transportation from other surface transportation providers to handle overflow volume. Of the $146.7 million incurred for purchased transportation during 2006, we purchased 62.4% from owner-operators and 37.6% from other surface transportation providers.

Competition

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

Seasonality

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

Employees

As of December 31, 2006, we had 1,225 full-time employees, 464 of whom were freight handlers. Additionally as of that date, there were 709 part-time employees, of whom the majority were freight handlers. None of our employees are covered by a collective bargaining agreement. We recognize that our workforce, including our freight handlers, is one of our most valuable assets. The recruitment, training and retention of qualified employees are essential to support our continued growth and to meet the service requirements of our customers.

Risk Management and Litigation

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

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

Regulation

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

Service Marks

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

Website Access

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

Item 1A. Risk Factors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- identification of appropriate acquisition candidates;
- negotiation of acquisitions on favorable terms and valuations;
- integration of acquired businesses and personnel;
- implementation of proper business and accounting controls;
- ability to obtain financing, on favorable terms or at all;
- diversion of management attention;
- retention of employees and customers; and
- unexpected liabilities.

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

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

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

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

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

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

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

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

We depend on owner-operators for most of our transportation needs. In 2006, owner-operators provided 62.4% 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 in the aftermath of the September 11, 2001 terrorist attacks 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 assure you 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 assure you that we will be able to do so.

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

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

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

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

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

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

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

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. We timely notified the Greeneville-Greene County Airport Authority of our intent to renew the lease for an additional ten years, which will run through 2016. The extension was signed in January 2007.

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

During the fourth quarter of 2002, the City of Atlanta filed a Petition for Condemnation and Declaration of Taking for a terminal facility owned by Transportation Properties, Inc. and leased by Forward Air, Inc., two of our wholly owned subsidiaries. The condemnation was filed in connection with the fifth runway airport expansion project at Atlanta Hartsfield-Jackson International Airport. According to the 2002 condemnation petition, the City of Atlanta took ownership of the property and building and deposited $2.6 million into the Registry of the Superior Court of Clayton County, Georgia (the "Court") as compensation to Transportation Properties, Inc. We filed a protest to the City of Atlanta's evaluation of the property and building and also challenged the method of condemnation it utilized. Prior to December 2003, the City of Atlanta destroyed the condemned building in conjunction with the runway expansion project. On or about December 30, 2003, the Court ruled that the City of Atlanta's method of condemnation was improper and returned ownership of the land to us.

During January 2004, the City of Atlanta filed a second condemnation petition to obtain title to the land. In connection with this second petition, the City of Atlanta deposited an additional $1.3 million into the Registry of the Court, which was the City of Atlanta's estimated fair market value of the land. The City of Atlanta petitioned the Court and was granted the right to withdraw the original $2.6 million escrow balance it paid into the Court as part of the first petition for condemnation. We and our outside counsel believed that the December 30, 2003 ruling by the Court and the City of Atlanta's actions subsequent to the first condemnation gave rise to additional theories of recovery. We challenged the method of condemnation set forth in the second petition and the withdrawal of the original $2.6 million escrow balance. Additionally, we had claims for damages arising from the City of Atlanta's destruction of the Company's building during the wrongful possession of the property by the City of Atlanta. As of December 31, 2004, we had received the $1.3 million escrow into cash and had a $1.3 million receivable for the difference in the original $2.6 million escrow and actual $1.3 million in escrow received.

In the second quarter of 2005, an agreement was reached with the City of Atlanta to settle the dispute. In the settlement, the City of Atlanta paid us approximately $2.7 million, which represents payment of the receivable of $1.3 million along with additional pre-tax gain of approximately $1.4 million, included in other income, net. The cash received is net of attorney's fees.

In July 2003, we relocated our Atlanta operations into a new 63,550 square foot Atlanta terminal facility. The initial lease term for this terminal facility expires in June 2008.

As part of our plan to acquire three new sites in key gateway cities, we entered into an agreement on July 10, 2006 to purchase real property and to construct a new terminal near Chicago, Illinois. On September 14, 2006, we entered into an agreement to purchase real property and to construct a new regional hub near Atlanta, Georgia. In addition, during February 2007 we purchased 36.7 acres of land in Irving, Texas on which we will build a new regional hub. Completion of the new terminal and regional hubs will occur throughout 2007.

We lease and maintain terminals in 57 additional cities located at or near various airports in the United States and Canada. Lease terms are typically for three to five years. The remaining 22 terminals are agent stations operated by independent agents who handle freight for us on a commission basis.

We own the majority of trailers we use to move freight through the Forward Air network. Substantially all of our trailers are 53' long, some of which have specialized roller bed equipment required to serve air cargo industry customers. The average age of our owned trailer fleet was approximately 2.5 years at December 31, 2006.

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, 2006, 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, 2006.

The following are our executive officers:

Name	Age	Position
Bruce A. Campbell	55	President and Chief Executive Officer
Rodney L. Bell	44	Chief Financial Officer, Senior Vice President and Treasurer
Craig A. Drum	51	Senior Vice President, Sales
Matthew J. Jewell	40	Senior Vice President, General Counsel and Secretary
Chris C. Ruble	44	Senior 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 and as Chief Executive Officer since October 2003. 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 our Internet and technology service and support subsidiary. 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 Senior Vice President and General Counsel since July 2002. 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 Senior Vice President, Operations since October 2001. He was a Regional Vice President from September 1997 to October 2001 and a regional manager from February 1997 to September 1997, after starting with us as a terminal manager in January 1996. From June 1986 to August 1995, Mr. Ruble served in various management capacities at Roadway Package System, Inc.

Part II

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

Our common stock, $0.01 par value per share ("Common Stock"), trades on The NASDAQ Global Select Stock Market™ under the symbol "FWRD." The following table sets forth the high and low sales prices for the Common Stock as reported by The NASDAQ Global Select Stock Market™ for each full quarterly period within the two most recent fiscal years. All prices have been restated to reflect a three-for-two stock split declared in February 2005.

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

2005	High	Low
First Quarter	$30.37	$25.67
Second Quarter	$30.00	$22.02
Third Quarter	$36.86	$28.13
Fourth Quarter	$40.93	$32.58

There were approximately 377 shareholders of record of our Common Stock as of February 21, 2007.

On February 15, 2005, our Board of Directors declared a three-for-two stock split of our Common Stock to be effected in the form of a stock dividend to shareholders of record as of March 18, 2005. Common Stock issued and additional paid-in capital have been restated to reflect the split for all periods presented. All common share and per share data included in the consolidated financial statements and notes thereto have been restated to give effect to the stock split.

During each of the three months ended March 31, 2006, June 30, 2006, September 30, 2006 and December 31, 2006, dividends of $0.07 per share were declared on our Common Stock then outstanding. The quarterly dividends were paid on March 31, 2006, June 9, 2006, September 8, 2006 and December 8, 2006. During the three months ended March 31, 2005, June 30, 2005, September 30, 2005 and December 31, 2005, dividends of $0.06 per share were declared on our Common Stock then outstanding. The 2005 quarterly dividends were paid on April 18, 2005, June 3, 2005, September 2, 2005 and January 3, 2006. Subsequent to December 31, 2006, our Board of Directors declared a cash dividend of $0.07 per share that will be paid on March 30, 2007 to shareholders of record at the close of business on March 15, 2007. 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 2006 without registration under the Securities Act.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2006 with respect to shares of our Common Stock that may be issued under existing equity compensation plans, including the 1992 Amended and Restated Stock Option and Incentive Plan (the "1992 Plan"), the 1999 Stock Option and Incentive Plan (the "1999 Plan"), the Non-Employee Director Stock Option Plan (the "NED Plan"), the 2000 Non-Employee Director Award (the "2000 NED Award"), the 2005 Employee Stock Purchase Plan (the "ESPP") and the 2006 Non-Employee Director Stock Plan (the "2006 NED Plan"). All shares and prices have been restated to reflect a three-for-two stock split declared in February 2005. 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	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity Compensation Plans Approved by Shareholders	1,714,877 (1)	$ 21.36 (2)	2,362,991 (3)
Equity Compensation Plans Not Approved by Shareholders	--	--	--
Total	1,714,877	$ 21.36	2,362,991

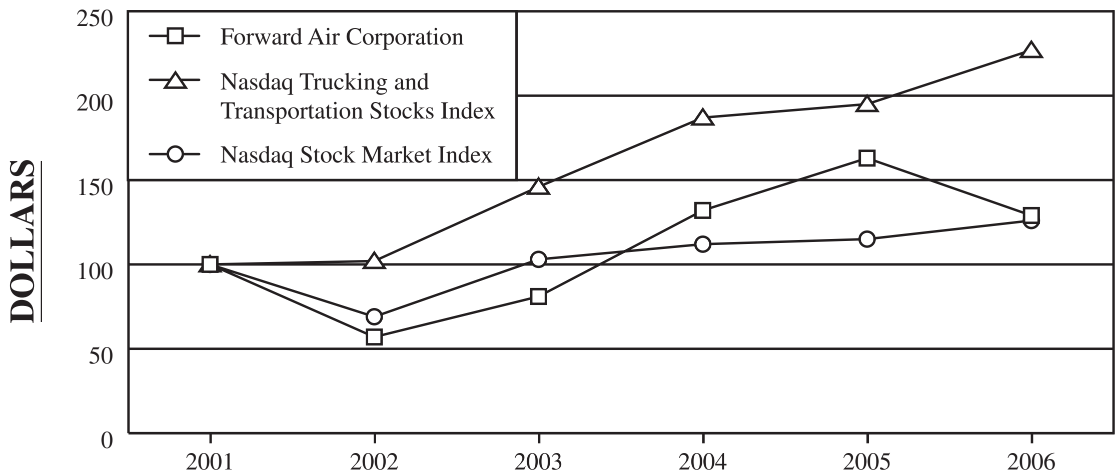
(1) Includes 57,005 shares of Common Stock issuable upon the exercise of options under the 1992 Plan. The 1992 Plan expired November 12, 2002. No additional options may be granted under the 1992 Plan.

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

(3) Includes shares available for future issuance under the ESPP. As of December 31, 2006, an aggregate of 479,079 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 2001 and ending on the last trading day of December 2006. The graph assumes a base investment of $100 made on December 31, 2001 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.



	2001	2002	2003	2004	2005	2006
Forward Air Corporation	$100	$ 57	$ 81	$132	$163	$129
NASDAQ Trucking and Transportation Stocks Index	100	102	146	187	195	227
NASDAQ Stock Market Index	100	69	103	112	115	126

Issuer Purchases of Equity Securities

The following table provides information with respect to purchases we made of shares of our Common Stock during each month in the quarter ended December 31, 2006.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program (1)
October 1-31, 2006	--	--	--	--
November 1-30, 2006	--	--	--	--
December 1-31, 2006	100,000	$ 29.48	1,386,673	1,613,327
Total	100,000	$ 29.48	1,386,673	1,613,327

(1) On November 17, 2005, we announced that our Board of Directors approved a stock repurchase program for up to 3.0 million shares of our Common Stock with a term expiring November 18, 2008.

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				
	2006	**2005**	**2004**	**2003**	**2002**
	(In thousands, except per share data)				
Income Statement Data:					
Operating revenue	$ 352,758	$ 320,934	$ 282,197	$ 241,517	$ 226,072
Income from operations	75,396	67,437	53,598	40,182	32,737
Operating margin (1)	21.4%	21.0%	19.0%	16.6%	14.5%
Net income	48,923	44,909	34,421	25,815	21,616
Net income per share: (2)					
Basic	$ 1.57	$ $1.41	$ 1.07	$ 0.81	$ 0.67
Diluted	$ 1.55	$ $1.39	$ 1.05	$ 0.79	$ 0.65
Cash dividends declared per common share (2)	$ 0.28	$ 0.24	$ --	$ --	$ --
Balance Sheet Data (at end of period):					
Total assets	$ 213,014	$ 212,600	$ 214,553	$ 175,087	$ 145,511
Long-term obligations, net of current portion	796	837	867	907	935
Shareholders' equity	185,227	178,816	181,003	147,708	118,346

(1) Income from operations as a percentage of operating revenue.
(2) Restated to reflect a three-for-two stock split declared in February 2005.

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

Overview and Executive Summary

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 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 through a network of 81 terminals located on or near airports in the United States and Canada, including a central sorting facility in Columbus, Ohio and nine regional hubs serving key markets.

In addition, during 2006 we introduced our new pick-up and delivery service called Forward Air Complete whereby we arrange for cargo to be picked up from and/or delivered to a customer-designated site. Through offering Forward Air Complete we expect to increase tonnage through our network by attracting new customers or shipments from existing customers that require door-to-door service. Revenue from the roll out of Forward Air Complete was $1.3 million during the year ended December 31, 2006.

Trends and Developments

During the year ended December 31, 2006 our logistics business experienced significant growth while the growth rate for our airport-to-airport business slowed over the last half of the year. The growth rate of our logistics business is driven by our added capacity and continuing efforts to promote and expand the business, as well as by our enhanced technology. During the year ended December 31, 2006, the one-year anniversary of our May 28, 2005 acquisition of certain assets of U.S. Xpress Enterprises, Inc. ("USX") occurred bringing an anticipated slowing of the airport-to-airport tonnage and revenue growth. In anticipation of this slowing, we began a number of initiatives focused on continued growth of our airport-to-airport business as well as overall revenue growth. These initiatives include the implementation of Forward Air Complete, our partnership with DHL Global Forwarding to be their primary ground transportation provider and new strategic business initiatives with United Airlines and Pilot Air Freight.

Also, during the year ended December 31, 2006 we completed a project to expand our national hub in Columbus, Ohio. The new expanded Columbus, Ohio facility is 125,000 square feet with 168 trailer doors. This premier facility can unload, sort and load upwards of 3.7 million pounds in five hours. In addition to the expansion, we process-engineered the freight sorting in the expanded building to improve handling efficiencies. The benefits will include reductions in the distance each shipment moves in the building to speed up the transfer process, less handling of freight to further improve service integrity and flexibility to operate multiple sorts at the same time.

Risk Factors

A summary of factors which could affect results and cause results to differ materially from those expressed in any forward-looking statements made by us, or on our behalf, are further described under the caption "Risk Factors" in the Business portion of our 2006 Form 10-K.

Results of Operations

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

	2006	2005	Change	% Change
Operating revenue:				
Airport-to-airport	$ 299.6	$ 276.9	$ 22.7	8.2%
Logistics	32.1	24.4	7.7	31.6
Accessorial	21.0	19.6	1.4	7.1
Total operating revenue	352.7	320.9	31.8	9.9
Operating expenses:				
Purchased transportation	146.7	132.9	13.8	10.4
Salaries, wages and employee benefits	74.4	68.1	6.3	9.3
Operating leases	14.5	13.5	1.0	7.4
Depreciation and amortization	8.9	8.9	--	--
Insurance and claims	6.0	5.2	0.8	15.4
Other operating expenses	26.8	24.9	1.9	7.6
Total operating expenses	277.3	253.5	23.8	9.4
Income from operations	75.4	67.4	8.0	11.9
Total other income	3.1	3.8	(0.7)	(18.4)
Income before income taxes	78.5	71.2	7.3	10.3
Income taxes	29.6	26.3	3.3	12.5
Net income	$ 48.9	$ 44.9	$ 4.0	8.9%

The following table sets forth our historical financial data for the years ended December 31, 2005 and 2004:

	2005	2004	Change	% Change
Operating revenue:				
Airport-to-airport	$ 276.9	$ 238.4	$ 38.5	16.1%
Logistics	24.4	24.1	0.3	1.2
Accessorial	19.6	19.7	(0.1)	(0.5)
Total operating revenue	320.9	282.2	38.7	13.7
Operating expenses:				
Purchased transportation	132.9	118.4	14.5	12.2
Salaries, wages and employee benefits	68.1	62.7	5.4	8.6
Operating leases	13.5	12.8	0.7	5.5
Depreciation and amortization	8.9	6.8	2.1	30.9
Insurance and claims	5.2	5.4	(0.2)	(3.7)
Other operating expenses	24.9	22.5	2.4	10.7
Total operating expenses	253.5	228.6	24.9	10.9
Income from operations	67.4	53.6	13.8	25.7
Total other income	3.8	1.1	2.7	245.5
Income before income taxes	71.2	54.7	16.5	30.2
Income taxes	26.3	20.3	6.0	29.6
Net income	$ 44.9	$ 34.4	$ 10.5	30.5%

The following table shows the percentage relationship of expense items to operating revenue for the years ended December 31, 2006, 2005 and 2004:

	2006	2005	2004
Operating revenue:			
Airport-to-airport	84.9	86.3%	84.5%
Logistics	9.1	7.6	8.5
Accessorial	6.0	6.1	7.0
Total operating revenue	100.0%	100.0%	100.0%
Operating expenses:			
Purchased transportation	41.6	41.4	42.0
Salaries, wages and employee benefits	21.1	21.2	22.2
Operating leases	4.1	4.2	4.5
Depreciation and amortization	2.5	2.8	2.4
Insurance and claims	1.7	1.6	1.9
Other operating expenses	7.6	7.8	8.0
Total operating expenses	78.6	79.0	81.0
Income from operations	21.4	21.0	19.0
Other income, net	0.9	1.2	0.4
Income before income taxes	22.3	22.2	19.4
Income taxes	8.4	8.2	7.2
Net income	13.9%	14.0%	12.2%

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

Operating revenue increased by $31.8 million, or 9.9%, to $352.7 million for the year ended December 31, 2006 from $320.9 million for the year ended December 31, 2005. Airport-to-airport revenue, which is the largest component of our operating revenue, increased $22.7 million, or 8.2%, to $299.6 million, accounting for 84.9% of our total operating revenue during the year ended December 31, 2006 compared to 86.3% for the year ended December 31, 2005. Airport-to-airport revenue decreased as a percentage of total operating revenue is the result of the significant growth of our logistics revenue, which is discussed below. The 8.2% increase in airport-to-airport revenue was driven by an increase in tonnage and an increase in average revenue per pound. Tonnage that transited our network increased by 2.2% in the year ended December 31, 2006 compared with the year ended December 31, 2005. The increase in tonnage is a result of positive trends among our customer base and the acquisition of certain assets of USX on May 28, 2005. These positive trends were offset by a decline in shipping demand during the last half of 2006, as demonstrated by the 3.0% decline in our average weight per shipment, despite a 5.3% increase in total shipments. Our airport-to-airport business is priced on a per pound basis and the average revenue per pound, including the impact of fuel surcharges, increased 5.9% for the year ended December 31, 2006 versus the year ended December 31, 2005. Average revenue per pound increased primarily as a result of rate increases implemented in March 2006 and increased fuel surcharges to offset rising fuel costs.

Our logistics revenue, which is primarily truckload brokerage and priced on a per mile basis, increased $7.7 million, or 31.6%, to $32.1 million, accounting for 9.1% of our total operating revenue during the year ended December 31, 2006 compared to 7.6% for the year ended December 31, 2005. Logistics revenue increased despite the loss of a significant customer in the second half of 2005 who accounted for approximately $1.6 million in logistics revenue during the year ended December 31, 2005. The increase in logistics revenue is primarily attributable to our ability to capture a larger percentage of truckload opportunities as a result of our increased access to sufficient capacity through third-party transportation providers. During the year ended December 31, 2006, we increased the number of miles driven to support our logistics revenue by 32.6%. The increase in miles driven is a result of our continued efforts to grow our logistics business and obtain additional customers. The average revenue per mile of our logistics business, including the impact of fuel surcharges, decreased 0.9% for the year ended December 31, 2006 versus the year ended December 31, 2005. The decrease in our revenue per mile is primarily a result of a change in the mix of business offset by increased fuel surcharges to offset rising fuel costs.

Accessorial revenue, which includes Forward Air Complete, warehousing services and terminal handling and accounts for our final component of operating revenue, increased $1.4 million, or 7.1% to $21.0 million for the year ended December 31, 2006 from $19.6 million for the year ended December 31, 2005. The increase in accessorial revenue is attributable to the 2006 introduction of Forward Air Complete and increases in other accessorial charges for special shipping needs, offset by decreases in terminal handling fees due to the customer loss discussed in logistics revenue.

Purchased transportation increased by $13.8 million, or 10.4%, to $146.7 million for the year ended December 31, 2006 from $132.9 million for the year ended December 31, 2005. The increase in purchased transportation is primarily attributable to an increase of approximately 9.5% in miles driven and an approximate 0.9% increase in the total cost per mile for the year ended December 31, 2006 versus the year ended December 31, 2005. As a percentage of total operating revenue, purchased transportation increased to 41.6% during the year ended December 31, 2006 compared to 41.4% in the same period of 2005. For the year ended December 31, 2006, purchased transportation costs for our airport-to-airport network decreased to 39.4% of airport-to-airport revenue for the year ended December 31, 2006 versus 40.0% for the year ended December 31, 2005. The proportionate improvement resulted from better load factors, or more revenue per mile, for the year ended December 31, 2006. For the year ended December 31, 2006, logistics purchased transportation costs represented 71.0% of logistics revenue versus 70.3% for the year ended December 31, 2005. The increase resulted from lower logistics revenue per mile discussed above and a 0.1% increase in our logistics cost per mile. Logistics cost per mile increased as a result of the use of more third-party transportation providers as opposed to our less costly fleet of owner-operators offset by lower third-party transportation provider rates due to our increased capacity and utilization. Accessorial purchased transportation costs as a percentage of accessorial revenue increased to 28.2% of accessorial revenue for the year ended December 31, 2006 from 25.1% for the year ended December 31, 2005. The increase as a percentage of revenue is primarily attributable to a change in the revenue mix resulting from the implementation of Forward Air Complete and the customer loss discussed in the analysis of logistics revenue.

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

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

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

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

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

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

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

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

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

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Operating revenue increased by $38.7 million, or 13.7%, to $320.9 million for 2005 from $282.2 million in 2004. Airport-to-airport, which is the largest component of our operating revenue, increased $38.5 million to $276.9 million, accounting for 86.3% of our total operating revenue. The increase in airport-to-airport revenue was driven, in part, by the acquisition of certain assets of USX in the second quarter of 2005. During 2005, we experienced an 8.2% increase in tonnage that transited our network as the result of a stronger economy and positive trends among our customer base. Our airport-to-airport business is priced on a per pound basis and the average revenue per pound including the impact of fuel surcharges increased 5.0% for 2005 versus 2004 primarily as the result of a rate increase implemented during the year. Our logistics revenue, which is primarily truckload brokerage and priced on a per mile basis, increased $0.3 million to $24.4 million in 2005. During the year, we decreased the number of miles driven to support our logistics revenue by 4.4% while increasing the revenue per mile including the impact of fuel surcharges charged by 5.8%. Accessorial revenue, which includes warehousing services and terminal handling and accounts for our final component of operating revenue, decreased $0.1 million to $19.6 million, a 0.4% decrease from 2004.

Purchased transportation decreased to 41.4% of operating revenue in 2005 versus 42.0% in the same period of 2004. The decrease in purchased transportation as a percentage of operating revenue was primarily attributed to a year over year improvement in tonnage transported through the airport-to-airport network and revenue per pound that allowed us to operate our network more efficiently in 2005 versus 2004. During the year, we increased the amount we spent for purchased transportation by $14.5 million, an increase of 12.2%. For 2005, purchased transportation costs for our airport-to-airport network represented 40.0% of airport-to-airport revenue versus 40.6% in 2004. During this period, we were able to increase both the volume and revenue per pound of freight, which enabled us to operate the airport-to-airport network more efficiently. These increases were offset, in part, by an increase in the number of miles needed to operate our system as well as an increase in the average rate per mile paid. For 2005, logistics purchased transportation costs represented 70.2% of logistics revenue versus 69.4% last year.

Salaries, wages and employee benefits were 21.2% of operating revenue in 2005 compared to 22.2% for the same period of 2004. The decrease in salaries, wages and employee benefits as a percentage of operating revenue was primarily attributed to a year over year improvement in operating revenue that allowed us to operate our network more efficiently in 2005 versus 2004. This includes a $1.3 million dollar, or 0.4% of operating revenue, charge resulting from the decision to accelerate the vesting of Common Stock options in the fourth quarter of 2005. Additionally, as a percentage of revenue, the amounts spent on health care decreased 0.3%, offset by a 0.1% increase in workers' compensation expenses.

Operating leases, the largest component of which is facility rent, were 4.2% of operating revenue in 2005 compared to 4.5% in the same period of 2004. The decrease in operating leases as a percentage of operating revenue between periods was primarily attributable to an increase in operating revenue as the dollar amount in this category increased between the two periods.

Depreciation and amortization expense as a percentage of operating revenue was 2.8% in 2005 compared to 2.4% in the same period of 2004. The increase in depreciation and amortization expense as a percentage of operating revenue was partially attributable to an increase in amortization associated with the purchase of certain intangible assets from USX. Additionally, there was increased depreciation resulting from the accelerated depreciation of trailers sold during the third and fourth quarters.

Insurance and claims were 1.6% of operating revenue in 2005 compared to 1.9% in the same period of 2004. The decrease as a percentage of operating revenue was driven by an increase in operating revenue as insurance expenses and claims expenses as a percentage of operating revenue decreased by 0.2% and 0.1%, respectively. We are self-insured for each auto liability claim in the amount of $500,000.

Other operating expenses were 7.8% of operating revenue in 2005 compared to 8.0% in the same period of 2004. Other operating expenses as a percentage of operating revenue decreased primarily as the result of a 0.2% gain from the sale of trailers, as well as a 0.1% decrease in corporate expenses. These decreases were offset, in part, by a 0.1% increase in terminal and operating expenses.

Income from operations increased by $13.8 million, or 25.7%, to $67.4 million for 2005 compared with $53.6 million for the same period in 2004. The increase in income from operations was primarily a result of the increase in operating revenue, including fuel surcharges, which was offset in part by increases in variable costs associated with operating the network.

Other income, net was $3.8 million, or 1.2% of operating revenue, in 2005 compared to $1.1 million, or 0.4%, for the same period in 2004. The increase in other income in total dollars and as a percentage of operating revenue was attributable to the year ended December 31, 2005 including the $1.4 million gain from our lawsuit settlement with the City of Atlanta regarding property we owned adjacent to the Atlanta Hartsfield-Jackson International Airport. The remaining increase in other income, net resulted from higher interest income attributed to higher yields on balances in available-for-sale securities during 2005.

The combined federal and state effective tax rate for 2005 was 37.0% of pre-tax income compared to a rate of 37.0% for the same period in 2004.

As a result of the foregoing factors, net income increased by $10.5 million, or 30.5%, to $44.9 million for 2005 compared to $34.4 million for the same period in 2004.

Discussion of Critical Accounting Policies

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

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

Allowance for Doubtful Accounts

We evaluate the collectibility of our accounts receivable based on a combination of factors. In circumstances in which management is aware of a specific customer's inability to meet its financial obligations to us (for example, bankruptcy filings or accounts turned over for collection or litigation), we record a specific reserve for these bad debts against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we recognize reserves for these bad debts based on the length of time the receivables are past due. Specifically, amounts that are 90 days or more past due are reserved at 50.0%. If circumstances change (i.e., we experience higher than expected defaults or an unexpected material adverse change in a customer's ability to meet its financial obligations to us), the estimates of the recoverability of amounts due to us could be reduced 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 2006, average revenue adjustments per month were approximately $0.2 million, on average revenue per month of approximately $29.6 million (less than 1.0% of monthly revenue). In order to estimate the allowance for revenue adjustments related to ending accounts receivable, we prepare an analysis that considers average monthly revenue adjustments and the average lag for identifying and quantifying these revenue adjustments. Based on this analysis, we establish an allowance for approximately 40-80 days (dependent upon experience in the last twelve months) of average revenue adjustments, adjusted for rebates and billing errors. The lag is periodically adjusted based on actual historical experience. Additionally, the average amount of revenue adjustments per month can vary in relation to the level of sales or based on other factors (such as personnel issues that could result in excessive manual errors or in excessive spot quotes being granted). Both of these significant assumptions are continually evaluated for validity.

Self-Insurance Loss Reserves

Given the nature of our operating environment, we are subject to vehicle and general liability, workers' compensation and health insurance claims. To mitigate a portion of these risks, we maintain insurance for individual vehicle and general liability claims exceeding $0.5 million and workers' compensation claims and health insurance claims exceeding approximately $0.3 million, except in Ohio, where we are a qualified self-insured 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 an actuary to evaluate open vehicle liability claims and estimate the ongoing development exposure.

Income Taxes

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

Valuation of Goodwill

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

Share-Based Compensation

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

Effective January 1, 2006, we adopted SFAS 123R and elected the modified prospective transition method. Under the modified prospective transition method, awards that are granted, modified, repurchased or canceled after the date of adoption should be measured and accounted for in accordance with SFAS 123R. Share-based awards that are granted prior to the effective date should continue to be valued in accordance with SFAS 123 and stock option expense for unvested options must be recognized in the statement of operations. 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, there was no additional compensation expense recognized during the year ended December 31, 2006 related to options granted prior to January 1, 2006.

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

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

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

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

Impact of Recent Accounting Pronouncements

During June 2006, the FASB issued FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109)"* ("FIN 48"), which is effective for us on January 1, 2007. This interpretation was issued to clarify the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance prescribed in FIN 48 establishes a recognition threshold of more likely than not that a tax position will be sustained upon examination. The measurement attribute of FIN 48 requires that a tax position be measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. We are continuing to evaluate the impact of FIN 48 on our consolidated financial statements as a result of on-going litigation between taxing authorities and entities that are not related to us in certain tax jurisdictions in which we file. The results of this litigation may materially impact the financial statement recognition of tax positions taken in certain state income tax returns. Upon initial adoption, as specified by FIN 48 any required cumulative effect adjustment will be charged to retained earnings.

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 early adoption encouraged. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS 157 does not require any new fair value measurements. However, the application of SFAS 157 could change current practice. We plan to adopt SFAS 157 on January 1, 2008, but the implementation of SFAS 157 is not expected to have a significant impact on our financial position or results of operations.

Liquidity and Capital Resources

We have historically financed our working capital needs, including capital purchases, with cash flows from operations and borrowings under our bank line of credit. Net cash provided by operating activities totaled approximately $52.5 million for the year ended December 31, 2006 compared to approximately $51.2 million in the same period of 2005. The increase in cash provided by operating activities was primarily generated from the increase in our net income and decreases in our income taxes receivable. These increases were offset by the reclassification of cash provided by tax deductions in excess of the compensation expense recorded for options, which due to the implementation of SFAS 123R is now recorded in financing cash flows.

Net cash provided by investing activities was approximately $0.8 million for the year ended December 31, 2006 compared with approximately $3.1 million provided by investing activities in the same period of 2005. Investing activities consisted primarily of the purchase and sale or maturities of available-for-sale securities, payments and deposits for expanded or new facilities and the purchase of operating equipment and management information systems during the year ended December 31, 2006. The decrease in cash provided by investing activities was the result of a $15.3 million decrease in net cash provided by the sale and purchasing of available-for-sale-securities. Also, the year ended December 31, 2005 included $2.8 million in cash provided by the settlement of our lawsuit with the City of Atlanta regarding property we owned adjacent to the Atlanta Hartsfield-Jackson International Airport. These decreases in cash provided were offset by $12.8 million in cash used for the acquisition of USX during the year ended December 31, 2005. Additionally, cash paid for capital expenditures and deposits, net of proceeds from the disposal of property and equipment, decreased $2.7 million.

Net cash used in financing activities totaled approximately $45.4 million for the year ended December 31, 2006 compared with approximately $54.1 million used in financing activities for the same period of 2005. The decrease in cash used in financing activities was primarily attributable to a $12.3 million decrease in cash used for the repurchase of our Common Stock. Also, cash used for financing activities improved due to the implementation of SFAS 123R and the $2.0 million benefit resulting from the requirement to classify tax deductions in excess of the compensation expense recorded for options as financing cash flows as opposed to operating cash flows. Offsetting these improvements in cash flow, during the year ended December 31, 2006 we received approximately $1.6 million less in proceeds from the exercise of stock options than during 2005. In addition, positive movements in cash used in financing activities were offset by a $1.0 million increase in cash dividends paid, a $1.5 million decrease in borrowings from our line of credit and a $1.5 million increase in payments on our line of credit.

During 2006, we substantially completed the project to expand our national hub in Columbus, Ohio and continue to execute our plan to acquire three sites in key gateway cities for construction of new terminals and regional hubs. For the national hub expansion, we have paid approximately $5.5 million through December 31, 2006. In addition, during 2006 we entered into an agreement to purchase real property and to construct a terminal near Chicago, Illinois for $22.1 million. A deposit of $3.3 million was paid to the sellers upon execution of the agreement. Also, in 2006 we entered into an agreement to purchase real property and to construct a new regional hub near Atlanta, Georgia for $14.8 million. A deposit of $1.5 million was paid to the sellers upon execution of the agreement. For both the Chicago and Atlanta agreements, the remainder of the purchase prices will be paid upon completion of each project, which we estimate will occur during the first half of 2007. In addition, during February 2007 we purchased 36.7 acres of land in Irving, Texas for $3.1 million. The land will be used to build a new regional hub. We expect to spend up to $15 million to complete this regional hub by the end of 2007.

On July 25, 2002, we announced that our Board of Directors approved a stock repurchase program for up to 3.0 million shares of Common Stock, which we completed in the third quarter of 2005. On November 17, 2005, we announced that our Board of Directors approved a subsequent stock repurchase program for an additional 3.0 million shares of Common Stock (the "2005 Repurchase Plan"). During the year ended December 31, 2006, we repurchased 1,302,695 shares of Common Stock under the 2005 Repurchase Plan for $41.7 million, or $32.03 per share.

On February 15, 2005, our Board of Directors declared a three-for-two stock split of our Common Stock to be effected in the form of a stock dividend to shareholders of record as of March 18, 2005. Common Stock issued and additional paid-in capital have been restated to reflect the split for all years presented. All common share and per share data have been restated to give effect to the stock split.

During the three months ended March 31, 2006, June 30, 2006, September 30, 2006 and December 31, 2006, dividends of $0.07 per share were declared on Common Stock then outstanding. The quarterly dividends were paid on March 31, 2006, June 9, 2006, September 8, 2006 and December 8, 2006. During the three months ended March 31, 2005, June 30, 2005, September 30, 2005 and December 31, 2005, dividends of $0.06 per share were declared on Common Stock then outstanding. The 2005 quarterly dividends were paid on April 18, 2005, June 3, 2005, September 2, 2005 and January 3, 2006. Subsequent to December 31, 2006, our Board of Directors declared a cash dividend of $0.07 per share that will be paid on March 30, 2007 to shareholders of record at the close of business on March 15, 2007. 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.

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

Off-Balance Sheet Arrangements

At December 31, 2006, we had letters of credit outstanding from a bank totaling $4.4 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, 2006 (in thousands) are summarized below:

Contractual Obligations	**Payment Due Period**				
	Total	**Less Than 1 Year**	**2-3 Years**	**4-5 Years**	**After 5 Years**
Capital lease obligations	$ 1,217	$ 89	$ 178	$ 178	$ 772
Real estate purchase commitments	32,088	32,088	--	--	--
Operating leases	28,698	11,127	13,248	4,224	99
Total contractual cash obligations	$ 62,003	$ 43,304	$ 13,426	$ 4,402	$ 871

As of December 31, 2006, we had a commitment to acquire 77 new forklifts for approximately $1.1 million during 2007. We can cancel the order for 25, or approximately $0.4 million, of these forklifts by March 30, 2007. This commitment is expected to be funded by proceeds from the sale of existing equipment and cash flows from operations.

We believe that our available cash, available-for-sale securities, cash expected to be generated from future operations and available borrowings under lines of credit, will be sufficient to satisfy these cash needs for at least the next twelve months.

Related Party Transactions

Scott M. Niswonger, Chairman of the Board until May 2005, owns a majority interest in Landair Transport, Inc. ("Landair"). Matthew J. Jewell, our Senior Vice President and General Counsel, served in these same capacities with Landair until May 2004. During 2004, we purchased approximately $0.2 million of truckload transportation services from Landair, which have been included in purchased transportation in our consolidated statements of income. No transportation services were purchased from Landair during 2006 and 2005.

During 2004, we provided various operational and administrative services to Landair. We charged Landair approximately $0.2 million during 2004 for these services. These amounts have been included as a reduction of salaries, wages and employee benefits in our consolidated statements of income for 2004. Landair provided various operational and administrative services to us and charged approximately $0.1 million during the year ended December 31, 2004 for these services. These charges have been included in salaries, wages and employee benefits in our consolidated statements of income. No operational and administrative services were provided during 2006 and 2005.

Until September 2005, we had a sublease with Landair pursuant to which we sublet to Landair a portion of our headquarters in Greeneville, Tennessee that is leased from the Greeneville-Greene County Airport Authority. We sublet the facility to Landair for consideration based upon the cost of such facility to us and an agreed-upon percentage of usage. Sublease rental income charged to Landair in 2005 and 2004 was less than $0.1 million in both years. These amounts are included in sublease rental income disclosed in our consolidated statements of income.

Transactions with Sky Night, LLC

Sky Night, LLC ("Sky Night") is a limited liability corporation owned by Mr. Niswonger, Chairman of the Board until May 2005. During 2006, 2005 and 2004 we purchased air transportation services from Sky Night. Air charter expense totaled $0.1 million in 2006, 2005 and 2004, respectively.

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

Forward-Looking Statements

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Except for capital lease obligations totaling $0.8 million, we had no long-term debt at December 31, 2006. Accordingly, our exposure to market risk related to debt is not significant.

We are also exposed to changes in interest rates from our available-for-sale securities. As a result of the regularly reset interest rates to market rates on the available-for-sale securities we own, a material adverse effect to the fair market value of the investments is unlikely.

Item 8. Financial Statements and Supplementary Data

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

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

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

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

Management's Report on Internal Control over Financial Reporting

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

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2006. 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 believe, as of December 31, 2006, that our internal control over financial reporting was effective based on those criteria.

Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2006, has been audited by Ernst & Young LLP, the independent registered public accounting firm who also audited our consolidated financial statements. Ernst & Young LLP's attestation report on management's assessment of our internal control over financial reporting appears below.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth quarter of 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Forward Air Corporation

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Forward Air Corporation maintained effective internal control over financial reporting as of December 31, 2006, 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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, management's assessment that Forward Air Corporation maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Forward Air Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Forward Air Corporation as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006 and our report dated February 26, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee
February 26, 2007

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 2007 Annual Meeting of Shareholders (the "2007 Proxy Statement"). The 2007 Proxy Statement will be filed with the SEC not later than 120 days subsequent to December 31, 2006.

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 2007 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 2007 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 2007 Proxy Statement.

Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated herein by reference to the 2007 Proxy Statement.

Part IV

Item 15. Exhibits, Financial Statement Schedules

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

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

(a)(3) List of Exhibits.

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

(b) Exhibits.

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

(c) Financial Statement Schedules.

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

SIGNATURES

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

Forward Air Corporation

Date: February 27, 2007

By: /s/ Bruce A. Campbell
Bruce A. Campbell
President and Chief Executive 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/ Richard W. Hanselman Richard W. Hanselman	Chairman of the Board	February 27, 2007
/s/ Bruce A. Campbell Bruce A. Campbell	President, Chief Executive Officer and Director (Principal Executive Officer)	February 27, 2007
/s/ Rodney L. Bell Rodney L. Bell	Chief Financial Officer, Senior Vice President and Treasurer (Principal Financial and Accounting Officer)	February 27, 2007
/s/ C. Robert Campbell C. Robert Campbell	Director	February 27, 2007
/s/ C. John Langley, Jr. C. John Langley, Jr.	Director	February 27, 2007
/s/ G. Michael Lynch G. Michael Lynch	Director	February 27, 2007
/s/ Ray A. Mundy Ray A. Mundy	Director	February 27, 2007
/s/ B. Clyde Preslar B. Clyde Preslar	Director	February 27, 2007

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Annual Report on Form 10-K

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

List of Financial Statements and Financial Statement Schedule

Financial Statements and Supplementary Data

Certain Exhibits

Financial Statement Schedule

Year Ended December 31, 2006

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, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Forward Air Corporation at December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with United States 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, present fairly in all material respects the information set forth therein.

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

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Forward Air Corporation's internal control over financial reporting as of December 31, 2006, 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 26, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee
February 26, 2007

Forward Air Corporation

Consolidated Balance Sheets

	December 31	
	2006	2005
	(In thousands, except share data)	
Assets		
Current assets:		
Cash	$ 8,231	$ 332
Short-term investments	61,650	79,000
Accounts receivable, less allowances of $860 in 2006 and $922 in 2005	48,486	45,763
Income taxes receivable	3,403	5,179
Inventories	501	567
Prepaid expenses and other current assets	4,114	4,455
Deferred income taxes	1,178	1,438
Total current assets	127,563	136,734
Property and equipment:		
Land	2,611	2,611
Buildings	12,367	8,051
Equipment	82,646	77,165
Leasehold improvements	3,566	3,259
Total property and equipment	101,190	91,086
Accumulated depreciation and amortization	47,875	43,864
Net property and equipment	53,315	47,222
Goodwill and other acquired intangibles:		
Goodwill	15,588	15,588
Other acquired intangibles, net of accumulated amortization of $2,019 in 2006 and $744 in 2005	10,731	12,007
Total net goodwill and other acquired intangibles	26,319	27,595
Other assets	5,817	1,049
Total assets	$ 213,014	$ 212,600

Forward Air Corporation

Consolidated Balance Sheets (continued)

	December 31	
	2006	**2005**
	(In thousands, except share data)	
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 7,949	$ 12,640
Accrued payroll and related items	3,117	3,262
Insurance and claims accruals	3,265	4,381
Payables to owner-operators	2,128	1,779
Collections on behalf of customers	1,347	1,572
Other accrued expenses	1,287	788
Short-term debt	--	1,504
Current portion of capital lease obligations	40	38
Total current liabilities	19,133	25,964
Capital lease obligations, less current portion	796	837
Other long-term liabilities	1,271	--
Deferred income taxes	6,587	6,983
Commitments and contingencies (Note 9)		
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 - 30,372,082 in 2006 and 31,360,842 in 2005	304	314
Additional paid-in capital	--	--
Accumulated other comprehensive income	--	--
Retained earnings	184,923	178,502
Total shareholders' equity	185,227	178,816
Total liabilities and shareholders' equity	$ 213,014	$ 212,600

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

Forward Air Corporation

Consolidated Statements of Income

	Year ended December 31		
	2006	**2005**	**2004**
	(In thousands, except per share data)		
Operating revenue	$ 352,758	$ 320,934	$ 282,197
Operating expenses:			
Purchased transportation	146,721	132,912	118,425
Salaries, wages and employee benefits	74,448	68,086	62,728
Operating leases	14,458	13,486	12,791
Depreciation and amortization	8,934	8,947	6,817
Insurance and claims	5,967	5,202	5,382
Other operating expenses	26,834	24,864	22,456
Total operating expenses	277,362	253,497	228,599
Income from operations	75,396	67,437	53,598
Other income (expense):			
Interest expense	(81)	(104)	(55)
Other, net	3,229	3,904	1,127
Total other income	3,148	3,800	1,072
Income before income taxes	78,544	71,237	54,670
Income taxes	29,621	26,328	20,249
Net income	$ 48,923	$ 44,909	$ 34,421
Income per share:			
Basic	$ 1.57	$ 1.41	$ 1.07
Diluted	$ 1.55	$ 1.39	$ 1.05
Dividends declared per share	$ 0.28	$ 0.24	$ --

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

Forward Air Corporation

Consolidated Statements of Shareholders' Equity

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount				
			(In thousands)			
Balance at December 31, 2003	32,245	$ 322	$ 37,410	$ 109,975	$ 1	$ 147,708
Net income for 2004	--	--	--	34,421	--	34,421
Unrealized gain on securities available for sale, net of $2 tax	--	--	--	--	3	3
Comprehensive income						34,424
Exercise of stock options	588	6	7,097	--	--	7,103
Common stock issued under employee stock purchase plan	14	--	250	--	--	250
Common stock repurchased under stock repurchase plan	(449)	(4)	(11,384)	--	--	(11,388)
Income tax benefit from stock options exercised	--	--	2,906	--	--	2,906
Balance at December 31, 2004	32,398	324	36,279	144,396	4	181,003
Net income for 2005	--	--	--	44,909	--	44,909
Unrealized loss on securities available for sale, net of ($2) tax	--	--	--	--	(4)	(4)
Comprehensive income						44,905
Exercise of stock options	643	6	6,206	--	--	6,212
Common stock issued under employee stock purchase plan	11	1	293	--	--	294
Acceleration of vesting of stock options	--	--	1,300	--	--	1,300
Dividends ($0.24 per share)	--	--	--	(7,668)	--	(7,668)
Common stock repurchased under stock repurchase plan	(1,690)	(17)	(49,108)	(3,135)	--	(52,260)
Cash paid for fractional shares in 3-for-2 stock split	(1)	--	(44)	--	--	(44)
Income tax benefit from stock options exercised	--	--	5,074	--	--	5,074
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

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

Forward Air Corporation

Consolidated Statements of Cash Flows

	Year ended December 31		
	2006	2005	2004
		(In thousands)	
Operating activities:			
Net income	$ 48,923	$ 44,909	$ 34,421
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,934	8,947	6,817
Share-based compensation	1,307	1,300	--
Atlanta condemnation settlement gain	--	(1,428)	--
Other non-cash charges	--	274	--
Gain on sale of property and equipment	(42)	(728)	--
Provision for (recovery) loss on receivables	(223)	(121)	161
Provision for revenue adjustments	2,095	2,100	1,848
Deferred income taxes	(136)	(48)	1,511
Tax benefit of stock options exercised	(1,967)	5,074	2,906
Changes in operating assets and liabilities:			
Accounts receivable	(6,516)	(7,438)	(8,886)
Inventories	66	(145)	(23)
Prepaid expenses and other current assets	341	(705)	(1,081)
Accounts payable and accrued expenses	(4,058)	615	4,262
Income taxes	3,743	(1,374)	(4,521)
Net cash provided by operating activities	52,467	51,232	37,415
Investing activities:			
Proceeds from disposal of property and equipment	3,665	2,804	9
Purchases of property and equipment	(15,454)	(22,077)	(11,200)
Deposits in escrow for construction of new terminals	(4,793)	--	--
Proceeds from sales or maturities of available-for-sale securities	229,330	229,865	232,496
Purchases of available-for-sale securities	(211,980)	(197,265)	(273,916)
Acquisition of business	--	(12,750)	--
Proceeds from Atlanta condemnation settlement/release of amounts held in escrow	--	2,765	1,260
Other	26	(242)	(94)
Net cash provided by (used in) investing activities	794	3,100	(51,445)
Financing activities:			
Payments of capital lease obligations	(39)	(31)	(30)
(Payments) borrowings on line of credit	(1,504)	1,504	--
Proceeds from exercise of stock options	4,362	5,938	7,103
Payments of cash dividends	(8,694)	(7,668)	--
Cash paid for fractional shares in 3-for-2 stock split	--	(44)	--
Proceeds from common stock issued under employee stock purchase plan	268	294	250
Repurchase of common stock	(41,722)	(54,071)	(9,577)
Tax benefit of stock options exercised	1,967	--	--
Net cash used in financing activities	(45,362)	(54,078)	(2,254)
Net increase (decrease) in cash	7,899	254	(16,284)
Cash at beginning of year	332	78	16,362
Cash at end of year	$ 8,231	$ 332	$ 78
Common stock repurchase liabilities included in accounts payable	$ --	$ --	$ 1,811
Uncollected proceeds from disposal of property and equipment in accounts receivable	$ 49	$ 1,970	$ --

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

FORWARD AIR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006
(In thousands, except share and per share data)

1. Accounting Policies

Basis of Presentation and Principles of Consolidation

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

The Company operates a comprehensive national network for the time-definite surface transportation of deferred air freight. The Company provides its transportation services through a network of terminals located at or near airports in the United States and Canada. The Company's customers primarily consist of air freight forwarders, domestic and international airlines and integrated air cargo carriers. The Company's operations involve receiving shipments at its terminals or picking up shipments directly from customers and transporting them by truck. The shipments are delivered to the terminals nearest their destinations and then, if requested by the customer, on to final designated sites. These activities constitute a single business segment as defined by the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 131, *Disclosure about Segments of an Enterprise and Related Information*.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Significant areas requiring management estimates include the following key financial areas:

Allowance for Doubtful Accounts

The Company evaluates the collectibility of its 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 the Company (for example, bankruptcy filings, accounts turned over for collection or litigation), the Company records a specific reserve for these bad debts against amounts due to reduce the net recognized receivable to the amount the Company reasonably believes will be collected. For all other customers, the Company recognizes reserves for these bad debts based on the length of time the receivables are past due. Specifically, amounts that are 90 days or more past due are reserved at 50.0%. If circumstances change (i.e., the Company experiences higher than expected defaults or an unexpected material adverse change in a customer's ability to meet its financial obligations to the Company), the estimates of the recoverability of amounts due to the Company could be reduced by a material amount. Accounts are written off after all means of collection, including legal action, have been exhausted.

Allowance for Revenue Adjustments

The Company's allowance for revenue adjustments consists of amounts reserved for billing rate changes that are not captured upon load initiation. These adjustments generally arise: (1) when the sales department contemporaneously grants small rate changes ("spot quotes") to customers that differ from the standard rates in the system; (2) when freight requires dimensionalization or is reweighed resulting in a different required rate; (3) when billing errors occur; and (4) when data entry errors occur. When appropriate, permanent rate changes are initiated and reflected in the system. The Company monitors 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 2006, average revenue adjustments per month were approximately $175, on average revenue per month of approximately $29,571 (less than 1.0% of monthly revenue). In order to estimate the allowance for revenue adjustments related to ending accounts receivable, the Company prepares an analysis that considers average monthly revenue adjustments and the average lag for identifying and quantifying these revenue adjustments. Based on this analysis, the Company establishes 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.

1. Accounting Policies (Continued)

Self-Insurance Loss Reserves

Given the nature of the Company's operating environment, the Company is subject to vehicle and general liability, workers' compensation and health insurance claims. To mitigate a portion of these risks, the Company maintains insurance for individual vehicle and general liability claims exceeding $500 and workers' compensation claims and health insurance claims exceeding $250, except in Ohio, where for workers' compensation we are a qualified self-insured with a $350 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 the Company's 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, the Company utilizes an actuary to evaluate open claims and estimate the ongoing development exposure.

Revenue Recognition

Operating revenue and related costs are recognized as of the date shipments are completed. No single customer accounted for more than 10.0% of operating revenue in 2006, 2005 or 2004.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents.

Available-For-Sale Securities

Available-for-sale securities are carried at fair value, with unrealized gains and losses, net of tax, reported in other comprehensive income. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity computed under the effective interest method. Such amortization is included in other income. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in other income. The cost of securities sold is based on the specific identification method. Interest on securities classified as available-for-sale is included in other income in the consolidated statements of income.

Inventories

Inventories of tires, replacement parts, supplies, and fuel for equipment are stated at the lower of cost or market utilizing the FIFO (first-in, first-out) method of determining cost. Inventories of tires and replacement parts are not material in the aggregate. Replacement parts are expensed when placed in service, while tires are capitalized and amortized over their expected life. Replacement parts and tires are included as a component of other operating expenses in the consolidated statements of income.

Property and Equipment

Property and equipment are stated at cost. Expenditures for normal repair and maintenance are expensed as incurred. Depreciation of property and equipment is calculated based upon the cost of the asset, reduced by its estimated salvage value, using the straight-line method over the estimated useful lives as follows:

Buildings	30-40 years
Equipment	3-10 years
Leasehold improvements	Lesser of Useful Life or Initial Lease Term

1. Accounting Policies (Continued)

Depreciation expense for each of the three years ended December 31, 2006, 2005 and 2004 was $7,659, $8,203 and $6,817, respectively.

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is recognized on assets classified as held and used 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, the estimated fair value of the asset is compared to its net book value to measure the impairment charge, if any. When the criteria have been met for long-lived assets to be classified as held for sale, the assets are recorded at the lower of carrying value or fair market value (less selling costs).

Operating Leases

Certain operating leases include rent increases during the initial lease term. For these leases, the Company recognizes the related rental expenses on a straight-line basis over the term of the lease, which includes any rent holiday period, and records the difference between the amounts charged to operations and amount paid as rent as a rent liability.

Goodwill and Other Intangible Assets

Goodwill is recorded at cost based on the excess of purchase price over the fair value of assets acquired. Under the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill and intangible assets with indefinite lives are not amortized but are subject to annual impairment tests in accordance with the statement. Other intangible assets are amortized over their useful lives. The Company completed the required annual impairment test of goodwill during each of the second quarters of 2006, 2005 and 2004, and determined that goodwill had not been impaired. Any subsequent impairment losses will be reflected in income from operations in the consolidated statements of income.

The definite-lived intangible assets of the Company resulting from the acquisition of certain assets of U.S. Express Enterprises, Inc. (“USX”) and the related amortization are described in Note 2**,** Acquisition of Business.

Software Development

Costs related to software developed or acquired for internal use are expensed or capitalized and then amortized in accordance with the American Institute of Certified Public Accountants Statement Of Position No. 98-1*, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. The Company uses a five-year straight line amortization for the capitalized amounts of software development costs.

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.

Income Per Share

The Company calculates income per share in accordance with SFAS No. 128, *Earnings Per Share* (“SFAS 128”). Under SFAS 128, income per basic share excludes any dilutive effects of options, warrants and convertible securities. Income per diluted share includes any dilutive effects of options, warrants and convertible securities, and uses the treasury stock method in calculating dilution. All income per share data included in the consolidated financial statements and notes thereto have been restated to give effect to a three-for-two stock split declared in February 2005 (see Note 5).

1. Accounting Policies (Continued)

Comprehensive Income

Comprehensive income includes any changes in the equity of the Company from transactions and other events and circumstances from non-operational sources. Unrealized gains and losses on available-for-sale securities are included in other comprehensive income for all years presented.

Share-Based Payments

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*, the Company accounted for share-based payments to employees using Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*. As such, the Company 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. The Company 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, the Company adopted SFAS No. 123(R), *Share-Based Payments* ("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 operations. On December 31, 2005, the Company's Board of Directors accelerated the vesting of all outstanding and unvested stock options awarded to employees, officers and non-employee directors under the Company's stock option award plans. The primary purpose of the accelerated vesting of these options was to eliminate future compensation expense that the Company would otherwise have recognized in its statement of operations with respect to these unvested options upon the adoption of SFAS 123R. As a result of the acceleration of the vesting of the Company's outstanding and unvested options in 2005, there was no additional compensation expense recognized during the year ended December 31, 2006 related to options granted prior to January 1, 2006.

Prior to the implementation of SFAS 123R, the Company utilized stock options as the sole form of share-based awards. During the year ended December 31, 2006, the Company granted non-vested shares of common stock ("non-vested shares") to key employees. The non-vested shares' fair values were estimated using opening market prices for the business day of the grant. The share-based compensation for the non-vested shares is recognized, net of estimated forfeitures, ratably over the requisite service period, or vesting period, of three years. Forfeitures have been estimated based on historical experience, but will be adjusted for future changes in forfeiture experience. The Company estimates the forfeitures of dividends paid on non-vested shares and records expense for the estimated forfeitures in accordance with SFAS 123R.

Under the 2005 Employee Stock Purchase Plan (the "ESPP"), which has been approved by shareholders, the Company is 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, the Company recognizes share-based compensation on the date of purchase based on the difference between the purchase date fair market value and the employee purchase price.

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

SFAS 123R also requires companies to calculate an initial "pool" of excess tax benefits available at the adoption date to absorb any unused deferred tax assets that may be recognized under SFAS 123R. The pool includes the net excess tax benefits that would have been recognized if the Company had adopted SFAS 123 for recognition purposes on its effective date. The Company has elected to calculate the pool of excess tax benefits under the alternative transition method described in 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 the Company must use to calculate excess tax benefits reported on the statement of cash flows.

1. Accounting Policies (Continued)

If the Company had adopted SFAS 123R in the prior periods the amount of compensation cost that would have been recognized during the years ended December 31, 2005 and 2004, would have approximated the following:

	2005	2004
Net income, as reported	$ 44,909	$ 34,421
Pro forma compensation expense, net of tax	(12,579)	(2,658)
Pro forma net income	$ 32,330	$ 31,763
Pro forma net income per share:		
Basic	$ 1.02	$ 0.98
Diluted	$ 1.00	$ 0.96

The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2005 and 2004, respectively: risk-free interest rates of 4.0% and 3.7%; dividend yields of 0.8% and 0.0%; volatility factors of the expected market price of the common stock of 0.4 and 0.4; and a weighted-average expected life of the option of seven years. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

Recently Issued Accounting Pronouncements

During June 2006, the FASB issued FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109)"* ("FIN 48"), which is effective for the Company on January 1, 2007. This interpretation was issued to clarify the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance prescribed in FIN 48 establishes a recognition threshold of more likely than not that a tax position will be sustained upon examination. The measurement attribute of FIN 48 requires that a tax position be measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company is continuing to evaluate the impact of FIN 48 on its consolidated financial statements as a result of on-going litigation between taxing authorities and entities that are not related to the Company in certain tax jurisdictions in which the Company files. The results of this litigation may materially impact the financial statement recognition of tax positions taken in certain state income tax returns. Upon initial adoption, as specified by FIN 48 any required cumulative effect adjustment will be charged to retained earnings.

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 early adoption encouraged. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS 157 does not require any new fair value measurements. However, the application of SFAS 157 could change current practice. The Company plans to adopt SFAS 157 on January 1, 2008, but the implementation of SFAS 157 is not expected to have a significant impact on our financial position or results of operations.

Reclassifications

Certain reclassifications have been made to prior-year financial statements to conform to the 2006 presentation. These reclassifications had no effect on net income as previously reported.

2. Acquisition of Business

On May 28, 2005, the Company acquired certain assets of the airport-to-airport operations of USX for $12,750 in cash. In connection with the purchase, the Company acquired the airport-to-airport customer list of USX and USX agreed not to compete in the airport-to-airport market for a period of ten years. The purchase price allocation in accordance with SFAS No. 141, *Business Combinations*, is acquired intangible assets with a total value of $12,750 (majority of the allocation to the non-compete agreement). The acquired intangible assets will be amortized over a period of ten years. The Company began amortizing the assets on a straight-line basis during June 2005 and recorded amortization expense of approximately $1,275 and $744 for the years ended December 31, 2006 and 2005, respectively. Ongoing annual amortization expense will be $1,275 for the next five years and throughout the life of the assets. The results of operations of the USX airport-to-airport operations are included in the consolidated income statement for the year ended December 31, 2006, but only the results of operations from May 28, 2005 through December 31, 2005 are included in the consolidated income statement for the year ended December 31, 2005.

The airport-to-airport business had been reported by USX as a part of the Xpress Global Systems (“XGS”) business segment. XGS had total revenue for the year ended December 31, 2004 of approximately $159,000, of which an estimated $57,000 was attributable to the airport-to-airport operations. The XGS segment reported an operating loss of approximately $5,000 for the year ended December 31, 2004. USX did not account for the related expenses of the airport-to-airport operations separately within the XGS segment and, accordingly, the USX operating profit or loss attributable to the airport-to-airport operations is not known.

3. Investments

The Company had a total of $61,650 and $79,000 in available-for-sale securities as of December 31, 2006 and 2005, respectively. The Company’s investments consist of state municipal bonds (often referred to as auction rate securities). The Company has the option to go to auction every 7-35 days with the auction rate securities, but the stated maturities of the investments are longer-term. The Company had interest income of $2,973, $2,476 and $1,143 for each of the years ended December 31, 2006, 2005 and 2004, respectively, on its investments.

Securities are classified as available for sale when the Company does not intend to hold the securities to maturity nor regularly trade the securities.

The following is a summary of available-for-sale securities at December 31, 2006 and 2005:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2006				
Available-for-sale securities	$ 61,650	$ --	$ --	$ 61,650
December 31, 2005				
Available-for-sale securities	$ 78,999	$ 1	$ --	$ 79,000

The gross realized gains (losses) on sales of available-for-sale securities totaled $0 for each of the years ended December 31, 2006, 2005 and 2004, respectively. The net adjustments to unrealized holding gains (losses) on available-for-sale securities included in other comprehensive income totaled $0, ($4) and $3 in 2006, 2005 and 2004, respectively. Realized gains and losses are recorded based on the specific identification of securities sold.

The net carrying value and estimated fair value of debt securities at December 31, 2006 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the Company has the intent and ability to sell prior to stated maturity without penalty (via auction).

3. Investments (Continued)

	Cost	Fair Value
Debt securities:		
Contractual maturity within one year	$ --	$ --
Contractual maturity after one year through five years	8,400	8,400
Contractual maturity after five years through ten years	700	700
Contractual maturity after ten years	52,550	52,550
Total debt securities with contractual maturities	$ 61,650	$ 61,650

4. Credit Facilities and Long-Term Debt

The Company has a $20,000 unsecured working capital line of credit facility with a Tennessee bank. On May 25, 2006, the Company amended the unsecured working capital line of credit facility to extend the maturity date to April 30, 2008. Interest rates for advances under the facility vary from LIBOR plus 1.0% to 1.9% based upon covenants related to total indebtedness and cash flows, (6.4% and 5.3% at December 31, 2006 and 2005, respectively). The agreement contains certain covenants and restrictions, none of which are expected to significantly affect our operations or ability to pay dividends. As of December 31, 2006 and 2005, the Company had $0 and $1,504 outstanding under the line of credit facility, respectively. At December 31, 2006 and 2005, the Company had $15,615 and $14,196 of available borrowing capacity outstanding under the line, respectively, and had utilized $4,385 and $4,300 of availability for outstanding letters of credit, respectively.

Interest payments during 2006, 2005 and 2004 were $81, $104 and $55, respectively, none of which were capitalized.

5. Shareholders' Equity and Stock Options

Preferred Stock — The Board of Directors is authorized to issue, at its discretion, up to 5,000,000 shares of preferred stock, par value $0.01. The terms and conditions of the preferred shares are to be determined by the Board of Directors. No shares have been issued to date.

Common Stock Split— On February 15, 2005, the Board of Directors declared a three-for-two stock split of the common stock to be effected in the form of a stock dividend to shareholders of record as of March 18, 2005. Common stock issued and additional paid-in capital have been restated to reflect the split for all years presented. All common share and per share data included in the consolidated financial statements and notes thereto have been restated to give effect to the stock split.

Cash Dividend — Prior to February 15, 2005, the Company had never declared a cash dividend. During each quarter of 2006, the Company's Board of Directors declared a cash dividend of $0.07 per share of common stock. During each quarter of 2005, the Company's Board of Directors declared a cash dividend of $0.06 per share of common stock. On February 12, 2007, the Company's Board of Directors declared a $0.07 per share dividend that will be paid in the first quarter of 2007. The Company expects to continue to pay regular quarterly cash dividends, though each subsequent quarterly dividend is subject to review and approval by the Board of Directors.

*Repurchase of Common Stoc*k — On July 25, 2002, the Company announced that its Board of Directors approved a stock repurchase program for up to 3,000,000 shares of common stock (the "2002 Repurchase Plan"). During the third quarter of 2005, the Company completed the repurchase of the shares authorized under the 2002 Repurchase Plan. For the year ended December 31, 2005, the Company repurchased 1,558,350 shares of common stock, under the 2002 Repurchase Plan for $49,049, or $31.47 per share.

On November 17, 2005, the Company announced that its Board of Directors approved a stock repurchase program for up to 3,000,000 shares of common stock (the "2005 Repurchase Plan"). For the year ended December 31, 2006, the Company repurchased 1,302,695 shares of common stock under the 2005 Repurchase Plan for $41,722, or $32.03 per share. For the year ended December 31, 2005, the Company repurchased 83,978 shares of common stock under the 2005 Repurchase Plan for $3,210, or $38.23 per share.

5. Shareholders' Equity and Stock Options (Continued)

Share-Based Compensation — At December 31, 1998, the Company had reserved 4,500,000 shares of common stock under the 1992 Amended and Restated Stock Option and Incentive Plan (the "1992 Plan"). As of February 2004, the Company had reserved 4,500,000 common shares under the 1999 Stock Option and Incentive Plan, resulting in a total of 9,000,000 shares being reserved under the Plans. Options issued under the Plans have eight to ten-year terms and originally vested over a one to five year period. As of November 12, 2002, no additional options may be granted under the 1992 Plan resulting in the cancellation of 57,000 options available for grant under the 1992 Plan. On December 31, 2005, the Company's Board of Directors accelerated the vesting of all of the Company's outstanding and unvested stock options awarded to employees, officers and non-employee directors under the Company's stock option award plans.

The following table summarizes the Company's employee stock option activity and related information for the years ended December 31, 2006, 2005 and 2004:

	2006		2005		2004	
	Options (000)	Weighted-Average Exercise Price	Options (000)	Weighted-Average Exercise Price	Options (000)	Weighted-Average Exercise Price
Outstanding at beginning of year	1,957	$ 23	1,443	$ 15	1,476	$ 15
Granted/converted	--	--	985	29	326	19
Exercised	(476)	23	(443)	9	(333)	17
Forfeited	(6)	34	(28)	22	(26)	19
Outstanding at end of year	1,475	$ 23	1,957	$ 23	1,443	$ 15
Exercisable at end of year	1,475	$ 23	1,957	$ 23	783	$ 12
Options available for grant	1,192		1,315		2,273	
Average aggregate intrinsic value	$ 18,381					
Weighted-average fair value of options granted during the year	$ --		$ 12.79		$ 9.49	

The following table summarizes information about stock options outstanding as of December 31, 2006:

Range of Exercise Price	Number Outstanding (000)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable (000)	Weighted-Average Exercise Price
$ 4.17 — 4.95	68	2.0 years	$ 4	68	$ 4
11.33 — 15.87	226	5.9 years	14	226	14
17.60 — 24.94	402	6.0 years	20	402	20
28.97 — 32.46	779	8.1 years	29	779	29
$ 4.17 — 32.46	1,475	6.9 years	$ 23	1,475	$ 23

5. Shareholders' Equity and Stock Options (Continued)

Each May from 1995 to 2005 options have been granted to the non-employee directors of the Company. The options have terms of ten years and are fully exercisable. At December 31, 2006, 111,875 options were outstanding and will expire in July 2010 through May 2015 unless a non-employee director resigns or is not re-elected, in which event the options expire 90 days after the option holder is no longer a non-employee director. During the year ended December 31, 2006, 2,500 options with a weighted-average exercise price of $20.20 were exercised. At December 31, 2006, the total aggregate intrinsic value of these options was $1,513 and the weighted-average exercise price and remaining contractual term were $22.13 and 6.7 years, respectively.

During the year ended December 31, 2006, the Company granted 129,350 non-vested shares of common stock ("non-vested shares"), respectively, to key employees with a weighted-average fair value of $36.09. During the year ended December 31, 2006, employees forfeited 13,750 non-vested shares with a weighted-average fair value of $36.17 per share. Share-based compensation expense of $1,175 was recognized in salaries, wages and employee benefits during the year ended December 31, 2006. Estimated dividend forfeitures on non-vested shares recorded to share-based compensation during the year ended December 31, 2006 were $5. The total tax benefit related to this share-based expense was $443 for the year ended December 31, 2006. Total compensation cost, net of estimated forfeitures, related to the non-vested shares not yet recognized in earnings was $2,827 at December 31, 2006.

On May 23, 2006, the Company's shareholders approved the Company's 2006 Non-Employee Director Stock Plan (the "2006 Plan"). The 2006 Plan is designed to better enable the Company to attract and retain well-qualified persons for service as directors of the Company. Under the 2006 Plan, on the first business day after each Annual Meeting of Shareholders, each non-employee director will automatically be granted an award of 2,250 non-vested shares of the Company's common stock. The non-vested shares will become vested and non-forfeitable in equal annual installments over three years. Each director may elect to defer receipt of the shares under a non-vested share award until the director terminates service on the Board of Directors. If a director elects to defer receipt, the Company will issue deferred stock units to the director which does not represent actual ownership in shares and the director will not have voting rights or other incidents of ownership until the shares are issued. However, the Company will credit the director with dividend equivalent payments in the form of additional deferred stock units for each cash dividend payment made by the Company. After approval of the 2006 Plan, 11,250 non-vested shares and 2,250 deferred stock units were issued to the Company's non-employee directors with a weighted-average fair value of $36.27. Share-based compensation expense of $82 was recognized in salaries, wages and employee benefits during the year ended December 31, 2006. The total tax benefit related to the share-based expense was $31 for the year ended December 31, 2006. Total compensation cost, net of estimated forfeitures, related to the non-vested shares and deferred stock units not yet recognized in earnings was $338 at December 31, 2006. No unvested shares issued under the 2006 Plan were forfeited during the year ended December 31, 2006.

Under the ESPP, the Company is authorized to issue up to a remaining 479,079 shares of common stock to employees of the Company. For the year ended December 31, 2006, participants under the plan purchased 9,237 shares at an average price of $28.54. The weighted-average fair value of each purchase right under the ESPP granted for the year ended December 31, 2006, which is equal to the discount from the market value of the common stock at the end of each six month purchase period, was $4.90 per share. Share-based compensation expense of $45 was recognized in salaries, wages and employee benefits, during the year ended December 31, 2006. The total tax benefit related to this share-based expense was $17 for the year ended December 31, 2006.

5. Shareholders' Equity and Stock Options (Continued)

Income Per Share— The following table sets forth the computation of income per basic and diluted share:

	2006	2005	2004
Numerator:			
Numerator for income per basic and diluted share - net income	$ 48,923	$ 44,909	$ 34,421
Denominator:			
Denominator for income per basic share - weighted-average shares (in thousands)	31,091	31,847	32,310
Effect of dilutive stock options and non-vested shares (in thousands)	430	572	630
Denominator for income per diluted share - adjusted weighted-average shares (in thousands)	31,521	32,419	32,940
Income per basic share	$ 1.57	$ 1.41	$ 1.07
Income per diluted share	$ 1.55	$ 1.39	$ 1.05

The number of options and non-vested shares that could potentially dilute income per basic share in the future, but that were not included in the computation of income per diluted share because to do so would have been anti-dilutive for the periods presented, were approximately 105,000, 3,000 and 30,000 in 2006, 2005 and 2004, respectively.

6. Income Taxes

The provision for income taxes consists of the following:

	2006	2005	2004
Current:			
Federal	$ 25,663	$ 22,706	$ 16,598
State	4,094	3,670	2,140
	29,757	26,376	18,738
Deferred:			
Federal	(57)	(50)	1,224
State	(79)	2	287
	(136)	(48)	1,511
	$ 29,621	$ 26,328	$ 20,249

The tax benefits associated with the exercise of stock options during the years ended December 31, 2006, 2005 and 2004 were $1,967, $5,074 and $2,906, respectively, and are reflected as an increase in additional paid-in capital in the accompanying consolidated statements of shareholders' equity.

In addition to the provision for income taxes included in the accompanying consolidated statements of income, a deferred tax provision (benefit) of approximately $0, ($2) and $2 is included in other comprehensive income for the years ended December 31, 2006, 2005 and 2004, respectively.

6. Income Taxes (Continued)

The historical income tax expense differs from the amounts computed by applying the federal statutory rate of 35.0% to income before income taxes as follows:

	2006	2005	2004
Tax expense at the statutory rate	$ 27,490	$ 24,933	$ 19,134
State income taxes, net of federal benefit	2,839	2,386	1,578
Meals and entertainment	233	207	195
Tax-exempt interest income	(1,005)	(872)	(419)
Other	64	(326)	(239)
	$ 29,621	$ 26,328	$ 20,249

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows:

	December 31	
	2006	2005
Deferred tax assets:		
Accrued expenses	$ 1,917	$ 2,032
Allowance for doubtful accounts	351	353
Non-compete agreements	260	95
Acceleration of option vesting	854	476
Net operating loss carryforwards	408	530
Total deferred tax assets	3,790	3,486
Valuation allowance	(408)	(408)
Total deferred tax assets, net of valuation allowance	3,382	3,078
Deferred tax liabilities:		
Tax over book depreciation	5,943	6,054
Research and development expenses	12	180
Prepaid expenses deductible when paid	1,090	948
Other	1,746	1,441
Total deferred tax liabilities	8,791	8,623
Net deferred tax liabilities	$ (5,409)	$ (5,545)

The balance sheet classification of deferred income taxes is as follows:

	December 31	
	2006	2005
Current assets	$ 1,178	$ 1,438
Noncurrent liabilities	(6,587)	(6,983)
	$ (5,409)	$ (5,545)

Total income tax payments, net of refunds, during fiscal years 2006, 2005 and 2004 were $26.019, $22,476 and $20,389, respectively.

6. Income Taxes (Continued)

At December 31, 2006 and 2005, the Company had state net operating loss carryforwards of $8,425 and $12,117, respectively, that will expire between 2013 and 2024. The use of these state net operating losses is limited to the future taxable income of separate legal entities. As a result, the valuation allowance has been provided for certain state loss carryforwards. The valuation allowance was unchanged during 2006. Based on expectations of future taxable income, management believes that it is more likely than not that the results of operations will generate sufficient taxable income to realize the deferred tax assets after giving consideration to the valuation allowance.

7. Leases

In September 2000, the Company entered into an agreement with the Rickenbacker Port Authority ("Rickenbacker") to lease a building located near the Company's Columbus, Ohio hub facility. At the inception of the lease, the Company made a $2,004 loan to Rickenbacker. The lease agreement has a ten-year initial term, with two five-year renewal options. The present value of the future minimum lease payments of $836 (at December 31, 2006) is included in capital lease obligations in the accompanying consolidated balance sheets. Because the lease met the criteria for classification as a capital lease, the leased building was recorded in property and equipment at $3,015 (which represents the present value of minimum lease payments, including the $2,004 initial payment), as it is less than the fair value at the inception date. The building is being depreciated over the initial lease term.

SFAS No. 13, *Accounting for Leases*, requires that a lease meet one or more of four specified criteria in order to be classified as a capital lease. With respect to the Rickenbacker lease, it was classified as a capital lease since the present value of the minimum lease payments, including the initial $2,004 payment, exceeded 90.0% of the fair value of the property at lease inception.

Property and equipment include the following amounts for assets under capital leases:

	December 31	
	2006	2005
Buildings	$ 3,015	$ 3,015
Less accumulated amortization	1,066	888
	$ 1,949	$ 2,127

Amortization of assets under capital leases is included in depreciation and amortization expense.

The Company leases certain facilities under noncancellable operating leases that expire in various years through 2012. Certain of these leases may be renewed for periods varying from one to ten years.

Sublease rental income, including amounts from related parties (see Note 8), was $622, $447 and $323 in 2006, 2005 and 2004, respectively, and was included in operating revenue in the accompanying consolidated statements of income. The Company expects to receive aggregate future minimum rental payments under noncancellable subleases of approximately $185.

7. Leases (Continued)

Future minimum rental payments under capital leases and noncancellable operating leases with initial or remaining terms in excess of one year consisted of the following at December 31, 2006:

	Capital Leases	Operating Leases
Fiscal Year		
2007	$ 89	$ 11,127
2008	89	8,197
2009	89	5,051
2010	89	2,977
2011	89	1,247
Thereafter	772	99
Total minimum lease payments	$ 1,217	$ 28,698
Amounts representing interest	381	
Present value of net minimum lease payments (including current portion of $40)	$ 836	

8. Transactions With Related Parties

Transactions with Landair Transport, Inc.

Scott M. Niswonger, Chairman of the Board of the Company until May 2005, owns a majority interest in the parent company of Landair Transport, Inc. ("Landair"). Matthew J. Jewell, our Senior Vice President and General Counsel, served in these same capacities with Landair until May 2004. During 2004, the Company purchased approximately $200 of truckload transportation services from Landair, which have been included in purchased transportation in the consolidated statements of income. No transportation services were purchased from Landair during 2006 and 2005.

During 2004, the Company provided various operational and administrative services to Landair. The Company charged Landair approximately $200 during 2004 for these services. These amounts have been included as a reduction of salaries, wages and employee benefits in the accompanying consolidated statements of income for 2004. Landair provided various operational and administrative services to the Company and charged it approximately $93 during the year ended December 31, 2004 for these services. These charges have been included in salaries, wages and employee benefits in the accompanying consolidated statements of income. No operational and administrative services were provided during 2006 and 2005.

Until September 2005, the Company had a sublease with Landair pursuant to which the Company sublet to Landair a portion of the headquarters of the Company in Greeneville, Tennessee that is leased from the Greeneville-Greene County Airport Authority. The Company sublet the facility to Landair for consideration based upon the cost of such facility to the Company and an agreed-upon percentage of usage. Sublease rental income charged to Landair in 2005 and 2004 was approximately $17 and $25, respectively. These amounts are included in sublease rental income disclosed in Note 7.

Transactions With Sky Night, LLC

During 2006, 2005 and 2004, we purchased air transportation services from Sky Night, LLC ("Sky Night"), a limited liability corporation owned by Scott M. Niswonger. The air charter expense totaled approximately $143, $105 and $86 in 2006, 2005 and 2004, respectively, and is included in other operating expenses in the accompanying consolidated statements of income.

During 2001, the Company entered into an agreement to sublease hangar space at its Greeneville, Tennessee headquarters to Sky Night. The initial term of the sublease was for 12 months. Currently, the hangar space is being sublet on a month-to-month basis. Sublease rental income charged to Sky Night was approximately $35 in 2006, 2005 and 2004.

9. Commitments and Contingencies

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

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

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

Site Expansion

On July 10, 2006, as part of the Company's plan to acquire three new sites in key gateway cities, the Company entered into an agreement to purchase real property and to construct a new terminal near Chicago, Illinois for $22,105. A deposit of $3,316 was paid to the sellers upon execution of the agreement. The remainder of the purchase price will be paid upon completion of the new terminal, which the Company estimates will occur during the first quarter of 2007. The deposit is included in noncurrent other assets.

In addition, on September 14, 2006, the Company entered into an agreement to purchase real property and to construct a new regional hub near Atlanta, Georgia for $14,776. A deposit of $1,477 was paid to the sellers upon execution of the agreement. The remainder of the purchase price will be paid upon completion of the new regional hub, which the Company estimates will occur in the second quarter of 2007. The deposit is included in noncurrent other assets.

The Company plans to fund these expenditures through cash and short-term investments currently on the balance sheet, cash provided by operating activities and/or borrowings under the credit facility.

Contractual Obligations and Commercial Commitments

As of December 31, 2006, the Company had a commitment to acquire 77 new forklifts for approximately $1,114 during 2007. The Company can cancel the order for 25, or $357, of these forklifts by March 30, 2007. This commitment is expected to be funded by proceeds from the sale of existing equipment and cash flows from operations.

Atlanta Terminal Condemnation

During the fourth quarter of 2002, the City of Atlanta filed a Petition for Condemnation and Declaration of Taking for a terminal facility owned by Transportation Properties, Inc. and leased by Forward Air, Inc., two of the Company's wholly owned subsidiaries. The condemnation was filed in connection with the fifth runway airport expansion project at Atlanta Hartsfield-Jackson International Airport. According to the 2002 condemnation petition, the City of Atlanta took ownership of the property and building and deposited $2,600 into the Registry of the Superior Court of Clayton County, Georgia (the "Court") as compensation to Transportation Properties, Inc. The Company filed a protest to the City of Atlanta's evaluation of the property and building and also challenged the method of condemnation it utilized. Prior to December 2003, the City of Atlanta destroyed the condemned building in conjunction with the runway expansion project. On or about December 30, 2003, the Court ruled that the City of Atlanta's method of condemnation was improper and returned ownership of the land to the Company.

9. Commitments and Contingencies (Continued)

During January 2004, the City of Atlanta filed a second condemnation petition to obtain title to the land. In connection with this second petition, the City of Atlanta deposited an additional $1,261 into the Registry of the Court, which was the City of Atlanta's estimated fair market value of the land. The City of Atlanta petitioned the Court and was granted the right to withdraw the original $2,600 escrow balance it paid into the Court as part of the first petition for condemnation. The Company and its outside counsel believed that the December 30, 2003 ruling by the Court and the City of Atlanta's actions subsequent to the first condemnation gave rise to additional theories of recovery. The Company challenged the method of condemnation set forth in the second petition and the withdrawal of the original $2,600 escrow balance. Additionally, the Company had claims for damages arising from the City of Atlanta's destruction of the Company's building during the wrongful possession of the property by the City of Atlanta. As of December 31, 2004, the Company had received the $1,261 escrow into cash and had a $1,339 receivable for the difference in the original $2,600 escrow and actual $1,261 in escrow received.

In the second quarter of 2005, an agreement was reached with the City of Atlanta to settle the dispute. In the settlement, the City of Atlanta paid the Company approximately $2,765, which represents payment of the receivable of $1,339 along with additional pre-tax gain of approximately $1,426, included in other income, net. The cash received is net of attorney's fees.

10. Employee Benefit Plan

The Company has a retirement savings plan (the "401(k) Plan"). The 401(k) Plan is a defined contribution plan whereby employees who have completed 90 days of service, a minimum of 1,000 hours of service and are age 21 or older are eligible to participate. The 401(k) Plan allows eligible employees to make contributions of 2.0% to 80.0% of their annual compensation. Employer contributions were made at 25.0% during 2006, 2005 and 2004 of the employee's contribution up to a maximum of 6.0% for all periods presented of total annual compensation except where government limitations prohibit.

Employer contributions vest 20.0% after two years of service and continue vesting 20.0% per year until fully vested. The Company's matching contributions included in operations for 2006, 2005 and 2004 were approximately $365, $256 and $203, respectively.

11. Financial Instruments

Off Balance Sheet Risk

At December 31, 2006, the Company had letters of credit outstanding totaling $4,385 as required by its workers' compensation and vehicle liability insurance providers.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash investments and trade accounts receivable. The Company does not generally require collateral from its customers. Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of entities comprising the Company's customer base and their dispersion across many different industries.

Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Investments: The carrying amount for investments in available-for-sale securities was reported in the consolidated balance sheet at fair market value.

Accounts receivable and accounts payable: The carrying amounts reported in the balance sheet for accounts receivable and accounts payable approximate their fair value.

11. Financial Instruments (Continued)

Long- and short-term debt: The fair value of the Company's capital lease obligations is estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements, and does not differ materially from the carrying amount.

12. Subsequent Event

During February 2007, the Company purchased 36.7 acres of land in Irving, Texas for $3,100. The land will be used to build a new regional hub. The Company expects to spend up to $15 million to complete this regional hub by the end of 2007.

13. Quarterly Results of Operations (Unaudited)

The following is a summary of the quarterly results of operations for the years ended December 31, 2006 and 2005:

	2006			
	March 31	June 30	September 30	December 31
Operating revenue	$ 82,330	$ 86,779	$ 90,441	$ 93,208
Income from operations	16,956	19,767	19,788	18,885
Net income	11,008	13,021	12,725	12,169
Net income per share:				
Basic	$ 0.35	$ 0.41	$ 0.41	$ 0.40
Diluted	$ 0.35	$ 0.41	$ 0.41	$ 0.40

	2005			
	March 31	June 30	September 30	December 31
Operating revenue	$ 69,533	$ 77,488	$ 84,841	$ 89,072
Income from operations	13,381	16,791	18,669	18,595
Net income	8,693	11,954	12,065	12,197
Net income per share:				
Basic	$ 0.27	$ 0.37	$ 0.38	$ 0.39
Diluted	$ 0.27	$ 0.37	$ 0.38	$ 0.38

Forward Air Corporation

Schedule II — Valuation and Qualifying Accounts

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
Description	Balance at Beginning of Period	(1) Charged to Costs and Expenses	(2) Charged to Other Accounts-Describe	Deductions-Describe	Balance at End of Period
			(In thousands)		
Year ended December 31, 2006:					
Allowance for doubtful accounts	$ 637	$ (223)	$ --	$ (210)[2]	$ 624
Allowance for revenue adjustments[1]	285	2,095	--	2,144[3]	236
	922	1,872	--	1,934	860
Year ended December 31, 2005:					
Allowance for doubtful accounts	$ 826	$ (121)	$ --	$ 68[2]	$ 637
Allowance for revenue adjustments[1]	246	2,100	--	2,061[3]	285
	1,072	1,979	--	2,129	922
Year ended December 31, 2004:					
Allowance for doubtful accounts	$ 943	$ 161	$ --	$ 278[2]	$ 826
Allowance for revenue adjustments[2]	320	1,848	--	1,922[3]	246
	1,263	2,009	--	2,200	1,072

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(1) Represents an allowance for adjustments to accounts receivable due to disputed rates, accessorial charges and other aspects of previously billed shipments.
(2) Uncollectible accounts written off, net of recoveries.
(3) Adjustments to billed accounts receivable.

EXHIBIT INDEX

No.	Exhibit
3.1	Restated Charter of the registrant (incorporated herein by reference to Exhibit 3 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 28, 1999 (File No. 0-22490))
3.2	Amended and Restated Bylaws of the registrant (incorporated herein by reference to Exhibit 3.2 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 filed with the Securities and Exchange Commission on November 2, 2004 (File No. 0-22490))
4.1	Form of Landair Services, Inc. Common Stock Certificate (incorporated herein by reference to Exhibit 4.1 to the registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on September 27, 1993 (File No. 0-22490))
4.2	Form of Forward Air Corporation Common Stock Certificate (incorporated herein by reference to Exhibit 4.1 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998 filed with the Securities and Exchange Commission on November 16, 1998 (File No. 0-22490))
4.3	Rights Agreement, dated May 18, 1999, between the registrant and SunTrust Bank, Atlanta, N.A., including the Form of Rights Certificate (Exhibit A) and the Form of Summary of Rights (Exhibit B) (incorporated herein by reference to Exhibit 4 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 28, 1999 (File No. 0-22490))
10.1*	Forward Air Corporation 2005 Employee Stock Purchase Plan (incorporated herein by reference to the registrant's Proxy Statement filed with the Securities and Exchange Commission on April 20, 2005 (File No. 0-22490))
10.2*	Amended and Restated Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the period ended June 30, 1995 filed with the Securities and Exchange Commission on August 14, 1995 (File No. 0-22490))
10.3	Lease Agreement, dated as of June 1, 2006, between the Greeneville-Greene County Airport Authority and the registrant.
10.4	Air Carrier Certificate, effective August 28, 2003 (incorporated herein by reference to Exhibit 10.5 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 filed with the Securities and Exchange Commission on March 11, 2004 (File No. 0-22490))
10.5*	Non-Employee Director Stock Option Plan (incorporated herein by reference to Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the period ended June 30, 1995 filed with the Securities and Exchange Commission on August 14, 1995 (File No. 0-22490))
10.6*	Amendment to the Non-Employee Director Stock Option Plan (incorporated herein by reference to Exhibit 10.7 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 filed with the Securities and Exchange Commission on March 11, 2004 (File No. 0-22490))
10.7	Amended and Restated Loan and Security Agreement, dated as of September 10, 1998, between First Tennessee Bank National Association and the registrant (incorporated herein by reference to Exhibit 10.5 to the registrant's Quarterly Report on Form 10-Q for the period ended September 30, 1998 filed with the Securities and Exchange Commission on November 16, 1998 (File No. 0-22490))
10.8	Modification Agreement (to Amended and Restated Loan and Security Agreement), dated as of June 18, 2002, among the registrant, First Tennessee Bank National Association, FAF, Inc., Forward Air, Inc. and Transportation Properties, Inc. (incorporated herein by reference to Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2002 filed with the Securities and Exchange Commission on August 14, 2002 (File No. 0-22490))

10.9 Letter Agreement, dated May 17, 2005, between the registrant and First Tennessee Bank National Association extending the maturity date of the registrant's $20.0 million Master Secured Promissory Note under the Amended and Restated Loan and Security Agreement, dated as of September 10, 1998, as modified by Modification Agreement, dated as of June 18, 2002 (incorporated herein by reference to Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2005 filed with the Securities and Exchange Commission on August 9, 2005 (File No. 0-22490))

10.10 Letter Agreement, dated as of May 25, 2006, between the registrant and First Tennessee Bank National Association extending the maturity date of the registrant's $20.0 million Master Secured Promissory Note under the Amended and Restated Loan and Security Agreement, dated as of September 10, 1998, as modified by Modification Agreement, dated as of June 18, 2002 and by Letter Agreement, dated May 17, 2005 (incorporated herein by reference to Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2006 filed with the Securities and Exchange Commission on August 4, 2006 (File No. 0-22490))

10.11* Employment Agreement dated January 24, 2006, between Forward Air Corporation and Bruce A. Campbell, including Exhibit A, Restrictive Covenants Agreement entered into contemporaneously with and as part of the Employment Agreement (incorporated herein by reference to Exhibit 99.1 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 26, 2006 (File No. 0-22490))

10.12* Form of Incentive Stock Option Agreement under the registrant's Amended and Restated Stock Option and Incentive Plan, as amended, and 1999 Stock Option and Incentive Plan, as amended, for grants prior to February 12, 2006 (incorporated herein by reference to Exhibit 10.12 to the registrant's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2005 filed with the Securities and Exchange Commission on March 22, 2006 (File No. 0-22490))

10.13* Form of Non-Qualified Stock Option Agreement under the registrant's Non-Employee Director Stock Option Plan, as amended, for grants prior to February 12, 2006 (incorporated herein by reference to Exhibit 10.13 to the registrant's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2005 filed with the Securities and Exchange Commission on March 22, 2006 (File No. 0-22490))

10.14* 1999 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the period ended March 31, 1999 filed with the Securities and Exchange Commission on May 17, 1999 (File No. 0-22490))

10.15* Amendment to the 1999 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.14 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 filed with the Securities and Exchange Commission on March 11, 2004 (File No. 0-22490))

10.16* Non-Qualified Stock Option Agreement dated August 21, 2000 between the registrant and Ray A. Mundy (incorporated herein by reference to Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2000 filed with the Securities and Exchange Commission on November 6, 2000 (File No. 0-22490))

10.17 Forward Air Corporation Section 125 Plan (incorporated herein by reference to Exhibit 10.18 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 filed with the Securities and Exchange Commission on March 15, 2002 (File No. 0-22490))

10.18* Form of Option Restriction Agreement between the registrant and each executive officer regarding certain restrictions on transferability of accelerated stock options granted under the registrant's 1999 Stock Option and Incentive Plan, as amended (incorporated herein by reference to Exhibit 10.18 to the registrant's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2005 filed with the Securities and Exchange Commission on March 22, 2006 (File No. 0-22490))

10.19* Form of Restricted Stock Agreement for an award of restricted stock under the registrant's 1999 Stock Option and Incentive Plan, as amended, granted on or after February 12, 2006 (incorporated herein by reference to Exhibit 10.19 to the registrant's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2005 filed with the Securities and Exchange Commission on March 22, 2006 (File No. 0-22490))

10.20* 2006 Non-Employee Director Stock Plan (incorporated by reference to Appendix A of the registrant's Proxy Statement filed with the Securities and Exchange Commission on April 24, 2006 (File No. 22490))

10.21*	Form of Non-Employee Director Restricted Stock Agreement for an award of restricted stock under the registrant's 2006 Non-Employee Director Stock Plan (incorporated by reference to Exhibit 99.2 to the registrant's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on May 19, 2006 (File No. 22490))
10.22*	Schedule of Non-Employee Director Compensation effective May 24, 2006 (incorporated herein by reference to Exhibit 99.1 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 23, 2006 (File No. 0-22490))
10.23	Agreement of Purchase and Sale, dated as of July 10, 2006, among AMB Property II, L.P., Headlands Realty Corporation and Forward Air, Inc. (incorporated herein by reference to Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006 filed with the Securities and Exchange Commission on August 4, 2006 (File No. 0-22490))
10.24	Agreement of Purchase and Sale, dated as of September 14, 2006, by and between Headlands Realty Corporation and Forward Air, Inc. (incorporated herein by reference to Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006 filed with the Securities and Exchange Commission on November 3, 2006 (File No. 0-22490))
14.1	Code of Ethics (incorporated herein by reference to Exhibit 14.1 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 filed with the Securities and Exchange Commission on March 11, 2004 (File No. 0-22490))
21.1	Subsidiaries of the registrant (incorporated herein by reference to Exhibit 21.1 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 filed with the Securities and Exchange Commission on April 2, 2001 (File No. 0-22490))
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm
31.1	Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a) (17 CFR 240.13a-14(a))
31.2	Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a) (17 CFR 240.13a-14(a))
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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*Denotes a management contract or compensatory plan or arrangement.

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Shareholder Information

Forward Air Corporation Corporate Headquarters
430 Airport Road
Greeneville, Tennessee 37745
(423) 636-7000
www.forwardair.com

Annual Meeting

The Company's 2007 Annual Meeting of Shareholders will be held at 8:00 a.m., EDT, on Tuesday, May 22, 2007, in the Catalpa Room at The Ritz-Carlton Lodge, Reynolds Plantation, One Lake Oconee Trail, Greensboro, Georgia 30642. Shareholders are invited to attend this meeting.

Inquiries

Inquiries from shareholders, securities analysts, registered representatives, and the news media regarding Company information should be directed to Rodney L. Bell at (423) 636-7000 or e-mailed to investorrelations@forwardair.com at the Company's corporate headquarters.

The Company maintains a direct mailing list to assist shareholders with stock held in brokerage accounts to receive information on a timely basis. Shareholders wishing to be added to this list should direct their requests to Forward Air Corporation Investor Relations, P.O. Box 1058, Greeneville, Tennessee 37744, e-mail investorrelations@forwardair.com or call (423) 636-7009.

Shareholder inquiries regarding change of address, transfer of stock certificates and lost certificates should be directed to:

Computershare Investor Services
P.O. Box 43023
Providence, RI 02940-3023
(800) 568-3476
www-us.computershare.com

Independent Registered Public Accounting Firm

Ernst & Young LLP
One Nashville Place
Suite 1400
150 Fourth Avenue North
Nashville, Tennessee 37219

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President and Chief Executive Officer
Forward Air Corporation

C. Robert Campbell
Executive Vice President and Chief Financial Officer
MasTec, Inc.

Richard W. Hanselman
Chairman of the Board
Forward Air Corporation

C. John Langley, Jr.
The Supply Chain and Logistics Institute Professor of Supply Chain Management
Georgia Institute of Technology

Tracy A. Leinbach
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G. Michael Lynch
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Federal-Mogul Corporation

Ray A. Mundy
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Senior Vice President, General Counsel and Secretary

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Senior Vice President, Operations

Michael P. McLean
Vice President and Controller