FORWARD AIR CORP
Form 10-Q
July 24, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

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

Tennessee (State or other jurisdiction of incorporation)	62-1120025 (I.R.S. Employer Identification No.)
430 Airport Road 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 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 July 20, 2015 was 31,036,841.

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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)

	June 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash	$42,531	$41,429
Accounts receivable, less allowance of $2,881 in 2015 and $2,563 in 2014	122,356	95,326
Other current assets	28,455	13,200
Total current assets	193,342	149,955
Property and equipment	317,835	305,188
Less accumulated depreciation and amortization	144,638	132,699
Total property and equipment, net	173,197	172,489
Goodwill and other acquired intangibles:		
Goodwill	206,530	144,412
Other acquired intangibles, net of accumulated amortization of $45,750 in 2015 and $40,307 in 2014	133,262	72,705
Total net goodwill and other acquired intangibles	339,792	217,117
Other assets	3,029	2,244
Total assets	$709,360	$541,805
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$27,616	$20,572
Accrued expenses	33,191	22,583
Current portion of debt and capital lease obligations	55,906	276
Total current liabilities	116,713	43,431
Long-term debt and capital lease obligations, less current portion	56,926	1,275
Other long-term liabilities	13,511	8,356
Deferred income taxes	33,726	25,180
Shareholders' equity:		
Preferred stock	—	—
Common stock, $0.01 par value: Authorized shares - 50,000,000, Issued and outstanding shares - 30,830,832 in 2015 and 30,255,182 in 2014	308	303
Additional paid-in capital	150,812	130,107
Retained earnings	337,364	333,153
Total shareholders' equity	488,484	463,563
Total liabilities and shareholders' equity	$709,360	$541,805

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

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

	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Operating revenue	$249,694	$193,852	$455,612	$365,420
Operating expenses:				
Purchased transportation	107,482	82,834	196,819	156,385
Salaries, wages and employee benefits	61,886	44,391	115,789	85,813
Operating leases	18,277	8,165	34,033	16,516
Depreciation and amortization	9,519	7,751	18,202	14,764
Insurance and claims	6,240	3,104	11,371	7,231
Fuel expense	4,188	5,172	8,208	9,977
Other operating expenses	22,194	14,840	43,033	30,868
Total operating expenses	229,786	166,257	427,455	321,554
Income from operations	19,908	27,595	28,157	43,866
Other income (expense):				
Interest expense	(570)	(101)	(934)	(183)
Other, net	(89)	112	(138)	198
Total other income (expense)	(659)	11	(1,072)	15
Income before income taxes	19,249	27,606	27,085	43,881
Income taxes	7,425	10,428	10,425	16,502
Net income and comprehensive income	$11,824	$17,178	$16,660	$27,379
Net income per share:				
Basic	$0.38	$0.56	$0.54	$0.89
Diluted	$0.38	$0.55	$0.53	$0.87
Dividends per share:	$0.12	$0.12	$0.24	$0.24

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

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

	Six months ended June 30, 2015	June 30, 2014
Operating activities:		
Net income	$16,660	$27,379
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	18,202	14,764
Share-based compensation	3,676	3,329
Gain on disposal of property and equipment	(33)	(112)
Provision for loss (recovery) on receivables	83	(85)
Provision for revenue adjustments	1,842	1,250
Deferred income (benefit) tax	(498)	1,573
Excess tax benefit for stock options exercised	(2,365)	(907)
Changes in operating assets and liabilities		
Accounts receivable	(4,887)	(12,727)
Prepaid expenses and other current assets	(3,210)	(2,429)
Accounts payable and accrued expenses	(10,908)	7,180
Net cash provided by operating activities	18,562	39,215
Investing activities:		
Proceeds from disposal of property and equipment	623	462
Purchases of property and equipment	(11,962)	(33,420)
Acquisition of business, net of cash acquired	(62,375)	(82,997)
Other	(68)	(194)
Net cash used in investing activities	(73,782)	(116,149)
Financing activities:		
Proceeds from term loan	125,000	—
Payments of debt and capital lease obligations	(73,263)	(9,578)
Proceeds from exercise of stock options	11,351	11,580
Payments of cash dividends	(7,433)	(7,479)
Repurchase of common stock (repurchase program)	—	(19,985)
Common stock issued under employee stock purchase plan	228	148
Cash settlement of share-based awards for minimum tax withholdings	(1,926)	(1,083)
Excess tax benefit for stock options exercised	2,365	907
Net cash provided by (used in) financing activities	56,322	(25,490)
Net increase (decrease) in cash	1,102	(102,424)
Cash at beginning of period	41,429	127,367
Cash at end of period	$42,531	$24,943

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)
June 30, 2015

1. Basis of Presentation

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

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

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

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

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

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

2. Recent Accounting Pronouncements

In May 2014, the FASB issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The guidance is effective for the interim and annual periods beginning on or after December 15, 2017 (early adoption is permitted for interim and annual periods beginning on or after December 15, 2016). The guidance permits the use of either a retrospective or cumulative effect transition method. The Company has not yet selected a transition method and is currently evaluating the impact of the amended guidance on our consolidated financial position, results of operations and related disclosures.

3. Acquisitions and Goodwill

Acquisition of Towne

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

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

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

Effective with the acquisition of Towne, the Company immediately entered into a restructuring plan to remove duplicate costs, primarily in the form of, but not limited to salaries, wages and benefits and facility leases. As a result of these plans, during the six months ended June 30, 2015 the Company recognized expense and recorded liabilities of $2,456 and $8,717 for severance obligations and remaining net payments on vacated, duplicate facilities, respectively. The expenses associated with the severance obligations and vacated, duplicate facilities were recognized in the salaries, wages and benefits and operating lease line items, respectively. The Company also incurred expense of $7,504 for various other integration and transaction related costs which are largely included in other operating expenses.

Acquisition of CST

On February 2, 2014, the Company acquired all of the outstanding capital stock of Central States Trucking Co. and Central States Logistics, Inc. (collectively referred to as “CST”). Pursuant to the terms of the Agreement and concurrently with the execution of the Agreement, the Company acquired all of the outstanding capital stock of CST in exchange for $82,997 in net cash and $11,215 in assumed debt. With the exception of capital leases, the assumed debt was immediately paid in full after funding of the acquisition. The acquisition and settlement of the assumed debt were funded using the Company's cash on hand. Under the purchase agreement, $10,000 of the purchase price was paid into an escrow account to protect the Company against potential unknown liabilities.

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

As part of our strategy to scale CST's operations, in September 2014, CST acquired certain assets of Recob Great Lakes Express, Inc. ("RGL") for $1,350 and in November 2014, acquired Multi-Modal Trucking, Inc. and Multi-Modal Services, Inc. (together referred to as "MMT") for approximately $5,825 in cash and $1,000 in available earn out. The MMT earn out is based on acquired operations exceeding 2015 earnings goals, and the earn out was fully accrued as of June 30, 2015. The acquisition of RGL and MMT's assets provided an opportunity for CST to expand into additional Midwest markets.

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

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

	Three months ended June 30, 2014	February 2, 2014 to June 30, 2014
Operating revenue	$ 18,072	$ 28,875
Income from operations	2,284	2,286
Net income	1,388	1,381
Net income per share		
Basic	$ 0.04	$ 0.04
Diluted	$ 0.04	$ 0.04

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Allocations of Purchase Prices
The following table presents the allocations of the Towne, CST, RGL and MMT purchase prices to the assets acquired and liabilities assumed based on their estimated fair values and resulting residual goodwill (in thousands):

	Towne	CST	RGL & MMT
	March 9, 2015	February 2, 2014	September & November 2014
Tangible assets:			
Accounts receivable	$24,068	$9,339	$—
Prepaid expenses and other current assets	2,916	101	—
Property and equipment	2,095	2,132	287
Other assets	614	35	—
Deferred income taxes	2,159	—	—
Total tangible assets	31,852	11,607	287
Intangible assets:			
Non-compete agreements	—	930	92
Trade name	—	500	—
Customer relationships	66,000	36,000	3,590
Goodwill	62,118	51,710	4,206
Total intangible assets	128,118	89,140	7,888
Total assets acquired	159,970	100,747	8,175
Liabilities assumed:			
Current liabilities	27,311	6,535	1,000
Other liabilities	3,847	—	—
Debt and capital lease obligations	59,544	11,215	—
Deferred income taxes	6,893	—	—
Total liabilities assumed	97,595	17,750	1,000
Net assets acquired	$62,375	$82,997	$7,175

The above purchase price allocation for Towne 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 Towne are based on the information that was available as of the acquisition dates through the date of this filing. The acquired definite-live intangible assets have the following useful lives:

	Useful Lives		
	Towne	CST	RGL
Customer relationships	20 years	15 years	15 years
Non-compete agreements	-	5 years	5 years
Trade name	-	2 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 calculate 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. The fair value of the acquired trade

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name was estimated using an income approach, specifically known as the relief from royalty method. The relief from royalty method is based on a hypothetical royalty stream that would be paid if the Company did not own the applicable names and had to license the trade names. The Company derived the hypothetical royalty income from the projected revenues of CST. Cash flows were assumed to extend through the remaining economic useful life of each class of intangible asset.

Pro forma

The following unaudited pro forma information presents a summary of the Company's consolidated results of operations as if the acquisitions occurred as of January 1, 2014 (in thousands, except per share data).

	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Operating revenue	$249,694	$252,109	$489,839	$483,473
Income from operations	19,908	25,897	25,850	37,426
Net income	11,824	15,869	14,181	22,854
Net income per share				
Basic	$0.38	$0.51	$0.46	$0.74
Diluted	$0.38	$0.51	$0.46	$0.73

The unaudited pro forma consolidated results for the three and six month periods are based on the historical financial information of Towne and CST. The unaudited pro forma consolidated results incorporate historical financial information since January 1, 2014. The historical financial information has been adjusted to give effect to pro forma adjustments that are: (i) directly attributable to the acquisition, (ii) factually supportable and (iii) expected to have a continuing impact on the combined results. The unaudited pro forma consolidated results are not necessarily indicative of what the Company’s consolidated results of operations actually would have been had it completed these acquisitions on January 1, 2014.

Goodwill

The following is a summary of the changes in goodwill for the six months ended June 30, 2015. Approximately $99,248 of goodwill, not including the goodwill acquired with the Towne acquisition, is deductible for tax purposes.

	Forward Air		FASI		TQI		Total
	Goodwill	Accumulated Impairment	Goodwill	Accumulated Impairment	Goodwill	Accumulated Impairment	Net
Beginning balance, December 31, 2014	$93,842	$—	$12,359	$(6,953)	$45,164	$—	$144,412
Towne acquisition	62,118	—	—	—	—	—	62,118
Ending balance, June 30, 2015	$155,960	$—	$12,359	$(6,953)	$45,164	$—	$206,530

The Company conducted its annual impairment assessments and tests of goodwill for each reporting unit as of June 30, 2015 and no impairment charges were required. The first step of the goodwill impairment test is the Company assesses 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 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 calculates the fair value of the applicable reportable 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 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"). 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 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.

(In thousands, except share and per share data)

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, 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 - 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 calculate their fair value during the three and six months ended June 30, 2015 and 2014 were as follows:

	Three months ended			
	June 30, 2015		June 30, 2014	
Expected dividend yield	—	%	1.2	%
Expected stock price volatility	—	%	31.6	%
Weighted average risk-free interest rate	—	%	1.5	%
Expected life of options (years)	0.0		4.5	
Weighted average grant date fair value	$—		$ 11	

	Six months ended			
	June 30, 2015		June 30, 2014	
Expected dividend yield	1.0	%	1.2	%
Expected stock price volatility	33.9	%	38.8	%
Weighted average risk-free interest rate	1.6	%	1.6	%
Expected life of options (years)	6.1		5.3	
Weighted average grant date fair value	$ 16		$ 14	

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(Unaudited)
June 30, 2015

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

	Three months ended June 30, 2015			
	Options (000)	Weighted-Average Exercise Price	Aggregate Intrinsic Value (000)	Weighted-Average Remaining Contractual Term
Outstanding at March 31, 2015	950	$ 30		
Granted	—	—		
Exercised	(48)	25		
Forfeited	—	—		
Outstanding at June 30, 2015	902	$ 31	$ 19,747	2.9
Exercisable at June 30, 2015	712	$ 27	$ 18,363	2.1

	Three months ended	
	June 30, 2015	June 30, 2014
Shared-based compensation for options	$ 342	$ 331
Tax benefit for option compensation	$ 132	$ 126
Unrecognized compensation cost for options, net of estimated forfeitures	$ 2,266	$ 2,314

	Six months ended June 30, 2015			
	Options (000)	Weighted-Average Exercise Price	Aggregate Intrinsic Value (000)	Weighted-Average Remaining Contractual Term
Outstanding at December 31, 2014	1,363	$ 28		
Granted	82	51		
Exercised	(529)	27		
Forfeited	(14)	29		
Outstanding at June 30, 2015	902	$ 31	$ 19,747	2.9
Exercisable at June 30, 2015	712	$ 27	$ 18,363	2.1

	Six months ended	
	June 30, 2015	June 30, 2014
Shared-based compensation for options	$ 678	$ 646
Tax benefit for option compensation	$ 261	$ 246
Unrecognized compensation cost for options, net of estimated forfeitures	$ 2,266	$ 2,314

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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 June 30, 2015		
	Non-vested Shares (000)	Weighted-Average Grant Date Fair Value	Aggregate Grant Date Fair Value (000)
Outstanding and non-vested at March 31, 2015	197	$ 46	
Granted	—	—	
Vested	—	—	
Forfeited	(3)	46	
Outstanding and non-vested at June 30, 2015	194	$ 46	$ 8,872

	Three months ended	
	June 30, 2015	June 30, 2014
Shared-based compensation for non-vested shares	$ 1,022	$ 895
Tax benefit for non-vested share compensation	$ 393	$ 341
Unrecognized compensation cost for non-vested shares, net of estimated forfeitures	$ 7,231	$ 6,087

	Six months ended June 30, 2015		
	Non-vested Shares (000)	Weighted-Average Grant Date Fair Value	Aggregate Grant Date Fair Value (000)
Outstanding and non-vested at December 31, 2014	190	$ 40	
Granted	100	51	
Vested	(92)	39	
Forfeited	(4)	44	
Outstanding and non-vested at June 30, 2015	194	$ 46	$ 8,872

	Six months ended	
	June 30, 2015	June 30, 2014
Shared-based compensation for non-vested shares	$ 2,010	$ 1,820
Tax benefit for non-vested share compensation	$ 772	$ 693
Unrecognized compensation cost for non-vested shares, net of estimated forfeitures	$ 7,231	$ 6,087

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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, on the third anniversary of the grant date, the Company will issue to the employees a calculated number of common stock shares based on the three year performance of the Company's common stock share price as compared to the share price performance of a selected peer group. No shares may be issued if the Company share price performance outperforms 30% or less of the peer group, but the number of shares issued may be doubled if the Company share price 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 calculation were as follows:

	Six months ended			
	June 30, 2015		June 30, 2014	
Expected stock price volatility	23.5	%	32.5	%
Weighted average risk-free interest rate	1.0	%	0.7	%

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

	Three months ended June 30, 2015		
	Performance Shares (000)	Weighted-Average Grant Date Fair Value	Aggregate Grant Date Fair Value (000)
Outstanding and non-vested at March 31, 2015	77	$ 52	
Granted	—	—	
Additional shares awarded based on performance	—	—	
Vested	—	—	
Outstanding and non-vested at June 30, 2015	77	$ 52	$ 4,016

	Three months ended	
	June 30, 2015	June 30, 2014
Shared-based compensation for performance shares	$ 333	$ 272
Tax benefit for performance share compensation	$ 128	$ 104
Unrecognized compensation cost for performance shares, net of estimated forfeitures	$ 2,399	$ 1,775

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	Six months ended June 30, 2015		
	Performance Shares (000)	Weighted-Average Grant Date Fair Value	Aggregate Grant Date Fair Value (000)
Outstanding and non-vested at December 31, 2014	74	$44	
Granted	27	67	
Additional shares awarded based on performance	—	—	
Vested	(24)	45	
Outstanding and non-vested at June 30, 2015	77	$52	$4,016

	Six months ended	
	June 30, 2015	June 30, 2014
Shared-based compensation for performance shares	$635	$547
Tax benefit for performance share compensation	$244	$209
Unrecognized compensation cost for performance shares, net of estimated forfeitures	$2,399	$1,775

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 398,705 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 six months ended June 30, 2015, participants under the plan purchased 5,087 shares at an average price of $44.74 per share. For the six months ended June 30, 2014, participants under the plan purchased 3,814 shares at an average price of $38.88 per share. The weighted-average fair value of each purchase right under the ESPP granted for the six months ended June 30, 2015, which is equal to the discount from the market value of the common stock at the end of each six month purchase period, was $7.52 per share. The weighted-average fair value of each purchase right under the ESPP granted for the six months ended June 30, 2014, which is equal to the discount from the market value of the common stock at the end of each six month purchase period, was $8.97 per share. Share-based compensation expense of $37 and $35 was recognized during the three and six months ended June 30, 2015 and 2014, respectively.

Non-employee Director Activity - Non-vested Shares

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

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	Three months ended June 30, 2015		
	Non-vested Shares (000)	Weighted-Average Grant Date Fair Value	Aggregate Grant Date Fair Value (000)
Outstanding and non-vested at March 31, 2015	15	$ 44	
Granted	11	52	
Vested	(14)	43	
Outstanding and non-vested at June 30, 2015	12	$ 52	$ 650

	Three months ended	
	June 30, 2015	June 30, 2014
Shared-based compensation for non-vested shares	$ 156	$ 144
Tax benefit for non-vested share compensation	$ 60	$ 55
Unrecognized compensation cost for non-vested shares, net of estimated forfeitures	$ 541	$ 515

	Six months ended June 30, 2015		
	Non-vested Shares (000)	Weighted-Average Grant Date Fair Value	Aggregate Grant Date Fair Value (000)
Outstanding and non-vested at December 31, 2014	15	$ 44	
Granted	11	52	
Vested	(14)	43	
Forfeited	—	—	
Outstanding and non-vested at June 30, 2015	12	$ 52	$ 650

	Six months ended	
	June 30, 2015	June 30, 2014
Shared-based compensation for non-vested shares	$ 316	$ 281
Tax benefit for non-vested share compensation	$ 122	$ 107
Unrecognized compensation cost for non-vested shares, net of estimated forfeitures	$ 541	$ 515

5. Senior Credit Facility

On February 4, 2015, the Company entered into a five-year senior, unsecured credit facility (the "Facility") with 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 revolving credit facility has a sublimit of $25,000 for letters of credit and a sublimit of $15,000 for swing line loans. The revolving credit facility is scheduled to expire in February 2020 and may be used to refinance existing indebtedness of the Company and for working capital, capital expenditures and other general corporate purposes. Unless the Company elects otherwise under the credit agreement, interest on borrowings under the Facility are based on the highest of (a) the federal funds rate 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 0.1% to 0.6% with respect to the term loan facility and from 0.3% to 0.8% with respect to the revolving credit facility depending on the Company’s ratio of consolidated funded indebtedness to earnings 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, without the approval of the lenders, to engage in certain mergers, consolidations, asset sales, investments, transactions or to incur liens or indebtedness, as set forth in the credit agreement. As of June 30, 2015, the Company had no borrowings outstanding under the revolving credit facility. At June 30, 2015, the Company had utilized $13,653 of availability for outstanding letters of credit and had $136,347 of available borrowing capacity outstanding under the revolving credit facility.

In conjunction with the acquisition of Towne (see note 2), the Company borrowed $125,000 on the available term loan. The term loan is payable in quarterly installments of 11.1% of the original principal amount of the term loan plus accrued and unpaid interest, and matures in March 2017. The interest rate on the term loan was 1.3% at June 30, 2015.

6. Net Income Per Share

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

	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Numerator:				
Net income and comprehensive income	$11,824	$17,178	$16,660	$27,379
Income allocated to participating securities	(79)	—	(111)	—
Numerator for basic and diluted income per share - net income	$11,745	$17,178	$16,549	$27,379
Denominator (in thousands):				
Denominator for basic income per share - weighted-average shares	30,783	30,925	30,726	30,834
Effect of dilutive stock options (in thousands)	291	442	327	481
Effect of dilutive performance shares (in thousands)	30	41	35	49
Denominator for diluted income per share - adjusted weighted-average shares	31,104	31,408	31,088	31,364
Basic net income per share	$0.38	$0.56	$0.54	$0.89
Diluted net income per share	$0.38	$0.55	$0.53	$0.87

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:

	June 30, 2015	June 30, 2014
Anti-dilutive stock options (in thousands)	97	182
Anti-dilutive performance shares (in thousands)	21	19
Total anti-dilutive shares (in thousands)	118	201

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 six months ended June 30, 2015 and 2014, 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 six months ended June 30, 2015 was 38.5% compared to a rate of 37.6% for the same period in 2014. The increase in the effective tax rate was primarily due to 2014 benefiting from a retroactive reinstatement of alternative fuel tax credits for 2012 and higher benefits obtained from disqualified dispositions by employees of previously non-deductible incentive stock options.

(In thousands, except share and per share data)

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 term loan 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:

	June 30, 2015	
	Carrying Value	Fair Value
Capital leases	$1,719	$1,810

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

9. Shareholders' Equity

During each quarter of 2014 and the first and second quarter of 2015, 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

On February 7, 2014, our Board of Directors approved a new stock repurchase authorization for up to two million shares of our common stock. There were no shares repurchased by the Company for the three and six months ended June 30, 2015. During the three and six months ended June 30, 2014, we repurchased 446,986 for $19,985, or $44.71 per share. As of June 30, 2015, 1,118,021 shares remain that may be repurchased.

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 could 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 three reportable segments based on information available to and used by the chief operating decision maker. Forward Air provides time-definite transportation and logistics services to the deferred air freight market. FASI provides pool distribution services primarily to regional and national distributors and retailers. TQI is a provider of high security and temperature-controlled logistics services, primarily truckload services, to the pharmaceutical and life science industries. The assets, liabilities, and operating results of our most recent acquisitions, Towne and CST, have been assigned to the Forward Air reportable segment.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies disclosed in Note 1 to the Consolidated Financial Statements included in the Company's 2014 Annual Report on Form 10-K. Segment data includes intersegment revenues. Assets and costs of the corporate headquarters are allocated to the segments based on usage. The Company evaluates the performance of its segments based on net income. The Company's business is conducted in the U.S. and Canada.

The following tables summarize segment information about net income 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 six months ended June 30, 2015 and 2014.

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	Three months ended June 30, 2015				
	Forward Air	FASI	TQI	Eliminations	Consolidated
External revenues	$210,529	$27,471	$11,694	$—	$249,694
Intersegment revenues	909	213	126	(1,248)	—
Depreciation and amortization	7,030	1,504	985	—	9,519
Share-based compensation expense	1,810	64	16	—	1,890
Interest expense	570	—	—	—	570
Interest income	1	—	—	—	1
Income tax expense	7,000	41	384	—	7,425
Net income	11,171	34	619	—	11,824
Total assets	773,689	45,334	89,930	(199,593)	709,360
Capital expenditures	2,840	2,046	1,847	—	6,733

	Three months ended June 30, 2014				
	Forward Air	FASI	TQI	Eliminations	Consolidated
External revenues	$153,457	$26,798	$13,597	$—	$193,852
Intersegment revenues	810	137	84	(1,031)	—
Depreciation and amortization	5,365	1,449	937	—	7,751
Share-based compensation expense	1,613	43	21	—	1,677
Interest expense	129	1	(29)	—	101
Interest income	—	—	—	—	—
Income tax expense	9,613	370	445	—	10,428
Net income	15,587	597			