

FORWARD AIR CORP  
Form 10-K  
February 19, 2014

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, 2013  
Commission File No. 000-22490

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

Tennessee  
(State or other jurisdiction  
of incorporation or organization)

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

430 Airport Road  
Greeneville, Tennessee  
(Address of principal executive offices)  
(423) 636-7000  
(Registrant's telephone number, including area code)

37745  
(Zip 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

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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, 2013 was approximately \$1,150,074,099 based upon the \$38.28 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 10, 2014 was 30,721,944.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the proxy statement for the 2014 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, 2013 (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 three principal segments: Forward Air, Inc. (“Forward Air”), Forward Air Solutions, Inc. (“FASI”) and Total Quality, Inc. (“TQI”).

Forward Air is 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 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.

FASI, which we formed in July 2007, provides 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.

TQI, which we acquired in March 2013, provides maximum security and temperature-controlled logistics services, primarily truckload services, to the pharmaceutical and life science industries. In addition to core pharmaceutical

services, TQI provides truckload and less-than-truckload brokerage transportation services.

#### Growth Strategy

Our 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 businesses as the base from which to expand and launch new services that will allow us to grow and provide shareholder returns in any economic environment. Principal components of our efforts include:

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**Increase Freight Volume from Existing Customers.** Many of our customers currently use us for only a portion of their overall transportation needs. We believe we can increase freight volumes from existing customers by offering more enhanced and 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 and customer label integration. By offering additional services that can be integrated with our existing services, we believe we will attract additional business from existing customers.

**Expand Service Offerings.** We continue to expand our offered 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 additional services in the past few years, such as TLX, pool distribution, temperature-controlled shipments, warehousing, drayage, 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.

**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, and increase freight volume. In addition, we expect to explore acquisitions, such as TQI, that enable us to offer additional services. Further, in February 2014, we completed the acquisition of Central States Trucking Co. and Central States Logistics, Inc. (collectively, "CST") from Central States Inc. CST provides industry leading container and intermodal drayage services primarily within the Midwest region of the United States. CST also provides linehaul service within the airport-to-airport space as well as dedicated contract and Container Freight Station warehouse services. Acquisitions may affect our short-term cash flow and net income as we expend funds, potentially increase indebtedness and incur additional expenses.

**Competitive Advantages**

We believe that the following competitive advantages are critical to our success:

**Focus on Specific Freight Markets and Concentrated Marketing Strategy.** Our Forward Air segment focuses on providing time-definite surface transportation and related logistics services to the North American expedited ground freight market. 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. 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. Our FASI segment focuses on providing high-quality pool distribution services to retailers and nationwide distributors of retail products. Our TQI segment focuses on providing maximum security and temperature-controlled logistics services to the pharmaceutical and life science industries. This focused approach enables us to provide a higher level of service across all our business segments in a more cost-effective manner than our competitors.

**Expansive Network of Terminals and Facilities.** We have developed a network of terminals and facilities throughout the United States and Canada. We believe it would be difficult for a competitor to duplicate our network of facilities with the expertise and strategic facility locations we have acquired without expending significant capital and management resources. We believe that through our network of terminals and facilities we can offer our customers a variety of comprehensive, high-quality, consistent service across the majority of the continental United States.

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 Forward Air 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. TQI utilizes industry-leading



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temperature-controlled equipment, 24-hour real-time monitoring and tracking technology, and layered security features and practices to provide its customers with a level of service that is unmatched in the industry today.

**Flexible Business Model.** Rather than owning and operating our own large fleets of trucks, we purchase most of our transportation requirements from owner-operators or truckload carriers. 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 three segments we offer an array of logistic and other services including: TLX, pick-up and delivery (Forward Air Complete™), pool distribution, temperature-controlled truckload, 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 and available borrowing capacity, 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.

### Operations

The following describes in more detail the operations of each of our reportable segments:

#### Forward Air

##### Airport-to-airport

Forward Air is a leading provider of time-definite surface transportation and related logistics services to the North American expedited ground freight market. Through Forward Air, 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 market our Forward Air 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 in the United States and Canada 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 2013, approximately 27.7% of the freight Forward Air handled was for overnight delivery, approximately 56.7% was for delivery within two to three days and the balance was for delivery in four or more days. Forward Air generally does not market its airport-to-airport services directly to shippers (where such services might

compete with our freight forwarder customers). Also, because Forward Air does not place significant size or weight restrictions on airport-to-airport shipments, Forward Air generally does not compete directly with integrated air cargo carriers such as United Parcel Service and Federal Express in the overnight delivery of small parcels. In 2013, Forward Air's ten largest customers accounted for approximately 35.5% of Forward Air's operating revenue and no single customer accounted for more than 10.0% of Forward Air's operating revenue.

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## Terminals

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

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

\* Denotes an independent agent location.

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

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

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

## Direct Service and Regional Hubs

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

## Shipments

The average weekly volume of freight moving through our airport-to-airport network was approximately 35.4 million pounds per week in 2013. During 2013, our average shipment weighed approximately 654 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 1998.

Year	Average Weekly Volume in Pounds (In millions)
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
2013	35.4

## Forward Air Logistics and Other Services

Forward Air customers increasingly demand more than the movement of freight from their transportation providers. To meet these demands, we continually seek ways to customize our logistics services and add new services. Logistics

and other services increase our profit margins by increasing our revenue without corresponding increases in our fixed costs, as airport-to-airport assets and resources are primarily used to provide the logistics and other services.

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

- expedited full truckload, or TLX;

- dedicated fleet;

- customs brokerage, such as assistance with U.S. Customs and Border Protection (“U.S. Customs”) procedures for both import and export shipments;

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

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

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

Year	Average Weekly Miles (In thousands)
2003	211
2004	259
2005	248
2006	331
2007	529
2008	676
2009	672
2010	788
2011	876
2012	1,005
2013	967

Forward Air Customers

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.

Forward Air Purchased Transportation

Forward Air contracts with owner-operators for most of its 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.

Forward Air seeks to establish long-term relationships with owner-operators to assure dependable service and availability. Historically, Forward Air has experienced significantly higher than industry average retention of owner-operators. Forward Air has established specific guidelines relating to safety records, driving experience and personal evaluations that we use to select our owner-operators. To enhance its relationship with the owner-operators, Forward Air rates are generally above prevailing market rates. In addition, Forward Air will 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 \$230.9 million incurred for Forward Air purchased transportation during 2013, we purchased 59.5% from owner-operators and 40.5% from other surface transportation providers.

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Forward Air Competition

The expedited ground freight segment of the transportation industry is highly competitive and very fragmented. Our 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 in the expedited ground freight segment 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.

Forward Air Solutions (FASI)

Pool Distribution

Through our FASI segment we provide pool distribution services through a network of terminals and service locations in 24 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 FASI pool distribution customers are primarily comprised of national and regional retailers and distributors, such as Stage Stores, The Limited, The Marmaxx Group, The GAP, and Aeropostale. FASI's four largest customers accounted for approximately 69.6% of FASI's 2013 operating revenue, but revenues from these four customers do not exceed 10.0% of our consolidated revenue. No other customers accounted for more than 10.0% of FASI's operating revenue.

Our pool distribution network consists of terminals and service locations in the following 24 cities:

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

\* Denotes an independent agent station.

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

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

FASI Transportation

FASI provides its transportation services through a mix of Company-employed drivers, owner-operators and third party carriers. The mix of sources utilized to provide FASI transportation services is dependent on the individual markets and related customer routes. During 2013, approximately 38.1% of FASI's direct transportation expenses were provided by Company-employed drivers, 26.0% by owner-operators and 35.9% was provided by third party carriers.

FASI Competition

The pool distribution segments of the transportation industry is also highly competitive and very fragmented. Our competitors primarily include regional and national truckload and less-than-truckload carriers. 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.

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### Total Quality, Inc. (TQI)

TQI is a premium provider of maximum security and temperature-controlled services to the pharmaceutical and life science industries. TQI utilizes industry-leading temperature-controlled equipment, 24-hour real-time monitoring and tracking technology, and layered security features and practices to provide its customers with a high level of service. In addition to its core pharmaceutical services, TQI also provides truckload and less-than-truckload brokerage transportation services. TQI's administrative headquarters are located in Grand Haven, Michigan.

### TQI Transportation

TQI maintains a fleet of Company-employed drivers and owner-operators. All Company-employed drivers and owner-operators are incentivized to follow strict operating procedures during pick up, transport and delivery. In addition to TQI's private and owner-operator fleet, TQI has prequalified select third party partner carriers, which have committed to meet TQI's high standards of service and serve as a dedicated source of scalable capacity. Utilizing these qualified third party partner carriers TQI is able to accommodate spikes in demand created by product launches, product recalls, special promotions and other seasonal marketing efforts that require additional capacity. During 2013, approximately 23.4% of TQI's direct transportation expenses were provided by Company-employed drivers, 5.0% by owner-operators and 71.6% was provided by third party carriers.

### TQI Competition

TQI competitors primarily include national and regional truckload carriers. We believe competition in TQI's market is based primarily on service, on-time delivery and flexibility and reliability. We believe TQI has a competitive advantage as a result of its superior technology and its established relationships with market leaders in the pharmaceutical and life science industries.

### Marketing

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](http://www.forwardair.com), [www.forwardairsolutions.com](http://www.forwardairsolutions.com) and [www.shiptqi.com](http://www.shiptqi.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.

### 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 and Equipment

As of December 31, 2013, we had 2,371 full-time employees, 709 of whom were freight handlers. Also, as of that date, we had an additional 1,166 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.

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, 2013, we had 3,237 owned trailers in our fleet with an average age of approximately 5.2 years. In addition, at December 31, 2013, we also had 67 leased trailers in our fleet. At December 31, 2013, we had 529 owned tractors and straight trucks in our fleet, with an average age of approximately 4.1 years. In addition, at December 31, 2013, we also had 29 leased tractors and straight trucks in our fleet.

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### 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™, Forward Air Complete™, and PROUD™. These marks are of significant value to our business. We are also in the process of obtaining trademarks for Total Quality, Inc. and TQI Inc.

### 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](http://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](http://www.forwardair.com), [www.forwardairsolutions.com](http://www.forwardairsolutions.com), and [www.shiptqi.com](http://www.shiptqi.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, freight volumes, 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 networks. 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.

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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 volumes, 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 in which we participate 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



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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 significant negative impact on our results of operations.

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

We have \$40.1 million of recorded net definite-lived intangible assets on our consolidated balance sheet at December 31, 2013. 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 \$88.5 million on our consolidated balance sheet at December 31, 2013. 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.

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 networks. 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.

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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 2013, owner-operators provided 53.7% 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.

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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

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.



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We lease and maintain 75 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 26 terminals are agent stations operated by independent agents who handle freight for us on a commission basis.

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.

2013	High	Low	Dividends
First Quarter	\$39.58	\$35.28	\$0.10
Second Quarter	39.66	35.93	0.10
Third Quarter	41.94	36.05	0.10
Fourth Quarter	44.57	38.26	0.10
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

According to a position listing there were approximately 446 shareholders of record of our Common Stock as of January 22, 2014.

Subsequent to December 31, 2013, our Board of Directors declared a cash dividend of \$0.12 per share that will be paid in the first quarter of 2014. 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 2013 without registration under the Securities Act.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2013 with respect to shares of our Common Stock that may be issued under existing equity compensation plans, the 1999 Stock Option and Incentive Plan (the “1999 Plan”), the Amended and Restated Stock Option and Incentive Plan (“1999 Amended Plan”), the Non-Employee Director Stock Option Plan (the “NED Plan”), the 2000 Non-Employee Director Award (the “2000 NED Award”), the 2005 Employee Stock Purchase Plan (the “ESPP”) and the Amended and Restated Non-Employee Director Stock Plan (the “Amended Plan”). Our shareholders have approved each of these plans.

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Equity Compensation Plan Information			
Plan Category	Number of Securities to be Issued upon Exercise or Vesting of Outstanding/Unvested Shares, Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
		(a)	(b)
Equity Compensation Plans Approved by Shareholders	2,084,639	\$27	1,948,144
Equity Compensation Plans Not Approved by Shareholders	—	—	—
Total	2,084,639	\$27	1,948,144

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 (a) 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, 2013, an aggregate of 412,322 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 2008 and ending on the last trading day of December 2013. The graph assumes a base investment of \$100 made on December 31, 2008 and the respective returns assume reinvestment of all dividends. The comparisons in this graph are required by the SEC and, therefore, are not intended to forecast or necessarily be indicative of any future return on our Common Stock.

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

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	2008	2009	2010	2011	2012	2013
Forward Air Corporation	\$100	\$103	\$117	\$132	\$144	\$181
Nasdaq Trucking and Transportation Stocks Index	100	104	136	115	121	151
Nasdaq Global Select Stock Market Index	100	144	168	166	192	265

## Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program (1)
October 1-31, 2013	—	\$—	—	—
November 1-30, 2013	8,675	41	8,675	806,384
December 1-31, 2013	—	—	—	—
Total	8,675	\$41	8,675	806,384

(1) On July 31, 2007, our Board of Directors approved a stock repurchase program for up to 2.0 million shares of our common stock. On February 7, 2014, the Board of Directors cancelled the 2007 share repurchase authorization and approved a new stock repurchase authorization for up to 2.0 million shares of the Company's common stock.

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## Item 6. Selected Financial Data

The following table sets forth our selected financial data. The selected financial data should be read in conjunction with our consolidated financial statements and notes thereto, included elsewhere in this report.

	Year ended				
	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009
	(In thousands, except per share data)				
Income Statement Data:					
Operating revenue	\$ 652,481	\$ 584,446	\$ 536,402	\$ 483,939	\$ 417,410
Income from operations	84,355	83,532	77,110	53,739	18,550
Operating margin (1)	12.9	% 14.3	% 14.4	% 11.1	% 4.4
Net income	54,467	52,668	47,199	32,036	9,802
Net income per share:					
Basic	\$ 1.81	\$ 1.82	\$ 1.62	\$ 1.11	\$ 0.34
Diluted	\$ 1.77	\$ 1.78	\$ 1.60	\$ 1.10	\$ 0.34
Cash dividends declared per common share	\$ 0.40	\$ 0.34	\$ 0.28	\$ 0.28	\$ 0.28
Balance Sheet Data (at end of period):					
Total assets	\$ 506,269	\$ 399,187	\$ 341,151	\$ 348,796	\$ 316,730
Long-term obligations, net of current portion	3	58	333	50,883	52,169
Shareholders' equity	435,865	351,671	286,902	256,086	224,507

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

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

Overview and Executive Summary

Our operations can be broadly classified into three principal segments: Forward Air, Inc. ("Forward Air"), Forward Air Solutions, Inc. ("FASI") and Total Quality, Inc. ("TQI").

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 truckload brokerage ("TLX"); dedicated fleets; 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 service 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 24 cities.

TQI is a provider of maximum security and temperature-controlled logistics services, primarily truckload services, to the pharmaceutical and life science industries. In addition to core pharmaceutical services, TQI provides truckload and less-than-truckload brokerage transportation services.

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 for the freight shipped through our networks and to grow other lines of businesses, such as TLX, FASI and TQI, which will allow us to maintain revenue growth in challenging shipping environments.

Trends and Developments

Acquisition of TQI

On March 4, 2013, we entered into a Stock Purchase Agreement ("Agreement") with all of the shareholders of TQI to acquire 100% of the outstanding stock. Pursuant to the terms of the Agreement and concurrently with the execution of the Agreement, we acquired all of the outstanding capital stock of TQI in exchange for \$45.3 million in net cash, \$20.1 million in assumed debt and an available earn-out of up to \$5.0 million. The assumed debt was immediately paid in full after funding of the acquisition. The acquisition and settlement of the assumed debt were funded using our cash on hand.

Pursuant to the terms of the Agreement, we could pay the former shareholders of TQI additional cash consideration from \$0 to \$5.0 million if certain earnings before interest, taxes, depreciation and amortization ("EBITDA") goals are exceeded. The ultimate payout is based on the level by which TQI operating results exceed specified thresholds as defined by the Agreement in both 2013 and 2014.

## Results from Operations

During the year ended December 31, 2013, we experienced a 11.7% and 1.1% increase in our consolidated revenues and income from operations, respectively, compared to the year ended December 31, 2012. The increase in revenue is primarily attributable to revenue from our newly acquired segment, TQI and increased revenue from FASI, partially offset by reduced Forward Air revenue. During the year ended December 31, 2013, TQI contributed \$41.8 million in operating revenue and approximately \$3.6 million in income from operations.

Forward Air revenue and income from operations decreased 0.1% and 3.4%, respectively. The Forward Air revenue decrease was driven by lower logistics revenue partially offset by increases in airport-to-airport revenue. The logistics revenue

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decrease was driven by reduced TLX revenue on lower miles driven. The higher airport-to-airport revenue was attributable to increased tonnage transiting the Forward Air network.

FASI revenue increased 33.4% during the year ended December 31, 2013 compared to the year ended December 31, 2012. In conjunction with the revenue growth, FASI's income from operations improved \$0.1 million and 5.0%, from \$2.0 million in 2012 to \$2.1 million during 2013. The increase in revenue and the corresponding increase in income from operations was the result of new business wins in the fourth quarter of 2012 and the first half of 2013.

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 volumes shipped. Due to the acquisition of TQI, higher diesel prices for the majority of 2013 and improved volumes, our net fuel surcharge revenue increased by 23.1% during the year end December 31, 2013 compared to the year ended December 31, 2012.

## Results of Operations

The following table sets forth our historical financial data for the years ended December 31, 2013 and 2012 (in millions):

	Year ended			Percent	
	December 31,	December 31,	Change	Change	
	2013	2012			%
Operating revenue	\$ 652.5	\$ 584.4	\$ 68.1	11.7	%
Operating expenses:					
Purchased transportation	285.7	252.7	33.0	13.1	
Salaries, wages, and employee benefits	151.1	135.0	16.1	11.9	
Operating leases	29.3	28.0	1.3	4.6	
Depreciation and amortization	23.6	21.1	2.5	11.8	
Insurance and claims	12.5	11.3	1.2	10.6	
Fuel expense	15.2	10.0	5.2	52.0	
Other operating expenses	50.7	42.8	7.9	18.5	
Total operating expenses	568.1	500.9	67.2	13.4	
Income from operations	84.4	83.5	0.9	1.1	
Other income (expense):					
Interest expense	(0.5	) (0.4	) (0.1	) 25.0	
Other, net	0.1	—	0.1	100.0	
Total other expense	(0.4	) (0.4	) —	—	
Income before income taxes	84.0	83.1	0.9	1.1	
Income taxes	29.5	30.4	(0.9	) (3.0	)
Net income	\$ 54.5	\$ 52.7	\$ 1.8	3.4	%





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The following table sets forth our historical financial data by segment for the years ended December 31, 2013 and 2012 (in millions):

	Year ended							
	December 31,	Percent of	December 31,	Percent of	Change	Percent	Change	
	2013	Revenue	2012	Revenue				
<b>Operating revenue</b>								
Forward Air	\$501.1	76.8	% \$501.7	85.9	% \$(0.6	) (0.1	)%	
FASI	113.4	17.4	85.0	14.5	28.4	33.4		
TQI	41.8	6.4	—	—	41.8	100.0		
Intercompany eliminations	(3.8	) (0.6	) (2.3	) (0.4	) (1.5	) 65.2		
Total	652.5	100.0	584.4	100.0	68.1	11.7		
<b>Purchased transportation</b>								
Forward Air	230.9	46.1	231.4	46.1	(0.5	) (0.2	)	
FASI	34.5	30.4	23.3	27.4	11.2	48.1		
TQI	23.2	55.5	—	—	23.2	100.0		
Intercompany eliminations	(2.9	) 76.3	(2.0	) 87.0	(0.9	) 45.0		
Total	285.7	43.8	252.7	43.3	33.0	13.1		
<b>Salaries, wages and employee benefits</b>								
Forward Air	105.4	21.0	103.1	20.6	2.3	2.2		
FASI	39.3	34.7	31.9	37.5	7.4	23.2		
TQI	6.4	15.3	—	—	6.4	100.0		
Total	151.1	23.2	135.0	23.1	16.1	11.9		
<b>Operating leases</b>								
Forward Air	20.2	4.0	20.4	4.1	(0.2	) (1.0	)	
FASI	9.0	7.9	7.6	9.0	1.4	18.4		
TQI	0.1	0.2	—	—	0.1	100.0		
Total	29.3	4.5	28.0	4.8	1.3	4.6		
<b>Depreciation and amortization</b>								
Forward Air	16.2	3.2	16.4	3.3	(0.2	) (1.2	)	
FASI	5.0	4.4	4.7	5.5	0.3	6.4		
TQI	2.4	5.8	—	—	2.4	100.0		
Total	23.6	3.6	21.1	3.6	2.5	11.8		
<b>Insurance and claims</b>								
Forward Air	8.7	1.8	8.9	1.8	(0.2	) (2.2	)	
FASI	3.3	2.9	2.4	2.8	0.9	37.5		
TQI	0.5	1.2	—	—	0.5	100.0		
Total	12.5	1.9	11.3	1.9	1.2	10.6		
<b>Fuel expense</b>								
Forward Air	4.0	0.8	4.2	0.8	(0.2	) (4.8		