

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, 1997  
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  
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The number of shares outstanding of the registrant's common stock, \$.01 par value, as of May 9, 1997 was 5,952,880.

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

LANDAIR SERVICES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

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	March 31, 1997	December 31, 1996	
	(Unaudited)	(Note)	
	(In thousands, except share data)		
	<C>	<C>	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 538	\$ 28	
Accounts receivable, less allowance of \$560 in 1997 and \$415 in 1996		23,367	23,671
Other current assets	4,904	4,505	
	-----		
Total current assets	28,809	28,204	
Property and equipment	102,196	97,445	
Less accumulated depreciation and amortization		29,637	27,166
	-----		
	72,559	70,279	
Other assets	614	591	
	-----		
Total assets	\$ 101,982	\$ 99,074	
	=====		

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:			
Accounts payable	\$ 4,280	\$ 5,525	
Accrued expenses	8,170	7,391	
Current portion of long-term debt		8,693	7,701
Current portion of capital lease obligations		2,022	1,797
	-----		

Total current liabilities	23,165	22,414
Long-term debt, less current portion	20,502	18,346
Capital lease obligations, less current portion	7,678	8,748
Deferred income taxes	8,602	8,302
Shareholders' equity:		
Preferred stock	--	--
Common stock, \$.01 par value;		
Authorized shares - 20,000,000		
Issued and outstanding shares - 5,952,880 in 1997 and 1996		60
Additional paid-in capital	26,202	26,202
Retained earnings	15,773	15,002
	-----	-----
Total shareholders' equity	42,035	41,264
	-----	-----
Total liabilities and shareholders' equity	\$ 101,982	\$ 99,074
	=====	=====

</TABLE>

Note: The balance sheet at December 31, 1996 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	
	March 31, 1997	March 31, 1996
	-----	-----
	(In thousands, except per share data)	
	<C>	<C>
Operating revenue	\$ 41,005	\$ 36,979
Operating expenses:		
Purchased transportation	13,899	12,298
Salaries, wages, and employee benefits	11,669	10,375
Fuel and fuel taxes	2,583	2,765
Operating leases	1,481	1,298
Depreciation and amortization	2,559	2,612
Insurance and claims	2,512	1,797
Other operating expenses	4,380	4,168
	-----	-----
	39,083	35,313
Income from operations	1,922	1,666
Other income (expense):		
Interest expense	(681)	(806)
Other, net	30	10
	-----	-----
	(651)	(796)
Income before income taxes	1,271	870
Income taxes	500	339

Net income	\$ 771	\$ 531
Net income per share:		
Primary	\$ .13	\$ .09
Fully diluted	\$ .13	\$ .09
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>  
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	Three month periods ended	
	March 31, 1997	March 31, 1996
	(In thousands)	
	<C>	<C>
Cash from operations	\$ 3,091	\$ 1,752
Investing activities:		
Proceeds from disposal of property and equipment	106	520
Purchases of property and equipment	(4,967)	(1,705)
Other	(23)	(1)
	4,884	(1,186)
Financing activities:		
Proceeds from long-term debt	4,990	1,479
Payments of long-term debt	(1,842)	(5,995)
Payments of capital lease obligations	(845)	(271)
Proceeds from exercise of stock options	--	413
	2,303	(4,374)
Increase (decrease) in cash and cash equivalents	\$ 510	\$ (3,808)

</TABLE>

See notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)  
March 31, 1997

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 three month period ended March 31, 1997 are not necessarily indicative of the results that may be expected for the year ending December 31, 1997. 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, 1996.

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. See Note 6.

NOTE 3 - INCOME TAXES

For the three month periods ended March 31, 1997 and March 31, 1996, 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.

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

Effective July 1, 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 expenses of \$140,000, an increase in net earnings of \$87,000 and an increase in earnings per share of \$0.01 for the three month period ended March 31, 1997.

NOTE 6 - ADOPTION OF NEW ACCOUNTING RULES

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, Earnings Per Share, which is required to be adopted on December 31, 1997. At that time, the Company will be required to change the method currently used to compute earnings per share and to restate all prior periods. Under the new requirements for calculating primary earnings per share, the dilutive effect of stock options will be excluded. The impact of Statement 128 on the calculation of primary and fully diluted earnings per share for the first quarters ended March 31, 1997 and March 31, 1996 is not expected to be material.

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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>  
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	Three month periods ended	
	March 31, 1997	March 31, 1996
<S>	<C>	<C>
Operating revenue	100.0%	100.0%
Operating expenses:		
Purchased transportation	33.9	33.2
Salaries, wages, and employee benefits	28.5	28.1
Fuel and fuel taxes	6.3	7.5
Operating leases	3.6	3.5
Depreciation and amortization	6.2	7.1
Insurance and claims	6.1	4.9
Other operating expenses	10.7	11.2
	95.3	95.5
Income from operations	4.7	4.5
Other income (expense):		
Interest expense	(1.7)	(2.2)
Other, net	0.1	--
	(1.6)	(2.2)
Income before income taxes	3.1	2.3
Income taxes	1.2	0.9
Net income	1.9%	1.4%

</TABLE>

Results of Operations

Operating revenue increased by \$4.0 million, or 11%, to \$41.0 million in the first quarter of 1997 from \$37.0 million in 1996. The increase in operating revenue is primarily attributable to additional volume from the Company's Forward Air operations, which increased 25% during the first quarter of 1997 compared to the prior-year period.

The operating ratio (operating expenses as a percent of operating revenue) for the three month period ended March 31, 1997 was 95.3% compared to 95.5% for the respective period in 1996. 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.

Insurance and claims were 6.1% of operating revenue for the three month period ended March 31, 1997, compared to 4.9% for the same period in 1996. The increase in costs during 1997 is due primarily to an increase in the frequency and

severity of accidents coupled with increased estimated liability related to claims incurred in prior years.

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.

Interest expense was \$681,000 for the three month period ended March 31, 1997, compared to \$806,000 for the same period in 1996. The decrease in interest costs during 1997 is due to lower average net borrowings in 1997.

The effective tax rate for the first quarter of 1997 was 39% compared to 38% for the same period in 1996.

#### Liquidity and Sources of Capital

Cash flows from operations were \$3.1 million for the first three months of 1997 compared with \$1.8 million in the same period of 1996. The \$1.3 million increase in cash flows from operations was attributable to increased business volumes and collection of accounts receivable 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 the Company's cash needs and anticipated capital expenditures over the near term.

## 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 March 31, 1997.

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## 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: May 14, 1997

By: /s/ Edward W. Cook

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Edward W. Cook  
Chief Financial Officer  
and Senior Vice President

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## EXHIBIT INDEX

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Exhibit  
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10.1 Second Amendment to Line of Credit Loan Agreement and to Amended and Restated Security Agreement, dated as of January 28, 1997, among First Tennessee Bank National Association, the registrant, Landair Transport, Inc., Landair International Airlines, Inc., Transportation Properties, Inc., and Forward Air, Inc.

10.2 \$15,000,000 Restated, Amended and Replacement Promissory Note (Line of Credit), dated as of January 28, 1997, among the registrant, Landair Transport, Inc., Landair International Airlines, Inc., Transportation Properties, Inc., Forward Air, Inc. and First Tennessee Bank National Association

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Exhibit 10.1

SECOND AMENDMENT TO LINE OF CREDIT LOAN AGREEMENT AND  
TO AMENDED AND RESTATED SECURITY AGREEMENT

THIS SECOND AMENDMENT TO LINE OF CREDIT LOAN AGREEMENT AND TO AMENDED AND RESTATED SECURITY AGREEMENT is made and entered into as of the 28th day of January, 1997, by and between FIRST TENNESSEE BANK NATIONAL ASSOCIATION, a national banking association ("Bank"), LANDAIR SERVICES, INC., a Tennessee corporation ("Borrower"), LANDAIR TRANSPORT, INC., a Tennessee corporation which is a wholly owned subsidiary of Borrower ("LTI"), LANDAIR INTERNATIONAL AIRLINES, INC., a Tennessee corporation which is a wholly owned subsidiary of Borrower ("LIA"), TRANSPORTATION PROPERTIES, INC., previously known as "Landair Properties, Inc.," a Tennessee corporation which is a wholly owned subsidiary of Borrower ("LPI"), and FORWARD AIR, INC., a Tennessee corporation which is a wholly owned subsidiary of Borrower ("FAI").

RECITALS

A. Bank and Borrower, LTI, LIA, LPI AND FAI (Borrower, LTI, LIA, LPI and FAI sometimes referred to herein collectively as the "Borrowing Entities") have entered into that certain Line of Credit Loan Agreement dated as of October 17, 1994, providing for a loan in the amount of Five Million Five Hundred Thousand Dollars (\$5,500,000.00) (the "Original Loan"), to fund operating expenses and to cover any advances under letters of credit issued for the benefit of creditors of the Borrowing Entities, and relating to Inventory and other property of the Borrowing Entities (the "Original Loan Agreement").

B. Bank made the Original Loan to Borrower pursuant to various loan documents, among them a promissory note dated as of October 17, 1994, in the original principal amount of Five Million Five Hundred Thousand Dollars (\$5,500,000.00) (the "Master Draw Note"), an amended and restated security agreement securing the obligations of the Borrowing Entities with respect to the Original Loan dated as of October 17, 1994, under which a security interest was and is granted in the Collateral (the "Original Security Agreement"), and the Original Loan Agreement.

C. Bank and the Borrowing Entities extended the maturity date set forth in the Master Draw Note, increased the principal indebtedness which was able to be drawn with respect to the aforesaid line of credit facility, and modified other terms and provisions set forth in the Master Draw Note, in the Original Loan Agreement and in the Original Security Agreement, by instruments dated as of May 31, 1995. Such modifications to the Master Draw Note and the outstanding indebtedness evidenced thereby were, as of May 31, 1995, set forth in and evidenced by that certain Restated, Amended and Replacement Promissory Note (the "Initial Replacement Note") dated as of May 31, 1995, executed by Borrower, payable to the order of Bank, and in the original principal amount of Fifteen Million Dollars (\$15,000,000.00) (the "Amended Loan"). Such modifications to the Original Loan Agreement and to the Original Security Agreement were set forth in that certain First Amendment to Line of Credit Loan Agreement and to Amended and Restated Security Agreement (the "First Amendment") dated as of May 31, 1995, executed by the Borrowing Entities and Bank.

D. Bank and the Borrowing Entities have agreed to extend the maturity date set forth in the Initial Replacement Note and to modify other terms and provisions set forth in the Initial Replacement Note and in the Original Loan Agreement and the Original Security Agreement, as amended by the First Amendment. Such modifications to the Initial Replacement Note are set forth in and evidenced by that certain Restated, Amended and Replacement Promissory Note (the "Second Replacement Note") of even date herewith executed by the Borrowing Entities, payable to the order

of Bank, and in the original principal amount of Fifteen Million Dollars (\$15,000,000.00) (the "New Loan").

E. Bank and the Borrowing Entities desire (i) that the prompt and

punctual payment of the Initial Replacement Note, as amended, restated and replaced by the Second Replacement Note, be secured by the Original Loan Agreement and the Original Security Agreement, as amended by the First Amendment, in accordance with the terms thereof and hereof, and (ii) to modify certain other provisions of the Original Loan Agreement and of the Original Security Agreement, as amended by the First Amendment, as set forth herein.

F. The Initial Replacement Note, as amended, restated and replaced by the Second Replacement Note, the Original Loan Agreement and the Original Security Agreement, as amended by the First Amendment, the First Amendment, this instrument, the Guaranties and all other instruments executed in connection with the Original Loan, the Amended Loan and the New Loan are herein sometimes referred to collectively as the "Loan Documents."

## TERMS AND CONDITIONS

NOW, THEREFORE, in consideration of the foregoing and of the agreements set out in this instrument, and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows.

1. The foregoing RECITALS are agreed to by the parties and incorporated by reference herein.

2. The Borrowing Entities have made and delivered the Second Replacement Note to Bank, and Bank has accepted the same in accordance with the provisions hereof and of the other Loan Documents.

3. The Loan Documents are hereby amended to include the following:

(a) The "Commitment Fee" as described and defined in the first sentence in the third full paragraph on page 1 of the Original Loan Agreement, as amended by the First Amendment, shall continue to refer to the commitment fee outlined in the commitment letter for the Amended Loan dated May 25, 1995, with respect to future advances under the Second Replacement Note.

(b) The "Committed Line Amount" as described and defined on page 1 of the Original Loan Agreement, as amended by the First Amendment, shall now refer to the New Loan amount.

(c) The "Draw Certificates" form attached as Exhibit D to the Original Loan Agreement, as amended by the First Amendment, is replaced with the form attached hereto as Exhibit A.

(d) The "Equipment Note" and the "Master Draw Note" as described and defined in Sections 1.15 and 1.26 of the Original Loan Agreement, as amended by the First Amendment, shall continue to refer to the promissory note of Borrower dated May 31, 1995, a copy of which is attached hereto as Exhibit B. Similarly, the term "Committed Equipment Loan Amount" in Section 1.26 of the Original Loan Agreement, as amended by the First Amendment, shall continue to refer to the principal amount of Fifteen Million Dollars (\$15,000,000.00).

(e) The "Guaranties" as described and defined in Section 1.18 of the Original Loan Agreement and in Recital V of the Original Security Agreement, as amended by the First Amendment, shall continue to refer to those guaranty agreements dated May 31, 1995, copies of which were attached as collective Exhibit C to the First Amendment, which shall remain in full force and effect, it being understood and agreed, however, that the primary obligations

of the guarantors under said Exhibit C agreements with respect to the New Loan are as makers of the Second Replacement Note. All obligations of each Borrowing Entity as a "guarantor" under any Guaranty shall include all obligations of each and every Borrowing Entity under the Equipment Note, the Line Note and all documents relating thereto (including this Amendment).

(f) The "Line Note" as described and defined in Section 1.23 of the Original Loan Agreement and which is described and defined as the "Note in Recital II of the Original Security Agreement, as amended by the First Amendment, shall now refer to the promissory note of the Borrowing Entities of even date herewith attached hereto as Exhibit C, which evidences the New Loan.

(g) The "Loan Agreement" as described and defined in Section 1.25 of the Original Loan Agreement and in Recital I of the Original Security Agreement, as amended by the First Amendment, shall now refer to the Original Loan Agreement, as amended by the First Amendment and as further amended by this instrument.

(h) The "Loan" as described and defined in Recital I of the Original Security Agreement, as amended by the First Amendment, shall now refer to the New Loan.

(i) The "Security Agreement" as described and defined in Section 1.35 of the Original Loan Agreement, as amended by the First Amendment, shall now refer to the Original Security Agreement, as amended by the First Amendment and as further amended by this instrument.

(j) The "Stated Interest Rate" as described and defined in Section 2.3(a) of the Original Loan Agreement, as amended by the First Amendment, shall continue to refer to the lesser of the (1) Maximum Rate, or (2) a rate equal to (i) one percent (1.0%) per annum, less than (ii) the Base Rate established from time to time by the Bank, to be applicable to interest charges for the period of time commencing on May 11, 1995, until the Termination Date.

(k) The "Termination Date" as described and defined in Section 1.36 of the Original Loan Agreement, as amended by the First Amendment, shall now refer to May 31, 1998, unless such date is extended pursuant to the provisions of Section 9.12 of the Original Loan Agreement, as amended by the First Amendment, in which event such extended date shall be the Termination Date.

(l) The date "December 25, 1993" found in Sections 5.3(a) and 5.3(b) of the Original Loan Agreement, as amended by the First Amendment, is hereby changed to "December 31, 1996," and Borrower, LTI, LIA, LPI and FAI hereby confirm and ratify the truth and accuracy of the representations and warranties made by them in said Sections 5.3(a) and 5.3(b), as amended by the First Amendment, with such change.

(m) The list of actions, suits and proceedings described in Section 5.5 of the Original Loan Agreement and listed on Exhibit J to the Original Loan Agreement, as amended by the First Amendment, is hereby supplemented and replaced by Exhibit D attached hereto, and Borrower, LTI, LIA, LPI and FAI hereby confirm and ratify the representations and warranties made by them in said Section 5.5, as amended by the First Amendment, with such change.

(n) The amount "Twenty-Nine Million Dollars (\$29,000,000.00)" found in Section 6.8 of the Original Loan Agreement, as amended to "Thirty-One Million Dollars (\$31,000,000.00)" in the First Amendment, is hereby changed to "Forty Million Dollars (\$40,000,000.00) until fiscal year end 1997 for the Borrower," and to a potentially higher (but not lower) number equal to "Forty Million Dollars (\$40,000,000.00) plus seventy-five percent (75%) of after-tax profit in each fiscal year of Borrower thereafter until payment in full of the principal of and interest on the Borrower Loans," and Borrower, LTI, LIA, LPI

and FAI hereby confirm and ratify the truth and accuracy of the representations and warranties made by them in said Section 6.8 with such changes.

(o) The amount "Five Hundred Thousand Dollars (\$500,000.00)" found in Section 6.9 of the Original Loan Agreement is hereby changed to "Two Million Five Hundred Thousand Dollars (\$2,500,000.00)," and Borrower, LTI, LIA, LPI and FAI hereby confirm and ratify the truth and accuracy of the

representations and warranties made by them in said Section 6.9 with such change.

(p) Section 6.10 of the Original Loan Agreement, as amended by the First Amendment, remains as is, and Borrower, LTI, LIA, LPI and FAI hereby covenant and agree that each of them will, from the date hereof until payment in full of the principal of and interest on the Borrower Loans, maintain the debt-to-equity ratio set forth in the First Amendment and otherwise satisfy their covenants as set forth on Exhibit F to the First Amendment.

(q) Section 6.11 of the Original Loan Agreement remains as is, and Borrower, LTI, LIA, LPI and FAI hereby covenant and agree that each of them will, from the date hereof until payment in full of the principal of and interest on the Borrower Loans, maintain the cash flow coverage ratio set forth in said Section 6.11 of the Original Loan Agreement.

4. The Borrowing Entities each represent and warrant to Bank that the RECITALS set forth above are true and correct in all material respects and all representations and warranties to Bank given by any of them in any one or more of the Loan Documents are true and correct as of the date hereof. Similarly, Borrower, LTI, LIA, LPI and FAI hereby covenant and agree to fulfill all of their obligations and agreements made in the Loan Documents. Each Borrowing Entity agrees to pay directly, or reimburse Bank for, all reasonable expenses, including the reasonable fees and expenses of legal counsel, incurred in connection with the enforcement of any one or more of the Loan Documents and the collection of any amounts owing by any of the Borrowing Entities with respect thereto.

5. Notwithstanding any provisions of the Loan Documents or any prior understanding or agreement of or by any one or more of the Borrowing Entities with Bank, as of the date of execution hereof, (a) the obligations of any one or more of the Borrowing Entities under any one or more of the Loan Documents, including the Guaranties, are intended to be secured by all the assets of each of the Borrowing Entities now or hereafter owned by any one or more of the Borrowing Entities and which assets are subject to the granting of a security interest under the laws of the State of Tennessee or any other state where any of the assets of any one or more of the Borrowing Entities may from time to time be located and the federal laws of the United States of America (the "Pledged Assets"), and in furtherance of the foregoing, each of the Borrowing Entities hereby pledges and grants a security interest in all right, title and interest of each of the Borrowing Entities in the Pledged Assets to and in favor of Bank, and (b) each of the Borrowing Entities hereby jointly and severally, agrees to pay and perform each and every obligation of payment and/or performance of any other Borrowing Entity under any one or more of the Loan Documents.

6. The parties acknowledge that the six (6) year statute of limitations provided by Tennessee Code Annotated Section 28-3-109, the ten (10) year statute of limitations provided by Tennessee Code Annotated Section 28-2-111, or any other applicable statute of limitations shall now run from May 31, 1998, and not from any previous maturity date of the Original Loan or of the Amended Loan.

7. Except as specifically modified hereby, the Loan Documents shall remain in full force and effect, and the same are hereby ratified and confirmed by the Borrowing Entities in all respects. In the events of any conflict between any provisions of any one or more of the Loan Documents, the provisions most

favorable to Bank shall apply. This instrument is not intended to, and will not, effect a novation of the indebtedness evidenced by the Initial Replacement Note outstanding as of the date the Initial Replacement Note was amended, restated and replaced by the Second Replacement Note, nor are the liens of the security interests granted under the Original Security Agreement, as amended by the First Amendment, intended to be released, altered, or changed in any manner except as specifically stated herein. All capitalized terms not otherwise defined herein shall have the same meanings as set forth in the Original Loan Agreement, as amended by the First Amendment.

8. As an inducement to Bank to make the New Loan, (a) the Borrowing Entities shall deliver, or cause to be delivered, to Bank the following: (i) certified resolutions of the board of directors of each of the Borrowing Entities authorizing this Amendment and the other New Loan documents; (ii) an opinion of counsel and such other documentation, if any, as may be reasonably requested by Bank to satisfy Bank that this Amendment and the other New Loan documents have been duly authorized, executed and delivered on behalf of each Borrowing Entity, and constitutes the valid and binding obligation of each of the Borrowing Entities; (iii) appropriate UCC-1 or UCC-3 Financing Statements as necessary to accomplish the purposes of this Amendment; and (iv) UCC-11 lien searches as may be required by Bank evidencing no liens or encumbrances on any of the Pledged Assets of any of the Borrowing Entities except liens granted pursuant to the Borrower Loans, and liens or encumbrances, if any, approved by Bank; (b) the Borrowing Entities shall pay directly or reimburse Bank for all fees and expenses, including, but not limited to, any and all filing fees, recording fees, and reasonable expenses and fees of legal counsel, incurred in connection with the preparation and enforcement of this Amendment and other New Loan documents; and (c) each Borrowing Entity shall execute and deliver to Bank all further documents and perform all other acts which Bank reasonably shall deem necessary or appropriate to perfect or protect the lien and security interests granted pursuant to the Borrower Loans.

[Signatures on Next Page]

IN WITNESS WHEREOF, this Second Amendment to Line of Credit Loan Agreement and to Amended and Restated Security Agreement has been entered into by the parties hereto as of the day and year first above written.

"BANK"

"BORROWER"

FIRST TENNESSEE BANK NATIONAL  
ASSOCIATION

LANDAIR SERVICES, INC.

By: /s/ Larry Estepp

By: /s/ Scott M. Niswonger

-----  
Larry Estepp,  
Regional President

-----  
Scott M. Niswonger,  
President

"LTI"

LANDAIR TRANSPORT, INC.

By: /s/ Bruce A. Campbell

-----  
Bruce A. Campbell,  
President

"LIA"

LANDAIR INTERNATIONAL  
AIRLINES, INC.

By: /s/ Bruce A. Campbell

-----  
Bruce A. Campbell,  
President

"LPI"

TRANSPORTATION PROPERTIES,  
INC. previously known as  
Landair Properties, Inc.

By: /s/ Bruce A. Campbell

-----  
Bruce A. Campbell,  
President

"FAI"

FORWARD AIR, INC.

By: /s/ Bruce A. Campbell

-----  
Bruce A. Campbell,  
President

Exhibit 10.2

RESTATED, AMENDED AND REPLACEMENT  
PROMISSORY NOTE  
(LINE OF CREDIT)

\$15,000,000.00

Greeneville, Tennessee  
As of January 28, 1997

FOR VALUE RECEIVED, the undersigned, each a Tennessee corporation, jointly and severally promise to pay to the order of FIRST TENNESSEE BANK NATIONAL ASSOCIATION, a national banking association having offices for the conduct of business in Greene County, Tennessee (the "Bank") at its place of business in Greeneville, Tennessee, with the mailing address of "206 North Main Street, Greeneville, TN 37745, ATTN: Larry Estep," or at such other place as the holder hereof may designate in writing, in current local funds, the sum of Fifteen Million Dollars (\$15,000,000.00), or so much thereof as may be advanced by the Bank in accordance with the terms and provisions of the Credit Agreement, plus interest thereon or on so much as shall remain outstanding from time to time, as set out below. This Note is referred to as the "Line Note" in the Credit Agreement.

This Note is made in replacement of a Fifteen Million Dollar (\$15,000,000.00) restated, amended and replacement promissory note made as of May 31, 1995, by the undersigned Landair Services, Inc. and guaranteed by the other undersigned makers, payable to the order of the Bank, the outstanding principal amount of which is Eight Million Eight Hundred Forty-Two Thousand One Hundred Fifty-Five Dollars and Eighty-One Cents (\$8,842,155.81) as of this day (the "Original Principal"). Accordingly, the amount of principal available to be drawn or further reserved under this Note in accordance with the provisions of the Credit Agreement is Six Million One Hundred Fifty-Seven Thousand Eight Hundred Forty-Four Dollars and Nineteen Cents (\$6,157,844.19) as of this day. The Original Principal includes the face amount of irrevocable letters of credit issued by the Bank for the account and benefit of the undersigned in the aggregate amount of Four Million Five Hundred Forty-Five Thousand One Hundred Ninety Dollars (\$4,545,190.00).

**INTEREST ACCRUAL:** Except during any period during which a default interest rate shall be applicable as described below, interest shall accrue at the variable rate per annum ("Variable Rate") equal to the base commercial rate of interest established from time to time by the Bank ("Base Rate") minus one percent (1.0%) per annum with respect to the Original Principal and with respect to all other principal indebtedness advanced by the Bank hereunder. Each change in the Variable Rate that results from a change in the Base Rate shall become effective without notice to the undersigned on the same date that the Base Rate changes. Interest shall be calculated based upon (i) a three hundred sixty-five (365) or three hundred sixty-six (366) day year (as is appropriate) daily interest, times (ii) the actual number of calendar days elapsed.

**INTEREST AND PRINCIPAL PAYMENTS:** The undersigned shall make payments of principal and interest as follows: one single principal payment of the balance due on or before May 31, 1998, plus interest payable beginning February 10, 1997, and continuing on the same day of each successive monthly calendar period, except that the final interest installment shall be payable on the date the principal is due. All unpaid principal and interest evidenced hereby

shall be due and payable on the maturity date hereof, which shall be May 31, 1998.

**SECURITY:** This Note is secured by a lien on accounts receivable and certain other property described in an Amended and Restated Security Agreement dated October 17, 1994, as amended by instruments dated May 31, 1995,

and of even date herewith (collectively, the "Security Agreement") among the Bank and the undersigned, corresponding UCC Financing Statements, and guaranty agreements of certain of the undersigned.

OTHER TERMS AND CONDITIONS: Unless otherwise provided herein, all payments shall be applied first to pay the accrued interest to date on the unpaid balance and next to the unpaid principal of the indebtedness.

All capitalized terms not otherwise defined herein shall have the same meanings as set forth in the Credit Agreement.

Any payment not made when due hereunder (whether by acceleration or otherwise) shall bear interest at the "default rate" which is herein calculated as the lesser of the Bank's Base Rate plus four percent (4.0%) per annum or the maximum effective contract rate of interest which the Bank may lawfully charge on the date such payment became due.

If this Note is placed in the hands of an attorney for collection, by suit or otherwise, or to protect any security given for its payment, or to enforce its collection, the undersigned will pay all the costs of collection and litigation, together with a reasonable attorney's fee, all of which shall be secured by any collateral pledged as security hereof.

The makers and any endorsers or guarantors hereof waive protest, demand, presentment, and notice of dishonor, and agree that this Note may be extended, in whole or in part, without limit as to the number of such extensions, or the period or periods thereof, and without notice to or further assent from them or any other party liable hereon, all of whom will remain bound upon this Note notwithstanding any such extension(s); and further agree that all or any collateral given, now or hereafter, as security herefor may be released (with or without substitution) without notice and without affecting their liability hereon; and that additional makers, endorsers, guarantors, or sureties may become parties hereto and that any present or future party may be released from liability hereunder, without notice, and without affecting the liability of any other maker, endorser, or guarantor.

This Note is issued and executed pursuant to and in connection with a Line of Credit Loan Agreement dated October 17, 1994, as amended by instruments dated May 31, 1995, and of even date herewith among the Bank and the undersigned (collectively, the "Credit Agreement"), and the holder hereof is entitled to the benefits of such Credit Agreement and may disburse loan proceeds and may exercise the remedies and rights provided therein, all in accordance with the terms of the Credit Agreement. In connection with the immediately preceding sentence, this Note evidences a revolving credit loan and, provided that no event of default hereunder as described in the next paragraph hereof exists, the undersigned may borrow, repay and reborrow at any time, and from time to time, as provided in the Credit Agreement.

In the event of any default in the prompt and punctual payment, when due, of this Note (or any installment hereof, whether of principal, interest, or principal and interest), which default continues for ten (10) days after the due date of such payment (provided that no more than two [2] payments in any twelve (12)

month period shall be thus in default for ten [10] days), or if any of the makers or any guarantor hereof should become insolvent (as defined in the Uniform Commercial Code), or if a petition in bankruptcy be filed by or against any of the makers or any guarantor, or if a receiver be appointed for any part of the property or assets of any of the makers or any guarantor, or if any assignment for the benefit of creditors be made by any of the makers or any guarantor, or if a judgment be entered against any of the makers or any guarantor, or upon the issuance of any writ, levy, or process, valid or invalid, which purports to restrict any of the makers or any guarantor with respect to any of its or their funds or property on deposit with or in the possession or custody or under the control of the Bank, or upon the dissolution, either voluntary or involuntary, of any of the makers or any guarantor, or in the event of any default in the prompt and punctual payment when due, of any other



indebtedness or obligation to the Bank owed, now or hereafter, by any of the makers or any guarantor (including, but not limited to, the Master Draw Note), or upon any default in any security agreement, assignment or other security document given, now or hereafter, to secure the indebtedness evidenced hereby, or if any representation or warranty made by any of the undersigned, by any guarantor or any of their officers or shareholders pertaining to this credit shall prove to be false, untrue, or materially misleading, or upon any other default under or described in the Security Agreement, the Credit Agreement or any other document executed in connection herewith or therewith, then and in any of such events, the entire principal and interest of this Note shall, without notice or demand for payment (the same being expressly waived), be and become immediately due and payable for all purposes, at the option of the Bank. Any conflict between the provisions of this paragraph and the provisions of the Credit Agreement concerning notice and cure periods shall be resolved in favor of the provisions of the Credit Agreement.

Upon the occurrence of a default hereunder (as described in the immediately preceding paragraph or otherwise) for which the holder hereof does not accelerate the indebtedness evidenced hereby pursuant to the provisions of the immediately preceding paragraph and for which the applicable default rate(s) of interest set forth above is not being charged, including the failure of the undersigned or any guarantor to provide the financial statements as required under the Credit Agreement, the applicable interest rate set forth herein, for a period beginning three (3) days after written notice of such event of default is provided by the holder hereof to the undersigned and ending upon the curing of said noticed event of default, shall increase one percent (1.0%) for the first thirty (30) days of said event of default and increase an additional one percent (1.0%) during each thirty (30) day period thereafter during which the noticed event of default continues. Such default interest rates (in the immediately preceding sentence) shall apply to the outstanding principal balance of this Note; provided, however, that such interest rate shall not exceed the "default rate" as such phrase is defined on page 2 of this Note. Upon the curing of the noticed event of default, the interest rate hereunder shall revert to the initially agreed upon interest rate, effective on the date on which the event of default is cured.

Any money or other property at any time in the possession of the Bank belonging to any of the makers or any guarantor and any deposits or other sums at any time credited by or due from the Bank to any party liable hereon, may at all times, at the option of the Bank, be held and treated as collateral security for the payment of this Note or any other liability of any of the makers or any guarantor, whether due or not due. The Bank may, at any time upon the occurrence of an event of default hereunder and/or under the Security Agreement, the Credit Agreement or any other document executed in connection herewith or therewith (which continues beyond applicable grace, notice and cure periods), at its option,

and without further notice, set off the amount due or to become due hereon against the claim of any of the makers against the Bank.

Regardless of any provisions contained herein, or in any other document executed in connection herewith, the holder hereof shall never be entitled to receive, collect, or apply as interest hereon, any amount in excess of the maximum contract rate which may be lawfully charged by the holder hereof under applicable law, and in the event the holder hereof ever receives, collects, or applies as interest, any such excess, such amount which would be excessive interest shall be deemed a partial prepayment of principal and treated hereunder as such; and, if the principal hereof is paid in full, any remaining excess shall forthwith be paid to the undersigned. In determining whether or not the interest paid or payable, under any specific contingency, exceeds the maximum lawful contract rate, the undersigned and the holder hereof shall, to the maximum extent permitted by applicable law, (a) characterize any non-principal payment as a reasonable loan charge, rather than as interest; (b) exclude voluntary prepayments and the effects thereof; and (c) amortize, prorate, allocate, and spread, in equal parts, the total amount of interest throughout the entire contemplated term hereof, so that the interest accrued or to accrue

throughout the entire term contemplated hereby shall at no time exceed the maximum lawful contract rate.

This Note may be prepaid, in whole or in part, without premium or penalty. Any such prepayment shall be applied first to interest accrued on the outstanding principal balance and currently due and payable, and the remainder, if any, shall be applied to reduce the outstanding principal balance of this Note. Any such partial prepayment shall not have the effect of suspending or deferring the payments herein provided for, but the same shall continue to be due and payable on each due date subsequent to such prepayment.

THE UNDERSIGNED HEREBY EXPRESSLY WAIVE ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (a) ARISING HEREUNDER OR UNDER THE CREDIT AGREEMENT, THE SECURITY AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith, OR (b) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO THIS NOTE, THE CREDIT AGREEMENT, THE SECURITY AGREEMENT, OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith, OR THE TRANSACTIONS RELATED HERETO OR THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING; AND THE UNDERSIGNED HEREBY AGREE AND CONSENT THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THE CREDIT AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS PARAGRAPH WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE UNDERSIGNED TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

This Note is to be governed by and interpreted in accordance with the laws of the State of Tennessee, except to the extent that greater rights and/or privileges are granted to the holder hereof under federal law, in which case federal laws shall control.

[Signatures on Next Page]

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LANDAIR SERVICES, INC.

By: /s/ Scott M. Niswonger

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Scott M. Niswonger,  
President

ATTEST:

/s/ Valera L. Doherty

LANDAIR TRANSPORT, INC.

By: /s/ Bruce A. Campbell

-----  
Bruce A. Campbell,  
President

ATTEST:

/s/ Valera L. Doherty

LANDAIR INTERNATIONAL AIRLINES,  
INC.

By: /s/ Bruce A. Campbell

-----  
Bruce A. Campbell,  
President

ATTEST:

/s/ Valera L. Doherty

TRANSPORTATION PROPERTIES, INC.  
previously known as "Landair  
Properties, Inc.

By: /s/ Bruce A. Campbell

-----  
Bruce A. Campbell,  
President

ATTEST:

/s/ Valera L. Doherty

FORWARD AIR, INC.

By: /s/ Bruce A. Campbell

-----  
Bruce A. Campbell,  
President

ATTEST:

/s/ Valera L. Doherty

Exhibit 11

STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS

<TABLE>  
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	Three month periods ended	
	March 31, 1997	March 31, 1996
	(In thousands, except per share data)	
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Primary:		
Average outstanding shares	5,953	5,880
Net effect of dilutive stock options - based on the treasury stock method using the average market price	102	157
Totals	6,055	6,037
Net income	\$ 771	\$ 531
Per share amount	\$ .13	\$ .09
Fully diluted:		
Average shares outstanding	5,953	5,880
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	112	163
Totals	6,065	6,043
Net income	\$ 771	\$ 531
Per share amount	\$ .13	\$ .09

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF LANDAIR SERVICES, INC. FOR THE THREE MONTHS ENDED MARCH 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

<CURRENCY> U.S. DOLLARS

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