

FORWARD AIR CORP
Form 10-Q
October 25, 2018
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, 2018
Commission File No. 000-22490

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

Tennessee	62-1120025
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
1915 Snapps Ferry Road, Building N	37745
Greeneville, Tennessee	
(Address of principal executive offices)	(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	Emerging growth company
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 22, 2018 was 29,202,290.

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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, 2018	December 31, 2017 (As Adjusted)
Assets		
Current assets:		
Cash and cash equivalents	\$ 28,911	\$ 3,893
Accounts receivable, less allowance of \$2,176 in 2018 and \$3,006 in 2017	148,464	147,948
Other current assets	23,692	15,807
Total current assets	201,067	167,648
Property and equipment	409,465	399,235
Less accumulated depreciation and amortization	199,166	193,123
Total property and equipment, net	210,299	206,112
Goodwill and other acquired intangibles:		
Goodwill	193,625	191,671
Other acquired intangibles, net of accumulated amortization of \$78,250 in 2018 and \$71,527 in 2017	106,227	111,247
Total goodwill and other acquired intangibles, net	299,852	302,918
Other assets	31,923	15,944
Total assets	\$ 743,141	\$ 692,622
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 35,110	\$ 30,723
Accrued expenses	40,073	35,069
Current portion of debt and capital lease obligations	336	359
Total current liabilities	75,519	66,151
Long-term debt and capital lease obligations, less current portion	40,383	40,588
Other long-term liabilities	43,073	24,104
Deferred income taxes	35,756	29,080
Shareholders' equity:		
Preferred stock	—	—
Common stock, \$0.01 par value: Authorized shares - 50,000,000, Issued and outstanding shares - 28,869,008 in 2018 and 29,454,062 in 2017	288	295
Additional paid-in capital	206,790	195,346
Retained earnings	341,332	337,058
Total shareholders' equity	548,410	532,699
Total liabilities and shareholders' equity	\$ 743,141	\$ 692,622

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, 2018	September 30, 2017	September 30, 2018	September 30, 2017
		(As Adjusted)		(As Adjusted)
Operating revenue	\$331,375	\$ 298,289	\$964,325	\$ 844,209
Operating expenses:				
Purchased transportation	155,451	140,330	450,833	389,127
Salaries, wages and employee benefits	76,028	65,334	217,682	192,279
Operating leases	18,671	16,809	54,640	47,205
Depreciation and amortization	10,295	10,326	31,346	30,578
Insurance and claims	9,203	7,844	26,442	21,379
Fuel expense	5,634	4,096	16,786	11,448
Other operating expenses	26,214	26,374	79,612	71,279
Total operating expenses	301,496	271,113	877,341	763,295
Income from operations	29,879	27,176	86,984	80,914
Other expense:				
Interest expense	(472)	(288)	(1,327)	(806)
Other, net	(1)	(3)	(2)	(11)
Total other expense	(473)	(291)	(1,329)	(817)
Income before income taxes	29,406	26,885	85,655	80,097
Income tax expense	7,077	8,557	21,289	27,522
Net income and comprehensive income	\$22,329	\$ 18,328	\$64,366	\$ 52,575
Net income per share:				
Basic	\$0.76	\$ 0.61	\$2.18	\$ 1.74
Diluted	\$0.76	\$ 0.61	\$2.18	\$ 1.73
Dividends per share:	\$0.15	\$ 0.15	\$0.45	\$ 0.45

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, 2018		September 30, 2017 (As Adjusted)	
Operating activities:				
Net income	\$64,366		\$ 52,575	
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization	31,346		30,578	
Change in fair value of earn-out liability	(455))	—	
Share-based compensation	7,525		5,965	
(Gain) loss on disposal of property and equipment	(14)	)	701	
Provision for (recovery) loss on receivables	(52)	)	1,788	
Provision for revenue adjustments	2,921		2,131	
Deferred income tax	6,676		523	
Changes in operating assets and liabilities				
Accounts receivable	(3,386)	)	(22,894))
Prepaid expenses and other current assets	(4,880)	)	(1,411))
Income taxes	(3,193)	)	(424))
Accounts payable and accrued expenses	12,991		8,179	
Net cash provided by operating activities	113,845		77,711	
Investing activities:				
Proceeds from disposal of property and equipment	5,989		1,497	
Purchases of property and equipment	(34,344)	)	(13,610))
Acquisition of business, net of cash acquired	(3,737)	)	(22,500))
Other	(356)	)	(73))
Net cash used in investing activities	(32,448)	)	(34,686))
Financing activities:				
Payments of debt and capital lease obligations	(228)	)	(28,215))
Proceeds from senior credit facility	—		55,000	
Payments on line of credit	—		(14,500))
Proceeds from exercise of stock options	3,682		5,642	
Payments of cash dividends	(13,213)	)	(13,584))
Repurchase of common stock (repurchase program)	(44,985)	)	(41,983))
Proceeds from common stock issued under employee stock purchase plan	237		226	
Cash settlement of share-based awards for tax withholdings	(1,872)	)	(1,699))
Net cash used in financing activities	(56,379)	)	(39,113))
Net increase in cash	25,018		3,912	
Cash at beginning of period	3,893		8,511	
Cash at end of period	\$28,911		\$ 12,423	

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, 2018

1. Description of Business and Basis of Presentation

Forward Air Corporation is a leading asset-light freight and logistics company. Forward Air Corporation's ("the Company", "We", "Our") services can be classified into four reportable segments: Expedited LTL, Truckload Premium Services ("TLS"), Intermodal and Pool Distribution ("Pool") (See Note 11).

Through the Expedited LTL segment, we operate a comprehensive national network to provide expedited regional, inter-regional and national less-than-truckload ("LTL") services. Expedited LTL offers customers local pick-up and delivery and other services including shipment consolidation and deconsolidation, warehousing, customs brokerage and other handling.

Through our TLS segment, we provide expedited truckload brokerage, dedicated fleet services, as well as high security and temperature-controlled logistics services in the United States and Canada.

Our Intermodal segment provides first- and last-mile high value intermodal container drayage services both to and from seaports and railheads. Intermodal also offers dedicated contract and CFS warehouse and handling services. Today, Intermodal operates primarily in the Midwest and Southeast, with a smaller operational presence in the Southwest United States.

In our Pool Distribution segment, we provide high-frequency handling and distribution of time sensitive product to numerous destinations within a specific geographic region. We offer this service throughout the Mid-Atlantic, Southeast, Midwest and Southwest United States.

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 (as described in our 2017 Form 10-K) when measured on a quarterly basis; therefore operating results for the nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. 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, 2017.

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. Certain reclassifications have been made to the prior period financial information to conform to the current year presentation.

2. Recent Accounting Pronouncements

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): "Simplifying the Accounting for Goodwill Impairment." Under the new standard, a goodwill impairment loss will be measured at the

amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of goodwill, thus no longer requiring the two-step method. The guidance requires prospective adoption and will be effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption of this guidance is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We have adopted this guidance as of January 1, 2018 and do not expect any impact to the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, which will require lessees to recognize a right-of-use asset with a corresponding lease liability on their balance sheet for most leases classified as operating leases under previous guidance. Lessors will be required to recognize a net lease investment for most leases. Additional qualitative and quantitative disclosures will also be required. The guidance will be effective for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years with early adoption permitted. We plan to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption as allowed per the guidance. Changes to processes and internal controls to meet the standard's reporting and disclosure requirements have been identified and are being implemented. We continue to evaluate the expected impact of this guidance, but do not anticipate any material changes to operating results or liquidity as a result of the right-of-use assets and corresponding lease liabilities that will be recorded.

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Forward Air Corporation

Notes to Condensed Consolidated Financial Statements

(In thousands, except share and per share data)

(Unaudited)

September 30, 2018

In May 2014, the FASB issued guidance on revenue from contracts with customers that superseded 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. The guidance permits the use of either a full retrospective or modified retrospective adoption approach with a cumulative effect adjustment recorded in either scenario as necessary upon transition.

As permitted by the guidance, we implemented the use of full retrospective presentation, which required the Company to restate each prior reporting period presented. While evaluating principal versus agent relationships under the new standard, we determined that we will transition the fuel surcharge revenue stream from an agent to principal relationship. This caused this revenue stream and associated costs to be recognized on a gross basis that have historically been recognized on a net basis.

In addition, based on a review of our customer shipping arrangements, we have concluded that revenue recognition for our performance obligations should be over time. This is because the customer will simultaneously receive and consume the benefits of these services as the entity performs over the related service period. A performance obligation is performed over time if an entity determines that another entity would not need to substantially reperform the work completed to date if another entity were to fulfill the remaining performance obligation to the applicable customer. Applying this guidance to our shipping performance obligations, if we were to move a customer's freight partially to its destination but were unable to complete the remaining obligation, a replacement vendor would only have to complete the transit as opposed to initiating at shipment origin. Therefore, we believe our customers simultaneously receive and consume the benefits we provide and as a result we will recognize the revenue for each shipment over the course of time based on percentage of days in transit.

Our revenue from contracts with customers is disclosed within our four reportable segments: Expedited LTL, TLS, Intermodal and Pool. This is consistent with our disclosures in earnings releases and annual reports and with the information regularly reviewed by the chief operating decision maker for evaluating financial performance.

The impact of implementing this guidance using the full retrospective approach on the prior period statements of operations are shown in the "As Adjusted" columns of the following tables:

Three months ended September 30, 2017			
(In thousands, except per share data)	As		As Adjusted
	Previously Reported	Adjustments	
Revenue			
Expedited LTL	\$ 155,703	\$ 9,696	\$ 165,399

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Truckload Premium Services	45,941	5,520	51,461
Pool Distribution	39,180	1,003	40,183
Intermodal	42,292	1,869	44,161
Eliminations and other operations	(2,915)	—	(2,915)
Consolidated revenue	280,201	18,088	298,289
Operating Expenses	253,303	17,810	271,113
Income from operations	26,898	278	27,176
Income tax expenses	8,453	104	8,557
Net Income	18,155	173	18,328
Diluted earnings per share	\$0.60	\$ 0.01	\$0.61

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Forward Air Corporation

Notes to Condensed Consolidated Financial Statements

(In thousands, except share and per share data)

(Unaudited)

September 30, 2018

	Nine months ended September 30, 2017		
	As		As
(In thousands, except per share data)	Previously Reported	Adjustments	Adjusted
Revenue			
Expedited LTL	\$ 448,571	\$ 26,065	\$ 474,636
Truckload Premium Services	132,912	16,087	148,999
Pool Distribution	113,838	2,903	116,741
Intermodal	105,853	4,454	110,307
Eliminations and other operations	(6,474)	—	(6,474)
Consolidated revenue	794,700	49,509	844,209
Operating Expenses	714,804	48,491	763,295
Income from operations	79,896	1,018	80,914
Income tax expenses	27,131	391	27,522
Net Income	51,948	627	52,575
Diluted earnings per share	\$ 1.71	\$ 0.02	\$ 1.73

3. Acquisitions and Goodwill

Intermodal Acquisitions

As part of the Company's strategy to expand its Intermodal operations, in May 2017, we acquired certain assets of Atlantic Trucking Company, Inc., Heavy Duty Equipment Leasing, LLC, Atlantic Logistics, LLC and Transportation Holdings, Inc. (together referred to as "Atlantic" in this note) for \$22,500 and an earnout of \$135 to be paid in October 2018. The acquisition was funded by a combination of cash on hand and funds from our revolving credit facility. Atlantic was a privately held provider of intermodal, drayage and related services headquartered in Charleston, South Carolina. It also has terminal operations in Atlanta, Charlotte, Houston, Jacksonville, Memphis, Nashville, Norfolk and Savannah. These locations allowed Intermodal to significantly expand its footprint in the southeastern region. In October 2017, we also acquired certain assets of Kansas City Logistics, LLC ("KCL") for \$640 and an earnout of \$100 paid in the second quarter of 2018. KCL provided Intermodal with an expanded footprint in the Kansas and Missouri markets.

In July 2018, we also acquired certain assets of Multi-Modal Transport Inc. ("MMT") for \$3,737. The MMT acquisition provides Intermodal with an expanded footprint in the Minnesota, North Dakota, South Dakota, Iowa and Wisconsin markets, along with access to several strategic customer relationships.

The assets, liabilities, and operating results of these collective acquisitions have been included in the Company's consolidated financial statements from their dates of acquisition and have been included in the Intermodal reportable segment.

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Forward Air Corporation

Notes to Condensed Consolidated Financial Statements

(In thousands, except share and per share data)

(Unaudited)

September 30, 2018

Allocations of Purchase Prices

The following table presents the allocation of the Atlantic, KCL, and MMT purchase prices to the assets acquired and liabilities assumed based on their estimated fair values and resulting residual goodwill (in thousands):

	Atlantic	KCL	MMT
	May 7,	October	July
	2017	22,	25,
		2017	2018
Tangible assets:			
Property and equipment	\$ 1,821	\$ 223	\$ 81
Total tangible assets	1,821	223	81
Intangible assets:			
Non-compete agreements	1,150	6	43
Customer relationships	13,400	234	1,659
Goodwill	6,719	277	1,954
Total intangible assets	21,269	517	3,656
Total assets acquired	23,090	740	3,737

Liabilities assumed:

Current liabilities	590	100	—
Total liabilities assumed	590	100	—
Net assets acquired	\$22,500	\$ 640	\$ 3,737

The acquired definite-lived intangible assets have the following useful lives:

	Useful Lives		
	Atlantic	KCL	MMT
Customer relationships	15 years	15 years	15 years
Non-compete agreements	5 years	2 years	5 years

The fair value of the non-compete agreements and customer relationships assets were estimated using an income approach. The Company's inputs into fair value estimates are classified within level 3 of the fair value hierarchy as defined in the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles ("the FASB Codification"). Under this method, an intangible asset's fair value is equal to the present value of the incremental after-tax cash flows (excess earnings) attributable solely to the intangible asset over its remaining useful life. To estimate fair value, the Company used cash flows discounted at rates considered appropriate given the inherent risks associated with each type of asset. The Company believes that the level and timing of cash flows appropriately reflect market participant assumptions. Cash flows were assumed to extend through the remaining economic useful life of each class of intangible asset.

Goodwill

The Company conducted its annual impairment assessments and test of goodwill for each reporting unit as of June 30, 2018 and

no impairment charges were required at that time. Goodwill impairment exists when the estimated implied fair value of goodwill is less than its carrying value. Changes in strategy or market conditions could significantly impact these

fair value estimates and require adjustments to recorded asset balances. During the three months ended September 30, 2018 no indicators of impairment were identified.

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Forward Air Corporation

Notes to Condensed Consolidated Financial Statements

(In thousands, except share and per share data)

(Unaudited)

September 30, 2018

The following is a summary of the changes to goodwill for the nine months ended September 30, 2018. Approximately \$114,481 of goodwill is deductible for tax purposes.

	Beginning balance, December 31, 2017	MMT Acquisition	Ending balance, September 30, 2018
Expedited LTL			
Goodwill	\$97,593	\$ —	\$97,593
Accumulated Impairment	—	—	—
TLS			
Goodwill	45,164	—	45,164
Accumulated Impairment	(25,686)	—	(25,686)
Pool Distribution			
Goodwill	12,359	—	12,359
Accumulated Impairment	(6,953)	—	(6,953)
Intermodal			
Goodwill	69,194	1,954	71,148
Accumulated Impairment	—	—	—
Total	\$191,671	\$ 1,954	\$193,625

4. Share-Based Payments

The Company's general practice has been to make a single annual grant of share-based compensation in the first quarter to key employees and to make other employee grants only in connection with new employment or promotions. Forms of share-based compensation granted to employees by the Company include stock options, non-vested shares of common stock ("non-vested share"), and performance shares. The Company also typically makes a single annual grant of non-vested shares to non-employee directors in conjunction with the annual election of non-employee directors to the Board of Directors. Share-based compensation is based on the grant date fair value of the instrument and is recognized ratably over the requisite service period, or vesting period. All share-based compensation expense is recognized in salaries, wages and employee benefits.

Employee Activity - Stock Options

Stock option grants to employees generally expire seven years from the grant date and typically vest ratably over a three-year period. The Company used the Black-Scholes option-pricing model to estimate the grant-date fair value of options granted. The weighted-average fair value of options granted and assumptions used to estimate their fair value during the nine months ended September 30, 2018 and 2017 were as follows:

Nine months ended

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	September 30, 2018		September 30, 2017	
Expected dividend yield	1.1	%	1.3	%
Expected stock price volatility	24.4	%	28.7	%
Weighted average risk-free interest rate	2.7	%	2.0	%
Expected life of options (years)	6.1		6.0	
Weighted average grant date fair value	\$ 16		\$ 13	

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Forward Air Corporation

Notes to Condensed Consolidated Financial Statements

(In thousands, except share and per share data)

(Unaudited)

September 30, 2018

The following tables summarize the Company's employee stock option activity and related information:

	Nine months ended September 30, 2018			
	Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Term
	(000)		(000)	
Outstanding at December 31, 2017	440	\$ 45		
Granted	193	62		
Exercised	(89)	41		
Forfeited	—	—		
Outstanding at September 30, 2018	544	\$ 51	\$ 6,689	4.9
Exercisable at September 30, 2018	228	\$ 45	\$ 4,294	3.4

	Nine months ended	
	September 30, 2018	September 30, 2017
Share-based compensation for options	\$1,085	\$ 993
Tax benefit for option compensation	\$271	\$ 354
Unrecognized compensation cost for options, net of estimated forfeitures	\$3,621	\$ 1,909
Weighted average period over which unrecognized compensation will be recognized (years)	2.3	

Employee Activity - Non-vested Shares

Non-vested share grants to employees vest ratably over a three-year period. The non-vested shares' fair values were estimated using closing market prices on the day of grant. The following tables summarize the Company's employee non-vested share activity and related information:

	Nine months ended		
	September 30, 2018		
	Non-vested	Weighted-Average Grant Date	Aggregate Grant Date Fair Value
	Shares	Grant Date	Fair Value
	(000)		(000)
Outstanding and non-vested at December 31, 2017	227	\$ 47	
Granted	202	60	
Vested	(108)	56	
Forfeited	(3)	52	
Outstanding and non-vested at September 30, 2018	318	\$ 55	\$ 17,467

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Notes to Condensed Consolidated Financial Statements

(In thousands, except share and per share data)

(Unaudited)

September 30, 2018

	Nine months ended September 30,	
	2018	2017
Share-based compensation for non-vested shares	\$4,902	\$ 3,762
Tax benefit for non-vested share compensation	\$1,225	\$ 1,343
Unrecognized compensation cost for non-vested shares, net of estimated forfeitures	\$13,146	\$ 7,410
Weighted average period over which unrecognized compensation will be recognized (years)	2.0	

Employee Activity - Performance Shares

The Company annually grants performance shares to key employees. Under the terms of the performance share agreements, following the end of a three-year performance period, the Company will issue to the employees a calculated number of common stock shares based on the three year performance of the Company's total shareholder return as compared to the total shareholder return of a selected peer group. No shares may be issued if the Company's total shareholder return outperforms 25% or less of the peer group, but the number of shares issued may be doubled if the Company's total shareholder return performs better than 90% of the peer group. The fair value of the performance shares was estimated using a Monte Carlo simulation. The weighted average assumptions used in the Monte Carlo estimate were as follows:

	Nine months ended			
	September 30, 2018		September 30, 2017	
Expected stock price volatility	24.3	%	24.7	%
Weighted average risk-free interest rate	2.2	%	1.4	%

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

	Nine months ended September 30, 2018	
	Weighted-Average Performance	Aggregate Grant Date Fair Value
	Shares	(000)
Outstanding and non-vested at December 31, 2017	69	\$ 58
Granted	18	72

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Additional shares awarded based on performance	—	—		
Vested	—	—		
Forfeited	(22)	67		
Outstanding and non-vested at September 30, 2018	65	\$ 58	\$ 3,795	

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Notes to Condensed Consolidated Financial Statements

(In thousands, except share and per share data)

(Unaudited)

September 30, 2018

	Nine months ended September 30,	
	2018	2017
Share-based compensation for performance shares	\$953	\$ 689
Tax benefit for performance share compensation	\$238	\$ 246
Unrecognized compensation cost for performance shares, net of estimated forfeitures	\$1,725	\$ 1,740
Weighted average period over which unrecognized compensation will be recognized (years)	1.9	

Employee Activity - Employee Stock Purchase Plan

Under the 2005 Employee Stock Purchase Plan (the "ESPP"), which has been approved by shareholders, the Company is authorized to issue up to a remaining 367,309 shares of common stock to employees of the Company. These shares may be issued at a price equal to 90% of the lesser of the market value on the first day or the last day of each six-month purchase period. Common stock purchases are paid for through periodic payroll deductions and/or up to two large lump sum contributions. For the nine months ended September 30, 2018, participants under the plan purchased 4,550 shares at an average price of \$51.98 per share. For the nine months ended September 30, 2017, participants under the plan purchased 5,188 shares at an average price of \$43.59 per share. The weighted-average fair value of each purchase right under the ESPP granted for the nine months ended September 30, 2018, which is equal to the discount from the market value of the common stock at the end of each six month purchase period, was \$7.10 per share. The weighted-average fair value of each purchase right under the ESPP granted for the nine months ended September 30, 2017, which is equal to the discount from the market value of the common stock at the end of each six month purchase period, was \$9.69 per share. Share-based compensation expense of \$32 and \$51 was recognized during the nine months ended September 30, 2018 and 2017, respectively.

Non-employee Director Activity - Non-vested Shares

Grants of non-vested shares to non-employee directors vest ratably over the elected term to the Board of Directors, or approximately one year. The following tables summarize the Company's non-employee non-vested share activity and related information:

	Nine months ended September 30, 2018	
	Weighted-Average Non-Vested Shares (000)	Aggregate Grant Date Fair Value (000)
Outstanding and non-vested at December 31, 2017	11	\$ 52
Granted	15	58
Vested	(12)	52
Forfeited	—	—

Outstanding and non-vested at September 30, 2018 14 \$ 58 \$ 805

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Forward Air Corporation

Notes to Condensed Consolidated Financial Statements

(In thousands, except share and per share data)

(Unaudited)

September 30, 2018

	Nine months ended	
	September 30,	
	2018	2017
Share-based compensation for non-vested shares	\$ 553	\$ 470
Tax benefit for non-vested share compensation	\$ 138	\$ 167
Unrecognized compensation cost for non-vested shares, net of estimated forfeitures	\$ 501	\$ 430
Weighted average period over which unrecognized compensation will be recognized (years)	0.6	

5. Senior Credit Facility

On September 29, 2017, the Company entered into a five-year senior unsecured revolving credit facility (the “Facility”) with a maximum aggregate principal amount of \$150,000, with a sublimit of \$30,000 for letters of credit and a sublimit of \$30,000 for swing line loans. The Facility may be increased by up to \$100,000 to a maximum aggregate principal amount of \$250,000 pursuant to the terms of the credit agreement, subject to the lenders’ agreement to increase their commitments or the addition of new lenders extending such commitments. Such increases to the Facility may be in the form of additional revolving credit loans, term loans or a combination thereof, and are contingent upon there being no events of default under the Facility and satisfaction of other conditions precedent and are subject to the other limitations set forth in the credit agreement.

The Facility is scheduled to mature in September 2022 and may be used to refinance existing indebtedness of the Company and for working capital, capital expenditures and other general corporate purposes. The Facility refinanced the Company’s existing obligations for its unsecured credit facility under the credit agreement dated as of February 4, 2015, as amended, which was terminated as of the date of the new Facility.

Unless the Company elects otherwise under the credit agreement, interest on borrowings under the Facility is based on the highest of (a) the federal funds rate (not less than 0%) plus 0.5%, (b) the administrative agent's prime rate and (c) the LIBOR Rate plus 1.0%, in each case plus a margin that can range from 0.3% to 0.8% with respect to the Facility depending on the Company’s ratio of consolidated funded indebtedness to earnings before interest, taxes, depreciation and amortization, as set forth in the credit agreement. Payments of interest for each loan that is based on the LIBOR Rate are due in arrears on the last day of the interest period applicable to such loan (with interest periods of one, two or three months being available, at the Company’s option). Payments of interest on loans that are not based on the LIBOR Rate are due on the last day of each quarter ended March 31, June 30, September 30 and December 31 of each year. All unpaid amounts of principal and interest are due at maturity. As of September 30, 2018, we had \$40,500 in borrowings outstanding under the revolving credit facility, \$11,123 utilized for outstanding letters of credit and \$98,377 of available borrowing capacity under the revolving credit facility. The interest rate on the outstanding borrowing under the revolving credit facility was 3.6% at September 30, 2018.

The Facility contains customary events of default including, among other things, payment defaults, breach of covenants, cross acceleration to material indebtedness, bankruptcy-related defaults, material judgment defaults, and the occurrence of certain change of control events. The occurrence of an event of default may result in, among other things, the termination of the Facilities, acceleration of repayment obligations and the exercise of remedies by the lenders with respect to the Company and its subsidiaries that are party to the Facility. The Facility also contains

financial covenants and other covenants that, among other things, restrict the ability of the Company and its subsidiaries, without the approval of the required lenders, to engage in certain mergers, consolidations, asset sales, dividends and stock repurchases, investments, and other transactions or to incur liens or indebtedness in excess of agreed thresholds, as set forth in the credit agreement. As of September 30, 2018, the Company was in compliance with the aforementioned covenants.

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Notes to Condensed Consolidated Financial Statements

(In thousands, except share and per share data)

(Unaudited)

September 30, 2018

6. Net Income Per Share

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

	Three months ended September 30, 2018		Nine months ended September 30, 2018	
	2017	2017	2018	2017
	(As	(As		
	Adjusted)	Adjusted)		
Numerator:				
Net income and comprehensive income	\$22,329	\$ 18,328	\$64,366	\$ 52,575
Income allocated to participating securities	(239)	(146)	(596)	(424)
Numerator for basic and diluted income per share - net income	\$22,090	\$ 18,182	\$63,770	\$ 52,151
Denominator (in thousands):				
Denominator for basic income per share - weighted-average shares	28,964	29,855	29,189	29,977
Effect of dilutive stock options (in thousands)	95	52	81	62
Effect of dilutive performance shares (in thousands)	36	33	33	30
Denominator for diluted income per share - adjusted weighted-average shares	29,095	29,940	29,303	30,069
Basic net income per share	\$0.76	\$ 0.61	\$2.18	\$ 1.74
Diluted net income per share	\$0.76	\$ 0.61	\$2.18	\$ 1.73

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

	September 30, 2018	September 30, 2017
Anti-dilutive stock options (in thousands)	100	172
Anti-dilutive performance shares (in thousands)	15	—
Anti-dilutive non-vested shares and deferred stock units (in thousands)	3	—
Total anti-dilutive shares (in thousands)	118	172

7. Income Taxes

Tax Reform

On December 22, 2017, President Trump signed into law H.R. 1, “An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018” (this legislation was formerly called the “Tax Cuts and Jobs Act” and is referred to herein as the “U.S. Tax Act”). The U.S. Tax Act provides for significant changes in the U.S. Internal Revenue Code of 1986, as amended. The U.S. Tax Act contains provisions with separate effective dates but is generally effective for taxable years beginning after December 31, 2017. Beginning on January 1, 2018, the U.S. Tax Act lowers the U.S. corporate income tax rate from 35% to 21% on our U.S. earnings from that date and beyond.

The ultimate impact of the U.S. Tax Act on our reported results in 2018 may differ from the estimates provided herein, possibly materially, due to, among other things, changes in interpretations and assumptions we have made, guidance that may be issued, and other actions we may take as a result of the U.S. Tax Act different from that presently contemplated. On December 22, 2017, the SEC staff issued SAB 118 that allows us to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. We currently are analyzing the U.S. Tax Act, and in certain areas, have made reasonable estimates of the effects on our consolidated financial statements and tax disclosures, including the changes to our existing deferred tax balances.

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Forward Air Corporation

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September 30, 2018

Tax Rate

For the three months ended September 30, 2018 and 2017, the effective income tax rates varied from the statutory federal income tax rate of 21.0% and 35.0%, primarily as a result of the effect of state income taxes, net of the federal benefit, and permanent differences between book and tax net income. The combined federal and state effective tax rate for the nine months ended September 30, 2018 was 24.9% compared to a rate of 34.4% for the same period in 2017. The lower effective tax rate for the nine months ended September 30, 2018 is the result of the enactment of the U.S. Tax Act, which lowered the statutory federal income tax rate to 21.0% from 35.0%. The lower rate was partly offset by fuel tax benefits taken in the nine months ended September 30, 2018 that were not deductible for tax purposes and 2017 benefiting from qualified production property deductions.

8. Financial Instruments

Fair Value of Financial Instruments

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

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

Revolving credit facility: The Company's revolving credit facility bears variable interest rates plus additional basis points based upon covenants related to total indebtedness to earnings. As the revolving credit facility bears a variable interest rate, the carrying value approximates fair value. Using interest rate quotes and discounted cash flows, the Company estimated the fair value of its outstanding capital lease obligations as follows:

	September 30,	
	2018	
	Carrying	Fair
	Value	Value
Capital leases	\$ 452	\$ 465

The Company's fair value estimates for the above financial instruments are classified within level 3 of the fair value hierarchy.

9. Shareholders' Equity

During each quarter of 2017 and through the third quarter of 2018, our Board of Directors declared a cash dividend of \$0.15 per share of common stock. 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.

On July 21, 2016, our Board of Directors approved a stock repurchase authorization for up to three million shares of the Company's common stock. The following table summarizes our share repurchases for the three and nine months ended September 30, 2018 and 2017.

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	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Shares repurchased	267,451	579,769	764,617	826,633
Cost of shares repurchased	\$ 16,820	\$ 29,988	\$ 44,985	\$ 41,983
Average cost per share	\$ 62.89	\$ 51.72	\$ 58.83	\$ 50.79

As of September 30, 2018, 1,054,048 shares were available to be purchased under the 2016 Plan.

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Forward Air Corporation

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(In thousands, except share and per share data)

(Unaudited)

September 30, 2018

10. Commitments and Contingencies

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

The primary claims in the Company's business relate to workers' compensation, property damage, vehicle liability and medical benefits. Most of the Company's insurance coverage provides for self-insurance levels with primary and excess coverage which management believes is sufficient to adequately protect the Company from catastrophic claims. We renewed our liability insurance policies on April 1, 2018 and took on additional risk exposure for vehicle liability claims by increasing our self-insurance retention and deductible levels. See "Item 1A - Risk Factors" for additional details related to the risks of our insurance coverage. In the opinion of management, adequate provision has been made for all incurred claims up to the self-insured limits, including provision for estimated claims incurred but not reported.

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

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

11. Segment Reporting

The Company operates in four reportable segments based on information available to and used by the chief operating decision maker. Expedited LTL operates a comprehensive national network that provides expedited regional, inter-regional and national LTL services. The TLS segment provides expedited truckload brokerage, dedicated fleet services and high security and temperature-controlled logistics services. The Intermodal segment primarily provides first- and last-mile high value intermodal container drayage services both to and from seaports and railheads. Pool Distribution provides high-frequency handling and distribution of time sensitive product to numerous destinations.

Except for certain insurance activity, the accounting policies of the segments are the same as those described in the summary of significant accounting policies disclosed in Note 1 of the Forward Air Corporation Annual Report on Form 10-K for the year ended December 31, 2017. For workers compensation and vehicle claims each segment is charged an insurance premium and is also charged a deductible that corresponds with each segment's individual self retention limit. However, any losses beyond our deductibles and any loss development factors applied to our outstanding claims as a result of actuarial analysis are not passed to the segments, but reported at the corporate level ("Eliminations & other").

Segment data includes intersegment revenues and shared costs. Costs of the corporate headquarters, shared services and shared assets, such as trailers, are allocated to the segments based on usage. The cost basis of shared assets are not allocated. The basis for the majority of shared assets, such as trailers, are included in Expedited LTL. The Company evaluates the performance of its segments based on income from operations. The Company's business is conducted in the U.S. and Canada.

The following tables summarize segment information about results from operations and assets used by the chief operating decision maker of the Company in making decisions regarding allocation of assets and resources as of and for the three and nine months ended September 30, 2018 and 2017.

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Forward Air Corporation

Notes to Condensed Consolidated Financial Statements

(In thousands, except share and per share data)

(Unaudited)

September 30, 2018

	Three months ended September 30, 2018					
	Expedited	Truckload	Pool	Intermodal	Eliminations	Consolidated
	LTL	Premium	Distribution		& other	
External revenues	\$186,544	\$ 47,158	\$ 47,177	\$ 50,496	\$ —	\$ 331,375
Intersegment revenues	1,963	784	103	49	(2,899)	—
Depreciation and amortization	5,598	1,543	1,699	1,455	—	10,295
Share-based compensation expense	1,961	178	114	262	332	2,847
Interest expense	—	2	—	10	460	472
Income from operations	23,724	1,673	735	7,321	(3,574)	29,879
Total assets	672,186	70,841	60,672	159,428	(219,986)	743,141
Capital expenditures	15,253	30	1,179	276	—	16,738

	Three months ended September 30, 2017					
	(As Adjusted)					
	Expedited	Truckload	Pool	Intermodal	Eliminations	Consolidated
	LTL	Premium	Distribution		& other	
External revenues	\$164,702	\$ 49,385	\$ 40,125	\$ 44,077	\$ —	\$ 298,289
Intersegment revenues	697	2,076	58	84	(2,915)	—
Depreciation and amortization	5,438	1,546	1,652	1,690	—	10,326
Share-based compensation expense	1,604	101	90	144	—	1,939
Interest expense	1	—	—	12	275	288
Income (loss) from operations	23,189	124	681	3,785	(603)	27,176
Total assets	638,704	59,657	53,201	146,836	(222,998)	675,400
Capital expenditures	8,372	7	239	330	—	8,948

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Forward Air Corporation

Notes to Condensed Consolidated Financial Statements

(In thousands, except share and per share data)

(Unaudited)

September 30, 2018

	Nine months ended September 30, 2018					
	Expedited	Truckload	Pool	Intermodal	Eliminations	Consolidated
	LTL	Premium	Distribution		& other	
External revenues	\$546,066	\$137,221	\$132,980	\$148,058	\$ —	\$964,325
Intersegment revenues	5,276	5,761	276	217	(11,530)	—
Depreciation and amortization	16,682	4,863	5,208	4,593	—	31,346
Share-based compensation expense	5,595	524	342	776	288	7,525
Interest expense	1	5	—	47	1,274	1,327
Income (loss) from operations	71,023	3,348	3,695	16,333	(7,415)	86,984
Total assets	672,186	70,841	60,672	159,428	(219,986)	743,141
Capital expenditures	31,960	70	1,832	482	—	34,344

	Nine months ended September 30, 2017					
	(As Adjusted)					
	Expedited	Truckload	Pool	Intermodal	Eliminations	Consolidated
	LTL	Premium	Distribution		& other	
External revenues	\$472,723	\$144,753	\$116,542	\$110,191	\$ —	\$844,209
Intersegment revenues	1,913	4,246	199	116	(6,474)	—
Depreciation and amortization	16,521	4,694	5,067	4,296	—	30,578
Share-based compensation expense	4,980	281	297	407	—	5,965
Interest expense	2	—	—	36	768	806
Income (loss) from operations	65,164	3,734	3,672	9,548	(1,204)	80,914
Total assets	638,704	59,657	53,201	146,836	(222,998)	675,400
Capital expenditures	12,640	15	524	431	—	13,610

12. Subsequent Events

On October 24, 2018, we announced that our wholly-owned subsidiary, Central States Trucking Co. (“CST”), entered into an agreement to acquire substantially all of the assets of Southwest Freight Distributors (“Southwest”). The closing of the transaction is subject to various customary conditions, including but not limited to, compliance with the covenants and agreements in the definitive agreement in all material respects. The Company will pay approximately \$16,250 and acquisition will be funded by a combination of cash on hand. Southwest is a Dallas, Texas based premium drayage provider. We expect the transaction will close within a month, and we anticipate Southwest will contribute \$20,000 of revenue and \$3,000 of EBITDA on an annualized basis.

CST is included in our Intermodal reportable segment.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview and Executive Summary

Forward Air Corporation is a leading asset-light freight and logistics company. Our services are classified into four reportable segments: Expedited LTL, Truckload Premium Services ("TLS"), Intermodal and Pool Distribution ("Pool").

Through the Expedited LTL segment, we operate a comprehensive national network to provide expedited regional, inter-regional and national LTL services. Expedited LTL offers customers local pick-up and delivery and other services including shipment consolidation and deconsolidation, warehousing, customs brokerage and other handling. Because of our roots in serving the deferred air freight market, our terminal network is located at or near airports in the United States and Canada.

Through our TLS segment, we provide expedited truckload brokerage, dedicated fleet services, as well as high security and temperature-controlled logistics services in the United States and Canada.

Our Intermodal segment provides first- and last-mile high value intermodal container drayage services both to and from seaports and railheads. Intermodal also offers dedicated contract and CFS warehouse and handling services. Intermodal operates primarily in the Midwest and Southeast, with a smaller operational presence in the Southwest. We plan to grow Intermodal's geographic footprint through acquisitions as well as greenfield start-ups where we do not have an acceptable acquisition target.

In our Pool Distribution segment, we provide high-frequency handling and distribution of time sensitive product to numerous destinations within a specific geographic region. We offer this service throughout the Mid-Atlantic, Southeast, Midwest and Southwest United States.

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

Trends and Developments

Appointment of New President and Chief Executive Officer

Effective September 1, 2018 ("Effective Date"), Thomas Schmitt was named the Company's President and Chief Executive Officer. Mr. Schmitt succeeded Bruce A. Campbell, in his position as President and Chief Executive Officer as of the Effective Date. It is expected that as of the Effective Date, Mr. Campbell will be employed by the Company as Executive Chairman until the Company's 2019 annual meeting of shareholders, at which time, in order to ensure a continued, successful management transition, the Company plans to retain Mr. Campbell as a consultant for a period of time following his resignation as Executive Chairman. The Board appointed Mr. Schmitt to the Board as of the Effective Date.

Intermodal Acquisitions

As part of our strategy to expand our Intermodal operations, in May 2017, we acquired certain assets of Atlantic for \$22.5 million. In October 2017, we acquired certain assets of KCL for \$0.7 million and in July 2018, we acquired certain assets of MMT for \$3.7 million. These acquisitions provide an opportunity for our Intermodal segment to expand into additional geographic markets or add volumes to our existing locations. The assets, liabilities, and operating results of these acquisitions have been included in the Company's consolidated financial statements from the date of acquisition and have been assigned to the Intermodal reportable segment.

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Results from Operations

The following table sets forth our consolidated historical financial data for the three months ended September 30, 2018 and 2017 (in millions):

	Three months ended September 30			
	2018	2017	Change	Percent Change
		(As Adjusted)		
Operating revenue:				
Expedited LTL	\$188.5	\$ 165.4	\$ 23.1	14.0 %
Truckload Premium Services	47.9	51.5	(3.6)	(7.0)
Pool Distribution	47.3	40.2	7.1	17.7
Intermodal	50.5	44.2	6.3	14.3
Eliminations and other operations	(2.8)	(3.0)	0.2	(6.7)
Operating revenue	331.4	298.3	33.1	11.1
Operating expenses:				
Purchased transportation	155.5	140.3	15.2	10.8
Salaries, wages, and employee benefits	76.0	65.3	10.7	16.4
Operating leases	18.7	16.8	1.9	11.3
Depreciation and amortization	10.3	10.3	—	—
Insurance and claims	9.2	7.9	1.3	16.5
Fuel expense	5.6	4.1	1.5	36.6
Other operating expenses	26.2	26.4	(0.2)	(0.8)
Total operating expenses	301.5	271.1	30.4	11.2
Income (loss) from operations:				
Expedited LTL	23.7	23.2	0.5	2.2
Truckload Premium Services	1.7	0.1	1.6	1,600.0
Pool Distribution	0.7	0.7	—	—
Intermodal	7.3	3.8	3.5	92.1
Other operations	(3.5)	(0.6)	(2.9)	483.3
Income from operations	29.9	27.2	2.7	9.9
Other expense:				
Interest expense	(0.5)	(0.3)	(0.2)	66.7
Total other expense	(0.5)	(0.3)	(0.2)	66.7
Income before income taxes	29.4	26.9	2.5	9.3
Income tax expense	7.1	8.6	(1.5)	(17.4)
Net income and comprehensive income	\$22.3	\$ 18.3	\$ 4.0	21.9 %

During the three months ended September 30, 2018, we experienced a 11.1% increase in our consolidated revenues compared to the three months ended September 30, 2017. Operating income increased \$2.7 million, or 9.9%, to \$29.9 million for the three months ended September 30, 2018 from \$27.2 million for the same period of 2017. As a result of the following segment factors, net income increased by \$4.0 million, or 21.9%, to \$22.3 million for the third quarter of 2018 from \$18.3 million for the same period in 2017.

Segment Operations

The results for our four reportable segments are discussed in detail in the following sections.

Interest Expense

Interest expense was \$0.5 million for the three months ended September 30, 2018 compared to \$0.3 million for the same period of 2017. The increase in interest expense was attributable to additional borrowings on our revolving credit facility.

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Income Taxes

The combined federal and state effective tax rate for the third quarter of 2018 was 24.1% compared to a rate of 31.8% for the same period in 2017. The lower effective tax rate for the third quarter of 2018 is the result of the enactment of the Tax Cuts and Jobs Act, which lowered the statutory federal income tax rate to 21.0% from 35.0%, and the result of a \$0.3 million Tennessee state job tax credit. The 2017 rate is lower than the statutory rate due to the third quarter of 2017 including an increased tax benefit from a technology credit.

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Expedited LTL - Three Months Ended September 30, 2018 compared to Three Months Ended September 30, 2017

The following table sets forth the historical financial data of our Expedited LTL segment for the three months ended September 30, 2018 and 2017 (in millions):

Expedited LTL Segment Information

(In millions)

(Unaudited)

	Three months ended		September 30, 2017		Percent	
	September 30, 2018	Percent of Revenue	September 30, 2017 (As Adjusted)	Percent of Revenue	Change	Percent Change
Operating revenue	\$188.5	100.0 %	\$ 165.4	100.0 %	\$ 23.1	14.0 %
Operating expenses:						
Purchased transportation	88.6	47.0	72.9	44.1	15.7	21.5
Salaries, wages and employee benefits	41.6	22.1	35.7	21.6	5.9	16.5
Operating leases	10.3	5.5	9.4	5.7	0.9	9.6
Depreciation and amortization	5.6	3.0	5.4	3.3	0.2	3.7
Insurance and claims	3.9	2.1	3.3	2.0	0.6	18.2
Fuel expense	1.6	0.8	0.9	0.5	0.7	77.8
Other operating expenses	13.2	7.0	14.6	8.8	(1.4)	(9.6)
Total operating expenses	164.8	87.4	142.2	86.0	22.6	15.9
Income from operations	\$23.7	12.6 %	\$ 23.2	14.0 %	\$ 0.5	2.2 %

Expedited LTL Operating Statistics

	Three months ended		September 30, 2017		Percent	
	September 30, 2018	September 30, 2017 (As Adjusted)	September 30, 2018	September 30, 2017 (As Adjusted)	Change	Percent Change
Business days	63	63	—	—	—	%
Tonnage						
Total pounds ¹	636,831	630,753	1.0	1.0		
Pounds per day ¹	10,108	10,012	1.0	1.0		
Shipments						
Total shipments ¹	1,003	998	0.5	0.5		
Shipments per day ¹	15.9	15.8	0.5	0.5		
Total shipments with pickup and/or delivery ¹	245	246	(0.5)	(0.5)		
Revenue per hundredweight	\$26.47	\$ 23.67	11.8	11.8		

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Revenue per hundredweight, ex fuel	\$22.21	\$ 21.23	4.6
Revenue per shipment	\$168	\$ 150	12.0
Revenue per shipment, ex fuel	\$141	\$ 134	5.2
Weight per shipment	635	632	0.5 %

¹ - In thousands

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Revenues

Expedited LTL operating revenue increased \$23.1 million, or 14.0%, to \$188.5 million from \$165.4 million, accounting for 56.9% of consolidated operating revenue for the three months ended September 30, 2018 compared to 55.5% for the same period in 2017. The increase in Expedited LTL's revenue was due to increases in fuel surcharge revenue, Linehaul revenue, other terminal based revenues and pickup and delivery shipments. Linehaul revenue, which is the largest portion of Expedited LTL revenue, increased \$5.1 million, or 4.7%, due to higher tonnage and a 3.7% increase in linehaul revenue per hundredweight, ex fuel. The increase in tonnage is due to a growing percentage of total volume from class-rated shipments and the increase in revenue per hundredweight is due to increased revenue per shipment and increased shipment size.

The \$23.1 million revenue increase is also the result of a \$11.8 million increase in fuel surcharge revenue largely due to rate increases to our fuel surcharges and increases in fuel prices and tonnage volumes. Other terminal based revenues, which includes dedicated local pickup and delivery services, warehousing and terminal handling, increased \$3.8 million, or 23.7%, to \$20.0 million in the third quarter of 2018 from \$16.1 million in the same period of 2017. The increase in other terminal revenue was mainly attributable to increases in certain dedicated local pickup and delivery services. Additionally, compared to the same period in 2017, revenue from pickup and delivery shipments attached to a linehaul shipment ("Complete") increased \$2.4 million, or 9.6% which was attributable to an increase in shipping volumes in our Expedited LTL network and an increase in the attachment rate of Complete to linehaul shipments.

Purchased Transportation

Expedited LTL purchased transportation increased by \$15.7 million, or 21.5%, to \$88.6 million for the three months ended September 30, 2018 from \$72.9 million for the three months ended September 30, 2017. As a percentage of segment operating revenue, Expedited LTL purchased transportation was 47.0% during the three months ended September 30, 2018 compared to 44.1% for the same period in 2017. The increase is mostly due to an increase in Expedited LTL cost per mile as a result of increased utilization of third party transportation providers, which are more costly than owner-operators. The increase as a percentage of revenue is also due to increased Complete and dedicated pickup and delivery volumes, as their portion of revenue mix increased. Complete and pickup and delivery have higher purchased transportation as a higher percentage of revenue than linehaul.

Salaries, Wages, and Benefits

Expedited LTL salaries, wages and employee benefits increased \$5.9 million, or 16.5%, to \$41.6 million in the third quarter of 2018 from \$35.7 million for the same period in 2017. Salaries, wages and employee benefits were 22.1% of Expedited LTL's operating revenue in the third quarter of 2018 compared to 21.6% for the same period of 2017. The increase in salaries, wages and employee benefits as a percentage of revenue was primarily attributable to a 0.5% increase as a percentage of revenue in Company-employed drivers to service linehaul and local pickup and delivery services.

Operating Leases

Expedited LTL operating leases increased \$0.9 million, or 9.6%, to \$10.3 million for the three months ended September 30, 2018 from \$9.4 million for the same period in 2017. Operating leases were 5.5% of Expedited LTL operating revenue for the three months ended September 30, 2018 compared to 5.7% for the same period of 2017. The increase in cost is due to a \$1.2 million increase in tractor rentals and leases to correspond with the increase in Company-employed driver usage mentioned above partly offset by a decrease in trailer rentals and leases, as prior year rentals and leases were replaced with purchased units.

Depreciation and Amortization

Expedited LTL depreciation and amortization increased \$0.2 million, or 3.7%, to \$5.6 million in the third quarter of 2018 from \$5.4 million in the same period of 2017. Depreciation and amortization expense as a percentage of Expedited LTL operating revenue was 3.0% in the third quarter of 2018 compared to 3.3% in the same period of 2017. The decrease as a percentage of revenue was due to lower amortization expenses partly offset by the purchase of new trailers since the third quarter of 2017. The lower amortization expense is due to the completion of the useful life for an acquired customer relationship.

Insurance and Claims

Expedited LTL insurance and claims expense increased \$0.6 million, or 18.2%, to \$3.9 million for the three months ended September 30, 2018 from \$3.3 million for the same period of 2017. Insurance and claims was 2.1% of operating revenue for the three months ended September 30, 2018 compared to 2.0% in the same period of 2017. The increase was attributable to an increase in vehicle liability premiums and vehicle claim reserves. See additional discussion over the consolidated increase in self-insurance reserves related to vehicle claims in the "Other operations" section below.

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Fuel Expense

Expedited LTL fuel expense increased \$0.7 million, or 77.8%, to \$1.6 million for the third quarter of 2018 from \$0.9 million in the same period of 2017. Fuel expenses were 0.8% of Expedited LTL operating revenue in the third quarter of 2018 compared to 0.5% in the same period of 2017. Expedited LTL fuel expenses increased due to higher Company-employed driver miles and higher year-over-year fuel prices.

Other Operating Expenses

Expedited LTL other operating expenses decreased \$1.4 million, or 9.6%, to \$13.2 million during the three months ended September 30, 2018 from \$14.6 million in the same period of 2017. Other operating expenses were 7.0% of Expedited LTL operating revenue in the third quarter of 2018 compared to 8.8% in the same period of 2017. Other operating expenses includes equipment maintenance, terminal and office expenses, professional fees and other over-the-road costs. The decrease in total dollars and as a percentage of revenue was primarily attributable to the third quarter of 2018 including a recovery of a previously reserved receivable, while the third quarter of 2017 included an increase in receivables allowance. The decrease as a percentage of revenue was also due to the increase in fuel revenue, which has no corresponding costs in other operating expenses.

Income from Operations

Expedited LTL income from operations increased by \$0.5 million, or 2.2%, to \$23.7 million for the third quarter of 2018 compared to \$23.2 million for the same period in 2017. Income from operations as a percentage of Expedited LTL operating revenue was 12.6% for the three months ended September 30, 2018 compared with 14.0% in the same period of 2017. The increase in income from operations was due to increases in revenue due to higher tonnage, higher fuel surcharge and higher pickup and delivery revenue. These improvements were mostly offset by increased utilization of third party transportation providers, which caused the deterioration in income from operations as a percentage of revenue.

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Truckload Premium Services - Three Months Ended September 30, 2018 compared to Three Months Ended September 30, 2017

The following table sets forth our historical financial data of the Truckload Premium Services segment for the three months ended September 30, 2018 and 2017 (in millions):

Truckload Premium Services Segment Information

(In millions)

(Unaudited)

	Three months ended		September 30, 2017		Percent		Percent	
	September 30, 2018	Percent of Revenue	September 30, 2017	Percent of Revenue	Change	Change	Change	Change
			(As Adjusted)					
Operating revenue	\$47.9	100.0 %	\$ 51.5	100.0 %	\$ (3.6)	(7.0)	%	
Operating expenses:								
Purchased transportation	35.8	74.7	39.5	76.7	(3.7)	(9.4)		
Salaries, wages and employee benefits	4.7	9.8	5.0	9.7	(0.3)	(6.0)		
Operating leases	0.1	0.2	0.3	0.6	(0.2)	(66.7)		
Depreciation and amortization	1.5	3.1	1.6	3.1	(0.1)	(6.3)		
Insurance and claims	1.2	2.5	2.0	3.9	(0.8)	(40.0)		
Fuel expense	0.7	1.5	0.8	1.6	(0.1)	(12.5)		
Other operating expenses	2.2	4.6	2.2	4.3	—	—		
Total operating expenses	46.2	96.5	51.4	99.8	(5.2)	(10.1)		
Income from operations	\$1.7	3.5 %	\$ 0.1	0.2 %	\$ 1.6	1,600.0 %		

Truckload Premium Services Operating Statistics

	Three months ended		September 30, 2017		Percent	
	September 30, 2018	September 30, 2017	September 30, 2017	September 30, 2017	Change	Change
			(As Adjusted)			
Total Miles ¹	19,197	24,714			(22.3)%	
Empty Miles Percentage	8.5 %	9.6 %			(11.5)	
Tractors (avg)	291	378			(23.0)	
Miles per tractor per week ²	2,317	2,823			(17.9)	
Revenue per mile	\$2.37	\$ 2.01			17.9	
Cost per mile	\$1.88	\$ 1.66			13.3 %	

¹ - In thousands

² - Calculated using Company driver and owner operator miles

Revenues

TLS revenue decreased \$3.6 million, or 7.0%, to \$47.9 million in the third quarter of 2018 from \$51.5 million in the third quarter of 2017. TLS revenue decreased due to a 22.3% decrease in overall miles mostly offset by a 17.9% increase in average revenue

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per mile. The decrease in overall miles was due to deliberate shedding of lower margin business as well as reduced fleet capacity compared to the third quarter of last year. The increased revenue per mile was primarily driven by rate increases to existing customers and, to a lesser extent, the aforementioned shedding of lower margin business.

Purchased Transportation

TLS purchased transportation costs decreased \$3.7 million, or 9.4%, to \$35.8 million for the three months ended September 30, 2018 from \$39.5 million for the same period in 2017. For the three months ended September 30, 2018, purchased transportation costs represented 74.7% of revenue compared to 76.7% for the same period in 2017. TLS purchased transportation includes owner operators and third party carriers, while company-employed drivers are included in salaries, wages and benefits. The decrease in purchased transportation was attributable to an 22.3% decrease in miles driven by owner operators and third party carriers partly offset by a 14.1% increase in cost per mile during the three months ended September 30, 2018 compared to the same period in 2017. The decrease in purchased transportation miles was attributable to the revenue activity discussed above. The increase in cost per mile was due to higher utilization of third party carriers, which are more costly than owner operators. Purchased transportation decreased as a percentage of revenue due to operational purchasing disciplines with third party carriers and the revenue rate increases mentioned above.

Salaries, Wages, and Benefits

TLS salaries, wages and employee benefits decreased by \$0.3 million, or 6.0%, to \$4.7 million in the third quarter of 2018 from \$5.0 million in the same period of 2017. Salaries, wages and employee benefits were 9.8% of TLS's operating revenue in the third quarter of 2018 compared to 9.7% for the same period in 2017. The slight decrease in salaries, wages and employee benefits as a percentage of revenue was mostly attributable to a decrease in Company-employed driver pay due to a decrease in miles driven partly offset by an increase in employee incentives and share-based compensation.

Operating Leases

TLS operating leases decreased \$0.2 million to \$0.1 million for the third quarter of 2018 from \$0.3 million for the same period in 2017. Operating leases were 0.2% of TLS operating revenue for the third quarter of 2018 compared to 0.6% for the same period in 2017. The decrease was due to a decrease in trailer rentals, as TLS utilized more purchased trailers in third quarter of 2018 compared to the same period in 2017.

Depreciation and Amortization

TLS depreciation and amortization decreased \$0.1 million, or 6.3%, to \$1.5 million in the third quarter of 2018 from \$1.6 million for the same period in 2017. Depreciation and amortization expense as a percentage of TLS operating revenue was consistent at 3.1% in the third quarter of 2018 and 2017. Depreciation and amortization is comprised mostly of Company-owned trailers and tractors.

Insurance and Claims

TLS insurance and claims expense decreased \$0.8 million, or 40.0%, to \$1.2 million for the three months ended September 30, 2018 from \$2.0 million for the same period of 2017. Insurance and claims were 2.5% of operating revenue for the three months ended September 30, 2018 compared to 3.9% in the same period of 2017. The decrease was due to lower vehicle claims reserves partly offset by higher vehicle insurance premiums. At a consolidated level, vehicle claims reserves increased; see discussion in the "Other operations" section below.

Fuel Expense

TLS fuel expense decreased \$0.1 million, or 12.5%, to \$0.7 million for the third quarter of 2018 from \$0.8 million for the same period of 2017. Fuel expense as a percentage of TLS operating revenue was 1.5% in the third quarter of

2018 compared to 1.6% for the same period of 2017. The decrease was attributable to a decrease in Company-employed driver miles, mostly offset by an increase in year-over-year fuel prices.

Other Operating Expenses

TLS other operating expenses were \$2.2 million for the three months ended September 30, 2018 and 2017. Other operating expenses were 4.6% of TLS operating revenue in the third quarter of 2018 compared to 4.3% for the same period of 2017. Other operating expenses includes equipment maintenance, terminal and office expenses, professional fees and other costs of transiting shipments. The increase was mostly due to increased driver recruiting costs compared to the same period of 2017.

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Income from Operations

TLS income from operations increased by \$1.6 million to \$1.7 million during the third quarter of 2018 from \$0.1 million for the same period in 2017. The improvement in income from operations was due to rate increases and higher fuel surcharges to existing customers, the shedding of lower margin business and lower vehicle claims reserves.

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Pool Distribution - Three Months Ended September 30, 2018 compared to Three Months Ended September 30, 2017

The following table sets forth the historical financial data of our Pool Distribution segment for the three months ended September 30, 2018 and 2017 (in millions):

Pool Distribution Segment Information

(In millions)

(Unaudited)

	Three months ended		September 30, 2017		Percent	
	September 30, 2018	Percent of Revenue	September 30, 2017 (As Adjusted)	Percent of Revenue	Change	Percent Change
Operating revenue	\$47.3	100.0 %	\$ 40.2	100.0 %	\$ 7.1	17.7 %
Operating expenses:						
Purchased transportation	14.3	30.2	11.4	28.4	2.9	25.4
Salaries, wages and employee benefits	17.5	37.0	15.3	38.1	2.2	14.4
Operating leases	4.2	8.9	3.3	8.2	0.9	27.3
Depreciation and amortization	1.7	3.6	1.7	4.2	—	—
Insurance and claims	1.3	2.7	1.1	2.8	0.2	18.2
Fuel expense	1.6	3.4	1.3	3.2	0.3	23.1
Other operating expenses	6.0	12.7	5.4	13.4	0.6	11.1
Total operating expenses	46.6	98.5	39.5	98.3	7.1	18.0
Income from operations	\$0.7	1.5 %	\$ 0.7	1.7 %	\$ —	— %

Pool Operating Statistics

	Three months ended		September 30, 2017		Percent	
	September 30, 2018	September 30, 2017 (As Adjusted)	September 30, 2018	September 30, 2017 (As Adjusted)	Change	Percent Change
Cartons ¹	22,218	19,256	15.4	—	—	— %
Revenue per Carton	\$2.13	\$ 2.09	1.9	—	—	— %
Terminals	28	28	—	—	—	— %

¹ In thousands

Revenues

Pool Distribution ("Pool") operating revenue increased \$7.1 million, or 17.7%, to \$47.3 million for the three months ended September 30, 2018 from \$40.2 million for the same period in 2017. The increase was due to rate increases and increased volumes from existing customers and lanes and new business wins.

Purchased Transportation

Pool purchased transportation increased \$2.9 million, or 25.4%, to \$14.3 million for the three months ended September 30, 2018 compared to \$11.4 million for the same period of 2017. Pool purchased transportation as a percentage of revenue was 30.2% for the three months ended September 30, 2018 compared to 28.4% for the same period of 2017. The increase in Pool purchased

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transportation as a percentage of revenue was attributable to increased rates charged by, and increased utilization of, third party carriers.

Salaries, Wages, and Benefits

Pool salaries, wages and employee benefits increased \$2.2 million, or 14.4%, to \$17.5 million for the three months ended September 30, 2018 compared to \$15.3 million for the same period of 2017. As a percentage of Pool operating revenue, salaries, wages and benefits decreased to 37.0% for the three months ended September 30, 2018 compared to 38.1% for the same period in 2017. The decrease in salaries, wages and benefits as a percentage of revenue was the result of decreases in employee incentives, group health insurance costs and administrative salaries, wages and benefits partly offset by increased dock pay. Dock pay deteriorated as a percentage of revenue as increasing revenue volumes required the use of more costly contract labor.

Operating Leases

Pool operating leases increased \$0.9 million, or 27.3%, to \$4.2 million for the three months ended September 30, 2018 compared to \$3.3 million for the same period of 2017. Operating leases were 8.9% of Pool operating revenue for the three months ended September 30, 2018 compared with 8.2% in the same period of 2017. Operating leases increased as a percentage of revenue due to increases in tractor leases for the additional revenue discussed above and the use of leased tractors to replace old purchased equipment.

Depreciation and Amortization

Pool depreciation and amortization was \$1.7 million for the three months ended September 30, 2018 and 2017. Depreciation and amortization expense as a percentage of Pool operating revenue was 3.6% in the third quarter of 2018 compared to 4.2% in the same period of 2017. The decrease in Pool depreciation and amortization as a percentage of revenue was due to the increase in leased equipment mentioned above instead of purchased equipment.

Insurance and Claims

Pool insurance and claims expense increased \$0.2 million, or 18.2%, to \$1.3 million for the three months ended September 30, 2018 from \$1.1 million for the same period of 2017. Insurance and claims were 2.7% of operating revenue for the three months ended September 30, 2018 compared to 2.8% in the same period of 2017. The decrease as a percentage of revenue was due to a decrease in claims and claims-related fees. At a consolidated level, vehicle claims reserves increased; see discussion in the "Other operations" section below.

Fuel Expense

Pool fuel expense increased \$0.3 million, or 23.1%, to \$1.6 million for the third quarter of 2018 from \$1.3 million in the same period of 2017. Fuel expenses were 3.4% of Pool operating revenue in the third quarter of 2018 compared to 3.2% for the same period of 2017. Pool fuel expenses increased due to an increase in year-over-year fuel prices and higher revenue volumes.

Other Operating Expenses

Pool other operating expenses increased \$0.6 million, or 11.1%, to \$6.0 million for the three months ended September 30, 2018 from \$5.4 million in the same period of 2017. Pool other operating expenses as a percentage of revenue for the third quarter of 2018 were 12.7% compared to 13.4% for the same period of 2017. Other operating expenses includes equipment maintenance, terminal and office expenses, professional fees and other over-the-road costs. As a percentage of revenue the decrease was primarily attributable to a 0.6% decrease in equipment maintenance costs as a percentage of revenue due to the increased usage of leased equipment instead of purchased equipment.

Income from Operations

Pool income from operations was \$0.7 million for the third quarter of 2018 and 2017. Income from operations as a percentage of Pool operating revenue was 1.5% for the three months ended September 30, 2018 compared to 1.7% for the same period of 2017. The deterioration in Pool operating income as a percentage of revenue was primarily the result of increased utilization of and higher rates charged by third party carriers and increasing revenue volumes required the use of more costly contract labor. These decreases were partly offset by current year revenue rate increases.

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Intermodal - Three Months Ended September 30, 2018 compared to Three Months Ended September 30, 2017

The following table sets forth the historical financial data of our Intermodal segment for the three months ended September 30, 2018 and 2017 (in millions):

Intermodal Segment Information

(In millions)

(Unaudited)

	Three months ended		September 30, 2017		Percent	
	September 30, 2018	Percent of Revenue	September 30, 2017 (As Adjusted)	Percent of Revenue	Change	Percent Change
Operating revenue	\$50.5	100.0 %	\$ 44.2	100.0 %	\$ 6.3	14.3 %
Operating expenses:						
Purchased transportation	19.3	38.2	19.1	43.2	0.2	1.0
Salaries, wages and employee benefits	10.9	21.6	9.0	20.4		