FORWARD AIR CORP
Form 10-K/A
March 22, 2006

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

FORM 10-K/A
Amendment No. 1

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

For the Fiscal Year Ended December 31, 2005
Commission File No. 000-22490

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

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

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

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

Common Stock, $0.01 par value (Title of class)	**The NASDAQ Stock Market** (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 x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No x

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 x No o

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

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes o No x

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2005 was approximately $891.1 million based upon the $28.27 closing price of the stock as reported on The NASDAQ Stock Market 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 March 1, 2006 was 31,391,460.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the 2006 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

EXPLANATORY NOTE

On March 9, 2006, Forward Air Corporation (the "Company") filed its Annual Report on Form 10-K for the year ended December 31, 2005. CGI North America acted on behalf of the Company as its Securities and Exchange Commission ("SEC") filing agent and filed the Form 10-K with the SEC. Subsequent to the filing, it was discovered that, due to a systems conversion issue and operation error by CGI North America, a significant number of tables were improperly rendered as images which appeared throughout the original filed document. The purpose for the filing of this Form 10-K/A is only to address the previously mentioned formatting error and does not change any of the data contained in the original Form 10-K filing.

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Forward Air Corporation

Introductory Note

This Annual Report on Form 10-K/A for the fiscal year ended December 31, 2005 (the Form 10-K/A) contains forward-looking statements, as defined in Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements are statements other than historical information or statements of current condition and relate to future events or our future financial performance. Some forward-looking statements may be identified by use of such terms as believes, anticipates, intends, plans, estimates, projects or expects. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The following is a list of factors, among others, that could cause actual results to differ materially from those contemplated by the forward-looking statements: economic factors such as recessions, inflation, higher interest rates and downturns in customer business cycles, our inability to maintain our historical growth rate because of a decreased volume of freight moving through our network or decreased average revenue per pound of freight moving through our network, increasing competition and pricing pressure, surplus inventories, loss of a major customer, the creditworthiness of our customers and their ability to pay for services rendered, our ability to secure terminal facilities in desirable locations at reasonable rates, the inability of our information systems to handle an increased volume of freight moving through our network, changes in fuel prices, claims for property damage, personal injuries or workers compensation, employment matters including rising health care costs, enforcement of and changes in governmental regulations, environmental and tax matters, the handling of hazardous materials, the availability and compensation of qualified independent owner-operators and freight handlers needed to serve our transportation needs and our inability to successfully integrate acquisitions. As a result of the foregoing, no assurance can be given as to future financial condition, cash flows or results of operations. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Part I

Item 1. Business

We were formed as a corporation under the laws of the state of Tennessee on October 23, 1981. We are a leading provider of time-definite surface transportation and related logistics services to the North American deferred air freight market. We offer our customers scheduled surface transportation of cargo as a cost effective, reliable alternative to air transportation. We transport cargo that must be delivered at a specific time, but is less time-sensitive than traditional air freight. This type of cargo is frequently referred to in the transportation industry as deferred air freight. We operate through a network of 81 terminals located on or near airports in the United States and Canada, including a central sorting facility in Columbus, Ohio and eight regional hubs serving key markets. Our typical shipment consists of a pallet-load of freight, often consisting of electronics, telecommunications equipment, machine parts, trade show exhibit materials or medical equipment. During 2005, our average shipment weighed over 750 pounds. We utilize a flexible source of capacity made up of owner-operators and, to a lesser extent, other surface transportation providers, which results in a largely variable cost operating model with low capital requirements.

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

We market our services primarily to air freight forwarders, integrated air cargo carriers, and passenger and cargo airlines. To serve this market, we offer customers a very high level of service with a focus on on-time, damage-free deliveries. We serve our customers by locating terminals on or near airports and maintaining regularly scheduled transportation service between major cities. We receive shipments at our terminals and transport them by truck either (i) directly to the destination terminal; (ii) to our Columbus, Ohio central sorting facility; or (iii) to one of our eight regional hubs, where they are unloaded, sorted and reloaded. After reloading the shipments, we deliver them to the terminals nearest their destinations. We ship freight directly between terminals when justified by the volume of shipments. During

2005, approximately 35.2% of the freight we handled was for overnight delivery, approximately 58.3% was for delivery within two to three days and the balance was for delivery in four or more days. We typically do not provide local pickup and delivery services and do not market our services directly to shippers. Because we do not place significant size or weight restrictions on shipments, we generally do not compete directly with integrated air cargo carriers such as United Parcel Service, Federal Express and DHL Worldwide in the overnight delivery of small parcels. In 2005, our five largest customers accounted for approximately 23.1% of our operating revenue and no single customer accounted for more than 10.0% of our operating revenue.

Our Industry

As businesses minimize inventory levels, perform manufacturing and assembly operations in multiple locations and distribute their products through multiple channels, they have an increased need for expedited delivery services. Expedited shipments are those shipments for which the customer requires delivery the next day or within two to three days, usually at a specified time or within a specified time window. The Colography Group, Inc., an independent industry market research and consulting firm, estimates that the total U.S. expedited cargo market, including domestic air, domestic ground parcel, domestic less-than-truckload and U.S. air export will generate $87.6 billion in revenue in 2005. Also according to The Colography Group, Inc., the U.S. domestic air freight market is estimated to be approximately $32.4 billion, or 37.0%, of this market. Approximately $4.5 billion, or 13.8%, of that market is made up of heavyweight overnight and deferred air freight, representing the portion of the market within which we primarily compete.

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

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

- Integrated air cargo carriers provide pick-up and delivery services primarily using their own fleet of trucks and provide transportation services generally using their own fleet of aircraft.
- Less-than-truckload carriers also provide pick-up and delivery services through their own fleet of trucks. These carriers operate terminals where freight is unloaded, sorted and reloaded multiple times in a single shipment. This additional handling increases transit time, handling costs and the likelihood of cargo damage.
- Passenger or cargo airlines provide airport-to-airport service, but have limited cargo space and generally accept only shipments weighing less than 150 pounds.

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

- *Increased Outsourcing of Logistics Management to Third Party Logistics Providers.* Air freight forwarders are playing an increasingly important role in logistics management. As the growing emphasis on just-in-time processes has added to the complexity of logistics management, companies are finding it more advantageous to outsource their logistics management functions to third parties. According to Conference for Logistics Management, the United States’ third party logistics market grew at a compound annual rate of approximately 14.5% between 1997 and 2003. In contrast to integrated air cargo carriers and less-than-truckload carriers that are focused on utilizing their own fixed-cost assets, air freight forwarders can select from various transportation modes and suppliers to meet their customers’ shipping requirements, thereby serving their customers less expensively. In addition, air freight forwarders generally handle shipments of any size and offer customized shipping options, unlike most integrated air cargo carriers and less-than-truckload carriers.
- *Integrated Air Cargo Carriers’ Focus on Overnight Freight.* Integrated air cargo carriers that transport heavy freight are targeting their marketing efforts at higher yielding overnight freight in order to better utilize their high fixed-cost infrastructures. As a result, these carriers are outsourcing deferred freight to surface transportation providers like us.

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

Competitive Advantages

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

- *Focus on the Deferred Air Freight Market.* We focus on providing time-definite surface transportation and related logistics services to the deferred air cargo industry. We believe that our focused approach has enabled us to provide a higher level of service in a more cost-effective manner than our competitors.
- *Expansive Network of Terminals and Sorting Facilities.* We have built a network of terminals and sorting facilities throughout the United States and Canada located on or near airports. We believe it would be difficult for a competitor to duplicate our network without the expertise and strategic facility locations we have acquired and without expending significant capital and management resources. Our network

enables us to provide regularly scheduled service between most markets with low levels of freight damage or loss, all at rates generally significantly below air freight rates.

- *Concentrated Marketing Strategy.* We provide our services mainly to air freight forwarders, integrated air cargo carriers, and passenger and cargo airlines rather than directly serving shippers. We do not place significant size or weight restrictions on shipments and, therefore, we do not compete with delivery services such as United Parcel Service, Federal Express and DHL Worldwide in the overnight small parcel market. We believe that our customers prefer to purchase their transportation services from us because, among other reasons, we generally do not market our services to their shipper customers and, therefore, do not compete directly with them for customers.
- *Superior Service Offerings.* Our published schedule for transit times with specific cut-off and arrival times generally provides our customers with the predictability they need. In addition, our network of terminals allows us to offer our customers later cut-off times, a higher percentage of direct shipments (which reduces damage and lost time caused by additional sorting and reloading) and shorter delivery times than most of our competitors.
- *Flexible Business Model.* We purchase most of our transportation requirements from owner-operators or truckload carriers, rather than operating our own trucks. This allows us to respond quickly to changing demands and opportunities in our industry and to generate higher returns on assets because of our low capital requirements.
- *Comprehensive Logistics Service Offerings.* We offer an array of logistics services including: exclusive-use vehicles (commonly referred to as truck brokerage), dedicated fleet, warehousing, customs brokerage and shipment consolidation and handling. These logistics services are an essential part of some customers’ transportation needs and are not offered by many of our competitors.
- *Leading Technology Platform.* We are committed to using information technology to increase the volume of freight we can handle in our network, improve visibility of shipment information and reduce our operating costs. Our technology allows us to provide our customers with electronic bookings and real-time tracking and tracing of shipments while in our network, complete shipment history, proof of delivery, estimated charges and electronic bill presentment. We continue to enhance our systems to permit us and our customers to access vital information through both the Internet and electronic data interchange.
- *Technology Advances.* We have continued to invest in information technology to the benefit of our customers and our business processes. In 2005, we launched the development and installation of our Terminal Automation Program (“TAP”), a new wireless application for our terminals. The new system enables individual operators to perform virtually all data entry from our terminal floor locations. The new system provides immediate shipment updates, resulting in increased shipment accuracy and improved data timeliness. Also, the TAP system enables us to reduce operational manpower compared to our previous operation.

Growth Strategy

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

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

- *Develop New Customers.* We continue to actively market our services to potential new air freight forwarder customers. We believe air freight forwarders may move away from integrated air cargo carriers because those carriers charge higher rates, and away from less-than-truckload carriers because those carriers provide less reliable service and compete for the same customers as do the air freight forwarders. In addition, we believe our comprehensive North American network and related logistics services are attractive to domestic and international airlines.
- *Improve Efficiency of Our Transportation Network.* We constantly seek to improve the efficiency of our network without changing our infrastructure or incurring significant capital expenditures. Regional hubs and direct shuttles improve our efficiency by reducing the number of miles freight must be transported and reducing the number of times freight must be handled and sorted. As the volume of freight between key markets increases, we intend to continue to add direct shuttles.
- *Expand Logistics Services.* We continue to expand our logistics services to increase revenue and improve utilization of our terminal facilities and labor force. Because of the timing of the arrival and departure of cargo, our facilities are underutilized during certain portions of the day, allowing us to add logistics services without significantly increasing our costs. Therefore, we have added a number of services in the past few years, such as exclusive-use transportation services, dedicated fleet, warehousing, customs brokerage and shipment consolidation and handling services. These services directly benefit our existing customers and increase our ability to attract new customers, particularly those air freight forwarders that cannot justify providing the services directly. These services are not offered by many transportation providers with whom we compete and are attractive to customers who prefer to use one provider for all of their transportation needs.
- *Enhance Information Systems.* We are committed to the continued enhancement of our information systems in ways that will continue to provide us competitive service advantages and increased productivity. We believe our enhanced systems assist us in capitalizing on new business opportunities with existing customers and developing relationships with new customers because of the customer-friendly, cost-saving features our system provides, including real-time tracking and tracing of shipments and electronic bill presentment.
- *Pursue Strategic Acquisitions.* We intend to continue to evaluate acquisitions that can increase our penetration of a geographic area, add new customers or increase freight volume. In addition, we expect to explore acquisitions that may enable us to offer additional logistics services. Since our inception, we have acquired certain assets of nine of our competitors that met one or more of these criteria.

Operations

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

Terminals

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

City	Airport Served	City	Airport Served
Albany, NY	ALB	Louisville, KY	SDF
Albuquerque, NM	ABQ	Memphis, TN	MEM

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

* Denotes an independent agent location.

Independent agents operate 21 of our locations. These locations typically handle low volumes of freight relative to our company-operated facilities.

Direct Service and Regional Hubs

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

Shipments

The average weekly volume of freight moving through our network was over 31.2 million pounds per week in 2005, an increase of 8.7% versus 2004. During 2005, our average shipment weighed over 750 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 do not typically directly compete with integrated air cargo carriers in the overnight delivery of small parcels. The table below summarizes the average weekly volume of freight moving through our network for each year since 1990.

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

Logistics Services

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

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

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

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

Customers and Marketing

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

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

Technology and Information Systems

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

In 2005, we introduced TAP, a new program, in the continued effort to automate and improve operations. This new wireless system enables individual operators to perform data entry from our terminal floor locations. This greatly reduces the need for data entry personnel and provides immediate shipment updates. The result is increased shipment accuracy and improved data timeliness. We believe that the TAP system will improve our ability to provide accurate, real-time information, and will result in both competitive service advantages and increased productivity throughout our network. We believe this will assist us in capitalizing on new business opportunities and could encourage customers to increase the volume of freight they send through our network. In addition, we believe the service advantages these systems provide could attract new customers.

Purchased Transportation

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

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

As a result of seasonal demands and volume surges in particular markets, we also purchase transportation from other surface transportation providers to handle overflow volume. Of the $132.9 million of our purchased transportation in 2005, we purchased 64.9% from owner-operators and 35.1% from other surface transportation providers.

Competition

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

Seasonality

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

Employees

As of December 31, 2005, we had 1,134 full-time employees, 312 of whom were freight handlers. Additionally as of that date, there were 642 part-time employees, of whom the majority were freight handlers. None of our employees are covered by a collective bargaining agreement. We recognize that our workforce, including our freight handlers, is one of our most valuable assets. The recruitment, training and retention of qualified employees are essential to support our continued growth and to meet the service requirements of our customers.

Risk Management and Litigation

Under U.S. Department of Transportation (DOT) regulations, we are liable for property damage and personal injuries caused by owner-operators while they are operating on our behalf. We currently maintain liability insurance coverage that we believe is adequate to cover third-party claims. We have a self-insured retention of $500,000 per occurrence for each vehicle and general liability claim. We may also be subject to claims for workers compensation. We maintain workers compensation insurance coverage that we believe is adequate to cover such claims. We have a self-insured retention of $250,000 for each such claim, except in Ohio, where we are a qualified self-insured with a $350,000 self-insured retention. We could incur claims in excess of our policy limits or incur claims not covered by our insurance.

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

Regulation

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

Service Marks

Through one of our subsidiaries, we hold two service marks: Forward Air, Inc.® and North America's Most Complete Roadfeeder Network®. These marks are of significant value to our business. Both of these marks are registered with the United States Patent and Trademark Office.

Website Access

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

Item 1A. Risk Factors

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

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

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

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

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

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

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

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

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

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

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

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

Under DOT regulations, we are liable for property damage and personal injuries caused by owner-operators while they are operating on our behalf. We currently maintain liability insurance coverage that we believe is adequate to cover third-party claims. We have a self-insured retention of $500,000 per occurrence for each vehicle and general liability claim. We may also be subject to claims for workers compensation. We maintain workers compensation insurance coverage that we believe is adequate to cover such claims. We have a self-insured retention of $250,000 for each such claim, except in Ohio, where we are a qualified self-insured with a $350,000 self-insured retention. We could incur claims in excess of our policy limits or incur claims not covered by our insurance. Any claims beyond the limits or scope of our insurance coverage may have a material adverse effect on us. Because we do not carry stop loss insurance, a significant increase in the number of claims that we must cover under our self-insurance retainage could adversely affect our profitability. In addition, we may be unable to maintain insurance coverage at a reasonable cost or in sufficient amounts or scope to protect us against losses.

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

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

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

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

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

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

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

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

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

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

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

We depend on owner-operators for most of our transportation needs. In 2005, owner-operators provided 64.9% of our purchased transportation. Competition for owner-operators is intense, and sometimes there are shortages of available owner-operators. In addition, we need a large number of freight handlers to operate our business efficiently. During periods of low unemployment in the areas where our terminals are located, we may have difficulty hiring and retaining a sufficient number of freight handlers. If we have difficulty attracting and retaining enough qualified owner-operators or freight handlers, we may be forced to increase wages and benefits, which would increase our operating costs. This difficulty may also impede our ability to maintain our delivery schedules, which could make our service less competitive and force us to curtail our planned growth. If our labor costs increase, we may be unable to offset the increased labor costs by increasing rates without adversely affecting our business. As a result, our profitability may be reduced.

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

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

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

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

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

The transportation industry is subject to legislative and regulatory changes that can affect the economics of our business by requiring changes in operating practices or influencing the demand for, and the cost of providing, transportation services. Heightened security concerns in the aftermath of the September 11, 2001 terrorist attacks may continue to result in increased regulations, including the implementation of various security measures, checkpoints or travel restrictions on trucks.

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

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

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

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

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

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

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

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

Our shareholder rights plan, charter and bylaws and provisions of Tennessee law may discourage transactions that otherwise could provide for the payment of a premium over prevailing market prices for our common stock, $0.01 par value per share (the 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 own our 83,800 square foot Columbus, Ohio central sorting facility. We lease our 37,500 square foot headquarters in Greeneville, Tennessee from the Greeneville-Greene County Airport Authority. The lease term ends in 2006 and has two ten-year and one five-year renewal options. We have notified the Greeneville-Greene County Airport Authority of our intent to renew the lease for an additional ten years, which will run through 2016.

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

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

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

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

We lease and maintain terminals in 58 additional cities located at or near various airports in the United States and Canada. Lease terms are typically for three to five years. The remaining 21 terminals are agent stations operated by independent agents who handle freight for us on a commission basis.

We own the majority of trailers we use to move freight through the Forward Air network. Substantially all of our trailers are 53 long, some of which have specialized roller bed equipment required to serve air cargo industry customers. The average age of our owned trailer fleet was approximately 2.1 years at December 31, 2005.

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Item 3. Legal Proceedings

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

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

During the fourth quarter of the fiscal year ended December 31, 2005, no matters were submitted to a vote of security holders through the solicitation of proxies or otherwise.

Executive Officers of the Registrant

Pursuant to Instruction 3 to Item 401(b) of Regulation S-K 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, 2005.

The following are our executive officers:

Name	Age	Position
Bruce A. Campbell	54	President and Chief Executive Officer
Andrew C. Clarke	35	Chief Financial Officer, Senior Vice President and Treasurer
Craig A. Drum	50	Senior Vice President, Sales
Matthew J. Jewell	39	Senior Vice President, General Counsel and Secretary
Chris C. Ruble	43	Senior Vice President, Operations
Rodney L. Bell	43	Chief Accounting Officer, Vice President and Controller

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

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

Andrew C. Clarke has served as a director and as Chief Financial Officer, Senior Vice President and Treasurer since April 2001. In April 2000, he began serving as Chief Financial Officer, Senior Vice President and director of a subsidiary that provided Internet and technology services and support to our operations. From August 1998 to March 2000, Mr. Clarke was an investment banker with Deutsche Banc Alex. Brown in the Global Transportation Group. Mr. Clarke has an MBA from the Graduate School of Business at the University of Chicago. Mr. Clarke also serves as a director of Pacer International, Inc.

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

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

Chris C. Ruble has served as Senior Vice President, Operations since October 2001. He was Regional Vice President from September 1997 to October 2001 and 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.

Rodney L. Bell has served as Chief Accounting Officer since February 2006 and as Vice President and Controller since October 2000. Mr. Bell began serving as Controller in February 1995 after joining us as Assistant Controller in March 1992. Prior to 1992, Mr. Bell was employed in public accounting for over six years, most recently with the accounting firm of Adams and Plucker as a senior manager. Mr. Bell is a Certified Public Accountant.

Part II

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

Our Common Stock trades on The NASDAQ Stock Market® under the symbol "FWRD." The following table sets forth the high and low trade prices for the Common Stock as reported by The NASDAQ Stock Market® for each full quarterly period within the two most recent fiscal years. All prices have been restated to reflect a three-for-two stock split declared in February 2005.

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

2004	**High**	**Low**
First Quarter	$22.98	$18.33
Second Quarter	$25.26	$19.87
Third Quarter	$27.44	$23.31
Fourth Quarter	$31.50	$26.53

There were approximately 345 shareholders of record of our Common Stock as of March 1, 2006.

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

During each of the three months ended March 31, 2005, June 30, 2005, September 30, 2005 and December 31, 2005, dividends of $0.06 per share were declared on our Common Stock then outstanding. The quarterly dividends were paid on April 18, 2005, June 3, 2005, September 2, 2005 and January 3, 2006. We had never declared a dividend prior to February 15, 2005. On February 13, 2006, our Board of Directors declared a $0.07 per share dividend that will be paid in the first quarter of 2006. 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.

There are no material restrictions on our ability to declare dividends. See Note 4 to the consolidated financial statements.

None of our securities were sold during fiscal year 2005 without registration under the Securities Act.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2005 with respect to shares of our Common Stock that may be issued under existing equity compensation plans, including the 1992 Amended and Restated Stock Option and Incentive Plan (the "1992 Plan"), the 1999 Stock Option and Incentive Plan (the "1999 Plan"), the Non-Employee Director Stock Option Plan (the "NED Plan"), the 2000 Non-Employee Director Award (the "2000 NED Award") and the 2005 Employee Stock Purchase Plan (the "ESPP"). All shares and prices have been restated to reflect a three-for-two stock split declared in February 2005. Our shareholders have approved each of these plans.

Equity Compensation Plan Information

Plan Category	**Number of Securities to be Issued upon**	**Weighted-Average Exercise Price of Outstanding**	**Number of Securities Remaining Available for Future Issuance Under Equity**

	Exercise of Outstanding Options, Warrants and Rights (a)	Options, Warrants and Rights (b)	Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity Compensation Plans Approved by Shareholders	2,070,488(1)	$ 23.07(2)	2,295,016(3)
Equity Compensation Plans Not Approved by Shareholders	--	--	--
Total	2,070,488	$ 23.07	2,295,016

(1) Includes 57,755 shares of Common Stock issuable upon the exercise of options under the 1992 Plan, as of December 31, 2005. The 1992 Plan expired November 12, 2002. No additional options may be granted under the 1992 Plan.
(2) Includes the weighted-average exercise price of options outstanding under the 1992 Plan. Excludes purchase rights accruing under the ESPP, which has a shareholder-approved reserve of 500,000 shares. Under the ESPP, each eligible employee may purchase up to 2,000 shares of Common Stock at semi-annual intervals each year at a purchase price per share equal to 90.0% of the lower of the fair market value of the Common Stock at close of (i) the first trading day of an option period or (ii) the last trading day of a option period.
(3) Includes shares available for future issuance under the ESPP. As of December 31, 2005, an aggregate of 488,504 shares of Common Stock were available for issuance under the ESPP.

The following table provides information with respect to purchases we made of shares of our Common Stock during each
month in the quarter ended December 31, 2005.

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, 2005	--	--	--	--
November 1-30, 2005	--	--	--	--
December 1-31, 2005	83,978	$ 38.23	83,978	2,916,022
Total	83,978	$ 38.23	83,978	2,916,022

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

Item 6. Selected Financial Data

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

	Year ended December 31				
	2005	2004	2003	2002	2001
	(in thousands, except per share data)				

Income Statement Data:					
Operating revenue	$ 320,934	$ 282,197	$ 241,517	$ 226,072	$ 227,500
Income from operations (1)	67,437	53,598	40,182	32,737	31,658
Operating margin (1)(2)	21.0%	19.0%	16.6%	14.5%	13.9%
Net income (1)	44,909	34,421	25,815	21,616	19,882
Net income per share: (1)(3)					
Basic	$ 1.41	$ 1.07	$ 0.81	$ 0.67	$ 0.61
Diluted	$ 1.39	$ 1.05	$ 0.79	$ 0.65	$ 0.59
Cash dividends declared per common share (3)	$ 0.24	$ --	$ --	$ --	$ --
Balance Sheet Data (at end of period):					
Total assets	$ 212,600	$ 214,553	$ 175,087	$ 145,511	$ 136,959
Long-term obligations, net of current portion	837	867	907	935	4,451
Shareholders' equity	178,816	181,003	147,708	118,346	106,585

(1) Data for the years ended December 31, 2005, 2004, 2003 and 2002 reflect Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, adopted in 2002.
(2) Income from operations as a percentage of operating revenue.
(3) Restated to reflect a three-for-two stock split declared in February 2005.

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

Introduction

We provide scheduled ground transportation of cargo on a time-definite basis. As a result of our established transportation schedule and network of terminals, our operating cost structure includes significant fixed costs. Our ability to improve our operating margins will depend on, among other things, our ability to increase the volume of freight moving through our network.

Risk Factors

A summary of factors which could affect results and cause results to differ materially from those expressed in any forward-looking statements made by us, or on our behalf, are further described under the caption "Risk Factors" in the Business portion of our 2005 Form 10-K/A.

Results of Operations

The following table shows the percentage relationship of expense items to operating revenue for the periods indicated. In the accompanying discussion, all percentage figures are as a percent of operating revenue with the exception of revenue growth rates.

	Year Ended December 31		
	2005	**2004**	**2003**
Operating revenue	100.0%	100.0%	100.0%
Operating expenses:			
Purchased transportation	41.4	42.0	42.3
Salaries, wages and employee benefits	21.2	22.2	22.5
Operating leases	4.2	4.5	5.4
Depreciation and amortization	2.8	2.4	3.0
Insurance and claims	1.6	1.9	2.1
Other operating expenses	7.8	8.0	8.1
Total operating expenses	79.0	81.0	83.4
Income from operations	21.0	19.0	16.6
Interest expense	--	--	--
Other income, net	1.2	0.4	0.3
Total other income	1.2	0.4	0.3
Income before income taxes	22.2	19.4	16.9
Income taxes	8.2	7.2	6.2
Net income	14.0%	12.2%	10.7%

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

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

services and terminal handling and accounts for our final component of operating revenue, decreased $0.1 million to $19.6 million, a 0.4% decrease from 2004.

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

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

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

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

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

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

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

Interest expense was $104,000, or less than 0.1% of operating revenue, in 2005 compared with $55,000, or less than 0.1%, for the same period in 2004.

Other income, net was $3.9 million, or 1.2% of operating revenue, in 2005 compared to $1.1 million, or 0.4%, for the same period in 2004. Approximately $1.4 million of the increase was the result of a lawsuit settlement discussed in Note 9 to our consolidated financial statements. The remaining increase in other income, net resulted from higher interest income attributed to higher yields on balances in available-for-sale securities during 2005.

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

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

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Operating revenue increased by $40.7 million, or 16.9%, to $282.2 million for 2004 from $241.5 million in 2003. Airport-to-airport, which is the largest component of our operating revenue, increased $33.6 million to $238.4 million, accounting for 84.5% of our total operating revenue. During 2004, we experienced a 14.1%

increase in tonnage that transited our network as the result of a stronger economy and positive trends among our customer base. Our airport-to-airport business is priced on a per pound basis and the average revenue per pound including the impact of fuel surcharges increased 2.0% for 2004 versus 2003 primarily as the result of a rate increase implemented during the year. Our logistics revenue, which is primarily truckload brokerage and priced on a per mile basis, increased $4.6 million to $24.1 million in 2004. During the year, we increased the number of miles driven to support our logistics revenue by 22.9% while increasing the revenue per mile including the impact of fuel surcharges charged by 0.6%. Accessorial revenue, which includes warehousing services and terminal handling and accounts for our final component of operating revenue, increased $2.5 million to $19.7 million, a 14.0% increase from 2003.

Purchased transportation decreased to 42.0% of operating revenue in 2004 versus 42.3% in the same period of 2003. The decrease in purchased transportation as a percentage of operating revenue was primarily attributed to a year over year improvement in tonnage transported through the airport-to-airport network and revenue per pound that allowed us to operate our network more efficiently in 2004 versus 2003. During the year, we increased the amount we spent for purchased transportation by $16.4 million, an increase of 16.0%. For 2004, purchased transportation costs for our airport-to-airport network represented 40.6% of airport-to-airport revenue versus 40.9% in 2003. During this period, we were able to increase both the volume and revenue per pound of freight, which enabled us to operate the airport-to-airport network more efficiently. These increases were offset, in part, by an increase in the number of miles needed to operate our system as well as an increase in the average rate per mile paid. For 2004, logistics purchased transportation costs represented 69.4% of logistics revenue versus 70.6% last year. We also increased the amount paid during 2004 for cartage or the local pick up and delivery of freight by 12.1% to $5.0 million.

Salaries, wages and employee benefits were 22.2% of operating revenue in 2004 compared to 22.5% for the same period of 2003. The decrease in salaries, wages and employee benefits as a percentage of operating revenue was primarily attributed to a year over year improvement in tonnage and revenue per pound that allowed us to operate our network more efficiently in 2004 versus 2003. The amounts spent on salaries and wages, including incentives and health care costs increased 16.0% and 35.5% during 2004, respectively. These increases, however, were offset by a 22.0% decrease in the amount we spent on workers compensations expenses. This decrease resulted from favorable settlement of prior period claims, as well as better current year claims experience.

Operating leases, the largest component of which is facility rent, were 4.5% of operating revenue in 2004 compared to 5.4% in the same period of 2003. The decrease in operating leases as a percentage of operating revenue between periods was primarily attributable to an increase in operating revenue as the dollar amount in this category decreased slightly between the two periods.

Depreciation and amortization expense as a percentage of operating revenue was 2.4% in 2004 compared to 3.0% in the same period of 2003. The decrease in depreciation and amortization expense as a percentage of operating revenue was primarily attributable to an increase in operating revenue and a decrease in depreciation expense from certain assets becoming fully depreciated, including two non-compete agreements which were fully amortized as of December 31, 2003. These decreases were offset, in part, by new depreciation from capital expenditures during 2004.

Insurance and claims were 1.9% of operating revenue in 2004 compared to 2.1% in the same period of 2003. The net increase in insurance and claims was approximately $230,000, primarily as the result of a decrease in our loss development factor as we have had, in general, better insurance claims experience over the last few insurance periods. This decrease, however, was offset by increases in claims amount during the period which were driven

primarily by an adverse loss development on one major accident. We are self-insured for each auto liability claim in the amount of $500,000.

Other operating expenses were relatively flat in 2004, accounting for 8.0% of operating revenue compared to 8.1% in the same period of 2003. Other operating expenses include repair and maintenance, license and taxes, driver recruiting and compliance and other miscellaneous expenses.

Income from operations increased by $13.4 million, or 33.3%, to $53.6 million for 2004 compared with $40.2 million for the same period in 2003. The increase in income from operations was primarily a result of the increase in operating revenue, including fuel surcharges, which was offset in part by increases in variable costs associated with operating the network.

Interest expense was $55,000, or less than 0.1% of operating revenue, in 2004 compared with $71,000, or less than 0.1%, for the same period in 2003.

Other income, net was $1.1 million, or 0.4% of operating revenue, in 2004 compared to $0.6 million, or 0.3%, for the same period in 2003. The increase in other income, net resulted from higher interest income attributed to higher yields on higher balances in available-for-sale securities during 2004.

The combined federal and state effective tax rate for 2004 was 37.0% of pre-tax income compared to a rate of 36.6% for the same period in 2003.

As a result of the foregoing factors, net income increased by $8.6 million, or 33.3%, to $34.4 million for 2004 compared to $25.8 million for the same period in 2003.

Discussion of Critical Accounting Policies

Our accounting policies are more fully described in Note 1 to the consolidated financial statements. As discussed in Note 1, the preparation of our consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ significantly from those estimates. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex 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, accounts turned over for collection or litigation), we record a specific reserve for these bad debts against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we recognize reserves for these bad debts based on the length of time the receivables are past due. Specifically, amounts that are 90 days or more past due are reserved at 50.0%. If circumstances change (i.e., we experience higher than expected defaults or an unexpected material adverse change in a customer's ability to meet its financial obligations to us), the estimates of the recoverability of amounts due to us could be reduced by a material amount. Accounts are written off after all means of collection, including legal action, have been exhausted.

Allowance for Revenue Adjustments

Our allowance for revenue adjustments consists of amounts reserved for billing rate changes that are not captured upon load initiation. These adjustments generally arise: (i) when the sales department contemporaneously grants small rate changes ("spot quotes") to customers that differ from the standard rates in the system; (ii) when freight requires dimensionalization or is reweighed resulting in a different required rate; (iii) when billing errors occur; and (iv) when data entry errors occur. When appropriate, permanent rate changes are initiated and reflected in the system. We monitor the manual revenue adjustments closely through the employment of various controls that are in place to ensure that revenue recognition is not compromised and that fraud does not occur. During 2005, average revenue adjustments per month were approximately $175,000, on average revenue per month of approximately $26.7 million (less than 0.7% of monthly revenue). In order to estimate the allowance for revenue adjustments related to ending accounts receivable, we prepare an analysis that considers average monthly revenue adjustments and the average lag for identifying and quantifying these revenue adjustments. Based on this analysis, we establish an allowance for approximately 40-80 days (dependent upon experience in the last twelve months) of average revenue adjustments, adjusted for rebates and billing errors. The lag is periodically adjusted based on actual historical experience. Additionally, the average amount of revenue adjustments per month can vary in relation to the level of sales or based on other factors (such as personnel issues that could result in excessive manual errors or in excessive spot quotes being granted). Both of these significant assumptions are continually evaluated for validity.

Self-Insurance Loss Reserves

Given the nature of our operating environment, we are subject to vehicle and general liability, workers’ compensation and health insurance claims. To mitigate a portion of these risks, we maintain insurance for individual vehicle and general liability claims exceeding $500,000 and workers’ compensation claims and health insurance claims exceeding $250,000, except in Ohio, where we are a qualified self-insured with a $350,000 self-insured retention. The amount of self-insurance loss reserves and loss adjustment expenses is determined based on an estimation process that uses information obtained from both company-specific and industry data, as well as general economic information. The estimation process for self-insurance loss exposure requires management to continuously monitor and evaluate the life cycle of claims. Using data obtained from this monitoring and our assumptions about the emerging trends, management develops information about the size of ultimate claims based on its historical experience and other available market information. The most significant assumptions used in the estimation process include determining the trend in loss costs, the expected consistency in the frequency and severity of claims incurred but not yet reported to prior year claims, changes in the timing of the reporting of losses from the loss date to the notification date, and expected costs to settle unpaid claims. Management also monitors the reasonableness of the judgments made in the prior year’s estimation process (referred to as a hindsight analysis) and adjusts current year assumptions based on the hindsight analysis. Additionally, beginning in 2003, we utilize an actuary to evaluate open vehicle liability claims and estimate the ongoing development exposure.

Income Taxes

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

Liquidity and Capital Resources

We have historically financed our working capital needs, including capital purchases, with cash flows from operations and borrowings under our bank lines of credit. Net cash provided by operating activities totaled approximately $51.2 million for 2005 compared with $37.4 million in 2004.

Net cash provided by investing activities was approximately $3.1 million for 2005 compared with net cash used in investing activities of $51.4 million in 2004. Investing activities consisted primarily of purchases of available-for-sale securities, operating equipment and information systems, acquisition of business assets and the proceeds from the sales or maturities of available-for-sale securities during 2005.

Net cash used in financing activities totaled approximately $54.1 million for 2005 compared with net cash used in financing activities of $2.3 million in 2004. Financing activities included the repayment of long-term debt and capital leases, proceeds received from the exercise of stock options and repurchases of our Common Stock.

We expect net capital expenditures in 2006 for operating equipment and management information systems to be approximately $12.0 million. We intend to fund these expenditures through cash currently on our balance sheet, cash provided by operating activities or borrowings under our credit facility, if necessary. The 2006 capital expenditure budget does not include any allocation for acquisitions.

Our credit facility consists of a working capital line of credit. As long as we comply with the financial covenants and ratios, the credit facility permits us to borrow up to $20.0 million less the amount of any outstanding letters of credit. Interest rates for advances under the facility vary based on how our performance measures against covenants related to total indebtedness, cash flows, results of operations and other ratios. The facility bears interest

at LIBOR plus 1.00% to 1.90% and is unsecured. The facilitys expiration was extended until April 2007 by letter agreement entered into in 2005. At December 31, 2005, we had $1.5 million outstanding and had $14.2 million of available borrowing capacity under the line of credit facility. Additionally, we had utilized $4.3 million of availability for outstanding letters of credit. As of December 31, 2005, we were in compliance with the financial covenants and ratios under the credit facility.

On July 25, 2002, we announced that our Board of Directors approved a stock repurchase program for up to 3.0 million shares of our Common Stock (the 2002 Repurchase Plan). During the third quarter of 2005, we completed the repurchase of the shares authorized under the 2002 Repurchase Plan. On November 17, 2005, we announced that our Board of Directors approved a stock repurchase program for up to 3.0 million shares of our Common Stock (the 2005 Repurchase Plan). We expect to fund the repurchases of our Common Stock from our cash, available-for-sale securities and cash generated from operating activities. For the year ended December 31, 2005, we repurchased approximately 1.7 million shares of our Common Stock under both the 2002 Repurchase Plan and the 2005 Repurchase Plan for $52.3 million, or $30.92 per share.

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

Prior to February 15, 2005, we had never declared a cash dividend, our policy being to reinvest earnings into our business while retaining adequate cash reserves to fund potential acquisitions. During each quarter of 2005, our Board of Directors declared a cash dividend of $0.06 per share of our Common Stock. On February 13, 2006, our Board of Directors declared a $0.07 per share dividend that will be paid in the first quarter of 2006. 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.

Off-Balance Sheet Arrangements

At December 31, 2005, we had letters of credit outstanding from a bank totaling $4.3 million required by our workers compensation and vehicle liability insurance providers.

Contractual Obligations and Commercial Commitments

Our contractual obligations and other commercial commitments as of December 31, 2005 (in thousands) are summarized below:

Contractual Obligations	**Payment Due Period**				
	Total	**Less Than 1 Year**	**2-3 Years**	**4-5 Years**	**After 5 Years**
Capital lease obligations	$ 1,306	$ 89	$ 178	$ 178	$ 861
Operating leases	33,506	11,858	16,199	5,267	182
Total contractual cash obligations	$ 34,812	$ 11,947	$ 16,377	$ 5,445	$ 1,043

At December 31, 2005, we had no outstanding purchase commitments.

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

Related Party Transactions

Transactions with Landair Transport, Inc.

Scott M. Niswonger, the Chairman of the Board until May 2005, owns a majority interest in the parent company of Landair Transport, Inc. (Landair). We purchase truckload transportation services from Landair. Matthew J. Jewell, our Senior Vice President and General Counsel, served in these same capacities with Landair until May 2004.

Disclosures regarding amounts charged to Landair and amounts charged by Landair to us for various operational and administrative services are set forth in Note 8 to the consolidated financial statements.

We purchased $0, $0.2 million and $0.9 million of truckload transportation services from Landair in 2005, 2004 and 2003, respectively, which have been included in purchased transportation in the consolidated statements of income.

Transactions with Sky Night, LLC

We purchase air transportation services from Sky Night, LLC (Sky Night), a limited liability corporation owned by Scott M. Niswonger, Chairman of the Board until May 2005. Air charter expense totaled $105,000, $86,000 and $196,000 in 2005, 2004 and 2003, respectively, and has been included in other operating expenses in the accompanying consolidated statements of income.

During 2001, we entered into an agreement to sublease hangar space at our Greeneville, Tennessee headquarters to Sky Night. The initial term of the sublease was for 12 months and the monthly rental rate was determined based on market prices for similar spaces in the area. The sublease term has been extended through July 25, 2006.

Impact of Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (Revised 2004), *Share-Based Payment* (SFAS No. 123R), which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123R supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS No. 123R is similar to the approach described in SFAS No. 123. However, SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an option.

Originally, SFAS No. 123R was to be adopted no later than July 1, 2005, although early adoption was allowable. However, on April 14, 2005, the SEC announced that the effective date of SFAS No. 123R would be suspended until January 1, 2006, for calendar year companies.

As permitted by SFAS No. 123, we, through December 31, 2005, accounted for share-based payments to employees using APB Opinion No. 25s intrinsic value and, as such, generally recognized no compensation cost for employee stock options. However, effective December 31, 2005, our Board of Directors accelerated the vesting of all our outstanding and unvested stock options awarded to employees, officers and non-employee directors under our stock option award program. As a result of the vesting acceleration, we recorded $1.3 million of stock-based compensation expense in accordance with ABP Opinion No. 25, included in salaries, wages and employee benefits. The primary purpose of the accelerated vesting of these options was to eliminate future compensation expense that we would otherwise have recognized in our statement of operations with respect to these options upon the adoption of SFAS No. 123R. We adopted SFAS No. 123R effective January 1, 2006 and elected the modified-prospective transition method. Under the modified-prospective transition method, awards that are granted, modified, repurchased or canceled after the date of adoption should be measured and accounted for in accordance with SFAS No. 123R. Stock-based awards that are granted prior to the effective date should continue to be accounted for in accordance with SFAS No. 123, except that stock option expense for unvested options must be recognized in the statement of operations. As a result of the acceleration of the vesting of our outstanding and unvested options effective December 31, 2005, there is no future compensation of options granted prior to January 1, 2006. The

amount of compensation cost that would have been recognized in each period after the adoption of SFAS No. 123R that will not be recognized as a result of the vesting modification is as follows (in thousands):

Fiscal Year	
2006	$3,252
2007	2,907
2008	2,289
2009	281
Total	$8,729

The impact of adoption of SFAS No. 123R cannot be predicted at this time because it will depend on, among other things, levels of share-based payments granted in the future, the market value of our Common Stock as well as assumptions regarding a number of complex variables. These variables include, but are not limited to, our stock price, volatility and employee stock option exercise behaviors and the related tax impact. However, had we adopted SFAS No. 123R in prior periods, we believe the impact of that standard would have approximated the impact of SFAS. No. 123 as described in Employee Stock Options within Note 1 to our consolidated financial statements.

Forward-Looking Statements

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Except for capital lease obligations totaling $0.8 million, we had no long-term debt at December 31, 2005. Accordingly, our exposure to market risk related to remaining outstanding debt is not significant.

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

Item 8. Financial Statements and Supplementary Data

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

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

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

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

Management’s Report on Internal Control over Financial Reporting

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

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2005. In making this assessment, management used the framework set forth by the Committee on Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework*. Based on our assessment, we believe, as of December 31, 2005, that our internal control over financial reporting was effective based on those criteria.

Management’s assessment of the effectiveness of internal control over financial reporting as of December 31, 2005, has been audited by Ernst & Young LLP, the independent registered public accounting firm who also audited our consolidated financial statements. Ernst & Young LLP’s attestation report on management’s assessment of our internal control over financial reporting appears below.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth quarter of 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Forward Air Corporation

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Forward Air Corporation maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Forward Air Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that Forward Air Corporation maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Forward Air Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, 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, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2005 and our report dated March 6, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee
March 6, 2006

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Item 9B. Other Information

Not applicable.

Part III

Item 10. Directors and Executive Officers of the Registrant

The information required by this item with respect to our directors is incorporated herein by reference to our proxy statement for the 2006 Annual Meeting of Shareholders (the 2006 Proxy Statement). The 2006 Proxy Statement will be filed with the SEC not later than 120 days subsequent to December 31, 2005.

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

Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to the 2006 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 2006 Proxy Statement.

Item 13. Certain Relationships and Related Transactions

The information required by this item is incorporated herein by reference to the 2006 Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated herein by reference to the 2006 Proxy Statement.

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Part IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) and (2)	List of Financial Statements and Financial Statement Schedules.
	The response to this portion of Item 15 is submitted as a separate section of this report.
(a)(3)	List of Exhibits.
	The response to this portion of Item 15 is submitted as a separate section of this report.
(b)	Exhibits.
	The response to this portion of Item 15 is submitted as a separate section of this report.
(c)	Financial Statement Schedules.
	The response to this portion of Item 15 is submitted as a separate section of this report.

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SIGNATURES

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

Forward Air Corporation

Date: March 22, 2006

By: /s/ Bruce A. Campbell
Bruce A. Campbell
President and Chief Executive Officer

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Annual Report on Form 10-K/A

Item 8, Item 15(a)(1) and (2), (c) and (d)

List of Financial Statements and Financial Statement Schedule

Financial Statements and Supplementary Data

Certain Exhibits

Financial Statement Schedule

Year Ended December 31, 2005

Forward Air Corporation

Greeneville, Tennessee

F-1

Forward Air Corporation

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

Index to Financial Statements and Financial Statement Schedule

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

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

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Forward Air Corporation

We have audited the accompanying consolidated balance sheets of Forward Air Corporation as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2005. 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 Companys management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Forward Air Corporation at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with United States generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Forward Air Corporations internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 6, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee
March 6, 2006

Forward Air Corporation

Consolidated Balance Sheets

	December 31	
	2005	**2004**
	(In thousands, except share data)	
Assets		
Current assets:		
Cash	$ 332	$ 78
Short-term investments	79,000	111,600
Accounts receivable, less allowances of $922 in 2005 and $1,072 in 2004	45,763	38,334
Income taxes receivable	5,179	3,805
Inventories	567	422
Prepaid expenses and other current assets	4,455	3,750
Deferred income taxes	1,438	1,433
Total current assets	136,734	159,422
Property and equipment:		
Land	2,611	2,611
Buildings	8,051	8,051
Equipment	77,165	67,820
Leasehold improvements	3,259	2,743
Total property and equipment	91,086	81,225
Accumulated depreciation and amortization	43,864	43,939
Net property and equipment	47,222	37,286
Goodwill and other acquired intangibles:		
Goodwill, net of accumulated amortization of $1,931	15,588	15,588
Other acquired intangibles, net of accumulated amortization of $744	12,007	--
Total net goodwill and other acquired intangibles	27,595	15,588
Other assets	1,049	2,257
Total assets	$ 212,600	$ 214,553

Forward Air Corporation

Consolidated Balance Sheets (continued)

December 31

	2005	2004
	(In thousands, except share data)	
Liabilities and shareholders equity		
Current liabilities:		
Accounts payable	$ 12,640	$ 10,026
Accrued payroll and related items	3,262	4,611
Insurance and claims accruals	4,381	4,424
Other accrued expenses	4,139	6,557
Short-term debt	1,504	--
Current portion of capital lease obligations	38	39
Total current liabilities	25,964	25,657
Capital lease obligations, less current portion	837	867
Deferred income taxes	6,983	7,026
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 31,360,842 in 2005 and 32,397,747 in 2004	314	324
Additional paid-in capital	--	36,279
Accumulated other comprehensive income	--	4
Retained earnings	178,502	144,396
Total shareholders equity	178,816	181,003
Total liabilities and shareholders equity	$ 212,600	$ 214,553

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

Forward Air Corporation

Consolidated Statements of Income

	Year ended December 31		
	2005	2004	2003
	(In thousands, except per share data)		
Operating revenue	$ 320,934	$ 282,197	$ 241,517
Operating expenses:			
Purchased transportation	132,912	118,425	102,063
Salaries, wages and employee benefits	68,086	62,728	54,267
Operating leases	13,486	12,791	13,102
Depreciation and amortization	8,947	6,817	7,263
Insurance and claims	5,202	5,382	5,153

Other operating expenses	24,864	22,456	19,487
Total operating expenses	253,497	228,599	201,335
Income from operations	67,437	53,598	40,182
Other income (expense):			
Interest expense	(104)	(55)	(71)
Other, net	3,904	1,127	600
Total other income	3,800	1,072	529
Income before income taxes	71,237	54,670	40,711
Income taxes	26,328	20,249	14,896
Net income	$ 44,909	$ 34,421	$ 25,815
Income per share:			
Basic	$ 1.41	$ 1.07	$ 0.81
Diluted	$ 1.39	$ 1.05	$ 0.79
Dividends declared per share	$ 0.24	$ --	$ --

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

Forward Air Corporation

Consolidated Statements of Shareholders Equity

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
	Shares	Amount	Capital	Earnings		
			(In thousands)			
Balance at December 31, 2002	31,827	$ 318	$ 33,877	$ 84,160	$ (9)	$ 118,346
Net income for 2003	--	--	--	25,815	--	25,815
Unrealized gain on securities available for sale, net of $6 tax	--	--	--	--	10	10
Comprehensive income						25,825
Exercise of stock options	402	4	2,693	--	--	2,697
Common stock issued under employee stock purchase plan	16	--	210	--	--	210
Income tax benefit from stock options exercised	--	--	630	--	--	630
Balance at December 31, 2003	32,245	322	37,410	109,975	1	147,708
Net income for 2004	--	--	--	34,421	--	34,421
Unrealized gain on securities available for sale, net of $2 tax	--	--	--	--	3	3
Comprehensive income						34,424
Exercise of stock options	588	6	7,097	--	--	7,103
Common stock issued under employee stock						

purchase plan	14	--	250	--	--	250
Common stock repurchased under stock repurchase plan	(449)	(4)	(11,384)	--	--	(11,388)
Income tax benefit from stock options exercised	--	--	2,906	--	--	2,906
Balance at December 31, 2004	32,398	324	36,279	144,396	4	181,003
Net income for 2005	--	--	--	44,909	--	44,909
Unrealized loss on securities available for sale, net of ($2) tax	--	--	--	--	(4)	(4)
Comprehensive income						44,905
Exercise of stock options	643	6	6,206	--	--	6,212
Common stock issued under employee stock purchase plan	11	1	293	--	--	294
Acceleration of vesting of stock options	--	--	1,300	--	--	1,300
Dividends ($0.24 per share)	--	--	--	(7,668)	--	(7,668)
Common stock repurchased under stock repurchase plan	(1,690)	(17)	(49,108)	(3,135)	--	(52,260)
Cash paid for fractional shares in 3-for-2 stock split	(1)	--	(44)	--	--	(44)
Income tax benefit from stock options exercised	--	--	5,074	--	--	5,074
Balance at December 31, 2005	31,361	$ 314	$ --	$ 178,502	$ --	$ 178,816

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

Forward Air Corporation

Consolidated Statements of Cash Flows

	Year ended December 31		
	2005	**2004**	**2003**
		(In thousands)	
Operating activities:			
Net income	$ 44,909	$ 34,421	$ 25,815
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,947	6,817	7,263
Non-cash charge for acceleration of vesting of stock options	1,300	--	--
Atlanta condemnation settlement gain	(1,428)	--	--

Other non-cash charge	274	--	--
Loss (gain) on sale of property and equipment	(728)	--	126
Provision for (gains) losses on receivables	(121)	161	120
Provision for revenue adjustments	2,100	1,848	1,618
Deferred income taxes	(48)	1,511	(1,348)
Changes in operating assets and liabilities:			
Accounts receivable	(7,438)	(8,886)	(4,357)
Inventories	(145)	(23)	4
Prepaid expenses and other current assets	(705)	(1,081)	(642)
Accounts payable and accrued expenses	615	4,262	1,325
Income taxes	(1,374)	(4,521)	2,188
Tax benefit of stock options exercised	5,074	2,906	630
Net cash provided by operating activities	51,232	37,415	32,742
Investing activities:			
Purchases of property and equipment	(22,077)	(11,200)	(2,874)
Proceeds from disposal of property and equipment	2,804	9	189
Proceeds from sales or maturities of available-for-sale securities	229,865	232,496	170,875
Purchases of available-for-sale securities	(197,265)	(273,916)	(193,263)
Proceeds from Atlanta condemnation settlement/release of amounts held in escrow	2,765	1,260	--
Acquisition of business	(12,750)	--	--
Other	(242)	(94)	113
Net cash provided by (used in) investing activities	3,100	(51,445)	(24,960)
Financing activities:			
Payments of long-term debt	--	--	(443)
Borrowings under line of credit	1,504	--	--
Payments of capital lease obligations	(31)	(30)	(26)
Proceeds from exercise of stock options	5,938	7,103	2,697
Repurchase of common stock	(54,071)	(9,577)	--
Cash paid for fractional shares in 3-for-2 stock split	(44)	--	--
Dividends	(7,668)	--	--
Proceeds from common stock issued under employee stock purchase plan	294	250	210
Net cash (used in) provided by financing activities	(54,078)	(2,254)	2,438
Net increase (decrease) in cash	254	(16,284)	10,220
Cash at beginning of year	78	16,362	6,142
Cash at end of year	$ 332	$ 78	$ 16,362
Common stock repurchase liabilities included in accounts payable	$ --	$ 1,811	$ --

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

FORWARD AIR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

1. Accounting Policies

Basis of Presentation and Principles of Consolidation

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

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

Use of Estimates

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

Allowance for Doubtful Accounts

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

Allowance for Revenue Adjustments

The Company's allowance for revenue adjustments consists of amounts reserved for billing rate changes that are not captured upon load initiation. These adjustments generally arise: (1) when the sales department contemporaneously grants small rate changes ("spot quotes") to customers that differ from the standard rates in the system; (2) when freight requires dimensionalization or is reweighed resulting in a different required rate; (3) when billing errors occur; and (4) when data entry errors occur. When appropriate, permanent rate changes are initiated and reflected in the system. The Company monitors the manual revenue adjustments closely through the employment of various controls that are in place to ensure that revenue recognition is not compromised and that fraud does not occur. During 2005, average revenue adjustments per month were approximately $175,000, on average revenue per month of approximately $26.7 million (less than 0.7% of monthly revenue). In order to estimate the allowance for revenue adjustments related to ending accounts receivable, the Company prepares an analysis that considers average monthly revenue adjustments and the average lag for identifying and quantifying these revenue adjustments. Based on this analysis, the Company establishes an allowance for approximately 40-80 days (dependent upon experience in the last twelve months) of average revenue adjustments, adjusted for rebates and billing errors. The lag is periodically adjusted based on actual historical experience. Additionally, the average amount of revenue adjustments per month can vary in relation to the level of sales or based on other factors (such as personnel issues that could result in excessive manual errors or in excessive spot quotes being granted). Both of these significant assumptions are continually evaluated for validity.

FORWARD AIR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2005

1. Accounting Policies (Continued)

Self-Insurance Loss Reserves

Given the nature of the Company's operating environment, the Company is subject to vehicle and general liability, workers' compensation and health insurance claims. To mitigate a portion of these risks, the Company maintains insurance for individual vehicle and general liability claims exceeding $500,000 and workers' compensation claims and health insurance claims exceeding $250,000, except in Ohio, where for workers' compensation we are a qualified self-insured with a $350,000 self-insured retention. The amount of self-insurance loss reserves and loss adjustment expenses is determined based on an estimation process that uses information obtained from both company-specific and industry data, as well as general economic information. The estimation process for self-insurance loss exposure requires management to continuously monitor and evaluate the life cycle of claims. Using data obtained from this monitoring and the Company's assumptions about the emerging trends, management develops information about the size of ultimate claims based on its historical experience and other available market information. The most significant assumptions used in the estimation process include determining the trend in loss costs, the expected consistency in the frequency and severity of claims incurred but not yet reported to prior year claims, changes in the timing of the reporting of losses from the loss date to the notification date, and expected costs to settle unpaid claims. Management also monitors the reasonableness of the judgments made in the prior year's estimation process (referred to as a hindsight analysis) and adjusts current year assumptions based on the hindsight analysis. Additionally, beginning in 2003, the Company utilizes an actuary to evaluate open claims and estimate the ongoing development exposure.

Revenue Recognition

Operating revenue and related costs are recognized as of the date shipments are completed. No single customer accounted for more than 10.0% of operating revenue in 2005, 2004 or 2003.

Cash and Cash Equivalents

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

Available-For-Sale Securities

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

Inventories

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

1. Accounting Policies (Continued)

Property and Equipment

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

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

Depreciation expense for each of the three years ended December 31, 2005, 2004 and 2003 was $8.2 million, $6.8 million and $6.8 million, respectively.

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

Operating Leases

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

Goodwill and Other Intangible Assets

Goodwill is recorded at cost based on the excess of purchase price over the fair value of assets acquired. Under the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill and intangible assets with indefinite lives are not amortized but are subject to annual impairment tests in accordance with the statement. Other intangible assets are amortized over their useful lives. The Company completed the required impairment test of goodwill during each of the second quarters of 2005, 2004 and 2003, and determined that goodwill had not been impaired. Any subsequent impairment losses will be reflected in income from operations in the consolidated statements of income.

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

Software Development

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

Income Taxes

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

FORWARD AIR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2005

1. Accounting Policies (Continued)

Income Per Share

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

Comprehensive Income

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

Employee Stock Options

The Company grants options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the grant date. The Company accounts for employee stock option grants in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and, accordingly, recognizes no compensation expense for the stock option grants. The Company adopted the disclosure option of SFAS No. 123, *Accounting for Stock-Based Compensation* (as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*), which requires that the information be determined as if the Company accounted for its stock options granted subsequent to December 31, 1994 under the fair value method.

For purposes of pro forma disclosures, the estimated fair value of the stock options is amortized to expense over the options vesting period. The Company s pro forma information follows (in thousands, except per share data):

	2005	2004	2003
Net income, as reported	$ 44,909	$ 34,421	$ 25,815
Pro forma compensation expense, net of tax	(12,579)	(2,658)	(2,969)
Pro forma net income	$ 32,330	$ 31,763	$ 22,846
Pro forma net income per share:			
Basic	$ 1.02	$ 0.98	$ 0.71
Diluted	$ 1.00	$ 0.96	$ 0.70

On December 31, 2005, the Company accelerated the vesting of all outstanding stock options. This resulted in an approximately $8.7 million increase in the pro forma amount disclosed above. Had the Company not accelerated the vesting, the pro forma expense would have been approximately $3.8 million.

Recently Issued Accounting Pronouncements

On December 16, 2004, the FASB issued SFAS No. 123 (Revised 2004), *Share-Based Payment* (SFAS No. 123R), which is a revision of SFAS No. 123*Accounting for Stock-Based Compensation*. SFAS No. 123R supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS No. 123R is similar to the approach described in SFAS No. 123. However, SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an option.

1. Accounting Policies (Continued)

Originally, SFAS No. 123R was to be adopted no later than July 1, 2005, although early adoption was allowable. However, on April 14, 2005, the Securities and Exchange Commission (SEC) announced that the effective date of SFAS No. 123R would be suspended until January 1, 2006, for calendar year companies.

As permitted by SFAS No. 123, the Company, through December 31, 2005, accounted for share-based payments to employees using APB Opinion No. 25 s intrinsic value and, as such, generally recognized no compensation cost for employee stock options. However, effective December 31, 2005, the Company s Board of Directors accelerated the vesting of all the Company s outstanding and unvested stock options awarded to employees, officers and non-employee directors under the Company s stock option award program. As a result of the vesting acceleration, the Company recorded $1.3 million of stock-based compensation expense in accordance with ABP Opinion No. 25, included in salaries, wages and employee benefits. The primary purpose of the accelerated vesting of these options was to eliminate future compensation expense that the Company would otherwise have recognized in its statement of operations with respect to these options upon the adoption of SFAS No. 123R. The Company adopted SFAS No. 123R effective January 1, 2006 and elected the modified-prospective transition method. Under the modified-prospective transition method, awards that are granted, modified, repurchased or canceled after the date of adoption should be measured and accounted for in accordance with SFAS No. 123R. Stock-based awards that are granted prior to the effective date should continue to be accounted for in accordance with SFAS No. 123, except that stock option expense for unvested options must be recognized in the statement of operations. As a result of the Company s acceleration of the vesting of its outstanding and unvested options effective December 31, 2005, there is no future compensation of options granted prior to January 1, 2006. The amount of compensation cost that would have been recognized in each period after the adoption of SFAS No. 123R that will not be recognized as a result of the vesting modification is as follows:

Fiscal Year	
2006	$ 3,252
2007	2,907
2008	2,289
2009	281
Total	$ 8,729

The impact of adoption of SFAS No. 123R cannot be predicted at this time because it will depend on, among other things, levels of share-based payments granted in the future, the market value of the Company's common stock as well as assumptions regarding a number of complex variables. These variables include, but are not limited to, the Company's stock price, volatility and employee stock option exercise behaviors and the related tax impact. However, had the Company adopted SFAS No. 123R in prior periods, the Company believes the impact of that standard would have approximated the impact of SFAS. No. 123 as described in the above "Employee Stock Options" disclosure of pro forma net income and earnings per share.

2. Acquisition of Business

On May 28, 2005, the Company acquired certain assets of the airport-to-airport operations of USX for $12.75 million in cash. In connection with the purchase, the Company acquired the airport-to-airport customer list of USX and USX agreed not to compete in the airport-to-airport market for a period of ten years. The purchase price allocation in accordance with SFAS No 141, *Business Combinations*, is acquired intangible assets with a total value of $12.75 million (majority of the allocation to the non-compete agreement). The acquired intangible assets will be amortized over a period of ten years. The Company began amortizing the assets on a straight-line basis during the last month of the second quarter and recorded amortization expense of approximately $744,000 for the year ended December 31, 2005. Ongoing annual amortization expense will be approximately $1.3 million for the next five years and throughout the life of the assets. The results of operations of the USX airport-to-airport operations are included in the consolidated income statement from May 28, 2005 through December 31, 2005.

2. Acquisition of Business (Continued)

The airport-to-airport business had been reported by USX as a part of the Xpress Global Systems ("XGS") business segment. XGS had total revenue for the year ended December 31, 2004 of approximately $159.0 million, of which an estimated $57.0 million was attributable to the airport-to-airport operations. The XGS segment reported an operating loss of $5.0 million for the year ended December 31, 2004. USX did not account for the related expenses of the airport-to-airport operations separately within the XGS segment and, accordingly, the USX operating profit or loss attributable to the airport-to-airport operations is not known.

3. Investments

The Company had a total of $79.0 and $111.6 million in available-for-sale securities as of December 31, 2005 and 2004, respectively. The Company's investments consist of state municipal bonds (often referred to as auction rate securities). The Company has the option to go to auction every 7-35 days with the auction rate securities, but the stated maturities of the investments are longer-term. The Company had interest income of $2.5 million, $1.1 million and $0.6 million for each of the years ended December 31, 2005, 2004 and 2003, respectively, on its investments.

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

The following is a summary of available-for-sale securities at December 31, 2005 and 2004 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2005				
Available-for-sale securities	$ 78,999	$1	$--	$ 79,000
December 31, 2004				
Available-for-sale securities	$111,594	$6	$--	$ 111,600

The gross realized gains (losses) on sales of available-for-sale securities totaled $0 for each of the years ended December 31, 2005, 2004, and 2003, respectively. The net adjustments to unrealized holding gains (losses) on available-for-sale securities included in other comprehensive income totaled ($4,000), $3,000 and $10,000 in 2005, 2004, and 2003, respectively, Realized gains and losses are recorded based on the specific identification of securities sold.

The net carrying value and estimated fair value of debt securities at December 31, 2005 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the Company has the intent and ability to sell prior to stated maturity without penalty (via auction).

	Cost	Fair Value
Debt securities:		
Contractual maturity within one year	$ 5,000	$ 5,000
Contractual maturity after one year through five years	1,300	1,300
Contractual maturity after five years through ten years	4,300	4,300
Contractual maturity after ten years	68,399	68,400
Total debt securities with contractual maturities	$78,999	$79,000

4. Credit Facilities and Long-Term Debt

The Company has a $20.0 million unsecured working capital line of credit facility, which expires in April 2007, with a Tennessee bank. The Company, though, has the intent and ability to repay the line of credit facility during 2006 and has therefore classified it as a current liability. Interest rates for advances under the facility vary from LIBOR plus 1.0% to 1.9% based upon covenants related to total indebtedness and cash flows, (5.3% and 3.3% at December 31, 2005 and 2004, respectively). The agreement contains certain covenants and restrictions, none of which are expected to significantly affect our operations or ability to pay dividends. As of December 31, 2005, the Company had $1.5 million outstanding under the line of credit facility. At December 31, 2005, the Company had $14.2 million of available borrowing capacity outstanding under the line and had utilized $4.3 million of availability for outstanding letters of credit. As of December 31, 2004, the Company had no borrowings outstanding under the line of credit.

Interest payments during 2005, 2004 and 2003 were $104,000, $55,000 and $71,000, respectively, none of which were capitalized.

5. Shareholders Equity and Stock Options

Preferred Stock The Board of Directors is authorized to issue, at its discretion, up to 5.0 million shares of preferred stock, par value $0.01. The terms and conditions of the preferred shares are to be determined by the

Board of Directors. No shares have been issued to date.

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

Cash Dividend Prior to February 15, 2005, the Company had never declared a cash dividend. During each quarter of 2005, the Companys Board of Directors declared a cash dividend of $0.06 per share of common stock. On February 13, 2006, the Companys Board of Directors declared a $0.07 per share dividend that will be paid in the first quarter of 2006. The Company expects to continue to pay regular quarterly cash dividends, though each subsequent quarterly dividend is subject to review and approval by the Board of Directors.

*Repurchase of Common Stoc*k On July 25, 2002, the Company announced that its Board of Directors approved a stock repurchase program for up to 3.0 million shares of common stock (the 2002 Repurchase Plan). During the third quarter of 2005, the Company completed the repurchase of the shares authorized under the 2002 Repurchase Plan. On November 17, 2005, the Company announced that its Board of Directors approved a stock repurchase program for up to 3.0 million shares of common stock (the 2005 Repurchase Plan). For the year ended December 31, 2005, the Company repurchased approximately 1.7 million shares of common stock under both the 2002 Repurchase Plan and the 2005 Repurchase Plan for $52.3 million, or $30.92 per share.

Employee Stock Option and Incentive Plan The Company follows APB Opinion No. 25*Accounting for Stock Issued to Employees,* and related interpretations in accounting for its employee stock options. Under Opinion No. 25, because the exercise price of the Companys employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

At December 31, 1998, the Company had reserved 4.5 million shares of common stock under the 1992 Amended and Restated Stock Option and Incentive Plan (the 1992 Plan). As of February 2004, the Company had reserved 4.5 million common shares under the 1999 Stock Option and Incentive Plan, resulting in a total of 9.0 million shares being reserved under the Plans. Options issued under the Plans have eight to ten-year terms and vest over a one to five year period. As of November 12, 2002, no additional options may be granted under the 1992 Plan resulting in the cancellation of 57,000 options available for grant under the 1992 Plan.

Pro forma information regarding net income and income per share is required by SFAS No. 123, *Accounting for Stock-Based Compensation*, which also requires that the information be determined as if the Company has accounted for its stock options granted subsequent to December 31, 1994 under the fair value method of SFAS No. 123. The fair value

5. Shareholders Equity and Stock Options (Continued)

for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2005, 2004 and 2003, respectively: risk-free interest rates of 4.0%, 3.7% and 3.7%; dividend yields of 0.8%, 0.0% and 0.0%; volatility factors of the expected market price of the common stock of 0.4, 0.4 and 0.5; and a weighted-average expected life of the option of seven years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Companys stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management’s opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options. Refer to Note 1 for the pro forma disclosures under SFAS No. 123 (as amended by SFAS No. 148).

The following table summarizes the Company’s employee stock option activity and related information for the years ended December 31, 2005, 2004 and 2003:

	2005		2004		2003	
	Options (000)	**Weighted-Average Exercise Price**	**Options (000)**	**Weighted-Average Exercise Price**	**Options (000)**	**Weighted-Average Exercise Price**
Outstanding at beginning of year	1,443	$ 15	1,476	$15	1,595	$ 13
Granted/converted	985	29	326	19	337	14
Exercised	(443)	9	(333)	17	(402)	7
Forfeited	(28)	22	(26)	19	(54)	18
Outstanding at end of year	1,957	$ 23	1,443	$15	1,476	$ 15
Exercisable at end of year	1,957	$ 23	783	$12	753	$ 12
Options available for grant	1,315		2,273		323	
Weighted-average fair value of options granted during the year	$ 12.79		$ 9.49		$ 8.07	

The following table summarizes information about stock options outstanding as of December 31, 2005:

Range of Exercise Price		**Number Outstanding (000)**	**Weighted-Average Remaining Contractual Life**	**Weighted-Average Exercise Price**	**Number Exercisable (000)**	**Weighted-Average Exercise Price**
$ 2.55	4.95	75	3.0 years	$ 4.33	75	$ 4.33
4.96	17.79	338	6.6 years	14.22	338	14.22
17.80	36.84	1,544	8.3 years	25.99	1,544	25.99
$ 2.55	36.84	1,957	7.8 years	$ 23.13	1,957	$ 23.13

FORWARD AIR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2005

5. Shareholders’ Equity and Stock Options (Continued)

Non-Employee Director Options — In May 2005, 2004 and 2003, options to purchase 30,000, 56,250 and 33,750 shares of common stock, respectively, were granted to the non-employee directors of the Company at option prices of $25.87, $20.20 and $15.57 per share, respectively.

The options have terms of ten years and are fully exercisable. At December 31, 2005, 114,375 options were outstanding and will expire in July 2010 through May 2015, unless a non-employee director resigns or is not re-elected, in which event the options expire 90 days after the option holder is no longer a non-employee director.

Employee Stock Purchase Plan The Company implemented an employee stock purchase plan effective May 26, 2005 (the ESPP) at which time participating employees became entitled to purchase common stock through payroll deduction of up to 10.0% of the employees annual compensation. Under the ESPP, each eligible employee may purchase up to 2,000 shares of common stock at semi-annual intervals each year at an issue price equal to the lesser of (1) 90.0% of market price on the first trading day of the semi-annual option period or (2) 90.0% of market price on the last trading day of the semi-annual option period. The Company has reserved 500,000 shares of common stock for issuance pursuant to the ESPP. At December 31, 2005, 11,496 shares had been issued under the ESPP.

Income Per Share The following table sets forth the computation of basic and diluted income per share (in thousands, except per share data):

	2005	2004	2003
Numerator:			
Numerator for basic and diluted income per share net income	$ 44,909	$ 34,421	$ 25,815
Denominator:			
Denominator for basic income per share weighted-average shares	31,847	32,310	31,991
Effect of dilutive stock options	572	630	570
Denominator for diluted income per share adjusted weighted-average shares	32,419	32,940	32,561
Basic income per share	$ 1.41	$ 1.07	$ 0.81
Diluted income per share	$ 1.39	$ 1.05	$ 0.79

The number of options that could potentially dilute basic income per share in the future, but that were not included in the computation of diluted income per share because to do so would have been anti-dilutive for the periods presented, were approximately 3,000, 30,000 and 636,000 in 2005, 2004 and 2003, respectively.

FORWARD AIR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2005

6. Income Taxes

The provision for income taxes consists of the following:

	2005	2004	2003
		(In thousands)	
Current:			
Federal	$22,706	$16,598	$14,333
State	3,670	2,140	1,911
	26,376	18,738	16,244
Deferred:			
Federal	(50)	1,224	(1,253)
State	2	287	(95)

	(48)	1,511	(1,348)
	$26,328	$20,249	$14,896

The tax benefits associated with the exercise of stock options during the years ended December 31, 2005, 2004 and 2003 were $5.1 million, $2.9 million and $0.6 million, respectively, and are reflected as an increase in additional paid-in capital in the accompanying consolidated statements of shareholders equity.

In addition to the provision for income taxes included in the accompanying consolidated statements of income, a deferred tax provision (benefit) of approximately ($2,000), $2,000 and $6,000 is included in other comprehensive income for the years ended December 31, 2005, 2004 and 2003, respectively.

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:

	2005	**2004**	**2003**
		(In thousands)	
Tax expense at the statutory rate	$24,933	$19,134	$14,249
State income taxes, net of federal benefit	2,386	1,578	1,180
Meals and entertainment	207	195	156
Penalties	9	5	10
Tax-exempt interest income	(872)	(419)	(231)
Other	(335)	(244)	(468)
	$26,328	$20,249	$14,896

FORWARD AIR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2005

6. Income Taxes (Continued)

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

	December 31	
	2005	**2004**
	(In thousands)	
Deferred tax assets:		
Accrued expenses	$ 2,032	$ 1,859
Allowance for doubtful accounts	353	406
Non-compete agreements	95	--
Acceleration of option vesting	476	--
Net operating loss carryforwards	530	480
Total deferred tax assets	3,486	2,745
Valuation allowance	(408)	(480)
Total deferred tax assets, net of valuation allowance	3,078	2,265
Deferred tax liabilities:		
Tax over book depreciation	6,054	5,290
Research and development expenses	180	766

Prepaid expenses deductible when paid	948	833
Other	1,441	969
Total deferred tax liabilities	8,623	7,858
Net deferred tax liabilities	$ (5,545)	$ (5,593)

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

	December 31	
	2005	2004
	(In thousands)	
Current assets	$ 1,438	$ 1,433
Noncurrent liabilities	(6,983)	(7,026)
	$ (5,545)	$ (5,593)

Total income tax payments, net of refunds, during fiscal years 2005, 2004 and 2003 were $22.5 million, $20.4 million and $13.7 million, respectively.

At December 31, 2005 and 2004, the Company had state net operating loss carryforwards of $12.1 million and $8.0 million, respectively, that will expire between 2013 and 2024. The use of these state net operating losses is limited to the future taxable income of separate legal entities. As a result, the valuation allowance has been provided for certain state loss carryforwards. The change in the valuation allowance was a decrease of $0.1 million during 2005. Based on expectations of future taxable income, management believes that it is more likely than not that the results of operations will generate sufficient taxable income to realize the deferred tax assets after giving consideration to the valuation allowance.

FORWARD AIR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2005

7. Leases

In September 2000, the Company entered into an agreement with the Rickenbacker Port Authority (Rickenbacker) to lease a building located near the Companys Columbus, Ohio hub facility. At the inception of the lease, the Company made a $2.0 million loan to Rickenbacker. The lease agreement has a ten-year initial term, with two five-year renewal options. The present value of the future minimum lease payments of $0.9 million (at December 31, 2005) is included in capital lease obligations in the accompanying consolidated balance sheet. Because the lease met the criteria for classification as a capital lease, the leased building was recorded in property and equipment at $3.0 million (which represents the present value of minimum lease payments, including the $2.0 million initial payment), as it is less than the fair value at the inception date. The building is being depreciated over the initial lease term.

SFAS No. 13, *Accounting for Leases*, requires that a lease meet one or more of four specified criteria in order to be classified as a capital lease. With respect to the Rickenbacker lease, it was classified as a capital lease since the present value of the minimum lease payments, including the initial $2.0 million payment, exceeded 90.0% of the fair value of the property at lease inception.

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

	December 31	
	2005	2004
	(In thousands)	
Buildings	$ 3,015	$ 3,015
Less accumulated amortization	888	711

	$ 2,127	$ 2,304

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

The Company leases certain facilities under noncancellable operating leases that expire in various years through 2011. Certain of these leases may be renewed for periods varying from one to ten years.

Sublease rental income, including amounts from related parties (see Note 8), was $447,000, $323,000 and $457,000 in 2005, 2004 and 2003, respectively, and was included in operating revenue in the accompanying consolidated statements of income. The Company expects to receive aggregate future minimum rental payments under noncancellable subleases of approximately $364,000.

Future minimum rental payments under capital leases and noncancellable operating leases with initial or remaining terms in excess of one year consisted of the following at December 31, 2005:

	Capital Leases	Operating Leases
	(In thousands)	
Fiscal Year		
2006	$ 89	$ 11,858
2007	89	9,652
2008	89	6,547
2009	89	3,568
2010	89	1,699
Thereafter	861	182
Total minimum lease payments	$ 1,306	$ 33,506
Amounts representing interest	431	
Present value of net minimum lease payments (including current portion of $38)	$ 875	

FORWARD AIR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2005

8. Transactions With Related Parties

Transactions with Landair Transport, Inc.

Scott M. Niswonger, the Chairman of the Board of the Company until May 26, 2005, owns a majority interest in the parent company of Landair Transport, Inc. (Landair). The Company purchases truckload transportation services from Landair. Matthew J. Jewell, Senior Vice President and General Counsel, also served in these same capacities with Landair until May 2004.

During 2004 and 2003, the Company provided various operational and administrative services to Landair. The Company charged Landair $0.2 million and $0.2 million, respectively, during the years ended December 31, 2004 and 2003 for these services. These amounts have been included as a reduction of salaries, wages and employee benefits in the accompanying consolidated statements of income. Landair provided various operational and administrative services to the Company and charged it approximately $93,000 and $58,000, respectively, during the years ended December 31, 2004 and 2003 for these services. These charges have been included in salaries, wages and employee benefits in the accompanying consolidated statements of income. No operational and administrative services were provided during 2005.

The Company purchased approximately $0.2 million and $0.9 million of truckload transportation services from Landair in 2004 and 2003, respectively, which are included in purchased transportation in the accompanying consolidated statements of income. No truckload transportation services were purchased during 2005.

Until September 2005, the Company had a sublease with Landair pursuant to which the Company sublet to Landair a portion of the headquarters of the Company in Greeneville, Tennessee that is leased from the Greeneville-Greene County Airport Authority. The Company sublet the facility to Landair for consideration based upon the cost of such facility to the Company and an agreed-upon percentage of usage. Sublease rental income charged to Landair in 2005, 2004 and 2003 was approximately $17,000, $25,000 and $28,000, respectively. These amounts are included in sublease rental income disclosed in Note 7.

Transactions With Sky Night, LLC

The Company purchases air transportation services from Sky Night, LLC (Sky Night), a limited liability corporation owned by Scott M. Niswonger, the former Chairman of the Board. The air charter expense totaled approximately $105,000, $86,000 and $196,000 in 2005, 2004 and 2003, respectively, and is included in other operating expenses in the accompanying consolidated statements of income.

During 2001, the Company entered into an agreement to sublease hangar space at its Greeneville, Tennessee headquarters to Sky Night. The initial term of the sublease was for 12 months and the monthly rental rate was determined based on market prices for similar spaces in the area. The sublease term has been extended through July 25, 2006. Sublease rental income charged to Sky Night in 2005, 2004 and 2003 was approximately $35,000, $35,000 and $35,000, respectively.

9. Commitments and Contingencies

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

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9. Commitments and Contingencies (Continued)

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

Because of the uncertainty of the ultimate resolution of outstanding claims, as well as uncertainty regarding claims incurred but not reported, it is possible that managements 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.

Atlanta Terminal Condemnation

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

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

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

Contractual Obligations and Commercial Commitments

At December 31, 2005, the Company had no outstanding purchase commitments.

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10. Employee Benefit Plan

The Company has a retirement savings plan (the 401(k) Plan). The 401(k) Plan is a defined contribution plan whereby employees who have completed 90 days of service, a minimum of 1,000 hours of service and are age 21 or older are eligible to participate. The 401(k) Plan allows eligible employees to make contributions of 2.0% to 80.0% of their annual compensation. Employer contributions were made at 25.0% during 2005, 2004 and 2003 of the employees contribution up to a maximum of 6.0% for all periods presented of total annual compensation except where government limitations prohibit.

Employer contributions vest 20.0% after two years of service and continue vesting 20.0% per year until fully vested. The Companys matching contributions included in operations for 2005, 2004 and 2003 were approximately $256,000, $203,000 and $158,000, respectively.

11. Financial Instruments

Off Balance Sheet Risk

At December 31, 2005, the Company had letters of credit outstanding totaling $4.3 million as required by its workers compensation and vehicle liability insurance providers.

Concentrations of Credit Risk

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

Fair Value of Financial Instruments

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

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

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

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

FORWARD AIR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2005

12. Quarterly Results of Operations (Unaudited)

The following is a summary of the quarterly results of operations for the years ended December 31, 2005 and 2004:

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

	2004			
	March 31	**June 30**	**September 30**	**December 31**
	(In thousands, except per share data)			
Operating revenue	$ 64,303	$ 68,410	$ 71,905	$ 77,579

Income from operations	10,735	13,404	13,807	15,652
Net income	6,808	8,508	9,012	10,093
Net income per share:				
Basic	$ 0.21	$ 0.27	$ 0.28	$ 0.31
Diluted	$ 0.21	$ 0.26	$ 0.27	$ 0.31

Forward Air Corporation

Schedule II Valuation and Qualifying Accounts

Col. A	Col. B	Col. C Additions		Col. D	Col. E
Description	Balance at Beginning of Period	(1) Charged to Costs and Expenses	(2) Charged to Other Accounts-Describe	Deductions-Describe	Balance at End of Period
	(In thousands)				
Year ended December 31, 2005:					
Allowance for doubtful accounts	$ 826	$ (121)	$ --	$ 68 (2)	$ 637
Allowance for revenue adjustments (1)	246	2,100	--	2,061 (3)	285
	1,072	1,979	--	2,129	922
Year ended December 31, 2004:					
Allowance for doubtful accounts	$ 943	$ 161	$ --	$ 278 (2)	$ 826
Allowance for revenue adjustments (2)	320	1,848	--	1,922 (3)	246
	1,263	2,009	--	2,200	1,072
Year ended December 31, 2003:					
Allowance for doubtful accounts	$ 898	$ 120	$ --	$ 75 (3)	$ 943
Allowance for revenue adjustments (1)	398	1,618	--	1,696 (3)	320
	1,296	1,738	--	1,771	1,263

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

EXHIBIT INDEX

No.	Exhibit
3.1	Restated Charter of the registrant (incorporated herein by reference to Exhibit 3 to the registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 28, 1999 (File No. 0-22490))
3.2	Amended and Restated Bylaws of the registrant (incorporated herein by reference to Exhibit 3.2 to the registrant’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004, filed with the Securities and Exchange Commission on November 2, 2004 (File No. 0-22490))
4.1	Form of Landair Services, Inc. Common Stock Certificate (incorporated herein by reference to Exhibit 4.1 to the registrant’s Registration Statement on Form S-1, filed with the Securities and Exchange Commission on September 27, 1993 (File No. 0-22490))
4.2	Form of Forward Air Corporation Common Stock Certificate (incorporated herein by reference to Exhibit 4.1 to the registrant’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998, filed with the Securities and Exchange Commission on November 16, 1998 (File No. 0-22490))
4.3	Rights Agreement, dated May 18, 1999, between the registrant and SunTrust Bank, Atlanta, N.A., including the Form of Rights Certificate (Exhibit A) and the Form of Summary of Rights (Exhibit B) (incorporated herein by reference to Exhibit 4 to the registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 28, 1999 (File No. 0-22490))
10.1*	Forward Air Corporation 2005 Employee Stock Purchase Plan (incorporated herein by reference to the registrant’s Proxy Statement filed with the Securities and Exchange Commission on April 20, 2005 (File No. 0-22490))
10.2*	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 period ended June 30, 1995, filed with the Securities and Exchange Commission on August 14, 1995 (File No. 0-22490))
10.3	Lease Agreement, dated July 27, 1981, between the Greeneville-Greene County Airport Authority and General Aviation of Tennessee, Inc., as assumed by the registrant by agreement, dated May 10, 1988 (incorporated herein by reference to Exhibit 10.18 to the registrant’s Registration Statement on Form S-1, filed with the Securities and Exchange Commission on September 27, 1993 (File No. 0-22490)
10.4	Assignment, Assumption and Release Agreement, dated May 10, 1988, between Greeneville-Greene County Airport, General Aviation, Inc., and the registrant (incorporated herein by reference to Exhibit 10.19 to the registrant’s Registration Statement on Form S-1, filed with the Securities and Exchange Commission on September 27, 1993 (File No. 0-22490))
10.5	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))
10.6*	Registrant’s Non-Employee Director Stock Option Plan (incorporated herein by reference to Exhibit 10.2 to the registrant’s Quarterly Report on Form 10-Q for the period ended June 30, 1995, filed with the Securities and Exchange Commission on August 14, 1995 (File No. 0-22490))
10.7*	Amendment to the Non-Employee Director Stock Option Plan (incorporated herein by reference to Exhibit 10.7 to the registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed with the Securities and Exchange Commission on March 11, 2004 (File No. 0-22490))
10.8	Amended and Restated Loan and Security Agreement, dated as of September 10, 1998, between First Tennessee Bank National Association and the registrant (incorporated herein by reference to Exhibit 10.5 to the registrant’s Quarterly Report on Form 10-Q for the period ended September 30, 1998, filed with the Securities and Exchange Commission on November 16, 1998 (File No. 0-22490))

10.9	Modification Agreement (to Amended and Restated Loan and Security Agreement), dated as of June 18, 2002, among the registrant, First Tennessee Bank National Association, FAF, Inc., Forward Air, Inc. and Transportation Properties, Inc. (incorporated herein by reference to Exhibit 10.1 to the registrant’s Quarterly Report on Form 10-Q for the period ended June 30, 2002, filed with the Securities and Exchange Commission on August 14, 2002 (File No. 0-22490))

10.10	Letter Agreement, dated May 17, 2005, between the registrant and First Tennessee Bank National Association extending the maturity date of the registrant’s $20.0 million Master Secured Promissory Note under the Amended and Restated Loan and Security Agreement, dated as of September 10, 1998, as modified by Modification Agreement, dated as of June 18, 2002 (incorporated herein by reference to Exhibit 10.1 to the registrant’s Quarterly Report on Form 10-Q for the period ended June 30, 2005, filed with the Securities and Exchange Commission on August 9, 2005 (File No. 0-22490))
10.11*	Employment Agreement dated January 24, 2006, between Forward Air Corporation and Bruce A. Campbell, including Exhibit A, Restrictive Covenants Agreement entered into contemporaneously with and as part of the Employment Agreement (incorporated herein by reference to Exhibit 99.1 to the registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 26, 2006 (File No. 0-22490))
10.12*	Form of Incentive Stock Option Agreement under the registrant’s Amended and Restated Stock Option and Incentive Plan, as amended, and 1999 Stock Option and Incentive Plan, as amended, for grants prior to February 12, 2006
10.13*	Form of Non-Qualified Stock Option Agreement under the registrant’s Non-Employee Director Stock Option Plan, as amended, for grants prior to February 12, 2006
10.14*	1999 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the registrant’s Quarterly Report on Form 10-Q for the period ended March 31, 1999, filed with the Securities and Exchange Commission on May 17, 1999 (File No. 0-22490))
10.15*	Amendment to the 1999 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.14 to the registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed with the Securities and Exchange Commission on March 11, 2004 (File No. 0-22490))
10.16*	Non-Qualified Stock Option Agreement dated August 21, 2000 between the registrant and Ray A. Mundy (incorporated herein by reference to Exhibit 10.1 to the registrant’s Quarterly Report on Form 10-Q for the period ended September 30, 2000, filed with the Securities and Exchange Commission on November 6, 2000 (File No. 0-22490))
10.17	Forward Air Corporation Section 125 Plan (incorporated herein by reference to Exhibit 10.18 to the registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2001, filed with the Securities and Exchange Commission on March 15, 2002 (File No. 0-22490))
10.18*	Form of Option Restriction Agreement between the registrant and each executive officer regarding certain restrictions on transferability of accelerated stock options granted under the registrant’s 1999 Stock Option and Incentive Plan, as amended
10.19*	Form of Restricted Stock Agreement for an award of restricted stock under the registrant’s 1999 Stock Option and Incentive Plan, as amended, granted on or after February 12, 2006
14.1	Code of Ethics (incorporated herein by reference to Exhibit 14.1 to the registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed with the Securities and Exchange Commission on March 11, 2004 (File No. 0-22490))
21.1	Subsidiaries of the registrant (incorporated herein by reference to Exhibit 21.1 to the registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2000, filed with the Securities

	and Exchange Commission on April 2, 2001 (File No. 0-22490))
23.1	Consent of Ernst & Young LLP
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

* Management contract or compensatory plan or arrangement.