

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 1996
Commission File No. 000-22490

LANDAIR SERVICES, INC.
(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) 636-7000

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

YES X NO

The number of shares outstanding of the registrant's common stock, \$.01 par value, as of November 8, 1996 was 5,949,382.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

LANDAIR SERVICES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

<TABLE>
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	September 30, 1996	December 31, 1995	
	(Unaudited)	(Note)	
	(In thousands, except share data)		
	<C>	<C>	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 26	\$ 3,834	
Accounts receivable, less allowance of \$199 in 1996 and \$292 in 1995	22,815	17,788	
Other current assets	3,620	4,136	
	-----	-----	
Total current assets	26,461	25,758	
Property and equipment	95,163	89,699	
Less accumulated depreciation and amortization		(24,735)	(17,577)
	-----	-----	
Other assets	70,428	72,122	
	534	399	
	-----	-----	
Total assets	\$ 97,423	\$ 98,279	
	=====	=====	

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:			
Accounts payable	\$ 4,470	\$ 5,074	
Accrued expenses	6,505	5,637	
Current portion of long-term debt	6,653	8,158	
Current portion of capital lease obligations	1,955	1,089	
	-----	-----	
Total current liabilities	19,583	19,958	
Long-term debt, less current portion	22,080	27,030	

Capital lease obligations, less current portion	8,937	8,825
Deferred income taxes	6,983	5,822
Shareholders' equity:		
Preferred stock	--	--
Common stock, \$.01 par value; Authorized shares - 20,000,000 Issued and outstanding shares - 5,949,382 in 1996 and 5,864,200 in 1995	59	59
Additional paid-in capital	26,141	25,562
Retained earnings	13,640	11,023
	-----	-----
Total shareholders' equity	39,840	36,644
	-----	-----
Total liabilities and shareholders' equity	\$ 97,423	\$ 98,279
	=====	=====

</TABLE>

NOTE: The balance sheet at December 31, 1995 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.

See notes to condensed consolidated financial statements.

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LANDAIR SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

<TABLE>
<CAPTION>

	Three month periods ended		Nine month periods ended	
	September 30, 1996	September 30, 1995	September 30, 1996	September 30, 1995
	-----	-----	-----	-----
	(In thousands, except per share data)			
	<C>	<C>	<C>	<C>
Operating revenue	\$ 39,295	\$ 37,451	\$ 115,167	\$ 109,640
Operating expenses:				
Purchased transportation	12,629	13,027	37,471	40,674
Salaries, wages, and employee benefits	10,911	9,556	31,898	27,546
Fuel and fuel taxes	2,573	2,284	8,175	6,384
Operating leases	1,603	1,468	4,374	4,619
Depreciation and amortization	2,687	2,142	7,909	6,296
Insurance and claims	2,440	1,950	6,153	5,224
Other operating expenses	4,326	4,211	12,692	11,472
	-----	-----	-----	-----
	37,169	34,638	108,672	102,215
Income from operations	2,126	2,813	6,495	7,425
Other income (expense):				
Interest expense	(694)	(779)	(2,288)	(2,195)
Other, net	0	46	26	252
	-----	-----	-----	-----
	(694)	(733)	(2,262)	(1,943)
Income before income taxes	1,432	2,080	4,233	5,482
Income taxes	545	900	1,616	2,362
	-----	-----	-----	-----
Net income	\$ 887	\$ 1,180	\$ 2,617	\$ 3,120

Net income per share:				
Primary	\$.15	\$.20	\$.43	\$.52
Fully diluted	\$.15	\$.20	\$.43	\$.52
Dividends declared per share	\$ --	\$ --	\$ --	\$ --

</TABLE>

See notes to condensed consolidated financial statements.

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LANDAIR SERVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

<TABLE>
<CAPTION>

	Nine month periods ended	
	September 30, 1996	September 30, 1995
	(In thousands)	
	<C>	<C>
<S> Cash from operations	\$ 7,180	\$ 11,587
Investing activities:		
Proceeds from disposal of property and equipment	2,700	2,188
Purchases of property and equipment	(6,028)	(21,886)
Decrease in restricted capital lease funds	--	156
Other	(135)	(59)
	(3,463)	(19,601)
Financing activities:		
Proceeds from long-term debt	1,664	13,504
Payments of long-term debt	(8,119)	(5,881)
Payments of capital lease obligations	(1,649)	(900)
Proceeds from exercise of stock options	579	349
	(7,525)	7,072
Increase (decrease) in cash and cash equivalents	\$ (3,808)	\$ (942)

</TABLE>

See notes to condensed consolidated financial statements.

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LANDAIR SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

September 30, 1996

NOTE 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 nine month period ended September 30, 1996 are not necessarily indicative of the results that may be expected for the year ending December 31, 1996. For further information, refer to the consolidated financial statements and footnotes thereto included in the Landair Services, Inc. annual report on Form 10-K for the year ended December 31, 1995.

NOTE 2 - NET INCOME PER SHARE

Net income per share is based on the weighted average number of shares of common stock and common stock equivalents outstanding during the period. Common stock equivalents consist of outstanding stock options and have been included in the calculation of net income per share using the treasury stock method.

NOTE 3 - INCOME TAXES

For the three month and nine month periods ended September 30, 1996 and September 30, 1995, the effective income tax rate varied from the statutory federal income tax rate of 34% primarily due to the effect of state income taxes, net of the federal benefit, and permanent differences (principally meals and entertainment).

NOTE 4 - 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, individually or in the aggregate, will have a material adverse effect on the financial condition or results of operations of the Company.

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NOTE 5 - CHANGE IN ACCOUNTING ESTIMATE

During 1996, the Company changed the estimated useful life of tires in service to reflect the increased warranty periods provided by the tire manufacturers. The change resulted in a decrease in other operating expenses of \$140,000 and \$280,000, an increase in net earnings of \$87,000 and \$173,000 and an increase in earnings per share of \$0.01 and \$0.03 for the three month and nine month periods ended September 30, 1996, respectively.

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

The following table sets forth expenses as a percentage of operating revenue for the periods indicated.

<TABLE>
<CAPTION>

	Three month periods ended		Nine month periods ended	
	September 30, 1996	September 30, 1995	September 30, 1996	September 30, 1995
	<C>	<C>	<C>	<C>
Operating revenue	100.0%	100.0%	100.0%	100.0%
Operating expenses:				
Purchased transportation	32.1	34.8	32.5	37.1
Salaries, wages, and employee benefits	27.8	25.5	27.7	25.1
Fuel and fuel taxes	6.5	6.1	7.1	5.8
Operating leases	4.1	3.9	3.8	4.2
Depreciation and amortization	6.8	5.7	6.9	5.7
Insurance and claims	6.2	5.2	5.3	4.8
Other operating expenses	11.1	11.3	11.1	10.5
	-----	-----	-----	-----
	94.6	92.5	94.4	93.2
Income from operations		5.4	7.5	5.6
Other income (expense):				
Interest expense	(1.8)	(2.1)	(2.0)	(2.0)
Other, net	0.0	0.1	0.0	0.2
	-----	-----	-----	-----
	(1.8)	(2.0)	(2.0)	(1.8)
	-----	-----	-----	-----
Income before income taxes		3.6	5.5	3.6
Income taxes	1.3	2.3	1.3	2.2
	-----	-----	-----	-----
Net income	2.3%	3.2%	2.3%	2.8%
	=====	=====	=====	=====

</TABLE>

Results of Operations

Operating revenue increased by \$1.8 million, or 5%, to \$39.3 million in the third quarter of 1996 from \$37.5 million in 1995. For the first nine months of 1996, operating revenue of \$115.2 million was \$5.5 million, or 5%, higher than the same period in 1995. The Company's increased operating revenue reflects additional volume from its Forward Air operations, which increased 30% and 24%, respectively, during the third quarter and first nine months of 1996 compared to the prior-year periods. The increase in Forward Air operating revenue was partially offset by a decrease in Truckload and Dedicated operating revenue of 10% and 6% during the third quarter and first nine months of 1996, respectively, because of fewer tractors in service and lower equipment utilization in the Truckload operations.

The operating ratio (operating expenses as a percent of operating revenue) for the three month and nine month periods ended September 30, 1996, was 94.6% and 94.4%, respectively,

compared to 92.5% and 93.2% for the respective periods in 1995. Except as explained below, operating expenses in the aggregate generally reflect increases proportionate to the increased level of operations.

The components of operating expenses fluctuate between periods primarily because of the ratio of owner-operators to Company-operated equipment.

Effective February 1996, the Company no longer pays per diem to line-haul drivers as reimbursement for expenses incurred for out-of-town travel. Instead, these drivers now receive a higher pay rate per mile. The effect of this change caused a slight increase in the Company's salaries, wages and employee benefits expense during the third quarter and first nine months of 1996.

During the first nine months of 1996, fuel prices increased by approximately 12% over the prior year, which increased fuel and fuel taxes by approximately \$850,000. Approximately 30% of the increase in fuel prices was passed on to customers in the form of a fuel surcharge during the third quarter and first nine months of 1996.

Operating leases decreased from 4.2% of operating revenue during the first nine months of 1995 to 3.8% during the same period of 1996, while depreciation and amortization increased from 5.7% of operating revenue during the first nine months of 1995 to 6.9% in the same period of 1996. The decrease in operating leases and increase in depreciation and amortization during the first nine months of 1996 from the prior year resulted from increased ownership, rather than leasing, of revenue equipment. The increase in depreciation and amortization during the current year was also attributed to an increase in the ratio of Company-operated equipment to owner-operators. The decrease in operating leases during the first nine months of 1996, attributable to increased ownership of revenue equipment, was partially offset by increased rent for Forward Air terminals, which were upgraded or added during the year to facilitate the Forward Air operation's growth.

Insurance and claims for the three month and nine month periods ended September 30, 1996, was 6.2% and 5.3%, respectively, compared to 5.2% and 4.8% for the same period of 1995. The increase in insurance and claims is attributed to an increase in accident costs over the prior year.

Included in income from operations for the third quarter and first nine months of 1995 were gains on the sale of revenue equipment in the amount of \$101,000 and \$453,000, respectively, compared to \$216,000 and \$386,000 for the same periods in 1996. Also, see Note 5 to the Condensed Consolidated Financial Statements for the current year financial impact of a change in the estimated useful life of tires in service.

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The effective tax rate for the third quarter and first nine months of 1996 was 38% compared to 43% for the same periods in 1995. The decrease in 1996 is primarily due to a significant reduction in the Company's nondeductible meals and entertainment expense (which were only partially deductible by the Company for federal income tax purposes) resulting from discontinuance of the per diem pay to line-haul drivers coupled with a reduction in the Company's effective state income tax rate during 1996.

Liquidity and Sources of Capital

Cash flow from operations was \$7.2 million for the first nine months of 1996 compared with \$11.6 million in the same period of 1995. The \$4.4 million decrease was a result of increases in working capital accounts. Management believes available borrowing under existing lines of credit, future borrowing under installment notes for revenue equipment, and cash generated by operations will be sufficient to fund its cash needs and anticipated capital expenditures over the near term.

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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

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

The following exhibits are included herein:

- (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 - The Company did not file any reports on Form 8-K during the three months ended September 30, 1996.

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.

Landair Services, Inc.

Date: November 12, 1996

By: /s/ Edward W. Cook

Edward W. Cook
Chief Financial Officer
and Senior Vice President

EXHIBIT INDEX

Exhibit Number	Exhibit
----- 11	----- Statement Re: Computation of Per Share Earnings
27	Financial Data Schedule (Electronic Filing Only)

EXHIBIT 11

STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS

<TABLE>
<CAPTION>

	Three month periods ended		Nine month periods ended	
	September 30, 1996	September 30, 1995	September 30, 1996	September 30, 1995

	(In thousands, except per share data)			
	<C>	<C>	<C>	<C>
<S>				
Primary:				
Average outstanding shares		5,949	5,862	5,922
Net effect of dilutive stock options - based on the treasury stock method using the average market price		108	178	135
		189		
Totals	6,057	6,040	6,057	6,033
	=====	=====	=====	=====
Net income	\$ 887	\$1,180	\$2,617	\$3,120
	=====	=====	=====	=====
Per share amount	\$.15	\$.20	\$.43	\$.52
	=====	=====	=====	=====
Fully diluted:				
Average shares outstanding		5,949	5,862	5,922
Net effect of dilutive stock options - based on the treasury stock method using the quarter-end market price if higher than the average market price		108	178	141
		189		
Totals	6,057	6,040	6,063	6,033
	=====	=====	=====	=====
Net income	\$ 887	\$1,180	\$2,617	\$3,120
	=====	=====	=====	=====
Per share amount	\$.15	\$.20	\$.43	\$.52
	=====	=====	=====	=====

</TABLE>

<TABLE> <S> <C>

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF LANDAIR SERVICES, INC. FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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