FORWARD AIR CORP
Form 10-Q
October 29, 2010

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, 2010
Commission File No. 000-22490

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

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

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

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

Yes x No o

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 o

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 x	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

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

Yes o No x

The number of shares outstanding of the registrant's common stock, $0.01 par value, as of October 25, 2010 was 29,016,040.

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Forward Air Corporation

Part
I. Financial Information

Item
1. Financial Statements (Unaudited).

Forward Air Corporation
Condensed Consolidated Balance Sheets
(Dollars in thousands, except per share amounts)
(Unaudited)

	September 30, 2010	December 31, 2009 (a)
Assets		
Current assets:		
Cash	$ 63,219	$ 42,035
Accounts receivable, less allowance of $2,024 in 2010 and $1,919 in 2009	62,438	55,720
Other current assets	11,484	9,471
Total current assets	137,141	107,226
Property and equipment	210,954	204,716
Less accumulated depreciation and amortization	83,615	75,990
Total property and equipment, net	127,339	128,726
Goodwill and other acquired intangibles:		
Goodwill	43,332	43,332
Other acquired intangibles, net of accumulated amortization of $15,724 in 2010 and $12,281 in 2009	32,406	35,849
Total goodwill and other acquired intangibles	75,738	79,181
Other assets	1,595	1,597
Total assets	$ 341,813	$ 316,730
Liabilities and Shareholders’ Equity		
Current liabilities:		
Accounts payable	$ 11,383	$ 10,333
Accrued expenses	23,326	18,531
Current portion of debt and capital lease obligations	672	919
Total current liabilities	35,381	29,783
Long-term debt and capital lease obligations, less current portion	51,023	52,169
Other long-term liabilities	6,159	4,485
Deferred income taxes	5,116	5,786
Shareholders’ equity:		

Preferred stock		--		--
Common stock, $0.01 par value:				
Authorized shares – 50,000,000				
Issued and outstanding shares – 29,002,375 in 2010 and 28,950,391 in 2009		290		290
Additional paid-in capital		22,130		16,631
Retained earnings		221,714		207,586
Total shareholders’ equity		244,134		224,507
Total liabilities and shareholders’ equity	$	341,813	$	316,730

(a) Taken from audited financial statements, which are not presented in their entirety.

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

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

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Operating revenue:				
Forward Air				
Airport-to-airport	$ 81,828	$ 66,667	$ 234,456	$ 194,908
Logistics	16,774	13,172	47,789	38,645
Other	6,481	5,596	18,745	16,975
Forward Air Solutions				
Pool distribution	16,439	17,644	49,639	48,864
Total operating revenue	121,522	103,079	350,629	299,392
Operating expenses:				
Purchased transportation				
Forward Air				
Airport-to-airport	32,852	28,025	94,152	82,008
Logistics	12,942	10,329	36,780	30,127
Other	1,703	1,387	4,811	3,681
Forward Air Solutions				
Pool distribution	3,680	3,747	10,625	9,774
Total purchased transportation	51,177	43,488	146,368	125,590
Salaries, wages and employee benefits	31,845	28,591	95,682	86,834
Operating leases	6,508	6,631	19,388	20,440
Depreciation and amortization	5,228	5,006	15,283	14,687
Insurance and claims	1,546	2,045	5,983	6,984
Fuel expense	1,949	1,880	6,051	5,199
Other operating expenses	7,764	8,767	26,813	25,983
Impairment of goodwill and other intangible assets	--	--	--	7,157
Total operating expenses	106,017	96,408	315,568	292,874
Income from operations	15,505	6,671	35,061	6,518
Other income (expense):				
Interest expense	(191)	(177)	(557)	(469)
Other, net	26	51	38	50
Total other expense	(165)	(126)	(519)	(419)
	15,340	6,545	34,542	6,099

Income before income taxes				
Income tax expense	6,452	2,766	14,323	2,581
Net income	$ 8,888	$ 3,779	$ 20,219	$ 3,518
Net income per share:				
Basic	$ 0.31	$ 0.13	$ 0.70	$ 0.12
Diluted	$ 0.31	$ 0.13	$ 0.69	$ 0.12
Weighted average shares outstanding:				
Basic	29,000	28,942	28,975	28,924
Diluted	29,129	29,026	29,101	28,978
Dividends per share:	$ 0.07	$ 0.07	$ 0.21	$ 0.21

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

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

	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Operating activities:		
Net income	$ 20,219	$ 3,518
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	15,283	14,687
Impairment of goodwill and other intangible assets	--	7,157
Share-based compensation	4,887	5,022
Gain on sale or disposal of property and equipment	(648)	(13)
Provision for loss (recovery) on receivables	202	(74)
Provision for revenue adjustments	1,462	1,916
Deferred income taxes	(1,624)	(3,009)
Tax benefit for stock options exercised	(28)	(1)
Changes in operating assets and liabilities		
Accounts receivable	(8,382)	2,370
Prepaid expenses and other current assets	(1,029)	(1,567)
Accounts payable and accrued expenses	7,519	701
Net cash provided by operating activities	37,861	30,707
Investing activities:		
Proceeds from disposal of property and equipment	1,413	231
Purchases of property and equipment	(11,889)	(18,828)
Other	--	405
Net cash used in investing activities	(10,476)	(18,192)
Financing activities:		
Payments of debt and capital lease obligations	(722)	(1,163)
Proceeds from exercise of stock options	490	8
Payments of cash dividends	(6,088)	(6,081)
Common stock issued under employee stock purchase plan	91	99

Cash settlement of share-based awards for minimum tax withholdings	--	(242)
Tax benefit for stock options exercised	28	1
Net cash used in financing activities	(6,201)	(7,378)
Net increase in cash	21,184	5,137
Cash at beginning of period	42,035	22,093
Cash at end of period	$ 63,219	$ 27,230

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

Forward Air Corporation
Notes to Condensed Consolidated Financial Statements
(In thousands, except per share data)
(Unaudited)
September 30, 2010

1. Basis of Presentation

Forward Air Corporation's (“the Company”) services can be classified into two principal reporting segments: Forward Air, Inc. (“Forward Air”) and Forward Air Solutions, Inc. (“FASI”).

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

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

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, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. For further information, refer to the consolidated financial statements and notes thereto included in the Forward Air Corporation Annual Report on Form 10-K/A for the year ended December 31, 2009.

The balance sheet at December 31, 2009 has been derived from the audited financial statements at that date, but does not include all of the financial information and notes required by United States generally accepted accounting principles for complete financial statements.

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

2. Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (“the FASB”) expanded the disclosure requirements for fair value measurements. The expanded disclosures will require a greater level of disaggregated information and additional disclosures about valuation techniques and inputs to fair value measurements. The amendment will require expanded disclosures on transfers in and out of Level 1 and Level 2 fair values, activity in Level 3 investments and inputs and valuation techniques. The new disclosure requirements and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosure requirements involving activity in Level 3 fair value measurements. Those disclosure requirements are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of the provisions of this amendment required in the first interim period after December 15, 2009 did not have a material impact on the Company's financial statement disclosures. In addition, the adoption of the provisions of this amendment required for periods beginning after December 15, 2010 is not expected to have a material impact on the Company's financial statement disclosures.

The Company adopted the FASB's new guidance regarding subsequent events in the second quarter of 2009. The FASB's new guidance establishes the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption of the new subsequent event guidance did not have a material impact on the Company's financial statements.

Forward Air Corporation
Notes to Condensed Consolidated Financial Statements

2. Recent Accounting Pronouncements (continued)

In June 2009, the FASB amended rules regarding the transfer and servicing of financial assets and the extinguishment of financial assets. The amended guidance eliminates the concept of a qualifying special-purpose entity ("QSPE"); clarifies and amends the derecognition criteria for a transfer to be accounted for as a sale; amends and clarifies the unit of account eligible for sale accounting; and requires that a transferor initially be measured at fair value and recognize all assets obtained (for example beneficial interests) and liabilities incurred as a result of a transfer of an entire financial asset or group of financial assets accounted for as a sale. Additionally, on and after the effective date of the amended guidance, existing QSPEs (as defined under previous accounting standards) must be evaluated for consolidation by reporting entities in accordance with the applicable consolidation guidance. The amended guidance requires enhanced disclosures about, among other things, a transferor's continuing involvement with transfers of financial assets accounted for as sales, the risks inherent in the transferred financial assets that have been retained, and the nature and financial effect of restrictions on the transferor's assets that continue to be reported in the statement of financial position. The Company adopted the amended guidance on January 1, 2010, and this adoption did not have a significant impact on the Company's financial position, results of operations and cash flows.

In June 2009, the FASB amended its rules regarding the consolidation of variable interest entities ("VIE"). The FASB also amended the guidance governing the determination of whether an enterprise is the primary beneficiary of a VIE, and is, therefore, required to consolidate an entity, by requiring a qualitative analysis rather than a quantitative analysis. The qualitative analysis will include, among other things, consideration of who has the power to direct the activities of the entity that most significantly impact the entity's economic performance and who has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. This standard also requires continuous reassessments of whether an enterprise is the primary beneficiary of a VIE. Previously, FASB rules required reconsideration of whether an enterprise was the primary beneficiary of a VIE only when specific events had occurred. QSPEs, which were previously exempt from the application of rules regarding VIEs, will be subject to the provisions of these new rules when they become effective. The amended guidance also requires enhanced disclosures about an enterprise's involvement with a VIE. The Company adopted the amended guidance on January 1, 2010, and this adoption did not have a significant impact on the Company's financial position, results of operations and cash flows.

3. Comprehensive Income

Comprehensive income includes any changes in the equity of the Company from transactions and other events and circumstances from non-owner sources. Comprehensive income for the three months ended September 30, 2010 and 2009 was $8,888 and $3,779, respectively. Comprehensive income for the nine months ended September 30, 2010 and 2009 was $20,219 and $3,518, respectively. In each case, the comprehensive results approximated net income.

4. Goodwill and Long-Lived Assets

The Company conducts an annual (or more frequently if circumstances indicate possible impairment) impairment test of goodwill for each reportable segment at June 30 of each year. The first step of the goodwill impairment test is the estimation of the reportable segment's fair value. If step one indicates that impairment potentially exists, the second step is performed to 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. Changes in strategy or market conditions could significantly impact these fair value estimates and require adjustments to recorded asset balances.

During the three months ended March 31, 2009, the Company determined there were indicators of potential impairment of the goodwill assigned to the FASI segment. This determination was based on the continuing economic recession, declines in current market valuations and FASI operating losses in excess of expectations. As a result, the Company performed an interim impairment test. Based on the results of the interim impairment test, the Company recorded a non-cash goodwill impairment charge of $6,953 related to the FASI segment during the three months ended March 31, 2009.

The Company conducted its annual impairment test of goodwill for each reportable segment as of June 30, 2010 and no impairment charges were required. For the goodwill impairment calculations, the Company calculates the fair value of the applicable reportable segments, using a combination of discounted projected cash flows and market valuations for comparable companies as of the valuation date. The Company's 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 (“the FASB Codification”).

Forward Air Corporation
Notes to Condensed Consolidated Financial Statements

4. Goodwill and Long-Lived Assets (continued)

As of September 30, 2010, the carrying value of goodwill related to the Forward Air and FASI segments was $37,926 and $5,406, respectively. The estimation of fair value related to the impairment test for goodwill is particularly sensitive to projected financial information used in the calculations. Earnings estimated to be generated by the Forward Air segment are expected to continue supporting the carrying value of its goodwill. The FASI segment is currently facing the challenges of building and expanding a business during difficult economic times. If these overall economic conditions worsen or continue for an extended period of time, future estimates of projected financial information may be reduced, and the Company may be required to record an additional impairment charge against the carrying value of FASI's goodwill. There were no changes in the carrying amount of goodwill during the nine months ended September 30, 2010.

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. During 2009 an impairment charge of $204 was incurred in the Forward Air segment to write off the net book value of certain truckload and cargo handling customer relationships purchased during 2007. These impairment charges were recorded as the related customer relationships and services were discontinued during the first quarter of 2009.

5. Share-Based Payments

The Company's general practice has been to make a single annual grant of non-vested shares of common stock ("non-vested shares") or stock options to key employees and to make other employee grants only in connection with new employment or promotions. 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.

During 2006, the Company issued non-vested shares to key employees as the form of share-based awards. However, beginning in 2007, the Company elected to issue stock options to key employees. Stock option grants to employees typically expire seven years from the grant date and vest ratably over a three-year period. Grants of non-vested shares to non-employee directors vest ratably over the elected term to the Board of Directors, or one year. Share-based compensation for grants of non-vested shares and stock options is based on the grant date fair value of the instrument and is recognized, net of estimated forfeitures, ratably over the requisite service period, or vesting period. The Company estimates forfeitures based upon historical experience. All share-based compensation expense is recognized in salaries, wages and employee benefits.

Employee Activity

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 during the nine months ended September 30, 2010 and 2009 was $8.24 and $7.96, respectively. No stock options were granted during the three months ended September 30, 2010 and 2009. The fair values were estimated using the following weighted-average assumptions:

	Nine months ended	
	September 30,	September 30,

	2010		2009	
Expected dividend yield	1.3	%	0.9	%
Expected stock price volatility	45.7	%	42.3	%
Weighted average risk-free interest rate	2.5	%	2.0	%
Expected life of options (years)	4.5		4.5	

During the three months ended September 30, 2010 and 2009, share-based compensation expense for options granted to employees was $1,365 and $1,455, respectively. The total tax benefit related to the share-based expense for these options for the three months ended September 30, 2010 and 2009, was $415 and $420, respectively. During the nine months ended September 30, 2010 and 2009, share-based compensation expense for options granted to employees was $4,448 and $4,281 respectively. The total tax benefit related to the share-based expense for these options for the nine months ended September 30, 2010 and 2009, was $1,290 and $1,220, respectively. Total compensation cost, net of estimated forfeitures, related to the options not yet recognized in earnings was $6,667 at September 30, 2010. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

Forward Air Corporation
Notes to Condensed Consolidated Financial Statements

5. Share-Based Payments (continued)

The following tables summarize the Company's employee stock option activity and related information for the three and nine months ended September 30, 2010:

	Three months ended September 30, 2010			
	Options (000)	Weighted-Average Exercise Price	Aggregate Intrinsic Value (000)	Weighted-Average Remaining Contractual Term
Outstanding at June 30, 2010	3,732	$ 26		
Granted	-	-		
Exercised	3	23		
Forfeited	2	23		
Outstanding at September 30, 2010	3,727	$ 26	$ 2,912	4.4
Exercisable at September 30, 2010	2,413	$ 27	$ --	3.8

	Nine months ended September 30, 2010			
	Options (000)	Weighted-Average Exercise Price	Aggregate Intrinsic Value (000)	Weighted-Average Remaining Contractual Term
Outstanding at December 31, 2009	3,086	$ 26		
Granted	664	22		
Exercised	10	21		
Forfeited	13	26		
Outstanding at September 30, 2010	3,727	$ 26	$ 2,912	4.4
Exercisable at September 30, 2010	2,413	$ 27	$ --	3.8

Share-based compensation expense was $10 and $254 during the three and nine months ended September 30, 2009, respectively, for non-vested shares granted to employees during 2006. The total tax benefit related to this share-based expense was $4 and $106 for the three and nine months ended September 30, 2009, respectively. As of December 31, 2009, all shares granted to employees had vested or been forfeited.

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 443 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, 2010, participants under the plan purchased 4 shares at an average price of $22.98 per share. For the nine months ended September 30, 2009, participants under the plan purchased 5 shares at an average price of $19.19 per share. The weighted-average fair value of each purchase right under the ESPP granted for the nine months ended September 30, 2010, which is equal to the discount from the market value of the common stock at the end of each six month purchase period, was $4.27 per share. The weighted-average fair value of each purchase right under the ESPP granted for the nine months ended September 30, 2009, which is equal to the discount from the market value of the common stock at the end of each six month purchase period, was $2.13 per share. Share-based compensation expense of $17 and $11 was recognized during the nine months ended September 30, 2010 and 2009, respectively.

Forward Air Corporation

Notes to Condensed Consolidated Financial Statements

5. Share-Based Payments (continued)

Non-employee Director Activity

Share-based compensation expense during the three months ended September 30, 2010 and 2009 was $141 and $142, respectively, for non-vested shares granted to non-employee directors. The total tax benefit related to this share-based expense was $57 and $59 for the three months ended September 30, 2010 and 2009, respectively. Share-based compensation expense during the nine months ended September 30, 2010 and 2009 was $422 and $476, respectively, for non-vested shares granted to non-employee directors. The total tax benefit related to this share-based expense was $172 and $198 for the nine months ended September 30, 2010 and 2009, respectively. Total compensation cost, net of estimated forfeitures, related to the non-vested shares granted to non-employee directors not yet recognized in earnings was $343 at September 30, 2010. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

In addition to the above activity, each May from 1995 to 2005 options were granted to the non-employee directors of the Company. The options have terms of ten years and are fully exercisable. At September 30, 2010, 63,125 options were outstanding and will expire between May 2011 and May 2015. During the three and nine months ended September 30, 2010, non-employee directors of the Company exercised 11,250 stock options with a weighted average exercise price of $24. At September 30, 2010, the weighted average exercise price per share and remaining contractual term for the outstanding options of non-employee directors were $22 and 2.8 years, respectively.

6. Senior Credit Facility

On October 10, 2007, the Company entered into a $100,000 senior credit facility. This facility has a term of five years and includes an accordion feature, which allows for an additional $50,000 in borrowings. However, at this time the Company believes that to access the accordion feature the Company's lender would require that the interest rates for the senior credit facility be reset to match current market rates. The senior credit facility matures on October 10, 2012. The Company entered into this larger credit facility in order to fund potential acquisitions, the repurchase of its common stock, and for financing other general business purposes. Interest rates for advances under the facility are at LIBOR plus 0.6% to 0.9% based upon covenants related to total indebtedness to earnings (0.9% at September 30, 2010). The agreement contains certain covenants and restrictions, none of which are expected to significantly affect the Company's operations or ability to pay dividends. No assets are pledged as collateral against the senior credit facility. As of September 30, 2010, the Company had $50,000 outstanding under the senior credit facility. At September 30, 2010, the Company had utilized $11,704 of availability for outstanding letters of credit and had $38,296 of available borrowing capacity outstanding under the senior credit facility.

7. 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, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Numerator:				
Numerator for basic and diluted income per share - net income	$ 8,888	$ 3,779	$ 20,219	$ 3,518

Denominator:								
Denominator for basic income per share - weighted-average shares		29,000		28,942		28,975		28,924
Effect of dilutive stock options and non-vested shares		129		84		126		54
Denominator for diluted income per share - adjusted weighted-average shares		29,129		29,026		29,101		28,978
Basic income per share	$	0.31	$	0.13	$	0.70	$	0.12
Diluted income per share	$	0.31	$	0.13	$	0.69	$	0.12

The number of options and non-vested shares that could potentially dilute net earnings per share in the future, but that were not included in the computation of income per diluted share because to do so would have been anti-dilutive for the periods presented, were approximately 1,250 and 2,706 at September 30, 2010 and 2009, respectively.

Forward Air Corporation
Notes to Condensed Consolidated Financial Statements

8. 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 2004.

During the nine months ended September 30, 2010, the Company increased its reserves for unrecognized tax benefits and related interest by approximately $192. There were no significant changes during the three months ended September 30, 2010. The increase was related to recent state audit findings that indicated the probable settlement of certain issues could be higher than originally estimated.

For the three and nine months ended September 30, 2010 and 2009, 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.

9. Financial Instruments

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and trade accounts receivable. The Company does not generally require collateral from its customers. Concentrations of credit risk with respect to trade accounts receivable on a consolidated basis are limited due to the large number of entities comprising the Company’s customer base and their dispersion across many different industries. However, while not significant to the Company on a consolidated basis, three customers accounted for approximately 50.8% of FASI’s 2009 annual operating revenue.

In February 2010, the Company notified one of FASI’s largest customers that it would cease providing services and concluded the business relationship by July 2010. During the nine months ended September 30, 2010, revenues from this customer were 10.7% of FASI’s operating revenue and 1.5% of the Company’s consolidated operating revenue. The revenue associated with this customer was low yielding and the projected impact on 2010 operating results from curtailing these services is projected to be minimal. Receivables from this customer were approximately $22 at September 30, 2010.

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 sh