

Forward Air
Corporation

**Notice of 2013 Annual Meeting
of Shareholders,
Proxy Statement and
2012 Annual Report**



Dear Fellow Shareholder,

2012 presented many challenges for the Forward Air team, led by what we would term “an unsure economy.” Regardless, we were still able to deliver improved year-over-year results.

Here are some of the financial highlights for the year ended December 31, 2012:

- Operating revenue increased 8.9% in 2012 over the prior year, increasing to a record \$584.4 million versus \$536.4 million in 2011.
- Income from operations increased 8.3% in 2012 over the prior year, improving to \$83.5 million for 2012 from \$77.5 million in 2011.
- Net income per diluted share for the year increased 11.3% over the prior year, improving to \$1.78 for 2012 compared with \$1.60 in 2011.
- An operating ratio of 85.7 for 2012, roughly flat with 2011.
- We continued to generate cash, ending the year with cash on hand of \$112 million. Additionally, in February of 2012, we entered into a new \$150 million line of credit (with Bank of America as the primary lender). At the end of 2012, the line was fully available.

All of these highlights were made possible by the hard work, dedication, discipline and commitment to excellence of all our team members, employees and independent owner-operators alike. We are most grateful for all of their efforts.

In my letter to you last year, I noted that we had considered many strategic opportunities during 2011 but were unable to find one that met all of our criteria--no core customer channel conflicts, low asset intensity and superior margins and returns. We continued our search throughout 2012 and finally our efforts bore fruit earlier this month when we acquired Total Quality, Inc. (“TQI”).

TQI provides high quality, high-level security, refrigerated truckload carrier service primarily to the pharmaceutical industry. TQI has found a niche where it provides extremely high service levels to a customer base that recognizes and demands this value driven proposition. This high level of service is a key differentiator for TQI, as well as, a high barrier to entry for other would-be competitors. We are very excited to add TQI to our portfolio of offerings and look forward to taking full advantage of the many opportunities created by this acquisition.

Entering 2013, we remain focused on making strategic decisions that will enhance shareholder value. The acquisition of TQI rewarded our acquisition discipline and validated our belief that we can acquire, for a fair multiple, quality companies meeting our stringent acquisition criteria. Our team remains committed to identifying additional opportunities of this nature, as well as, targeting opportunities within our core service offering through both acquisition and organic development.

Thank you for investing in Forward Air and for your continued confidence in our team.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Bruce A. Campbell", written in a cursive style.

Bruce A. Campbell
Chairman, President and Chief Executive Officer



March 25, 2013

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 Monday, May 6, 2013, beginning at 8:00 a.m., EDT in Salon C at the Atlanta Airport Marriott Gateway, 2020 Convention Center Concourse, Atlanta, GA 30337.

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 submitted a proxy.

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

Sincerely yours,

A handwritten signature in black ink, appearing to read "Bruce A. Campbell", written in a cursive style.

Bruce A. Campbell

Chairman, President and Chief Executive Officer

FORWARD AIR CORPORATION

**430 Airport Road
Greeneville, Tennessee 37745**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 6, 2013**

To the Shareholders of Forward Air Corporation:

The Annual Meeting of Shareholders of Forward Air Corporation (the "Company") will be held on Monday, May 6, 2013, beginning at 8:00 a.m., EDT, in Salon C at the Atlanta Airport Marriott Gateway, 2020 Convention Center Concourse, Atlanta, GA 30337.

Attendance at the Annual Meeting will be limited to shareholders, those holding proxies from shareholders and representatives of the Company, 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 2014, or until their respective successors are elected and qualified;
2. To ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm of the Company;
3. To approve, on an advisory basis, the compensation of the named executive officers (the "say on pay vote"); 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 March 13, 2013, the record date for the Annual Meeting, for inspection by shareholders during normal business hours from March 27, 2013 until May 3, 2013 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 holders of the Company's common stock, par value \$0.01 per share, of record at the close of business on March 13, 2013 are entitled to notice of and to vote at the Annual Meeting. Shareholders are cordially invited to attend the meeting in person. **Our Board of Directors recommends a vote FOR proposals 1, 2, and 3.**

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. If you attend the meeting and desire to vote in person, you may do so even though you have previously submitted a proxy. You may revoke your proxy at any time before it is voted.

By Order of the Board of Directors,



Matthew J. Jewell
*Executive Vice President,
Chief Legal Officer and Secretary*

Greeneville, Tennessee
March 25, 2013

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 (the “Annual Meeting”) to be held on Monday, May 6, 2013, beginning at 8:00 a.m., EDT, in Salon C at the Atlanta Airport Marriott Gateway, 2020 Convention Center Concourse, Atlanta, GA 30337, and any adjournment or postponement thereof, for the purposes set forth in the foregoing Notice of Annual Meeting of Shareholders. This proxy material is first being sent to shareholders on or about March 25, 2013.

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 13, 2013 (the “Record Date”). There were 30,018,159 shares of our common stock, par value \$0.01 per share, 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 the election of directors.

In the event that any nominee for director in an uncontested election receives a greater number of votes “withheld” from his or her election than votes “for” such election, such director shall tender his or her resignation for consideration by the Corporate Governance and Nominating Committee. The Committee shall recommend to the Board the action to be taken with respect to the resignation. The Board will publicly disclose its decision within 90 days of the certification of the election results.

Any other 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 such 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.

Under applicable stock market rules, your brokerage firm has the authority to vote shares for the accounts of its clients for or against “routine” matters at its discretion. Brokers who hold shares for the accounts of their clients may not vote shares in the election of the Board of Directors or the advisory vote on the compensation paid to our named executive officers, which are considered non-routine matters, unless specifically instructed to do so by their clients. This means that your shares may go

unvoted and not affect the outcome if you do not specify a vote. 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 materials to beneficial owners of shares of our common stock.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE 2013 ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 6, 2013.

The Company’s Proxy Statement for the 2013 Annual Meeting of Shareholders and the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2012 are available at www.forwardair.com.

PROPOSAL 1 - ELECTION OF DIRECTORS

At the date of this Proxy Statement, our Board is comprised of nine directors, eight of whom are non-employee directors. Ronald W. Allen has notified the Company that he is not standing for re-election. He will leave the board immediately prior to the 2013 Annual Meeting of Shareholders. The Board has decided not to fill this vacancy at this time and keep its size at eight directors. Accordingly, there are eight nominees for election at the Annual Meeting of Shareholders, each to hold office until the next Annual Meeting of Shareholders in 2014 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, subject to the majority voting provisions set forth in our Corporate Governance Guidelines. Each share shall have one vote for each directorship to be filled on the Board of Directors. In the event any director nominee, in an uncontested election, receives a greater number of votes “withheld” from his or her election than votes “for” such election, he or she shall tender his or her resignation for the consideration by the Corporate Governance and Nominating Committee. The Committee shall recommend to the Board the action to be taken with respect to the resignation. The Board will publicly disclose its decision within 90 days of the certification of the election results.

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. 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.

The Board has determined that all of its current directors are qualified to serve as directors of the Company. In addition to the specified business experience listed below, each of the directors has the tangible and intangible skills and attributes which the Board believes are required to be an effective director of the Company, including experience at senior levels in areas

of expertise helpful to the Company, a willingness and commitment to assume the responsibilities required of a director of the Company and the character and integrity the Board expects of its directors.

BRUCE A. CAMPBELL
Greeneville, Tennessee

Director since 1993
Age 61

Mr. Campbell has served as a director since April 1993, as President since August 1998, as Chief Executive Officer since October 2003 and as Chairman since May 2007. Mr. Campbell was Chief Operating Officer from April 1990 until October 2003 and Executive Vice President from April 1990 until August 1998. Prior to joining the Company, Mr. Campbell served as Vice President of Ryder-Temperature Controlled Carriage in Nashville, Tennessee from September 1985 until December 1989. Mr. Campbell has held a leadership role with the Company for over 20 years, has served as its Chief Executive Officer for over 9 years and its Chairman for approximately 6 years. Prior to joining the Company, Mr. Campbell served in a leadership role with another transportation concern. The Board believes that Mr. Campbell possesses a wealth of industry knowledge, experience and expertise and has been a strong, proven leader of the Company.

C. ROBERT CAMPBELL
Coral Gables, Florida

Director since 2005
Age 68

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. Also, Mr. Campbell worked for Ryder System, Inc., for over 20 years including serving for 10 years as Executive Vice President and Chief Financial Officer for their Vehicle Leasing and Services Division. Mr. Campbell is a Certified Public Accountant. The Board believes that Mr. Campbell brings to the Company a tremendous amount of industry-related knowledge and experience in a multitude of areas, including accounting, finance, operations, sales and marketing. He has served in executive leadership capacities with transportation and logistic companies and currently serves as a Chief Financial Officer for a publicly-traded concern.

C. JOHN LANGLEY, JR., Ph.D.
Knoxville, Tennessee

Director since 2004
Age 67

Dr. Langley is Clinical Professor of Supply Chain Management and Director of Development for The Center for Supply Chain Research at The Pennsylvania State University. Formerly, Dr. Langley served from September 2001 until October 2010 as Professor of Supply Chain Management at the Georgia Institute of Technology, and from September 1973 until July 2001 as The John H. Dove Professor of Logistics and Transportation at the University of Tennessee. Dr. Langley has spent over 39 years teaching, lecturing and consulting in the logistics field. He brings a breadth of knowledge and experience that the Board and management rely upon in discussing the Company's strategy and opportunities. Dr. Langley also is a Director of UTi Worldwide, Inc.

TRACY A. LEINBACH
Miami, Florida

Director since 2007
Age 53

Ms. Leinbach has served as Lead Independent Director of the Company since January 2012. She 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. Including her service on the Company's board, Ms. Leinbach has worked in the transportation industry for over 25 years and the Board believes that she brings that breadth of experience to the Company. She held leadership roles with Ryder System (and its subsidiaries) in multiple areas, including, operations, sales, and finance. She is an instrumental contributor in discussions of corporate strategy and risk. Ms. Leinbach also serves as a Director of Hasbro, Inc.

LARRY D. LEINWEBER
Bloomfield Hills, Michigan

Director since 2011
Age 71

Mr. Leinweber is President and Chief Executive Officer of New World Systems, where he is responsible for product strategy, strategic direction, and organization development. Mr. Leinweber has over 30 years of executive management and operations management experience in the software and technology industry. Prior to founding New World, Mr. Leinweber served as President and CEO for a software and service division of Citicorp. Earlier in his career, he was a co-founder and President of Advanced Computer Management Corporation. Mr. Leinweber brings to the Board a wealth of experience in executive leadership, strategy and innovation.

G. MICHAEL LYNCH
Greensboro, Georgia

Director since 2005
Age 69

Mr. Lynch served as Lead Independent Director of the Company from January 2009 to December 2011. Mr. Lynch served as Executive Vice President and Chief Financial Officer and a member of the Strategy Board for Federal-Mogul Corporation from July 2000 until March 2008. 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 Corporation. 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 brings over 40 years experience of serving in key positions with Fortune 500 companies, and approximately 10 years experience serving as a director on public company boards. The Board believes that Mr. Lynch utilized that breadth of experience in his service as the Company's Lead Independent Director and now as a member of the Corporate Governance and Nominating Committee and the Audit Committee. Mr. Lynch served as Director for Champion Enterprises, Inc. until March 2011.

RAY A. MUNDY, Ph.D.
St. Louis, Missouri

Director since 2000
Age 68

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. Also, Dr. Mundy has served as the Executive Director of the Airport Ground Transportation Association for the past 30 years. Dr. Mundy brings over 38 years of experience, teaching, advising and consulting in transportation and logistics. He has served on the Company's Board for approximately 13 years and is the Chair of the Company's Corporate Governance and Nominating Committee and is a member of the Company's Executive Committee. Dr. Mundy brings a breadth of knowledge and experience that the Board and management rely upon in discussing the Company's strategies, challenges and opportunities. 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.

GARY L. PAXTON
Tulsa, Oklahoma

Director since 2007
Age 66

Mr. Paxton served as President and Chief Executive Officer of Dollar Thrifty Automotive Group, Inc., ("DTG") from October 2003 until his retirement in October 2008. From 1997 until 2002, he was Executive Vice President of DTG. He served as President and CEO of Dollar Rent A Car Systems, Inc. from December 1990 until October 2002, having joined that company

in 1968 at one of the first Dollar A Day Rent A Car franchisees in Seattle, Washington. In 1972, he joined the franchisor parent as Vice President of Operations, guiding and supporting new franchisees establishing their operations. The Board believes that Mr. Paxton brings a wealth of chief executive officer and other leadership experience to our Board, having served in management leadership roles with a publicly-traded company for more than 20 years. His extensive leadership experience is invaluable to management and the Board in its discussions of strategy, opportunity and risk. Mr. Paxton is a member of and designated as a certified director by the National Association of Corporate Directors.

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 Company's directors be "independent directors," as defined in Nasdaq Marketplace Rule 5605. Generally, a director does not qualify as an independent director if, among other reasons, 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 eight of the Company's nine current directors are "independent directors" on the basis of Nasdaq's standards and an analysis of all facts specific to each director.

The independent directors are Ronald W. Allen, C. Robert Campbell, C. John Langley, Jr., Tracy A. Leinbach, Larry D. Leinweber, G. Michael Lynch, Ray A. Mundy, and Gary L. Paxton.

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.

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 Lead Independent Director presides at such executive sessions or, in his or her absence, a non-employee director designated by such Lead Independent Director.

Interested parties who wish to communicate with the Chairman of the Board, Lead Independent Director, or the non-employee directors as a group should follow the procedures found below under "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 90 calendar days prior to the one year anniversary of the prior year's Annual Meeting of Shareholders and include all required information to be considered. In the case of the 2014 Annual Meeting of Shareholders, this deadline is February 5, 2014. 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 and Lead Independent Director, if any, 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 Corporate Governance and Nominating 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. In particular, the Board and the Committee believe that the Board should be comprised of a well-balanced group of individuals with diverse knowledge, experience, skills and expertise. Although the Board does not have a formal policy regarding board diversity, the Board believes that having diversity of knowledge, experience, skills and expertise among its members enhances the Board's ability to make fully informed, comprehensive decisions.

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 Secretary 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 will be forwarded to all members of the Board.

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 Business Conduct and Ethics

The Board has adopted a Code of Business Conduct and 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 Business Conduct and 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 Business Conduct and Ethics to any shareholder who requests a copy. Requests may be made by contacting the Corporate Secretary as described above under "Shareholder Communications."

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 2012, the Board of Directors held four meetings. All of the incumbent directors who were on the Board during 2012 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 2012. Eight of the nine incumbent directors attended the 2012 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 5605, 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 2012 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, the 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 (Chair)
C. John Langley, Jr.	Compensation and Corporate Governance and Nominating
Tracy A. Leinbach	Executive
Larry D. Leinweber	Audit
G. Michael Lynch	Audit and Corporate Governance and Nominating
Ray A. Mundy	Corporate Governance and Nominating (Chair) and Executive
Gary L. Paxton	Compensation (Chair)

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 on all matters that may arise between regular meetings of the Board upon which the Board would be authorized to act, subject to certain materiality restrictions established by the Board.

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 39 of this Proxy Statement and in the Audit Committee Charter. A current copy of the written charter of the Audit Committee is available on the Company's website at www.forwardair.com.

The Board has determined that the chairperson of the Audit Committee, C. Robert Campbell, 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 six meetings during 2012.

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. Additionally, it reviews and approves the Compensation Discussion and Analysis for inclusion in the

proxy statement (see page 17 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 2012.

The Compensation Committee engaged Meridian Compensation Partners, LLC, an independent consultant, to assist it during 2012. During the year, the consultant assisted the Committee with short-term and long-term incentive redesign, as well as, the development of a recoupment policy, executive stock ownership and retention guidelines, an executive severance plan and other compensation issues. Meridian Compensation Partners provided no services to management during 2012. The Compensation Committee, considering all relevant factors, including those set forth in Rule 10C-1(b)(4)(i) through (vi) under the Exchange Act, is not aware of any conflict of interest that has been raised by the work performed by Meridian.

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, Chairman, Lead Independent Director, if any, 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 along with the Compensation Committee.

A description of the Committee's policy regarding director candidates nominated by shareholders appears in "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 two meetings during 2012.

Board Structure

In accordance with our bylaws and Corporate Governance Guidelines, the Board is responsible for selecting the Chief Executive Officer and the Chairman of the Board, and both of these positions may be held by the same person or they may be held by two persons. The Company's Corporate Governance Guidelines require the election, by the Board, of an independent lead director to serve during any period when there is no independent Chairman of the Board. Currently, Tracy A. Leinbach serves as Independent Lead Director and she has served in that capacity since January of 2012.

The Company has operated for over five years using a board leadership structure, in which the Chief Executive Officer also serves as Chairman of the Board. The Board believes that the Company, with its current Chief Executive Officer and Chairman, has been well-served by this leadership structure. Having Mr. Campbell serve as both Chief Executive Officer and Chairman of the Board demonstrates for the Company's employees, suppliers, customers and other stakeholders that the Company is under strong leadership, with a single person setting the tone and having primary responsibility for managing its operations. The Board believes having Mr. Campbell serve as Chief Executive Officer and Chairman of the Board is best for the Company and its shareholders at the present time. He has led the Company as Chief Executive Officer since 2003, has worked with two Chairmen and three Independent Lead Directors, is a recognized leader in the transportation industry and has all of the skills incumbent to serve as a board chair.

Under the Company's bylaws and Corporate Governance Guidelines, the Chairman of the Board is responsible for (a) chairing Board meetings and the Annual Meeting, (b) setting the agendas for these meetings, (c) attending Board committee meetings and (d) providing information to Board members in advance of each Board meeting and between Board meetings. The Independent Lead Director is responsible for (a) chairing executive sessions of the independent directors and communicating with management relating to these sessions, and presiding at all meetings of the Board at which the Chairman is not present, (b) approving agendas and schedules for Board meetings and the information that is provided to directors, and (c) serving as a liaison between the Chairman and the independent directors. The Independent Lead Director also has the authority to call meetings of the independent directors.

The Board believes that, in addition to fulfilling our lead director responsibilities, the Independent Lead Director makes valuable contributions to the Company, including but not limited to: (a) monitoring the performance of the Board and seeking to develop a high-performing Board, for example, by helping the directors reach consensus, keeping the Board focused on strategic decisions, taking steps to ensure that all the directors are contributing to the work of the Board, and coordinating the work of the four Board Committees, (b) developing a productive relationship with our Chief Executive Officer and ensuring effective communication between the Chief Executive Officer and the Board, and (c) ensuring and supporting effective shareholder communications. Accordingly, the Board believes that the Company has benefited from having the Chairman/Chief Executive Officer as the leader of the Company, and having the Independent Lead Director serving as the leader of the independent directors.

On an annual basis, as part of our review of corporate governance and succession planning, the Board (led by the Corporate Governance and Nominating Committee) evaluates the Board's leadership structure, to ensure that it remains the optimal structure for the Company and its shareholders. The Board recognizes that different board leadership structures may be appropriate for companies with different histories and cultures, as well as companies with varying sizes and performance characteristics. The Board believes its current leadership structure—under which the Chief Executive Officer serves as Chairman of the Board, the Board Committees are chaired by independent directors and a Lead Director assumes specified responsibilities on behalf of the independent directors—is presently the optimal board leadership structure for the Company and its shareholders.

Risk Oversight

On at least a quarterly basis, the Company's Chief Legal Officer provides a comprehensive risk report to the Audit Committee and the Board. While the Audit Committee has primary responsibility for overseeing financial risks, the Board is charged with overseeing the Company's enterprise risks. Accordingly, on an annual basis, the Board receives a report from the Company's Chief Legal Officer on the most significant risks that the Company is facing. The full Board also engages in periodic discussions about enterprise risk management with our Chief Legal Officer, Chief Executive Officer, Chief Financial Officer, and other Company officers as the Board may deem appropriate. In addition, each of our Board Committees considers the risks within its area of responsibilities. For example, the Compensation Committee considers the risks that may be implicated by the Company's executive compensation programs, and the Corporate Governance and Nominating Committee considers the best governance structure and guidelines for the Company to minimize enterprise risks brought about by weak governance. The Board believes that its leadership structure supports the Board's effective oversight of the Company's enterprise risks.

DIRECTOR COMPENSATION

The general policy of our Board is that compensation for non-employee directors should be a mix of cash and equity-based compensation.

The Corporate Governance and Nominating Committee, which consists solely of independent non-employee directors, has the primary responsibility for reviewing and considering any revisions to the non-employee director compensation program. In accordance with the Corporate Governance and Nominating Committee's recommendations, the non-employee directors' cash compensation program is as follows:

- an annual cash retainer of \$35,000 for all non-employee directors;
- an additional annual cash retainer of \$35,000 for the Independent Lead Director (but he/she does not receive the Committee meeting fees discussed below);
- an additional annual cash retainer of \$15,000 for the Audit Committee Chair;
- an additional annual cash retainer of \$7,500 for the Corporate Governance and Nominating Committee and Compensation Committee Chairs;
- an additional annual cash retainer of \$7,500 for all non-Chair Audit Committee members and an additional annual cash retainer of \$3,750 for all non-Chair Compensation and Corporate Governance and Nominating Committee members;
- a \$1,500 per in-person meeting fee; and
- a \$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. The Company also reimburses directors for expenses associated with participation in continuing director education programs.

In addition, under the Company's Amended and Restated Non-Employee Director Stock Plan (the "Director Stock Plan"), on the first business day after each Annual Meeting of Shareholders, each non-employee director is automatically granted an award (the "Annual Grant") in such form and size as the Board determines from year to year. In 2012, each non-employee director received 2,481 shares of restricted common stock pursuant to the Director Stock Plan. Unless otherwise determined by the Board, Annual Grants become vested and nonforfeitable one year after the date of grant so long as the non-employee director's service with the Company does not earlier terminate. On February 8, 2013, the Board amended the Director Stock Plan to provide that all subsequent Annual Grants become vested and nonforfeitable on the earlier of (a) the day immediately prior to the first Annual Meeting that occurs after the grant date or (b) the first anniversary of the grant date. The Company amended the Director Stock Plan to address situations where a director is not standing for reelection, consequently resigns just prior to the Annual Meeting of Shareholders, and such meeting date is less than one year after the prior year's Annual Grant.

Finally, our Board believes that directors more effectively represent the Company's shareholders, whose interests they are charged with protecting, if they are shareholders themselves. Therefore, the Board established certain independent director stock ownership guidelines which are set forth in the Company's Corporate Governance Guidelines. Specifically, the Company's independent directors are required to own shares of the Company's common stock, with a value equal to at least three times the annual cash retainer for independent directors. Each new independent director has three years from the date he or she joins the Board to obtain this ownership stake. All of our independent directors have achieved and maintain the ownership goal as of the date of this Proxy Statement.

The following table shows the compensation we paid in 2012 to our 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 (\$)
G. Michael Lynch	\$ 61,250	\$ 79,987	\$ 841	\$ 142,078
Ronald W. Allen	50,000	79,987	841	130,828
C. Robert Campbell	62,000	79,987	841	142,828
Richard W. Hanselman	36,951	79,987	841	117,779
C. John Langley, Jr.	56,750	79,987	841	137,578
Tracy A. Leinbach	76,000	79,987	841	156,828
Larry D. Leinweber	53,000	79,987	841	133,828
Ray A. Mundy	51,500	79,987	841	132,328
Gary L. Paxton	57,875	79,987	841	138,703

(1) Represents the aggregate grant date fair value of non-vested restricted shares and deferred stock unit awards. The fair values of these awards were determined in accordance with FASB ASC Topic 718. The assumptions used in determining the grant date fair value 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, 2012 filed with the SEC.

(2) Represents dividends paid on non-vested restricted shares and /or dividend equivalents credited on deferred stock unit awards during 2012. These dividend payments and dividend equivalents are nonforfeitable.

The following table indicates the aggregate number of outstanding options and the aggregate number of stock awards (consisting of vested and unvested deferred stock units and/or non-vested restricted shares) held by each incumbent director at the end of 2012.

<u>Name</u>	<u>Number of Securities Underlying Unexercised Options (#)</u>	<u>Aggregate Number of Deferred Stock Units and Non-Vested Restricted Shares (#)</u>
G. Michael Lynch	-	2,481
Ronald W. Allen	-	2,481
C. Robert Campbell	-	7,366
Richard W. Hanselman	-	-
C. John Langley, Jr.	10,625	2,481
Tracy A. Leinbach	-	9,835
Larry D. Leinweber	-	2,481
Ray A. Mundy	18,750	5,251
Gary L. Paxton	-	2,481

Certain Relationships and Related Person Transactions

The Audit Committee of the Board reviews all relationships and transactions in which the Company and its 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 this 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 Audit Committee considers:

- the nature of the related person's interest in the transaction;
- the material terms of the transaction, including, without limitation, the amount involved and type of transaction;
- the importance of the transaction to the related person; and
- the importance of the transaction to the Company.

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 Audit Committee when considering 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.

Compensation Committee Interlocks and Insider Participation

During all of 2012, the Compensation Committee was fully comprised of independent non-employee directors. From January 1, 2012 to the present date, the Compensation Committee members consists of Gary L. Paxton (Chair), C. John Langley, Jr., and Ronald W. Allen.

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, as required by 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, 2012.

Under SEC rules, 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.

<u>Name and Address of Beneficial Owner (1)</u>	<u>Shares Beneficially Owned</u>		
	<u>Number</u>	<u>Percent (%) (2) (3)</u>	
Directors, Nominees and Named Executive Officers			
Bruce A. Campbell	762,463	(4)	2.54
Ronald W. Allen	5,835	(5)	*
C. Robert Campbell	16,296	(6)	*
C. John Langley, Jr.	25,801	(7)	*
Tracy A. Leinbach	17,375	(8)	*
Larry D. Leinweber	5,835	(9)	*
G. Michael Lynch	15,091	(10)	*
Ray A. Mundy	53,106	(11)	*
Gary L. Paxton	26,751	(12)	*
Rodney L. Bell	395,057	(13)	1.32
Craig A. Drum	35,420	(14)	*
Matthew J. Jewell	368,390	(15)	1.23
Chris C. Ruble	283,042	(16)	*
All directors and executive officers as a group (14 persons)	2,144,855	(17)	7.15
Other Principal Shareholders			
Royce & Associates, LLC	2,338,078	(18)	8.01
Neuberger Berman, Inc.	2,224,365	(19)	7.62
BlackRock, Inc.	2,216,682	(20)	7.59
Columbia Wanger Asset Management, LLC	2,205,185	(21)	7.55
The Vanguard Group, Inc.	1,738,100	(22)	5.95
Barrow, Hanley, Mewhinney & Strauss, LLC.	1,693,453	(23)	5.80

* 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 Named Executive Officers are based on 30,018,159 shares of

common stock outstanding on the Record Date.

- (3) The percentages shown for other principal shareholders are based on 29,194,761 shares of common stock outstanding on December 31, 2012.
- (4) Includes 528,339 options that are fully exercisable and 19,169 non-vested restricted shares.
- (5) Includes 2,481 non-vested restricted shares.
- (6) Includes 2,481 non-vested restricted shares and 4,923 deferred stock units. One share will be issued for each deferred stock unit upon the director's separation from the Board.
- (7) Includes 2,481 non-vested restricted shares and 10,625 options that are fully exercisable.
- (8) Includes 2,481 non-vested restricted shares and 7,392 deferred stock units. One share will be issued for each deferred stock unit upon the director's separation from the Board.
- (9) Includes 2,481 non-vested restricted shares.
- (10) Includes 2,481 non-vested restricted shares.
- (11) Includes 18,750 options that are fully exercisable, 2,481 non-vested restricted shares and 2,808 deferred stock units. One share will be issued for each deferred stock unit upon the director's separation from the Board.
- (12) Includes 2,481 non-vested restricted shares.
- (13) Includes 333,502 options that are fully exercisable and 6,325 non-vested restricted shares.
- (14) Includes 30,679 options that are fully exercisable and 3,450 non-vested restricted shares.
- (15) Includes 348,502 options that are fully exercisable and 6,325 non-vested restricted shares.
- (16) Includes 273,942 options that are fully exercisable and 6,325 non-vested restricted shares.
- (17) Includes 64,892 non-vested restricted shares, 1,734,840 options that are fully exercisable and 15,123 deferred stock units. One share will be issued for each deferred stock unit upon the director's separation from the Board.
- (18) Royce & Associates, LLC ("Royce"), 745 Fifth Avenue, New York, New York 10151, reported beneficial ownership of the shares as of December 31, 2012 in a Schedule 13G/A filed with the SEC. Royce, an investment adviser, reported having sole voting and dispositive power over 2,338,078 shares.
- (19) Neuberger Berman Group LLC ("Neuberger"), 605 Third Avenue, New York, New York 10158, reported beneficial ownership of the shares as of December 31, 2012 in a Schedule 13G/A filed with the SEC. Neuberger, an investment adviser, reported having shared voting power over 2,170,365 shares, shared dispositive power over 2,224,365 shares and no sole voting or dispositive power over the shares.
- (20) BlackRock, Inc. ("BlackRock"), 40 East 52nd Street, New York, New York 10022, reported beneficial ownership of the shares as of December 31, 2012 in a Schedule 13G/A filed with the SEC. BlackRock, an investment adviser, reported having sole voting and dispositive power over 2,216,682 shares.
- (21) Columbia Wanger Asset Management, LLC. ("Columbia"), 227 West Monroe Street, Suite 3000 Chicago, Illinois 60606, reported beneficial ownership of the shares as of December 31, 2012 in a Schedule 13G/A filed with the SEC. Columbia, an investment adviser, reported having sole voting power over 1,951,481 shares and sole dispositive power over 2,205,185 shares and Columbia Acorn Fund, an investment company, reported having sole voting and dispositive power over 1,500,000 shares. The shares reported for Columbia include those shares reported by Columbia Acorn Fund.
- (22) The Vanguard Group, Inc. ("Vanguard"), 100 Vanguard Boulevard, Malvern, Pennsylvania 19355, reported beneficial ownership of the shares as of December 31, 2012 in a Schedule 13G/A filed with the SEC. Vanguard, an investment adviser, reported having sole voting power over 41,857 shares, shared dispositive power over 40,457 shares and sole dispositive power over 1,697,643 shares.
- (23) Barrow, Hanley, Mewhinny & Strauss, LLC ("Barrow"), 2200 Ross Avenue, 31st Floor, Dallas, Texas 75201, reported beneficial ownership of the shares as of December 31, 2012 in a Schedule 13G filed with the SEC. Barrow, an investment adviser, reported having sole voting power over 872,344 shares, shared voting power over 821,109 shares, and sole dispositive power over 1,693,453 shares.

EXECUTIVE COMPENSATION

Compensation Discussion And Analysis

Overview of Compensation Program

The Compensation Committee (for purposes of this Compensation Discussion and 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 31 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.

Compensation Philosophy and Objectives

The Committee has designed the executive compensation program 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’s objective is to align the Company’s executives’ interests with the Company’s shareholders’ interests by creating a pay-for-performance culture at the executive level, with the ultimate objective of increasing shareholder value. At the same time, the Committee believes that executive compensation should recognize the contributions of individual executives to the Company’s goals and objectives, and should be market competitive. Thus, 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 objectives of attracting, developing, rewarding and retaining superior executive management, the Committee utilizes a compensation package that considers the compensation of similarly situated executives in the market, the tenure of the executive and the value of the executive to the organization. It uses annual cash incentives tied to the Company’s performance measured against established goals. Also, the Committee provides long-term compensation opportunities to reward past and future performance of the Company measured against established goals, to encourage retention of its executive management team, to foster executive ownership in the Company and to align the executives’ long-term compensation directly with the shareholder’s long-term value.

Key Elements of Compensation Plan Design

Our executive compensation program is based on the following best practices:

- Pay opportunities for executives that are appropriate to the size of the Company;
- A pay program that is heavily performance-based using multiple performance measures;
- Full disclosure of the financial performance metrics and goals used in our incentives;
- A long-term incentives program aligned with shareholders through a link to stock price and measurement of stock performance versus peer companies;
- Equity-based incentive plans that prohibit backdating and repricing of stock options;
- Few perquisites and no tax gross-ups on perquisites;

- Moderate severance benefits payable upon involuntary termination of employment without cause, conditioned upon a general release of claims against the Company and adherence to restrictive covenants;
- Conservative change-in-control severance amounts and no excise tax gross-ups; and
- Retention of an independent compensation consultant engaged by, and who reports directly to, the Committee.

2012 in Brief

During the year ended December 31, 2012, the Company experienced significant year-over-year increases in its consolidated revenues and results from operations.

- Operating revenue increased by \$48.0 million, or 8.9%, to \$584.4 million for the year ended December 31, 2012 from \$536.4 million for the year ended December 31, 2011.
- Income from operations improved to \$83.5 million for the year ended December 31, 2012 from \$77.1 million in the prior year, up 8.3%.
- Net income per diluted share for the year ended December 31, 2012 was \$1.78 compared with \$1.60 in the prior year, up 11.3%.

Under this backdrop of improved Company performance, our pay-for-performance philosophy and the design of our pay programs led to the following Committee actions and plan payouts to our Named Executive Officers for 2012:

- Approved base salary increases to our Named Executive Officers for 2012 ranging from 4% to 9%. Mr. Campbell received a base salary increase of 9% in 2012. The remaining Named Executive Officers each received base salary increases of 4% in 2012.
- Approved payouts under our annual cash incentive plan at 24% of base salary after a year in which the Company's operating income increased 8% over the prior year.
- Approved long-term equity incentive awards in 2012 for our Named Executive Officers consisting of three components: stock options, restricted stock and performance shares.
- Approved program changes effective January 1, 2013, including adding a Recoupment Policy, Executive Stock Ownership Guidelines and a Severance and Change in Control Plan.
- Enhanced the Insider Trading Policy, effective February 8, 2013, to prohibit the Company's executive officers from engaging in any form of hedging transaction and to prohibit, with limited exceptions, the Company's executive officers from holding Company securities in margin account and from pledging Company securities as collateral for loans.

Role of Shareholder Say-on-Pay Vote

The Company provides its shareholders with the opportunity to cast an annual advisory vote on executive compensation (a "say-on-pay proposal"). At the Company's annual meeting of shareholders held in May 2012, approximately 94% of the votes cast on the say-on-pay proposal at that meeting were voted in favor of the proposal. The Committee believes this outcome affirms shareholders' support of the Company's approach to executive compensation, and did not change its approach in 2012 based upon the results of this advisory vote. The Committee will continue to consider the outcome of the Company's say-on-pay votes when making future compensation decisions for the Named Executive Officers.

Role of the Compensation Committee

The Compensation Committee is responsible for reviewing and approving the company's executive compensation policies, plan designs and the compensation of our senior officers, including our Named Executive Officers. The Committee considers various factors in making compensation determinations, including the officer's responsibilities and performance, the effectiveness of our programs in supporting the company's short-term and long-term strategic objectives, and the Company's overall financial performance. Additionally, the Committee coordinates the full board's annual review of the CEO's performance and considers the board's assessment in its compensation decisions related to the CEO.

To this end, the Committee conducts an annual review of executive officer pay levels, reviews market data provided by the independent consultant, approves changes to program designs (including post-termination arrangements) based on an assessment of competitive market practice and emerging trends, oversees the development of succession plans, and evaluates the risks associated with the Company's executive compensation programs.

Role of the Compensation Consultant

The Committee has selected and directly retains the services of Meridian Compensation Partners, LLC ("Meridian"), an independent executive compensation consulting firm. Meridian does not provide any other services to the Company and works with the Company's management only on matters for which the Committee is responsible. The Committee has assessed the independence of Meridian pursuant to SEC rules and has concluded that the work performed by Meridian does not raise any conflicts of interest. The Committee periodically seeks input from Meridian on a range of external market factors, including evolving compensation trends, appropriate peer companies and market survey data. Meridian also provides general observations on the Company's compensation programs, but it does not determine or recommend the amount or form of compensation for the Named Executive Officers. During 2012, Meridian attended all four of the Committee's meetings.

Role of Executive Officers in Compensation Decisions

At the request of the Compensation Committee, our 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. In forming his recommendations, he considers information provided by our Senior Vice President of Human Resources and the independent compensation consultant, assessments of individual contributions, achievement of performance objectives and other qualitative factors. While the Committee gives great weight to the recommendations of our 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. Our CEO does not make recommendations concerning his own compensation.

Our CEO, Senior Vice President of Human Resources and the Chief Legal Officer regularly attend Compensation Committee meetings at the Committee's request. Our Senior Vice President of Human Resources typically presents recommendations for program design changes and individual pay levels for executive officers, taking into consideration individual performance of each incumbent, appropriate benchmarking information and issues that may arise from an accounting, legal or tax perspective. No Executive is present during any portion of a Committee meeting where his/her individual compensation is being discussed by the Committee.

Setting Executive Compensation

Based on the foregoing objectives, we have 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.

At the beginning of 2012, the Compensation Committee established a Target Total Direct Compensation for each Named Executive Officer. These targets included base pay, annual short-term incentives ("STI") and long-term equity incentives ("LTI"). The Committee used data prepared by its independent compensation consultant in late 2009 and 2010

from Aon Hewitt's Total Compensation Measurement general industry database on pay opportunities at the size-adjusted 50th percentile of the market for executives holding similar positions. The Committee considered the data as one of the factors in considering an executive's target total compensation, but also considered other factors such as the experience level of the individual, the value of the individual executive to the Company, the individual's level within the Company, existing and prior year awards for the individual and other factors.

In 2012, the Target Total Direct Compensation set at the beginning of the year for the Named Executive Officers was:

<u>NEO</u>	<u>Base Salary</u>	<u>STI</u>	<u>LTI</u>	<u>Target Total Direct Compensation</u>
Mr. Campbell	600,000	300,000	1,000,000	1,900,000
Mr. Bell	303,000	152,000	330,000	785,000
Mr. Jewell	303,000	152,000	330,000	785,000
Mr. Ruble	349,000	174,000	330,000	851,000
Mr. Drum	262,000	131,000	180,000	573,000

The compensation that an executive actually receives will differ from that executive's target compensation for a variety of reasons. Base salary increases, annual incentive compensation awards and long-term incentive awards received are based on achievement of individual and business objectives. Additionally, compensation realized from long-term equity incentive awards are dependent upon stock price increases, stock performance versus peer companies and/or continued employment.

2012 Executive Compensation Components

For the fiscal year ended December 31, 2012, the components of compensation for our Named Executive Officers were:

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

The Committee combines these elements, particularly base salary, and the short and long-term incentives, to provide a total compensation package designed to attract highly qualified individuals and provide strong incentives to align efforts and motivate executives to deliver company performance that creates shareholder value. The total value of the compensation package is weighted towards the variable incentive components.

Base Salary

The objective of base salary is to reflect the base market value of the executive's role. It is designed to reward core competence in roles that are complex and demanding. We choose to pay base salary because it is required for talent attraction and retention. Base salary ranges for 2012 for the Named Executive Officers were determined for each executive based on his position and responsibility and by reference to the market data. Additionally, the Committee also considers factors such as internal pay equity, 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. Base salaries for the Named Executive Officers and other executives at the Company are reviewed and adjusted 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, 2012 are set forth in the "Salary" column of the Summary Compensation Table on page 31 of this Proxy Statement.

Annual Short-Term Incentive Compensation

The objective of our annual incentive program is to provide focus on attaining specific business goals that lead to our long-term success. The plan is designed to reward achievement of year-over-year Operating Income growth. Annual incentive compensation payments to the Named Executive Officers are payments, in cash, of a certain percentage of the executive's pay for reaching a pre-established goal for operating income. The Company has a history of setting payout levels under the annual cash incentive plan at the same percentage of base salary for each Named Executive Officer, and did so for 2012. The Committee sets goals to ensure that the annual cash incentive plan will promote high performance and achievement, encourage growth in shareholder value, and promote and encourage retention of the Company's executive talent. The Committee adopted an incentive payment grid which established operating income goals for the fiscal year ended December 31, 2012 and the resulting incentive payments for achievement of such goals. The 2012 incentive payment grid was as follows:

<u>Operating Income (In thousands)</u>	<u>Percentage Payout (Of salary)</u>
\$ 77,110	0 %
\$ 79,754	10 %
\$ 82,399	20 %
\$ 85,043	30 %
\$ 87,688	40 %
\$ 90,332	50 %
\$ 92,279	60 %
\$ 94,226	70 %
\$ 96,174	80 %
\$ 98,121	90 %
\$ 100,068	100 %
\$ 101,169	110 %
\$ 102,269	120 %
\$ 103,370	130 %
\$ 104,471	140 %
\$ 105,572	150 %
\$ 106,672	160 %
\$ 107,773	170 %
\$ 108,874	180 %
\$ 109,974	190 %
\$ 111,075	200 %

The Committee set the 0% payout level of the 2012 incentive performance grid to reflect the incentive percentage (of salary) that would be paid if the Company replicated its prior year's operating income performance. The 50% payout level ("Target") would have been indicated if the Company increased its prior year's operating income by 17%. The 100% payout level ("Stretch") required a 30% increase of the prior year's operating income. The payout under the annual incentive plan is capped at 200% of salary. 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 established performance levels, or between such levels.

The Committee met in December 2012 to determine whether the Company's 2012 performance merited payment to the Named Executive Officers under the annual incentive compensation plan, and, if so, to determine the amount of such incentive awards. Based upon the Company's operating income of \$83.532 million, the Committee awarded a cash incentive in a two-step process, with 90% of the projected incentive amount paid December 2012, based on pro forma financial results, and the balance, if any, to be paid during the first quarter of the 2013 fiscal year. This two-step approach was contingent upon receipt

of an executed claw-back agreement from each of the Named Executive Officers, and other eligible officers, wherein the Company could recoup any of the incentive monies which were proved not to be owing to the Named Executive Officer under the Company's 2012 annual incentive compensation plan based upon the final results for fiscal year 2012. The Company's income from operations improved to \$83.5 million for the year ended December 31, 2012 from \$77.1 million in the prior year, up 8.3%. Accordingly, the Committee awarded cash incentive payments of 24% of salary for each of the Named Executive Officers. (See individual incentive award amounts set forth in the "Non-equity Incentive Plan" column of the Summary Compensation Table on page 31 of this Proxy Statement).

During 2012, the Compensation Committee and its independent executive compensation consultant, along with management, assessed the Company's practice of setting payout levels under the plan at the same percentage of base salary for each Named Executive Officer in light of typical market practice and competitiveness of the overall compensation program. As a result of this assessment, the Committee determined to modify its approach. For 2013, the Committee adjusted the plan so that the Named Executive Officers are eligible to receive different percentages of their base salaries for reaching the same pre-established goal for operating income. Additionally, in subsequent years, the Committee may, in its discretion, provide for a portion of the short-term incentive opportunity to consist of individual objectives for each Named Executive Officer established at the beginning of each year by the Chief Executive Officer, subject to approval by the Compensation Committee. If utilized, up to approximately one-third of the Named Executive Officer's short-term incentive opportunity will be a determined by the individual's established objective(s). This structure better enables recognition of individual executive contribution as a component of short-term incentive.

Long-Term Equity Incentive Awards

The objective of providing long-term incentives is to focus the Named Executive Officers on metrics that lead to increased shareholder value over the long term, enhance long-term thinking in general, and retain executives; we choose to pay it to attain those objectives. Our long-term incentives are specifically designed to reward stock price increase, stock performance relative to industry peer companies and continued employment.

In 2012, the LTI compensation for the Named Executive Officers consisted of three parts: stock options, restricted stock and performance shares. Based on market data and industry practice, the Committee determined to allocate the economic value of the total LTI incentive award approximately as follows: one-third stock options; one-third restricted stock; and one-third performance shares.

As previously discussed, at the beginning of 2012, the Committee established a target value for the total LTI component. In determining that target value and in making LTI equity awards under the Amended and Restated Stock Option and Incentive Plan (the "Amended and Restated Plan"), the Committee considers a number of factors including the Company's past financial performance, the individual performance of each executive, the retention goal of such long-term equity incentive award, the grant date fair value of any proposed award, the other compensation components for the executive, equity plan compensation dilution, affordability to the Company, the executive's stock ownership and option holdings and market data for long-term equity incentive awards as discussed previously.

Stock Options. A "stock option" is the right to purchase the Company's common stock at a fixed price for a defined period of time. In 2012, grant sizes of stock options for the Named Executive Officers were calculated generally by multiplying the target LTI economic value by the weighting assigned to the options component (33% in 2012) and dividing the product by the grant date fair value of a single option, determined under the Black-Scholes methodology and based on assumptions used for recognizing compensation expense in our financial statements contained in our Annual Report in accordance with Generally Accepted Accounting Principles ("GAAP"). For the 2012 option grant, the grant date fair value per stock option was \$12.89. The exercise price of each option is equal to the closing price of the Company's common stock on the date the option is granted. The exercise price for the 2012 grants to our Named Executive Officers was \$36.55 per share. The 2012 option grants have a vesting period of three years and vest evenly over that three-year period. The options will expire if not exercised within seven years of the grant date. To the extent not earlier vested, these options will vest upon the death or disability of the recipient, as well as upon the Company undergoing a "Change in Control," as such term is defined in the Amended and Restated Plan.

Restricted Stock. A share of “restricted stock” is a share of the Company’s common stock subject to vesting requirements based on continued employment. In 2012, restricted stock grant sizes for the Named Executive Officers were calculated generally by multiplying the target LTI economic value by the weighting assigned to the restricted stock component (33% in 2012) and dividing the product by the closing price of the Company’s common stock on the grant date. The closing price of the Company’s common stock on the grant date was \$36.55. The restricted stock awards are restricted from sale or transfer until vesting occurs, and these restrictions lapse in three equal installments beginning one year after the date of grant. Dividends are paid on restricted shares on a current basis throughout the vesting period. To the extent not earlier vested, restricted stock awards will vest upon the death or disability of the recipient, as well as upon the Company undergoing a “Change in Control,” as such term is defined in the Amended and Restated Plan.

Performance Shares. A “performance share” award is the right to receive a share of Company common stock based upon the achievement of certain performance criteria. In 2012, performance share award sizes for the Named Executive Officers were calculated by multiplying the target LTI economic value by the weighting assigned to the performance share component (33% in 2012) and dividing the product by the fair value of a single performance share determined using a Monte Carlo valuation model. The fair value per performance share on the date of grant of the 2012 performance share awards to our Named Executive Officers was \$44.72. Performance shares are earned on the basis of our Total Shareholder Return (“TSR”) measured over a three year period, relative to the TSR of our comparator group that includes the following 12 companies: C.H. Robinson Worldwide, Inc.; Con-way, Inc.; Expeditors International of Washington, Inc.; FedEx Corporation; Hub Group, Inc.; J.B. Hunt Transport Services, Inc.; Knight Transportation, Inc.; Landstar System, Inc.; Old Dominion Freight Line, Inc.; United Parcel Service, Inc.; UTi Worldwide, Inc.; and Werner Enterprises, Inc.

- TSR reflects share price appreciation and reinvestment of dividends and distributions.
- Share price appreciation is measured as the difference between the beginning market price and the ending market price of our shares.
 - The beginning market price equals the average closing price on the 30 trading days immediately preceding and including the first day of the performance period.
 - The ending market price equals the average closing price on the last 30 trading days of the performance period.

The actual number of performance shares awarded is based on our change in TSR versus the change in TSR of the comparator group companies described above, during the three-year performance period. The performance shares pay out in shares of our common stock, shortly after the close of the three-year performance period, in a range of 0 percent to 200 percent of the number of performance shares awarded. The chart set forth below determines the percent of a target award that is paid. Payout for performance between points will be calculated using straight-line interpolation.

Performance Level	Payout (as a % of Target)
90 th percentile or higher	200%
70 th percentile	150%
50 th percentile	100%
30 th percentile	50%
Below 30 th percentile	0%

Dividends will not be paid on unvested performance shares. Outstanding performance shares will vest upon the death or disability of the recipient, as well as upon a “Change in Control,” as such term is defined in the Amended and Restated Plan.

The value to the Named Executive Officer of each of the three components comprising the 2012 long-term equity incentive compensation (stock options, restricted stock and performance shares) is directly tied to the performance of the Company’s stock. A stock option provides value to the executive only if our share price increases after the grant date.

Restricted stock becomes more valuable to the executive only if the Company's stock price increases, and the executive shares in the downside risk of a decline in the Company's stock price. Finally, the number of performance shares earned, if any, will depend on how the Company's stock performs against transportation industry peers. As it is possible that there will be no payout under the performance shares or stock options, these awards are completely "at-risk" compensation. The Committee believes that this long-term incentive structure accomplishes the Company's goal of creating a pay-for-performance culture at the executive level, while striking the appropriate balance between risk, retention and reward.

Awards made to the Named Executive Officers under the Amended and Restated Plan for the fiscal year ended December 31, 2012 are set forth in the Grants of Plan-Based Awards for Fiscal 2012 Table on page 33 of this Proxy Statement.

Stock Ownership Guidelines

The Company has for some years encouraged ownership of Company common stock by its Named Executive Officers. To formalize this, it established stock ownership and retention guidelines in December 2012, which became effective January 1, 2013. These guidelines are described in greater detail on page 28 of this Proxy Statement under the heading "Prospective Information."

Retirement and Other Benefits

Our Named Executive Officers received retirement and other benefits the same as other employees at the Company. We choose to pay these benefits to meet the objective of having a competitive retirement and benefit package in the marketplace. Retirement benefits reward employees for saving for their retirement, particularly in the form of Company stock, and for continued employment. Welfare benefits such as medical and life insurance reward continued employment.

All full-time Company employees, including the Named Executive Officers, are entitled to participate in the Company's 401(k) retirement savings plan. Under the Company's 401(k) retirement savings plan, the Company matches 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, 2012 are reflected in the "401(k) Match" column of the All Other Compensation Table on page 32 of this Proxy Statement.

Additionally, all full-time employees of the Company, including the Named Executive Officers, are eligible to participate in the Company's 2005 Employee Stock Purchase Plan (the "2005 ESPP") upon enrolling in the 2005 ESPP during one of the established enrollment periods. Under the terms of the 2005 ESPP, eligible employees of the Company can purchase shares of the Company's 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 is permitted to purchase more than 2,000 shares of the Company's common stock per Option Period or shares of common stock having a market value of more than \$25,000 per calendar year, as calculated under the 2005 ESPP.

The Named Executive Officers are also 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. 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.

Perquisites

Perquisites do not reward any particular performance. We choose to pay them to meet the objective of creating a competitive advantage for attracting and retaining superior employees for key positions.

The Company provides its Named Executive Officers with a limited number perquisites and other personal benefits that the Company and the Committee believe are reasonable and consistent with its overall compensation. 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, 2012 are set forth in the “Car Allowance and Commuting Expenses” column of the All Other Compensation Table on page 32 of this Proxy Statement.

Risk Management

Our incentive program rewards reasonable risk-taking, accomplished through both program design and Committee processes.

Program design features for Named Executive Officers that mitigate risk include the following:

- Balanced mix of pay including base salary (fixed compensation) and annual (cash) and long-term (equity) incentives
- Capped short-term incentives
- Short-term incentive goals tied to financial goals of corporate-level strategic plan
- Annual equity-based incentive grants without backdating or repricing

Committee processes mitigating risk include:

- Overall administration of executive plans by the Committee
- Reasonable short-term incentive goals
- Financial performance objectives based upon budget objectives that are reviewed and approved by the Committee and the Board
- Avoidance of steep payout cliffs
- Ongoing and active discussion of the Committee with management regarding process on short-term and long-term goals
- Committee authority to pay less than the maximum short-term incentive amount after assessing the overall contribution and performance of the executive officers

Other incentive programs at the Company either have similar characteristics or are small in amount.

Potential Payments upon Termination or Change in Control

The Company maintains an employment agreement with Mr. Campbell. The objectives of the employment agreement were to secure Mr. Campbell’s services by providing for certain benefits upon termination of employment, to retain such services through any period leading up to a change in control of the Company, and to protect the Company’s interests by imposing confidentiality, noncompetition, non-solicitation and other restrictive covenants. The agreement is designed to reward continuity of service on a timetable convenient to the Company rather than to Mr. Campbell. We choose to provide it to accomplish the objectives noted.

Under Mr. Campbell’s Employment Agreement, described in detail below, if the Company were to 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 but not to exceed two years; (ii) any

unpaid bonus amounts previously earned; and (iii) continued insurance coverage for one year from the date of such termination. In the event of a Material Change in Duties or a Change in Control, Mr. Campbell may elect to resign and receive (i) his base salary for twelve months following the date of the change of control; and (ii) a cash bonus equal to the prior year's year-end cash bonus, plus any unpaid bonus amounts previously earned. Allowance of resignation upon a change of control reflects the high likelihood that a change of control will lead to a material change in duties in the CEO position. The payments due to Mr. Campbell in the event he is terminated without "just cause" or following a change in control are set forth in the "Termination without Cause" column of the 2012 Potential Payments upon Termination, Change of Control, Death and Disability Table on page 37 of this Proxy Statement.

Our other executive officers do not have employment contracts, and prior to 2013, were not covered under any form of change in control agreements. (See page 29 for a discussion of severance and change in control arrangements effective January 1, 2013.) However, during 2012 the executive officers were eligible to receive certain benefits in the event of specific termination of employment, including as a consequence of a change in control. Under the Company's Annual Incentive Plan, any unpaid incentive amounts previously earned under this plan would be payable to any Named Executive Officer terminated without cause. In addition, under the Amended and Restated Plan, any non-vested restricted shares, options or other forms of equity-based compensation would vest upon a "Change in Control." The market values of all non-vested restricted shares held by the Named Executive Officers as of December 31, 2012 which would vest upon a Change in Control are set forth in the "Change in Control" column of the 2011 Potential Payments Upon Termination, Change of Control, Death or Disability Table on page 37 of this Proxy Statement.

Tax and Accounting Implications

Deductibility of Executive Compensation. The Committee and management consider the accounting and tax effects of various compensation elements when designing our annual incentive and equity compensation plans and making other compensation decisions. Although the Committee designs the Company's plans and programs to be tax-efficient and to minimize compensation expense, these considerations are secondary to meeting the overall objectives of the executive compensation program.

Section 162(m) of the Internal Revenue Code generally disallows a federal income tax deduction to public corporations for compensation greater than \$1 million paid for any fiscal year to the corporation's chief executive officer and to the three most highly compensated executive officers other than the chief executive officer or chief financial officer. However, certain forms of performance-based compensation are excluded from the \$1 million deduction limit if specific requirements are met. It is the policy of the Committee to periodically evaluate the qualification of compensation for exclusion from the \$1 million deduction limit under Section 162(m) of the Internal Revenue Code, while maintaining flexibility to take actions with respect to compensation that it deems to be in the interest of the Company and its shareholders which may not qualify for tax deductibility.

We account for stock-based compensation in accordance with generally accepted accounting principles. Consequently, stock-based compensation cost is measured at the grant date based on the fair value of the award in accordance with FASB ASC Topic 718. We generally recognize stock-based compensation expense ratably over the vesting period of each award except as required otherwise by FASB ASC Topic 718.

Employment Agreement with Bruce A. Campbell

There is an Employment Agreement between Bruce A. Campbell and the Company, which was effective October 30, 2007. This Employment Agreement was amended in December of 2008 to the extent necessary to make the Agreement comply with Section 409A of the Internal Revenue Code and the Treasury regulations promulgated under that section, which relate to nonqualified deferred compensation. The Employment Agreement was subsequently amended in February of 2009 to extend the term of the Agreement to December 31, 2012. (The Employment Agreement and all amendments thereto are referred to collectively as the "Employment Agreement".) The term of the Employment Agreement automatically extends for additional one-year terms thereafter unless the Board of Directors or Mr. Campbell provide prior notice of non-renewal at least six months before the expiration of the then-pending term.

Under the Employment Agreement, Mr. Campbell received an annual base salary of no less than \$400,000 until January 31, 2008 and effective February 1, 2008, his base salary increased to \$500,000. The Employment Agreement was amended again on December 15, 2010. This third amendment to the Employment Agreement set Mr. Campbell's annual base salary at not less than \$500,000, subject to adjustment annually in the discretion of the Committee. Mr. Campbell is eligible under the Employment Agreement 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 Committee. The third amendment to the Employment Agreement established that this year-end bonus may be paid in one or more installments, on or after December 1st of the measurement year but no later than March 15th of the following year. 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, Mr. Campbell was granted an initial award of 200,000 stock options effective October 30, 2007. These options vested equally over a three year period and are all now fully vested. These options have a five year term that expires October 30, 2012. The Employment Agreement also provides that the Company reserves the right to grant other long-term equity awards to Mr. Campbell under the Company's stock incentive plans from time to time.

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 but not to exceed two years; (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 defined in the Employment Agreement. In the event of a "change of control" or "material change in duties," Mr. Campbell would have two alternatives. 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 the Employment Agreement. The Employment Agreement also contains non-competition and non-solicitation provisions which apply during his employment and for a period of thirty-six (36) months following termination of his employment.

While the Company does not have employment agreements with any of its other Named Executive Officers, the Company did adopt an executive severance and change and control plan in December of 2012, which became effective January 1, 2013, and provides for certain payments to its Named Executive Officers in the event of a termination or a change in control. This plan is discussed in greater detail on page 29 of the Proxy Statement under a Section entitled "Executive Severance and Change in Control Benefits".

Prospective Information

In 2012, the Company took several actions that, although not effective until 2013, are intended to better enable the Company to achieve its compensation objectives including aligning the Company's executives interests with the Company's shareholders' interests. Those actions taken in 2012 include the adoption of the following:

- Recoupment ("clawback") Policy
- Executive Stock Ownership and Retention Guidelines
- Severance and Change in Control Plan.

In February 2013, the Company also amended its Insider Trading Policy and the Amended and Restated Plan to better reflect its overall compensation philosophy, and modified its annual incentive award program to provide great differentiation in incentive opportunity among the Named Executive Officers and other eligible officers. Each of these actions is discussed in more detail below.

Recoupment Policy. On December 10, 2012, the Company adopted a discretionary incentive compensation clawback policy (the "Recoupment Policy") that applies to its executive officers, including the Named Executive Officers, and certain other specified employees. This policy allows the Company to seek reimbursement with respect to incentive compensation paid or awarded to executive officers if the executive engaged in fraudulent or illegal conduct or dishonesty to the material detriment of the Company's financial results, or if the executive's employment is terminated for illegal conduct, gross negligence, willful misconduct or dishonesty that materially harms the business or reputation of the Company. Additionally, the Company can seek reimbursement under the Recoupment Policy if a determination is made that the Company is required to file an accounting restatement with the SEC that resulted from either the intentional misconduct of the executive officer or, regardless of the existence of intentional misconduct, results in a material negative revision of a financial or operating measure that was used to determine incentive compensation. The Recoupment Policy allows the Company to recover incentive compensation awarded to the affected executive officers, including, but not limited to, bonuses, annual, periodic or long-term cash incentive compensation, stock-based awards and the Company stock acquired thereunder, and sale proceeds realized from the sale of Company stock acquired through stock-based awards. All actions taken and decisions made relating to the Recoupment Policy are in the Committee's sole and absolute discretion. The Company expects to update the Recoupment Policy when the regulations mandated by the Dodd-Frank Act are implemented by the Securities and Exchange Commission.

Executive Stock Ownership and Retention Guidelines. On December 10, 2012, the Company adopted executive stock ownership and retention guidelines (the "Ownership Guidelines"), to be effective January 1, 2013. These Ownership Guidelines are applicable to the Company's executive officers, including the Named Executive Officers, and other executives holding a title of senior vice president or above. The Company's Ownership Guidelines are designed to increase executives' equity stakes in the Company and to align executives' interests more closely with those of shareholders. The Ownership Guidelines require covered executives to own, and hold during their tenure with the Company, shares of the Company's common stock sufficient in number to satisfy the relevant amount specified below as a multiple of the executive's annual base salary:

Position	Value of Common Stock to be Owned
Chief Executive Officer	3 times base salary
Executive Vice Presidents and Senior Vice Presidents	2 times base salary
Chief Accounting Officer	1 times base salary

Until the executive achieves the applicable ownership level, he or she is required to retain 50% of the net number of shares of common stock acquired through Company-provided stock-based awards, the vesting of restricted stock awards, the delivery of shares in settlement of stock units or performance share awards, or the delivery of shares to the executive through any other incentive compensation arrangement of the Company. This retention requirement applies only to stock-based awards that are granted on or after January 1, 2013. No retention requirement applies under the Ownership Guidelines to shares acquired in excess of the requisite ownership level. Unvested restricted stock, unvested stock units, shares underlying

unexercised stock options and unvested or unearned performance share awards or performance units do not count towards the stock ownership guidelines.

Executive Severance and Change In Control Benefits. On December 10, 2012, the Company adopted an executive severance and change in control plan (the “Severance Plan”), which became effective January 1, 2013. Each of the Named Executive Officers (other than the CEO whose severance is governed by the terms of his employment agreement), along with other senior officers of the Company, are participants in the Severance Plan. The objectives of the Severance Plan are to enhance the attraction and retention of executive talent during corporate upheaval, enable management to evaluate and support potential transactions that might be beneficial to shareholders even though the result would be a change in control of the Company, and obtain important corporate protections upon terminations of employment. The Severance Plan is designed to reward executives for remaining employed when their prospects for continued employment following a change in control or other corporate upheaval may be uncertain. We chose to adopt the plan to protect shareholder value in such events by increasing the possibility of retaining an intact management team.

Under the Severance Plan, each participant would receive severance benefits in the event his or her employment is involuntarily terminated by the Company (other than for cause or upon death or disability, as those terms are defined in the Severance Plan) or in the event the participant voluntarily terminates his or her employment for good reason (as defined in the Severance Plan). The circumstances that permit a participant to terminate employment for good reason and receive severance benefits after a change in control differ from the more limited circumstances that permit a termination of employment for good reason prior to or absent a change in control. Generally, eligible participants would be entitled to the severance benefits included in the chart below upon an involuntary termination of their employment, in addition to any accrued obligations (such as unpaid salary through the termination date) and vested amounts to which they may be entitled under the Company's benefit plans:

General Severance Upon Involuntary Termination Absent a Change in Control	Severance Upon Involuntary Termination Within Two Years after a Change in Control
<ul style="list-style-type: none"> • a lump sum severance payment in an amount equal to one year of the participant's annualized base salary 	<ul style="list-style-type: none"> • a lump sum severance payment in an amount equal to two times the participant's annualized base salary
<ul style="list-style-type: none"> • a pro-rata annual incentive for the fiscal year in which the termination occurs based on actual performance results 	<ul style="list-style-type: none"> • a pro-rata target annual incentive for the fiscal year in which the termination occurs
<ul style="list-style-type: none"> • a lump sum healthcare assistance payment in an amount equal to the excess of the monthly COBRA premium to provide the group medical, dental, vision, and/or prescription drug plan benefits the participant had been receiving before the termination above the monthly premium payable by active employees under the Company's healthcare plan for similar coverage, multiplied by 12 months 	<ul style="list-style-type: none"> • a lump sum healthcare assistance payment in an amount equal to the excess of the monthly COBRA premium to provide the group medical, dental, vision, and/or prescription drug plan benefits the participant had been receiving before the termination above the monthly premium payable by active employees under the Company's healthcare plan for similar coverage, multiplied by 24 months
<ul style="list-style-type: none"> • access to up to \$20,000 of employer-paid outplacement services for 12 months following termination 	<ul style="list-style-type: none"> • access to up to \$20,000 of employer-paid outplacement services for 12 months following termination

The Severance Plan provides important protection the Company, as well. A condition to participating in the Severance Plan is the execution of a non-competition and non-solicitation agreement with respect to the Company's employees and customers for a specified period following the termination of employment and covenants to protect the Company's confidential

information and trade secrets. In addition, any severance benefits payable under the Severance Plan are subject to the execution by the participant of a general release of claims against the Company and certain affiliated persons and entities. The Severance Plan does not provide for any tax gross-up payments to participants.

Amendment to Insider Trading Policy. On February 7, 2013, the Company amended its Insider Trading Policy to prohibit the Company's executive officers from engaging in any form of hedging transaction. In addition, the policy was amended to prohibit, with limited exceptions, the Company's executive officers from holding Company securities in margin accounts and from pledging Company securities as collateral for loans. We believe that these policies further align our executives' interests with those of our shareholders.

Amendment to Forward Air Corporation Amended and Restated Stock Option and Incentive Plan. On February 7, 2013, the Company amended and restated the Amended and Restated Stock Option and Incentive Plan to incorporate certain provisions that reflect the current compensation philosophy of the Company's Compensation Committee. Specifically, the Amended and Restated Plan prohibits the re-pricing or cash-out of underwater stock options and stock appreciation rights or their exchange for other awards without prior shareholder approval. It also clarifies that the taking of certain permitted actions affecting outstanding awards in the event of a change in control of the Company will in all cases be conditioned upon the consummation of the transaction giving rise to the change in control and will not be taken with respect to any awards that are subject to the provisions of Section 409A of the Internal Revenue Code ("Section 409A") if the action would result in a violation of Section 409A. Finally, the amendments ensure that awards granted under the Amended and Restated Plan may be made subject to the Company's Recoupment Policy on incentive compensation.

Annual Incentive Award. On February 7, 2013, the Company modified its annual incentive award program for its Named Executive Officers and other eligible executives. Traditionally, the Company set the payout levels under the annual cash incentive plan at the same percentage of base salary opportunity for each eligible executive regardless of position. For 2013, the Committee adjusted the plan to provide greater stratification of incentive opportunity among the plan participants. Specifically, the Company created three separate groups or tiers, with each group having a different percentage of base salary payout opportunity for achievement of the same operating income milestone on the incentive grid. The Company believes this stratification will provide enhanced performance-based incentives for its Named Executive Officers and executive team.

Compensation Committee Report on Executive Compensation

The information contained in this report shall not be deemed to be "soliciting material" or "filed" with the SEC or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") except to the extent that Forward Air Corporation specifically incorporates it by reference into a document filed under the Securities Act of 1933, as amended, or the Exchange Act. 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 in this Proxy Statement and incorporated by reference into the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Submitted by:

*Gary L. Paxton, Chairman
C. John Langley, Jr.
Ronald W. Allen
The Compensation Committee of the
Board of Directors*

Summary Compensation Table

The following table shows the compensation earned in 2012, 2011 and 2010 by our Named Executive Officers.

Name & Principal Position	Year	Salary (\$)	Payments Under Non-Equity				Total
			Stock Award(s) (\$ (1))	Option Award(s) (\$ (2))	Incentive Plans (\$ (3))	All Other Compensation (\$ (4))	
Bruce A. Campbell Chairman, President and CEO	2012	\$ 600,000	\$ 666,598	\$ 334,455	\$ 145,800	\$ 20,351	\$ 1,767,204
	2011	550,000	725,698	395,596	467,500	18,221	2,157,015
	2010	500,000	-	823,780	550,000	15,321	1,889,101
Rodney L. Bell Senior Vice President and CFO	2012	302,560	219,945	110,368	73,522	16,452	722,847
	2011	281,923	239,470	130,544	247,285	16,599	915,821
	2010	268,070	-	411,890	304,776	16,693	1,001,429
Matthew J. Jewell Executive Vice President, CLO And Secretary	2012	302,560	219,945	110,368	73,522	15,700	722,095
	2011	281,923	239,470	130,544	247,285	13,886	913,108
	2010	268,070	-	411,890	304,776	13,982	998,718
Chris C. Ruble Executive Vice President, Operations	2012	346,580	219,945	110,368	84,219	14,635	775,747
	2011	324,250	239,470	130,544	283,263	12,716	990,243
	2010	317,949	-	411,890	366,576	13,394	1,109,809
Craig A. Drum Senior Vice President, Sales	2012	262,101	119,948	60,199	63,691	13,739	519,678
	2011	243,020	130,609	71,200	214,217	13,642	672,688
	2010	241,634	-	296,561	266,431	13,735	818,361

- (1) Represents the aggregate grant date fair value of non-vested restricted share and performance share awards determined in accordance with FASB ASC Topic 718. The grant date fair value for performance share awards reflected in the table is based on the probable outcome of performance conditions as of the grant date. The value of the performance share awards at the grant date assuming the highest level of the performance condition is achieved are as follows: Mr. Campbell: \$544,814 in 2012 and \$706,438 in 2011; Messrs. Bell, Jewell and Ruble: \$179,753 in 2012 and \$233,114 in 2011; and Mr. Drum: \$98,027 in 2012 and \$127,143 in 2011. The awards for which the aggregate grant date fair value is shown in this table include the awards described in the Grants of Plan-Based Awards for Fiscal 2012 Table on page 33 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, 2012, filed with the SEC.
- (2) Represents the aggregate grant date fair value of stock option awards. The fair values of these awards were determined in accordance with FASB ASC Topic 718. The awards for which the aggregate grant date fair value is shown in this table include the awards described in the Grants of Plan-Based Awards for Fiscal 2012 Table on page 33 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, 2012, filed with the SEC.
- (3) Represents cash incentives earned under the 2012 Annual Cash Incentive Plan
- (4) See the All Other Compensation Table on page 32 of this Proxy Statement for additional information.

All Other Compensation Table

The following table shows the components of “all other compensation” earned in 2012, 2011 and 2010 by the Named Executive Officers.

<u>Name</u>	<u>Year</u>	<u>Total All Other (\$)</u>	<u>Car Allowance and Commuting Expenses (\$ (1))</u>	<u>401(k) Match (\$ (2))</u>	<u>Dividends (\$ (3))</u>	<u>Long-Term Disability Insurance (\$ (4))</u>
Bruce A. Campbell	2012	\$ 20,351	\$ 10,089	\$ 4,300	\$ 3,100	\$ 2,862
	2011	18,221	10,309	1,828	3,457	2,627
	2010	15,321	10,443	2,528	-	2,350
Rodney L. Bell	2012	16,452	11,716	2,291	1,023	1,422
	2011	16,599	11,620	2,471	1,141	1,367
	2010	16,693	11,287	4,146	-	1,260
Matthew J. Jewell	2012	15,700	9,000	4,255	1,023	1,422
	2011	13,886	9,000	2,378	1,141	1,367
	2010	13,982	9,000	3,722	-	1,260
Chris C. Ruble	2012	14,635	9,000	2,983	1,023	1,629
	2011	12,716	9,000	1,009	1,141	1,566
	2010	13,394	9,000	2,900	-	1,494
Craig A. Drum	2012	13,739	9,000	2,949	558	1,232
	2011	13,642	9,000	2,835	622	1,185
	2010	13,735	9,000	3,599	-	1,136

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- (1) The Company provides a \$9,000 annual car allowance plus reimbursement of certain commuting expenses to Named Executive Officers.
(2) The amount shown represents the Company’s contributions to the 401(k) Plan.
(3) Represents dividend payments during 2012 on all non-vested restricted shares held by the executive. These dividend payments are nonforfeitable.
(4) Represents premiums paid by the Company for long-term disability insurance for officers of the Company.

Grants of Plan-Based Awards for Fiscal 2012

The following table shows the plan-based awards granted to the Named Executive Officers in 2012.

Name & Principal Position	Grant Date	Estimated Future Payouts Under Non- Equity Incentive Plan Awards			Estimated Future Shares to be Issued Under Equity Incentive Plan Awards (1)			All Other Stock Awards; Numbers of Stock (2), (4)(#)	All Other Option Awards; Numbers of Underlying Options (3), (4) (#)	Exercise or Base Price of Option Awards (5)(\$/sh)	Grant Date Fair Value of Stock and Option Awards (\$)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)				
Bruce A. Campbell	2/7/2012	60,000	300,000	1,200,000							
	2/7/2012				3,727	7,453	14,906				333,299
	2/7/2012							9,119			333,299
	2/7/2012								25,940	\$ 36.55	334,455
Rodney L. Bell	2/7/2012	30,256	151,280	605,120							
	2/7/2012				1,230	2,459	4,918				109,966
	2/7/2012							3,009			109,979
	2/7/2012								8,560	36.55	110,368
Matthew J. Jewell	2/7/2012	30,256	151,280	605,120							
	2/7/2012				1,230	2,459	4,918				109,966
	2/7/2012							3,009			109,979
	2/7/2012								8,560	36.55	110,368
Chris C. Ruble	2/7/2012	34,658	173,290	693,160							
	2/7/2012				1,230	2,459	4,918				109,966
	2/7/2012							3,009			109,979
	2/7/2012								8,560	36.55	110,368
Craig A. Drum	2/7/2012	26,210	131,051	524,202							
	2/7/2012				671	1,341	2,682				59,969
	2/7/2012							1,641			59,979
	2/7/2012								4,669	36.55	60,199

- (1) Represents performance share awards granted under the Amended and Restated Plan. The performance shares cliff vest on the 30th day after the close of the three-year performance period that ends February 7, 2015 and the number of shares that vest will be based on the TSR of Forward Air Corporation stock compared to the TSR of a determined peer group. The grant date fair value for performance share awards is based on the probable outcome of the performance conditions on the grant date. See page 23 of this Proxy Statement for additional information.
- (2) Represents non-vested restricted shares granted under the Amended and Restated Plan.
- (3) Represents stock options granted under the Amended and Restated Plan.
- (4) Each grant vests equally over a three-year period with the first vesting occurring on the one-year anniversary of the grant date.
- (5) In accordance with the provisions of the Amended and Restated Plan the exercise price of stock option grants is set using the closing market price on the day of grant. In the event that there is no public trading of the Company's common stock on the date of stock option grant, the exercise price will be the closing price on the most recent, prior date that the Company's common stock was traded.

Outstanding Equity Awards at Fiscal Year-End

The following table shows information about outstanding equity awards at December 31, 2012.

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable (1)	Number of Securities Underlying Unexercised Options (#) Unexercisable (2)	Option Exercise Price (\$)	Option Grant Date	Option Expiration Date	Number of Shares of Stock That Have Not Vested (2)	Market Value of Shares of Stock That Have Not Vested (3)	Equity Incentive Plan Awards: Number of Unearned Shares That Have Not Vested (4)	Equity Incentive Plan Awards: Market Value of Unearned Shares That Have Not Vested (3)
Bruce A. Campbell	172,453		\$ 13.25	2/7/03	2/7/13				
	45,001		20.21	10/27/03	10/27/13				
	150,000		28.97	2/14/05	2/14/15				
	100,000		31.65	2/11/07	2/11/14				
	100,000		22.87	2/8/09	2/8/16				
	66,667	33,333	22.47	2/7/10	2/7/17				
	12,346	24,691	28.61	2/11/11	2/11/18				
		25,940	36.55	2/7/12	2/7/19				
					17,349	\$ 607,388	39,598	\$ 1,386,326	
Rodney L. Bell	30,000		18.82	2/4/04	2/4/14				
	112,500		28.97	2/14/05	2/14/15				
	50,000		31.65	2/11/07	2/11/14				
	45,000		29.44	2/10/08	2/10/15				
	50,000		22.87	2/8/09	2/8/16				
	33,333	16,667	22.47	2/7/10	2/7/17				
	4,074	8,148	28.61	2/11/11	2/11/18				
		8,560	36.55	2/7/12	2/7/19				
					5,725	200,432	13,066	457,441	
Matthew J. Jewell	30,000		18.82	2/4/04	2/4/14				
	112,500		28.97	2/14/05	2/14/15				
	50,000		31.65	2/11/07	2/11/14				
	45,000		29.44	2/10/08	2/10/15				
	50,000		22.87	2/8/09	2/8/16				
	33,333	16,667	22.47	2/7/10	2/7/17				
	4,074	8,148	28.61	2/11/11	2/11/18				
		8,560	36.55	2/7/12	2/7/19				
					5,725	200,432	13,066	457,441	

Chris C. Ruble	101,416		28.97	2/14/05	2/14/15				
	50,000		31.65	2/11/07	2/11/14				
	45,000		29.44	2/10/08	2/10/15				
	16,667		22.87	2/8/09	2/8/16				
	33,190	16,667	22.47	2/7/10	2/7/17				
	4,074	8,148	28.61	2/11/11	2/11/18				
		8,560	36.55	2/7/12	2/7/19				
						5,725	200,432	13,066	457,441
Craig A. Drum	50,000		31.65	2/11/07	2/11/14				
	14,900		29.44	2/10/08	2/10/15				
		12,000	22.47	2/7/10	2/7/17				
		4,444	28.61	2/11/11	2/11/18				
		4,669	36.55	2/7/12	2/7/19				
						3,122	109,301	7,126	249,481

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- (1) Each grant vests equally over a three-year period with the first vesting occurring on the one-year anniversary of the grant date.
- (2) The market value is based on the closing price of the Company's common stock on Nasdaq on December 31, 2012 of \$35.01.
- (3) Represents performance share awards granted under the Amended and Restated Plan. The performance shares cliff vest on the 30th day after the close of the three-year performance periods that end on February 11, 2014 and February 7, 2015. The number of shares that vest will be based on the TSR of Forward Air Corporation stock compared to the TSR of a determined peer group. See page 23 of this Proxy Statement for additional information. Shares presented represent the maximum available award as to date the related performance condition has exceeded the threshold for the maximum award.

Option Exercises and Stock Vested

The following table shows information about options exercised or shares acquired on vesting during 2012.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized Upon Exercise (\$), (1)	Number of Shares Acquired on Vesting (#)	Value Realized Upon Vesting (\$), (1)
Bruce A. Campbell	200,000	\$ 687,960	4,116	\$ 143,401
Rodney L. Bell	-	-	1,358	47,313
Matthew J. Jewell	21,500	315,481	1,358	47,313
Chris C. Ruble	11,227	71,256	1,358	47,313
Craig A. Drum	43,322	404,755	741	25,816

(1) The value realized upon exercise or vesting is based on the current market price on the date of exercise or vesting.

2012 Potential Payments Upon Termination, Change of Control, Death or Disability

The following table shows the estimated benefits payable to each Named Executive Officer in the event of termination of employment or change of control of the Company. The amounts shown assume that a termination of employment or a change of control occurs on December 31, 2012. The amounts do not include payments or benefits provided under insurance or other plans that are generally available to all full-time employees.

Name & Principal Position	Termination without Cause (\$) (1)	Death and Disability (\$) (2)	Change of Control (\$) (3)
Bruce A. Campbell			
Employment Agreement	\$ 611,707	\$ 611,707	\$ 1,079,207
Amended and Restated Plan	-	4,933,294	4,933,294
Total	\$ 611,707	\$ 5,545,001	\$ 6,012,501
Rodney L. Bell (4)			
Amended and Restated Plan	-	1,826,332	1,826,332
Matthew J. Jewell (4)			
Amended and Restated Plan	-	1,826,332	1,826,332
Chris C. Ruble (4)			
Amended and Restated Plan	-	1,826,332	1,826,332
Craig A. Drum (4)			
Amended and Restated Plan	-	1,097,948	1,097,948

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- (1) The Company entered into an Employment Agreement with Bruce Campbell effective October 30, 2007, the present term of which expires December 31, 2013 with one-year annual extensions thereafter absent a notice of non-renewal by the Company or Mr. Campbell. Under this Agreement, Mr. Campbell is entitled upon termination without “just cause” (as defined in the Agreement) to payment of his base salary for the longer of one (1) year, or the remainder of the Agreement term, payment of any bonus previously earned but unpaid, and one (1) year of health insurance continuation (\$6,307 COBRA costs). Mr. Campbell is not entitled to any of these payments/benefits if he is terminated with “just cause” or he voluntarily resigns without a “Change in Control” or “Material Change in Duties,” as such terms are defined in the Agreement. The Company does not have employment agreements with any of its other Named Executive Officers.
- (2) Under his Employment Agreement, upon termination due to his disability or death, Mr. Campbell (or his spouse or estate in the event of death) is entitled to the same payments/benefits that Mr. Campbell is entitled to receive in the event of a termination without “just cause”; however, in the event of termination due to death, all such payments owed shall be made in a lump sum payment within 60 days of his death.
- (3) Under his Employment Agreement, upon a Change in Control (as defined in the Agreement), Mr. Campbell is entitled to payment of his base salary for one (1) year payable over the course of the twelve (12) months following the Change in Control (\$600,000), payment of any bonus previously earned but unpaid (\$5,400 unpaid at year-end under the Annual Incentive Plan), payment of an amount equal to the prior-year’s year-end bonus (\$467,500) and one (1) year continuation of health insurance (\$6,307 COBRA costs). The amounts in the Amended and Restated Plan rows for death, disability and Change in Control reflect unvested option, non-vested restricted shares and performance share awards detailed in the “Outstanding Equity Awards at Fiscal Year-End” table on pages 34-35, multiplied by the excess, if any, of the market price of our common stock on December 31, 2012 (\$35.01) over the exercise price, if applicable, listed in the same table.
- (4) On December 10, 2012, the Company adopted an executive severance and change in control plan (the “Severance Plan”), effective January 1, 2013. The Severance Plan is applicable to selected employees of the Company, including the executive officers listed above (other than its Chief Executive Officer). The Severance Plan provides for the payment of severance benefits to participants in the event their employment is involuntarily terminated by the Company (other than for cause or upon death or disability, as defined by the Severance Plan) or by the participant for good reason (as defined in

the Severance Plan) (collectively, “Involuntary Terminations”). Assuming a January 1, 2013, involuntary termination, under the Severance Plan the above officers, other than the Chief Executive Officer, would be entitled to the following severance benefits upon an Involuntary Termination, in addition to any accrued obligation and vested amounts to which they may be entitled under the Company’s benefit plans:

Name & Principal Position	Unpaid Annual Incentive (i)	Salary & Incentive (ii)	Healthcare (iii)	Placement Services (iv)	Total Severance
Rodney L. Bell					
Termination without Cause	\$ 2,723	\$ 302,560	\$ 14,219	\$ 20,000	\$ 339,502
Change of Control	2,723	907,680	28,438	20,000	958,841
Matthew J. Jewell					
Termination without Cause	2,723	302,560	14,219	20,000	339,502
Change of Control	2,723	907,680	28,438	20,000	958,841
Chris C. Ruble					
Termination without Cause	3,119	346,580	14,219	20,000	383,918
Change of Control	3,119	1,039,740	28,438	20,000	1,091,297
Craig A. Drum					
Termination without Cause	2,359	262,101	5,739	20,000	290,199
Change of Control	2,359	786,303	11,478	20,000	820,140

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- i. Represents unpaid cash incentives earned under the 2012 Annual Cash Incentive Plan as of January 1, 2013.
 - ii. Participants are entitled to a lump sum severance payment in an amount equal to the participant’s annualized base salary in effect on his or her termination date if the termination date is prior to or absent a Change in Control, or equal to two times the sum of the participant’s base salary and target annual incentive (each determined as of the termination date) if the termination date is on or within two years following a Change in Control.
 - iii. Participants are entitled to a lump sum healthcare assistance payment in an amount equal to the excess of the monthly COBRA premium to provide the group medical, dental, vision, and/or prescription drug plan benefits the participant had been receiving before the termination above the monthly premium payable by active employees under the Company’s healthcare plan for similar coverage, multiplied by 12 months if the termination date is prior to or absent a Change in Control, or by 24 months if the termination date is on or within two years following a Change in Control.
 - iv. Participants are entitled to access to up to \$20,000 of employer-paid outplacement services for 12 months following termination.

Audit Committee Report

The Audit Committee oversees the Company's financial reporting process on behalf of the Board. 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 2012 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 Audit Committee's function is more fully described in its charter, which is available on the Company's website at www.forwardair.com.

The Audit 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 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 and the firm's audit of the Company's system of internal controls over financial reporting.

The Audit Committee has reviewed and discussed the audited financial statements of the Company for the fiscal year ended December 31, 2012 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, and as adopted by the Public Company Accounting Oversight Board ("PCAOB"). The Audit Committee also discussed with Ernst & Young LLP its independence from management and the Company, and received Ernst & Young LLP's written disclosures and letter pursuant to applicable requirements of the PCAOB regarding the independent accountant's communication with the Audit Committee concerning independence. The Audit Committee further considered the compatibility of the non-audit services with maintaining Ernst & Young LLP's independence.

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 report on 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 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, 2012 for filing with the SEC.

*C. Robert Campbell, Chair
G. Michael Lynch
Larry D. Leinweber*

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 2013, 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 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Audit Fees (1)	\$ 803,790	\$ 816,725
Audit Related Fees (2)	75,000	76,718
Tax Fees (2)	335,827	577,473
All Other Fees (2)	-	-

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- (1) Includes fees and expenses related to the audit and interim reviews of the Company's financial statements and the audit of 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 2012 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 2013. 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 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 2013.

PROPOSAL NO. 3 — ADVISORY VOTE ON COMPENSATION OF NAMED EXECUTIVE OFFICERS

Introduction

The Company's goal with respect to executive compensation is to provide a comprehensive package that is sufficient to attract, motivate and retain executives of outstanding ability, performance and potential. The Compensation Committee seeks to establish and maintain an appropriate relationship between executive compensation and the creation of shareholder value. The Compensation Committee believes that the most effective compensation program is one that provides competitive base pay, rewards the achievement of established annual and long-term goals and objectives, and provides incentives for retention. The Compensation Committee seeks a compensation program that is internally consistent and believes that pay differences among jobs should be commensurate with differences in the levels of responsibility between the Chief Executive Officer and the other Named Executive Officers.

We urge you to read the Compensation Discussion and Analysis section of this proxy statement for additional details on our executive compensation, including our compensation philosophy and objectives and the 2012 compensation of our Named Executive Officers.

We are asking you to vote on the adoption of the following resolution:

BE IT RESOLVED by the shareholders of Forward Air Corporation, that the shareholders approve the compensation of the Company's Named Executive Officers as disclosed pursuant to Item 402 of Regulation S-K in the Company's proxy statement for the 2013 Annual Meeting of Shareholders.

As an advisory vote, this Proposal is non-binding. Although the vote is non-binding, the Board of Directors and the Compensation Committee value the opinions of our shareholders, and will consider the outcome of the vote when making future compensation decisions for our Named Executive Officers.

Vote Required

The affirmative vote of a majority of the shares of common stock present or represented by proxy and voting on this Proposal No. 3 at the Annual Meeting is required for approval of this Proposal. Unless contrary instructions are received, shares of common stock represented by duly executed proxies will be voted for the adoption of the resolution approving the compensation of Named Executive Officers. If you own shares through a bank, broker, or other holder of record, you must instruct your bank, broker, or other holder of record how to vote in order for them to vote your shares so that your vote can be counted on this Proposal.

Recommendation of the Board of Directors

The Board of Directors recommends a vote FOR approval, on an advisory basis, of the compensation of the Named Executive Officers.

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 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 named executive officers, we believe that all ownership reports were timely filed during 2012.

Deadline for Submission to Shareholders of Proposals to be Presented at the 2014 Annual Meeting of Shareholders

Any proposal intended to be presented for action at the 2014 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 November 28, 2013 in order for such proposal to be considered for inclusion in the Company's proxy statement and form of proxy relating to its 2014 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 2014 Annual Meeting of Shareholders), a shareholder's notice must be received by the Secretary of the Company not later than February 5, 2014 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 February 5, 2014, 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 2013 Annual Meeting of Shareholders, Proxy Statement and 2012 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, 2012 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. The Company's filings with the SEC are also available, without charge, on our website (www.forwardair.com) as soon as reasonably practical after filing.

By Order of the Board of Directors,



Matthew J. Jewell
*Executive Vice President,
Chief Legal Officer and Secretary*

Greeneville, Tennessee
March 25, 2013

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2012
Commission File No. 000-22490

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

Tennessee
(State or other jurisdiction
of incorporation or organization)

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

430 Airport Road
Greenville, Tennessee
(Address of principal executive offices)

37745
(Zip Code)

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

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

Common Stock, \$0.01 par value
(Title of class)

The NASDAQ Stock Market LLC
(Name of exchange on which registered)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting Company

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2012 was approximately \$922,515,140 based upon the \$32.27 closing price of the stock as reported on The NASDAQ Stock Market LLC on that date. For purposes of this computation, all directors and executive officers of the registrant are assumed to be affiliates. This assumption is not a conclusive determination for purposes other than this calculation.

The number of shares outstanding of the registrant's common stock, \$0.01 par value per share as of February 11, 2013 was 29,602,342.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the 2013 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

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Introductory Note

This Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (this “Form 10-K”) contains “forward-looking statements,” as defined in Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements are statements other than historical information or statements of current condition and relate to future events or our future financial performance. Some forward-looking statements may be identified by use of such terms as “believes,” “anticipates,” “intends,” “plans,” “estimates,” “projects” or “expects.” Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The following is a list of factors, among others, that could cause actual results to differ materially from those contemplated by the forward-looking statements: economic factors such as recessions, inflation, higher interest rates and downturns in customer business cycles, our inability to maintain our historical growth rate because of a decreased volume of freight or decreased average revenue per pound of freight moving through our network, increasing competition and pricing pressure, surplus inventories, loss of a major customer; the creditworthiness of our customers and their ability to pay for services rendered, our ability to secure terminal facilities in desirable locations at reasonable rates, the inability of our information systems to handle an increased volume of freight moving through our network, changes in fuel prices, claims for property damage, personal injuries or workers’ compensation, employment matters including rising health care costs, enforcement of and changes in governmental regulations, environmental and tax matters, the handling of hazardous materials, the availability and compensation of qualified independent owner-operators and freight handlers needed to serve our transportation needs and our inability to successfully integrate acquisitions. As a result of the foregoing, no assurance can be given as to future financial condition, cash flows or results of operations. Except as required by law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Part I

Item 1. Business

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

Through our Forward Air segment, we are a leading provider of time-definite surface transportation and related logistics services to the North American expedited ground freight market. We offer our customers local pick-up and delivery (Forward Air Complete™) and scheduled surface transportation of cargo as a cost-effective, reliable alternative to air transportation. We transport cargo that must be delivered at a specific time but is less time-sensitive than traditional air freight. This type of cargo is frequently referred to in the transportation industry as deferred air freight. We operate our Forward Air segment through a network of terminals located on or near airports in 87 cities in the United States and Canada, including a central sorting facility in Columbus, Ohio and 12 regional hubs serving key markets. We also offer our customers an array of logistics and other services including: expedited full truckload (“TLX”); dedicated fleets; warehousing; customs brokerage; and shipment consolidation, deconsolidation and handling.

Through our Forward Air segment, we market our airport-to-airport services primarily to freight forwarders, integrated air cargo carriers, and passenger and cargo airlines. To serve this market, we offer customers a high level of service with a focus on on-time, damage-free deliveries. We serve our customers by locating our terminals on or near airports and maintaining regularly scheduled transportation service between major cities. We either receive shipments at our terminals or if instructed to do so pick up shipments directly from our customers. We then transport the freight by truck (i) directly to the destination terminal; (ii) to our Columbus, Ohio central sorting facility; or (iii) to one of our 12 regional hubs, where they are unloaded, sorted and reloaded. After reloading the shipments, we deliver them to the terminals nearest their destinations and then, if requested by the customer, on to a final designated site. We ship freight directly between terminals when justified by the tonnage volume.

During 2012, approximately 23.9% of the freight we handled was for overnight delivery, approximately 61.3% was for delivery within two to three days and the balance was for delivery in four or more days. We generally do not market our airport-to-airport services directly to shippers (where such services might compete with our freight forwarder customers). Also, because we do not place significant size or weight restrictions on airport-to-airport shipments, we generally do not compete directly with integrated air cargo carriers such as United Parcel Service and Federal Express in the overnight delivery of small parcels. In 2012, Forward Air’s ten largest customers accounted for approximately 47.2% of Forward Air’s operating revenue and no single customer accounted for more than 10.0% of Forward Air’s operating revenue.

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

Through our FASI segment, which we formed in July 2007, we provide pool distribution services throughout the Mid-Atlantic, Southeast, Midwest and Southwest continental United States. Pool distribution involves managing high-frequency, last mile handling and distribution of time-sensitive product to numerous destinations in specific geographic regions. Our primary customers for pool distribution are regional and nationwide distributors and specialty retailers, such as mall, strip mall and outlet-based retail chains. We service these customers through a network of terminals and service centers located in 19 cities. FASI's three largest customers accounted for approximately 61.9% of FASI's 2012 operating revenue, but revenues from these three customers did not exceed 10.0% of our consolidated revenue. No other customers accounted for more than 10.0% of FASI's operating revenue.

Our Industry

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

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

- Freight forwarders obtain requests for shipments from customers, make arrangements for transportation of the cargo by a third-party carrier and usually arrange for both delivery from the shipper to the carrier and from the carrier to the recipient.
- Integrated air cargo carriers provide pick-up and delivery services primarily using their own fleet of trucks and provide transportation services generally using their own fleet of aircraft.
- Less-than-truckload carriers also provide pick-up and delivery services through their own fleet of trucks. These carriers operate terminals where a single shipment is unloaded, sorted and reloaded multiple times. This additional handling increases transit time, handling costs and the likelihood of cargo damage or theft.
- Full truckload carriers provide transportation services generally using their own fleet of trucks. A freight forwarder or shipper must have a shipment of sufficient size to justify the cost of a full truckload. These cost benefit concerns can inhibit the flexibility often required by freight forwarders or shippers.
- Passenger or cargo airlines provide airport-to-airport service, but have limited cargo space and generally accept only shipments weighing less than 150 pounds.

Competitive Advantages

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

- *Focus on Specific Freight Markets.* Our Forward Air segment focuses on providing time-definite surface transportation and related logistics services to the North American expedited ground freight market. Our FASI segment focuses on providing high-quality pool distribution services to retailers and nationwide distributors of retail products. This focused approach enables us to provide a higher level of service in a more cost-effective manner than our competitors.
- *Expansive Network of Terminals and Sorting Facilities.* We have developed a network of Forward Air terminals and sorting facilities throughout the United States and Canada located on or near airports. We believe it would be difficult for a competitor to duplicate our Forward Air network with the expertise and strategic facility locations we have acquired without expending significant capital and management resources. Our expansive Forward Air network enables us to provide regularly scheduled service between most markets with low levels of freight damage or loss, all at rates which in general are significantly below air freight rates.

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

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

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

- *Superior Service Offerings.* Forward Air's published expedited ground freight schedule for transit times with specific cut-off and arrival times generally provides Forward Air customers with the predictability they need. In addition, our network of Forward Air terminals allows us to offer our customers later cut-off times, a higher percentage of direct shipments (which reduces damage and shortens transit times) and earlier delivery times than most of our competitors. Our network of FASI terminals allows us the opportunity to provide precision deliveries to a wider range of locations than most pool distribution providers with increased on-time performance. Recent economic uncertainty resulted in reduced inventory levels and increased shippers' need for reliable, expedited delivery. We believe the trend of minimal inventories and increased expedited shipping will continue, and that our network of terminals and expedited capabilities put us in an excellent position to benefit from these trends.
- *Flexible Business Model.* Rather than owning and operating our own fleet of trucks, Forward Air purchases most of its transportation requirements from owner-operators or truckload carriers. Due to the nature of pool distribution services, FASI utilizes a higher percentage of Company-employed drivers and Company-owned equipment than Forward Air. However, as the conditions of individual markets and requirements of our customers allow, we utilize owner-operators in our pool distribution business. This approach allows us to respond quickly to changing demands and opportunities in our industry and to generate higher returns on assets because of the lower capital requirements.
- *Comprehensive Logistic and Other Service Offerings.* Through our two segments we offer an array of logistic and other services including: TLX, pick-up and delivery (Forward Air Complete™), dedicated fleet, warehousing, customs brokerage and shipment consolidation and handling. These services are an essential part of many of our customers' transportation needs and are not offered by many of our competitors. We are often able to provide these services utilizing existing infrastructure and thereby earning additional revenue without incurring significant additional fixed costs.
- *Leading Technology Platform.* We are committed to using information technology to improve our operations. Through improved information technology, we believe we can increase the volume of freight we handle in our networks, improve visibility of shipment information and reduce our operating costs. Our technology allows us to provide our customers with electronic bookings and real-time tracking and tracing of shipments while in our network, complete shipment history, proof of delivery, estimated charges and electronic bill presentment. We continue to enhance our systems to permit us and our customers to access vital information through both the Internet and electronic data interchange. We have continued to invest in information technology to the benefit of our customers and our business processes.
- *Strong Balance Sheet and Availability of Funding.* Our asset-light business model and strong market position in the expedited ground freight market provides the foundation for operations that have produced excellent cash flow from operations even in challenging conditions. Our strong balance sheet can also be a competitive advantage. Our competitors, particularly in the pool distribution market, are mainly regional and local operations and may struggle to maintain operations in an uncertain economic environment. The threat of financial instability may encourage new and existing customers to use a more financially secure transportation provider, such as FASI.

Growth Strategy

Our growth strategy is to take advantage of our competitive strengths in order to increase our profits and shareholder returns. Our goal is to use our established networks as the base from which to expand and launch new services that will allow us to grow in any economic environment. Principal components of our efforts include:

- *Increase Freight Volume from Existing Customers.* Many of our customers currently use us for only a portion of their overall transportation needs. We believe we can increase freight volumes from existing customers by offering more comprehensive services that address all of the customer's transportation needs, such as Forward Air Complete™ ("Complete"), our direct to door pick-up and delivery service. By offering additional services that can be integrated with our existing services, we believe we will attract additional business from existing customers. In 2012, 23.1% of airport-to-airport linehaul shipments had a Complete component. We believe increasing this Complete attachment rate is a key to growing the revenue of our airport-to-airport service.
- *Develop New Customers.* We continue to actively market our services to potential new customers. In our Forward Air segment, we believe freight forwarders will continue to move away from integrated air cargo carriers because those carriers charge higher rates, and away from less-than-truckload carriers because those carriers provide less reliable service and compete for the same customers as do the freight forwarders. In addition, we believe Forward Air's comprehensive North American network and related logistics services are attractive to domestic and international airlines. Forward Air Complete™ can also help attract business from new customers who require pick-up and delivery for their shipments. In our pool distribution business, we are emphasizing the development of relationships with customers who have peak volume seasons outside of the traditional fourth quarter peak season in order to stabilize FASI's earnings throughout the calendar year. We are currently targeting customers from industries such as hospitality, healthcare, lawn and garden and publishing. We continue to evaluate plans to expand FASI's terminal footprint by opening FASI operations in select Forward Air terminals. We believe the utilization of existing Forward Air terminals will allow us to increase our FASI revenues with minimal addition of fixed costs.
- *Improve Efficiency of Our Transportation Network.* We constantly seek to improve the efficiency of our networks. Regional hubs and direct shuttles improve Forward Air's efficiency by reducing the number of miles freight must be transported and the number of times freight must be handled and sorted. As the volume of freight between key markets increases, we intend to continue adding direct shuttles. In key gateway cities we have constructed or expanded terminals. With these expanded facilities, we believe we have the necessary space to grow our business in key gateway cities and to offer additional services. We are working to improve our FASI operations by increasing the efficiencies of our daily and weekly transportation routes and the cartons handled per hour on our docks. We are constantly looking to improve FASI route efficiencies by consolidating loads and utilizing owner-operators when available. We are investing in conveyor systems for certain FASI terminals to increase the productivity of our cargo handlers. Finally, we are actively looking to reduce or eliminate the number of duplicate facilities in cities which have both Forward Air and FASI terminals. We have combined Forward Air and FASI facilities in Dallas/Fort Worth, Texas, Des Moines, Iowa, Denver, Colorado, Kansas City, Missouri, Nashville, Tennessee, Richmond, Virginia and Tulsa, Oklahoma, and will continue this process in upcoming years as the expiration of leases and business volumes allow.
- *Expand Logistics and Other Services.* We continue to expand our logistics and other services to increase revenue and improve utilization of our terminal facilities and labor force. Because of the timing of the arrival and departure of cargo, our facilities are under-utilized during certain portions of the day, allowing us to add logistics services without significantly increasing our costs. Therefore, we have added a number of logistic services in the past few years, such as TLX, dedicated fleet, warehousing, customs brokerage and shipment consolidation and handling services. These services directly benefit our existing customers and increase our ability to attract new customers, particularly those customers that cannot justify providing the services directly. These services are not offered by many transportation providers with whom we compete and are attractive to customers who prefer to use one provider for all of their transportation needs.
- *Expand Pool Distribution Services and Integrate with our Forward Air Services.* In addition to increasing our revenue from traditional pool distribution services, we are working to expand FASI's customer base beyond retail and to integrate our Forward Air and FASI service offerings. Through this process, we are able to offer customers linehaul or truckload services, with handling and sorting at the origin and destination terminal, and final distribution to one or many locations utilizing FASI pool distribution and Forward Air Complete™.
- *Enhance Information Systems.* We are committed to the continued development and enhancement of our information systems in ways that will continue to provide us competitive service advantages and increased productivity. We believe our enhanced systems have and will assist us in capitalizing on new business opportunities with existing customers and developing relationships with new customers.
- *Pursue Strategic Acquisitions.* We continue to evaluate and pursue acquisitions that can increase our penetration of a geographic area, add new customers, add new business verticals, increase freight volume and add new service offerings. In addition, we expect to explore acquisitions that may enable us to offer additional services. Acquisitions may affect our short-term cash flow and net income as we expend funds, potentially increase indebtedness and incur additional expenses.

Operations

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

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

Forward Air

Airport-to-airport

We receive freight from freight forwarders, integrated air cargo carriers and passenger and cargo airlines at our terminals, which are located on or near airports in the United States and Canada. We also pick up freight from customers at designated locations via our Forward Air Complete™ service. We consolidate and transport these shipments by truck through our network to our terminals nearest the ultimate destinations of the shipments. We operate regularly scheduled service to and from each of our terminals through our Columbus, Ohio central sorting facility, through one of our 12 regional hubs or, as volumes require, direct point-to-point service. We also operate regularly scheduled shuttle service directly between terminals where the volume of freight warrants bypassing the Columbus, Ohio central sorting facility or a regional hub. When a shipment arrives at our terminal nearest its destination, the customer arranges for the shipment to be picked up and delivered to its final destination, or we, in the alternative, through our Forward Air Complete™ service, deliver the freight for the customer to its final destination.

Terminals

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

City	Airport Served	City	Airport Served
Albany, NY	ALB	Louisville, KY	SDF
Albuquerque, NM*	ABQ	Memphis, TN	MEM
Allentown, PA*	ABE	McAllen, TX	MFE
Atlanta, GA	ATL	Miami, FL	MIA
Austin, TX	AUS	Milwaukee, WI	MKE
Baltimore, MD	BWI	Minneapolis, MN	MSP
Baton Rouge, LA*	BTR	Mobile, AL*	MOB
Birmingham, AL*	BHM	Moline, IA	MLI
Blountville, TN*	TRI	Montgomery, AL*	MGM
Boston, MA	BOS	Nashville, TN**	BNA
Buffalo, NY	BUF	Newark, NJ	EWR
Burlington, IA	BRL	Newburgh, NY	SWF
Cedar Rapids, IA	CID	New Orleans, LA	MSY
Charleston, SC	CHS	New York, NY	JFK
Charlotte, NC	CLT	Norfolk, VA	ORF
Chicago, IL	ORD	Oklahoma City, OK	OKC
Cincinnati, OH	CVG	Omaha, NE	OMA
Cleveland, OH	CLE	Orlando, FL	MCO
Columbia, SC*	CAE	Pensacola, FL*	PNS
Columbus, OH***	CMH	Philadelphia, PA	PHL
Corpus Christi, TX*	CRP	Phoenix, AZ	PHX
Dallas/Ft. Worth, TX**	DFW	Pittsburgh, PA	PIT
Dayton, OH*	DAY	Portland, OR	PDX
Denver, CO**	DEN	Raleigh, NC	RDU
Des Moines, IA**	DSM	Richmond, VA**	RIC
Detroit, MI	DTW	Rochester, NY	ROC
El Paso, TX	ELP	Sacramento, CA	SMF
Fort Wayne, IN*	FWA	Salt Lake City, UT	SLC
Grand Rapids, MI*	GRR	San Antonio, TX	SAT
Greensboro, NC	GSO	San Diego, CA	SAN
Greenville, SC	GSP	San Francisco, CA	SFO
Hartford, CT	BDL	Seattle, WA	SEA
Harrisburg, PA	MDT	Shreveport, LA*	SHV
Houston, TX	IAH	South Bend, IN*	SBN
Huntsville, AL*	HSV	St. Louis, MO	STL
Indianapolis, IN	IND	Syracuse, NY	SYR
Jacksonville, FL	JAX	Tampa, FL	TPA
Kansas City, MO**	MCI	Toledo, OH*	TOL
Knoxville, TN*	TYS	Tucson, AZ*	TUS
Lafayette, LA*	LFT	Tulsa, OK**	TUL
Laredo, TX	LRD	Washington, DC	IAD
Las Vegas, NV	LAS	Montreal, Canada*	YUL
Little Rock, AR*	LIT	Toronto, Canada	YYZ
Los Angeles, CA	LAX		

* Denotes an independent agent location.

** Denotes a location with combined Forward Air and FASI operations.

*** Denotes a location in which Forward Air is an agent for FASI.

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

Direct Service and Regional Hubs

We operate direct terminal-to-terminal services and regional overnight service between terminals where justified by freight volumes. We currently provide regional overnight service to many of the markets within our network. Direct service allows us to provide quicker scheduled service at a lower cost because it allows us to minimize out-of-route miles and eliminate the added time and cost of handling the freight at our central or regional hub sorting facilities. Direct shipments also reduce the likelihood of damage because of reduced handling and sorting of the freight. As we continue to increase volume between various terminals, we intend to add other direct services. Where warranted by sufficient volume in a region, we utilize larger terminals as regional sorting hubs, which allow us to bypass our Columbus, Ohio central sorting facility. These regional hubs improve our operating efficiency and enhance customer service. We operate regional hubs in Atlanta, Charlotte, Chicago, Dallas/Ft. Worth, Denver, Kansas City, Los Angeles, New Orleans, Newark, Newburgh, Orlando, and Sacramento.

Shipments

The average weekly volume of freight moving through our network was approximately 34.9 million pounds per week in 2012. During 2012, our average shipment weighed approximately 637 pounds and shipment sizes ranged from small boxes weighing only a few pounds to large shipments of several thousand pounds. Although we impose no significant size or weight restrictions, we focus our marketing and price structure on shipments of 200 pounds or more. As a result, we typically do not directly compete with integrated air cargo carriers in the overnight delivery of small parcels. The table below summarizes the average weekly volume of freight moving through our network for each year since 1997.

Year	Average Weekly Volume in Pounds (In millions)
1997	12.4
1998	15.4
1999	19.4
2000	24.0
2001	24.3
2002	24.5
2003	25.3
2004	28.7
2005	31.2
2006	32.2
2007	32.8
2008	34.2
2009	28.5
2010	32.6
2011	34.0
2012	34.9

Logistics and Other Services

Our customers increasingly demand more than the movement of freight from their transportation providers. To meet these demands, we continually seek ways to customize our logistics services and add new services. Logistics and other services increase our profit margins by increasing our revenue without corresponding increases in our fixed costs, as airport-to-airport assets and resources are primarily used to provide the logistics and other services.

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

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

- warehousing, dock and office space;
- drayage and intermodal;
- hotshot or ad-hoc ultra expedited services; and
- shipment consolidation and handling, such as shipment build-up and break-down and reconsolidation of air or ocean pallets or containers.

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

Revenue and purchased transportation for our TLX service, which is the largest component of our Logistics revenue, are largely determined by the number of miles driven. The table below summarizes the average miles driven per week to support our TLX service since 2003:

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

Forward Air Solutions (FASI)

Pool Distribution

Through our FASI segment we provide pool distribution services through a network of terminals and service locations in 19 cities throughout the Mid-Atlantic, Southeast, Midwest and Southwest continental United States. Pool distribution involves managing high-frequency handling and distribution of time-sensitive product to numerous destinations in specific geographic regions. Our primary customers for this product are regional and nationwide distributors and retailers, such as mall, strip mall and outlet-based retail chains. However, in order to reduce the seasonal volatility of FASI's revenue, we are focused on diversifying the FASI customer base to include customers from industries such as hospitality, health care, lawn and garden and publishing.

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

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

* Denotes a location in which Forward Air is an agent for FASI.

** Denotes a location with combined Forward Air and FASI operations.

Customers and Marketing

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

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

We market all our services through a sales and marketing staff located in major markets of the United States. Senior management also is actively involved in sales and marketing at the national account level and supports local sales initiatives. We also participate in air cargo and retail trade shows and advertise our services through direct mail programs and through the Internet via www.forwardair.com and www.forwardairsolutions.com. The information contained on our websites is not part of this filing and is therefore not incorporated by reference unless such information is otherwise specifically referenced elsewhere in this report.

Technology and Information Systems

Our technology allows us to provide our customers with real-time tracking and tracing of shipments throughout the transportation process, complete shipment history, proof of delivery, estimated charges and electronic bill presentment. In addition, our customers are able to electronically transmit bookings to us from their own networks and schedule transportation and obtain tracking and tracing information. We continue to develop and enhance our systems to permit our customers to obtain this information both through the Internet and through electronic data interchange.

We continue to enhance our operational applications and website service offerings in our continuing effort to automate and improve our operations. Our Forward Air Complete™ website coordinates activities between our customers, operations personnel and external service providers. We believe that our systems, websites and other technical enhancements will assist us in capitalizing on new business opportunities and could encourage customers to increase the volume of freight they send through our network.

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

Purchased Transportation

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

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

As a result of efforts to expand our logistics and other services, seasonal demands and volume surges in particular markets, we also purchase transportation from other surface transportation providers to handle overflow volume. Of the \$252.7 million incurred for purchased transportation during 2012, we purchased 59.8% from owner-operators and 40.2% from other surface transportation providers.

Competition

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

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

Seasonality

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

Employees

As of December 31, 2012, we had 1,007 full-time employees, 611 of whom were freight handlers. Also, as of that date, we had an additional 1,121 part-time employees, of whom the majority were freight handlers. None of our employees are covered by a collective bargaining agreement. We recognize that our workforce, including our freight handlers, is one of our most valuable assets. The recruitment, training and retention of qualified employees is essential to support our continued growth and to meet the service requirements of our customers.

Risk Management and Litigation

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

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

Regulation

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

Service Marks

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

Website Access

We file reports with the Securities and Exchange Commission (the "SEC"), including annual reports on Form 10-K, quarterly reports on Form 10-Q and other reports from time to time. We are an electronic filer and the SEC maintains an Internet site at www.sec.gov that contains these reports and other information filed electronically. We make available free of charge through our website our Code of Business Conduct and Ethics and our reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Our website addresses are www.forwardair.com and www.forwardairsolutions.com. Our goal is to maintain our website as a portal through which investors can easily find or navigate to pertinent information about us. The information provided on the website is not part of this report, and is therefore not incorporated by reference unless such information is otherwise specifically referenced elsewhere in this report.

Item 1A. Risk Factors

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

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

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

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

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

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

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

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

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

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

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

Our operations, particularly our networks of hubs and terminals, represent substantial fixed costs. As a result, any decline in the volume or revenue per pound of freight we handle may have an adverse effect on our operating margin and our results of operations. Typically, Forward Air does not have contracts with its customers. FASI does have contracts with its customers but these contracts typically have terms allowing cancellation within 30 to 60 days. As a result, we cannot guarantee that our current customers will continue to utilize our services or that they will continue at the same levels. The actual shippers of the freight moved through our networks include various manufacturers, distributors and/or retailers of electronics, clothing, telecommunications equipment, machine parts, trade show exhibit materials and medical equipment. Adverse business conditions affecting these shippers or adverse general economic conditions are likely to cause a decline in the volume of freight shipped through our networks.

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

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

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

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

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

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

- identification of appropriate acquisition candidates;
- negotiation of acquisitions on favorable terms and valuations;
- integration of acquired businesses and personnel;
- implementation of proper business and accounting controls;
- ability to obtain financing, at favorable terms or at all;
- diversion of management attention;
- retention of employees and customers;
- unexpected liabilities;
- potential erosion of operating profits as new acquisitions may be unable to achieve profitability comparable with our core airport-to-airport business; and
- detrimental issues not discovered during due diligence.

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

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

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

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

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

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

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

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

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

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

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

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

Our information technology systems are dependent upon global communications providers, web browsers, telephone systems and other aspects of the Internet infrastructure that have experienced significant system failures and electrical outages in the past. While we take measures to ensure our major systems have redundant capabilities, our systems are susceptible to outages from fire, floods, power loss, telecommunications failures, break-ins, cyber-attacks and similar events. Despite our implementation of network security measures, our servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems. The occurrence of any of these events could disrupt or damage our information technology systems and hamper our internal operations, our ability to provide services to our customers and the ability of our customers to access our information technology systems. A material network breach in the security of our information technology systems could include the theft of our intellectual property or trade secrets. To the extent that any disruptions or security breach results in a loss or damage to our data, or in inappropriate disclosure of confidential information, it could cause significant damage to our reputation, affect our relationships with our customers, reduce the demand for our services, lead to claims against us and ultimately harm our business. In addition, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

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

We depend on owner-operators for most of our transportation needs. In 2012, owner-operators provided 59.8% of our purchased transportation. Competition for owner-operators is intense, and sometimes there are shortages of available owner-operators. In addition, we need a large number of freight handlers to operate our business efficiently. During periods of low unemployment in the areas where our terminals are located, we may have difficulty hiring and retaining a sufficient number of freight handlers. If we have difficulty attracting and retaining enough qualified owner-operators or freight handlers, we may be forced to increase wages and benefits, which would increase our operating costs. This difficulty may also impede our ability to maintain our delivery schedules, which could make our service less competitive and force us to curtail our planned growth. If our labor costs increase, we may be unable to offset the increased labor costs by increasing rates without adversely affecting our business. As a result, our profitability may be reduced.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our charter and bylaws and provisions of Tennessee law may discourage, delay or prevent a merger, acquisition or change in control that may be considered favorable. These provisions could also discourage proxy contests and make it more difficult for shareholders to elect directors and take other corporate actions. Among other things, these provisions:

- authorize us to issue preferred stock, the terms of which may be determined at the sole discretion of our Board of Directors and may adversely affect the voting or economic rights of our shareholders; and
- establish advance notice requirements for nominations for election to the Board of Directors and for proposing matters that can be acted on by shareholders at a meeting.

Our charter and bylaws and provisions of Tennessee law may discourage transactions that otherwise could provide for the payment of a premium over prevailing market prices for our Common Stock and also could limit the price that investors are willing to pay in the future for shares of our Common Stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Properties and Equipment

Management believes that we have adequate facilities for conducting our business, including properties owned and leased. Management further believes that in the event replacement property is needed, it will be available on terms and at costs substantially similar to the terms and costs experienced by competitors within the transportation industry.

We lease our 37,500 square foot headquarters in Greeneville, Tennessee from the Greeneville-Greene County Airport Authority. The initial lease term ended in 2006 and has two ten-year and one five-year renewal options. During 2007, we renewed the lease through 2016.

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

We also own facilities near Dallas/Fort Worth, Texas, Chicago, Illinois and Atlanta, Georgia. The Dallas/Fort Worth, Texas facility has over 216,000 square feet with 134 trailer doors and approximately 28,000 square feet of office space. The Chicago, Illinois facility is over 125,000 square feet with 110 trailer doors and over 10,000 square feet of office space. The Atlanta, Georgia facility is over 142,000 square feet with 118 trailer doors and approximately 12,000 square feet of office space.

We lease and maintain 72 additional terminals, including our pool distribution terminals, located in major cities throughout the United States and Canada. Lease terms for these terminals are typically for three to five years. The remaining 22 terminals are agent stations operated by independent agents who handle freight for us on a commission basis.

We own the majority of trailers we use to move freight through our networks. Substantially all of our trailers are 53' long, some of which have specialized roller bed equipment required to serve air cargo industry customers. At December 31, 2012, we had 2,746 owned trailers in our fleet with an average age of approximately 5.7 years. In addition, at December 31, 2012, we also had 54 leased trailers in our fleet.

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

Part II

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

Our Common Stock trades on The NASDAQ Global Select Stock Market™ under the symbol "FWRD." The following table sets forth the high and low sales prices for Common Stock as reported by The NASDAQ Global Select Stock Market™ for each full quarterly period within the two most recent fiscal years.

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

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

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

Subsequent to December 31, 2012, our Board of Directors declared a cash dividend of \$0.10 per share that will be paid in the first quarter of 2013. The Company expects to continue to pay regular quarterly cash dividends, though each subsequent quarterly dividend is subject to review and approval by the Board of Directors.

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

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

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2012 with respect to shares of our Common Stock that may be issued under existing equity compensation plans, the 1999 Stock Option and Incentive Plan (the "1999 Plan"), the Amended and Restated Stock Option and Incentive Plan ("1999 Amended Plan"), the Non-Employee Director Stock Option Plan (the "NED Plan"), the 2000 Non-Employee Director Award (the "2000 NED Award"), the 2005 Employee Stock Purchase Plan (the "ESPP") and the Amended and Restated Non-Employee Director Stock Plan (the "Amended Plan"). Our shareholders have approved each of these plans.

Equity Compensation Plan Information

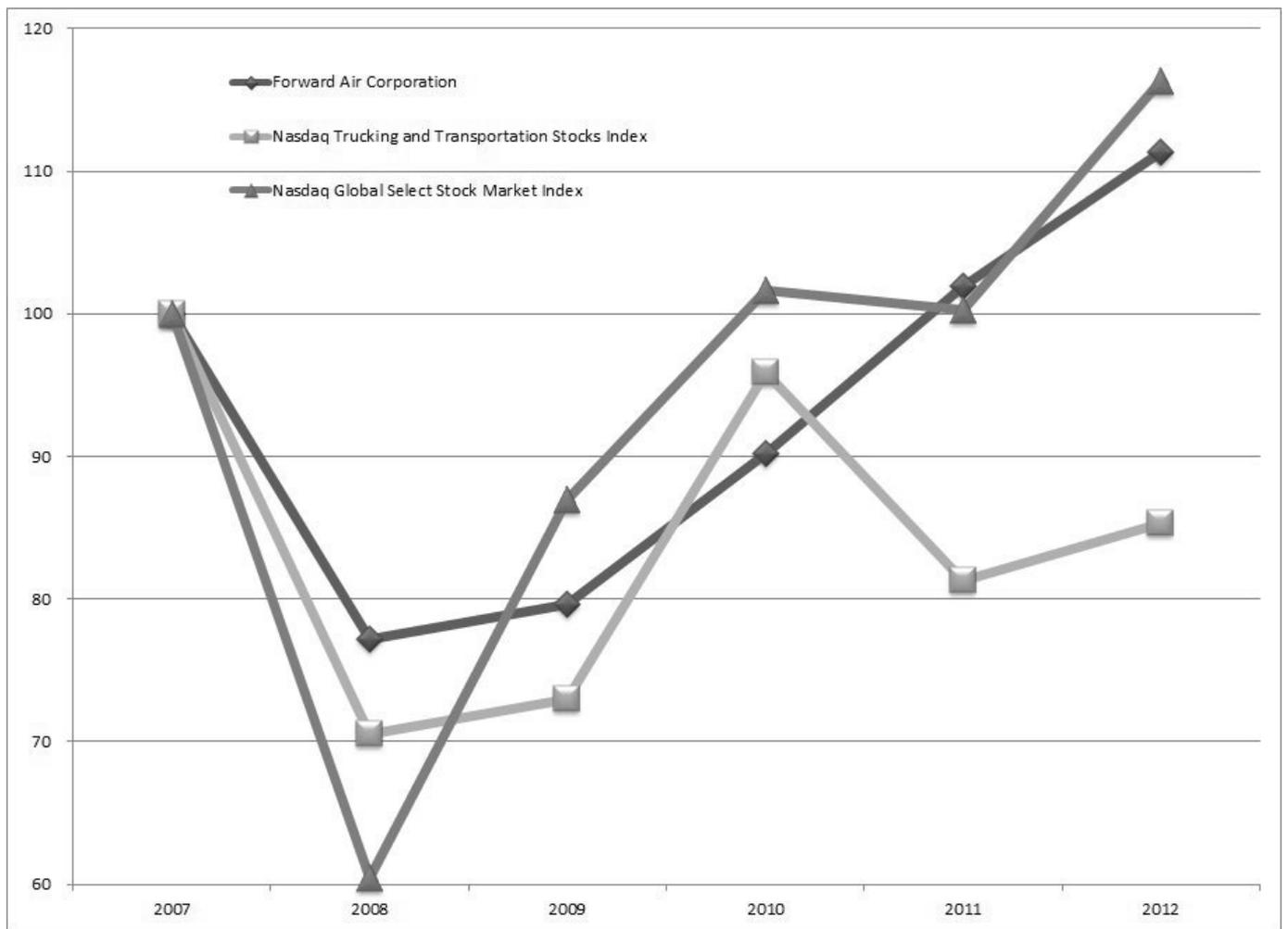
Plan Category	Number of Securities to be Issued upon Exercise or Vesting of Outstanding/ Unvested Shares, Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans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

- (a) Excludes purchase rights accruing under the ESPP, which has an original shareholder-approved reserve of 500,000 shares. Under the ESPP, each eligible employee may purchase up to 2,000 shares of Common Stock at semi-annual intervals each year at a purchase price per share equal to 90.0% of the lower of the fair market value of the Common Stock at close of (i) the first trading day of an option period or (ii) the last trading day of an option period.
- (b) Includes shares available for future issuance under the ESPP. As of December 31, 2012, an aggregate of 421,122 shares of Common Stock were available for issuance under the ESPP.

Stock Performance Graph

The following graph compares the percentage change in the cumulative shareholder return on our Common Stock with The NASDAQ Trucking and Transportation Stocks Index and The NASDAQ Global Select Stock Market™ Index commencing on the last trading day of December 2007 and ending on the last trading day of December 2012. The graph assumes a base investment of \$100 made on December 31, 2007 and the respective returns assume reinvestment of all dividends. The comparisons in this graph are required by the SEC and, therefore, are not intended to forecast or necessarily be indicative of any future return on our Common Stock.

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



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

Issuer Purchases of Equity Securities

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

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

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

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

Overview and Executive Summary

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

Through our Forward Air segment, we are a leading provider of time-definite surface transportation and related logistics services to the North American expedited ground freight market. We offer our customers local pick-up and delivery (Forward Air Complete™) and scheduled surface transportation of cargo as a cost-effective, reliable alternative to air transportation. We transport cargo that must be delivered at a specific time, but is less time-sensitive than traditional air freight. This type of cargo is frequently referred to in the transportation industry as deferred air freight. We operate our Forward Air segment through a network of terminals located on or near airports in 87 cities in the United States and Canada, including a central sorting facility in Columbus, Ohio and 12 regional hubs serving key markets. We also offer our customers an array of logistics and other services including: TLX; warehousing; customs brokerage; and shipment consolidation, deconsolidation and handling.

FASI provides pool distribution services throughout the Mid-Atlantic, Southeast, Midwest and Southwest continental United States. Pool distribution involves managing high-frequency handling and distribution of time-sensitive product to numerous destinations in specific geographic regions. Our primary customers for this product are regional and nationwide distributors and retailers, such as mall, strip mall and outlet-based retail chains. We service these customers through a network of terminals and service centers located in 19 cities.

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

Trends and Developments

Results from Operations

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

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

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

Goodwill

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

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

Results of Operations

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

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

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

	Year ended					
	December 31, 2012	Percent of Revenue	December 31, 2011	Percent of Revenue	Change	Percent Change
Operating revenue						
Forward Air	\$ 501.7	85.9%	\$ 464.5	86.6%	\$ 37.2	8.0%
FASI	85.0	14.5	73.2	13.6	11.8	16.1
Intercompany eliminations	(2.3)	(0.4)	(1.3)	(0.2)	(1.0)	76.9
Total	<u>584.4</u>	<u>100.0</u>	<u>536.4</u>	<u>100.0</u>	<u>48.0</u>	<u>8.9</u>
Purchased transportation						
Forward Air	231.4	46.1	206.0	44.4	25.4	12.3
FASI	23.3	27.4	18.2	24.9	5.1	28.0
Intercompany eliminations	(2.0)	87.0	(1.2)	92.3	(0.8)	66.7
Total	<u>252.7</u>	<u>43.3</u>	<u>223.0</u>	<u>41.6</u>	<u>29.7</u>	<u>13.3</u>
Salaries, wages and employee benefits						
Forward Air	103.1	20.6	101.3	21.8	1.8	1.8
FASI	31.9	37.5	29.4	40.2	2.5	8.5
Total	<u>135.0</u>	<u>23.1</u>	<u>130.7</u>	<u>24.4</u>	<u>4.3</u>	<u>3.3</u>
Operating leases						
Forward Air	20.4	4.1	19.7	4.2	0.7	3.6
FASI	7.6	9.0	7.4	10.1	0.2	2.7
Total	<u>28.0</u>	<u>4.8</u>	<u>27.1</u>	<u>5.0</u>	<u>0.9</u>	<u>3.3</u>
Depreciation and amortization						
Forward Air	16.4	3.3	16.8	3.6	(0.4)	(2.4)
FASI	4.7	5.5	4.2	5.7	0.5	11.9
Total	<u>21.1</u>	<u>3.6</u>	<u>21.0</u>	<u>3.9</u>	<u>0.1</u>	<u>0.5</u>
Insurance and claims						
Forward Air	8.9	1.8	7.2	1.6	1.7	23.6
FASI	2.4	2.8	1.6	2.2	0.8	50.0
Total	<u>11.3</u>	<u>1.9</u>	<u>8.8</u>	<u>1.6</u>	<u>2.5</u>	<u>28.4</u>
Fuel expense						
Forward Air	4.2	0.8	4.4	0.9	(0.2)	(4.5)
FASI	5.8	6.8	5.6	7.6	0.2	3.6
Total	<u>10.0</u>	<u>1.7</u>	<u>10.0</u>	<u>1.9</u>	<u>—</u>	<u>—</u>
Other operating expenses						
Forward Air	35.8	7.1	32.6	7.0	3.2	9.8
FASI	7.3	8.6	6.2	8.5	1.1	17.7
Intercompany eliminations	(0.3)	13.0	(0.1)	7.7	(0.2)	200.0
Total	<u>42.8</u>	<u>7.3</u>	<u>38.7</u>	<u>7.2</u>	<u>4.1</u>	<u>10.6</u>
Income from operations						
Forward Air	81.5	16.2	76.5	16.5	5.0	6.5
FASI	2.0	2.4	0.6	0.8	1.4	233.3
Total	<u>\$ 83.5</u>	<u>14.3%</u>	<u>\$ 77.1</u>	<u>14.4%</u>	<u>\$ 6.4</u>	<u>8.3%</u>

The following table presents the components of the Forward Air segment's operating revenue and purchased transportation for the years ended December 31, 2012 and 2011 (in millions):

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

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

Revenues

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

Forward Air

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

Logistics revenue, which is primarily TLX and priced on a per mile basis, increased \$9.5 million, or 12.7%, to \$84.2 million for the year ended December 31, 2012 from \$74.7 million for the year ended December 31, 2011. TLX revenue increased \$9.4 million year-over-year as miles driven to support our TLX revenue increased 14.7%, but the mileage increase was partially offset by a 0.8% decline in TLX average revenue per mile. The change in miles and average revenue per mile is mainly attributable to a change in customer mix. The remaining \$0.1 million increase in Logistics revenue was attributable to other non-mileage based services.

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

FASI

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

Intercompany Eliminations

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

Purchased Transportation

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

Forward Air

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

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

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

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

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

FASI

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

Intercompany Eliminations

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

Salaries, Wages, and Benefits

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

Forward Air

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

FASI

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

Operating Leases

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

Forward Air

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

FASI

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

Depreciation and Amortization

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

Forward Air

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

FASI

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

Insurance and Claims

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

Forward Air

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

FASI

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

Fuel Expense

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

Forward Air

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

FASI

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

Other Operating Expenses

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

Forward Air

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

FASI

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

Intercompany Eliminations

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

Income from Operations

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

Forward Air

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

FASI

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

Interest Expense

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

Other, Net

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

Provision for Income Taxes

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

Net Income

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

Results of Operations

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

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

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

	Year ended					
	December 31, 2011	Percent of Revenue	December 31, 2010	Percent of Revenue	Change	Percent Change
Operating revenue						
Forward Air	\$ 464.5	86.6%	\$ 412.9	85.3%	\$ 51.6	12.5%
FASI	73.2	13.6	72.5	15.0	0.7	1.0
Intercompany eliminations	(1.3)	(0.2)	(1.5)	(0.3)	0.2	(13.3)
Total	<u>536.4</u>	<u>100.0</u>	<u>483.9</u>	<u>100.0</u>	<u>52.5</u>	<u>10.8</u>
Purchased transportation						
Forward Air	206	44.4	185.8	45.0	20.2	10.9
FASI	18.2	24.9	16.9	23.3	1.3	7.7
Intercompany eliminations	(1.2)	92.3	(1.3)	86.7	0.1	(7.7)
Total	<u>223</u>	<u>41.6</u>	<u>201.4</u>	<u>41.6</u>	<u>21.6</u>	<u>10.7</u>
Salaries, wages and employee benefits						
Forward Air	101.3	21.8	98.3	23.8	3	3.1
FASI	29.4	40.2	30.8	42.5	(1.4)	(4.5)
Total	<u>130.7</u>	<u>24.4</u>	<u>129.1</u>	<u>26.7</u>	<u>1.6</u>	<u>1.2</u>
Operating leases						
Forward Air	19.7	4.2	18.6	4.5	1.1	5.9
FASI	7.4	10.1	7.7	10.6	(0.3)	(3.9)
Total	<u>27.1</u>	<u>5.0</u>	<u>26.3</u>	<u>5.4</u>	<u>0.8</u>	<u>3.0</u>
Depreciation and amortization						
Forward Air	16.8	3.6	16.5	4.0	0.3	1.8
FASI	4.2	5.7	3.9	5.4	0.3	7.7
Total	<u>21</u>	<u>3.9</u>	<u>20.4</u>	<u>4.2</u>	<u>0.6</u>	<u>2.9</u>
Insurance and claims						
Forward Air	7.2	1.6	6.2	1.5	1.0	16.1
FASI	1.6	2.2	2.2	3.0	(0.6)	(27.3)
Total	<u>8.8</u>	<u>1.6</u>	<u>8.4</u>	<u>1.7</u>	<u>0.4</u>	<u>4.8</u>
Fuel expense						
Forward Air	4.4	0.9	3.8	0.9	0.6	15.8
FASI	5.6	7.6	4.7	6.5	0.9	19.1
Total	<u>10</u>	<u>1.9</u>	<u>8.5</u>	<u>1.8</u>	<u>1.5</u>	<u>17.6</u>
Other operating expenses						
Forward Air	32.6	7.0	29.8	7.2	2.8	9.4
FASI	6.2	8.5	6.5	9.0	(0.3)	(4.6)
Intercompany eliminations	(0.1)	7.7	(0.2)	13.3	0.1	(50.0)
Total	<u>38.7</u>	<u>7.2</u>	<u>36.1</u>	<u>7.5</u>	<u>2.6</u>	<u>7.2</u>
Income (loss) from operations						
Forward Air	76.5	16.5	53.9	13.1	22.6	41.9
FASI	0.6	0.8	(0.2)	(0.3)	0.8	(400.0)
Total	<u>\$ 77.1</u>	<u>14.4%</u>	<u>\$ 53.7</u>	<u>11.1%</u>	<u>\$ 23.4</u>	<u>43.6%</u>

The following table presents the components of the Forward Air segment's operating revenue and purchased transportation for the years ended December 31, 2011 and 2010 (in millions):

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

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

Revenues

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

Forward Air

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

Logistics revenue, which is primarily TLX and priced on a per mile basis, increased \$9.1 million, or 13.9%, to \$74.7 million for the year ended December 31, 2011 from \$65.6 million for the year ended December 31, 2010. TLX revenue increased \$8.4 million year-over-year as TLX average revenue per mile increased approximately 2.3% and miles driven to support our TLX revenue increased 11.6%. The increase in miles and average revenue per mile is mainly attributable to new business wins. The remaining \$0.7 million increase in logistics revenue was attributable to increases in other non-mileage based logistic revenues, such as drayage services. The increase in non-mileage based services was in conjunction with the improvement in TLX business volumes.

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

FASI

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

Intercompany Eliminations

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

Purchased Transportation

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

Forward Air

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

Purchased transportation costs for our airport-to-airport network increased \$13.7 million, or 10.6%, to \$143.0 million for the year ended December 31, 2011 from \$129.3 million for the year ended December 31, 2010. For the year ended December 31, 2011, purchased transportation for our airport-to-airport network decreased to 39.5% of airport-to-airport revenue from 40.1% for the year ended December 31, 2010. The \$13.7 million increase is attributable to a 6.1% increase in miles driven by our network of owner-operators or third party transportation providers in addition to a 2.1% increase in cost per mile paid to our network of owner-operators or third party transportation providers. The increase in miles increased purchased transportation by \$6.6 million while the increase in cost per mile increased purchased transportation \$2.3 million. Miles driven by our network of owner-operators or third party transportation providers increased in conjunction with the tonnage increase discussed above. The 2.1% increase in airport-to-airport cost per mile was mostly the result of increased utilization of more costly third party transportation providers as opposed to our network of owner-operators and various changes to the compensation packages for our network of owner operators. We increased our use of third party transportation provides in order to fill the capacity required by the increased business volumes discussed above. The remaining increase was attributable to a \$4.8 million increase in third party transportation costs associated with the increased Complete volumes and attachment rates discussed above.

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

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

FASI

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

Intercompany Eliminations

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

Salaries, Wages, and Benefits

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

Forward Air

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

FASI

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

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

Operating Leases

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

Forward Air

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

FASI

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

Depreciation and Amortization

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

Forward Air

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

FASI

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

Insurance and Claims

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

Forward Air

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

FASI

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

Fuel Expense

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

Forward Air

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

FASI

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

Other Operating Expenses

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

Forward Air

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

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

FASI

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

Intercompany Eliminations

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

Income from Operations

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

Forward Air

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

FASI

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

Interest Expense

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

Other, Net

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

Provision for Income Taxes

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

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

Net Income

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

Discussion of Critical Accounting Policies

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

Allowance for Doubtful Accounts

We evaluate the collectibility of our accounts receivable based on a combination of factors. In circumstances in which management is aware of a specific customer's inability to meet its financial obligations to us (for example, bankruptcy filings or accounts turned over for collection or litigation), we record a specific reserve for these bad debts against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we recognize reserves for these bad debts based on the length of time the receivables are past due. Specifically, amounts that are 90 days or more past due are reserved at 50.0% for Forward Air and 25.0% for FASI. If circumstances change (i.e., we experience higher than expected defaults or an unexpected material adverse change in a customer's ability to meet its financial obligations to us), the estimates of the recoverability of amounts due to us could be changed by a material amount. Accounts are written off after all means of collection, including legal action, have been exhausted.

Allowance for Revenue Adjustments

Our allowance for revenue adjustments consists of amounts reserved for billing rate changes that are not captured upon load initiation. These adjustments generally arise: (i) when the sales department contemporaneously grants small rate changes ("spot quotes") to customers that differ from the standard rates in the system; (ii) when freight requires dimensionalization or is reweighed resulting in a different required rate; (iii) when billing errors occur; and (iv) when data entry errors occur. When appropriate, permanent rate changes are initiated and reflected in the system. We monitor the manual revenue adjustments closely through the employment of various controls that are in place to ensure that revenue recognition is not compromised and that fraud does not occur. During 2012, average revenue adjustments per month were approximately \$0.2 million, on average revenue per month of approximately \$48.7 million (less than 1.0% of monthly revenue). In order to estimate the allowance for revenue adjustments related to ending accounts receivable, we prepare an analysis that considers average monthly revenue adjustments and the average lag for identifying and quantifying these revenue adjustments. Based on this analysis, we establish an allowance for approximately 40-80 days (dependent upon experience in the preceding twelve months) of average revenue adjustments, adjusted for rebates and billing errors. The lag is periodically adjusted based on actual historical experience. Additionally, the average amount of revenue adjustments per month can vary in relation to the level of sales or based on other factors (such as personnel issues that could result in excessive manual errors or in excessive spot quotes being granted). Both of these significant assumptions are continually evaluated for validity.

Self-Insurance Loss Reserves

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

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

Revenue Recognition

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

Income Taxes

We account for income taxes using the liability method, whereby deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to be recovered or settled. Also, we report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. We recognize interest and penalties, if any, related to unrecognized tax benefits in interest expense and operating expenses, respectively.

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

Valuation of Goodwill

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

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

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

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

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

Share-Based Compensation

Our general practice has been to make a single annual grant to key employees and to generally make other grants only in connection with new employment or promotions. In addition, we make annual grants to non-employee directors in conjunction with their annual election to our Board of Directors or at the time of their appointment to the Board of Directors. For employees, we have granted stock options, non-vested shares and performance shares. For non-employee directors, we have granted non-vested shares annually beginning in 2006.

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

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

The fair value of non-vested shares issued were estimated using the closing market prices for the business day of the grant. The share-based compensation for the non-vested shares is recognized, net of estimated forfeitures, ratably over the requisite service period or vesting period. Forfeitures are estimated based on our historical experience, but will be adjusted for future changes in forfeiture experience.

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

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

Under the ESPP, which has been approved by our shareholders, we are authorized to issue shares of Common Stock to our employees. These shares may be issued at a price equal to 90.0% of the lesser of the market value on the first day or the last day of each six-month purchase period. Common Stock purchases are paid for through periodic payroll deductions and/or up to two large lump sum contributions. We recognize share-based compensation on the date of purchase based on the difference between the purchase date fair market value and the employee purchase price.

Operating Leases

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

Liquidity and Capital Resources

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

Net cash provided by operating activities totaled approximately \$68.6 million for the year ended December 31, 2012 compared to approximately \$77.0 million for the year ended December 31, 2011. The \$8.4 million decrease in cash provided by operating activities is mainly attributable to increases in cash used for estimated tax payments, trade accounts payable and prepaid assets. Due to increases in our income from operations over recent years we had to increase our estimated federal and state income tax prepayments in 2012 by \$12.5 million compared to 2011. The timing of payments associated with trade accounts payable and prepaid assets accounted for an additional \$2.9 million increase in cash used for operations. These increases in cash used were partially offset by a \$3.7 million increase in earnings after consideration of non-cash items and a \$3.3 million increase in cash collected from accounts receivable.

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

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

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

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

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

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

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

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

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

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

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

Off-Balance Sheet Arrangements

At December 31, 2012, we had letters of credit outstanding from banks totaling \$10.6 million required primarily by our workers' compensation and vehicle liability insurance providers.

Contractual Obligations and Commercial Commitments

Our contractual obligations and other commercial commitments as of December 31, 2012 (in thousands) are summarized below:

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

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

Forward-Looking Statements

This report contains "forward-looking statements," as defined in Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements are statements other than historical information or statements of current condition and relate to future events or our future financial performance. Some forward-looking statements may be identified by use of such terms as "believes," "anticipates," "intends," "plans," "estimates," "projects" or "expects." 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

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

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

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

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

Item 8. Financial Statements and Supplementary Data

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

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

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

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

Management’s Report on Internal Control over Financial Reporting

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

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, management used the framework set forth by the Committee on Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework*. Based on our assessment, we have concluded, as of December 31, 2012, that our internal control over financial reporting was effective based on those criteria.

Ernst & Young LLP, the independent registered public accounting firm that audited the Company’s consolidated financial statements for the year ended December 31, 2012, has issued an attestation report on the Company’s internal control over financial reporting.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth quarter of 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Forward Air Corporation

We have audited Forward Air Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Forward Air Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Forward Air Corporation as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2012 of Forward Air Corporation and our report dated February 15, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee
February 15, 2013

Item 9B. Other Information

Not applicable.

Part III**Item 10. Directors, Executive Officers and Corporate Governance****Executive Officers of the Registrant**

Pursuant to Instruction 3 to Item 401(b) of Regulation S-K of the Securities Act and General Instruction G(3) to Form 10-K, the following information is included in Part I of this report. The ages listed below are as of December 31, 2012.

The following are our executive officers:

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

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

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

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

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

Matthew J. Jewell has served as Executive Vice President and Chief Legal Officer since January 2008. From July 2002 until January 2008, he served as Senior Vice President and General Counsel. In October 2002, he was also appointed Secretary. From July 2002 until May 2004, Mr. Jewell was also the Senior Vice President, General Counsel and Secretary of Landair Corporation. From January 2000 until joining us in July 2002, Mr. Jewell was a partner with the law firm of Austin & Sparks, P.C. Mr. Jewell was an associate at Dennis, Corry & Porter, L.L.P. from July 1991 to December 1998 and a partner from January 1999 to January 2000.

Chris C. Ruble has served as Executive Vice President, Operations since August 2007. From October 2001 until August 2007, he served as Senior Vice President, Operations. He was a Regional Vice President from September 1997 to October 2001 and a regional manager from February 1997 to September 1997, after starting with us as a terminal manager in January 1996. From June 1986 to August 1995, Mr. Ruble served in various management capacities at Roadway Package System, Inc.

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

Item 11. Executive Compensation

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

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

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

Item 13. Certain Relationships and Related Transactions, and Director Independence

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

Item 14. Principle Accounting Fees and Services

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

Part IV

Item 15. Exhibits, Financial Statement Schedules

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

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

(a)(3) List of Exhibits.

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

(b) Exhibits.

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

(c) Financial Statement Schedules.

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

SIGNATURES

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

Forward Air Corporation

Date: February 15, 2013

By: /s/ Rodney L. Bell

Rodney L. Bell

Chief Financial Officer, Senior Vice
President

and Treasurer (Principal Financial
Officer)

By: /s/ Michael P. McLean

Michael P. McLean

Chief Accounting Officer, Vice
President

and Controller (Principal Accounting
Officer)

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

Annual Report on Form 10-K

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

List of Financial Statements and Financial Statement Schedule

Financial Statements and Supplementary Data

Certain Exhibits

Financial Statement Schedule

Year Ended December 31, 2012

Forward Air Corporation

Greeneville, Tennessee

Forward Air Corporation

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

Index to Financial Statements and Financial Statement Schedule

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

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

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

<u>Schedule II - Valuation and Qualifying Accounts</u>	<u>S-1</u>
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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 of Forward Air Corporation

We have audited the accompanying consolidated balance sheets of Forward Air Corporation, as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15 (a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Forward Air Corporation at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as whole, present fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Forward Air Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 15, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee
February 15, 2013

Forward Air Corporation
Consolidated Balance Sheets
(Dollars in thousands)

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

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

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

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

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

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

	Year ended		
	December 31, 2012	December 31, 2011	December 31, 2010
Operating revenue:			
Forward Air			
Airport-to-airport	\$ 390,697	\$ 361,630	\$ 321,702
Logistics	83,787	74,394	64,935
Other	26,137	27,640	25,130
Forward Air Solutions			
Pool distribution	83,825	72,738	72,172
Total operating revenue	<u>584,446</u>	<u>536,402</u>	<u>483,939</u>
Operating expenses:			
Purchased transportation			
Forward Air			
Airport-to-airport	160,065	142,705	129,111
Logistics	63,203	56,259	50,225
Other	7,241	6,681	6,288
Forward Air Solutions			
Pool distribution	22,211	17,355	15,747
Total purchased transportation	<u>252,720</u>	<u>223,000</u>	<u>201,371</u>
Salaries, wages and employee benefits	135,006	130,651	129,108
Operating leases	27,989	27,122	26,252
Depreciation and amortization	21,021	20,993	20,450
Insurance and claims	11,309	8,798	8,425
Fuel expense	10,038	10,041	8,461
Other operating expenses	42,831	38,687	36,133
Total operating expenses	<u>500,914</u>	<u>459,292</u>	<u>430,200</u>
Income from operations	83,532	77,110	53,739
Other income (expense):			
Interest expense	(391)	(619)	(730)
Other, net	14	74	90
Total other expense	<u>(377)</u>	<u>(545)</u>	<u>(640)</u>
Income before income taxes	83,155	76,565	53,099
Income taxes	30,487	29,366	21,063
Net income and comprehensive income	<u>\$ 52,668</u>	<u>\$ 47,199</u>	<u>\$ 32,036</u>
Net income per share:			
Basic	<u>\$ 1.82</u>	<u>\$ 1.62</u>	<u>\$ 1.11</u>
Diluted	<u>\$ 1.78</u>	<u>\$ 1.60</u>	<u>\$ 1.10</u>
Weighted average shares outstanding:			
Basic	28,967	29,052	28,984
Diluted	29,536	29,435	29,111
Dividends per share:	<u>\$ 0.34</u>	<u>\$ 0.28</u>	<u>\$ 0.28</u>

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

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

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Shareholders' Equity
	Shares	Amount			
Balance at December 31, 2009	28,950	\$ 290	\$ 16,631	\$ 207,586	\$ 224,507
Net income and comprehensive income for 2010	—	—	—	32,036	32,036
Exercise of stock options	46	—	991	—	991
Common stock issued under employee stock purchase plan	8	—	195	—	195
Share-based compensation	—	—	6,284	—	6,284
Dividends (\$0.28 per share)	—	—	5	(8,126)	(8,121)
Vesting of previously non-vested shares	27	—	—	—	—
Income tax benefit from stock options exercised	—	—	194	—	194
Balance at December 31, 2010	29,031	290	24,300	231,496	256,086
Net income and comprehensive income for 2011	—	—	—	47,199	47,199
Exercise of stock options	473	5	10,941	—	10,946
Common stock issued under employee stock purchase plan	9	—	248	—	248
Share-based compensation	—	—	5,971	—	5,971
Dividends (\$0.28 per share)	—	—	5	(8,199)	(8,194)
Share repurchases	(974)	(10)	—	(26,091)	(26,101)
Vesting of previously non-vested shares	14	—	—	—	—
Income tax benefit from stock options exercised	—	—	747	—	747
Balance at December 31, 2011	28,553	\$ 285	\$ 42,212	\$ 244,405	\$ 286,902
Net income and comprehensive income for 2012	—	—	—	52,668	52,668
Exercise of stock options	582	6	15,734	—	15,740
Common stock issued under employee stock purchase plan	9	—	259	—	259
Share-based compensation	—	—	6,050	—	6,050
Dividends (\$0.34 per share)	—	—	5	(9,952)	(9,947)
Cash settlement of share-based awards for minimum tax withholdings	(11)	—	—	(386)	(386)
Share repurchases	—	—	—	—	—
Vesting of previously non-vested shares	62	1	(1)	—	—
Income tax benefit from stock options exercised	—	—	385	—	385
Balance at December 31, 2012	29,195	\$ 292	\$ 64,644	\$ 286,735	\$ 351,671

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

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

	Year ended		
	December 31, 2012	December 31, 2011	December 31, 2010
Operating activities:			
Net income	\$ 52,668	\$ 47,199	\$ 32,036
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	21,021	20,993	20,450
Share-based compensation	6,050	5,971	6,284
Loss (gain) on disposal of property and equipment	318	(82)	(570)
Provision for loss (recovery) on receivables	199	(217)	(52)
Provision for revenue adjustments	2,003	1,951	1,589
Deferred income taxes	2,043	5,148	1,436
Tax benefit for stock options exercised	(385)	(747)	(194)
Changes in operating assets and liabilities			
Accounts receivable	(6,542)	(9,893)	(8,580)
Prepaid expenses and other current assets	(1,331)	(1,757)	(40)
Accounts payable and accrued expenses	(3,477)	3,825	3,022
Income taxes	(3,981)	4,568	(1,386)
Net cash provided by operating activities	<u>68,586</u>	<u>76,959</u>	<u>53,995</u>
Investing activities:			
Proceeds from disposal of property and equipment	911	1,267	1,482
Purchases of property and equipment	(21,353)	(21,216)	(15,148)
Other	(263)	278	(224)
Net cash used in investing activities	<u>(20,705)</u>	<u>(19,671)</u>	<u>(13,890)</u>
Financing activities:			
Payments of debt and capital lease obligations	(551)	(637)	(895)
Payments on line of credit	—	(50,000)	—
Proceeds from exercise of stock options	15,740	10,946	991
Payments of cash dividends	(9,947)	(8,194)	(8,121)
Repurchase of common stock (repurchase program)	—	(26,101)	—
Common stock issued under employee stock purchase plan	259	248	195
Cash settlement of share-based awards for minimum tax withholdings	(386)	—	—
Tax benefit for stock options exercised	385	747	194
Net cash provided by (used in) financing activities	<u>5,500</u>	<u>(72,991)</u>	<u>(7,636)</u>
Net increase (decrease) in cash	<u>53,381</u>	<u>(15,703)</u>	<u>32,469</u>
Cash at beginning of year	58,801	74,504	42,035
Cash at end of year	<u>\$ 112,182</u>	<u>\$ 58,801</u>	<u>\$ 74,504</u>

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

FORWARD AIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012
(In thousands, except share and per share data)

1. Accounting Policies

Basis of Presentation and Principles of Consolidation

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

Through the Forward Air business the Company is a leading provider of time-definite transportation and related logistics services to the North American expedited ground freight market and its activities can be broadly classified into three categories of services. Forward Air's airport-to-airport service operates a comprehensive national network for the time-definite surface transportation of deferred air freight. The airport-to-airport service offers customers local pick-up and delivery and scheduled surface transportation of cargo as a cost effective, reliable alternative to air transportation. Forward Air's logistics services provide expedited full truckload and dedicated fleet services. Forward Air's other services include shipment consolidation and deconsolidation, warehousing, customs brokerage, and other handling. The Forward Air segment primarily provides its transportation services through a network of terminals located at or near airports in the United States and Canada.

FASI provides pool distribution services throughout the Mid-Atlantic, Southeast, Midwest and Southwest continental United States. Pool distribution involves managing high-frequency handling and distribution of time-sensitive product to numerous destinations in specific geographic regions. FASI's primary customers for this product are regional and nationwide distributors and retailers, such as mall, strip mall and outlet-based retail chains.

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.

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 collectability of its accounts receivable based on a combination of factors. In circumstances in which the Company 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% for Forward Air and 25.0% for FASI. 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 changed 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 2012, average revenue adjustments per month were approximately \$167 on average revenue per month of approximately \$48,704 (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

FORWARD AIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2012
(In thousands, except share and per share data)

revenue adjustments and the average lag for identifying and quantifying these revenue adjustments. Based on this analysis, the Company establishes an allowance covering 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 the Company's operating environment, the Company is subject to vehicle and general liability, workers' compensation and employee 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 employee health insurance claims exceeding \$250, except in Ohio, where for workers' compensation we are a qualified self-insured entity 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, changes in the timing of the reporting of losses from the loss date to the notification date, and expected costs to settle unpaid claims. The Company utilizes a semi-annual actuarial analyses 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. The transportation rates the Company charges its customers consist of base transportation rates and fuel surcharge rates. The revenues earned and related direct freight expenses incurred from the Company's base transportation services are recognized on a gross basis in revenue and in purchased transportation. Transportation revenue is recognized on a gross basis as the Company is the primary obligor. The fuel surcharges billed to customers and paid to owner-operators and third party transportation providers are recorded on a net basis as the Company is not the primary obligor with regards to the fuel surcharges.

See discussions of concentrations of credit risk in Note 9.

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.

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 comprehensive 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:

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

Depreciation expense for each of the three years ended December 31, 2012, 2011 and 2010 was \$16,455, \$16,402 and \$15,860, 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 net assets acquired. Goodwill and intangible assets with indefinite lives are not amortized but the Company conducts an annual (or more frequently if circumstances indicate possible impairment) impairment test of goodwill for each reportable segment at June 30 of each year. Other intangible assets are amortized over their useful lives. Results of impairment testing are described in Note 2, Goodwill and Other Long-Lived Assets.

Acquisitions are accounted for using the purchase method. The definite-lived intangible assets of the Company resulting from acquisition activity and the related amortization are described in Note 2, Goodwill and Other Long-Lived Assets.

Software Development

Costs related to software developed or acquired for internal use are expensed or capitalized based on the applicable stage of software development and any capitalized costs are amortized over their estimated useful life. The Company typically uses a five-year straight line amortization for the capitalized amounts of software development costs. At December 31, 2012 and 2011 the Company had \$10,389 and \$9,273, respectively, of capitalized software development costs included in property and equipment. Accumulated amortization on these assets was \$6,436 and \$5,336 at December 31, 2012 and 2011, respectively. Included in depreciation expense is amortization of capitalized software development costs. Amortization of capitalized software development for the years ended December 31, 2012, 2011 and 2010 was \$1,100, \$1,447 and \$1,301 respectively. As of December 31, 2012 the estimated amortization expense for the next five years of capitalized software development costs is as follows:

2013	\$	1,116
2014		1,052
2015		836
2016		535
2017		241
Total	\$	<u>3,780</u>

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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. We report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. We recognize interest and penalties, if any, related to unrecognized tax benefits in interest expense and operating expenses, respectively.

Net Income Per Share

The Company calculates net income per share in accordance with the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, Earnings per Share (the "FASB Codification 260"). Under the FASB Codification 260, basic net income per share excludes any dilutive effects of options, warrants and convertible securities. Diluted net income per share includes any dilutive effects of options, non-vested shares and performance shares, and uses the treasury stock method in calculating dilution.

Share-Based Payments

The Company's general practice has been to make a single annual grant of share-based compensation to key employees and to generally make other grants only in connection with new employment or promotions. In addition, the Company makes annual grants to non-employee directors in conjunction with their annual election to our Board of Directors or at the time of their appointment to the Board of Directors. For employees, the Company has granted stock options, non-vested shares and performance shares. For non-employee directors, the Company issued non-vested shares during the years ended December 31, 2012, 2011 and 2010.

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

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

The fair value of non-vested shares issued were estimated using the closing market prices for the business day of the grant. The share-based compensation for the non-vested shares is recognized, net of estimated forfeitures, ratably over the requisite service period or vesting period. Forfeitures are estimated based on our historical experience, but will be adjusted for future changes in forfeiture experience.

The fair value of the performance shares was estimated using a Monte Carlo simulation. The share-based compensation for performance shares are recognized, net of estimated forfeitures, ratably over the requisite service period, or vesting period. The following table contains the weighted-average assumptions used to estimate the fair value of performance shares granted. These assumptions are highly subjective and changes in these assumptions can materially affect the fair value estimate.

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

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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 eligible 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. 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.

2. Goodwill and Other Long-Lived Assets

The Company conducts an annual (or more frequently if circumstances indicate possible impairment) impairment test of goodwill for each reporting unit at June 30 of each year. The first step of the goodwill impairment test is the Company assesses qualitative factors to determine whether it is more likely than not that the fair value of either of its reporting units is less than its carrying amount, including goodwill. When performing the qualitative assessment, the Company considers the impact of factors including, but not limited to, macroeconomic and industry conditions, overall financial performance of each reporting unit, litigation and new legislation. If based on the qualitative assessments, the Company believes it more likely than not that the fair value of either reporting unit is less than the reporting unit's carrying amount the Company will prepare an estimation of the respective reporting unit's fair value. If this estimation of fair value indicates that impairment potentially exists, the Company will then measure the amount of the impairment, if any. Goodwill impairment exists when the calculated implied fair value of goodwill is less than its carrying value. Changes in strategy or market conditions could significantly impact these fair value estimates and require adjustments to recorded asset balances.

The Company conducted its annual impairment assessments and tests of goodwill for each reporting unit as of June 30, 2012 and no impairment charges were required. If a fair value estimation is required, the Company calculates the fair value of the applicable reportable units, using a combination of discounted projected cash flows and market valuations for comparable companies as of the valuation date. The Company's inputs into the fair value calculations for goodwill are classified within level 3 of the fair value hierarchy as defined in the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (“the FASB Codification”).

As of December 31, 2012, the carrying value of goodwill related to the Forward Air and FASI segments is as follows:

	Accumulated		
	Goodwill	Impairment	Net
Forward Air	\$ 37,926	\$ —	\$ 37,926
FASI	12,359	(6,953)	5,406
Total, December 31, 2012	<u>\$ 50,285</u>	<u>\$ (6,953)</u>	<u>\$ 43,332</u>

There were no changes in the carrying amount of goodwill during the years ended December 31, 2012, 2011 and 2010. All goodwill is deductible for tax purposes.

Through acquisitions between 2005 and 2008, the Company acquired customer relationships and non-compete agreements of \$46,350 and \$1,780, respectively, having weighted-average useful lives of 11.4 and 5.6 years, respectively. Amortization expense on acquired customer relationships and non-compete agreements for each of the three years ended December 31, 2012, 2011 and 2010 was \$4,566, \$4,591 and \$4,590, respectively.

The estimated amortization expense for the next five years on definite-lived intangible assets as of December 31, 2012 is as follows:

	2013	2014	2015	2016	2017
Customer relationships	\$ 4,255	\$ 4,067	\$ 3,261	\$ 2,730	\$ 2,614
Non-compete agreements	24	20	20	20	12
Total	<u>\$ 4,279</u>	<u>\$ 4,087</u>	<u>\$ 3,281</u>	<u>\$ 2,750</u>	<u>\$ 2,626</u>

Additionally, 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

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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.

3. Debt and Capital Lease Obligations

Credit Facilities

In February 2012, the Company entered into a new \$150,000 credit facility. This facility has a term of five years and matures in February 2017. Interest rates for advances under the facility are LIBOR plus 1.1% based upon covenants related to total indebtedness to earnings (1.3% at December 31, 2012). The agreement contains certain covenants and restrictions related to new indebtedness, investment types and dispositions of property. None of the covenants are expected to significantly affect the Company's operations or ability to pay dividends. No assets are pledged as collateral against the credit facility. As of December 31, 2012, the Company had no borrowings outstanding under the credit facility. At December 31, 2012, the Company had utilized \$10,556 of availability for outstanding letters of credit and had \$139,444 of available borrowing capacity outstanding under the credit facility.

Capital 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. The lease agreement had a ten-year initial term, with two five-year renewal options. During 2010, the original lease expired and the renewal option was not exercised resulting in the termination of the lease. Upon termination of the lease the related assets and liabilities were written off resulting in a gain of approximately \$679.

Through acquisitions, the Company assumed several equipment leases that met the criteria for classification as a capital lease. The leased equipment is being amortized over the shorter of the lease term or useful life.

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

	December 31, 2012	December 31, 2011
Equipment	\$ 1,402	\$ 1,402
Accumulated amortization	(1,322)	(1,078)
	<u>\$ 80</u>	<u>\$ 324</u>

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

Future minimum payments, by year and in the aggregate, under non-cancelable capital leases with initial or remaining terms of one year or more consist of the following at December 31, 2012:

2013	\$ 286
2014	58
Total	<u>344</u>
Less amounts representing interest	10
Present value of net minimum lease payments (including current portion of \$276)	<u>\$ 334</u>

Interest Payments

Interest payments during 2012, 2011 and 2010 were \$365, \$563 and \$718, respectively. No interest was capitalized during the years ended December 31, 2012, 2011 and 2010.

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4. Shareholders' Equity, Stock Options and Net Income per Share

Preferred Stock

There are 5,000,000 shares of preferred stock with a par value of \$0.01 authorized, but no shares have been issued to date.

Cash Dividends

During the first and second quarters of 2012 and each quarter of 2011 and 2010, the Company's Board of Directors declared a cash dividend of \$0.07 per share of Common Stock. During the third and fourth quarter of 2012, the Company's Board of Directors declared a cash dividend of \$0.10 per share of Common Stock. On February 8, 2013, the Company's Board of Directors declared a \$0.10 per share dividend that will be paid in the first quarter of 2013. The Company expects to continue to pay regular quarterly cash dividends, though each subsequent quarterly dividend is subject to review and approval by the Board of Directors.

Repurchase of Common Stock

In July 2007, our Board of Directors approved a stock repurchase program ("Repurchase Plan") for up to 2,000,000 shares of our common stock. No shares were repurchased during the year ended December 31, 2012. During the year ended December 31, 2011, we repurchased 973,768 shares of common stock under the Repurchase Plan for \$26,101, or \$26.80 per share. As of December 31, 2012, 815,059 shares remain that may be repurchased under the Repurchase Plan.

Share-Based Compensation

The Company had previously reserved for issuance 4,500,000 common shares under the 1999 Stock Option and Incentive Plan (the "1999 Plan"). Options issued under the 1999 Plan have seven to ten-year terms and vested over a one to five year period.

In May 2008, with the approval of shareholders, the Company amended and restated the 1999 Stock Option and Incentive Plan (the "1999 Amended Plan") to reserve for issuance an additional 3,000,000 common shares, increasing the total number of reserved common shares under the 1999 Amended Plan to 7,500,000. As of December 31, 2012, there were approximately 1,232,000 shares remaining available for grant.

Employee Activity - Options

The following tables summarize the Company's employee stock option activity and related information for the years ended December 31, 2012, 2011 and 2010:

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	2012		2011		2010	
	Options (000)	Weighted- Average Exercise Price	Options (000)	Weighted- Average Exercise Price	Options (000)	Weighted- Average Exercise Price
Outstanding at beginning of year	3,363	\$ 26	3,702	\$ 26	3,086	\$ 26
Granted	94	37	117	29	664	22
Exercised	(570)	27	(451)	23	(35)	21
Forfeited	(13)	29	(5)	24	(13)	26
Outstanding at end of year	<u>2,874</u>	<u>\$ 26</u>	<u>3,363</u>	<u>\$ 26</u>	<u>3,702</u>	<u>\$ 26</u>
Exercisable at end of year	<u>2,487</u>	<u>\$ 26</u>	<u>2,585</u>	<u>\$ 27</u>	<u>2,475</u>	<u>\$ 27</u>
Weighted-average fair value of options granted during the year	<u>\$ 13</u>		<u>\$ 11</u>		<u>\$ 8</u>	
Aggregate intrinsic value for options exercised	<u>\$ 3,924</u>		<u>\$ 3,771</u>		<u>\$ 268</u>	
Average aggregate intrinsic value for options outstanding	<u>\$ 20,059</u>					
Average aggregate intrinsic value for exercisable options	<u>\$ 17,628</u>					

Range of Exercise Price	Number Outstanding (000)	Weighted- Average Remaining Contractual Life	Outstanding Weighted- Average Exercise Price	Number Exercisable (000)	Exercisable Weighted- Average Exercise Price
\$ 13.25 - 18.82	250	0.4	\$ 14.97	250	\$ 14.97
20.21 - 29.44	1,995	3.0	25.91	1,702	26.23
30.35 - 36.90	629	1.9	32.47	535	31.75
<u>\$ 13.25 - 36.90</u>	<u>2,874</u>	<u>2.5</u>	<u>\$ 26.40</u>	<u>2,487</u>	<u>\$ 26.29</u>

	Year ended		
	December 31, 2012	December 31, 2011	December 31, 2010
Shared-based compensation for options	\$ 2,585	\$ 3,981	\$ 5,689
Tax benefit for option compensation	\$ 713	\$ 1,042	\$ 1,707
Unrecognized compensation cost for options, net of estimated forfeitures	\$ 1,461		

Employee Activity – Non-vested shares

Non-vested share grants to employees vest ratably over a three-year period. The following tables summarize the Company's employee non-vested share activity and related information:

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	Year ended			
	2012		2011	
	Non-vested Shares (000)	Weighted- Average Grant Date Fair Value	Non-vested Shares (000)	Weighted- Average Grant Date Fair Value
Outstanding and non-vested at beginning of year	108	\$ 29	—	\$ —
Granted	103	37	108	29
Vested	(36)	29	—	—
Forfeited	(7)	33	—	—
Outstanding and non-vested at end of year	168	\$ 33	108	\$ 29
Aggregate grant date fair value	\$ 5,579		\$ 3,076	
Total fair value of shares vested during the year	\$ 1,249		\$ —	

	Year ended	
	December 31, 2012	December 31, 2011
Shared-based compensation for non-vested shares	\$ 2,039	\$ 895
Tax benefit for non-vested share compensation	\$ 785	\$ 347
Unrecognized compensation cost for non-vested shares, net of estimated forfeitures	\$ 3,722	

Employee Activity – Performance shares

In 2012 and 2011, the Company granted performance shares to key employees. Under the terms of the performance share agreements, on the third anniversary of the grant date, the Company will issue to the employees a calculated number of common stock shares based on the three year performance of the Company's common stock share price as compared to the share price performance of a selected peer group. No shares may be issued if the Company share price performance outperforms 30% or less of the peer group, but the number of shares issued may be doubled if the Company share price performs better than 90% of the peer group.

The following tables summarize the Company's employee performance share activity, assuming median share awards, and related information:

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	Year ended			
	2012		2011	
	Non-vested Shares (000)	Weighted- Average Grant Date Fair Value	Non-vested Shares (000)	Weighted- Average Grant Date Fair Value
Outstanding and non-vested at beginning of year	38	\$ 30	—	\$ —
Granted	24	45	38	30
Vested	—	—	—	—
Forfeited	—	—	—	—
Outstanding and non-vested at end of year	62	\$ 36	38	\$ 30
Aggregate grant date fair value	\$ 2,205		\$ 1,132	

	Year ended	
	December 31, 2012	December 31, 2011
Shared-based compensation for performance shares	\$ 699	\$ 335
Tax benefit for performance share compensation	\$ 269	\$ 130
Unrecognized compensation cost for performance shares, net of estimated forfeitures	\$ 1,171	

Employee Activity – Employee Stock Purchase Plan

Under the ESPP at December 31, 2012, the Company is authorized to issue up to a remaining 421,122 shares of Common Stock to employees of the Company. For the years ended December 31, 2012, 2011 and 2010, participants under the plan purchased 8,846, 9,122 and 8,142 shares, respectively, at an average price of \$29.26, \$27.20 and \$23.89 per share, respectively. The weighted-average fair value of each purchase right under the ESPP granted for the years ended December 31, 2012, 2011 and 2010, which is equal to the discount from the market value of the Common Stock at the end of each six month purchase period, was \$4.47, \$5.79 and \$3.93 per share, respectively. Share-based compensation expense of \$40, \$53 and \$32 was recognized in salaries, wages and employee benefits, during the years ended December 31, 2012, 2011 and 2010, respectively.

Non-employee Directors – Non-vested shares

On May 23, 2006, the Company's shareholders approved the Company's 2006 Non-Employee Director Stock Plan (the "2006 Plan"). The Company's shareholders then approved the Company's Amended and Restated Non-Employee Director Stock Plan (the "Amended Plan") on May 22, 2007. The Amended Plan was then further amended and restated on December 17, 2008. Under the Amended Plan, on the first business day after each Annual Meeting of Shareholders, each non-employee director will automatically be granted an award (the "Annual Grant"), in such form and size as the Board determines from year to year. Unless otherwise determined by the Board, Annual Grants will become vested and nonforfeitable one year after the date of grant so long as the non-employee director's service with the Company does not earlier terminate. 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 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. 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.

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The following tables summarize the Company's non-employee non-vested share activity and related information:

	2012		Year ended 2011		2010	
	Non-vested Shares and Deferred Stock Units (000)	Weighted- Average Grant Date Fair Value	Non-vested Shares and Deferred Stock Units (000)	Weighted- Average Grant Date Fair Value	Non-vested Shares and Deferred Stock Units (000)	Weighted- Average Grant Date Fair Value
Outstanding and non-vested at beginning of year	24	\$ 33	19	\$ 29	31	\$ 18
Granted	20	32	24	33	19	\$ 29
Vested	(24)	32	(19)	29	(31)	\$ 18
Forfeited	—	—	—	—	—	\$ —
Outstanding and non-vested at end of year	20	\$ 32	24	\$ 33	19	\$ 29
Aggregate grant date fair value	\$ 640		\$ 776		\$ 560	
Total fair value of shares vested during the year	\$ 752		\$ 615		\$ 892	

	Year ended		
	December 31, 2012	December 31, 2011	December 31, 2010
Shared-based compensation for non-vested shares	\$ 687	\$ 707	\$ 563
Tax benefit for non-vested share compensation	\$ 264	\$ 274	\$ 226
Unrecognized compensation cost for non-vested shares, net of estimated forfeitures	\$ 224		

Non-employee Directors - Options

In addition to the above activity, each May from 1995 to 2005, options were granted to the non-employee directors of the Company. The options have terms of ten years and are fully exercisable. The following table summarizes the Company's non-employee stock option activity and related information for the years ended December 31, 2012, 2011 and 2010:

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	2012		2011		2010	
	Options (000)	Weighted-Average Exercise Price	Options (000)	Weighted-Average Exercise Price	Options (000)	Weighted-Average Exercise Price
Outstanding at beginning of year	41	\$ 21	63	\$ 22	74	\$ 22
Granted	—	—	—	—	—	—
Exercised	(12)	16	(22)	23	(11)	24
Forfeited	—	—	—	—	—	—
Outstanding and exercisable at end of year	29	\$ 23	41	\$ 21	63	\$ 22
Aggregate intrinsic value for options exercised	\$ 207		\$ 202		\$ 37	
Average aggregate intrinsic value for options outstanding and exercisable	\$ 302					

At December 31, 2012, weighted average remaining contractual term for these options was 1.9 years.

Net Income per Share

The following table sets forth the computation of net income per basic and diluted share:

	2012	2011	2010
Numerator:			
Numerator for basic and diluted net income per share	\$ 52,668	\$ 47,199	\$ 32,036
Denominator:			
Denominator for basic net income per share - weighted-average shares (in thousands)	28,967	29,052	28,984
Effect of dilutive stock options (in thousands)	492	333	127
Effect of dilutive performance shares (in thousands)	41	25	—
Effect of dilutive non-vested shares and deferred stock units (in thousands)	36	25	—
Denominator for diluted net income per share - adjusted weighted-average shares (in thousands)	29,536	29,435	29,111
Basic net income per share	\$ 1.82	\$ 1.62	\$ 1.11
Diluted net income per share	\$ 1.78	\$ 1.60	\$ 1.10

The number of instruments that could potentially dilute net income per basic share in the future, but that were not included in the computation of net income per diluted share because to do so would have been anti-dilutive for the periods presented, are as follows:

	2012	2011	2010
Anti-dilutive stock options (in thousands)	226	649	3,174
Anti-dilutive performance shares (in thousands)	22	—	—
Total anti-dilutive shares (in thousands)	248	649	3,174

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5. Income Taxes

The provision for income taxes consists of the following:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current:			
Federal	\$ 24,981	\$ 20,841	\$ 16,816
State	3,462	3,175	2,811
	<u>28,443</u>	<u>24,016</u>	<u>19,627</u>
Deferred:			
Federal	2,452	4,640	1,566
State	(408)	710	(130)
	<u>2,044</u>	<u>5,350</u>	<u>1,436</u>
	<u>\$ 30,487</u>	<u>\$ 29,366</u>	<u>\$ 21,063</u>

The tax benefit associated with the exercise of stock options and the vesting of non-vested shares during the years ended December 31, 2012, 2011 and 2010 were \$385, \$747 and \$194, respectively, and are reflected as an increase in additional paid-in capital in the accompanying consolidated statements of shareholders' equity.

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:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Tax expense at the statutory rate	\$ 29,125	\$ 26,798	\$ 18,585
State income taxes, net of federal benefit	1,842	2,542	1,790
Qualified stock options	274	472	516
Meals and entertainment	172	207	186
Deferred tax asset valuation allowance	(39)	(17)	(124)
Federal income tax credits	(619)	(675)	—
Other	(268)	39	110
	<u>\$ 30,487</u>	<u>\$ 29,366</u>	<u>\$ 21,063</u>

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:

FORWARD AIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2012
(In thousands, except share and per share data)

	December 31, 2012	December 31, 2011
Deferred tax assets:		
Accrued expenses	\$ 4,374	\$ 5,711
Allowance for doubtful accounts	565	588
Non-compete agreements	3,288	2,779
Share-based compensation	6,471	6,326
Accruals for income tax contingencies	56	56
Impairment of goodwill and other intangible assets	1,170	1,501
Net operating loss carryforwards	319	343
Total deferred tax assets	16,243	17,304
Valuation allowance	(319)	(348)
Total deferred tax assets, net of valuation allowance	15,924	16,956
Deferred tax liabilities:		
Tax over book depreciation	16,907	17,289
Prepaid expenses deductible when paid	2,202	1,868
Goodwill	7,973	6,914
Total deferred tax liabilities	27,082	26,071
Net deferred tax liabilities	\$ (11,158)	\$ (9,115)

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

	December 31, 2012	December 31, 2011
Current assets	\$ 1,282	\$ 2,011
Noncurrent liabilities	(12,440)	(11,126)
	\$ (11,158)	\$ (9,115)

Total income tax payments, net of refunds, during fiscal years 2012, 2011 and 2010 were \$32,214, \$19,891 and \$20,944, respectively.

At December 31, 2012 and 2011, the Company had state net operating loss carryforwards of \$7,376 and \$8,163, respectively, that will expire between 2013 and 2028. The use of these state net operating losses is limited to the future taxable income of separate legal entities. Based on expectations of future taxable income, management believes that it is more likely than not that the results of operations for these separate legal entities will not generate sufficient taxable income to realize these net operating loss benefits for state loss carryforwards. As a result, a valuation allowance has been provided for these state loss carryforwards. The valuation allowance on these state loss carryforwards increased \$10 and \$30 during 2012 and 2011.

The Company had also previously established a valuation allowance on the state portion of FASI's net deferred tax assets. This valuation allowance was established based on expectations of future taxable income as management believed that it was more likely than not that the results of FASI operations will not generate sufficient taxable income to realize the state benefit of the net deferred tax assets. During 2012, in conjunction with FASI having a net deferred tax liability the previous valuation allowance of \$39 was removed. During 2012 and 2011, in conjunction with a decline in FASI's net deferred tax assets the related valuation allowance was reduced from \$39 to \$17, respectively.

Income Tax Contingencies

The Company, or one of its subsidiaries, files income tax returns in the U.S. federal jurisdiction, various states and Canada. With a few exceptions, the Company is no longer subject to U.S. federal, state and local, or Canadian examinations by tax authorities for years before 2008.

FORWARD AIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2012
(In thousands, except share and per share data)

A reconciliation of the beginning and ending amount of unrecognized tax benefit is as follows:

	Liability for Unrecognized Tax Benefits
Balance at December 31, 2009	\$ 642
Additions for tax positions of current year	41
Additions for tax positions of prior years	190
Reductions for settlement with state taxing authorities	(148)
Balance at December 31, 2010	725
Additions for tax positions of current year	75
Reductions for tax positions of prior years	(150)
Reductions for settlement with state taxing authorities	(169)
Balance at December 31, 2011	481
Reductions for settlement with state taxing authorities	(204)
Balance at December 31, 2012	<u>\$ 277</u>

Included in the liability for unrecognized tax benefits at December 31, 2012 and December 31, 2011 are tax positions of \$277 and \$481, respectively, which represents tax positions where the realization of the ultimate benefit is uncertain and the disallowance of which would affect the Company's annual effective income tax rate.

Included in the liability for unrecognized tax benefits at December 31, 2012 and December 31, 2011, are accrued penalties of \$57. The liability for unrecognized tax benefits at December 31, 2012 and December 31, 2011 also included accrued interest of \$160 and \$169, respectively.

6. Operating Leases

The Company leases certain facilities under noncancellable operating leases that expire in various years through 2020. Certain leases may be renewed for periods varying from one to ten years. Through acquisitions, the Company assumed several operating leases for tractors, straight trucks and trailers with original lease terms between three and six years. These leases expire in various years through 2014 and may not be renewed beyond the original term.

Sublease rental income, was \$813, \$770 and \$556 in 2012, 2011 and 2010, respectively. In 2013, the Company expects to receive aggregate future minimum rental payments under noncancellable subleases of approximately \$131. Noncancellable subleases expire between 2013 and 2016.

Future minimum rental payments under noncancellable operating leases with initial or remaining terms in excess of one year consisted of the following at December 31, 2012:

2013	\$	19,371
2014		17,700
2015		14,051
2016		9,737
2017		5,312
Thereafter		5,723
Total	<u>\$</u>	<u>71,894</u>

FORWARD AIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2012
(In thousands, except share and per share data)

7. Commitments and Contingencies

From time to time, the Company is party to ordinary, routine litigation incidental to and arising in the normal course of business. The Company does not believe that any of these pending actions, individually or in the aggregate, will have a material adverse effect on its financial condition, results of operations or cash flows.

The primary claims in the Company's business relate to workers' compensation, property damage, vehicle liability and employee 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. Such insurance coverage above the applicable self-insurance levels continues to be an important part of the Company's risk management process. 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 and actuarial 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.

As of December 31, 2012, the Company had commitments to purchase various trailers, vehicles and forklifts for approximately \$24,987 during 2013.

8. 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. For all periods presented, employer contributions were made at 25.0% of the employee's contribution up to a maximum of 6.0% 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 expensed in 2012, 2011 and 2010 were approximately \$675, \$626 and \$548, respectively.

9. Financial Instruments

Off Balance Sheet Risk

At December 31, 2012, the Company had letters of credit outstanding totaling \$10,556.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and trade accounts receivable. The Company does not generally require collateral from its customers. Concentrations of credit risk with respect to trade accounts receivable on a consolidated basis are limited due to the large number of entities comprising the Company's customer base and their dispersion across many different industries. However, while not significant to the Company on a consolidated basis, three customers accounted for approximately 61.9% of FASI's 2012 operating revenue. Receivables from these three customers totaled approximately \$4,379 at December 31, 2012.

Fair Value of Financial Instruments

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

FORWARD AIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2012
(In thousands, except share and per share data)

Accounts receivable and accounts payable: The carrying amounts reported in the balance sheet for accounts receivable and accounts payable approximate their fair value based on their short-term nature.

The Company's credit facility bears interest at LIBOR plus 1.1% based upon covenants related to total indebtedness to earnings. Using interest rate quotes currently available in the market, the Company estimated the fair value of its outstanding capital lease obligations as follows:

	December 31, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Capital lease obligations	\$ 334	\$ 387	\$ 885	\$ 920

The Company's fair value calculations for the above financial instruments are classified within level 3 of the fair value hierarchy as defined in the FASB Codification.

10. Segment Reporting

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

The accounting policies of the segments are the same as those described in Note 1. Segment data includes intersegment revenues. Assets and costs of the corporate headquarters are allocated to the segments based on usage. The Company evaluates the performance of its segments based on net income. The Company's business is conducted principally in the U.S. and Canada.

The following tables summarize segment information about net income and assets used by the chief operating decision maker of the Company in making decisions regarding allocation of assets and resources as of and for the years ended December 31, 2012, 2011 and 2010.

FORWARD AIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2012
(In thousands, except share and per share data)

Year ended December 31, 2012	Forward Air	FASI	Eliminations	Consolidated
External revenues	\$ 500,621	\$ 83,825	\$ —	\$ 584,446
Intersegment revenues	1,116	1,152	(2,268)	—
Depreciation and amortization	16,356	4,665	—	21,021
Share-based compensation expense	5,857	193	—	6,050
Interest expense	369	22	—	391
Interest income	41	—	—	41
Income tax expense	30,053	434	—	30,487
Net income	51,127	1,541	—	52,668
Total assets	395,936	37,135	(33,884)	399,187
Capital expenditures	15,910	5,443	—	21,353

Year ended December 31, 2011	Forward Air	FASI	Eliminations	Consolidated
External revenues	\$ 463,664	\$ 72,738	\$ —	\$ 536,402
Intersegment revenues	822	512	(1,334)	—
Depreciation and amortization	16,793	4,200	—	20,993
Share-based compensation expense	5,642	329	—	5,971
Interest expense	578	41	—	619
Interest income	165	—	—	165
Income tax expense	29,162	204	—	29,366
Net income	46,851	348	—	47,199
Total assets	342,109	39,244	(40,202)	341,151
Capital expenditures	18,250	2,966	—	21,216

Year ended December 31, 2010	Forward Air	FASI	Eliminations	Consolidated
External revenues	\$ 411,767	\$ 72,172	\$ —	\$ 483,939
Intersegment revenues	1,168	311	(1,479)	—
Depreciation and amortization	16,496	3,954	—	20,450
Share-based compensation expense	5,896	388	—	6,284
Interest expense	671	59	—	730
Interest income	92	4	—	96
Income tax expense	20,769	294	—	21,063
Net income (loss)	32,580	(544)	—	32,036
Total assets	349,849	36,875	(37,928)	348,796
Capital expenditures	10,461	4,687	—	15,148

FORWARD AIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2012
(In thousands, except share and per share data)

11. Quarterly Results of Operations (Unaudited)

The following is a summary of the quarterly results of operations for the years ended December 31, 2012 and 2011:

	2012			
	March 31	June 30	September 30	December 31
Operating revenue	\$ 137,081	\$ 148,326	\$ 143,514	\$ 155,525
Income from operations	16,789	23,083	19,626	24,034
Net income	10,273	14,167	12,267	15,961
Net income per share:				
Basic	\$ 0.36	\$ 0.49	\$ 0.42	\$ 0.55
Diluted	\$ 0.35	\$ 0.48	\$ 0.41	\$ 0.54

	2011			
	March 31	June 30	September 30	December 31
Operating revenue	\$ 120,201	\$ 132,192	\$ 135,749	\$ 148,260
Income from operations	13,286	19,876	20,320	23,628
Net income	7,869	11,969	12,912	14,449
Net income per share:				
Basic	\$ 0.27	\$ 0.41	\$ 0.44	\$ 0.51
Diluted	\$ 0.27	\$ 0.40	\$ 0.44	\$ 0.50

Forward Air Corporation
Schedule II — Valuation and Qualifying Accounts
(In thousands)

Col. A	Col. B	Col. C	Col. D	Col. E	
	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts Described	Deductions -Describe	Balance at End of Period
Year ended December 31, 2012					
Allowance for doubtful accounts	\$ 1,219	\$ 199	\$ —	\$ 269 ⁽²⁾	\$ 1,149
Allowance for revenue adjustments ⁽¹⁾	284	2,003	—	1,992 ⁽³⁾	295
Income tax valuation	348	(29)	—	—	319
	1,851	2,173	—	2,261	1,763
Year ended December 31, 2011					
Allowance for doubtful accounts	\$ 1,619	\$ (217)	\$ —	\$ 183 ⁽²⁾	\$ 1,219
Allowance for revenue adjustments ⁽¹⁾	377	1,951	—	2,044 ⁽³⁾	284
Income tax valuation	335	13	—	—	348
	2,331	1,747	—	2,227	1,851
Year ended December 31, 2010					
Allowance for doubtful accounts	\$ 1,457	\$ (52)	\$ —	\$ (214) ⁽²⁾	\$ 1,619
Allowance for revenue adjustments ⁽¹⁾	462	1,589	—	1,674 ⁽³⁾	377
Income tax valuation	459	(124)	—	—	335
	2,378	1,413	—	1,460	2,331

(1) Represents an allowance for adjustments to accounts receivable due to disputed rates, accessorial charges and other aspects of previously billed shipments.

(2) Represents uncollectible accounts written off, net of recoveries

(3) Represents 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 3.1 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 6, 2009 (File No. 0-22490))
4.1	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))
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 the registrant's Proxy Statement filed with the Securities and Exchange Commission on April 3, 2008 (File No. 0-22490))
10.3	Lease Agreement, dated as of June 1, 2006, between the Greeneville-Greene County Airport Authority and the registrant (incorporated herein by reference to Exhibit 10.3 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 filed with the Securities and Exchange Commission on February 27, 2007 (File No. 0-22490))
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	* Amendment to the Non-Employee Director Stock 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))
10.6	Credit Agreement dated February 14, 2012 among the registrant and certain of its subsidiaries and Bank of America, N.A., as administrative agent and other lenders party thereto (incorporated herein by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 21, 2012 (File No. 0-22490))
10.7	* Employment Agreement dated October 30, 2007, between Forward Air Corporation and Bruce A. Campbell, including Attachment B, 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 October 31, 2007 (File No. 0-22490))
10.8	* Amendment dated December 30, 2008 to Employment Agreement dated October 30, 2007, between Forward Air Corporation and Bruce A. Campbell (incorporated herein by reference to Exhibit 10.9 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 filed with the Securities and Exchange Commission on February 26, 2009 (File No. 0-22490))
10.9	* Second Amendment dated February 24, 2009 to Employment Agreement dated October 30, 2007, between Forward Air Corporation and Bruce A. Campbell (incorporated herein by reference to Exhibit 10.10 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 filed with the Securities and Exchange Commission on February 26, 2009 (File No. 0-22490))
10.10	* Third Amendment dated December 15, 2010 to Employment Agreement dated October 30, 2007, between Forward Air Corporation and Bruce A. Campbell (incorporated herein by reference to Exhibit 10.10 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the Securities and Exchange Commission on February 24, 2011 (File No. 0-22490))
10.11	* 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))
10.12	* 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))
10.13	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))

- 10.14 * Forward Air Corporation Amended and Restated Stock Option and Incentive Plan (incorporated herein by reference to Appendix A of the registrant's Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 3, 2008 (File No. 0-22490))
- 10.15 * Form of Incentive Stock Option Agreement under the registrant's Amended and Restated Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.19 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 filed with the Securities and Exchange Commission on February 26, 2009 (File No. 0-22490))
- 10.16 * Form of Non-Qualified Stock Option Agreement under the registrant's Amended and Restated Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.16 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the Securities and Exchange Commission on February 24, 2011 (File No. 0-22490))
- 10.17 * 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))
- 10.18 * Form of Restricted Stock Agreement for an award of restricted stock under the registrant's 1999 Stock Option and Incentive Plan, as amended, granted during 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))
- 10.19 * Form of Restricted Stock Agreement under the registrant's Amended and Restated Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.19 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the Securities and Exchange Commission on February 24, 2011 (File No. 0-22490))
- 10.20 * 2006 Non-Employee Director Stock Plan (incorporated herein by reference to Appendix A of the registrant's Proxy Statement filed with the Securities and Exchange Commission on April 24, 2006 (File No. 0-22490))
- 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 herein 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. 0-22490))
- 10.22 * Amended and Restated Non-Employee Director Stock Plan (incorporated herein by reference to Appendix B of the registrant's Proxy Statement filed with the Securities and Exchange Commission on April 19, 2007 (File No. 0-22490))
- 10.23 * Amended and Restated Non-Employee Director Stock Plan, as further amended and restated on December 17, 2008 (incorporated herein by reference to Exhibit 10.25 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 filed with the Securities and Exchange Commission on February 26, 2009 (File No. 0-22490))
- 10.24 * 2010 Annual Incentive Plan Clawback Agreement (incorporated herein by reference to Exhibit 10.25 to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the Securities and Exchange Commission on February 24, 2011 (File No. 0-22490))
- 10.25 * Form of Performance Share Agreement for performance shares granted in February 2011, under the registrant's 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 quarterly period ended March 31, 2011, filed with the Securities and Exchange Commission on April 25, 2011 (File No. 0-22490))
- 10.26 * Forward Air Corporation Executive Severance and Change in Control Plan, effective as of January 1, 2013 (incorporated herein by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 14, 2012 (File No. 0-22490))
- 10.27 * Forward Air Corporation Recoupment Policy, effective as of January 1, 2013 (incorporated herein by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 14, 2012 (File No. 0-22490))
- 10.28 * 2012 Annual Incentive Plan Clawback Agreement
- 10.29 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))
- 10.30 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))

10.31	Asset Purchase Agreement dated November 26, 2007 by and among Forward Air Corporation, Black Hawk Freight Services, Inc. and the stockholders of Black Hawk Freight Services, Inc. (incorporated herein by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 30, 2007 (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, 2011 filed with the Securities and Exchange Commission on February 24, 2012 (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

*Denotes a management contract or compensatory plan or arrangement.

Shareholder Information

Corporate Headquarters

430 Airport Road
Greeneville, Tennessee 37745
(423) 636-7000
www.forwardair.com

Annual Meeting

The Company's 2013 Annual Meeting of Shareholders will be held at 8:00 a.m., EDT, on Monday, May 6, 2013, in Salon C at the Atlanta Airport Marriott Gateway, 2020 Convention Center Concourse, Atlanta, GA 30337. Shareholders are invited to attend this meeting.

Inquiries

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

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 (404) 362-3954.

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

Executive Officers

Bruce A. Campbell
Chairman, President and Chief Executive Officer

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

Craig A. Drum
Senior Vice President, Sales

Board of Directors

Bruce A. Campbell
Chairman, President and Chief Executive Officer
Forward Air Corporation

*Ronald W. Allen
Chairman, President and Chief Executive Officer
Aaron's, Inc.

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

C. John Langley, Jr., Ph.D.
Clinical Professor of Supply Chain Management and Director
of Development for The Center for Supply Chain Research
The Pennsylvania State University

Tracy A. Leinbach
Lead Independent Director, Forward Air Corporation
Former Executive Vice President and Chief Financial Officer
Ryder System, Inc.

Larry D. Leinweber
President and Chief Executive Officer
New World Systems

G. Michael Lynch
Former Executive Vice President and Chief Financial Officer
Federal-Mogul Corporation

Ray A. Mundy, Ph.D.
Director of the Center for Transportation Studies and
Barriger Endowed Professor of Transportation and Logistics
University of Missouri

Gary L. Paxton
Former President and Chief Executive Officer
Dollar Thrifty Automotive Group

*Mr. Allen is not standing for reelection.

Matthew J. Jewell
Executive Vice President, Chief Legal Officer and Secretary

Chris C. Ruble
Executive Vice President, Operations

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