

FORWARD AIR CORP  
Form 10-Q  
October 26, 2017  
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, 2017  
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  
Greeneville, Tennessee 37745  
(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 x 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 x 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 Emerging growth  
x o o company o company o

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. o

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 24, 2017 was 29,772,242.

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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,<br>2017 | December 31,<br>2016 |
|---|-----------------------|----------------------|
| Assets  |                       |                      |
| Current assets:   |                       |                      |
| Cash  | \$ 12,423             | \$ 8,511             |
| Accounts receivable, less allowance of \$2,898 in 2017 and \$1,714 in 2016  | 132,100               | 116,602              |
| Other current assets  | 13,319                | 11,157               |
| Total current assets  | 157,842               | 136,270              |
| Property and equipment  | 383,890               | 379,021              |
| Less accumulated depreciation and amortization  | 192,109               | 178,816              |
| Total property and equipment, net   | 191,781               | 200,205              |
| Goodwill and other acquired intangibles:  |                       |                      |
| Goodwill  | 191,535               | 184,675              |
| Other acquired intangibles, net of accumulated amortization of \$68,971 in 2017 and \$61,334 in 2016                                      | 113,562               | 106,650              |
| Total net goodwill and other acquired intangibles   | 305,097               | 291,325              |
| Other assets  | 14,448                | 13,491               |
| Total assets  | \$ 669,168            | \$ 641,291           |
| Liabilities and Shareholders' Equity  |                       |                      |
| Current liabilities:  |                       |                      |
| Accounts payable  | \$ 22,377             | \$ 18,012            |
| Accrued expenses  | 35,354                | 31,903               |
| Current portion of debt and capital lease obligations   | 466                   | 28,012               |
| Total current liabilities   | 58,197                | 77,927               |
| Long-term debt and capital lease obligations, less current portion  | 40,696                | 725                  |
| Other long-term liabilities   | 22,681                | 21,699               |
| Deferred income taxes   | 42,004                | 41,871               |
| Shareholders' equity:   |                       |                      |
| Preferred stock   | —                     | —                    |
| Common stock, \$0.01 par value: Authorized shares - 50,000,000, Issued and outstanding shares - 29,532,362 in 2017 and 30,090,335 in 2016 | 295                   | 301                  |
| Additional paid-in capital  | 191,352               | 179,512              |
| Retained earnings   | 313,943               | 319,256              |
| Total shareholders' equity  | 505,590               | 499,069              |
| Total liabilities and shareholders' equity  | \$ 669,168            | \$ 641,291           |

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,      | September 30, | September 30,     | September 30, |
|  | 2017               | 2016          | 2017              | 2016          |
| Operating revenue                                    | \$280,201          | \$ 249,552    | \$794,700         | \$ 717,737    |
| Operating expenses:                                  |                    |               |                   |               |
| Purchased transportation                             | 123,326            | 105,039       | 342,017           | 300,783       |
| Salaries, wages and employee benefits                | 64,882             | 60,161        | 191,282           | 175,857       |
| Operating leases                                     | 16,809             | 16,215        | 47,205            | 44,684        |
| Depreciation and amortization                        | 10,326             | 9,399         | 30,578            | 28,409        |
| Insurance and claims                                 | 7,844              | 7,170         | 21,379            | 19,213        |
| Fuel expense   | 4,096              | 3,416         | 11,448            | 9,375         |
| Other operating expenses                             | 26,020             | 23,452        | 70,895            | 65,218        |
| Impairment of goodwill, intangibles and other assets | —                  | —             | —                 | 42,442        |
| Total operating expenses                             | 253,303            | 224,852       | 714,804           | 685,981       |
| Income from operations                               | 26,898             | 24,700        | 79,896            | 31,756        |
| Other income (expense):                              |                    |               |                   |               |
| Interest expense                                     | (288               | ) (216        | ) (806            | ) (1,230      |
| Other, net   | (2                 | ) (4          | ) (11             | ) (149        |
| Total other income (expense)                         | (290               | ) (220        | ) (817            | ) (1,379      |
| Income before income taxes                           | 26,608             | 24,480        | 79,079            | 30,377        |
| Income tax expense                                   | 8,453              | 12,549        | 27,131            | 15,413        |
| Net income and comprehensive income                  | \$18,155           | \$ 11,931     | \$51,948          | \$ 14,964     |
| Net income per share:                                |                    |               |                   |               |
| Basic  | \$0.60             | \$ 0.39       | \$1.72            | \$ 0.49       |
| Diluted  | \$0.60             | \$ 0.39       | \$1.71            | \$ 0.49       |
| Dividends per share:                                 | \$0.15             | \$ 0.12       | \$0.45            | \$ 0.36       |

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

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

|  | Nine months ended     |                       |
|--|-----------------------|-----------------------|
|  | September 30,<br>2017 | September 30,<br>2016 |
| Operating activities:  |                       |                       |
| Net income   | \$51,948              | \$ 14,964             |
| Adjustments to reconcile net income to net cash provided by operating activities |                       |                       |
| Depreciation and amortization  | 30,578                | 28,409                |
| Impairment of goodwill, intangible and other assets                              | —                     | 42,442                |
| Share-based compensation   | 5,965                 | 6,204                 |
| Loss on disposal of property and equipment                                       | 701                   | 201                   |
| Provision for loss on receivables  | 1,788                 | 268                   |
| Provision for revenue adjustments  | 2,131                 | 1,570                 |
| Deferred income tax  | 132                   | 661                   |
| Excess tax benefit for stock options exercised                                   | —                     | (137 )                |
| Changes in operating assets and liabilities                                      |                       |                       |
| Accounts receivable  | (19,417 )             | (8,000 )              |
| Other current assets   | (1,411 )              | (1,354 )              |
| Accounts payable and accrued expenses  | 5,296                 | 9,380                 |
| Net cash provided by operating activities  | 77,711                | 94,608                |
| Investing activities:  |                       |                       |
| Proceeds from disposal of property and equipment                                 | 1,497                 | 1,795                 |
| Purchases of property and equipment  | (13,610 )             | (28,725 )             |
| Acquisition of business, net of cash acquired                                    | (22,500 )             | (11,800 )             |
| Other  | (73 )                 | (673 )                |
| Net cash used in investing activities  | (34,686 )             | (39,403 )             |
| Financing activities:  |                       |                       |
| Payments of debt and capital lease obligations                                   | (42,715 )             | (41,825 )             |
| Proceeds from senior credit facility   | 55,000                | —                     |
| Proceeds from exercise of stock options  | 5,642                 | 7,041                 |
| Payments of cash dividends   | (13,584 )             | (10,987 )             |
| Repurchase of common stock (repurchase program)                                  | (41,983 )             | (29,986 )             |
| Common stock issued under employee stock purchase plan                           | 226                   | 215                   |
| Excess tax benefit for stock options exercised                                   | —                     | 137                   |
| Cash settlement of share-based awards for tax withholdings                       | (1,699 )              | (1,800 )              |
| Net cash used in financing activities  | (39,113 )             | (77,205 )             |
| Net increase (decrease) in cash  | 3,912                 | (22,000 )             |
| Cash at beginning of period  | 8,511                 | 33,312                |
| Cash at end of period  | \$12,423              | \$ 11,312             |

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





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Notes to Condensed Consolidated Financial Statements

(In thousands, except share and per share data)

(Unaudited)

September 30, 2017

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 principal 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.

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 when measured on a quarterly basis; therefore operating results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. 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, 2016.

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 March 2016, the Financial Accounting Standards Board ("FASB") issued guidance that changes the accounting for certain aspects of share-based payments to employees. The guidance requires the recognition of the income tax effects

of awards in the income statement when the awards vest or are settled, thus eliminating additional paid in capital ("APIC") pools. The guidance also allows for the employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for, and we elected, to account for forfeitures as they occur rather than on an estimated basis. We adopted this guidance in January 2017 and the elimination of APIC pools resulted in approximately \$147 of income tax benefit during the nine months ended September 30, 2017. This guidance has been applied prospectively and no prior periods have been adjusted.

In February 2016, the FASB, issued ASU 2016-02, Leases, which introduces the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. 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 are evaluating the impact of the future adoption of this standard on our consolidated financial statements.

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

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Notes to Condensed Consolidated Financial Statements

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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 will implement the use of full retrospective presentation. While evaluating principal versus agent relationships under the new standard, we determined that we will transition certain revenue streams from an agent to principal relationship. This will cause these revenue streams and their associated costs to be recognized on a gross basis that have historically been netted. This would increase revenue and expenses by approximately \$46,000 for the nine months ended September 30, 2017 and \$33,000 for the same period of 2016 and would have no impact on operating income.

In addition, based on a review of our customer shipping arrangements, we currently believe the implementation of this standard will change our revenue recognition policy from recognizing revenue upon shipment completion to recognizing revenue over time based on the progress toward completion of shipments in transit at each period end. While the timing of revenue recognition will be accelerated, due to the short duration of our transit times and relatively low dollar value of individual shipments, the anticipated impact on our consolidated financial position, revenue and results from operations is not expected to be significant.

### 3. Acquisitions and Goodwill

#### Acquisition of Atlantic, Triumph and Ace

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 a potential earnout of \$1,000. 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 allow Intermodal to significantly expand its footprint in the southeastern region. During the year ended December 31, 2016, Atlantic generated approximately \$62,300 in revenue.

In August 2016, we also acquired certain assets of Triumph Transport, Inc. and Triumph Repair Service, Inc. (together referred to as "Triumph") for \$10,100 and an earnout of \$1,250 paid in September 2017. The assets, liabilities, and operating results of Triumph have been included in the Company's consolidated financial statements from the date of acquisition and have been assigned to the Intermodal reportable segment. In January 2016, the Company also acquired certain assets of Ace Cargo, LLC ("Ace") for \$1,700.

The assets, liabilities, and operating results of Atlantic, Triumph and Ace have been included in the Company's consolidated financial statements from the respective dates of acquisition and have been assigned to the Intermodal reportable segment. During the third quarter of 2017, Atlantic contributed \$14,745 in revenue and \$1,119 in operating income.

**Allocations of Purchase Prices**

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

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(Unaudited)

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|                         | Atlantic       | Triumph<br>& Ace |
|-------------------------|----------------|------------------|
|                         | May 7,<br>2017 | 2016             |
| Tangible assets:        |                |                  |
| Property and equipment  | \$1,821        | \$1,294          |
| Total tangible assets   | 1,821          | 1,294            |
| Intangible assets:      |                |                  |
| Non-compete agreements  | 1,150          | 139              |
| Customer relationships  | 13,400         | 5,335            |
| Goodwill                | 6,860          | 6,282            |
| Total intangible assets | 21,410         | 11,756           |
| Total assets acquired   | 23,231         | 13,050           |

Liabilities assumed:

|                                    |          |          |
|------------------------------------|----------|----------|
| Other liabilities                  | 590      | 1,250    |
| Debt and capital lease obligations | 141      | —        |
| Total liabilities assumed          | 731      | 1,250    |
| Net assets acquired                | \$22,500 | \$11,800 |

The above purchase price allocation for Atlantic is preliminary, as the Company is still in the process of finalizing the valuation of the acquired assets and liabilities assumed. The above estimated fair values of assets acquired and liabilities assumed for Atlantic are based on the information that was available as of the acquisition date through the date of this filing. The acquired definite-lived intangible assets have the following useful lives:

|  | Useful Lives | Atlantic | Triumph & Ace |
|--|--------------|----------|---------------|
|--|--------------|----------|---------------|

|                        |          |          |
|------------------------|----------|----------|
| Customer relationships | 15 years | 15 years |
|------------------------|----------|----------|

|                        |         |         |
|------------------------|---------|---------|
| Non-compete agreements | 5 years | 5 years |
|------------------------|---------|---------|

The fair value of the non-compete agreements and customer relationships assets were estimated using an income approach (level 3). 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.

Escrow Funds

In 2015, the Company acquired CLP Towne Inc. ("Towne") resulting in Towne becoming an indirect, wholly-owned subsidiary of the Company. At the time of acquisition \$16,500 of the total purchase price was placed into an escrow account, to settle any shortfall in Towne's net working capital and to be available for a period of time to settle certain possible claims against Towne's common stockholders for indemnification. During the second quarter of 2017, we received \$2,525 from this escrow for reimbursement of various claims. Approximately \$1,621 was credited to operating leases and other operating expenses to offset related costs incurred in previous periods. The remaining \$904 was used to establish reserves for various pending claims.

Goodwill

The Company conducted its annual impairment assessments and tests of goodwill for each reporting unit as of June 30, 2017 and no impairment charges were required. The first step of the goodwill impairment test is the Company's assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than the reporting unit's carrying amount, including goodwill. When performing the qualitative assessment, the Company considers the impact of factors including, but not limited to, macroeconomic and industry conditions, overall financial performance of each reporting unit, litigation and new legislation. If based on the qualitative assessments, the Company believes it more likely than not that the fair value of a reporting unit is less than the reporting unit's carrying amount, or periodically as deemed appropriate by management, the Company

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will prepare an estimation of the respective reporting unit's fair value utilizing a quantitative approach. If a quantitative fair value estimation is required, the Company estimates the fair value of the applicable reporting units, using a combination of discounted projected cash flows and market valuations for comparable companies as of the valuation date. The Company's inputs into the fair value estimates for goodwill are classified within level 3 of the fair value hierarchy as defined in the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles ("the FASB Codification"). If this estimation of fair value indicates that impairment potentially exists, the Company will then measure the amount of the impairment, if any. Goodwill impairment exists when the 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.

We have five reporting units - Expedited LTL, TLX Forward Air, Intermodal, Pool Distribution and Total Quality, Inc. ("TQI"). The TLX Forward Air and the TQI reporting units are assigned to the Truckload Premium Services reporting segment. Currently, there is no goodwill assigned to the TLX Forward Air reporting unit.

In 2016, due to the financial performance of the Total Quality, Inc. ("TQI") reporting unit falling notably short of previous projections, declining revenue from significant customers and strategic initiatives not having the required impact on financial results, the Company reduced TQI's projected cash flows and as a result the estimate of TQI's fair value no longer exceeded the respective carrying value. As a result of these assessments, the Company concluded that an impairment loss was probable and could be reasonably estimated for the TQI reporting unit, which is included in the TLS reportable segment. Consequently, the Company recorded a goodwill impairment charge of \$25,686 for the TQI reporting unit during the three months ended June 30, 2016.

The following is a summary of the changes to goodwill for the nine months ended September 30, 2017.

Approximately \$112,391 of goodwill is deductible for tax purposes.

|                                      | Expedited LTL |            | TLS         |            | Pool Distribution |            | Intermodal  |            | Total      |
|--------------------------------------|---------------|------------|-------------|------------|-------------------|------------|-------------|------------|------------|
|                                      | Accumulated   |            | Accumulated |            | Accumulated       |            | Accumulated |            | Net        |
|                                      | Goodwill      | Impairment | Goodwill    | Impairment | Goodwill          | Impairment | Goodwill    | Impairment |            |
| Beginning balance, December 31, 2016 | \$97,593      | \$—        | \$45,164    | \$(25,686) | \$12,359          | \$(6,953)  | \$62,198    | \$—        | —\$184,675 |
| Atlantic Acquisition                 | —             | —          | —           | —          | —                 | —          | 6,860       | —          | 6,860      |
| Ending balance, September 30, 2017   | \$97,593      | \$—        | \$45,164    | \$(25,686) | \$12,359          | \$(6,953)  | \$69,058    | \$—        | —\$191,535 |

Intangibles and Other Long-Lived Assets

Additionally, the Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is recognized on assets classified as held and used when the sum of undiscounted estimated cash flows expected to result from the use of the asset is less than the carrying value. If such measurement indicates a possible impairment, the estimated fair value of the asset is compared to its net book value to measure the impairment charge, if any. In conjunction with the June 30, 2016 TQI goodwill impairment assessment, the Company determined there were indicators that TQI's customer relationship and non-compete intangible assets were impaired as the undiscounted cash flows associated with the applicable assets no longer exceeded the related assets' net book values. The Company then estimated the current market values of the customer relationship and non-compete assets using an income approach (level 3). As a result of these estimates the Company recorded an impairment charge of \$16,501 related to TQI customer relationships during the three months ended June 30, 2016.

In addition, during the three months ended June 30, 2016, the Company also discontinued use of an owned maintenance facility and began efforts to sell the property. In conjunction with these actions, the Company incurred a \$255 impairment charge that was estimated using current offers received to sell the property less estimated cost to sell the facility.



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Notes to Condensed Consolidated Financial Statements

(In thousands, except share and per share data)

(Unaudited)

September 30, 2017

## 4. Share-Based Payments

The Company's general practice has been to make a single annual grant of share-based compensation to key employees and to 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, 2017 and 2016 were as follows:

|  | Three months ended |               |      |   |
|--|--------------------|---------------|------|---|
|  | September 30,      | September 30, |      |   |
|  | 2017               | 2016          |      |   |
| Expected dividend yield                  | 1.3                | %             | —    | % |
| Expected stock price volatility          | 28.7               | %             | —    | % |
| Weighted average risk-free interest rate | 2.0                | %             | —    | % |
| Expected life of options (years)         | 6.0                |               | 0    |   |
| Weighted average grant date fair value   | \$ 14              |               | \$ — |   |

|  | Nine months ended |               |
|--|-------------------|---------------|
|  | September 30,     | September 30, |
|  | 2017              | 2016          |

|  |       |   |       |   |
|--|-------|---|-------|---|
| Expected dividend yield                  | 1.3   | % | 1.0   | % |
| Expected stock price volatility          | 28.7  | % | 29.0  | % |
| Weighted average risk-free interest rate | 2.0   | % | 1.3   | % |
| Expected life of options (years)         | 6.0   |   | 6.0   |   |
| Weighted average grant date fair value   | \$ 13 |   | \$ 12 |   |

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

|   | Three months ended September 30,<br>2017 |   |  |  | Three months ended<br>September 30,<br>2017 |         | September 30,<br>2016 |  |
|---|--|---|--|--|---|---------|-----------------------|--|
|   | Options<br>(000)                         | Weighted-<br>Average<br>Exercise<br>Price | Aggregate<br>Intrinsic<br>Value<br>(000) | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term |   |         |                       |  |
| Outstanding at June 30, 2017  | 507                                      | \$ 44                                     |  |  |   |         |                       |  |
| Granted   | 5  | 54  |  |  |   |         |                       |  |
| Exercised   | (18)                                     | 41  |  |  |   |         |                       |  |
| Forfeited   | (22)                                     | 47  |  |  |   |         |                       |  |
| Outstanding at September 30, 2017   | 472                                      | \$ 44                                     | \$ 3,963                                 | 4.5  |   |         |                       |  |
| Exercisable at September 30, 2017   | 255                                      | \$ 42                                     | \$ 2,671                                 | 3.3  |   |         |                       |  |
| Share-based compensation for options  |  |   |  |  |   | \$294   | \$ 377                |  |
| Tax benefit for option compensation   |  |   |  |  |   | \$105   | \$ 140                |  |
| Unrecognized compensation cost for options, net of estimated forfeitures                |  |   |  |  |   | \$1,909 | \$ 2,036              |  |
| Weighted average period over which unrecognized compensation will be recognized (years) |  |   |  |  |   | 1.9     |                       |  |
|   | Nine months ended September 30, 2017     |   |  |  | Nine months ended<br>September 30,<br>2017  |         | September 30,<br>2016 |  |
|   | Options<br>(000)                         | Weighted-<br>Average<br>Exercise<br>Price | Aggregate<br>Intrinsic<br>Value<br>(000) | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term |   |         |                       |  |
| Outstanding at December 31, 2016  | 564                                      | \$ 41                                     |  |  |   |         |                       |  |
| Granted   | 123                                      | 48  |  |  |   |         |                       |  |
| Exercised   | (169)                                    | 34  |  |  |   |         |                       |  |
| Forfeited   | (46)                                     | 46  |  |  |   |         |                       |  |
| Outstanding at September 30, 2017   | 472                                      | \$ 44                                     | \$ 3,963                                 | 4.5  |   |         |                       |  |
| Exercisable at September 30, 2017   | 255                                      | \$ 42                                     | \$ 2,671                                 | 3.3  |   |         |                       |  |
| Share-based compensation for options  |  |   |  |  |   | \$993   | \$ 1,101              |  |
| Tax benefit for option compensation   |  |   |  |  |   | \$354   | \$ 407                |  |
| Unrecognized compensation cost for options, net of estimated forfeitures                |  |   |  |  |   | \$1,909 | \$ 2,036              |  |
| Weighted average period over which unrecognized compensation will be recognized (years) |  |   |  |  |   | 1.9     |                       |  |



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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:

|  | Three months ended<br>September 30, 2017 |         |            |
|--|--|---------|------------|
|  | Weighted-Average                         |         | Grant      |
|  | Non-vested                               | Average | Date       |
|  | Shares                                   | Grant   | Fair Value |
|  | (000)                                    | Date    | (000)      |
| Outstanding and non-vested at June 30, 2017      | 232                                      | \$ 47   |            |
| Granted  | 1  | 54      |            |
| Vested   | —  | —       |            |
| Forfeited  | (4)                                      | 47      |            |
| Outstanding and non-vested at September 30, 2017 | 229                                      | \$ 47   | \$ 10,658  |

|   | Three months ended |                    |
|---|--------------------|--------------------|
|   | September 30, 2017 | September 30, 2016 |
| Share-based compensation for non-vested shares  | \$1,243            | \$ 1,176           |
| Tax benefit for non-vested share compensation   | \$444              | \$ 434             |
| Unrecognized compensation cost for non-vested shares, net of estimated forfeitures      | \$7,410            | \$ 7,147           |
| Weighted average period over which unrecognized compensation will be recognized (years) | 1.9                |                    |

|  | Nine months ended<br>September 30, 2017 |         |            |
|--|---|---------|------------|
|  | Weighted-Average                        |         | Grant      |
|  | Non-vested                              | Average | Date       |
|  | Shares                                  | Grant   | Fair Value |
|  | (000)                                   | Date    | (000)      |
| Outstanding and non-vested at December 31, 2016  | 222                                     | \$ 45   |            |
| Granted  | 127                                     | 48      |            |
| Vested   | (104)                                   | 45      |            |
| Forfeited  | (16)                                    | 47      |            |
| Outstanding and non-vested at September 30, 2017 | 229                                     | \$ 47   | \$ 10,658  |

Nine months ended

|   | September 30,<br>2017 | September 30,<br>2016 |
|---|-----------------------|-----------------------|
| Share-based compensation for non-vested shares  | \$3,762               | \$ 3,434              |
| Tax benefit for non-vested share compensation   | \$1,343               | \$ 1,270              |
| Unrecognized compensation cost for non-vested shares, net of estimated forfeitures      | \$7,410               | \$ 7,147              |
| Weighted average period over which unrecognized compensation will be recognized (years) | 1.9                   |                       |

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## 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 30% 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,<br>2017 |   | September 30,<br>2016 |   |
| Expected stock price                     | 24.7                  | % | 22.3                  | % |
| volatility                               |                       |   |                       |   |
| Weighted average risk-free interest rate | 1.4                   | % | 0.8                   | % |

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

|  | Three months ended<br>September 30, 2017 |               |
|--|--|---------------|
|  | Weighted-Average<br>Performance          | Grant<br>Date |
|  | Shares                                   | Fair Value    |
|  | Grant<br>Date                            | Fair Value    |
|  | (000)                                    | (000)         |
| Outstanding and non-vested at June 30, 2017      | 72                                       | \$ 57         |
| Granted  | 1  | 54            |
| Forfeited  | (4)                                      | \$ 57         |
| Outstanding and non-vested at September 30, 2017 | 69                                       | \$ 57         |
|  |  | \$ 3,956      |

|   | Three months ended    |                       |
|---|-----------------------|-----------------------|
|   | September 30,<br>2017 | September 30,<br>2016 |
| Share-based compensation for performance shares   | \$249                 | \$ 367                |
| Tax benefit for performance share compensation  | \$88                  | \$ 136                |
| Unrecognized compensation cost for performance shares, net of estimated forfeitures     | \$1,740               | \$ 2,076              |
| Weighted average period over which unrecognized compensation will be recognized (years) | 1.8                   |                       |





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|  | Nine months ended<br>September 30, 2017 |                            |            |
|--|---|----------------------------|------------|
|  | Weighted-<br>Average<br>Performance     | Aggregate<br>Grant<br>Date |            |
|  | Shares                                  | Grant<br>Date              | Fair Value |
|  | (000)                                   | Fair Value                 | (000)      |
| Outstanding and non-vested at December 31, 2016  | 80                                      | \$ 55                      |            |
| Granted  | 26                                      | 56                         |            |
| Additional shares awarded based on performance   | —                                       | —                          |            |
| Vested   | —                                       | —                          |            |
| Forfeited  | (37)                                    | 51                         |            |
| Outstanding and non-vested at September 30, 2017 | 69                                      | \$ 57                      | \$ 3,956   |

|   | Nine months ended<br>September 30, |          |
|---|------------------------------------|----------|
|   | 2017                               | 2016     |
| Share-based compensation for performance shares   | \$689                              | \$ 1,080 |
| Tax benefit for performance share compensation  | \$246                              | \$ 400   |
| Unrecognized compensation cost for performance shares, net of estimated forfeitures     | \$1,740                            | \$ 2,076 |
| Weighted average period over which unrecognized compensation will be recognized (years) | 1.8                                |          |

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 376,625 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, 2017, participants under the plan purchased 5,188 shares at an average price of \$43.59 per share. For the nine months ended September 30, 2016, participants under the plan purchased 5,592 shares at an average price of \$38.50 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. The weighted-average fair value of each purchase right under the ESPP granted for the nine months ended September 30, 2016, which is equal to the discount from the market value of the common stock at the end of each six month purchase period, was \$6.03 per share. Share-based compensation expense of \$51 and \$34 was recognized during the nine months ended September 30, 2017 and 2016, respectively.

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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:

|  | Three months ended<br>September 30, 2017 |            |            |
|--|--|------------|------------|
|  | Weighted- Aggregate                      |            |            |
|  | Non-vested                               | Grant      |            |
|  | Average                                  | Date       |            |
|  | Shares                                   | Grant      | Fair Value |
|  | Date                                     | Date       |            |
|  | (000)                                    | Fair Value | (000)      |
| Outstanding and non-vested at June 30, 2017      | 10                                       | \$ 51      |            |
| Granted  | 4  | 54         |            |
| Vested   | —  | —          |            |
| Forfeited  | (1)                                      | \$ 51      |            |
| Outstanding and non-vested at September 30, 2017 | 13                                       | \$ 52      | \$ 656     |

|   | Three months ended |               |
|---|--------------------|---------------|
|   | September 30,      | September 30, |
|   | 2017               | 2016          |
| Share-based compensation for non-vested shares  | \$ 153             | \$ 173        |
| Tax benefit for non-vested share compensation   | \$ 54              | \$ 64         |
| Unrecognized compensation cost for non-vested shares, net of estimated forfeitures      | \$ 430             | \$ 419        |
| Weighted average period over which unrecognized compensation will be recognized (years) | 0.6                |               |

|  | Nine months ended<br>September 30, 2017 |            |            |
|--|---|------------|------------|
|  | Weighted- Aggregate                     |            |            |
|  | Non-vested                              | Grant      |            |
|  | Average                                 | Date       |            |
|  | Shares                                  | Grant      | Fair Value |
|  | Date                                    | Date       |            |
|  | (000)                                   | Fair Value | (000)      |
| Outstanding and non-vested at December 31, 2016  | 16                                      | \$ 44      |            |
| Granted  | 14                                      | 52         |            |
| Vested   | (16)                                    | 44         |            |
| Forfeited  | (1)                                     | \$ 51      |            |
| Outstanding and non-vested at September 30, 2017 | 13                                      | \$ 52      | \$ 656     |

Nine months ended  
 September 30,  
 2017 2016

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|   |        |        |
|---|--------|--------|
| Share-based compensation for non-vested shares  | \$ 470 | \$ 555 |
| Tax benefit for non-vested share compensation   | \$ 167 | \$ 198 |
| Unrecognized compensation cost for non-vested shares, net of estimated forfeitures      | \$ 430 | \$ 419 |
| Weighted average period over which unrecognized compensation will be recognized (years) | 0.6    |        |

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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 refinances the Company’s existing obligations for its unsecured credit facility under the credit agreement dated as of February 4, 2015, as amended, which has been 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. The Facility 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, 2017, we had \$40,500 in borrowings outstanding under the revolving credit facility, \$8,677 utilized for outstanding letters of credit and \$100,823 of available borrowing capacity under the revolving credit facility. The interest rate on the outstanding borrowing under the revolving credit facility was 2.6% at September 30, 2017.

Our new facility is replacing our previously existing unsecured credit facility, which had a maximum aggregate principal amount of \$275,000, including a revolving credit facility of \$150,000 and a term loan facility of \$125,000. The previous revolving credit facility was scheduled to expire in February 2020.

6. Net Income Per Share

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

|  | Three months ended |                    | Nine months ended  |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | September 30, 2017 | September 30, 2016 | September 30, 2017 | September 30, 2016 |
| Numerator:                                   |                    |                    |                    |                    |
| Net income and comprehensive income          | \$18,155           | \$ 11,931          | \$51,948           | \$ 14,964          |
| Income allocated to participating securities | (145 )             | (93 )              | (419 )             | (114 )             |

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|   |          |           |          |           |
|---|----------|-----------|----------|-----------|
| Numerator for basic and diluted income per share - net income               | \$18,010 | \$ 11,838 | \$51,529 | \$ 14,850 |
| Denominator (in thousands):   |          |           |          |           |
| Denominator for basic income per share - weighted-average shares            | 29,855   | 30,191    | 29,977   | 30,316    |
| Effect of dilutive stock options (in thousands)                             | 52       | 117       | 62       | 151       |
| Effect of dilutive performance shares (in thousands)                        | 33       | 30        | 30       | 29        |
| Denominator for diluted income per share - adjusted weighted-average shares | 29,940   | 30,338    | 30,069   | 30,496    |
| Basic net income per share  | \$0.60   | \$ 0.39   | \$1.72   | \$ 0.49   |
| Diluted net income per share  | \$0.60   | \$ 0.39   | \$1.71   | \$ 0.49   |

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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,<br>2017 | September 30,<br>2016 |
|---|-----------------------|-----------------------|
| Anti-dilutive stock options (in thousands)                              | 172                   | 309                   |
| Anti-dilutive performance shares (in thousands)                         | —                     | —                     |
| Anti-dilutive non-vested shares and deferred stock units (in thousands) | —                     | —                     |
| Total anti-dilutive shares (in thousands)                               | 172                   | 309                   |

## 7. Income Taxes

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, various states and Canada. With a few exceptions, the Company is no longer subject to U.S. federal, state and local, or Canadian examinations by tax authorities for years before 2010.

For the three and nine months ended September 30, 2017 and 2016, the effective income tax rates varied from the statutory federal income tax rate of 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, 2017 was 34.3% compared to a rate of 50.7% for the same period in 2016. The higher effective tax rate for the first nine months of 2016 was primarily due to the TQI goodwill impairment (Note 3) that was not deductible for tax purposes. The effective tax rate for 2017 was also lower due to a change in the estimated tax benefit from a technology credit and the implementation of new FASB guidance that requires we recognize the income tax effects of awards when the awards vest or are settled. Previously any income tax effect was recognized in additional paid in capital. See further discussion in the "Impact of Recent Accounting Pronouncements" section of this document.

## 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.

The Company's revolving credit facility and term loan bear 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,  
2017

|                | Carrying<br>Value | Fair<br>Value |
|----------------|-------------------|---------------|
| Capital leases | \$ 954            | \$ 935        |

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 the fourth quarter of 2016 and each quarter of 2017, our Board of Directors declared a cash dividend of \$0.15 per share of common stock. During the first, second and third quarters of 2016, the Company's Board of Directors declared a cash dividend of \$0.12 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.

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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. During the three months ended September 30, 2017, we repurchased 579,769 for \$29,988, or \$51.72 per share. During the nine months ended September 30, 2017, we repurchased 826,633 for \$41,983, or \$50.79 per share. During the three months ended September 30, 2016, we repurchased 222,388 for \$9,996, or \$44.95 per share. During the nine months ended September 30, 2016, we repurchased 676,773 shares for \$29,986, or an average of \$44.31 per share. The repurchases made for the three and nine months ended September 30, 2016 were made under a previous share repurchase plan approved by our Board of Directors on February 7, 2014. This plan was canceled and replaced on July 21, 2016. As of September 30, 2017, 1,939,851 shares remain to be purchased under the 2016 Plan.

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. 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, 2016. For workers compensation and vehicle claims each segment is charged an insurance premium and is also charged a deductible that corresponds with our corporate deductibles. 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.

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. Beginning in the first quarter of 2017, a trailer expense allocation was included in Pool's 2017 results from operations. 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.

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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, 2017 and 2016.

|                                  | Three months ended September 30, 2017 |           |              |            |                         |              |
|----------------------------------|---------------------------------------|-----------|--------------|------------|-------------------------|--------------|
|                                  | Expedited Truckload Pool              |           |              | Intermodal | Eliminations<br>& other | Consolidated |
|                                  | LTL                                   | Premium   | Distribution |            |                         |              |
| External revenues                | \$ 155,006                            | \$ 43,865 | \$ 39,122    | \$ 42,208  | \$ —                    | \$ 280,201   |
| 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 from operations           | 23,204                                | 136       | 681          | 3,480      | (603 )                  | 26,898       |
| Total assets                     | 633,914                               | 59,657    | 53,201       | 145,394    | (222,998)               | 669,168      |
| Capital expenditures             | 8,372                                 | 7         | 239          | 330        | —                       | 8,948        |

|                                  | Three months ended September 30, 2016 |           |              |            |                         |              |
|----------------------------------|---------------------------------------|-----------|--------------|------------|-------------------------|--------------|
|                                  | Expedited Truckload Pool              |           |              | Intermodal | Eliminations<br>& other | Consolidated |
|                                  | LTL                                   | Premium   | Distribution |            |                         |              |
| External revenues                | \$ 143,753                            | \$ 41,927 | \$ 36,305    | \$ 27,567  | \$ —                    | \$ 249,552   |
| Intersegment revenues            | 584                                   | 283       | 132          | 12         | (1,011 )                | —            |
| Depreciation and amortization    | 5,470                                 | 1,470     | 1,472        | 987        | —                       | 9,399        |
| Share-based compensation expense | 1,792                                 | 98        | 84           | 119        | —                       | 2,093        |
| Interest expense                 | 385                                   | —         | —            | 12         | (181 )                  | 216          |
| Income (loss) from operations    | 21,014                                | 2,038     | 66           | 3,041      | (1,459 )                | 24,700       |
| Total assets                     | 634,028                               | 52,465    | 46,327       | 128,048    | (219,355)               | 641,513      |
| Capital expenditures             | 11,915                                | 36        | 722          | 11         | —                       | 12,684       |

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|                                  | Nine months ended September 30, 2017 |           |            |                      |           | Consolidated |
|----------------------------------|--------------------------------------|-----------|------------|----------------------|-----------|--------------|
|                                  | Expedited Truckload                  | Pool      | Intermodal | Eliminations & other |           |              |
|                                  | LTL                                  | Premium   |            |                      |           |              |
| External revenues                | \$446,658                            | \$128,666 | \$113,639  | \$105,737            | \$ —      | \$794,700    |
| 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    | 64,596                               | 3,699     | 3,672      | 9,133                | (1,204)   | 79,896       |
| Total assets                     | 633,914                              | 59,657    | 53,201     | 145,394              | (222,998) | 669,168      |
| Capital expenditures             | 12,640                               | 15        | 524        | 431                  | —         | 13,610       |

|                                  | Nine months ended September 30, 2016 |           |            |                      |           | Consolidated |
|----------------------------------|--------------------------------------|-----------|------------|----------------------|-----------|--------------|
|                                  | Expedited Truckload                  | Pool      | Intermodal | Eliminations & other |           |              |
|                                  | LTL                                  | Premium   |            |                      |           |              |
| External revenues                | \$421,194                            | \$119,574 | \$100,726  | \$76,243             | \$ —      | \$717,737    |
| Intersegment revenues            | 2,216                                | 696       | 427        | 148                  | (3,487)   | —            |
| Depreciation and amortization    | 16,278                               | 4,944     | 4,434      | 2,753                | —         | 28,409       |
| Share-based compensation expense | 5,353                                | 260       | 251        | 340                  | —         | 6,204        |
| Interest expense                 | 1,345                                | —         | —          | 66                   | (181)     | 1,230        |
| Income (loss) from operations    | 63,026                               | (36,679)  | (191)      | 8,170                | (2,570)   | 31,756       |
| Total assets                     | 634,028                              | 52,465    | 46,327     | 128,048              | (219,355) | 641,513      |
| Capital expenditures             | 24,487                               | 1,821     | 2,275      | 142                  | —         | 28,725       |

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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

Acquisitions

In August 2016, our Intermodal segment acquired certain assets of Triumph for \$10.1 million and a potential earnout of \$1.3 million. In May 2017, our Intermodal segment acquired certain assets of Atlantic for \$22.5 million and a potential earnout of \$1.0 million. These acquisitions provide an opportunity for our Intermodal segment to expand into additional geographic markets or add volumes to our existing locations.

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## Results from Operations

The following table sets forth our consolidated historical financial data for the three months ended September 30, 2017 and 2016 (in millions):

|  | Three months ended September 30 |         |        |                |
|--|---------------------------------|---------|--------|----------------|
|  | 2017                            | 2016    | Change | Percent Change |
| Operating revenue:                     |                                 |         |        |                |
| Expedited LTL                          | \$155.7                         | \$144.3 | \$11.4 | 7.9 %          |
| Truckload Premium Services             | 45.9                            | 42.2    | 3.7    | 8.8            |
| Pool Distribution                      | 39.2                            | 36.4    | 2.8    | 7.7            |
| Intermodal                             | 42.3                            | 27.6    | 14.7   | 53.3           |
| Eliminations and other operations      | (2.9 )                          | (1.0 )  | (1.9 ) | 190.0          |
| Operating revenue                      | 280.2                           | 249.5   | 30.7   | 12.3           |
| Operating expenses:                    |                                 |         |        |                |
| Purchased transportation               | 123.3                           | 105.0   | 18.3   | 17.4           |
| Salaries, wages, and employee benefits | 64.9                            | 60.2    | 4.7    | 7.8            |
| Operating leases                       | 16.8                            | 16.2    | 0.6    | 3.7            |
| Depreciation and amortization          | 10.3                            | 9.4     | 0.9    | 9.6            |
| Insurance and claims                   | 7.9                             | 7.2     | 0.7    | 9.7            |
| Fuel expense                           | 4.1                             | 3.4     | 0.7    | 20.6           |
| Other operating expenses               | 26.0                            | 23.4    | 2.6    | 11.1           |
| Total operating expenses               | 253.3                           | 224.8   | 28.5   | 12.7           |
| Income from operations:                |                                 |         |        |                |
| Expedited LTL                          | 23.2                            | 21.0    | 2.2    | 10.5           |
| Truckload Premium Services             | 0.1                             | 2.0     | (1.9 ) | (95.0 )        |
| Pool Distribution                      | 0.7                             | 0.1     | 0.6    | 600.0          |
| Intermodal                             | 3.5                             | 3.0     | 0.5    | 16.7           |
| Other operations                       | (0.6 )                          | (1.4 )  | 0.8    | (57.1 )        |
| Income from operations                 | 26.9                            | 24.7    | 2.2    | 8.9            |
| Other expense:                         |                                 |         |        |                |
| Interest expense                       | (0.3 )                          | (0.2 )  | (0.1 ) | 50.0           |
| Total other expense                    | (0.3 )                          | (0.2 )  | (0.1 ) | 50.0           |
| Income before income taxes             | 26.6                            | 24.5    | 2.1    | 8.6            |
| Income taxes                           | 8.4                             | 12.6    | (4.2 ) | (33.3 )        |
| Net income                             | \$18.2                          | \$11.9  | \$6.3  | 52.9 %         |

During the three months ended September 30, 2017, we experienced a 12.3% increase in our consolidated revenues compared to the three months ended September 30, 2016. Operating income increased \$2.2 million, or 8.9%, to \$26.9 million for the three months ended September 30, 2017 from \$24.7 million for the same period of 2016.

## Segment Operations

Expedited LTL's revenue increased \$11.4 million, or 7.9%, and operating income increased \$2.2 million, or 10.5% for the three months ended September 30, 2017, compared to the same period in 2016. The increase of Expedited LTL's revenue was the result of higher LTL volumes, increased pick up and delivery shipments and increased net fuel surcharge revenue as a result of the increase in fuel prices since the third quarter of 2016. Improvement in income from operations was caused by the increase in revenue. Also contributing to the improvement were decreases in insurance liability reserves and dock and network efficiencies partly offset by an increased utilization of third party providers.

TLS revenue increased \$3.7 million, or 8.8% while operating income decreased \$1.9 million for the three months ended September 30, 2017, compared to the same period in 2016. The increase in revenue was due to an increase in overall miles, an

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increase in revenue per mile and new business wins. The decrease of TLS operating income was due to increased utilization of third party providers and a large increase to vehicle claim reserves.

Pool Distribution revenue increased \$2.8 million, or 7.7%, and operating results increased \$0.6 million for the three months ended September 30, 2017, compared to the same period in 2016. The revenue increase was due to new business, rate increases and increased volumes from existing customers and lanes. The increase in operating income was the result of improved leverage on fixed costs as a result of the rate increases and the additional revenue.

Intermodal revenue increased \$14.7 million, or 53.3%, and operating income increased \$0.5 million, or 16.7%, for the three months ended September 30, 2017, compared to the same period in 2016. The increases in operating revenue and income were primarily attributable to the Atlantic and Triumph acquisitions and the positive impact of increased fuel surcharges.

Fuel Surcharge

Our net fuel surcharge revenue is the result of our fuel surcharge rates, which are set weekly using the national average for diesel price per gallon, and volume transiting our network. During the three months ended September 30, 2017, total net fuel surcharge revenue increased 27.5% as compared to the same period in 2016, mostly due to increased fuel prices and increased volumes in the Expedited LTL and Pool Distribution segment.

Interest Expense

Interest expense was \$0.3 million for the three months ended September 30, 2017 compared to \$0.2 million for the same period of 2016. The increase in interest expense was attributable to additional borrowings on our revolving credit facility.

Income Taxes

The combined federal and state effective tax rate for the third quarter of 2017 was 31.8% compared to a rate of 51.3% for the same period in 2016. The effective tax rate for the third quarter of 2017 includes a change in estimated tax benefit from a technology credit and the result of the impairment of goodwill in the second quarter of 2016 that is non-deductible for tax purposes.

Net Income

As a result of the foregoing factors, net income increased by \$6.3 million, or 52.9%, to \$18.2 million for the third quarter of 2017 from \$11.9 million for the same period in 2016.

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Expedited LTL - Three Months Ended September 30, 2017 compared to Three Months Ended September 30, 2016

The following table sets forth our historical financial data of the Expedited LTL segment for the three months ended September 30, 2017 and 2016 (in millions):

## Expedited LTL Segment Information

(In millions)

(Unaudited)

|                                       | Three months ended |                    | Three months ended |                    | Percent |        |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|---------|--------|
|                                       | September 30, 2017 | Percent of Revenue | September 30, 2016 | Percent of Revenue | Change  | Change |
| Operating revenue                     | \$155.7            | 100.0 %            | \$ 144.3           | 100.0 %            | \$ 11.4 | 7.9 %  |
| Operating expenses:                   |                    |                    |                    |                    |         |        |
| Purchased transportation              | 64.0               | 41.1               | 56.3               | 39.0               | 7.7     | 13.7   |
| Salaries, wages and employee benefits | 35.2               | 22.6               | 33.8               | 23.4               | 1.4     | 4.1    |
| Operating leases                      | 9.4                | 6.0                | 9.0                | 6.2                | 0.4     | 4.4    |
| Depreciation and amortization         | 5.4                | 3.5                | 5.5                | 3.8                | (0.1 )  | (1.8 ) |
| Insurance and claims                  | 3.3                | 2.1                | 3.9                | 2.7                | (0.6 )  | (15.4) |
| Fuel expense                          | 0.9                | 0.6                | 0.8                | 0.6                | 0.1     | 12.5   |
| Other operating expenses              | 14.3               | 9.2                | 14.0               | 9.7                | 0.3     | 2.1    |
| Total operating expenses              | 132.5              | 85.1               | 123.3              | 85.4               | 9.2     | 7.5    |
| Income from operations                | \$23.2             | 14.9 %             | \$ 21.0            | 14.6 %             | \$ 2.2  | 10.5 % |

## Expedited LTL Operating Statistics

|                                       | Three months ended |                    | Percent Change |
|---------------------------------------|--------------------|--------------------|----------------|
|                                       | September 30, 2017 | September 30, 2016 |                |
| Operating ratio                       | 85.1 %             | 85.4 %             | (0.4 )%        |
| Business days                         | 63.0               | 64.0               | (1.6 )         |
| Business weeks                        | 12.6               | 12.8               | (1.6 )         |
| Expedited LTL:                        |                    |                    |                |
| Tonnage                               |                    |                    |                |
| Total pounds <sup>1</sup>             | 636,009            | 588,929            | 8.0            |
| Average weekly pounds <sup>1</sup>    | 50,477             | 46,010             | 9.7            |
| Linehaul shipments                    |                    |                    |                |
| Total linehaul                        | 986,632            | 909,787            | 8.4            |
| Average weekly                        | 78,304             | 71,077             | 10.2           |
| Forward Air Complete shipments        | 242,902            | 195,594            | 24.2           |
| As a percentage of linehaul shipments | 24.6 %             | 21.5 %             | 14.4           |



|                                |         |          |         |
|--------------------------------|---------|----------|---------|
| Average linehaul shipment size | 645     | 647      | (0.3 )  |
| Revenue per pound <sup>2</sup> |         |          |         |
| Linehaul yield                 | \$16.89 | \$ 17.71 | (3.7 )  |
| Fuel surcharge                 | 1.11    | 1.06     | 0.2     |
| Forward Air Complete           | 3.94    | 3.49     | 2.1     |
| Total Expedited LTL yield      | \$21.94 | \$ 22.26 | (1.4 )% |

<sup>1</sup> - In thousands

<sup>2</sup> - In dollars per hundred pound; percentage change is expressed as a percent of total yield.

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## Revenues

Expedited LTL had operating revenue increase \$11.4 million, or 7.9%, to \$155.7 million from \$144.3 million, accounting for 55.6% of consolidated operating revenue for the three months ended September 30, 2017 compared to 57.8% for the same period in 2016. The increase in revenue is mostly the result of increases to our Forward Air Complete ("Complete"), pick-up and delivery services and linehaul revenues. Linehaul revenue, which is the largest portion of Expedited LTL revenue, increased \$3.1 million, or 3.0%, on higher tonnage partly offset by the decrease in average base revenue per pound noted in the preceding table. The increase in tonnage is due to a growing percentage of total volume from class rated shipments, which have higher density attributes and a slightly lower length of haul than our traditional shipments. While increasing tonnage, class rated tonnage has caused a decrease in average base revenue per pound.

The \$11.4 million revenue increase is primarily the result of a \$4.5 million, or 21.8%, increase in Complete revenue. The increase in Complete revenue was attributable to an increase in shipping volumes in our Expedited LTL network and a 14.4% increase in the attachment rate of Complete to linehaul shipments. Additionally, compared to the same period in 2016, net fuel surcharge revenue increased \$0.9 million largely due to the increase in fuel prices and tonnage volumes. Other terminal based revenues, which includes dedicated local pickup and delivery services, warehousing and terminal handling, increased \$2.9 million, or 22.0%, to \$16.1 million in the third quarter of 2017 from \$13.2 million in the same period of 2016. The increase in other terminal revenue was mainly attributable to increases in certain dedicated local pickup and delivery revenues.

## Purchased Transportation

Expedited LTL's purchased transportation increased by \$7.7 million, or 13.7%, to \$64.0 million for the three months ended September 30, 2017 from \$56.3 million for the three months ended September 30, 2016. As a percentage of segment operating revenue, Expedited LTL purchased transportation was 41.1% during the three months ended September 30, 2017 compared to 39.0% for the same period in 2016. The increase is mostly due to a 6.3% increase in Expedited LTL cost per mile. The increase in cost per mile is due to increased utilization of third party carriers, which are more costly than our network of owner operators. The increase is also due to increased Complete attachment on higher linehaul volumes. Complete purchased transportation is a much higher percentage of Complete revenue than our linehaul services.

## Salaries, Wages, and Benefits

Salaries, wages and employee benefits of Expedited LTL increased \$1.4 million, or 4.1%, to \$35.2 million in the third quarter of 2017 from \$33.8 million for the same period in 2016. Salaries, wages and employee benefits were 22.6% of Expedited LTL's operating revenue in the third quarter of 2017 compared to 23.4% for the same period of 2016. The improvement in salaries, wages and employee benefits as a percentage of revenue was primarily attributable to a 0.7% decrease in health insurance costs and a 0.1% decrease in workers' compensation costs as a percentage of revenue.

## Operating Leases

Operating leases increased \$0.4 million, or 4.4%, to \$9.4 million for the three months ended September 30, 2017 from \$9.0 million for the same period in 2016. Operating leases were 6.0% of Expedited LTL operating revenue for the three months ended September 30, 2017 compared to 6.2% for the same period of 2016. The increase in cost is due to a \$0.3 million increase in truck, trailer and equipment rentals and leases and \$0.1 million of additional facility lease expenses. Facility leases increased due to the expansion of certain facilities. Vehicle leases increased due to the replacement of older, owned power equipment with leased power equipment.

## Depreciation and Amortization

Depreciation and amortization decreased \$0.1 million, or 1.8%, to \$5.4 million in the third quarter of 2017 from \$5.5 million in the same period of 2016. Depreciation and amortization expense as a percentage of Expedited LTL operating revenue was 3.5% in the third quarter of 2017 compared to 3.8% in the same period of 2016. The decrease as a percentage of revenue was due to the increase in leased equipment mentioned above instead of purchased equipment.

## Insurance and Claims

Expedited LTL insurance and claims expense decreased \$0.6 million, or 15.4%, to \$3.3 million for the three months ended September 30, 2017 from \$3.9 million for the same period of 2016. Insurance and claims was 2.1% of operating revenue for the three months ended September 30, 2017 compared to 2.7% in the same period of 2016. The decrease was attributable to a \$0.5 million decrease in vehicle liability reserves and a \$0.1 million decrease in reserves for cargo claims due to improved claims activity.

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Fuel Expense

Expedited LTL fuel expense increased \$0.1 million, or 12.5%, to \$0.9 million for the third quarter of 2017 from \$0.8 million in the same period of 2016. Fuel expenses were 0.6% of Expedited LTL operating revenue in the third quarter of 2017 and 2016. Expedited LTL fuel expenses increased due to an increase in year-over-year fuel prices.

Other Operating Expenses

Other operating expenses increased \$0.3 million, or 2.1%, to \$14.3 million during the three months ended September 30, 2017 from \$14.0 million in the same period of 2016. Other operating expenses were 9.2% of Expedited LTL operating revenue in the third quarter of 2017 compared to 9.7% in the same period of 2016. The decrease as percentage of revenue was primarily the result of decreased legal and professional fees and network efficiencies, such as lower tolls. The prior period also included a corporate event that did not occur in 2017. These improvements were partly offset by an increase in receivables allowance.

Income from Operations

Income from operations increased by \$2.2 million, or 10.5%, to \$23.2 million for the third quarter of 2017 compared with \$21.0 million for the same period in 2016. Income from operations as a percentage of Expedited LTL operating revenue was 14.9% for the three months ended September 30, 2017 compared with 14.6% in the same period of 2016. Improvement in income from operations was due to increases in revenue due to higher tonnage and Complete attachment and lower vehicle liability reserves. These improvements were partly offset by increased utilization of third party transportation providers.

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Truckload Premium Services - Three Months Ended September 30, 2017 compared to Three Months Ended September 30, 2016

The following table sets forth our historical financial data of the Truckload Premium Services segment for the three months ended September 30, 2017 and 2016 (in millions):

## Truckload Premium Services Segment Information

(In millions)

(Unaudited)

|                                       | Three months ended |                    | Three months ended |                    | Change    | Percent Change |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|-----------|----------------|
|                                       | September 30, 2017 | Percent of Revenue | September 30, 2016 | Percent of Revenue |           |                |
| Operating revenue                     | \$45.9             | 100.0 %            | \$ 42.2            | 100.0 %            | \$ 3.7    | 8.8 %          |
| Operating expenses:                   |                    |                    |                    |                    |           |                |
| Purchased transportation              | 33.9               | 73.9               | 29.7               | 70.4               | 4.2       | 14.1           |
| Salaries, wages and employee benefits | 5.0                | 10.9               | 4.9                | 11.6               | 0.1       | 2.0            |
| Operating leases                      | 0.3                | 0.6                | 0.1                | 0.2                | 0.2       | 200.0          |
| Depreciation and amortization         | 1.6                | 3.5                | 1.5                | 3.6                | 0.1       | 6.7            |
| Insurance and claims                  | 2.0                | 4.4                | 1.1                | 2.6                | 0.9       | 81.8           |
| Fuel expense                          | 0.8                | 1.7                | 0.7                | 1.7                | 0.1       | 14.3           |
| Other operating expenses              | 2.2                | 4.8                | 2.2                | 5.2                | —         | —              |
| Total operating expenses              | 45.8               | 99.8               | 40.2               | 95.3               | 5.6       | 13.9           |
| Income from operations                | \$0.1              | 0.2 %              | \$ 2.0             | 4.7 %              | \$ (1.9 ) | (95.0 )%       |

## Truckload Premium Services Operating Statistics

|                             | Three months ended |                    | Percent Change |
|-----------------------------|--------------------|--------------------|----------------|
|                             | September 30, 2017 | September 30, 2016 |                |
| Company driver <sup>1</sup> | 1,990              | 1,761              | 13.0 %         |
| Owner operator <sup>1</sup> | 11,454             | 13,125             | (12.7)         |
| Third party <sup>1</sup>    | 11,263             | 8,339              | 35.1           |
| Total Miles                 | 24,707             | 23,225             | 6.4            |
| Revenue per mile            | \$ 1.79            | \$ 1.78            | 0.6            |
| Cost per mile               | \$ 1.44            | \$ 1.37            | 5.1 %          |

<sup>1</sup> - In thousands

Revenues

TLS revenue increased \$3.7 million, or 8.8%, to \$45.9 million in the third quarter of 2017 from \$42.2 million in the third quarter of 2016. TLS revenue increased due to a 6.4% increase in overall miles on new business wins. TLS also experienced a 0.6% increase in average revenue per mile on an increase in pharmaceutical revenue which historically has a higher revenue per mile than traditional truckload business.

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## Purchased Transportation

Purchased transportation costs for our TLS revenue increased \$4.2 million, or 14.1%, to \$33.9 million for the three months ended September 30, 2017 from \$29.7 million for the same period in 2016. For the three months ended September 30, 2017, TLS purchased transportation costs represented 73.9% of TLS revenue compared to 70.4% for the same period in 2016. The increase in TLS purchased transportation was attributable to a 5.8% increase in non-Company miles driven and a 6.0% increase in cost per mile during the three months ended September 30, 2017 compared to the same period in 2016. The increase in TLS non-Company miles driven was attributable to the business wins discussed above. The increase in cost per mile was due to TLS utilizing third party carriers, which are more costly than owner operators, to cover the additional miles. This increased utilization of third party carriers also led to the increase in purchased transportation as a percentage of revenue.

## Salaries, Wages, and Benefits

Salaries, wages and employee benefits of TLS increased by \$0.1 million, or 2.0%, to \$5.0 million in the third quarter of 2017 from \$4.9 million in the same period of 2016. Salaries, wages and employee benefits were 10.9% of TLS's operating revenue in the third quarter of 2017 compared to 11.6% for the same period of 2016. The decrease in salaries, wages and employee benefits as a percentage of revenue was mostly attributable to the increase in revenue outpacing the increase in pay to office staff. The decrease as a percentage of revenue was also attributable to improved efficiencies in our Company driver fleet. These improvements were partly offset by an increase in employee incentives.

## Operating Leases

Operating leases increased \$0.2 million to \$0.3 million for the third quarter of 2017 from \$0.1 million for the same period in 2016. Operating leases were 0.6% of LTL operating revenue for the third quarter of 2017 compared to 0.2% for the same period in 2016. The \$0.2 million increase in cost is due to additional trailer rentals for the new business wins mentioned above.

## Depreciation and Amortization

Depreciation and amortization increased \$0.1 million, or 6.7%, to \$1.6 million in the third quarter of 2017 from \$1.5 million for the same period of 2016. Depreciation and amortization expense as a percentage of TLS operating revenue was 3.5% in the third quarter of 2017 compared to 3.6% in the same period of 2016. The decrease as a percentage of revenue was due to the use of rental trailers to handle new business wins instead of company trailers.

## Insurance and Claims

TLS insurance and claims expense increased \$0.9 million, or 81.8%, to \$2.0 million for the three months ended September 30, 2017 from \$1.1 million for the same period of 2016. Insurance and claims were 4.4% of operating revenue for the three months ended September 30, 2017 compared to 2.6% in the same period of 2016. The increase was due to developments on a large vehicle claim reserve and increased vehicle insurance premiums associated with our insurance plan renewals partly offset by a benefit from a prior period insurance premium audit.

## Fuel Expense

TLS fuel expense increased \$0.1 million, or 14.3%, to \$0.8 million for the third quarter of 2017 from \$0.7 million for the same period of 2016. Fuel expense as a percentage of TLS operating revenue was 1.7% in the third quarter of 2017 and 2016. The increase was mostly attributable to an increase in year-over-year fuel prices and the increase in Company driver miles.

## Other Operating Expenses

Other operating expenses were \$2.2 million for the three months ended September 30, 2017 and 2016. Other operating expenses were 4.8% of TLS operating revenue in the third quarter of 2017 compared to 5.2% in the same

period of 2016. The decline in other operating expenses as a percentage of revenue was due to reduced legal fees and decreased office costs.

**Results from Operations**

Income from operations decreased by \$1.9 million to \$0.1 million during the third quarter of 2017 compared with \$2.0 million for the same period in 2016. The deterioration in income from operations was due to a large increase to vehicle claims reserves and increased utilization of third party carriers which led to the increase in cost per mile outpacing the increase in revenue per mile.



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## Pool Distribution - Three Months Ended September 30, 2017 compared to Three Months Ended September 30, 2016

The following table sets forth our historical financial data of the Pool Distribution segment for the three months ended September 30, 2017 and 2016 (in millions):

## Pool Distribution Segment Information

(In millions)

(Unaudited)

|                                       | Three months ended |                    | Three months ended |                    | Change | Percent Change |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|--------|----------------|
|                                       | September 30, 2017 | Percent of Revenue | September 30, 2016 | Percent of Revenue |        |                |
| Operating revenue                     | \$39.2             | 100.0 %            | \$ 36.4            | 100.0 %            | \$ 2.8 | 7.7 %          |
| Operating expenses:                   |                    |                    |                    |                    |        |                |
| Purchased transportation              | 10.4               | 26.5               | 10.1               | 27.7               | 0.3    | 3.0            |
| Salaries, wages and employee benefits | 15.3               | 39.0               | 14.4               | 39.6               | 0.9    | 6.3            |
| Operating leases                      | 3.3                | 8.4                | 3.3                | 9.1                | —      | —              |
| Depreciation and amortization         | 1.7                | 4.4                | 1.4                | 3.8                | 0.3    | 21.4           |
| Insurance and claims                  | 1.1                | 2.8                | 1.0                | 2.7                | 0.1    | 10.0           |
| Fuel expense                          | 1.3                | 3.3                | 1.2                | 3.3                | 0.1    | 8.3            |
| Other operating expenses              | 5.4                | 13.8               | 4.9                | 13.5               | 0.5    | 10.2           |
| Total operating expenses              | 38.5               | 98.2               | 36.3               | 99.7               | 2.2    | 6.1            |
| Income from operations                | \$0.7              | 1.8 %              | \$ 0.1             | 0.3 %              | \$ 0.6 | 600.0 %        |

## Revenues

Pool Distribution (Pool) operating revenue increased \$2.8 million, or 7.7%, to \$39.2 million for the three months ended September 30, 2017 from \$36.4 million for the same period in 2016. The increase was attributable to higher shipping volumes from previously existing customers and current year rate increases slightly offset by lost revenues from the impact of weather on southeast and southwest terminals.

## Purchased Transportation

Pool purchased transportation increased \$0.3 million, or 3.0%, to \$10.4 million for the three months ended September 30, 2017 compared to \$10.1 million for the same period of 2016. Pool purchased transportation as a percentage of revenue was 26.5% for the three months ended September 30, 2017 compared to 27.7% for the same period of 2016. The improvement in Pool purchased transportation as a percentage of revenue was attributable to an increased utilization of owner operators over more costly third party carriers and revenue increases associated with rate increases.

## Salaries, Wages, and Benefits

Pool salaries, wages and employee benefits increased \$0.9 million, or 6.3%, to \$15.3 million for the three months ended September 30, 2017 compared to \$14.4 million for the same period of 2016. As a percentage of Pool operating revenue, salaries, wages and benefits increased to 39.0% for the three months ended September 30, 2017 compared to 39.6% for the same period in 2016. The decrease in salaries, wages and benefits as a percentage of revenue was the result of improvements in dock efficiencies and decreased driver pay partly offset by increases in employee incentives, administrative salaries and workers' compensation costs. These decreases benefited from the revenue

volumes discussed above.

#### Operating Leases

Operating leases were \$3.3 million for the three months ended September 30, 2017 and 2016. Operating leases were 8.4% of Pool operating revenue for the three months ended September 30, 2017 compared with 9.1% in the same period of 2016. Operating

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leases decreased as a percentage of revenue due to decreases in facility rent, as prior year included transition and relocation costs for certain terminals that did not occur in the third quarter of 2017.

Depreciation and Amortization

Pool depreciation and amortization increased \$0.3 million, or 21.4%, to \$1.7 million for the three months ended September 30, 2017 from \$1.4 million for the same period in 2016. Depreciation and amortization expense as a percentage of Pool operating revenue was 4.4% in the third quarter of 2017 compared to 3.8% in the same period of 2016. The increase in Pool depreciation and amortization in total dollars was due to the allocation of trailer depreciation, which reflect Pool's increased utilization of our trailer fleet.

Insurance and Claims

Pool insurance and claims expense increased \$0.1 million, or 10.0%, to \$1.1 million for the three months ended September 30, 2017 from \$1.0 million for the same period of 2016. Insurance and claims were 2.8% of operating revenue for the three months ended September 30, 2017 compared to 2.7% in the same period of 2016. The increase as a percentage of revenue was due to increased vehicle insurance premiums.

Fuel Expense

Pool fuel expense increased \$0.1 million, or 8.3%, to \$1.3 million for the third quarter of 2017 from \$1.2 million in the same period of 2016. Fuel expenses were 3.3% of Pool operating revenue in the third quarter of 2017 and 2016. Pool fuel expenses increased in total dollars due to an increase in year-over-year fuel prices and higher revenue volumes. These increases were partially offset by increased utilization of owner operators.

Other Operating Expenses

Pool other operating expenses increased \$0.5 million, or 10.2%, to \$5.4 million for the three months ended September 30, 2017 from \$4.9 million in the same period of 2016. Pool other operating expenses for the third quarter of 2017 were 13.8% compared to 13.5% for the same period of 2016. The increase in percentage of revenue was due to increased activity at agent stations partly offset by decreased dock and office costs.

Results from Operations

Income from operations increased \$0.6 million to \$0.7 million for the third quarter of 2017 from \$0.1 million for the same period in 2016. Income from operations as a percentage of Pool operating revenue was 1.8% for the three months ended September 30, 2017 compared to 0.3% for the same period of 2016. The improvement in Pool operating income was primarily the result of increased revenue volumes, current year rate increases and dock, driver and purchased transportation efficiencies slightly mitigated by lost revenues from the impact of weather.

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Intermodal - Three Months Ended September 30, 2017 compared to Three Months Ended September 30, 2016

The following table sets forth our historical financial data of the Intermodal segment for the three months ended September 30, 2017 and 2016 (in millions):

## Intermodal Segment Information

(In millions)

(Unaudited)

|                                       | Three months ended |                    | Three months ended |                    | Change  | Percent Change |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|---------|----------------|
|                                       | September 30, 2017 | Percent of Revenue | September 30, 2016 | Percent of Revenue |         |                |
| Operating revenue                     | \$42.3             | 100.0 %            | \$ 27.6            | 100.0 %            | \$ 14.7 | 53.3 %         |
| Operating expenses:                   |                    |                    |                    |                    |         |                |
| Purchased transportation              | 17.5               | 41.4               | 9.7                | 35.1               | 7.8     | 80.4           |
| Salaries, wages and employee benefits | 9.0                | 21.3               | 6.6                | 23.9               | 2.4     | 36.4           |
| Operating leases                      | 3.8                | 9.0                | 3.3                | 12.0               | 0.5     | 15.2           |
| Depreciation and amortization         | 1.7                | 4.0                | 1.0                | 3.6                | 0.7     | 70.0           |
| Insurance and claims                  | 1.2                | 2.8                | 0.8                | 2.9                | 0.4     | 50.0           |
| Fuel expense                          | 1.1                | 2.6                | 0.7                | 2.5                | 0.4     | 57.1           |
| Other operating expenses              | 4.5                | 10.6               | 2.5                | 9.1                | 2.0     | 80.0           |
| Total operating expenses              | 38.8               | 91.7               | 24.6               | 89.1               | 14.2    | 57.7           |
| Income from operations                | \$3.5              | 8.3 %              | \$ 3.0             | 10.9 %             | \$ 0.5  | 16.7 %         |

## Revenues

Intermodal operating revenue increased \$14.7 million, or 53.3%, to \$42.3 million for the three months ended September 30, 2017 from \$27.6 million for the same period in 2016. The increases in operating revenue were primarily attributable to the acquisitions of Atlantic and Triumph, the impact of increased fuel surcharges and increased storage revenues.

## Purchased Transportation

Intermodal purchased transportation increased \$7.8 million, or 80.4%, to \$17.5 million for the three months ended September 30, 2017 from \$9.7 million for the same period in 2016. Intermodal purchased transportation as a percentage of revenue was 41.4% for the three months ended September 30, 2017 compared to 35.1% for the three months ended September 30, 2016. The increase in Intermodal purchased transportation as a percentage of revenue was attributable to higher utilization of owner operators as opposed to Company-employed drivers, as Atlantic utilized more owner operators than Company drivers.

## Salaries, Wages, and Benefits

Intermodal salaries, wages and employee benefits increased \$2.4 million, or 36.4%, to \$9.0 million for the three months ended September 30, 2017 compared to \$6.6 million for the three months ended September 30, 2016. As a percentage of Intermodal operating revenue, salaries, wages and benefits decreased to 21.3% for the three months ended September 30, 2017 compared to 23.9% for the same period in 2016. The improvement in salaries, wages and

employee benefits as a percentage of revenue was attributable to lower workers' compensation and health insurance costs and dock efficiencies.

#### Operating Leases

Operating leases increased \$0.5 million, or 15.2%, to \$3.8 million for the three months ended September 30, 2017 compared to \$3.3 million for the same period of 2016. Operating leases were 9.0% of Intermodal operating revenue for the three months ended September 30, 2017 compared with 12.0% in the same period of 2016. Operating leases decreased as a percentage of revenue due to consistent trailer rental charges while other revenue that does not require trailer rentals increased. The decrease as a percentage of revenue is also attributable utilization of owned equipment acquired from Atlantic.

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Depreciation and Amortization

Depreciation and amortization increased \$0.7 million, or 70.0%, to \$1.7 million for the three months ended September 30, 2017 compared to \$1.0 million for the same period in 2016. Depreciation and amortization expense as a percentage of Intermodal operating revenue was 4.0% in the third quarter of 2017 compared to 3.6% in the same period of 2016. The higher depreciation and amortization was due to the acquisitions of equipment and intangible assets from Atlantic and Triumph.

Insurance and Claims

Intermodal insurance and claims increased \$0.4 million, or 50.0%, to \$1.2 million for the three months ended September 30, 2017 from \$0.8 million for the same period in 2016. Intermodal insurance and claims were 2.8% of operating revenue for the three months ended September 30, 2017 compared with 2.9% for the same period in 2016. The increase in Intermodal insurance and claims was attributable to higher insurance premiums due to acquisitions.

Fuel Expense

Intermodal fuel expense increased \$0.4 million, or 57.1%, to \$1.1 million for the third quarter of 2017 from \$0.7 million in the same period of 2016. Fuel expenses were 2.6% of Intermodal operating revenue in the third quarter of 2017 compared with 2.5% for the same period of 2016. Intermodal fuel expenses increased on higher year-over-year fuel prices and revenue volumes. These increases were partially offset by higher utilization of owner operators as opposed to Company-employed drivers.

Other Operating Expenses

Intermodal other operating expenses increased \$2.0 million, or 80.0%, to \$4.5 million for the three months ended September 30, 2017 compared to \$2.5 million for the same period of 2016. Intermodal other operating expenses for the third quarter of 2017 were 10.6% compared to 9.1% for the same period of 2016. The increase in Intermodal other operating expenses was due mostly to a \$1.3 million increase in container related rental and storage charges associated with revenue increases discussed previously. The increase was also due to higher terminal expenses and other variable costs, such as maintenance and tolls, corresponding with the increases in revenue and professional fees related to the acquisition of Atlantic.

Income from Operations

Intermodal's income from operations increased by \$0.5 million, or 16.7%, to \$3.5 million for the third quarter of 2017 compared with \$3.0 million for the same period in 2016. Income from operations as a percentage of Intermodal operating revenue was 8.3% for the three months ended September 30, 2017 compared to 10.9% in the same period of 2016. The increase in operating income was primarily attributable to the Atlantic and Triumph acquisitions. The decrease in income from operations as a percentage of revenue was attributable to increased depreciation and amortization associated with Intermodal's acquisitions, insurance premiums and acquisition related professional fees.

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Other Operations

Other operating activity improved from a \$1.4 million operating loss during the three months ended September 30, 2016 to a \$0.6 million operating loss during the three months ended September 30, 2017. The \$0.6 million of other expenses for the three months ended September 30, 2017 is due to increased claims activity during 2017 resulting in increases to our loss development factors for workers' compensation and vehicle claims.

The \$1.4 million in operating loss included in other operations and corporate activities for the three months ended September 30, 2016 was primarily for a \$0.6 million increase to reserves for remaining net payments on duplicate facilities vacated following the Towne acquisition, as several facilities had yet to be sub-leased. The remaining \$0.8 million was due to increased claims activity during 2016 resulting in increases to our loss development factors for workers' compensation and vehicle claims.

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## Results from Operations

The following table sets forth our consolidated historical financial data for the nine months ended September 30, 2017 and 2016 (in millions):

|  | Nine months ended September 30 |         |         |                |
|--|--------------------------------|---------|---------|----------------|
|  | 2017                           | 2016    | Change  | Percent Change |
| Operating revenue:                                   |                                |         |         |                |
| Expedited LTL  | \$448.6                        | \$423.4 | \$25.2  | 6.0 %          |
| Expedited Truckload                                  | 132.9                          | 120.3   | 12.6    | 10.5           |
| Pool Distribution                                    | 113.8                          | 101.2   | 12.6    | 12.5           |
| Intermodal   | 105.9                          | 76.4    | 29.5    | 38.6           |
| Eliminations and other operations                    | (6.5 )                         | (3.5 )  | (3.0 )  | 85.7           |
| Operating revenue                                    | 794.7                          | 717.8   | 76.9    | 10.7           |
| Operating expenses:                                  |                                |         |         |                |
| Purchased transportation                             | 342.0                          | 300.8   | 41.2    | 13.7           |
| Salaries, wages, and employee benefits               | 191.3                          | 175.9   | 15.4    | 8.8            |
| Operating leases                                     | 47.2                           | 44.7    | 2.5     | 5.6            |
| Depreciation and amortization                        | 30.6                           | 28.4    | 2.2     | 7.7            |
| Insurance and claims                                 | 21.4                           | 19.2    | 2.2     | 11.5           |
| Fuel expense   | 11.4                           | 9.4     | 2.0     | 21.3           |
| Other operating expenses                             | 70.9                           | 65.2    | 5.7     | 8.7            |
| Impairment of goodwill, intangibles and other assets | —                              | 42.4    | (42.4 ) | 100.0          |
| Total operating expenses                             | 714.8                          | 686.0   | 28.8    | 4.2            |
| Income (loss) from operations:                       |                                |         |         |                |
| Expedited LTL  | 64.6                           | 63.0    | 1.6     | 2.5            |
| Expedited Truckload                                  | 3.7                            | (36.7 ) | 40.4    | NM             |
| Pool Distribution                                    | 3.7                            | (0.2 )  | 3.9     | NM             |
| Intermodal   | 9.1                            | 8.2     | 0.9     | 11.0           |
| Other operations                                     | (1.2 )                         | (2.5 )  | 1.3     | (52.0 )        |
| Income from operations                               | 79.9                           | 31.8    | 48.1    | 151.3          |
| Other expense:                                       |                                |         |         |                |
| Interest expense                                     | (0.8 )                         | (1.2 )  | 0.4     | (33.3 )        |
| Other, net   | —                              | (0.2 )  | 0.2     | (100.0)        |
| Total other expense                                  | (0.8 )                         | (1.4 )  | 0.6     | (42.9 )        |
| Income before income taxes                           | 79.1                           | 30.4    | 48.7    | 160.2          |
| Income taxes   | 27.2                           | 15.4    | 11.8    | 76.6           |
| Net income   | \$51.9                         | \$15.0  | \$36.9  | 246.0 %        |



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Expedited LTL - Nine Months Ended September 30, 2017 compared to Nine Months Ended September 30, 2016

The following table sets forth our historical financial data of the Expedited LTL segment for the nine months ended September 30, 2017 and 2016 (in millions):

## Expedited LTL Segment Information

(In millions)

(Unaudited)

|                                       | Nine months ended  |            | Percent            |            | Percent |        |
|---------------------------------------|--------------------|------------|--------------------|------------|---------|--------|
|                                       | September 30, 2017 | of Revenue | September 30, 2016 | of Revenue | Change  | Change |
| Operating revenue                     | \$448.6            | 100.0 %    | \$ 423.4           | 100.0 %    | \$ 25.2 | 6.0 %  |
| Operating expenses:                   |                    |            |                    |            |         |        |
| Purchased transportation              | 180.5              | 40.2       | 165.5              | 39.1       | 15.0    | 9.1    |
| Salaries, wages and employee benefits | 107.0              | 23.9       | 102.6              | 24.2       | 4.4     | 4.3    |
| Operating leases                      | 27.6               | 6.2        | 25.5               | 6.0        | 2.1     | 8.2    |
| Depreciation and amortization         | 16.5               | 3.7        | 16.3               | 3.8        | 0.2     | 1.2    |
| Insurance and claims                  | 10.3               | 2.3        | 10.1               | 2.4        | 0.2     | 2.0    |
| Fuel expense                          | 2.8                | 0.6        | 2.4                | 0.6        | 0.4     | 16.7   |
| Other operating expenses              | 39.3               | 8.7        | 38.0               | 9.0        | 1.3     | 3.4    |
| Total operating expenses              | 384.0              | 85.6       | 360.4              | 85.1       | 23.6    | 6.5    |
| Income from operations                | \$64.6             | 14.4 %     | \$ 63.0            | 14.9 %     | \$ 1.6  | 2.5 %  |

## Expedited LTL Operating Statistics

|                                       | Nine months ended  |                    | Percent Change |
|---------------------------------------|--------------------|--------------------|----------------|
|                                       | September 30, 2017 | September 30, 2016 |                |
| Operating ratio                       | 85.6 %             | 85.1 %             | 0.6 %          |
| Business days                         | 191.0              | 192.0              | (0.5 )         |
| Business weeks                        | 38.2               | 38.4               | (0.5 )         |
| Expedited LTL:                        |                    |                    |                |
| Tonnage                               |                    |                    |                |
| Total pounds <sup>1</sup>             | 1,828,227          | 1,758,689          | 4.0            |
| Average weekly pounds <sup>1</sup>    | 47,859             | 45,799             | 4.5            |
| Linehaul shipments                    |                    |                    |                |
| Total linehaul                        | 2,893,057          | 2,751,019          | 5.2            |
| Average weekly                        | 75,734             | 71,641             | 5.7            |
| Forward Air Complete shipments        | 696,873            | 579,973            | 20.2           |
| As a percentage of linehaul shipments | 24.1 %             | 21.1 %             | 14.2           |

|                                |         |          |        |
|--------------------------------|---------|----------|--------|
| Average linehaul shipment size | 632     | 639      | (1.1 ) |
| Revenue per pound <sup>2</sup> |         |          |        |
| Linehaul yield                 | \$17.13 | \$ 17.72 | (2.7 ) |
| Fuel surcharge                 | 1.17    | 0.93     | 1.1    |
| Forward Air Complete           | 3.84    | 3.29     | 2.5    |
| Total Expedited LTL yield      | \$22.14 | \$ 21.94 | 0.9 %  |

<sup>1</sup> - In thousands

<sup>2</sup> - In dollars per hundred pound; percentage change is expressed as a percent of total yield.

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## Revenues

Expedited LTL operating revenue increased \$25.2 million, or 6.0%, to \$448.6 million from \$423.4 million, accounting for 56.4% of consolidated operating revenue for the nine months ended September 30, 2017 compared to 59.0% for the same period in 2016. The increase in revenue is mostly the result of increases to Complete activity and fuel surcharge revenues. Linehaul revenue, which is the largest portion of Expedited LTL, increased \$1.7 million, or 0.5%, due to the increase in tonnage partly offset by the decrease in linehaul yield noted in the preceding table. The increase in tonnage is due to a growing percentage of total volume from shipments with higher density attributes and a slightly lower length of haul than our traditional shipments, driving the decrease in average base revenue per pound.

The \$25.2 million revenue increase is primarily the result of a \$12.3 million, or 21.2%, increase in Complete revenue. The increase in Complete revenue was attributable to an increase in shipping volumes in our Expedited LTL network and a 14.2% increase in the attachment rate of Complete to linehaul shipments. Additionally, compared to the same period in 2016, net fuel surcharge revenue increased \$4.9 million largely due to the increase in fuel prices and volume increases. Other terminal based revenues, which includes dedicated local pickup and delivery services, warehousing and terminal handling, increased \$6.3 million, or 16.7%, to \$43.8 million in the first nine months of 2017 from \$37.5 million in the same period of 2016. The increase in other terminal revenue was mainly attributable to increases in dedicated local pickup and delivery.

## Purchased Transportation

LTL purchased transportation increased by \$15.0 million, or 9.1%, to \$180.5 million for the nine months ended September 30, 2017 from \$165.5 million for the nine months ended September 30, 2016. As a percentage of segment operating revenue, LTL purchased transportation was 40.2% during the nine months ended September 30, 2017 compared to 39.1% for the same period in 2016. The increase is mostly due to a 4.4% increase in Expedited LTL cost per mile. The higher cost per mile is due to increased utilization of third party transportation providers, which are more costly than owner operators. The increase is also due to increased Complete attachment on higher linehaul volumes. Complete purchased transportation has a higher percentage of revenue than linehaul.

## Salaries, Wages, and Benefits

Salaries, wages and employee benefits of LTL increased by \$4.4 million, or 4.3%, to \$107.0 million for the nine months ended September 30, 2017 from \$102.6 million in the same period of 2016. Salaries, wages and employee benefits were 23.9% of LTL's operating revenue for the nine months ended September 30, 2017 compared to 24.2% for the same period of 2016. The improvement in salaries, wages and employee benefits as a percentage of revenue was primarily attributable to a 0.2% decrease in health insurance costs and a 0.1% decrease in workers' compensation costs as a percentage of revenue.

## Operating Leases

Operating leases increased \$2.1 million, or 8.2%, to \$27.6 million for the nine months ended September 30, 2017 from \$25.5 million for the same period in 2016. Operating leases were 6.2% of LTL operating revenue for the nine months ended September 30, 2017 compared to 6.0% for the same period in 2016. The increase in cost is due to \$1.1 million of additional facility lease expenses and a \$1.0 million increase in truck, trailer and equipment rentals and leases. Facility leases increased due to the expansion of certain facilities. Vehicle leases increased due to the replacement of older owned power equipment with leased power equipment.

## Depreciation and Amortization

Depreciation and amortization increased \$0.2 million, or 1.2%, to \$16.5 million for the nine months ended September 30, 2017 from \$16.3 million in the same period of 2016. Depreciation and amortization expense as a percentage of LTL operating revenue was 3.7% in the nine months ended September 30, 2017 compared to 3.8% in the same period of 2016. The decrease as a percentage of revenue was due to the increase in equipment leasing mentioned above instead of purchased equipment.

## Insurance and Claims

LTL insurance and claims expense increased \$0.2 million, or 2.0%, to \$10.3 million for the nine months ended September 30, 2017 from \$10.1 million for the nine months ended September 30, 2016. Insurance and claims was 2.3% of operating revenue for the nine months ended September 30, 2017 compared to 2.4% for the same period of 2016. The increase in dollars was partly attributable to a \$0.5 million increase in insurance premiums associated with our insurance plan renewals and a \$0.5 million increase in vehicle claim reserves primarily due to current period development of a reserve for a prior period accident. These increases were mostly offset by decreases in vehicle damage and cargo claims and claim related legal and professional fees.

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Fuel Expense

LTL fuel expense increased \$0.4 million, or 16.7%, to \$2.8 million for the nine months ended September 30, 2017 from \$2.4 million in the same period of 2016. Fuel expenses were 0.6% of LTL operating revenue for the nine months ended September 30, 2017 and 2016. LTL fuel expenses increased due to higher year-over-year fuel prices.

Other Operating Expenses

Other operating expenses increased \$1.3 million, or 3.4%, to \$39.3 million for the nine months ended September 30, 2017 from \$38.0 million in the same period of 2016. Other operating expenses were 8.7% of LTL operating revenue in the nine months ended September 30, 2017 compared to 9.0% in the same period of 2016. The decrease as percentage of revenue was primarily the result a decrease in legal fees mostly related to indemnification funds received related to the Towne acquisition. The prior period also included a corporate event that did not occur in 2017. These improvements were partly offset by an increase in receivables allowance.

Income from Operations

Income from operations increased by \$1.6 million, or 2.5%, to \$64.6 million for the nine months ended September 30, 2017 compared with \$63.0 million for the same period in 2016. Income from operations as a percentage of LTL operating revenue was 14.4% for the nine months ended September 30, 2017 compared with 14.9% in the same period of 2016. Deterioration in income from operations was caused by an increased utilization of third party transportation providers partly offset by higher tonnage driving increased Complete, fuel surcharge and linehaul revenues.

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Truckload Premium Services - Nine Months Ended September 30, 2017 compared to Nine Months Ended September 30, 2016

The following table sets forth our historical financial data of the Truckload Premium Services segment for the nine months ended September 30, 2017 and 2016 (in millions):

## Truckload Premium Services Segment Information

(In millions)

(Unaudited)

|  | Nine months ended  |                    | Percent    |            | Percent |         |
|--|--------------------|--------------------|------------|------------|---------|---------|
|  | September 30, 2017 | September 30, 2016 | of Revenue | of Revenue | Change  | Change  |
| Operating revenue                                    | \$132.9            | \$ 120.3           | 100.0 %    | 100.0 %    | \$ 12.6 | 10.5 %  |
| Operating expenses:                                  |                    |                    |            |            |         |         |
| Purchased transportation                             | 95.9               | 83.7               | 72.2       | 69.6       | 12.2    | 14.6    |
| Salaries, wages and employee benefits                | 15.2               | 14.4               | 11.4       | 12.0       | 0.8     | 5.6     |
| Operating leases                                     | 0.5                | 0.3                | 0.4        | 0.2        | 0.2     | 66.7    |
| Depreciation and amortization                        | 4.7                | 4.9                | 3.5        | 4.1        | (0.2 )  | (4.1 )  |
| Insurance and claims                                 | 4.3                | 2.9                | 3.2        | 2.4        | 1.4     | 48.3    |
| Fuel expense   | 2.3                | 1.9                | 1.7        | 1.6        | 0.4     | 21.1    |
| Other operating expenses                             | 6.3                | 6.5                | 4.8        | 5.4        | (0.2 )  | (3.1 )  |
| Impairment of goodwill, intangibles and other assets | —                  | 42.4               | —          | 35.2       | (42.4 ) | 100.0   |
| Total operating expenses                             | 129.2              | 157.0              | 97.2       | 130.5      | (27.8 ) | (17.7 ) |
| Income (loss) from operations                        | \$3.7              | \$ (36.7 )         | 2.8 %      | (30.5 )%   | \$ 40.4 | NM      |

## Truckload Premium Services Operating Statistics

|                             | Nine months ended  |                    | Percent Change |
|-----------------------------|--------------------|--------------------|----------------|
|                             | September 30, 2017 | September 30, 2016 |                |
| Company driver <sup>1</sup> | 5,707              | 5,074              | 12.5 %         |
| Owner operator <sup>1</sup> | 35,718             | 37,740             | (5.4 )         |
| Third party <sup>1</sup>    | 30,460             | 22,904             | 33.0           |
| Total Miles                 | 71,885             | 65,718             | 9.4            |
| Revenue per mile            | \$1.79             | \$ 1.78            | 0.6            |
| Cost per mile               | \$1.41             | \$ 1.36            | 3.7 %          |

<sup>1</sup> - In thousands

Revenues

TLS revenue increased \$12.6 million, or 10.5%, to \$132.9 million for the nine months ended September 30, 2017 from \$120.3 million in the same period of 2016. The increase in TLS revenue was attributable to new business wins which resulted in an 9.4% increase in miles driven to support revenue.

Purchased Transportation

Purchased transportation costs for our TLS revenue increased \$12.2 million, or 14.6%, to \$95.9 million for the nine months ended September 30, 2017 from \$83.7 million for the nine months ended September 30, 2016. For the nine months ended September 30,

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2017, TLS purchased transportation costs represented 72.2% of TLS revenue compared to 69.6% for the same period in 2016. The increase in TLS purchased transportation was attributable to a 9.1% increase in non-Company miles driven and a 4.0% increase in non-Company cost per mile during the nine months ended September 30, 2017 compared to the same period in 2016. The increase in TLS miles driven was attributable to new business wins discussed above. The increase in cost per mile was due to TLS utilizing third party carriers to cover the additional miles, which are more costly than our network of owner operators. This increased utilization of third party transportation providers also led to the increase in purchased transportation as a percentage of revenue.

**Salaries, Wages, and Benefits**

Salaries, wages and employee benefits of TLS increased by \$0.8 million, or 5.6%, to \$15.2 million for the nine months ended September 30, 2017 from \$14.4 million in the same period of 2016. Salaries, wages and employee benefits were 11.4% of TLS's operating revenue in the nine months ended September 30, 2017 compared to 12.0% for the same period of 2016. The decrease in salaries, wages and employee benefits as a percentage of revenue was mostly attributable to the increase in revenue outpacing the increase in pay to Company drivers and office staff.

**Operating Leases**

Operating leases increased \$0.2 million, or 66.7%, to \$0.5 million for the nine months ended September 30, 2017 from \$0.3 million for the same period in 2016. Operating leases were 0.4% of TLS operating revenue for the nine months ended September 30, 2017 compared to 0.2% for the same period in 2016. The \$0.2 million increase in cost is due to additional trailer rentals for the new business wins mentioned above.

**Depreciation and Amortization**

Depreciation and amortization decreased \$0.2 million, or 4.1%, to \$4.7 million for the nine months ended September 30, 2017 from \$4.9 million in the same period of 2016. Depreciation and amortization expense as a percentage of TLS operating revenue was 3.5% in the nine months ended September 30, 2017 compared to 4.1% in the same period of 2016. The decrease was due to the impairment of TQI intangible assets in the second quarter of 2016 leading to lower on-going amortization expense. This decrease was partially offset by increased trailer depreciation on trailers purchased since the third quarter of 2016.

**Insurance and Claims**

TLS insurance and claims expense increased \$1.4 million, or 48.3%, to \$4.3 million for the nine months ended September 30, 2017 from \$2.9 million for the nine months ended September 30, 2016. Insurance and claims were 3.2% of operating revenue for the nine months ended September 30, 2017 compared to 2.4% in the same period of 2016. The increase was due to higher reserves for vehicle liability, which included a large increase for developments on a single claim. The increase was also attributable to higher insurance premiums associated with our insurance plan renewals and higher cargo claims partly offset by a benefit from a prior period insurance premium audit.

**Fuel Expense**

TLS fuel expense increased \$0.4 million, or 21.1%, to \$2.3 million for the nine months ended September 30, 2017 from \$1.9 million for the same period of 2016. Fuel expense as a percentage of TLS operating revenue was 1.7% for the nine months ended September 30, 2017 compared to 1.6% in the same period of 2016. The increase as a percentage of revenue was mostly attributable to higher year-over-year fuel prices and the increase in Company driver miles.

**Other Operating Expenses**

Other operating expenses decreased \$0.2 million, or 3.1%, to \$6.3 million for the nine months ended September 30, 2017 from \$6.5 million in the same period of 2016. Other operating expenses were 4.8% of TLS operating revenue in the nine months ended September 30, 2017 compared to 5.4% in the same period of 2016. The decline in other operating expenses was due to reduced legal fees.



Impairment of goodwill, intangibles and other assets

In the second quarter of 2016, we determined there were indicators of potential impairment of goodwill and other long lived assets assigned to the TQI acquisition. As a result, we performed fair value calculations as of June 30, 2016. Based on these calculations we recorded \$42.4 million in total impairment charges related to TQI's goodwill and other long lived assets. During the three months ended September 30, 2017, there were no additional indicators of impairment.

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Results from Operations

Results from operations increased by \$40.4 million to \$3.7 million in income from operations for the nine months ended September 30, 2017 compared with a \$36.7 million loss from operations for the same period in 2016. Excluding the impairment charges, the deterioration in results from operations was due to a large increase in vehicle claims reserves and increased utilization of third party transportation providers which led to the increase in cost per mile outpacing the increase in revenue per mile.

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## Pool Distribution - Nine Months Ended September 30, 2017 compared to Nine Months Ended September 30, 2016

The following table sets forth our historical financial data of the Pool Distribution segment for the nine months ended September 30, 2017 and 2016 (in millions):

## Pool Distribution Segment Information

(In millions)

(Unaudited)

|                                       | Nine months ended  |                    | Percent            |                    | Percent |        |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|---------|--------|
|                                       | September 30, 2017 | Percent of Revenue | September 30, 2016 | Percent of Revenue | Change  | Change |
| Operating revenue                     | \$113.8            | 100.0 %            | \$101.2            | 100.0 %            | \$12.6  | 12.5 % |
| Operating expenses:                   |                    |                    |                    |                    |         |        |
| Purchased transportation              | 29.9               | 26.2               | 27.6               | 27.3               | 2.3     | 8.3    |
| Salaries, wages and employee benefits | 43.8               | 38.5               | 39.0               | 38.5               | 4.8     | 12.3   |
| Operating leases                      | 9.6                | 8.4                | 9.2                | 9.1                | 0.4     | 4.3    |
| Depreciation and amortization         | 5.0                | 4.4                | 4.4                | 4.3                | 0.6     | 13.6   |
| Insurance and claims                  | 3.2                | 2.8                | 3.2                | 3.2                | —       | —      |
| Fuel expense                          | 3.7                | 3.3                | 3.3                | 3.3                | 0.4     | 12.1   |
| Other operating expenses              | 14.9               | 13.1               | 14.7               | 14.5               | 0.2     | 1.4    |
| Total operating expenses              | 110.1              | 96.7               | 101.4              | 100.2              | 8.7     | 8.6    |
| Income (loss) from operations         | \$3.7              | 3.3 %              | \$(0.2)            | (0.2)%             | \$3.9   | NM     |

## Revenues

Pool operating revenue increased \$12.6 million, or 12.5%, to \$113.8 million for the nine months ended September 30, 2017 from \$101.2 million for the same period in 2016. The increase was attributable to increased volume from previously existing customers and current year rate increases.

## Purchased Transportation

Pool purchased transportation increased \$2.3 million, or 8.3%, to \$29.9 million for the nine months ended September 30, 2017 compared to \$27.6 million for the same period of 2016. Pool purchased transportation as a percentage of revenue was 26.2% for the nine months ended September 30, 2017 compared to 27.3% for the same period of 2016. The improvement in Pool purchased transportation as a percentage of revenue was attributable to an increased utilization of owner operators over more costly third party carriers and revenue increases associated with rate increases.

## Salaries, Wages, and Benefits

Pool salaries, wages and employee benefits increased \$4.8 million, or 12.3%, to \$43.8 million for the nine months ended September 30, 2017 compared to \$39.0 million for the same period of 2016. As a percentage of Pool operating revenue, salaries, wages and benefits was 38.5% for the nine months ended September 30, 2017 and 2016. As a percentage of revenue, increases in dock pay and employee incentive were offset by decreases in Company driver pay, administrative salaries, wages and benefits and workers' compensation costs. Dock pay deteriorated as a percentage of revenue as increasing revenue volumes required the use of more costly contract labor.

## Operating Leases

Operating leases increased \$0.4 million, or 4.3%, to \$9.6 million for the nine months ended September 30, 2017 from \$9.2 million for the same period in 2016. Operating leases were 8.4% of Pool operating revenue for the nine months ended September 30, 2017 compared with 9.1% in the same period of 2016. Operating leases increased in total dollars due to additional truck and trailer leases and rentals used to provide capacity for additional business wins throughout the network. The decrease as a percentage of

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revenue is attributable to decreases in facility rent, as 2016 included transition and relocation costs of certain terminals that did not occur in 2017.

Depreciation and Amortization

Pool depreciation and amortization increased \$0.6 million, or 13.6%, to \$5.0 million for the nine months ended September 30, 2017 from \$4.4 million for the same period in 2016. Depreciation and amortization expense as a percentage of Pool operating revenue was 4.4% for the nine months ended September 30, 2017 compared to 4.3% for the same period of 2016. The increase in Pool depreciation and amortization in total dollars was due to the allocation of trailer depreciation, which reflect Pool's increased utilization of our trailer fleet. This increase was partly offset by a decrease in tractor depreciation due to the increased use of rentals and leases mentioned above.

Insurance and Claims

Pool insurance and claims expense was \$3.2 million for the nine months ended September 30, 2017 and 2016. Insurance and claims were 2.8% of operating revenue for the nine months ended September 30, 2017 compared to 3.2% in the same period of 2016. The decrease as a percentage of revenue was due to a decrease in cargo claims and claims related professional fees.

Fuel Expense

Pool fuel expense increased \$0.4 million, or 12.1%, to \$3.7 million for the nine months ended September 30, 2017 from \$3.3 million in the same period of 2016. Fuel expenses were 3.3% of Pool operating revenue during the nine months ended September 30, 2017 and 2016. Pool fuel expenses increased in total dollars due to higher year-over-year fuel prices and higher revenue volumes. These increases were partially offset by increased utilization of owner operators.

Other Operating Expenses

Pool other operating expenses increased \$0.2 million, or 1.4%, to \$14.9 million for the nine months ended September 30, 2017 compared to \$14.7 million for the same period of 2016. Pool other operating expenses for the nine months ended September 30, 2017 were 13.1% of operating revenue compared to 14.5% for the same period of 2016. The decrease as a percentage of revenue is due to improved margins at agent stations, reduced legal fees and decreases in dock and office costs.

Results from Operations

Results from operations increased by \$3.9 million to \$3.7 million in income from operations for the nine months ended September 30, 2017 compared with a \$0.2 million loss from operations for the same period in 2016. Income from operations as a percentage of Pool operating revenue was 3.3% for the nine months ended September 30, 2017 compared to a 0.2% loss from operations in the same period of 2016. The improvement in Pool operating results was primarily the result of higher revenue volumes, current year rate increases, the reduction of cargo claims, agent station margin improvements and purchased transportation efficiencies.

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Intermodal - Nine Months Ended September 30, 2017 compared to Nine Months Ended September 30, 2016

The following table sets forth our historical financial data of the Intermodal segment for the nine months ended September 30, 2017 and 2016 (in millions):

## Intermodal Segment Information

(In millions)

(Unaudited)

|                                       | Nine months ended  |                    |                    |                    |         |                |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|---------|----------------|
|                                       | September 30, 2017 | Percent of Revenue | September 30, 2016 | Percent of Revenue | Change  | Percent Change |
| Operating revenue                     | \$105.9            | 100.0 %            | \$ 76.4            | 100.0 %            | \$ 29.5 | 38.6 %         |
| Operating expenses:                   |                    |                    |                    |                    |         |                |
| Purchased transportation              | 41.2               | 38.9               | 26.5               | 34.7               | 14.7    | 55.5           |
| Salaries, wages and employee benefits | 23.8               | 22.5               | 18.6               | 24.3               | 5.2     | 28.0           |
| Operating leases                      | 10.0               | 9.4                | 9.2                | 12.0               | 0.8     | 8.7            |
| Depreciation and amortization         | 4.3                | 4.1                | 2.8                | 3.7                | 1.5     | 53.6           |
| Insurance and claims                  | 3.3                | 3.1                | 2.2                | 2.9                | 1.1     | 50.0           |
| Fuel expense                          | 2.7                | 2.5                | 1.8                | 2.4                | 0.9     | 50.0           |
| Other operating expenses              | 11.5               | 10.9               | 7.1                | 9.3                | 4.4     | 62.0           |
| Total operating expenses              | 96.8               | 91.4               | 68.2               | 89.3               | 28.6    | 41.9           |
| Income from operations                | \$9.1              | 8.6 %              | \$ 8.2             | 10.7 %             | \$ 0.9  | 11.0 %         |

## Revenues

Intermodal operating revenue increased \$29.5 million, or 38.6%, to \$105.9 million for the nine months ended September 30, 2017 from \$76.4 million for the same period in 2016. The increases in operating revenue were primarily attributable to the acquisition of Atlantic, Ace and Triumph, the impact of increased fuel surcharges and increased storage revenues.

## Purchased Transportation

Intermodal purchased transportation increased \$14.7 million, or 55.5%, to \$41.2 million for the nine months ended September 30, 2017 from \$26.5 million for the same period in 2016. Intermodal purchased transportation as a percentage of revenue was 38.9% for the nine months ended September 30, 2017 compared to 34.7% for the nine months ended September 30, 2016. The increase in Intermodal purchased transportation as a percentage of revenue was attributable to higher utilization of owner operators as opposed to Company-employed drivers, as Atlantic utilized more owner operators than Company drivers.

## Salaries, Wages, and Benefits

Intermodal salaries, wages and employee benefits increased \$5.2 million, or 28.0%, to \$23.8 million for the nine months ended September 30, 2017 compared to \$18.6 million for the nine months ended September 30, 2016. As a percentage of Intermodal operating revenue, salaries, wages and benefits increased to 22.5% for the nine months ended September 30, 2017 compared to 24.3% for the same period in 2016. The improvement in salaries, wages and

employee benefits as a percentage of revenue was attributable to leveraging the increase in revenue on office and administrative salaries. The improvement is also due to lower workers' compensation and health insurance costs and dock and driver efficiencies.

#### Operating Leases

Operating leases increased \$0.8 million, or 8.7%, to \$10.0 million for the nine months ended September 30, 2017 from \$9.2 million for the same period in 2016. Operating leases were 9.4% of Intermodal operating revenue for the nine months ended September 30, 2017 compared with 12.0% in the same period of 2016. Operating leases decreased as a percentage of revenue due to consistent

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trailer rental charges while other revenue that does not require trailer rentals increased. The decrease as a percentage of revenue is also attributable to utilization of owned equipment acquired from Atlantic and the increase in revenue out-pacing the increase in facility rents.

### Depreciation and Amortization

Depreciation and amortization increased \$1.5 million, or 53.6%, to \$4.3 million for the nine months ended September 30, 2017 from \$2.8 million for the same period in 2016. Depreciation and amortization expense as a percentage of Intermodal operating revenue was 4.1% for the nine months ended September 30, 2017 from 3.7% for the same period in 2016. The higher depreciation and amortization was due to equipment and intangible assets acquired with Atlantic, Triumph and Ace.

### Insurance and Claims

Intermodal insurance and claims expense increased \$1.1 million, or 50.0%, to \$3.3 million for the nine months ended September 30, 2017 from \$2.2 million for the nine months ended September 30, 2016. Intermodal insurance and claims were 3.1% of operating revenue for the nine months ended September 30, 2017 compared with 2.9% for the same period in 2016. The increase in Intermodal insurance and claims was attributable to increased vehicle liability reserves and higher insurance premiums.

### Fuel Expense

Intermodal fuel expense increased \$0.9 million, or 50.0%, to \$2.7 million for the nine months ended September 30, 2017 from \$1.8 million in the same period of 2016. Fuel expenses were 2.5% of Intermodal operating revenue for the nine months ended September 30, 2017 compared to 2.4% in the same period of 2016. Intermodal fuel expenses increased due to higher year-over-year fuel prices and revenue volumes. These increases were partially offset by increased utilization of owner operators.

### Other Operating Expenses

Intermodal other operating expenses increased \$4.4 million, or 62.0%, to \$11.5 million for the nine months ended September 30, 2017 compared to \$7.1 million for the same period of 2016. Intermodal other operating expenses for the nine months ended September 30, 2017 were 10.9% of Intermodal operating revenue compared to 9.3% for the same period of 2016. The increase in Intermodal other operating expenses was due mostly due to a \$2.3 million increase in container related rental and storage charges associated with revenue increases discussed previously. The remaining increase was due to increased terminal expenses and other variable costs, such as maintenance and tolls, corresponding with the increases in revenue, and legal and professional fees related to the acquisition of Atlantic.

### Income from Operations

Intermodal's income from operations increased by \$0.9 million, or 11.0%, to \$9.1 million for the nine months ended September 30, 2017 compared with \$8.2 million for the same period in 2016. Income from operations as a percentage of Intermodal operating revenue was 8.6% for the nine months ended September 30, 2017 compared to 10.7% in the same period of 2016. The increase in operating income in total dollars was primarily attributable to the Atlantic, Ace and Triumph acquisitions. The decrease in income from operations as a percentage of revenue was attributable to increased depreciation and amortization associated with Intermodal's acquisitions, higher insurance premiums and vehicle liability reserves and acquisition related legal and professional fees.





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### Other Operations

Other operating activity improved from a \$2.5 million operating loss during the nine months ended September 30, 2016 to a \$1.2 million operating loss during the nine months ended September 30, 2017. The nine months ended September 30, 2017, includes \$0.9 million of executive severance costs and \$0.9 million in reserves for vehicle and workers' compensation claims. These costs were partly offset by \$0.6 million of indemnification funds received related to the Towne acquisition. These costs and benefits were kept at the corporate level and not passed through to our operating segments.

The \$2.5 million in operating loss included in other operations and corporate activities for the nine months ended September 30, 2016 was primarily for increases to loss development factors resulting from our bi-annual actuary analysis of our vehicle and workers' compensation claims. Other operating activity for the nine months ended September 30, 2016 also included a \$0.5 million additional reserve for remaining net payments on duplicate facilities vacated following the Towne acquisition, as several facilities had yet to be sub-leased.

### Critical Accounting Policies

Our unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP"). The preparation of financial statements in accordance with GAAP requires our management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Our estimates and assumptions are based on historical experience and changes in the business environment. However, actual results may differ from estimates under different conditions, sometimes materially. Critical accounting policies and estimates are defined as those that are both most important to the portrayal of our financial condition and results and require management's most subjective judgments. A summary of significant accounting policies is disclosed in Note 1 to the Consolidated Financial Statements included in our 2016 Annual Report on Form 10-K. Our critical accounting policies are further described under the caption "Discussion of Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2016 Annual Report on Form 10-K.

### Valuation of Goodwill and Other Long Term Assets

We test our goodwill for impairment annually or more frequently if events or circumstances indicate impairment may exist. Examples of such events or circumstances could include a significant change in business climate or a loss of significant customers. We complete our annual analysis of our reporting units as of the last day of our second quarter, June 30<sup>th</sup>. We first consider our reporting unit and related components in accordance with U.S. GAAP. Goodwill is allocated to reporting units that are expected to benefit from the business combinations generating the goodwill. We have five reporting units - Expedited LTL, TLX Forward Air, Intermodal, Pool Distribution and Total Quality, Inc. ("TQI"). The TLX Forward Air and the TQI reporting units are assigned to the Truckload Premium Services reportable segment. Currently, there is no goodwill assigned to the TLX Forward Air reporting unit. In evaluating reporting units, we first assess qualitative factors to determine whether it is more likely than not that the fair value of any of its reporting units is less than its carrying amount, including goodwill. When performing the qualitative assessment, we consider the impact of factors including, but not limited to, macroeconomic and industry conditions, overall financial performance of each reporting unit, litigation and new legislation. If based on the qualitative assessments, we believe it is more likely than not that the fair value of any reporting unit is less than the reporting unit's carrying amount, or periodically as deemed appropriate by management, we will prepare an estimation of the respective reporting unit's fair value utilizing a quantitative approach. If this estimation of fair value indicates that impairment potentially exists, we will then measure the amount of the impairment, if any. Goodwill impairment exists when the calculated implied fair value of goodwill is less than its carrying value.

We determine the fair value of our reporting units based on a combination of a market approach, which considers comparable companies, and the income approach, using a discounted cash flow model. Under the market approach, valuation multiples are derived based on a selection of comparable companies and applied to projected operating data for each reporting unit to arrive at an indication of fair value. Under the income approach, the discounted cash flow model determines fair value based on the present value of management prepared projected cash flows over a specific projection period and a residual value related to future cash flows beyond the projection period. Both values are discounted using a rate which reflects our best estimate of the weighted average cost of capital of a market participant, and is adjusted for appropriate risk factors. We believe the most sensitive estimate used in our income approach is the management prepared projected cash flows. Consequently, we perform sensitivity tests to ensure reductions of the present value of the projected cash flows by at least 10% would not adversely impact the results of the goodwill impairment tests. Historically, we have equally weighted the income and market approaches as we believed the quality and quantity of the collected information were approximately equal. The inputs used in the fair value calculations for goodwill are classified within level 3 of the fair value hierarchy as defined in the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles.

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In 2017, based on our qualitative analysis of the LTL, Intermodal and Pool reporting units we determined it is more likely than not that the fair value of these reporting units exceeded their respective carrying amounts, including goodwill. However, we performed a fair value estimation for the TQI reporting unit due to the reporting unit's 2016 goodwill impairment and continuing operating losses. Our 2017 calculations for TQI indicated that, as of June 30, 2017, the fair value of the reporting unit exceeded its carrying value by approximately 15.0%.

For our 2017 TQI analysis the significant assumptions used in the income approach were 10 years of projected net cash flows, a discount rate of 15.5% and a long-term growth rate of 4.0%. As shown with the 2016 TQI goodwill impairment, the estimates used to calculate the fair value of each reporting unit change from year to year based on operating results, market conditions, and other factors. Changes in these estimates and assumptions could materially affect the determination of the reporting unit's fair value and goodwill impairment for the reporting unit.

### Impact of Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued guidance that changes the accounting for certain aspects of share-based payments to employees. The guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid in capital ("APIC") pools. The guidance also allows for the employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. We adopted this guidance in January 2017 and the elimination of APIC pools resulted in approximately \$0.1 million of income tax benefit during the nine months ended September 30, 2017. This guidance has been applied prospectively and no prior periods have been adjusted.

In February 2016, the FASB, issued ASU 2016-02, Leases, which introduces the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. 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 are evaluating the impact of the future adoption of this standard on our consolidated financial statements.

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.

As permitted by the guidance, we will implement the use of full retrospective presentation. While evaluating principal versus agent relationships under the new standard, we determined that we will transition certain revenue streams from an agent to principal relationship. This will cause these revenue streams and their associated costs to be recognized on a gross basis that have historically been netted. This would increase revenue and expenses by approximately \$46.0 million for the nine months ended September 30, 2017 and \$33.0 million for the same period of 2016 and would have no impact of operating income.

In addition, based on a review of our customer shipping arrangements, we currently believe the implementation of this standard will change our revenue recognition policy from recognizing revenue upon shipment completion to recognizing revenue over time based on the progress toward completion of shipments in transit at each period end. While the timing of revenue recognition will be accelerated, due to the short duration of our transit times and relatively low dollar value of individual shipments, the anticipated timing impact on our consolidated financial position, revenue and results from operations is not expected to change significantly.

#### Liquidity and Capital Resources

We have historically financed our working capital needs, including capital expenditures, with cash flows from operations and borrowings under our bank lines of credit. Net cash provided by operating activities totaled approximately \$77.7 million for the nine months ended September 30, 2017 compared to approximately \$94.6 million for the nine months ended September 30, 2016. The \$16.9 million decrease in cash provided by operating activities is mainly attributable to the increase in accounts receivable. Accounts receivables increased on higher revenue across all segments and revenues associated with the Atlantic acquisition.

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Net cash used in investing activities was approximately \$34.7 million for the nine months ended September 30, 2017 compared with approximately \$39.4 million during the nine months ended September 30, 2016. Investing activities during the nine months ended September 30, 2017 consisted primarily of \$22.5 million used to acquire Atlantic and net capital expenditures of \$12.1 million primarily for new trailers and information technology. Investing activities during the nine months ended September 30, 2016 consisted primarily of \$11.8 million used to acquire Ace and Triumph, which are included in the Intermodal segment, and net capital expenditures of \$26.9 million primarily for new trailers, forklifts, computer hardware and internally developed software. The proceeds from disposal of property and equipment during the nine months ended September 30, 2017 and 2016 were primarily from sales of older trailers and vehicles.

Net cash used in financing activities totaled approximately \$39.1 million for the nine months ended September 30, 2017 compared with net cash used in financing activities of \$77.2 million for the nine months ended September 30, 2016. The \$38.1 million change in cash from financing activities was attributable to \$55.0 million in borrowings from our revolving credit facility partly offset by a \$1.4 million decrease in cash from employee stock transactions, a \$12.0 million increase in share repurchases and a \$2.6 million increase in our quarterly cash dividend.

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 \$150.0 million, with a sublimit of \$30.0 million for letters of credit and a sublimit of \$30.0 million for swing line loans. The Facility may be increased by up to \$100.0 million to a maximum aggregate principal amount of \$250.0 million 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 refinances the Company’s existing obligations for its unsecured credit facility under the credit agreement dated as of February 4, 2015, as amended, which has been 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. The Facility 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, 2017, we had \$40.5 million in borrowings outstanding under the revolving credit facility, \$8.7 million utilized for outstanding letters of credit and \$100.8 million of available borrowing capacity under the revolving credit facility. The interest rate on the outstanding borrowing under the revolving credit facility was 2.6% at September 30, 2017.

Our new facility is replacing our previously existing unsecured credit facility, which had a maximum aggregate principal amount of \$275.0 million, including a revolving credit facility of \$150.0 million and a term loan facility of \$125.0 million. The previous revolving credit facility was scheduled to expire in February 2020.

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. During the three months ended September 30, 2017, we repurchased 579,769 for \$30.0 million, or \$51.72 per share. During the nine months ended September 30, 2017, we repurchased 826,633 for \$42.0 million, or \$50.79 per share. During the three months ended September 30, 2016, we repurchased 222,388 for \$10.0 million, or \$44.95 per share. During the nine months ended September 30, 2016, we repurchased 676,773 shares for \$30.0 million, or an average of \$44.31 per share. The repurchases made for the three and nine months ended September 30, 2016 were made under a previous share repurchase plan approved by our Board of Directors on February 7, 2014. This plan was canceled and replaced on July 21, 2016. As of September 30, 2017, there were 1,939,851 shares remaining to be purchased under the 2016 Plan.

During the fourth quarter of 2016 and each quarter of 2017, our Board of Directors declared a cash dividend of \$0.15 per share of common stock. During the first, second and third quarter of 2016, our Board of Directors declared a cash dividend of \$0.12 per share of common stock. We expect to continue to pay regular quarterly cash dividends, though each subsequent quarterly dividend is subject to review and approval by the Board of Directors.

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

### Forward-Looking Statements

This report contains “forward-looking statements,” as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are statements other than historical information or statements of current condition and relate to future events or our future financial performance. In this Form 10-Q, forward-looking statements include, but are not limited to, any projections of earnings, revenues, or other financial items; any statement of plans, strategies, and objectives of management for future operations; any statements regarding future insurance and claims; any statements concerning proposed or intended new services or developments; any statements regarding intended expansion through acquisition or greenfield startups; any statements regarding future economic conditions or performance; and any statements of belief and any statements of assumptions underlying any of the foregoing. Some forward-looking statements may be identified by use of such terms as “believes,” “anticipates,” “intends,” “plans,” “estimates,” “projects” or “expects.” Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The following is a list of factors, among others, that could cause actual results to differ materially from those contemplated by the forward-looking statements: economic factors such as recessions, inflation, higher interest rates and downturns in customer business cycles, our inability to maintain our historical growth rate because of a decreased volume of freight moving through our network or decreased average revenue per pound of freight moving through our network, increasing competition and pricing pressure, surplus inventories, loss of a major customer, the creditworthiness of our customers and their ability to pay for services rendered, our ability to secure terminal facilities in desirable locations at reasonable rates, the inability of our information systems to handle an increased volume of freight moving through our network, changes in fuel prices, claims for property damage, personal injuries or workers’ compensation, employment matters including rising health care costs, enforcement of and changes in governmental regulations, environmental and tax matters, the handling of hazardous materials, the availability and compensation of qualified independent owner operators and freight handlers needed to serve our transportation needs and our inability to successfully integrate acquisitions. As a result of the foregoing, no assurance can be given as to future financial condition, cash flows or results of operations. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Our exposure to market risk related to our outstanding debt is not significant and has not changed materially since December 31, 2016.

### Item 4. Controls and Procedures.

#### Disclosure Controls and Procedures

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



and disclose the information we are required to disclose in the reports we file with the SEC within the required time periods.

The SEC's general guidance permits the exclusion of an assessment of the effectiveness of a registrant's disclosure controls and procedures as they relate to its internal controls over financial reporting for an acquired business during the first year following such acquisition, if among other circumstances and factors there is not adequate time between the acquisition date and the date of assessment. As previously disclosed, the Company completed its acquisition of Atlantic on May 7, 2017. Atlantic represents approximately 3.5% percent of the Company's total assets as of September 30, 2017. Management's assessment and conclusion on the effectiveness of the Company's disclosure controls and procedures as of September 30, 2017 excluded an assessment of the internal control over financial reporting of Atlantic.

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## Changes in Internal Control

There were no changes in our internal control over financial reporting during the three and nine months ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Part II. Other Information

## Item 1. Legal Proceedings.

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

## Item 1A. Risk Factors.

A summary of factors which could affect results and cause results to differ materially from those expressed in any forward-looking statements made by us, or on our behalf, are further described under the caption "Risk Factors" in the Business portion of our 2016 Annual Report on Form 10-K. There have been no changes in the nature of these factors since December 31, 2016.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

## Issuer Purchases of Equity Securities

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.

| Period               | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price<br>Paid per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>2016<br>Program | Maximum<br>Number of<br>Shares that<br>May Yet<br>Be<br>Purchased<br>Under the<br>Program |
|----------------------|---|---------------------------------------|---|---|
| July 1-31, 2017      | 37,073                                    | \$ 54                                 | 37,073  | 2,482,547   |
| August 1-31, 2017    | 373,974                                   | 51                                    | 373,974   | 2,108,573   |
| September 1-30, 2017 | 168,722                                   | 52                                    | 168,722   | 1,939,851   |
| Total                | 579,769                                   | \$ 52                                 | 579,769   | 1,939,851   |

## Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

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Item 6. Exhibits.

In accordance with SEC Release No. 33-8212, Exhibits 32.1 and 32.2 are to be treated as “accompanying” this report rather than “filed” as part of the report.

|         |  |
|---------|--|
| No.     | Exhibit  |
| 3.1     | <u>Restated Charter of the registrant (incorporated herein by reference to Exhibit 3 to the registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 28, 1999 (File No. 0-22490))</u>  |
| 3.2     | <u>Amended and Restated Bylaws of the registrant (incorporated herein by reference to Exhibit 3.1 to the registrant’s Current Report on Form 8-K filed with the Commission on July 31, 2017 (File No. 0-22490))</u>  |
| 4.1     | <u>Form of Forward Air Corporation Common Stock Certificate (incorporated herein by reference to Exhibit 4.1 to the registrant’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998, filed with the Securities and Exchange Commission on November 16, 1998 (File No. 0-22490))</u>   |
| 10.1    | <u>Forward Air Corporation 2016 Omnibus Incentive Compensation Plan (incorporated herein by reference to Exhibit 10.1 to the registrant’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017, filed with the Securities and Exchange Commission on July 27, 2017 (File No. 0-22490))</u>   |
| 10.2    | <u>Amended and Restated Non-Employee Director Stock Plan (incorporated herein by reference to Exhibit 10.2 to the registrant’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017, filed with the Securities and Exchange Commission on July 27, 2017 (File No. 0-22490))</u>  |
| 10.3    | <u>Credit Agreement dated September 29, 2017 among the registrant and certain of its subsidiaries and Bank of America, N.A., as administrative agent and other lenders party thereto (incorporated herein by reference to Exhibit 10.1 to the registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 3, 2017 (File No. 0-22490))</u> |
| 31.1    | <u>Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a) (17 CFR 240.13a-14(a))</u>   |
| 31.2    | <u>Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a) (17 CFR 240.13a-14(a))</u>   |
| 32.1    | <u>Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>   |
| 32.2    | <u>Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>   |
| 101.INS | XBRL Instance Document   |
| 101.SCH | XBRL Taxonomy Extension Schema   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase   |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase  |

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Forward Air Corporation

Date: October 26, 2017 By: /s/ Michael J. Morris

Michael J. Morris

Chief Financial Officer, Senior Vice President and Treasurer  
(Principal Financial Officer)

EXHIBIT INDEX

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