

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, 2017	December 31, 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, 2017	September 30, 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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Forward Air Corporation

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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Forward Air Corporation

Notes to Condensed Consolidated Financial Statements

(In thousands, except share and per share data)

(Unaudited)

September 30, 2017

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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Forward Air Corporation

Notes to Condensed Consolidated Financial Statements

(In thousands, except share and per share data)

(Unaudited)

September 30, 2017

Atlantic Triumph
& Ace

May 7, 2016
2017

Tangible assets:

Property and equipment \$ 1,821 \$ 1,294

Total tangible assets