

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 March 31, 1999
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 (I.R.S. Employer Identification No.)
incorporation or organization)

430 AIRPORT ROAD
GREENEVILLE, TENNESSEE 37745
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (423) 636-7100

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

The number of shares outstanding of the registrant's common stock, \$.01 par value, as of May 11, 1999 was 13,682,073.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

Forward Air Corporation

Condensed Consolidated Balance Sheets

<TABLE>
<CAPTION>

	March 31, 1999	December 31, 1998	

	(Unaudited) (Note 1)		
	(In thousands, except share data)		
ASSETS			
Current assets:			
<S>	<C>	<C>	
Cash and cash equivalents		\$ 117	\$ 455
Accounts receivable, less allowance of \$986 in 1999 and \$952 in 1998	21,600	19,754	
Other current assets	3,123	3,207	

Total current assets	24,840	23,416	
Property and equipment	41,979	40,072	
Less accumulated depreciation and amortization		11,252	10,152

	30,727	29,920	
Other assets	3,457	3,472	

Total assets	\$59,024	\$56,808	
	=====		

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:			
Accounts payable	\$ 5,037	\$ 4,120	
Accrued expenses	8,258	7,056	
Current portion of long-term debt	3,888	4,529	
Current portion of capital lease obligations	571	676	

Total current liabilities	17,754	16,381	
Long-term debt, less current portion	12,105	15,403	
Capital lease obligations, less current portion	4,289	4,723	
Deferred income taxes	2,210	1,230	
Shareholders' equity:			
Preferred stock	--	--	
Common stock, \$.01 par value:			

Authorized shares - 20,000,000		
Issued and outstanding shares - 12,678,480 in 1999 and 12,587,818 in 1998	127	126
Additional paid-in capital	16,262	15,768
Retained earnings	6,277	3,177

Total shareholders' equity	22,666	19,071

Total liabilities and shareholders' equity	\$59,024	\$56,808
	=====	

</TABLE>

See notes to condensed consolidated financial statements.

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Forward Air Corporation

Condensed Consolidated Statements of Income
(Unaudited)

<TABLE>
<CAPTION>

	Three months ended	
	March 31, 1999	March 31, 1998

	(In thousands, except per share data)	
	<C>	<C>
<S> Operating revenue	\$ 37,728	\$ 28,850
Operating expenses:		
Purchased transportation:		
Provided by Landair Corporation	709	1,318
Provided by others	15,520	11,056
Salaries, wages and employee benefits	8,722	7,196
Operating leases	2,126	1,540
Depreciation and amortization	1,199	954
Insurance and claims	340	780
Other operating expenses	3,637	3,221
	-----	-----
	32,253	26,065
	-----	-----
Income from operations	5,475	2,785
Other income (expense):		
Interest expense	(446)	(210)
Other, net	32	10
	-----	-----
	(414)	(200)
	-----	-----
Income from continuing operations before income taxes	5,061	2,585
Income taxes	1,961	1,020
	-----	-----
Income from continuing operations	3,100	1,565
	-----	-----
Discontinued operations:		
Income from operations (less income taxes of \$-0- and \$441, respectively)	--	676
	-----	-----
Net income	\$ 3,100	\$ 2,241
	=====	=====
Income per share:		
Basic		
Income from continuing operations	\$.25	\$.13
Income from discontinued operations	--	.06
	-----	-----

Net income	\$.25	\$.19
<hr/>		
Diluted		
Income from continuing operations	\$.24	\$.12
Income from discontinued operations	--	.06
<hr/>		
Net income	\$.24	\$.18
<hr/>		

</TABLE>

See notes to condensed consolidated financial statements.

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Forward Air Corporation

Condensed Consolidated Statements of Cash Flows
(Unaudited)

<TABLE>
<CAPTION>

	Three months ended	
	March 31, 1999	March 31, 1998
	(In thousands)	
<S>	<C>	<C>
Cash provided by (used in) operations	\$ 5,561	\$(2,690)
Investing activities:		
Proceeds from disposal of property and equipment	265	--
Purchases of property and equipment	(2,161)	(378)
Other	(20)	(42)
	(1,916)	(420)
Financing activities:		
Proceeds from long-term debt	--	1,909
Payments of long-term debt	(3,939)	(195)
Payments of capital lease obligations	(539)	(295)
Proceeds from exercise of stock options	495	1,041
	(3,983)	2,460
Decrease in cash and cash equivalents	\$ (338)	\$ (650)

</TABLE>

See notes to condensed consolidated financial statements.

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Forward Air Corporation

Notes to Condensed Consolidated Financial Statements
(Unaudited)
March 31, 1999

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with 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 footnotes required by 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. Operating results for the three month period ended March 31, 1999 are not necessarily indicative of the results that may be expected for the year ending December 31, 1999. For further information, refer to the consolidated financial statements and footnotes thereto included in the Forward Air Corporation annual report on Form 10-K for the year ended December 31, 1998.

The balance sheet at December 31, 1998 has been derived from the audited financial statements at that date, but does not include all of the financial information and footnotes required by generally accepted accounting principles for complete financial statements.

2. DISCONTINUED OPERATIONS

The accompanying condensed consolidated financial statements include Forward Air Corporation and its subsidiaries. On July 9, 1998 (the "Measurement Date"), the Board of Directors of the Company authorized the separation of the Company into two publicly-held corporations, one owning and operating the deferred air freight operations and the other owning and operating the truckload operations (the "Spin-off").

The Spin-off was effected on September 23, 1998 through the distribution to shareholders of the Company of all the outstanding shares of common stock of a new truckload holding company, Landair Corporation. Pursuant to the Spin-off, the common stock of Landair Corporation was distributed on a pro rata basis of one share of Landair Corporation common stock for every share of the common stock of the Company. Subsequent to the Spin-off, the Company has continued as the legal entity that owns and operates the deferred air freight operations through its operating subsidiaries and Landair Corporation is the legal entity that owns and operates the truckload operations. Additionally, the name Landair Services, Inc. was changed to Forward Air Corporation on August 26, 1998. As a result of the Spin-off, the results of operations and cash flows of the truckload operations have been reported as discontinued operations in the accompanying condensed consolidated financial statements.

Forward Air Corporation

Notes to Condensed Consolidated Financial Statements (continued)

2. DISCONTINUED OPERATIONS (CONTINUED)

As used in the accompanying condensed consolidated financial statements, the term "Forward Air" refers to the deferred air freight operations; the term "truckload" refers to the truckload operations; and the term "the Company" refers to the entity which, prior to the Spin-off, operated both the deferred air freight and truckload groups and which, after the Spin-off, operates the deferred air freight group.

Summarized income statement information relating to the truckload operations (as reported in discontinued operations) for the period presented prior to the Spin-off is as follows (in thousands):

<TABLE>
<CAPTION>

	Three months ended March 31, 1998 -----
<S>	<C>
Operating revenue	\$ 25,323
Operating expenses	23,745

Income from operations	1,578

Interest expense	(467)
Other, net	6

Income before income taxes	1,117
Income taxes	441

Income from discontinued truckload operations	\$ 676
	=====

</TABLE>

3. COMPREHENSIVE INCOME

The Company had no items of other comprehensive income in 1999 or 1998 and, accordingly, comprehensive income is equivalent to net income.

4. NET INCOME PER SHARE

On February 24, 1999, the Board of Directors approved a two-for-one split of the common shares which was distributed on March 19, 1999 to shareholders of record as of March 12, 1999. Common stock issued and additional paid-in capital have been restated to reflect this split for all years presented. All common share and per share data included in the condensed consolidated financial statements and notes thereto have been restated to give effect to the stock split.

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Forward Air Corporation

Notes to Condensed Consolidated Financial Statements (continued)

4. NET INCOME PER SHARE (CONTINUED)

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

<TABLE>

<CAPTION>

	Three months ended			
	March 31,	March 31,		
	1999	1998		
	-----	-----		
	<C>	<C>		
Numerator:				
Numerator for basic and diluted income per share:				
Income from continuing operations		\$ 3,100	\$ 1,565	
Income from discontinued operations		--	676	
		-----	-----	
Net income	\$ 3,100	\$ 2,241		
	=====	=====		
Denominator:				
Denominator for basic income per share - weighted-average shares		12,629	12,152	
Effect of dilutive stock options		494	612	
		-----	-----	
Denominator for diluted income per share - adjusted weighted-average shares		13,123	12,764	
		=====	=====	
Income per share - basic:				
Income from continuing operations		\$.25	\$.13	
Income from discontinued operations		--	.06	
		-----	-----	
Net income	\$.25	\$.19		
	=====	=====		
Income per share - diluted:				
Income from continuing operations		\$.24	\$.12	
Income from discontinued operations		--	.06	
		-----	-----	

Net income	\$.24	\$.18
	=====	=====
Securities that could potentially dilute basic income per share in the future that were not included in the computation of diluted income per share because to do so would have been antidilutive for the periods presented	--	--
	=====	=====

</TABLE>

5. INCOME TAXES

For the three months ended March 31, 1999 and 1998, the effective income tax rate varied from the statutory federal income tax rate of 35% primarily as a result of the effect of state income taxes, net of the federal benefit, and permanent differences.

6. CONTINGENCIES

The Company is, from time to time, a party to litigation arising in the normal course of its business, most of which involve claims for personal injury and property damage incurred in connection with the transportation of freight. Management believes none of these actions,

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Forward Air Corporation

Notes to Condensed Consolidated Financial Statements (continued)

6. CONTINGENCIES (CONTINUED)

individually or in the aggregate, will have a material adverse effect on the financial condition or results of operations of the Company.

7. RECLASSIFICATIONS

Certain reclassifications have been made to the prior year financial statements to conform to the 1999 presentation. These reclassifications had no effect on net income as previously reported.

8. SUBSEQUENT EVENT

On April 29, 1999, 1.0 million shares of the common stock of the Company were sold under a Form S-3 Registration Statement dated April 23, 1999. The net proceeds of the offering were approximately \$18.3 million and were used principally to repay outstanding debt.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

We provide scheduled ground transportation of cargo on a time-definite basis. As a result of our established transportation schedule and network of terminals, our operating cost structure includes significant fixed costs. Our ability to improve our operating margins will depend on our ability to increase the volume of freight moved through our network.

The following does not include a discussion and analysis of the truckload carrier business, which has been accounted for as a discontinued operation as a

result of the Spin-off effected on September 23, 1998. (See Note 2 to the Condensed Consolidated Financial Statements.)

RESULTS OF OPERATIONS

The following table shows the percentage relationship of expense items to operating revenue for the periods indicated.

<TABLE>

<CAPTION>

	Three months ended	
	March 31, 1999	March 31, 1998
	-----	-----
	March 31, 1999	March 31, 1998
	-----	-----
Operating revenue	100.0%	100.0%
Operating expenses:		
Purchased transportation	43.0	42.9
Salaries, wages and employee benefits	23.1	24.9
Operating leases	5.6	5.3
Depreciation and amortization	3.2	3.3
Insurance and claims	0.9	2.7
Other operating expenses	9.7	11.2
	-----	-----
Income from operations	85.5	90.3
Other income (expense):		
Interest expense	(1.2)	(0.7)
Other, net	0.1	0.0
	-----	-----
	(1.1)	(0.7)
	-----	-----
Income before income taxes	13.4	9.0
Income taxes	5.2	3.6
	-----	-----
Income from continuing operations	8.2%	5.4%

</TABLE>

Three Months Ended March 31, 1999 compared to Three Months Ended March 31, 1998

Operating revenue increased by \$8.8 million, or 30.5%, to \$37.7 million in the first three months of 1999 from \$28.9 million in the same period of 1998. The increase resulted primarily from increased volume of freight shipments from domestic and international air cargo customers, increased operating terminals and direct shuttles and enhanced logistics services.

Purchased transportation represented 43.0% of operating revenue in the first quarter of 1999 compared to 42.9% in the same period of 1998.

Salaries, wages and employee benefits were 23.1% of operating revenue in the first quarter of 1999 compared to 24.9% in the same period of 1998. The decrease in salaries, wages and employee benefits as a percentage of operating revenue was due primarily to operating efficiencies resulting from increased volume of freight transported through our network coupled with a reduction in Company linehaul drivers which were hired initially as a part of the acquisition of certain of the assets of Adams Air Cargo, Inc. in October 1997.

Operating leases, the largest component of which is terminal rent, were 5.6% of operating revenue in the first quarter of 1999 compared to 5.3% in the same period of 1998. The increase in operating leases as a percentage of operating revenue between periods was attributable to an increase in rent expense for trailers. The increase in operating lease expense attributable to trailers was partially offset by greater operating revenue through our network.

Depreciation and amortization expense as a percentage of operating revenue was 3.2% in the first quarter of 1999, compared to 3.3% in the same period of 1998.

Insurance and claims were 0.9% of operating revenue in the first quarter of 1999, compared with 2.7% in the same period of 1998. The decrease in insurance and claims as a percentage of operating revenue was due primarily to a decrease in the frequency and severity of accidents and lower premium costs.

Other operating expenses were 9.7% of operating revenue in the first quarter of 1999 compared to 11.2% in the same period of 1998. The decrease in other operating expenses as a percentage of operating revenue was primarily attributable to a lower operating cost structure due to increased operating revenue and a reduction in commissions paid to agent terminals.

Income from operations increased by \$2.7 million, or 96.4%, to \$5.5 million for the first quarter of 1999 compared to \$2.8 million for the same period in 1998. The improvement in income from operations is due primarily to a lower operating cost structure in the current year resulting from an increase in operating revenue which allowed the Company to spread the fixed costs of the network over a larger revenue base.

Interest expense was \$446,000, or 1.2%, of operating revenue in the first quarter of 1999, compared to \$210,000, or 0.7%, for the same period in 1998. The increase was due to higher

average net borrowings, primarily as a result of a \$5.0 million capital contribution to Landair Corporation and the settlement of intercompany balances with Landair Corporation prior to the Spin-off.

The combined federal and state effective tax rate for the three months of 1999 was 38.8%, compared to a rate of 39.5%, for the same period in 1998.

As a result of the foregoing factors, income from continuing operations increased by \$1.5 million, or 93.8%, to \$3.1 million for the first quarter of 1999, compared to \$1.6 million for the same period of 1998.

Liquidity and Capital Resources

Prior to the Spin-off in September 1998, we operated our business and the Truckload operations together. As a result, our statement of cash flows for 1998 does not fully reflect the cash flows of our business as a stand-alone company.

We have historically financed working capital needs, including capital purchases, with cash flows from operations and borrowings under our bank lines of credit. Net cash provided by operating activities totaled approximately \$5.6 million for the first three months of 1999 compared with cash used in operating activities of \$2.7 million in the same period of 1998.

Net cash used in investing activities was approximately \$1.9 million in the first three months of 1999 compared with \$420,000 in the same period of 1998. Our investing activities consisted primarily of the purchase of operating equipment and management information systems during these periods.

Net cash used in financing activities was \$4.0 million in the first three months of 1999 compared with net cash provided by financing activities of \$2.5 million in the same period of 1998. Our financing activities included the continued financing of operating equipment and working capital needs, the repayment of long-term debt and capital leases and proceeds received from the exercise of stock options.

On April 29, 1999, 1.0 million shares of the common stock of the Company were sold under a Form S-3 Registration Statement dated April 23, 1999. The net proceeds of the offering were approximately \$18.3 million and were used principally to repay outstanding debt.

Our credit facilities include a working capital line of credit and an equipment financing facility. As long as we comply with the financial covenants and ratios established in the credit facility agreements, these credit facilities permit us to borrow up to \$20.0 million under the working capital line of credit and up to \$25.0 million under equipment financing facilities. Interest rates for advances under the facilities vary based on covenants related to total indebtedness, cash flows, results of operations and other ratios. The facilities bear interest at LIBOR plus .80% to 1.90%, expire in September and December 2000 and are secured by accounts receivable and most of our

equipment. The amount we can borrow under the line of credit is reduced by the amount of any outstanding letters of credit.

We believe that our available cash, together with proceeds from the recent public offering of the common stock of the Company, expected cash generated from future operations and borrowings under available lines of credit, will be sufficient to satisfy our anticipated cash needs for at least the next 12 months.

Impact of Year 2000

We depend upon a significant number of computer software programs and operating systems to conduct our business. Some of our older software programs are not year 2000 compliant. We are in the process of replacing most of our key financial and operating systems as a part of the normal upgrading of our systems. In addition to our replacement program, we intend to modify some of our software and hardware so that our computer systems will function properly in and after the year 2000. We expect to complete this process by June 30, 1999.

We are in the process of obtaining year 2000 compliance letters and reports from our significant suppliers and customers. We presently do not anticipate any major interruption in our business as a result of year 2000 issues. Therefore, we do not expect that year 2000 issues will have a material adverse effect on our business or operations or that we will incur any material expense associated with year 2000 compliance. We have not established a contingency plan to address potential year 2000 noncompliance in our systems or in those of our major suppliers or customers. We are currently considering whether we need a contingency plan. Because of our dependence on systems outside our control and because third parties with whom we have relationships may not have adequately addressed year 2000 issues, we could face unexpected problems associated with year 2000 issues. These problems could affect our operations, business or financial condition.

Forward-Looking Statements

The Company, or its executive officers and directors on behalf of the Company, may from time to time make written or oral "forward-looking statements." Written forward-looking statements may appear in documents filed with the Securities and Exchange Commission, in press releases and in reports to shareholders. Oral forward-looking statements may be made by the Company's executive officers and directors on behalf of the Company to the press, potential investors, securities analysts and others. The Private Securities Litigation Reform Act of 1995 contains a safe harbor for forward-looking statements. The Company relies on this safe harbor in making such disclosures. In connection with this safe harbor provision, the Company is hereby identifying important factors that could cause actual results to differ materially from those contained in any forward-looking statement made by or on behalf of the Company. Without limitation, factors that might cause such a difference include economic factors such as recessions, inflation, higher interest rates and downturns in customer business cycles, the Company's inability to maintain its historical growth rate due to a decreased volume of freight moving through the

Company's network, competition, surplus inventories, loss of a major customer, the Company's lack of prior operating history as an entity independent of the truckload operations, the ability of the Company's information systems to handle increased volume of freight moving through its network, and the availability and compensation of qualified independent owner-operators to serve the Company's transportation needs. The Company disclaims any intent or obligation to update these forward-looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISK

On April 29, 1999, the Company sold 1.0 million shares of its common stock in a public offering. The net proceeds of approximately \$18.3 million were used principally to repay outstanding debt. With this repayment, the Company's exposure to market risk related to its remaining outstanding debt is not significant.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is, from time to time, a party to litigation arising in the normal course of its business, most of which involve claims for personal injury and property damage incurred in connection with the transportation of freight. Management believes that none of these actions, individually or in the aggregate, will have a material adverse effect on the financial condition or results of operations of the Company.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable

ITEM 5. OTHER INFORMATION

Not Applicable

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits - The response to this portion of Item 6 is submitted as a separate section of this report.
- (b) Reports on Form 8-K - There were no reports on Form 8-K during the first quarter of 1999.

SIGNATURES

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

Forward Air Corporation

Date: May 14, 1999

By: /s/ Edward W. Cook

Edward W. Cook
Chief Financial Officer
and Senior Vice President

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EXHIBIT INDEX

Exhibit No.

- 10.1 1999 Stock Option and Incentive Plan
- 10.2 Loan and Security Agreement (\$10.0 million Line of Credit), dated as of January 13, 1999 among SunTrust Bank, Nashville, N.A. and the Registrant, FAF, Inc. and Forward Air, Inc. (Certain exhibits to this document are omitted from this filing but the Registrant will furnish supplemental copies of the omitted materials to the Securities and Exchange Commission upon request.)
- 27.1 Financial Data Schedule - Period Ended March 31, 1999 (Electronic Filing Only)
- 27.2 Financial Data Schedule (Restated) - Period Ended March 31, 1998 (Electronic Filing Only)

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EXHIBIT 10.1

FORWARD AIR CORPORATION

1999 STOCK OPTION AND INCENTIVE PLAN

1. PURPOSE; TYPES OF AWARDS; CONSTRUCTION.

The purpose of the Forward Air Corporation Stock Option and Incentive Plan (the "Plan") is to enable Forward Air Corporation (the "Company") to attract, retain and reward key employees of, and any consultant or other person providing key services to, the Company and its Subsidiaries, and strengthen the mutuality of interests between such persons and the Company's shareholders by offering such persons performance-based stock incentives and/or other equity interests or equity-based incentives in the Company.

It is further intended that options granted by the Compensation or other Committee (the "Committee") of the Board of Directors of the Company (the "Board") pursuant to Section 8 of the Plan shall constitute "incentive stock options" ("Incentive Stock Options") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended and any successor thereto (the "Code"), and options granted by the Committee pursuant to Section 7 of the Plan shall constitute "nonqualified stock options" ("Nonqualified Stock Options"). The Committee may also grant stock appreciation rights ("Stock Appreciation Rights" or "SARs") pursuant to Section 9 of the Plan and shares of restricted stock ("Restricted Stock") pursuant to Section 10 of the Plan.

The provisions of the Plan are intended to satisfy the requirements of Section 16(b) of the Securities Exchange Act of 1934, and shall be interpreted in a manner consistent with the requirements thereof, as now or hereafter construed, interpreted, and applied by regulations, rulings, and cases. The Plan is also designated so that awards granted hereunder intended to comply with the requirements for "performance-based" compensation under Section 162(m) of the Code may comply with such requirements. The creation and implementation of the Plan shall not diminish or prejudice other compensation plans or programs approved from time to time by the Board.

2. DEFINITIONS.

As used in this Plan, the following words and phrases shall have the meanings indicated:

(a) "Cause" means a felony conviction of a participant or the failure of a participant to contest prosecution for a felony, or a participant's gross negligence, willful misconduct or dishonesty, any of which is directly or materially harmful to the business or reputation of the Company or any Subsidiary, as determined by the Committee in its sole discretion.

(b) "Common Stock" shall mean shares of Common Stock, par value \$.01 per share, of the Company.

(c) "Disability" shall mean a disability as determined under procedures established by the Committee for purposes of this Plan.

(d) "Fair Market Value" per share of Common Stock as of a particular date shall mean (i) the closing sales price per share of Common Stock on the national securities exchange on which the Common Stock is principally traded, for the last preceding date on which there was a sale of such Common Stock on such exchange, or (ii) if the shares of Common Stock are then traded in an over-the-counter market, the average of the closing bid and asked prices for the shares of Common Stock in such over-the-counter market for the last preceding

date on which there was a sale of such Common Stock in such market, or (iii) if the shares of Common Stock are not then listed on a national securities exchange or traded in an over-the-counter market, such value as the Committee, in its sole discretion, shall determine. Notwithstanding any provision of the Plan to the contrary, no determination made with respect to the Fair Market Value of a share of Common Stock subject to Incentive Stock Option shall be inconsistent with Section 422 of the Code or regulation thereunder.

(e) "Immediate Family" shall mean any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, and shall include adoptive relationships.

(f) "Option" or "Options" shall mean a grant to a Grantee of an option or options to purchase shares of Common Stock. Options granted by the Committee pursuant to the Plan shall constitute either Incentive Stock Options or Nonqualified Stock Options.

(g) "Parent" shall mean any company (other than the Company) in an unbroken chain of companies ending with the Company if, at the time of granting an Option, each of the companies other than the Company owns stock or equity interests (including partnership interests) possessing fifty percent (50%) or more of the total combined voting power of all classes of stock or equity interests in one of the other companies in such chain.

(h) "Performance Goals" means performance goals based on one or more of the following criteria: (i) pre-tax income or after-tax income; (ii) operating cash flow; (iii) operating profit; (iv) return on equity, assets, capital, or investment; (v) earnings or book value per share; (vi) sales or revenues; (vii) operating expenses; (viii) Common Stock price appreciation; and (ix) implementation or completion of critical projects or processes. Where applicable, the Performance Goals may be expressed in terms of attaining a specified level of the particular criteria or the attainment of a percentage increase or decrease in the particular criteria, and may be applied to one or more of the Company or any Subsidiary, or a division or strategic business unit of the Company, or may be applied to the performance of the Company relative to a market index, a group of other companies, or a combination thereof, all as determined by the Committee. The Performance Goals may include a threshold level of performance below which no payment will be made (or no vesting will occur),

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levels of performance at which specified payments will be made (or specified vesting will occur), and a maximum level of performance above which no additional payment will be made (or at which full vesting will occur). Each of the foregoing Performance Goals shall be determined, to the extent applicable, in accordance with generally accepted accounting principles and shall be subject to certification by the Committee; provided, that the Committee shall have the authority to make equitable adjustments to the Performance Goals in recognition of unusual or non-recurring events affecting the Company or any Subsidiary or the financial statements of the Company or any Subsidiary, in response to changes in applicable laws or regulations, or to account for items of gain, loss, or expense determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment of business or related to a change in accounting principles.

(i) "Subsidiary" shall mean any company (other than the Company) in an unbroken chain of companies beginning with the Company if, at the time of granting an Option, each of the companies other than the last company in the unbroken chain owns stock or equity interests (including partnership interests) possessing fifty percent (50%) or more of the total combined voting power of all classes of stock or equity interests in one of the other companies in such chain.

(j) "Ten Percent Stockholder" shall mean a Grantee who, at the time an Incentive Stock Option is granted, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary.

(k) "Retirement" means retirement by an employee from active employment

with the Company or any Subsidiary (i) on or after attaining age 65, or (ii) with the express consent, for the purposes of this Plan, of the Committee or such officer of the Company as the Committee may designate from time to time at or before the time of such retirement, from active employment with the Company or any Subsidiary after age 55.

3. ADMINISTRATION.

The Plan shall be administered by the Committee, which will be comprised solely of "Non-Employee Directors" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or by the Board if for any reason the Committee is not so comprised, in which case all references herein to the Committee shall refer to the Board.

The Committee shall have the authority in its discretion, subject to and not inconsistent with the express provisions of the Plan, to administer the Plan and to exercise all the powers and authorities either specifically granted to it under the Plan or necessary or advisable in the administration of the Plan, including, without limitation, the authority to grant Options, SARs, and Restricted Stock; to determine which Options shall constitute Incentive Stock Options and which Options shall constitute Nonqualified Stock Options and whether such Options will be accompanied by Stock Appreciation Rights; to determine the purchase price of the shares of Common Stock

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covered by each Option (the "Option Price") and SARs and the kind of consideration payable (if any) with respect to awards; to determine the period during which Options may be exercised and during which Restricted Stock shall be subject to restrictions, and whether in whole or in installments; to determine the persons to whom, and the time or times at which awards shall be granted (such persons are referred to herein as "Grantees"); to determine the number of shares to be covered by each award; to determine the terms, conditions, and restrictions of any Performance Goals and the number of Options, SARs, or shares of Restricted Stock subject thereto; to interpret the Plan; to prescribe, amend, and rescind rules and regulations relating to the Plan; to determine the terms and provisions of the agreements (which need not be identical) entered into in connection with awards granted under the Plan (the "Agreements"); to cancel or suspend awards, as necessary; and to make all other determinations deemed necessary or advisable for the administration of the Plan.

The Committee may delegate to one or more of its members or to one or more agents such administrative duties as it may deem advisable, and the Committee or any person to whom it has delegated duties as aforesaid may employ one or more persons to render advice with respect to any responsibility the Committee or such person may have under the Plan. All decisions, determinations, and interpretations of the Committee shall be final and binding on all persons, including the Company and Grantees of any awards under this Plan.

The Board shall fill all vacancies, however caused, in the Committee. The Board may from time to time appoint additional members to the Committee, and may at any time remove one or more Committee members and substitute others. One member of the Committee shall be selected by the Board as chairman. The Committee shall hold its meetings at such times and places as it shall deem advisable. All determinations of the Committee shall be made by a majority of its members either present in person or participating by conference telephone at a meeting or by written consent. The Committee may appoint a secretary and make such rules and regulations for the conduct of its business as it shall deem advisable, and shall keep minutes of its meetings.

No members of the Board or Committee shall be liable for any action taken or determination made in good faith with respect to the Plan or any award granted hereunder. To the fullest extent permitted by law, the Company shall indemnify each person made or threatened to be made a party to any civil or criminal action or proceeding by reason of the fact that such person, or his or her testator or intestate, is or was a member of the Committee.

4. ELIGIBILITY.

Officers and other key employees of the Company or any Subsidiary, and

any consultant or other person providing key services to the Company or any Subsidiary shall be eligible to receive awards hereunder (excluding members of the Committee and any person who serves only as a director). In determining the persons to whom awards shall be granted and the number of shares to

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be covered by each award, the Committee, in its sole discretion, shall take into account the contribution by the eligible participants to the management, growth, and profitability of the business of the Company and such other factors as the Committee shall deem relevant.

Officers and other key employees of the Company or any Subsidiary, and any consultant or other person providing key services to the Company or any Subsidiary shall be eligible to receive awards hereunder (excluding members of the Committee and any person who serves only as a director). In determining the persons to whom awards shall be granted and the number of shares to be covered by each award, the Committee, in its sole discretion, shall take into account the contribution by the eligible participants to the management, growth, and profitability of the business of the Company and such other factors as the Committee shall deem relevant.

5. STOCK.

The maximum number of shares of Common Stock reserved for the grant of awards under the Plan shall be 500,000 subject to adjustment as provided in Section 11 hereof. Such shares may, in whole or in part, be authorized but unissued shares or shares that shall have been or may be reacquired by the Company. No Grantees shall be eligible to receive awards relative to shares of Common Stock which exceed 100,000 shares in any fiscal year.

If any outstanding award under the Plan should, for any reason, expire or be canceled, forfeited, or terminated, without having been exercised in full, the shares of Common Stock allocable to the unexercised, canceled, forfeited, or terminated portion of such award shall (unless the Plan shall have been terminated) become available for subsequent grants of awards under the Plan.

6. TERMS AND CONDITIONS OF OPTIONS.

Each Option granted pursuant to the Plan shall be evidenced by a written agreement between the Company and the Grantee (the "Option Agreement"), in such form as the Committee shall from time to time approve, which Option Agreement shall comply with and be subject to the following terms and conditions:

(a) Number of Shares. Each Option Agreement shall state the number of shares of Common Stock to which the Option relates.

(b) Type of Option. Each Option Agreement shall specifically state that the Option constitutes an Incentive Stock Option or a Nonqualified Stock Option. Incentive Stock Options may be granted only to individuals who are employees of the Company or any Subsidiary.

(c) Option Price. Each Option Agreement shall state the Option Price, which, in the case of an Incentive Stock Option, shall not be less than one hundred percent (100%) of the Fair Market

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Value of the shares of Common Stock covered by the Option on the date of grant. The Option Price shall be subject to adjustment as provided in Section 11 hereof. Unless otherwise stated in the resolution, the date on which the Committee adopts a resolution expressly granting an Option shall be considered the day on which such Option is granted.

(d) Medium and Time of Payment. The Option Price shall be paid in full, at the time of exercise, as the Option Agreement may provide, in cash or in shares of Common Stock having a Fair Market Value equal to such Option Price, or

in a combination of cash and Common Stock, or in such other manner as the Committee shall determine.

(e) Term and Exercisability of Options. Each Option shall be exercisable at such times and under such conditions as the Committee, in its discretion, shall determine; provided, however, that in the case of an Incentive Stock Option, such exercise period shall not exceed ten (10) years from the date of grant of such Option. The exercise period shall be subject to earlier termination as provided in Section 6(f) hereof. An Option may be exercised, as to any or all full shares of Common Stock as to which the Option has become exercisable, by giving written notice of such exercise to the Committee or its designated agent.

(f) Termination of Employment

(i) Generally. Except as otherwise provided herein, an Option may not be exercised unless the Grantee is then in the service or employ of the Company or a Parent or Subsidiary (or a company or a parent or subsidiary company of such company issuing or assuming the Option in a transaction to which Section 424(a) of the Code applies), and unless the Grantee has remained continuously so employed since the date of grant of the Option. Unless otherwise determined by the Committee at or after the date of grant, in the event that the employment of a Grantee terminates (other than by reason of death, Disability, Retirement, or for Cause) all Options that are exercisable at the time of such termination may be exercised for a period of 90 days from the date of such termination or until the expiration of the stated term of the Option, whichever period is shorter. For purposes of interpreting this Section 6(f) only, the service of a director as a non-employee member of the Board shall be deemed to be employment by the Company.

(ii) Death or Disability. If a Grantee dies while employed by the Company or a Parent or Subsidiary (or within the period of extended exercisability otherwise provided herein), or if the Grantee's employment terminates by reason of Disability, all Options theretofore granted to such Grantee will become fully vested and exercisable (notwithstanding any terms of the Options providing for delayed exercisability) and may be exercised by the Grantee, by the legal representative of the Grantee's estate, or by the legatee under the Grantee's will at any time until the expiration of the stated term of the Option. If an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code, such Option will thereafter be treated as a Non-Qualified Stock Option. In the event that an Option granted hereunder is exercised

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by the legal representative of a deceased or disabled Grantee, written notice of such exercise must be accompanied by a certified copy of letters testamentary or equivalent proof of the right of such legal representative or legatee to exercise such Option.

(iii) Retirement. If a Grantee's employment terminates by reason of Retirement, any Option held by the Grantee may thereafter be exercised, to the extent it was exercisable at the time of such Retirement or on such accelerated basis as the Committee may determine at or after the date of grant (but before the date of such Retirement), at any time until the expiration of the stated term of the Option. If an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code, such Option will thereafter be treated as a Non-Qualified Stock Option.

(iv) Cause. If a Grantee's employment terminates for Cause, the Option, to the extent not theretofore exercised, shall terminate on the date of termination of employment.

(v) Committee Discretion. Notwithstanding the provisions of subsections (i) through (iv) above, the Committee may, in its sole discretion, at or after the date of grant (but before the date of termination), establish different terms and conditions pertaining to the effect on any Option of termination of a Grantee's employment, to the extent permitted by applicable federal and state law.

(g) Buyout Provisions. The Committee may at any time offer to buy out for a payment in cash, Common Stock, or Restricted Stock an option previously granted, based on such terms and conditions as the Committee shall establish and communicate to the Grantee at the time that such offer is made.

(h) Other Provisions. The Option Agreements evidencing Options under the Plan shall contain such other terms and conditions, not inconsistent with the Plan, as the Committee may determine.

7. NONQUALIFIED STOCK OPTIONS.

Options granted pursuant to this Section 7 are intended to constitute Nonqualified Stock Options and shall be subject only to the general terms and conditions specified in Section 6 hereof.

8. INCENTIVE STOCK OPTIONS.

Options granted pursuant to this Section 8 are intended to constitute Incentive Stock Options and shall be subject to the following special terms and conditions, in addition to the general terms and conditions specified in Section 6 hereof.

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(a) Value of Shares. The aggregate Fair Market Value (determined as of the date the Incentive Stock Option is granted) of the shares of equity securities of the Company with respect to which Incentive Stock Options granted under this Plan and all other option plans of any Parent or Subsidiary become exercisable for the first time by each Grantee during any calendar year shall not exceed \$100,000. To the extent such \$100,000 limit has been exceeded with respect to any Options first becoming exercisable, including acceleration upon a Change in Control, and notwithstanding any statement in the Option Agreement that it constitutes an Incentive Stock Option, the portion of such Option(s) that exceeds such \$100,000 limit shall be treated as a Nonqualified Stock Option.

(b) Ten Percent Stockholder. In the case of an Incentive Stock Option granted to a Ten Percent Stockholder, (i) the Option Price shall not be less than one hundred ten percent (110%) of the Fair Market Value of the shares of Common Stock on the date of grant of such Incentive Stock Option, and (ii) the exercise period shall not exceed five (5) years from the date of grant of such Incentive Stock Option.

9. STOCK APPRECIATION RIGHTS.

The Committee is authorized to grant SARs to Grantees on the following terms and conditions:

(a) In General. Unless the Committee determines otherwise, an SAR (i) granted in tandem with a Nonqualified Stock Option may be granted at the time of grant of the related Nonqualified Stock Option or at any time thereafter, and (ii) granted in tandem with an Incentive Stock Option may only be granted at the time of grant of the related Incentive Stock Option. An SAR granted in tandem with an Option shall be exercisable only to the extent the underlying Option is exercisable and shall terminate when the underlying Option terminates.

(b) SARs. An SAR shall confer on the Grantee a right to receive an amount with respect to each share subject thereto, upon exercise thereof, equal to the excess of (i) the Fair Market Value of one share of Common Stock on the date of exercise over (ii) the grant price of the SAR (which in the case of an SAR granted in tandem with an Option shall be equal to the exercise price of the underlying Option, and which in the case of any other SAR shall be such price as the Committee may determine).

(c) Performance Goals. The Committee may condition the exercise of any SAR upon the attainment of specified Performance Goals, in its sole discretion.

10. RESTRICTED STOCK.

The Committee may award shares of Restricted Stock to any eligible person so determined by the Committee. Each award of Restricted Stock under the Plan shall be evidenced by an instrument, in such form as the Committee shall from time to time approve (the "Restricted Stock Agreement"), and shall comply with the following terms and conditions (and with such other terms and conditions not inconsistent with the terms of this Plan as the Committee, in its discretion, shall establish including, without limitation, the requirement that a Grantee provide consideration for Restricted Stock upon the lapse of restrictions):

(a) The Committee shall determine the number of shares of Common Stock to be issued to the Grantee pursuant to the award.

(b) Shares of Restricted Stock may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of, except by will or the laws of descent and distribution, for such period as the Committee shall determine from the date on which the award is granted (the "Restricted Period"). The Committee may impose such other restrictions and conditions on the shares as it deems appropriate including the satisfaction of Performance Goals. Certificates for shares of stock issued pursuant to Restricted Stock awards shall bear an appropriate legend referring to such restrictions, and any attempt to dispose of any such shares of stock in contravention of such restrictions shall be null and void and without effect. During the Restricted Period, such certificates shall be held in escrow by an escrow agent appointed by the Committee. In determining the Restricted Period of an award, the Committee may provide that the foregoing restrictions lapse at such times, under such circumstances, and in such installments, as the Committee may determine.

(c) Subject to such exceptions as may be determined by the Committee, if the Grantee's continuous employment with the Company or any Parent or Subsidiary shall terminate for any reason prior to the expiration of the Restricted Period of an award, any shares remaining subject to restrictions (after taking into account the provisions of Subsection (f) of this Section 10) shall thereupon be forfeited by the Grantee and transferred to, and reacquired by, the Company or a Parent or Subsidiary at no cost to the Company or such Parent or Subsidiary.

(d) During the Restricted Period the Grantee shall possess all incidents of ownership of such shares, subject to Subsection (b) of this Section 10, including the right to receive cash dividends with respect to such shares and to vote such shares; provided, that shares of Common Stock distributed in connection with a stock split or stock dividend shall be subject to restriction and a risk of forfeiture to the same extent as the Restricted Stock with respect to which such shares are distributed.

(e) Upon the occurrence of any of the events described in Section 11(c), all restrictions then outstanding with respect to shares of Restricted Stock awarded hereunder shall automatically expire and be of no further force or effect.

(f) The Committee shall have the authority (and the Restricted Stock Agreement may so provide) to cancel all or any portion of any outstanding restrictions prior to the expiration of the Restricted Period with respect to any or all of the shares of Restricted Stock awarded on such terms and conditions as the Committee shall deem appropriate.

(g) If and when the Restricted Period expires without a prior forfeiture of the Restricted Stock subject to such Restricted Period, certificates for an appropriate number of unrestricted shares shall be delivered to the Grantee promptly.

11. EFFECT OF CERTAIN CHANGES.

(a) If there is any change in the shares of Common Stock through the declaration of extraordinary cash dividends, stock dividends, recapitalization, stock splits, or combinations or exchanges of such shares, or other similar transactions, the number of shares of Common Stock available for awards (both the maximum number of shares issuable under the Plan as a whole and the maximum number of shares issuable on a per-employee basis, each as set forth in Section 5 hereof), the number of such shares covered by outstanding awards, the Performance Goals, and the price per share of Options or SARs shall be proportionately adjusted by the Committee to reflect such change in the issued shares of Common Stock; provided, that any fractional shares resulting from such adjustment shall be eliminated; and provided, further, that, with respect to Incentive Stock Options, such adjustment shall be made in accordance with Section 424(h) of the Code.

(b) In the event of the dissolution or liquidation of the Company; in the event of any corporate separation or division, including but not limited to, split-up, split-off or spin-off; or in the event of other similar transactions, the Committee may, in its sole discretion, provide that either:

(i) the Grantee of any award hereunder shall have the right to exercise an Option (at its then Option Price) and receive such property, cash, securities, or any combination thereof upon such exercise as would have been received with respect to the number of shares of Common Stock for which such Option might have been exercised immediately prior to such dissolution, liquidation, or corporate separation or division; or

(ii) each Option shall terminate as of a date to be fixed by the Committee and that not less than thirty (30) days' written notice of the date so fixed shall be given to each Grantee, who shall have the right, during the period of thirty (30) days preceding such termination, to exercise all or part of such Option.

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In the event of a proposed sale of all or substantially all of the assets of the Company or the merger of the Company with or into another corporation, any award then outstanding shall be assumed or an equivalent award shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless such successor corporation does not agree to assume the award or to substitute an equivalent award, in which case the Committee shall, in lieu of such assumption or substitution, provide for the realization of such outstanding awards in the manner set forth in Section 11(b)(i) or 11(b)(ii) above.

(c) If, while any awards remain outstanding under the Plan, any of the following events shall occur (which events shall constitute a "Change in Control" of the Company):

(i) the "beneficial ownership," as defined in Rule 13d-3 under the Exchange Act, of securities representing more than a majority of the combined voting power of the Company are acquired by any "person" as defined in Sections 13(d) and 14(d) of the Exchange Act (other than (A) the Company, (B) any trustee or other fiduciary holding securities under an employee benefit plan of the Company, (C) Scott M. Niswonger or any member of his Immediate Family, or (D) any corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company); or

(ii) the shareholders of the Company approve a definitive agreement to merge or consolidate the Company with or into another company (other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) a majority of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation), or to sell or otherwise dispose of all or substantially all of its assets, or adopt a plan of liquidation; or

(iii) during any period of two consecutive years, individuals who at the beginning of such period were members of the Board cease for any reason

to constitute at least a majority thereof (unless the election, or the nomination for election by the Company's shareholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period); then from and after the date on which any such Change in Control shall have occurred (the "Acceleration Date"), any Option, SAR, and share of Restricted Stock awarded pursuant to this Plan shall be exercisable or otherwise nonforfeitable in full, as applicable, whether or not otherwise exercisable or forfeitable.

Following the Acceleration Date, (i) the Committee shall, in the case of a merger, consolidation, or sale or disposition of assets, promptly make an appropriate adjustment to the number and class of shares of Common Stock available for awards, and to the amount and kind of shares or other securities or property receivable upon exercise or other realization of any outstanding awards after the effective date of such transaction, and, if applicable, the price thereof, and (ii) the

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Committee may in its discretion (unless proscribed with respect to certain Grantees), permit the cancellation of outstanding Options, SARs, and Restricted Stock in exchange for a cash payment in an amount equal to the Spread. The term "Spread" as used herein shall mean an amount equal to the product computed by multiplying (i) the excess of (A) the highest Fair Market Value per share of Common Stock during the sixty-day period preceding the Acceleration Date over (B) the Option Price per share of Common Stock at which such Option, SAR, or Restricted Stock is exercisable, by (ii) the number of shares of Common Stock with respect to which the Option, SAR, or Restricted Stock is being exercised.

Notwithstanding the foregoing, (i) with respect to any Incentive Stock Option (or an SAR relating to an Incentive Stock Option), the Grantee may not receive a cash payment in excess of the maximum amount that will enable such option to continue to qualify as an Incentive Stock Option, and (ii) no Grantee subject to the reporting requirements of Section 16(a) of the Exchange Act shall be eligible to receive a cash payment in respect of any award held for less than six months prior to exercise.

(d) In the event of a change in the Common Stock of the Company as presently constituted that is limited to a change of all of its authorized shares of Common Stock into the same number of shares with a different par value or without par value, the shares resulting from any such change shall be deemed to be the Common Stock within the meaning of the Plan.

(e) Except as herein before expressly provided in this Section 11, the Grantee of an award hereunder shall have no rights by reason of any subdivision or consolidation of shares of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class or by reason of any dissolution, liquidation, merger, or consolidation or spin-off of assets or stock of another company; and any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an award. The grant of an award pursuant to the Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structures or to merge or to consolidate or to dissolve, liquidate, or sell, or transfer all or part of its business or assets or engage in any similar transactions.

12. SURRENDER AND EXCHANGES OF AWARDS.

The Committee may permit the voluntary surrender of all or a portion of any Option granted under the Plan or any option granted under any other plan, program, or arrangement of the Company or any Subsidiary ("Surrendered Option"), to be conditioned upon the granting to the Grantee of a new Option for the same number of shares of Common Stock as the Surrendered Option, or may require such voluntary surrender as a condition precedent to a grant of a new Option to such Grantee.

Subject to the provisions of the Plan, such new Option (1) may be an Incentive Stock Option or a Nonqualified Stock Option and (2) shall be exercisable at the price, during such period, and on such other terms and conditions as are specified by the Committee at the time the new Option is granted. The Committee may also grant Restricted Stock in exchange for Surrendered Options to any holder of such Surrendered Option.

13. PERIOD DURING WHICH AWARDS MAY BE GRANTED.

Awards may be granted pursuant to the Plan from time to time within a period of ten (10) years from the effective date of the Plan, provided that awards granted prior to such tenth anniversary date may be extended beyond such date.

14. LIMITS ON TRANSFERABILITY OF AWARDS.

Awards of Incentive Stock Options (and any SAR related thereto) shall not be transferable otherwise than by will or by the laws of descent and distribution, and all Incentive Stock Options are exercisable during the Grantee's lifetime only by the Grantee. Awards of Nonqualified Stock Options (and any SAR related thereto) shall not be transferable, without the prior written consent of the Committee, other than (i) by will or by the laws of descent and distribution, (ii) by a Grantee to a member of his or her Immediate Family, or (iii) to a trust for the benefit of the Grantee or a member of his or her Immediate Family. Awards of Restricted Stock shall be transferable only to the extent set forth in the Restricted Stock Agreement.

15. EFFECTIVE DATE OF PLAN.

The Plan shall be effective as of February 5, 1999, subject to the approval of the Plan by the holders of a majority of the shares of Common Stock. Any grants made under the Plan prior to such approval shall be effective when made (unless otherwise specified by the Committee at the time of grant), but shall be conditioned on, and subject to, such approval of the Plan by such shareholders.

16. AGREEMENT BY GRANTEE REGARDING WITHHOLDING TAXES.

If the Committee shall so require, as a condition of exercise of an Option or SAR or other realization of an award, each Grantee shall agree that no later than the date of exercise or other realization of an award granted hereunder, the Grantee will pay to the Company or make arrangements satisfactory to the Committee regarding payment of any federal, state, or local taxes of any kind required by law to be withheld upon the exercise of an Option or other realization of an award. Alternatively, the Committee may provide that a Grantee may elect, to the extent permitted

or required by law, to have the Company deduct federal, state, and local taxes of any kind required by law to be withheld upon the exercise of an Option or realization of any award from any payment of any kind due to the Grantee. The Committee may, in its sole discretion, permit withholding obligations to be satisfied in shares of Common Stock subject to the award.

17. AMENDMENT AND TERMINATION OF THE PLAN.

The Board at any time and from time to time may suspend, terminate, modify, or amend the Plan without stockholder approval to the fullest extent permitted by the Exchange Act and the rules and regulations thereunder; provided, however, that no suspension, termination, modification, or amendment of the Plan may adversely affect any award previously granted hereunder, unless the written consent of the Grantee is obtained.

18. RIGHTS AS A SHAREHOLDER.

Except as provided in Section 10(d) hereof, a Grantee or a transferee of an award shall have no rights as a shareholder with respect to any shares covered by the award until the date of the issuance of a stock certificate to him or her for such shares. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities, or other property) or distribution of other rights for which the record date is prior to the date such stock certificate is issued, except as provided in Section 11 hereof.

19. NO RIGHTS TO EMPLOYMENT.

Nothing in the Plan or in any award granted or Agreement entered into pursuant hereto shall confer upon any Grantee the right to continue in the employ of the Company or any subsidiary or to be entitled to any remuneration or benefits not set forth in the Plan or such Agreement or to interfere with or limit in any way the right of the Company or any such subsidiary to terminate such Grantee's employment. Awards granted under the Plan shall not be affected by any change in duties or position of a Grantee as long as such Grantee continues in the employ of the Company or any Subsidiary.

20. BENEFICIARY.

A Grantee may file with the Committee a written designation of a beneficiary on such form as may be prescribed by the Committee and may, from time to time, amend or revoke such designation. If no designated beneficiary survives the Grantee, the executor or administrator of the Grantee's estate shall be deemed to be the Grantee's beneficiary.

21. UNFUNDED STATUS OF PLAN.

The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Grantee by the Company, nothing

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contained herein shall give any such Grantee any rights that are greater than those of a general creditor of the Company. In its sole discretion, the Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Common Stock or payments in lieu of or with respect to awards hereunder; provided, however, that, unless the Committee otherwise determines with the consent of the affected participant, the existence of such trusts or other arrangements is consistent with the "unfunded" status of the Plan.

22. GOVERNING LAW.

The Plan and all determinations made and actions taken pursuant hereto shall be governed by the laws of the State of Tennessee.

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EXHIBIT 10.2

LOAN AND SECURITY AGREEMENT

THIS LOAN AND SECURITY AGREEMENT (hereinafter referred to as the "Agreement") is made and entered into as of the 13th day of January, 1999, by and among FORWARD AIR CORPORATION, a Tennessee corporation, FAF, INC., a Tennessee corporation, and FORWARD AIR, INC., a Tennessee corporation (hereinafter referred to collectively as the "Borrower"), and SUNTRUST BANK, NASHVILLE, N.A., a national banking association (hereinafter referred to as the "Lender").

WITNESSETH:

WHEREAS, Borrower has requested and Lender has agreed to make available to Borrower a line of credit in the principal amount of up to Ten Million Dollars (\$10,000,000.00).

NOW, THEREFORE, for and in consideration of the foregoing premises, and for such other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Lender and Borrower hereby agree as follows:

ARTICLE I

AMOUNT AND TERMS OF THE LOAN

Section 1.1. Loan. Subject to the terms and conditions and relying on the representations and warranties contained herein, Lender has agreed to make available to Borrower a line of credit in the principal amount of up to Ten Million Dollars (\$10,000,000.00) (the "Loan") until December 31, 2000. Such maturity shall be automatically extended for consecutive one year periods unless Lender delivers written notice to Borrower at least thirty (30) days prior to the scheduled maturity. Each advance under the Loan (an "Advance") shall reduce the amount available thereunder by the amount of such Advance and each repayment of principal under the Notes (as defined below) shall increase the amount available to Borrower under the Loan. Each Advance under the Loan shall be evidenced by a separate promissory note dated the date of such Advance and otherwise in the form attached hereto as Exhibit A (each a "Note," collectively the "Notes").

FAF, Inc., as maker, has previously executed in favor of Lender, a revolving line of credit promissory note dated August 11, 1998 (the "Prior FAF, Inc. Note") in the original principal amount of \$8,022,000 which is the outstanding principal balance as of the date hereof. Borrower and Lender acknowledge and agree that the outstanding principal balance of the Prior FAF, Inc. Note shall be deemed an Advance under this Agreement and concurrently herewith Borrower shall execute a restated Note (in the form of Exhibit A) equal to the principal amount outstanding under the Prior FAF, Inc. Note. As of the date hereof and of such Note,

the Prior FAF, Inc. Note shall be terminated except for payment to Lender of all accrued and unpaid interest thereunder. The principal balance of the Prior FAF Note shall be amortized and payable as set forth in Section 1.5 and shall be governed by the terms and provisions of this Agreement and such Note.

Section 1.2. Notice and Manner of Borrowing. For each request for an Advance under the Loan, Borrower shall provide to Lender a request for Advance executed by an authorized officer of Borrower, in such form as approved by Lender, and in substance satisfactory to Lender, together with an invoice and a description for the Trailers and/or Tractors (as such terms are defined below) to be purchased with the Advance. Subject to the fulfillment of each of the conditions set forth in this Agreement, Lender will make each requested Advance under the Loan available to Borrower, in immediately available funds no later than 2:00 p.m., local time of the Lender, on the date of the requested Advance.

Section 1.3. Each Borrowings, Request a Certification. Each request for

an Advance under the Loan shall constitute a certification by Borrower that, on the date of the respective Advance and after giving effect thereto: (i) no Event of Default has occurred and is continuing on the date of such request and (ii) each of the representations and the warranties made by the Borrower herein is true and correct on such date with the same force and effect as if made on and as of such date.

Section 1.4. Interest. The Borrower shall pay interest on the outstanding principal amount of the Loan at the "Applicable Rate," which shall be the LIBOR Rate plus the Applicable Margin. The LIBOR Rate shall mean the London Interbank Offering Rate for ninety (90) day periods as quoted on the Telerate System on the Rate Reset Date (as defined and described in this Section) or if such date is not a business day, the business day next preceding the Rate Reset Date. Interest shall be computed based upon a 360-day year.

The Applicable Rate shall be determined in accordance with the following pricing matrix.

<TABLE>
<CAPTION>

Ratio of Adjusted Funded Debt to EBITDAR	Applicable Margin
-----	-----
<S>	<C>
> 2.0	1.50%
-	
> 1.5 and < 2.0	1.25%
-	
> 1.0 and < 1.5	1.00%
-	
< 1.0	0.75%

</TABLE>

Initially and until April 1, 1999 the Applicable Rate shall be the LIBOR Rate in effect as of the date of the execution of this Agreement (and adjusted on the first business day of each calendar quarter thereafter) plus one and one quarter of one percent (1.25%) per annum. Thereafter the Ratio of Adjusted Funded Debt to

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EBITDAR shall be measured at the end of each calendar quarter commencing December 31, 1998, and the effective date of any change to the Applicable Margin shall be the first business day of the next calendar quarter (the "Rate Reset Date"). For example, if the above-referenced ratio is measured on December 31st, the Rate Reset Date for the change in interest rate under this Section shall be April 1st of the next year.

Section 1.5. Payment of Principal and Interest. For Advances used to acquire new equipment, Borrower shall repay each Note in equal monthly payments of principal based on a five year amortization plus all accrued and unpaid interest thereunder. The outstanding and unpaid principal amount and all accrued and unpaid interest under each Note shall be paid in full on the date which is five (5) years from the date of such Note. For Advances used to acquire used equipment, Borrower and Lender shall mutually agree upon the amortization of the applicable Note. In the event the Collateral is sold, the proceeds of such sale shall be applied to repayment of the applicable Note in inverse order of maturity.

Section 1.6. Use of Proceeds. The proceeds of the Loan (except for proceeds of the Loan to refinance the Prior FAF, Inc. Note) hereunder shall be used by Borrower periodically to purchase trailers (the "Trailers"), tractors (the "Tractors") for its business use, as well as other equipment mutually agreed upon by Borrower and Lender.

ARTICLE II

SECURITY INTEREST

Section 2.1. Grant of Security Interest. As security for the payment of all indebtedness, liabilities and obligations of Borrower to Lender, now existing or hereafter incurred, matured or unmatured, direct or contingent, including all modifications, extensions, renewals or changes in form thereof, whether evidenced by, arising under, relating to or in connection with the Loan, the Notes, any liability of the Borrower to the Lender (or its affiliates) under any swap agreements or similar arrangements or otherwise (hereinafter sometimes collectively referred to as the "Indebtedness"), Borrower hereby assigns to Lender and grants to Lender a security interest in the following:

(a) Equipment. All of Borrower's right, title, and interest in and to the Tractors and Trailers being acquired (or refinanced) by Borrower with the proceeds of the Loan, which are more particularly described on Exhibit B which is attached hereto and incorporated herein by this reference. Borrower shall provide descriptions of the remaining Tractors and Trailers at the time of Borrower's request for an Advance under the Loan or as soon thereafter as available, and Exhibit B shall be updated accordingly.

(b) Proceeds. All proceeds and products of any of the foregoing, including, without limitation, all accounts receivable, accounts, contract rights, instruments, documents, chattel paper, and/or general intangibles arising out of

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or in connection with any of the foregoing, all rights of the Borrower in and to all collateral security securing or otherwise relating to any obligations of third parties to the Borrower in connection with any of the foregoing, cash proceeds, non-cash proceeds, and insurance proceeds payable by reason of loss or damage to any of the foregoing, whether now existing or hereafter arising.

All of which is sometimes hereinafter collectively referred to as the "Collateral."

ARTICLE III

REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 3.1. Affirmative Representations, Warranties and Covenants. Borrower represents, warrants and covenants that:

(a) Status. Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Tennessee and is authorized to transact in Tennessee, and in all other locations where the failure to qualify would have a material adverse effect, all business that it now transacts therein;

(b) Location. Borrower's principal place of business is located at the address appearing after its signature hereto. Borrower will notify Lender at least thirty (30) days in advance of any change in the location of its principal place of business and chief executive office, or the establishment of any new principal place of business or chief executive office;

(c) Entity. Borrower will not change its name nor do business under any name or trade name other than its current name without giving Lender at least thirty (30) days prior written notice of such change;

(d) Subsidiaries. FAF, Inc. and Forward Air, Inc. are wholly-owned subsidiaries of Forward Air Corporation. The entities described in Exhibit C hereto, constitute all directly or indirectly owned subsidiaries of Forward Air Corporation. Any "Significant Subsidiaries" shall enter into a guaranty, in form and substance mutually agreeable to Borrower and Lender, pursuant to which such Significant Subsidiary shall guarantee the Loan and the Notes. A subsidiary of Borrower shall constitute a "Significant Subsidiary" when such subsidiary accounts for ten percent (10%) or more of the Borrower's consolidated EBITDA (earnings before interest, taxes, depreciation and amortization).

(e) Power and Authorization. Borrower has the corporate power and authority to own its assets and to transact the business in which it is now engaged or proposed to be engaged in. All corporate action necessary to permit

Borrower to execute, deliver and perform this Agreement, and all documents executed in connection herewith, has been duly and effectively taken. Such

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execution, delivery and performance does not require the consent of any other person or entity;

(f) Conflicting Transactions. The execution, delivery and performance of this Agreement, the Notes, and all documents executed in connection herewith or therewith by Borrower will not violate the provisions of Borrowers' charter or by-laws; or constitute a default under or conflict with any indenture, mortgage, deed of trust, lease, agreement, contract, document, or other instrument to which Borrower is a party; or contravene any law, ordinance, rule, regulation, judgment, order, injunction, writ, or decree of any government or political subdivision or agency thereof, or any court or similar entity established by any of them, to which Borrower or its property is subject; or result in, or require, the creation or imposition of any lien upon or with respect to any property now owned or hereafter acquired by Borrower;

(g) Binding Obligations. This Agreement, the Notes, and any and all other documents executed in connection herewith or therewith, are the legal, valid, and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms;

(h) Ownership. Borrower is or will become the owner of the Collateral free from any adverse lien, security interest, or encumbrance. Borrower will defend the Collateral against all claims and demands of all persons at any time claiming the same or any interest therein;

(i) Delivery of Title. Borrower shall cause certificates of title for the Tractors and Trailers to be issued by the State of Tennessee with a notation of Lender's lien on each certificate, and shall cause certificates of title for the Tractors and Trailers being financed by an Advance to be delivered to Lender within ninety (90) days from the date of such Advance;

(j) Financing Statements. No financing statement covering any of the Collateral or the proceeds therefrom is currently on file in any public office, which has not been released or terminated or which is not to be released or terminated from the proceeds of the Loan. At Lender's request, Borrower will join with Lender in executing one or more financing statements pursuant to the Uniform Commercial Code, in form satisfactory to Lender, and will pay the cost of filing or recording the same or this Agreement in all public offices wherever filing or recording is deemed by Lender to be necessary or desirable. A copy of this Agreement or copies of any financing statements executed in connection herewith may be filed in lieu of originals in any public office;

(k) Liens. Borrower will keep the Collateral free from any adverse lien, security interest, or encumbrance;

(l) Condition of Collateral. Borrower will keep the Collateral in good order and repair and will not waste or destroy the Collateral;

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(m) Inspection. Lender may examine and inspect the Collateral at any time, wherever located;

(n) Insurance and Damage. Borrower will maintain insurance satisfactory to Lender in form, amount and substance, issued by insurers satisfactory to Lender, insuring the Collateral against loss from fire, theft, and such other risks determined by Lender, with deductibles acceptable to Lender. Borrower has provided Lender with a schedule of insurance coverages dated November 17, 1998 which Lender acknowledges is acceptable. Liability insurance coverage shall be provided up to \$2,000,000 together with excess coverage. Cargo shall be insured for the actual value thereof up to \$2,000,000.

Borrower's current deductible of \$250,000 is acceptable to Lender. Lender shall be designated as loss payee under the terms of the policies evidencing such insurance. In the event Collateral is damaged or destroyed, Borrower shall have the option to repair the Collateral, replace the Collateral (which shall have substantially the same value) or prepay the applicable Note with an amount equal to the pro rata portion of the unamortized principal with respect to such damaged or destroyed Collateral. At Lender's request, Borrower will execute a specific assignment to Lender, in form satisfactory to Lender, of all of Borrower's rights under any insurance policy covering any of the Collateral. Borrower shall furnish to Lender such evidence of insurance as Lender may require;

(o) Records. Borrower will at all times keep accurate and complete records of its operations and the Collateral. Lender, or any of its agents, shall have the right to call at Borrower's place or places of business, at intervals determined by Lender, and without hindrance or delay, to inspect, audit, check, and make extracts from the books, records, journals, orders, receipts, correspondence, and other data relating to the Collateral or Borrower's operations. Lender shall have the right to discuss such matters with Borrower's officers and accountants at all times. Borrower shall promptly furnish to Lender such information and reports regarding the Collateral and Borrower's financial status as Lender shall from time to time request;

(p) Event of Default. In the event of the occurrence of an Event of Default (as hereinafter defined), Borrower shall immediately notify Lender, setting forth the nature of the Event of Default and the action Borrower proposes to take to cure the default;

(q) Liabilities and Litigation. There is no material outstanding or unpaid judgment against Borrower. There is no material legal, judicial, regulatory or arbitration action, suit, proceeding or investigation pending, or to Borrower's knowledge, threatened, or for which a basis exists, against or affecting Borrower, except proceedings that are fully covered by insurance, subject to deductibles, or that, if adversely determined, would not impair the ability of Borrower to perform all of its obligations hereunder, under the Notes, or under any document executed in connection herewith or therewith, and would not have a material adverse effect upon the business or financial condition of Borrower;

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(r) Compliance. Borrower is not in violation of, or in default under, and will comply with, all laws, ordinances, rules, regulations, judgments, orders, injunctions, writs and decrees of any government or political subdivision or agency thereof, or any court or similar entity established by any of them, that are applicable to Borrower's operations or the Collateral, and will pay promptly all taxes and assessments upon the Collateral or for its use or operation, upon this Agreement or any other document executed in connection herewith, or upon the Indebtedness, and all claims for labor or supplies, rents, and other obligations that, if unpaid, might become a lien against Borrower's property. In the event any such liability or obligation is contested by Borrower in good faith, Borrower shall set up reserves in amounts satisfactory to Lender to meet such obligation;

(s) ERISA. Borrower is in compliance in all material aspects with all applicable provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and no default has occurred with respect to any plan subject to Title IV of ERISA maintained by Borrower;

(t) Taxes, Government Charges. Borrower has filed all tax returns and reports (federal, state, and local) required to be filed and has paid all taxes, assessments, fees, and other governmental charges which are now due and payable, including interest and penalties;

(u) Expenses. Borrower shall pay all costs incurred by Lender in connection with the preparation, execution, recording, filing, administration, modification, transfer and enforcement of all documents evidencing or incident to this transaction, as well as in connection with Lender's protection of its rights under this Agreement, including all legal fees. All such costs shall be deemed part of the Indebtedness;

(v) Financial Statements and Reports. Borrower promptly will furnish to Lender, as soon as available and in any event no later than ninety (90) days after the close of Borrower's fiscal year, the complete audited consolidated and consolidating financial reports of Borrower, including balance sheet, income statement, sources and uses statement, reconciliation of net worth, and pertinent footnotes, all in reasonable detail and accompanied by an unqualified opinion thereon acceptable to Lender by the Borrower's independent certified public accountants;

Borrower also will furnish promptly to Lender, within forty-five (45) days of the end of each calendar quarter, consolidated and consolidating balance sheets of Borrower as of the end of such period, and the consolidated and consolidating statements of income of the Borrower for such period, all in reasonable detail and certified as true and correct by the chief financial officer of Borrower in his or her official capacity, together with calculations evidencing compliance with each of the financial covenants set forth in Article IV and the calculations of Adjusted Funded Debt and EBITDA under Section 1.4.

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In addition, Borrower will provide to Lender, promptly upon its becoming available, such other information about the Borrower, financial or otherwise, as the Lender may reasonably request from time to time.

All such financial reports and statements referred to herein shall conform to generally accepted accounting principles consistently applied ("GAAP").

(w) Further Assurances. Borrower shall promptly cure any defects in the creation, issuance, and delivery of the Notes and the execution and delivery of this Agreement and any and all other documents executed in connection herewith.

Section 3.2. Negative Covenants. So long as any Indebtedness is outstanding, Borrower covenants that, without Lender's prior written consent, it will not (and it will cause its subsidiaries so that they will not):

(a) Sale of Assets. Sell, offer to sell, lease, convey, or otherwise transfer or dispose of any material portion of its property or assets, or any interest therein, except in the ordinary course of business;

(b) Reorganization. Suffer, permit or participate in the dissolution, liquidation, reorganization, consolidation, merger, or recapitalization of any corporation, including Borrower, other than mergers or consolidations where Borrower is the surviving entity;

(c) Loans. Make loans or advances to any person or entity outside of Borrower's ordinary course of business, except for loans or advances to any officer, director or employee of Borrower, or any subsidiary, which in the aggregate for all such loans does not exceed Five Hundred Thousand Dollars (\$500,000.00);

(d) Preservation of Entity. Fail to preserve its existence as an entity, discontinue its usual business, or change its name.

(e) Acquisitions. Make any acquisition of another entity (either stock or assets) (or a series of related acquisitions) with an aggregate purchase price in excess of \$15,000,000 without the prior written consent of Lender. For any such acquisitions with a purchase price of less than \$15,000,000, Borrower will give prior written notice to Lender together with certification that such acquisition will not cause an Event of Default hereunder.

(f) Change in Control. Allow any person or entity that currently does not have Operating Control of Borrower to acquire such Operating Control without Lender's prior written consent. "Operating Control" means direct or indirect control of, or the ability or right to control or vote (directly or indirectly) a majority of the voting securities of Borrower.

ARTICLE IV

FINANCIAL COVENANTS

Section 4.1. EBITR to IR Ratio. While any of the Indebtedness is outstanding, Forward Air Corporation will maintain (on a consolidated basis) a ratio of earnings (before interest, taxes, and rent expense ("EBITR")) to interest and rent expense of no less than 2.25 to 1.0, calculated on an annualized rolling four fiscal quarter basis and measured at the end of each fiscal quarter commencing December 31, 1998. The "current portion of long term debt" is the amount paid or scheduled to be paid for the applicable four fiscal quarters with respect to "long term debt" which is indebtedness with an original maturity of one year or longer.

Section 4.2. Adjusted Funded Debt to EBITDAR Ratio. While any of the Indebtedness is outstanding, Forward Air Corporation will maintain (on a consolidated basis) a ratio of Adjusted Funded Debt to earnings before interest, taxes, depreciation, amortization and rent expense ("EBITDAR") of no greater than 3.0 to 1.0, calculated on an annualized rolling four fiscal quarter basis and measured at the end of each fiscal quarter commencing December 31, 1998.

Section 4.3. Tangible Net Worth. While any of the Indebtedness is outstanding, Forward Air Corporation will maintain (on a consolidated basis) at all times a Tangible Net Worth equal to \$12,500,000 commencing September 30, 1998. Commencing December 31, 1998, Tangible Net Worth shall increase after each fiscal quarter by: (i) at least 75% of net income, without any deduction for losses; and (ii) 100% of the net proceeds of any equity offering.

Section 4.4. Definitions. As used in this Article IV, the following terms shall have the definitions set forth below:

FUNDED DEBT shall mean, without respect to Forward Air Corporation on a consolidated basis, (a) any obligation for borrowed money; (b) any obligation evidenced by bonds, debentures, notes or other similar instruments; (c) any obligation to pay the deferred purchase price of property or for services (other than in the ordinary course of business); (d) any capitalized lease obligation; (e) any obligation or liability of others secured by a lien on property owned, whether or not such obligation or liability is assumed; (f) any liability of Borrower to Lender (or its affiliates) under any swap agreements or similar arrangements; and (g) any letter of credit issued for the account of Forward Air Corporation or its subsidiaries. The calculation of Funded Debt shall include all Funded Debt of Forward Air Corporation and its subsidiaries, plus all Funded Debt of other entities or persons which has been guaranteed by Forward Air Corporation or any subsidiary. Funded Debt shall also include the redemption amount with respect to any redeemable preferred stock of Forward Air Corporation or its subsidiaries required to be redeemed within the next twelve months.

ADJUSTED FUNDED DEBT shall mean, with respect to Forward Air Corporation (all on a consolidated basis) the sum of (a) Funded Debt plus (b) Rent Expense as calculated in accordance with Standard and Poor Corporation's Methodology, as such method may change from time to time.

TANGIBLE NET WORTH shall mean, as of the date of determination, Forward Air Corporation's total consolidated net worth minus any goodwill or other intangibles as determined in accordance with generally accepted accounting principles.

All undefined terms set forth herein shall have the meanings ascribed to them under GAAP.

ARTICLE V

DEFAULT

Section 5.1. Events of Default. The occurrence of any of the following shall constitute an event of default under this Agreement (hereinafter referred to as an "Event of Default"):

(a) Payment. Default in the punctual payment when due of any of the Indebtedness; or,

(b) Breach of Covenant. Default in the performance of any of the covenants, terms or provisions contained or referred to herein, or in the Notes, or in any other document or instrument executed in connection herewith, or evidencing any of the Indebtedness.

(c) Breach of Warranty or Representation. Any warranty, representation or statement made or furnished to Lender by or on behalf of Borrower herein, in connection with this Agreement, the Notes, or in connection with any document or instrument executed in connection herewith or therewith, proves to have been false in any material respect when made or furnished; or any misstatement or omission of fact or failure to state facts necessary to make such representations and warranties not misleading; or,

(d) Collateral. Loss, theft, substantial damage or destruction to or of the Collateral, or the making of any levy, seizure, or attachment thereof or thereon; or,

(e) Bankruptcy or Receivership. Dissolution, termination of existence, insolvency, failure to pay debts as they mature, admission in writing of an inability to pay debts generally as they become due, business failure, appointment of a trustee or receiver for any part of the property, assignment for the benefit of creditors, or commencement of any proceeding under any

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bankruptcy, insolvency, composition, reorganization, or liquidation law, of, by or against Borrower; or,

(f) Liens. The filing or attachment of any tax lien with respect to any of the Collateral, except for a tax lien that is being contested in good faith and for which Borrower provides to Lender additional security or establishes reserves satisfactory to Lender in all respects.

(g) Default on Other Debt or Security. Subject to any applicable grace period, Borrower fails to make any payment due on any indebtedness or security, or any event shall occur or any condition shall exist in respect of any indebtedness or security of Borrower or under any agreement securing or relating to such indebtedness or security, the effect of which is to cause or to permit any holder of such indebtedness or other security or a trustee to cause (whether or not such holder or trustee elects to cause) such indebtedness or security, or a portion thereof, to become due prior to its stated maturity or prior to its regularly scheduled date of payment; or

(h) Undischarged Judgments. The rendering by any court or other governmental authority of a judgment for the payment of money (which is not bonded or pending appeal) in excess of \$100,000.00 against Borrower, and the Borrower does not discharge the same or provide for its discharge in accordance with its terms, or procure a stay of execution thereof within thirty (30) days from the date of entry thereof.

ARTICLE VI

REMEDIES

Section 6.1. Remedies Upon Default. Upon the occurrence of an Event of Default, and at any time thereafter, (i) Lender may at its option, for purposes hereof, declare all Indebtedness secured hereby immediately due and payable,

without presentment, demand, protest, notice of protest, dishonor, or other notice or demand of any kind, all of which Borrower hereby expressly waives, (ii) all obligations, if any, of Lender hereunder shall immediately cease and terminate unless and until Lender shall reinstate same in writing, and (iii) Lender shall have all the rights and remedies available to it at law or in equity, including all rights and remedies of a secured party under the Uniform Commercial Code or other applicable law. Lender may require Borrower to assemble the Collateral and make it available to Lender at a place or places, designated by Lender, reasonably convenient to both parties. Unless the Collateral is perishable, threatens to decline speedily in value, or is a type customarily sold on a recognized market, Lender will give Borrower reasonable notice of the time and place of any public sale thereof or of the time after which any private sale or any other intended disposition thereof is to be made. The requirements of reasonable notice shall be met if such notice is given in accordance with the notice provisions of this Agreement, at least ten (10) days before the time of the sale or disposition, Borrower agrees to pay all expenses of retaking, holding, preparing for sale, and selling the Collateral, together with

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any court costs and Lender's attorneys' fees; all such expenses, costs, and fees shall be deemed part of the Indebtedness.

Section 6.2. Setoff. Upon the occurrence of an Event of Default, and at any time thereafter, Lender may, at any time and from time to time, without notice to Borrower, which notice Borrower hereby expressly waives, setoff and apply any and all deposits and other indebtedness at any time owing by Lender to or for the credit or account of Borrower, against any and all of the Indebtedness.

Section 6.3. Protective Action. At its option, Lender may discharge taxes, liens, security interests, or other encumbrances at any time levied or placed on the Collateral, may pay for insurance on the Collateral, and may pay for the maintenance and preservation of the Collateral. Borrower agrees to reimburse Lender on demand for any payment made, or any expense incurred, by Lender pursuant to the foregoing authorization, together with interest thereon from date of payment at the maximum lawful rate of interest permitted under applicable law from time to time.

Section 6.4. Collateral Control. Lender shall have the right at any time to obtain and use the services of a collateral control firm. Borrower shall bear the expenses of such services.

Section 6.5. Cumulative Remedies. No right, power or remedy herein or otherwise conferred upon or reserved to Lender, by contract, at law, in equity or by statute, is intended to be exclusive of any other right, power or remedy, and each and every such right, power and remedy shall be cumulative and shall be in addition to every other right, power and remedy given hereunder or elsewhere, or now or hereafter existing by contract, at law, in equity or by statute. All such rights, powers and remedies may be exercised separately or concurrently, and in such order and as often as Lender elects.

Section 6.6. Waiver. No delay or omission by Lender in exercising any right, power or remedy hereunder or otherwise afforded by contract, at law, in equity or by statute, shall constitute an acquiescence therein, impair any other right, power or remedy hereunder, or otherwise afforded by contract, at law, in equity or by statute, or operate as a waiver of such right, power or remedy. No waiver by Lender of any default shall operate as a waiver of any other default or of the same default on a future occasion.

ARTICLE VII

MISCELLANEOUS

Section 7.1. Headings. The headings contained in this Agreement are inserted for convenience of reference only, and shall not be construed as defining, limiting, extending, or describing the scope of this Agreement, any section hereof, or the intent of any provision hereof.

Section 7.2. Notice. All notices given hereunder shall be given in writing, signed by the party giving such notice, and shall either be personally delivered, sent by registered or certified mail, return receipt requested, or sent by a nationally recognized courier service, if to Lender, to SunTrust Bank, Nashville, N.A., 201 Fourth Avenue North, Nashville, Tennessee 37219, Attention: Allen Oakley, and if to Borrower, to the address following its signature hereto, or, as to either party hereto, to such other address as may hereafter be provided in accordance with the notice provisions hereof. Notice shall be deemed given when so personally delivered, mailed, or delivered to such courier service, as the case may be.

Section 7.3. Choice of Law. This Agreement and the documents executed in connection herewith have been negotiated, made, executed and delivered in Nashville, Tennessee. The validity and construction of this Agreement and the documents executed in connection herewith shall be determined in all respects in accordance with the laws of the State of Tennessee.

Section 7.4. Successors and Assigns. All of Lender's rights hereunder shall inure to the benefit of its successors and assigns; all of Borrower's obligations hereunder shall bind Borrower's successors and assigns. Borrower may not assign its rights or delegate its duties hereunder, and any attempt at such assignment shall be void. Lender reserves the right to assign its rights and delegate its duties hereunder.

Section 7.5. Time. Time is of the essence with regard to each and every provision of this Agreement.

Section 7.6. Release. Borrower hereby releases Lender and its officers, employees, attorneys and agents from all claims for loss or damages caused by any act or omission on the part of any of them except willful misconduct.

Section 7.7. No Waiver. Nothing in this Agreement shall be deemed a waiver or prohibition of Lender's right of banker's lien or setoff.

Section 7.8. Entire Agreement; Amendment. This Agreement, and the documents executed and delivered in connection herewith, constitute the entire agreement between the parties hereto. Neither this Agreement nor any provision hereof may be amended, waived, discharged or terminated orally, but only by a writing signed by the party against whom enforcement of the amendment, waiver, discharge or termination is sought.

Section 7.9. Severability. If any provision of this Agreement, or the application thereof to any person or circumstance, shall be held invalid or unenforceable under any applicable law, such invalidity or unenforceability shall not affect any other provision of this Agreement that can be given effect without the invalid or unenforceable provision, or the application of such provision to other persons or circumstances, and, to this end, the provisions hereof are severable.

Section 7.10. Enforceability. The invalidity or unenforceability of any of the rights or remedies herein provided in any jurisdiction shall not in any way affect the right to the enforcement of such rights or remedies in other jurisdictions. If the fulfillment of any provision hereof shall involve transcending the limit of validity prescribed by law, then ipso facto, the provision to be fulfilled shall be reduced to the limit of such validity.

Section 7.10. Counterparts. This Agreement may be executed by the signatures of each of the parties hereto, or to a counterpart of this Agreement, and all such counterparts shall collectively constitute one Agreement.

Section 7.11. Borrower. Each and every reference to "Borrower" in this Agreement shall be deemed to refer to and to include FAF, Inc., Forward Air, Inc., and Forward Air Corporation, individually and collectively as the context so dictates. Each and every agreement, obligation, representation, warranty, and covenant herein of Borrower shall be the joint and several agreement,

obligation, representation, warranty and covenant of FAF, Inc., Forward Air, Inc. and Forward Air Corporation.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the date first set forth above.

SUNTRUST BANK, NASHVILLE, N.A.

By: /s/ Allen K. Oakley

Title: Senior Vice President

FORWARD AIR CORPORATION

By: /s/ Bruce A. Campbell

Title: President

FAF, INC.

By: Bruce A. Campbell

Title: President

FORWARD AIR, INC.

By: Bruce A. Campbell

Title: President

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Principal Place(s) of Business, Chief
Executive Office and Address for Notices:

430 Airport Road
Greeneville, TN 37745

Mail:

P.O. Box 1058
Greeneville, TN 37744

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EXHIBIT A

[FORM OF]

PROMISSORY NOTE

\$ _____ (Date)

FOR VALUE RECEIVED, the undersigned (the "Maker") jointly and severally promises to pay to the order of SUNTRUST BANK, NASHVILLE, N.A., a national banking association having offices in Nashville, Tennessee ("Lender"), its successors and assigns, in lawful money of the United States of America, the principal amount of _____ Dollars (\$ _____) or so much thereof as may be advanced, together with all interest accrued thereon under the terms hereof.

Interest on the outstanding principal balance hereof shall accrue at a rate of interest per annum equal to the Applicable Rate as defined and described in the Loan Agreement (as defined below). Interest shall be computed on the basis of a 360-day year.

Equal monthly payments of principal in the amount of \$ _____ plus interest shall be due and payable on the tenth (10th) day of each month, commencing on the tenth (10th) day of _____, _____, and continuing on the tenth (10th) day of each month thereafter. Notwithstanding the foregoing, the entire outstanding principal balance plus all accrued and unpaid interest hereon, and all unpaid costs and expenses of Lender hereunder, in the absence of default by Maker, shall be due and payable by Maker to Lender on _____ (the "Maturity Date"), without grace.

Principal, interest and fees, if any, shall be payable at the main office of the Lender.

If any payment hereunder becomes due and payable on a day other than a business day, the maturity thereof shall be extended to the next succeeding business day, and interest thereon shall be payable at the rate in effect during such extension. As used herein, the term "business day" shall mean a day other than a Saturday, Sunday, or day on which commercial banks are authorized to close under the laws of the State of Tennessee.

Notwithstanding any provision to the contrary, it is the intent of the Lender, the Maker, and all parties liable on this Note, that neither the Lender nor any subsequent holder shall be entitled to receive, collect, reserve or apply, as interest, any amount in excess of the maximum lawful rate of interest permitted to be charged by applicable law or regulations, as amended or enacted from time to time. In the event this Note calls for an interest payment that exceeds the maximum lawful rate of interest then applicable, such interest shall not be received, collected, charged, or reserved until such time as that interest, together

with all other interest then payable, falls within the then applicable maximum lawful rate of interest, such amount which would be excessive interest shall be deemed a partial prepayment of principal and treated hereunder as such, or, if the principal indebtedness evidenced hereby is paid in full, any remaining excess funds shall immediately be paid to the Maker. In determining whether or not the interest paid or payable, under any specific contingency, exceeds the maximum lawful rate of interest, the Maker and the Lender shall, to the maximum extent permitted under applicable law, (a) exclude voluntary prepayments and the effects thereof, and (b) amortize, prorate, allocate, and spread, in equal parts, the total amount of interest throughout the entire term of the indebtedness; provided that if the indebtedness is paid in full prior to the Maturity Date, and if the interest received for the actual period of existence hereof exceeds the maximum lawful rate of interest, the holder of the Note shall refund to the Borrower the amount of such excess or credit the indebtedness as of the date it was received, and, in such event, the Lender shall not be subject to any penalties provided by any laws for contracting for, charging, reserving, collecting or receiving interest in excess of the maximum lawful rate of interest. The term "maximum lawful rate of interest" as used herein shall mean a rate of interest equal to the higher or greater of the following: (a) the "applicable formula rate" defined in Tennessee Code Annotated Section 47-14-102(2), or (b) such other rate of interest as may be charged under other applicable laws or regulations.

Maker shall have the right, upon at least three business days prior notice to Lender, to prepay in full or in part the principal amount outstanding hereunder at any time without premium or penalty, provided, any such prepayment shall not reduce or alter Borrower's obligation to continue making monthly installment payments in accordance with the terms hereof, as and when required hereunder.

All monies received pursuant hereto shall be applied first to the accrued and unpaid interest, second to any late charges, with the balance, if any, applied to the reduction of the principal amount outstanding unless otherwise elected by Lender.

Maker shall pay to Lender a "late charge" of five percent (5%) of the total amount of the payment required hereunder not received by the Lender within five (5) days after such payment is due to defray the expense incurred by Lender in handling and processing such delinquent payment and not as a penalty or forfeiture; provided in no event shall said "late charge" result in the payment of interest in excess of the maximum lawful rate of interest permitted by applicable law.

This Note is made pursuant to the terms of that certain Loan and Security Agreement dated _____, 19__, by and among Forward Air Corporation, FAF, Inc. and Forward Air, Inc. as borrowers and Lender, as the same may hereafter be amended or modified (the "Loan Agreement"), and reference is made thereto for provisions regarding default, acceleration, and other terms applicable hereto and for the definition of certain terms utilized herein.

Lender shall have the optional right, without further notice and notwithstanding the Maturity Date, to declare the amount of the total unpaid balance hereof to be due and forthwith payable in advance of the Maturity Date, upon the failure of Maker to make any payment (whether principal, principal and interest or interest only) in full within five (5) days of when due in the manner above specified, or upon the occurrence of any other event of default under this Note, the Loan Agreement, or any other instrument or document evidencing or securing repayment of the indebtedness evidenced hereby, subject to any applicable grace periods set forth therein. Forbearance to exercise this option with respect to any failure or breach of the Maker shall not constitute a waiver of the right so long as such failure or breach shall continue, or constitute a waiver of the right as to any subsequent failure or breach, such right being a continuing one. After this Note matures, whether by demand, acceleration or otherwise, the entire principal balance shall bear interest at the maximum lawful rate of interest permitted by law on such date, or on the date hereof, whichever is greater.

Each and every Maker, endorser, guarantor, surety, co-maker and all parties to this Note and all who may become liable for same, jointly and severally waive presentment for payment, protest, notice of protest, notice of nonpayment of this Note, demand and all legal diligence in enforcing collection, and hereby expressly agree that the lawful owner or holder of this Note may alter its maturity, defer or postpone collection of the whole or any part thereof, either principal and/or interest, or may extend or renew the whole or any part thereof, either principal and/or interest, or may accept additional collateral or security for the payment of interest, or may release the whole or any part of any collateral security and/or liens given to secure the payment of this Note, or may release from liability on account of this Note any one or more of the Makers, endorsers, guarantors, sureties, co-makers, and/or other parties thereto, all without notice to them or any of them; and such alteration, deferment, postponement, renewal, extension, acceptance of additional collateral or security and/or release shall not in any way affect or change the obligation of any such Maker, endorser, guarantor or other party to this Note, or of any other party who may become liable for the payment thereof.

This Note may not be amended, modified, or supplemented without the prior written approval of Lender and Maker. No waiver of any term or provision hereof shall be valid against Lender unless such waiver be in writing executed by Lender.

Time is of the essence of this Note, and in the event this Note is placed in the hands of one or more attorneys for collection or enforcement or protection of Lender's rights, the undersigned agrees to pay all attorneys' fees and all court and other costs incurred by the Lender, including the Lender's costs, expenses and fees incurred by the Lender pursuant hereto.

This Note has been executed and delivered in and shall be construed and enforced in accordance with the laws of the State of Tennessee.

Executed this ____ day of _____, ____.

FORWARD AIR CORPORATION

By: _____

Title: _____

FAF, INC.

By: _____

Title: _____

FORWARD AIR, INC.

By: _____

Title: _____

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF FORWARD AIR CORPORATION FOR THE THREE MONTHS ENDED MARCH 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF FORWARD AIR CORPORATION FOR THE THREE MONTHS ENDED MARCH 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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