

FORWARD AIR CORP  
Form 10-Q  
October 23, 2015  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Quarterly Period Ended September 30, 2015  
Commission File No. 000-22490

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

Tennessee  
(State or other jurisdiction of incorporation)  
430 Airport Road  
Greeneville, Tennessee  
(Address of principal executive offices)

62-1120025  
(I.R.S. Employer Identification No.)  
37745  
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

Yes  No

The number of shares outstanding of the registrant's common stock, \$0.01 par value, as of October 19, 2015 was 30,832,143.

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## Part I. Financial Information

## Item 1. Financial Statements (Unaudited).

Forward Air Corporation

Condensed Consolidated Balance Sheets

(Dollars in thousands, except share and per share amounts)

(Unaudited)

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash	\$47,444	\$41,429
Accounts receivable, less allowance of \$2,794 in 2015 and \$2,563 in 2014	114,674	95,326
Other current assets	23,579	13,200
Total current assets	185,697	149,955
Property and equipment	322,681	305,188
Less accumulated depreciation and amortization	150,180	132,699
Total property and equipment, net	172,501	172,489
Goodwill and other acquired intangibles:		
Goodwill	206,899	144,412
Other acquired intangibles, net of accumulated amortization of \$48,481 in 2015 and \$40,307 in 2014	130,531	72,705
Total net goodwill and other acquired intangibles	337,430	217,117
Other assets	3,037	2,244
Total assets	\$698,665	\$541,805
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$27,435	\$20,572
Accrued expenses	29,691	22,583
Current portion of debt and capital lease obligations	55,898	276
Total current liabilities	113,024	43,431
Long-term debt and capital lease obligations, less current portion	42,830	1,275
Other long-term liabilities	12,198	8,356
Deferred income taxes	38,257	25,180
Shareholders' equity:		
Preferred stock	—	—
Common stock, \$0.01 par value: Authorized shares - 50,000,000, Issued and outstanding shares - 30,626,467 in 2015 and 30,255,182 in 2014	306	303
Additional paid-in capital	152,700	130,107
Retained earnings	339,350	333,153
Total shareholders' equity	492,356	463,563
Total liabilities and shareholders' equity	\$698,665	\$541,805

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



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

	Three months ended		Nine months ended		
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014	
Operating revenue	\$247,093	\$201,477	\$702,705	\$566,897	
Operating expenses:					
Purchased transportation	104,434	85,874	301,253	242,259	
Salaries, wages and employee benefits	59,025	45,651	174,815	131,464	
Operating leases	17,072	8,503	51,105	25,019	
Depreciation and amortization	9,399	8,115	27,601	22,879	
Insurance and claims	5,161	3,747	16,531	10,978	
Fuel expense	3,826	5,012	12,034	14,990	
Other operating expenses	23,575	17,669	66,608	48,537	
Total operating expenses	222,492	174,571	649,947	496,126	
Income from operations	24,601	26,906	52,758	70,771	
Other income (expense):					
Interest expense	(554	) (172	) (1,489	) (355	)
Other, net	10	(55	) (127	) 144	)
Total other income (expense)	(544	) (227	) (1,616	) (211	)
Income before income taxes	24,057	26,679	51,142	70,560	
Income taxes	8,370	9,935	18,795	26,437	
Net income and comprehensive income	\$15,687	\$16,744	\$32,347	\$44,123	
Net income per share:					
Basic	\$0.51	\$0.55	\$1.04	\$1.44	
Diluted	\$0.50	\$0.54	\$1.03	\$1.41	
Dividends per share:	\$0.12	\$0.12	\$0.36	\$0.36	

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

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

	Nine months ended		
	September 30, 2015	September 30, 2014	
Operating activities:			
Net income	\$32,347	\$44,123	
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	27,601	22,879	
Share-based compensation	5,562	5,005	
Gain on disposal of property and equipment	(3	) (441	)
Provision for loss (recovery) on receivables	463	(39	)
Provision for revenue adjustments	3,391	1,896	
Deferred income tax	5,546	1,729	
Excess tax benefit for stock options exercised	(2,365	) (554	)
Changes in operating assets and liabilities			
Accounts receivable	866	(15,875	)
Prepaid expenses and other current assets	(1,531	) (1,397	)
Accounts payable and accrued expenses	(14,562	) 7,767	)
Net cash provided by operating activities	57,315	65,093	
Investing activities:			
Proceeds from disposal of property and equipment	1,200	1,582	
Purchases of property and equipment	(18,541	) (37,101	)
Acquisition of business, net of cash acquired	(62,375	) (84,348	)
Other	(101	) 53	)
Net cash used in investing activities	(79,817	) (119,814	)
Financing activities:			
Proceeds from term loan	125,000	—	
Payments of debt and capital lease obligations	(87,367	) (9,662	)
Proceeds from exercise of stock options	11,351	13,083	
Payments of cash dividends	(11,133	) (11,141	)
Repurchase of common stock (repurchase program)	(9,996	) (39,972	)
Common stock issued under employee stock purchase plan	228	148	
Cash settlement of share-based awards for minimum tax withholdings	(1,931	) (1,083	)
Excess tax benefit for stock options exercised	2,365	554	
Net cash provided by (used in) financing activities	28,517	(48,073	)
Net increase (decrease) in cash	6,015	(102,794	)
Cash at beginning of period	41,429	127,367	
Cash at end of period	\$47,444	\$24,573	

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





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Forward Air Corporation

Notes to Condensed Consolidated Financial Statements

(In thousands, except share and per share data)

(Unaudited)

September 30, 2015

1. Basis of Presentation

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

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

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

TQI is a provider of maximum security and temperature-controlled logistics services, primarily truckload services, to the life sciences sector (pharmaceutical and biotechnology products). In addition to core pharmaceutical services and other cold chain services, TQI provides truckload and less-than-truckload brokerage transportation services.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by United States generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The Company's operating results are subject to seasonal trends when measured on a quarterly basis; therefore operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. For further information, refer to the consolidated financial statements and notes thereto included in the Forward Air Corporation Annual Report on Form 10-K for the year ended December 31, 2014.

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

2. Recent Accounting Pronouncements

In May 2014, the FASB issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be

entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The guidance is effective for the interim and annual periods beginning on or after December 15, 2017 (early adoption is permitted for interim and annual periods beginning on or after December 15, 2016). The guidance permits the use of either a retrospective or cumulative effect transition method. The Company has not yet selected a transition method and is currently evaluating the impact of the amended guidance on our consolidated financial position, results of operations and related disclosures.

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Notes to Condensed Consolidated Financial Statements

(In thousands, except share and per share data)

(Unaudited)

September 30, 2015

3. Acquisitions and Goodwill

Acquisition of Towne

On March 9, 2015, the Company acquired CLP Towne Inc. (“Towne”) pursuant to the Agreement and Plan of Merger (the “Merger Agreement”) resulting in Towne becoming an indirect, wholly-owned subsidiary of the Company. For the acquisition of Towne, the Company paid \$62,375 in net cash and assumed \$59,544 in debt and capital leases. With the exception of assumed capital leases, the assumed debt was immediately paid in full after funding of the acquisition. Of the total aggregate cash consideration paid, \$16,500 was placed into an escrow account, with \$2,000 of such amount being available to settle any shortfall in Towne’s net working capital and with \$14,500 of such amount being available for a period of time to settle certain possible claims against Towne’s common stockholders for indemnification. To the extent the escrow fund is insufficient, certain equity holders have agreed to indemnify Forward Air, subject to certain limitations set forth in the Merger Agreement, as a result of inaccuracies in or breaches of certain of Towne’s representations, warranties, covenants and agreements and other matters. Forward Air financed the Merger Agreement with a \$125,000 2 year term loan available under the senior credit facility discussed in note 5.

Towne is a full-service trucking provider offering time-sensitive less-than-truckload shipping, full truckload service, an extensive cartage network, container freight stations and dedicated trucking. Towne’s airport-to-airport network provides scheduled deliveries to 61 service points. A fleet of approximately 525 independent contractor tractors provides the line-haul between those service points. The acquisition of Towne provides the Forward Air segment with opportunities to expand its service points and service offerings, such as pick up and delivery services. Additional benefits of the acquisition include increased linehaul network shipping density and a significant increase to our owner operator fleet, both of which are key to the profitability of Forward Air.

Towne had 2014 revenue of approximately \$230,000. The assets, liabilities, and operating results of Towne have been included in the Company's consolidated financial statements from the date of acquisition and have been assigned to the Forward Air reportable segment. As the operations of Towne were fully integrated into the existing Forward Air network and operations, the Company is not able to provide the revenue and operating results from Towne included in our consolidated revenue and results since the date of acquisition.

Effective with the acquisition of Towne, the Company immediately entered into a restructuring plan to remove duplicate costs, primarily in the form of, but not limited to salaries, wages and benefits and facility leases. As a result of these plans, during the nine months ended September 30, 2015 the Company recognized expense and recorded liabilities of \$2,588 and \$11,290 for severance obligations and remaining net payments on vacated, duplicate facilities, respectively. The expenses associated with the severance obligations and vacated, duplicate facilities were recognized in the salaries, wages and benefits and operating lease line items, respectively. The Company also incurred expense of \$9,059 for various other integration and transaction related costs which are largely included in other operating expenses.

Acquisition of CST

On February 2, 2014, the Company acquired all of the outstanding capital stock of Central States Trucking Co. and Central States Logistics, Inc. (collectively referred to as “CST”). Pursuant to the terms of the Agreement and concurrently with the execution of the Agreement, the Company acquired all of the outstanding capital stock of CST in exchange for \$82,997 in net cash and \$11,215 in assumed debt. With the exception of capital leases, the assumed

debt was immediately paid in full after funding of the acquisition. The acquisition and settlement of the assumed debt were funded using the Company's cash on hand. Under the purchase agreement, \$10,000 of the purchase price was paid into an escrow account to protect the Company against potential unknown liabilities.

CST provides industry leading container and intermodal drayage services primarily within the Midwest region of the United States. CST also provides dedicated contract and Container Freight Station ("CFS") warehouse and handling services. The acquisition of CST provides the Company with a scalable platform for which to enter the intermodal drayage space and thereby continuing to expand and diversify the Company's service offerings.

As part of the Company's strategy to scale CST's operations, in September 2014, CST acquired certain assets of Recob Great Lakes Express, Inc. ("RGL") for \$1,350 and in November 2014, acquired Multi-Modal Trucking, Inc. and Multi-Modal Services, Inc. (together referred to as "MMT") for approximately \$5,825 in cash and \$1,000 in available earn out. The MMT earn out is based

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Forward Air Corporation

Notes to Condensed Consolidated Financial Statements

(In thousands, except share and per share data)

(Unaudited)

September 30, 2015

on acquired operations exceeding 2015 earnings goals, and the earn out was fully accrued as of September 30, 2015. The acquisition of RGL and MMT's assets provided an opportunity for CST to expand into additional Midwest markets.

The Company incurred total transaction costs related to the acquisitions of approximately \$900, which were expensed during the three months ended March 31, 2014, in accordance with U.S. GAAP. These transaction costs were primarily included in "Other operating expenses" in the consolidated statements of comprehensive income.

The assets, liabilities, and operating results of CST, RGL and MMT ("CST acquisitions") have been included in the Company's consolidated financial statements from the dates of acquisition and have been assigned to the Forward Air reportable segment. The results of CST, RGL and MMT operations reflected in the Company's consolidated statements of comprehensive income for the three and nine months ended September 30, 2014 from the date of acquisition (February 2, 2014) are as follows (in thousands, except per share data):

	Three months ended September 30, 2014	Dates of acquisition to September 30, 2014
Operating revenue	\$21,100	\$49,975
Income from operations	2,517	4,804
Net income	1,553	2,934
Net income per share		