

LANDAIR CORP
Form 10-Q
November 01, 2002

Table of Contents

**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, 2002
Commission File No. 000-24615

LANDAIR CORPORATION

(Exact name of registrant as specified in its charter)

Tennessee
(State or other jurisdiction of
incorporation or organization)

62-1743549
(I.R.S. Employer Identification No.)

430 Airport Road
Greeneville, Tennessee
(Address of principal executive offices)

37745
(Zip Code)

Registrant's telephone number, including area code: **(423) 783-1300**

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 NO

The number of shares outstanding of the registrant's common stock, \$.01 par value, as of October 25, 2002 was 7,313,193.

TABLE OF CONTENTS

Part I. Financial Information

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets

Condensed Consolidated Statements of Income

Condensed Consolidated Statements of Cash Flows

Notes to Condensed Consolidated Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosure of Market Risk

Item 4. Controls and Procedures

Part II. Other Information

Item 1. Legal Proceedings

Item 2. Changes in Securities and Use of Proceeds

Item 3. Defaults Upon Senior Securities

Item 4. Submission of Matters to a Vote of Security Holders

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

Signatures

Table of Contents**Table of Contents****Landair Corporation**

	Page Number
Part I. Financial Information	
Item 1. Financial Statements (Unaudited)	
Condensed Consolidated Balance Sheets - September 30, 2002 and December 31, 2001	3
Condensed Consolidated Statements of Income - Three and nine months ended September 30, 2002 and 2001	4
Condensed Consolidated Statements of Cash Flows - Nine months ended September 30, 2002 and 2001	5
Notes to Condensed Consolidated Financial Statements - September 30, 2002	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3. Quantitative and Qualitative Disclosure of Market Risk	16
Item 4. Controls and Procedures	17
Part II. Other Information	
Item 1. Legal Proceedings	18
Item 2. Changes in Securities and Use of Proceeds	18
Item 3. Defaults Upon Senior Securities	18
Item 4. Submission of Matters to a Vote of Security Holders	18
Item 5. Other Information	18
Item 6. Exhibits and Reports on Form 8-K	19
Signatures	20

Table of Contents**Part I. Financial Information****Item 1. Financial Statements (Unaudited)**

Landair Corporation

Condensed Consolidated Balance Sheets

	September 30, 2002	December 31, 2001
	(Unaudited)	(Note 1)
(In thousands, except share data)		
Assets		
Current assets:		
Cash and cash equivalents	\$ 6	\$ 6
Trade accounts receivable, less allowance of \$267 in 2002 and \$317 in 2001	7,082	6,713
Other current assets	6,421	3,940
	<u>13,509</u>	<u>10,659</u>
Total current assets	13,509	10,659
Property and equipment	82,221	80,650
Less accumulated depreciation and amortization	29,842	26,578
	<u>52,379</u>	<u>54,072</u>
Other assets	3	34
Total assets	<u>\$ 65,891</u>	<u>\$ 64,765</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,020	\$ 1,835
Accrued expenses	6,967	7,673
Current portion of long-term debt	262	242
	<u>9,249</u>	<u>9,750</u>
Total current liabilities	9,249	9,750
Long-term debt, less current portion	2,984	5,885
Deferred income taxes	14,862	13,565
Shareholders' equity:		
Preferred stock		
Common stock, \$0.01 par value:		
Authorized shares - 45,000,000		
Issued and outstanding shares - 7,316,159 in 2002 and 7,292,465 in 2001	73	73
Additional paid-in capital	37,042	37,856
Retained earnings (deficit)	1,681	(2,364)
	<u>38,796</u>	<u>35,565</u>
Total shareholders' equity	38,796	35,565
Total liabilities and shareholders' equity	<u>\$ 65,891</u>	<u>\$ 64,765</u>

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

Table of Contents

Landair Corporation

Condensed Consolidated Statements of Income
(Unaudited)

	Three months ended		Nine months ended	
	September 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001
	(In thousands, except per share data)			
Operating revenue	\$25,494	\$25,825	\$77,522	\$81,883
Operating expenses:				
Salaries, wages and employee benefits	8,391	8,718	25,143	27,529
Purchased transportation	6,054	5,883	18,616	20,271
Fuel and fuel taxes	2,723	2,761	8,112	8,661
Depreciation and amortization	2,334	2,286	7,101	7,072
Insurance and claims	645	487	2,654	2,028
Operating leases	345	501	1,223	1,353
Other operating expenses	2,922	2,326	8,509	7,593
	<u>23,414</u>	<u>22,962</u>	<u>71,358</u>	<u>74,507</u>
Income from operations	2,080	2,863	6,164	7,376
Other income (expense):				
Interest expense	(27)	(244)	(88)	(1,046)
Other, net	121	110	448	270
	<u>94</u>	<u>(134)</u>	<u>360</u>	<u>(776)</u>
Income before income taxes	2,174	2,729	6,524	6,600
Income taxes	826	1,091	2,479	2,634
Net income	<u>\$ 1,348</u>	<u>\$ 1,638</u>	<u>\$ 4,045</u>	<u>\$ 3,966</u>
Income per share:				
Basic	<u>\$ 0.18</u>	<u>\$ 0.23</u>	<u>\$ 0.55</u>	<u>\$ 0.55</u>
Diluted	<u>\$ 0.18</u>	<u>\$ 0.22</u>	<u>\$ 0.53</u>	<u>\$ 0.54</u>

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

Table of Contents

Landair Corporation

Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine months ended	
	September 30, 2002	September 30, 2001
(In thousands)		
Cash provided by operations:		
Net income	\$ 4,045	\$ 3,966
Loss on disposal	7	22
Depreciation and amortization	7,101	7,072
Changes in operating assets and liabilities:		
Accounts receivable	(369)	2,150
Other receivables	(1,917)	264
Inventories	185	345
Other assets	31	
Prepaid expenses	(749)	(630)
Accounts payable and accrued expenses	(353)	(1,863)
Income taxes	1,129	3,242
Net cash provided by operations	9,110	14,568
Investing activities:		
Proceeds from disposal of property and equipment	4,944	2,302
Purchases of property and equipment	(10,359)	(86)
Net cash (used in) provided by investing activities	(5,415)	2,216
Financing activities:		
Payments of long-term debt	(2,881)	(16,459)
Repurchase of common stock	(1,308)	(514)
Common stock issued under employee stock purchase plan	54	28
Proceeds from exercise of stock options	440	159
Cash used in financing activities	(3,695)	(16,786)
Decrease in cash and cash equivalents	\$	\$ (2)
Cash and cash equivalents at beginning of period	\$ 6	\$ 9
Cash and cash equivalents at end of period	\$ 6	\$ 7

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

Table of Contents

Landair Corporation

Notes to Condensed Consolidated Financial Statements
(Unaudited)
September 30, 2002

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States 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 accounting principles generally accepted in the United States 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, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. For further information, refer to the consolidated financial statements and footnotes thereto included in the Landair Corporation Annual Report on Form 10-K for the year ended December 31, 2001.

The balance sheet at December 31, 2001 has been derived from the audited financial statements at that date, but does not include all of the financial information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

2. Comprehensive Income

The Company had no items of other comprehensive income in 2002 or 2001 and, accordingly, comprehensive income is equivalent to net income.

3. Reclassifications

Certain reclassifications have been made to prior year financial statements to conform to the 2002 presentation. These reclassifications had no effect on net income as previously reported.

4. Income Per Share

On August 15, 2002, the Company announced that its Board of Directors approved a three-for-two split of the common shares which was distributed on September 9, 2002 to shareholders of record as of August 30, 2002. 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.

Table of Contents

Landair Corporation

Notes to Condensed Consolidated Financial Statements (continued)

4. Income Per Share (continued)

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

	Three months ended		Nine months ended	
	September 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001
Numerator:				
Numerator for basic and diluted earnings per share net income	\$ 1,348	\$ 1,638	\$ 4,045	\$ 3,966
Denominator:				
Denominator for basic earnings per share weighted-average shares	7,386	7,248	7,408	7,259
Effect of dilutive stock options	198	164	188	136
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Denominator for diluted earnings per share adjusted weighted-average shares	7,584	7,412	7,596	7,395
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Basic earnings per share	\$ 0.18	\$ 0.23	\$ 0.55	\$ 0.55
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Diluted earnings per share	\$ 0.18	\$ 0.22	\$ 0.53	\$ 0.54
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

5. Income Taxes

For the nine months ended September 30, 2002 and 2001, the effective income tax rate varied from the statutory federal income tax rate of 34% primarily as a result of the effect of state income taxes, net of the federal benefit, and permanent differences.

6. Commitments and Contingencies

The primary claims in the Company's business are workers' compensation, property damage, auto liability and medical benefits. Most of the Company's insurance coverage provides for self-insurance levels with primary and excess coverage which management believes is sufficient to adequately protect the Company from catastrophic claims. In the opinion of management, adequate provision has been made for all incurred claims up to the self-insured limits, including provision for estimated claims incurred but not reported.

The Company estimates its self-insurance loss exposure by evaluating the merits and circumstances surrounding individual known claims, and by performing hindsight analysis to determine an estimate of probable losses on claims incurred but not reported. Such losses could be realized immediately as the events underlying the claims have already occurred as of the balance sheet dates.

Table of Contents

Landair Corporation

Notes to Condensed Consolidated Financial Statements (continued)

6. Commitments and Contingencies (continued)

Because of the uncertainty of the ultimate resolution of outstanding claims, as well as uncertainty regarding claims incurred but not reported, it is possible that management's provision for these losses could change materially in the near term. However, no estimate can currently be made of the range of additional loss that is at least reasonably possible.

7. Impact of Recently Issued Accounting Standards

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*, effective for business combinations occurring on or after July 1, 2001, and SFAS No. 142, *Goodwill and Other Intangible Assets*, effective for fiscal years beginning after December 15, 2001. Under the new rules in SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests in accordance with the Statement. Other intangible assets will continue to be amortized over their useful lives.

The Company applied the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the nonamortization provisions of the Statement had no effect on net income upon adoption.

SFAS No. 143, *Accounting for Asset Retirement Obligations*, issued in August 2001, addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and for the associated retirement costs. SFAS No. 143, which applies to all entities that have a legal obligation associated with the retirement of tangible long-lived assets, is effective for fiscal years beginning after June 15, 2001. The adoption of SFAS No. 143 did not have a material impact on the Company's financial condition or results of operations.

SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, issued in October 2001, addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144, which applies to all entities, is effective for fiscal years beginning after December 15, 2001. The adoption of SFAS No. 144 did not have a material impact on the Company's financial condition or results of operations.

SFAS No. 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections*, issued in April 2002, among other things, rescinds SFAS No. 4, which required all gains and losses from the extinguishment of debt to be classified as an extraordinary item and amends SFAS No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. SFAS No. 145 is effective for fiscal year beginning after May 15, 2002.

Table of Contents

Landair Corporation

Notes to Condensed Consolidated Financial Statements (continued)

7. Impact of Recently Issued Accounting Standards (continued)

SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, issued in June 2002, requires that a liability for the cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS No. 146 also established that fair value is the objective for initial measurement of the liability. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002.

8. Subsequent Event

On October 11, 2002, the Company received a buy-out proposal from Scott M. Niswonger, the Company's Chairman of the Board and Chief Executive Officer, and John A Tweed, the Company's President and Chief Operating Officer. Under the proposal, Messrs. Niswonger and Tweed would acquire all of the outstanding shares of common stock of the Company not already owned by them for \$13.00 per share payable in cash.

On October 14, 2002, a Special Committee of the Company's Board of Directors composed of independent directors was formed to evaluate the proposal. The Special Committee expects to obtain a financial advisor to consider the fairness of the transaction from a financial perspective. The transaction is contingent upon Messrs. Niswonger and Tweed arranging suitable financing. No assurance can be given as to whether any transaction will occur or as to the timing or terms of the transaction.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations***Results of Operations*

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

	Three months ended		Nine months ended	
	September 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001
Operating revenue	100.0%	100.0%	100.0%	100.0%
Operating expenses:				
Salaries, wages and employee benefits	32.9	33.7	32.4	33.6
Purchased transportation	23.7	22.8	24.0	24.8
Fuel and fuel taxes	10.7	10.7	10.5	10.6
Depreciation and amortization	9.1	8.9	9.2	8.6
Insurance and claims	2.5	1.9	3.4	2.4
Operating leases	1.4	1.9	1.6	1.7
Other operating expenses	11.5	9.0	10.9	9.3
	<u>91.8</u>	<u>88.9</u>	<u>92.0</u>	<u>91.0</u>
Income from operations	8.2	11.1	8.0	9.0
Other income (expense):				
Interest expense	(0.1)	(0.9)	(0.1)	(1.3)
Other, net	0.4	0.4	0.5	0.3
	<u>0.3</u>	<u>(0.5)</u>	<u>0.4</u>	<u>(1.0)</u>
Income before income taxes	8.5	10.6	8.4	8.0
Income taxes	3.2	4.2	3.2	3.2
Net income	<u>5.3%</u>	<u>6.4%</u>	<u>5.2%</u>	<u>4.8%</u>

Three Months Ended September 30, 2002 Compared to Three Months Ended September 30, 2001

Operating revenue decreased by \$331,000, or 1.3%, to \$25.5 million in the third quarter of 2002 from \$25.8 million in 2001. This decrease was the result of a decrease in the Company's overall revenue rate per mile in the third quarter of 2002 compared to the same quarter in 2001, partially offset by higher equipment utilization. The Company's overall revenue rate per mile was \$1.23 in the third quarter of 2001 compared to \$1.22 in the third quarter of 2002. The average revenue per tractor per week increased from \$2,619 in the third quarter of 2001 to \$2,637 in the third quarter of 2002. The average tractors in service, including owner-operators, in both the third quarter of 2002 and 2001 was 720 units.

Table of Contents

The operating ratio (operating expenses as a percentage of operating revenue) was 91.8% for the third quarter of 2002 compared to 88.9% for 2001. The increase in the operating ratio in 2002 was primarily a result of higher insurance and claims and other operating expenses offset partially by lower salaries, wages and benefits, and other factors as discussed below.

Salaries, wages and employee benefits were 32.9% of operating revenue in the third quarter of 2002 compared with 33.7% in 2001. The decrease in salaries, wages and employee benefits as a percentage of operating revenue was attributed to a decrease in the percentage of Company-operated tractors as a percentage of the fleet as a whole including owner-operated tractors. Company-operated tractors represented 71.5% of the fleet in the third quarter of 2002 compared to 75.0% in the third quarter of 2001.

Purchased transportation was 23.7% of operating revenue in the third quarter of 2002 compared to 22.8% in 2001. In the third quarter of 2002, owner-operated tractors averaged approximately 28.5% of the Company's fleet. In the third quarter of 2001, owner-operated tractors averaged approximately 25.0% of the Company's fleet.

Fuel and fuel taxes were 10.7% of operating revenue in the third quarter of 2002 compared to 10.7% in 2001. A decrease in the percentage of Company-operated tractors as a percentage of the fleet as a whole, including owner-operator tractors, was offset by a higher cost of fuel, including fuel and mileage taxes, net of fuel surcharge, on a per mile basis in the third quarter of 2002 compared to the same quarter in 2001.

Depreciation and amortization expense as a percentage of operating revenue was 9.1% in the third quarter of 2002 compared to 8.9% in 2001. Depreciation and amortization expense is a relatively fixed cost and did not fluctuate significantly from the third quarter of 2001 compared to the third quarter of 2002. A lower revenue base in the third quarter of 2002 compared to the third quarter of 2001 increased depreciation and amortization expense in the third quarter of 2002 compared to the same quarter in 2001.

Insurance and claims were 2.5% of operating revenue in the third quarter of 2002 compared to 1.9% in 2001. The increase in insurance and claims expense primarily is a result of an unfavorable loss experience during the third quarter of 2002 compared with 2001 coupled with higher premium costs during the same period.

Operating leases were 1.4% of operating revenue in the third quarter of 2002 compared to 1.9% in 2001. In the third quarter of 2001, the Company had a significant number of trailers outstanding under a short-term rental agreement. These trailers were subsequently returned. Consequently, the Company did not incur these short-term rental charges in the third quarter of 2002.

Other operating expenses, a large component of which relates to equipment maintenance, were 11.5% of operating revenue in the third quarter of 2002 compared with 9.0% in 2001. Equipment maintenance costs increased to 4.5% of operating costs in the third quarter of 2002 from 3.7% of operating costs in the third quarter of 2001. Recruiting costs, which are included in other operating expenses, increased from 0.4% of revenue in the third quarter of 2001 to

Table of Contents

1.0% of revenue in the third quarter of 2002. Also, in the third quarter of 2001, the Company determined that its allowance for doubtful accounts was in excess of the needed amount by approximately \$190,000 and, accordingly, reduced this allowance by a like amount. The reduction in the allowance for doubtful accounts had a positive impact on other operating expenses as a percent of revenue in the third quarter of 2001 of 0.7% of operating revenue.

Interest expense was \$27,000, or 0.1% of operating revenue, in the third quarter of 2002 compared with \$244,000 or 0.9% in 2001. The decrease was a result of lower average net borrowings during 2002 resulting from the Company's repayment of a substantial portion of its long-term debt coupled with lower effective interest rates in the third quarter of 2002 compared to the third quarter of 2001.

The combined federal and state effective tax rate for the third quarter of 2002 was 38.0% compared to 40.0% for 2001.

As a result of the foregoing factors, net income decreased by \$300,000 from \$1.6 million in the third quarter of 2001 to \$1.3 million in the third quarter of 2002.

Nine Months Ended September 30, 2002 Compared to Nine Months Ended September 30, 2001

Operating revenue decreased by \$4.4 million, or 5.3%, to \$77.5 million in the first nine months of 2002 from \$81.9 million in 2001. This decrease was the result of a 7.4% decrease in the average tractors in service, including owner-operators, during the first nine months of 2002 compared with the same period in 2001, partially offset by higher equipment utilization. During the first nine months of 2002 and 2001, the average tractors in service were 726 and 784, respectively. The average revenue per tractor per week increased from \$2,512 in the first nine months of 2001 to \$2,609 in the first nine months of 2002.

The operating ratio (operating expenses as a percentage of operating revenue) was 92.0% for the first nine months of 2002 compared to 91.0% for 2001. The increase in the operating ratio in 2002 was primarily a result of the factors discussed below.

Salaries, wages and employee benefits were 32.4% of operating revenue in the first nine months of 2002 compared to 33.6% in 2001. The decrease in salaries, wages and employee benefits as a percentage of operating revenue resulted from a decrease in the number of non-driver employees the Company employed in the first nine months of 2002 compared to the first nine months of 2001 and lower group health costs during the first nine months of 2002 versus the first nine months of 2001. The Company increased its tractor to non-driver employee ratio from approximately 4.1 to one in the first nine months of 2001 to approximately 4.8 to one in the first nine months of 2002. Group health insurance costs as a percentage of revenue decreased from 2.7% of revenue in the first nine months of 2001 to 1.6% of revenue in the first nine months of 2002. These reductions were partially offset by an increase in the percentage of Company-operated tractors as a percentage of the fleet as a whole including owner-operated tractors. Company-operated tractors represented 72.2% of the fleet in the first nine months of 2002 compared to 70.4% in the first nine months of 2001.

Table of Contents

Purchased transportation was 24.0% of operating revenue in the first nine months of 2002 compared to 24.8% in 2001. The decrease in purchased transportation as a percentage of operating revenue in the first nine months of 2002 was primarily attributable to a decrease in the percentage of owner-operated tractors as a percentage of the Company's overall fleet. In the first nine months of 2002, owner-operated tractors averaged approximately 27.8% of the Company's fleet. In the first nine months of 2001, owner-operated tractors averaged approximately 29.6% of the Company's fleet.

Fuel and fuel taxes were 10.5% of operating revenue in the first nine months of 2002 compared to 10.6% in 2001. The decrease in fuel and fuel taxes as a percentage of operating revenue during the first nine months of 2002 was primarily attributable to a decrease in the average price of fuel, net of fuel surcharge, during the first nine months of 2002 compared to the same period in 2001 and was offset by an increase in the percentage of Company-operated tractors compared to owner-operated tractors as previously discussed. Owner-operators are responsible for purchasing their own fuel.

Depreciation and amortization expense as a percentage of operating revenue was 9.2% in the first nine months of 2002 compared to 8.6% in 2001. The increase in depreciation and amortization as a percentage of operating revenue was attributable to the increase in the percent of Company-operated tractors as a percentage of the Company's overall fleet as previously discussed.

Insurance and claims were 3.4% of operating revenue in the first nine months of 2002 compared with 2.4% in 2001. The increase in insurance and claims expense was primarily a result of an increase in vehicle liability claims during the first nine months of 2002 compared with 2001 coupled with higher insurance premium costs during the 2002 period.

Operating leases were 1.6% of operating revenue in the first nine months of 2002 compared to 1.7% in 2001.

Other operating expenses, a large component of which relates to equipment maintenance, were 10.9% of operating revenue in the first nine months of 2002 compared with 9.3% in 2001. Equipment maintenance costs increased to 4.6% of operating costs in the first nine months of 2002 from 3.6% of operating costs in the first nine months of 2001. Recruiting costs, which are included in other operating expenses, increased from 0.4% of revenue during the first nine months of 2001 to 0.7% of revenue during the first nine months of 2002. The reduction in the allowance for doubtful accounts in the third quarter of 2001, as previously discussed, also had a positive impact on other operating expenses as a percent of revenue in 2001.

Interest expense was \$88,000, or 0.1% of operating revenue, in the first nine months of 2002 compared with \$1.0 million or 1.3% in 2001. The decrease was a result of lower average net borrowings during 2002 resulting from the Company's strategy to repay long-term debt coupled with lower effective interest rates in the first nine months of 2002 compared to the first nine months of 2001.

Table of Contents

The combined federal and state effective tax rate for the first nine months of 2002 was 38.0% compared to 40.0% for 2001.

As a result of the foregoing factors, net income increased by \$79,000 in the first nine months of 2002 compared to the first nine months of 2001.

Liquidity and Sources of Capital

Working capital needs generally have been met with cash flows from operations and borrowings under credit agreements. Net cash provided by operating activities of the Company was \$9.1 million for the first nine months of 2002 compared with \$14.6 million in the same period of 2001.

Net cash used in investing activities was approximately \$5.4 million in the first nine months of 2002 compared with net cash provided by investing activities of approximately \$2.2 million in the same period of 2001. Investing activities consisted primarily of the purchase of revenue equipment, net of proceeds from disposal of revenue equipment, during the first nine months of 2002. Investing activities consisted primarily of the proceeds from the disposal of revenue equipment during the third quarter of 2001.

Net cash used in financing activities was \$3.7 million in the first nine months of 2002 compared with net cash used in financing activities of \$16.8 million in the same period of 2001. Financing activities consisted primarily of the repayment of long-term debt during the first nine months of 2002 and 2001.

The Company has a working capital line of credit facility. Subject to maintenance of financial covenants and ratios, this credit facility permits the Company to borrow up to \$15.0 million under the working capital line of credit. Interest rates for advances under the facility vary based on covenants related to total indebtedness, cash flows, results of operations and other ratios. The facility bears interest at LIBOR plus 0.75% to 1.75% and is secured by accounts receivable and certain revenue equipment. The Company's working capital line of credit expires on April 30, 2004. Availability under the line of credit is reduced by the amount of outstanding letters of credit. Among other restrictions, the terms of the line of credit require maintenance of certain levels of net worth and other financial ratios. As of September 30, 2002, the Company had \$784,000 in outstanding borrowings and \$3.1 million outstanding letters of credit under the working capital line of credit facility. As of September 30, 2002, the Company had \$11.1 million of additional available borrowing capacity under the working capital line of credit.

The Company expects to finance its normal operating requirements and planned revenue equipment purchases through available borrowing capacity under its existing line of credit and cash generated by operations. The availability of debt financing or equity capital will depend upon the Company's financial condition and results of operations as well as prevailing market conditions and other factors over which the Company has little or no control.

Table of Contents

In September 2002, Warehouse Logistics, L.L.C. (Warehouse) informed a Special Committee of the Board of Directors that Warehouse was withdrawing its offer to sell to the Company certain assets of Warehouse consisting primarily of service contracts and leasehold interests for \$8.0 million payable in cash plus assumption of certain liabilities. The Special Committee evaluating the proposed acquisition of Warehouse was created in February 2002 by the Board of Directors. Warehouse is a company owned by Messrs. Niswonger and Tweed, both of whom are officers, directors and shareholders of the Company.

On October 11, 2002, the Company received a buy-out proposal from Scott M. Niswonger, the Company's Chairman of the Board and Chief Executive Officer, and John A Tweed, the Company's President and Chief Operating Officer. Under the proposal, Messrs. Niswonger and Tweed would acquire all of the outstanding shares of common stock of the Company not already owned by them for \$13.00 per share payable in cash.

On October 14, 2002, a Special Committee of the Company's Board of Directors composed of independent directors was formed to evaluate the proposal. The Special Committee expects to obtain a financial advisor to consider the fairness of the transaction from a financial perspective. The transaction is contingent upon Messrs. Niswonger and Tweed arranging suitable financing. No assurance can be given as to whether any transaction will occur or as to the timing or terms of the transaction.

Forward-Looking Statements

This report contains statements with respect to the Company's beliefs and expectations of the outcomes of future events that are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Written forward-looking statements may appear in documents filed with the Securities and Exchange Commission (the 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 in this report. Without limitation, factors that might cause such a difference include economic factors such as recessions, inflation, higher interest rates, downturns in customer business cycles, competition, surplus inventories, loss of a major customer, fuel price increases, the Company's lack of prior operating history as an independent entity, the inability of the Company's information systems to handle increased volume of freight, and the lack of availability of qualified drivers and

Table of Contents

independent owner-operators needed to serve the Company's transportation needs. Forward-looking statements can be identified by words such as expects, anticipates, intends, plans, believes, estimates, projects, and similar expressions. The Company does not undertake any obligation to update or to release publicly any revisions to forward-looking statements contained in this report to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events.

Item 3. Quantitative and Qualitative Disclosure of Market Risk

The Company is exposed to market risk from changes in interest rates and commodity prices. To reduce such risks, the Company from time to time uses forward purchase contracts for fuel. All such forward purchase transactions are authorized by management.

Interest Rates

At September 30, 2002 and 2001, the fair value of the Company's total variable rate debt was estimated to be approximately \$3.2 million and \$4.5 million, respectively, which approximated carrying value based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. At these borrowing levels, a hypothetical 10.0% adverse change in interest rates on the debt would increase interest expense and decrease income before income taxes by a nominal amount in the first nine months of 2002 and 2001. These amounts were determined by considering the impact of the hypothetical interest rate increase on the Company's borrowing cost at the September 30, 2002 and 2001 borrowing levels.

Commodities

The availability and price of fuel are subject to fluctuations from factors such as seasonality, weather, government programs and policies, and changes in global production. To reduce price sensitivity caused by market fluctuations, the Company from time to time enters into forward purchase contracts. At September 30, 2002 and 2001, the Company had no outstanding commitments to purchase fuel.

The above market risk discussion and the estimated amounts presented are forward-looking statements of market risk based on the assumed occurrence of certain adverse market conditions. Actual results in the future may differ materially from those projected as a result of actual developments in the market.

Table of Contents

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Within 90 days of the filing of this report, the principal executive officer and principal financial officer of the Company, under the supervision and with the participation of the Company's management, have evaluated the disclosure controls and procedures of the Company as defined in Exchange Act Rule 13(a)-14(c) and have determined that such controls and procedures are effective.

Changes in Internal Controls

There have been no significant changes (including corrective actions with regard to significant deficiencies or material weaknesses) in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referred to in the paragraph above.

Table of Contents

Part II. Other Information

Item 1. Legal Proceedings

On October 11, 2002, three complaints were filed against the Company and its Board of Directors in the Circuit Court for Greene County, Tennessee by three alleged shareholders of the Company. These actions were brought individually and as putative class actions on behalf of the public shareholders of the Company other than the defendants and any person or entity related to or affiliated with any of the defendants. The complaints generally allege, among other things, that the defendant directors are breaching their fiduciary duties to the Company's shareholders in connection with the buy-out proposal from Messrs. Niswonger and Tweed pursuant to which they would acquire all of the outstanding shares of the Company not already owned by them for \$13.00 per share. The complaints seek, among other things, preliminary and permanent injunctive relief enjoining the Company from proceeding with the buy-out proposal. The Company believes these lawsuits are entirely without merit.

Additionally, 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

Table of Contents

Item 6. Exhibits and Reports on Form 8-K

The following exhibits are included herein:

- (1) Exhibits Not applicable
- (2) Reports on Form 8-K On August 14, 2002, the Company filed a report on Form 8-K with the Commission regarding Section 906 certifications by certain officers. Simultaneously with filing this Form 10-Q, the Company has filed a Form 8-K related to the certification requirements pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).

Table of Contents

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 Corporation

Date: November 1, 2002

By: /s/ Andrew J. Mantey

Andrew J. Mantey
Chief Financial Officer and Senior Vice President

Edgar Filing: LANDAIR CORP - Form 10-Q

Table of Contents

CERTIFICATION PURSUANT TO RULE 13A-14 OR 15D-14 OF THE SECURITIES
EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Scott M. Niswonger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Landair Corporation;
 2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
 3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
 5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
-

Table of Contents

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 1, 2002

By: /s/ Scott M. Niswonger

Scott M. Niswonger
Chairman and
Chief Executive Officer

Edgar Filing: LANDAIR CORP - Form 10-Q

Table of Contents

CERTIFICATION PURSUANT TO RULE 13A-14 OR 15D-14 OF THE SECURITIES
EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Andrew J. Mantey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Landair Corporation;
 2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
 3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
 5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
-

Table of Contents

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 1, 2002

By: /s/ Andrew J. Mantey

Andrew J. Mantey
Chief Financial Officer,
Senior Vice President and
Treasurer