

LANDSTAR SYSTEM INC  
Form 10-Q  
October 29, 2010

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the quarterly period ended September 25, 2010

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number: 0-21238**

**LANDSTAR SYSTEM, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction  
of incorporation or organization)

**06-1313069**

(I.R.S. Employer  
Identification No.)

**13410 Sutton Park Drive South, Jacksonville, Florida**

(Address of principal executive offices)

**32224**

(Zip Code)

**(904) 398-9400**

(Registrant's telephone number, including area code)

**N/A**

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files):

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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The number of shares of the registrant's common stock, par value \$0.01 per share, outstanding as of the close of business on October 17, 2010 was 49,119,836.

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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

The interim consolidated financial statements contained herein reflect all adjustments (all of a normal, recurring nature) which, in the opinion of management, are necessary for a fair statement of the financial condition, results of operations, cash flows and changes in equity for the periods presented. They have been prepared in accordance with Rule 10-01 of Regulation S-X and do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. Operating results for the thirty nine weeks ended September 25, 2010 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 25, 2010.

These interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 2009 Annual Report on Form 10-K.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

(Unaudited)

	<b>September</b>	<b>December</b>
	<b>25,</b>	<b>26,</b>
	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 55,075	\$ 85,719
Short-term investments	24,243	24,325
Trade accounts receivable, less allowance of \$5,973 and \$5,547	320,188	278,854
Other receivables, including advances to independent contractors, less allowance of \$5,042 and \$5,797	22,778	18,149
Deferred income taxes and other current assets	19,303	19,565
Total current assets	441,587	426,612
Operating property, less accumulated depreciation and amortization of \$136,105 and \$124,810	137,101	116,656
Goodwill	57,470	57,470
Other assets	77,482	48,054
Total assets	\$ 713,640	\$ 648,792
<b>LIABILITIES AND EQUITY</b>		
Current liabilities		
Cash overdraft	\$ 22,497	\$ 28,919
Accounts payable	146,707	121,030
Current maturities of long-term debt	23,488	24,585
Insurance claims	33,004	41,627
Other current liabilities	53,392	42,474
Total current liabilities	279,088	258,635
Long-term debt, excluding current maturities	103,643	68,313
Insurance claims	33,111	30,680
Deferred income taxes	21,261	23,013
Equity		
Landstar System, Inc. and subsidiary shareholders' equity		
Common stock, \$0.01 par value, authorized 160,000,000 shares, issued 66,517,400 and 66,255,358 shares	665	663
Additional paid-in capital	167,909	161,261
Retained earnings	822,452	766,040
Cost of 17,397,564 and 16,022,111 shares of common stock in treasury	(715,093)	(660,446)
Accumulated other comprehensive income	1,181	498

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Total Landstar System, Inc. and subsidiary shareholders' equity	277,114	268,016
Noncontrolling interest	(577)	135
Total equity	276,537	268,151
Total liabilities and equity	\$ 713,640	\$ 648,792

See accompanying notes to consolidated financial statements.

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LANDSTAR SYSTEM, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME  
(Dollars in thousands, except per share amounts)  
(Unaudited)

	<b>Thirty Nine Weeks Ended</b>		<b>Thirteen Weeks Ended</b>	
	<b>September 25, 2010</b>	<b>September 26, 2009</b>	<b>September 25, 2010</b>	<b>September 26, 2009</b>
Revenue	\$ 1,812,635	\$ 1,461,081	\$ 622,826	\$ 500,6
Investment income	1,069	954	495	2
Costs and expenses:				
Purchased transportation	1,381,955	1,090,219	474,665	372,3
Commissions to agents	134,695	117,735	47,316	39,4
Other operating costs	21,952	21,749	6,448	6,9
Insurance and claims	37,609	29,056	11,480	10,2
Printing, general and administrative	114,886	99,690	41,070	33,0
Depreciation and amortization	18,444	17,414	6,456	6,2
Total costs and expenses	1,709,541	1,375,863	587,435	468,2
Operating income	104,163	86,172	35,886	32,6
Interest and debt expense	2,699	3,093	1,035	9
Income before income taxes	101,464	83,079	34,851	31,7
Income taxes	38,761	31,466	13,315	11,8
Income	62,703	51,613	21,536	19,8
Losses: Net loss attributable to noncontrolling interest	(712)	(214)	(266)	(2
Income attributable to Landstar System, Inc. and subsidiary	\$ 63,415	\$ 51,827	\$ 21,802	\$ 20,0
Earnings per common share attributable to Landstar System, Inc. and subsidiary	\$ 1.27	\$ 1.01	\$ 0.44	\$ 0.
Adjusted earnings per share attributable to Landstar System, Inc. and subsidiary	\$ 1.27	\$ 1.01	\$ 0.44	\$ 0.
Average number of shares outstanding:				
Earnings per common share	49,921,000	51,325,000	49,434,000	51,069,0
Adjusted earnings per share	49,990,000	51,507,000	49,447,000	51,245,0
Dividends paid per common share	\$ 0.1400	\$ 0.1250	\$ 0.0500	\$ 0.04

See accompanying notes to consolidated financial statements.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Dollars in thousands)  
(Unaudited)

	<b>Thirty Nine Weeks Ended September 25, 2010</b>	<b>September 26, 2009</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 62,703	\$ 51,613
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,444	17,414
Non-cash interest charges	164	164
Provisions for losses on trade and other accounts receivable	3,539	6,364
Losses (gains) on sales/disposals of operating property	570	(96)
Deferred income taxes, net	(1,592)	3,756
Stock-based compensation	3,567	3,747
Changes in operating assets and liabilities:		
Decrease (increase) in trade and other accounts receivable	(49,502)	62,862
Decrease in other assets	323	4,736
Increase (decrease) in accounts payable	25,677	(12,635)
Increase (decrease) in other liabilities	10,582	(9,609)
Decrease in insurance claims	(6,192)	(117)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>68,283</b>	<b>128,199</b>
<b>INVESTING ACTIVITIES</b>		
Net change in other short-term investments	149	26,334
Sales and maturities of investments	31,145	10,032
Purchases of investments	(60,865)	(43,559)
Purchases of operating property	(25,474)	(2,276)
Proceeds from sales of operating property	948	654
Consideration paid for acquisitions		(14,888)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(54,097)</b>	<b>(23,703)</b>
<b>FINANCING ACTIVITIES</b>		
Decrease in cash overdraft	(6,422)	(10,846)
Dividends paid	(7,003)	(6,419)
Proceeds from exercises of stock options	1,527	1,116
Excess tax benefit on stock option exercises	1,556	325
Borrowings on revolving credit facility	40,000	15,000
Purchases of common stock	(54,647)	(31,660)



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Capital contribution for noncontrolling interest		1,375
Principal payments on long-term debt and capital lease obligations	(19,912)	(103,674)
<b>NET CASH USED BY FINANCING ACTIVITIES</b>	<b>(44,901)</b>	<b>(134,783)</b>
Effect of exchange rate changes on cash and cash equivalents	71	373
Decrease in cash and cash equivalents	(30,644)	(29,914)
Cash and cash equivalents at beginning of period	85,719	98,904
Cash and cash equivalents at end of period	\$ 55,075	\$ 68,990

See accompanying notes to consolidated financial statements.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
Thirty Nine Weeks Ended September 25, 2010  
(Dollars in thousands)  
(Unaudited)

**Landstar System, Inc. and Subsidiary Shareholders**

	<b>Common Stock</b>		<b>Additional Paid-In Capital</b>	<b>Retained Earnings</b>	<b>Treasury Stock at Cost</b>		<b>Accumulated Other Comprehensive Income</b>	<b>Non- controlling Interest</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>			<b>Shares</b>	<b>Amount</b>			
Balance December 26, 2009	66,255,358	\$663	\$161,261	\$766,040	16,022,111	\$(660,446)	\$ 498	\$ 135	\$268,151
Net income (loss)				63,415				(712)	62,703
Dividends paid (\$0.14 per share)				(7,003)					(7,003)
Purchases of common stock					1,375,453	(54,647)			(54,647)
Stock-based compensation			3,567						3,567
Exercises of stock options and issuance of non-vested stock, including excess tax benefit	262,042	2	3,081						3,083
Foreign currency translation							71		71
Unrealized gain on available-for-sale investments, net of income taxes							612		612
Balance September 25, 2010	66,517,400	\$665	\$167,909	\$822,452	17,397,564	\$(715,093)	\$1,181	\$(577)	\$276,537

See accompanying notes to consolidated financial statements.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Organization Consolidation And Presentation Of Financial Statements Disclosure

The consolidated financial statements include the accounts of Landstar System, Inc. and its subsidiary, Landstar System Holdings, Inc., and reflect all adjustments (all of a normal, recurring nature) which are, in the opinion of management, necessary for a fair statement of the results for the periods presented. The preparation of the consolidated financial statements requires the use of management's estimates. Actual results could differ from those estimates. Landstar System, Inc. and its subsidiary are herein referred to as Landstar or the Company. Significant intercompany accounts have been eliminated in consolidation.

Landstar owns, through various subsidiaries, a controlling interest in A3i Acquisition LLC, which in turn owns 100% of A3 Integration, LLC (A3i Acquisition LLC, A3 Integration, LLC and its subsidiaries are collectively referred to herein as A3i), a supply chain systems integration and solutions company acquired in the Company's 2009 fiscal third quarter. Given Landstar's controlling interest in A3i Acquisition, the accounts of A3i have been consolidated herein and a noncontrolling interest has been recorded for the noncontrolling investor's interests in the net assets and operations of A3i.

(1) Share-based Payment Arrangements

As of September 25, 2010, the Company had an employee stock option plan, an employee stock option and stock incentive plan (the ESOSIP), one stock option plan for members of its Board of Directors and a stock compensation plan for members of its Board of Directors (the Directors Stock Compensation Plan) (all together, the Plans). No further grants can be made under the employee stock option plan as its term for granting stock options has expired. In addition, no further grants are to be made under the stock option plan for members of the Board of Directors. Amounts recognized in the financial statements with respect to these Plans are as follows (in thousands):

	<b>Thirty Nine Weeks Ended</b>		<b>Thirteen Weeks Ended</b>	
	<b>September 25, 2010</b>	<b>September 26, 2009</b>	<b>September 25, 2010</b>	<b>September 26, 2009</b>
Total cost of the Plans during the period	\$ 3,567	\$ 3,747	\$ 1,199	\$ 1,177
Amount of related income tax benefit recognized during the period	906	923	285	273
Net cost of the Plans during the period	\$ 2,661	\$ 2,824	\$ 914	\$ 904

The fair value of each option grant on its grant date was calculated using the Black-Scholes option pricing model with the following weighted average assumptions for grants made in the 2010 and 2009 thirty-nine-week periods:

	<b>2010</b>	<b>2009</b>
Expected volatility	37.0%	38.0%
Expected dividend yield	0.400%	0.400%
Risk-free interest rate	2.50%	1.50%
Expected lives (in years)	4.2	4.4

The Company utilizes historical data, including exercise patterns and employee departure behavior, in estimating the term that options will be outstanding. Expected volatility was based on historical volatility and other factors, such as expected changes in volatility arising from planned changes to the Company's business, if any. The risk-free interest rate was based on the yield of zero coupon U.S. Treasury bonds for terms that approximated the terms of the options granted. The weighted average grant date fair value of stock options granted during the thirty-nine-week periods

ended September 25, 2010 and September 26, 2009 was \$12.00 and \$11.75, respectively.

The following table summarizes information regarding the Company's stock options granted under the Plans:

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	<b>Number of Options</b>	<b>Weighted Average Exercise Price per Share</b>	<b>Weighted Average Remaining Contractual Term (years)</b>	<b>Aggregate Intrinsic Value (000s)</b>
Options outstanding at December 26, 2009	2,557,802	\$ 36.86		
Granted	225,250	\$ 37.39		
Exercised	(405,954)	\$ 21.28		
Forfeited	(56,867)	\$ 43.06		
Options outstanding at September 25, 2010	2,320,231	\$ 39.49	6.7	\$
Options exercisable at September 25, 2010	954,181	\$ 38.27	5.2	\$ 38

As of September 25, 2010, there were 1,650,313 stock options outstanding that were out-of-the-money based on that day's per share closing market price of \$38.31 as reported on the NASDAQ Global Select Market. The remaining 669,918 stock options outstanding as of September 25, 2010 that were in-the-money had an aggregate intrinsic value of \$3,796,000. The total intrinsic value of stock options exercised during the thirty-nine-week periods ended September 25, 2010 and September 26, 2009 was \$9,115,000 and \$1,453,000, respectively.

As of September 25, 2010, there was \$10,602,000 of total unrecognized compensation cost related to non-vested stock options granted under the Plans. The unrecognized compensation cost related to these non-vested options is expected to be recognized over a weighted average period of 2.9 years.

The fair value of each share of non-vested restricted stock issued under the Plans is based on the fair value of a share of the Company's common stock on the date of grant.

The following table summarizes information regarding the Company's non-vested restricted stock under the Plans:

	<b>Number of Shares</b>	<b>Grant Date Fair Value</b>
Non-vested restricted stock outstanding at December 26, 2009	11,500	\$34.82
Granted	18,354	\$42.41
Non-vested restricted stock outstanding at September 25, 2010	29,854	\$39.49

As of September 25, 2010, there was \$944,000 of total unrecognized compensation cost related to non-vested shares of restricted stock granted under the Plans. The unrecognized compensation cost related to these non-vested shares of restricted stock is expected to be recognized over a weighted average period of 2.9 years.

As of September 25, 2010, there were 128,469 shares of the Company's common stock reserved for issuance under the Directors' Stock Compensation Plan and 4,719,448 shares of the Company's common stock reserved for issuance under the Company's other plans.

## (2) Income Taxes

The provisions for income taxes for the 2010 and 2009 thirty-nine-week periods were based on estimated full year combined effective income tax rates of approximately 38.2% and 37.9%, respectively, which were higher than the statutory federal income tax rate primarily as a result of state taxes, the meals and entertainment exclusion and non-deductible stock-based compensation.

## (3) Earnings Per Share

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Earnings per common share attributable to Landstar System, Inc. and subsidiary are based on the weighted average number of common shares outstanding. Diluted earnings per share attributable to Landstar System, Inc. and subsidiary are based on the weighted average number of common shares outstanding plus the incremental shares that would have been outstanding upon the assumed exercise of all dilutive stock options.

The following table provides a reconciliation of the average number of common shares outstanding used to calculate earnings per share attributable to Landstar System, Inc. and subsidiary to the average number of common shares and common share equivalents outstanding used to calculate diluted earnings per share attributable to Landstar System, Inc. and subsidiary (in thousands):

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	Thirty Nine Weeks Ended September		Thirteen Weeks Ended September	
	25, 2010	26, 2009	25, 2010	26, 2009
Average number of common shares outstanding	49,921	51,325	49,434	51,069
Incremental shares from assumed exercises of stock options	69	182	13	176
Average number of common shares and common share equivalents outstanding	49,990	51,507	49,447	51,245

For the thirty-nine-week and thirteen-week periods ended September 25, 2010 there were 1,353,313 and 1,650,313, respectively, options outstanding to purchase shares of common stock excluded from the calculation of diluted earnings per share because they were antidilutive. For the thirty-nine-week and thirteen-week periods ended September 26, 2009 there were 2,000,747 and 1,897,747, respectively, options outstanding to purchase shares of common stock excluded from the calculation of diluted earnings per share because they were antidilutive.

#### (4) Additional Cash Flow Information

During the 2010 thirty-nine-week period, Landstar paid income taxes and interest of \$36,568,000 and \$2,847,000, respectively. During the 2009 thirty-nine-week period, Landstar paid income taxes and interest of \$22,349,000 and \$3,437,000, respectively. Landstar acquired operating property by entering into capital leases in the amount of \$14,145,000 and \$12,284,000 in the 2010 and 2009 thirty-nine-week periods, respectively. During the 2010 thirty-nine-week period, the Company purchased \$25,474,000 of operating property, including \$21,135,000 for the purchase of the Company's primary facility in Jacksonville, Florida.

#### (5) Segment Information

The following tables summarize information about Landstar's reportable business segments as of and for the thirty-nine-week and thirteen-week periods ended September 25, 2010 and September 26, 2009 (in thousands):

	Thirty Nine Weeks Ended							
	September 25, 2010			September 26, 2009				
	Transportation	Logistics	Insurance	Total	Transportation	Logistics	Insurance	Total
External revenue	\$1,787,107	\$25,528	\$1,812,635	\$1,433,812	\$27,269	\$1,461,081		
Investment income		1,069	1,069		954	954		
Internal revenue		21,463	21,463		21,350	21,350		
Operating income	88,460	15,703	104,163	62,227	23,945	86,172		
Expenditures on long-lived assets	25,474		25,474	2,276		2,276		
Goodwill	57,470		57,470	57,297		57,297		

	Thirteen Weeks Ended							
	September 25, 2010			September 26, 2009				
	Transportation	Logistics	Insurance	Total	Transportation	Logistics	Insurance	Total
External revenue	\$614,273	\$8,553	\$622,826	\$491,780	\$8,890	\$500,670		
Investment income		495	495		279	279		
Internal revenue		5,902	5,902		5,833	5,833		
Operating income	31,108	4,778	35,886	25,731	6,947	32,678		

Expenditures on long-lived assets	790	790	229	229
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In the thirty-nine-week period ended September 25, 2010, one customer accounted for approximately 11 percent of the Company's revenue. In the thirteen-week period ended September 25, 2010, there were no customers who accounted for 10 percent or more of the Company's revenue. In the thirty-nine-week and thirteen-week periods ended September 26, 2009, there were no customers who accounted for 10 percent or more of the Company's revenue.

(6) Comprehensive Income



The following table includes the components of comprehensive income attributable to Landstar System, Inc. and subsidiary for the thirty-nine-week and thirteen-week periods ended September 25, 2010 and September 26, 2009 (in thousands):

	<b>Thirty Nine Weeks Ended</b>		<b>Thirteen Weeks Ended</b>	
	<b>September</b>	<b>September</b>	<b>September</b>	<b>September</b>
	<b>25,</b>	<b>26,</b>	<b>25,</b>	<b>26,</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net income attributable to Landstar System, Inc. and subsidiary	\$ 63,415	\$ 51,827	\$ 21,802	\$ 20,076
Unrealized holding gains on available-for-sale investments, net of income taxes	612	439	486	197
Foreign currency translation gains	71	373	14	350
Comprehensive income attributable to Landstar System, Inc. and subsidiary	\$ 64,098	\$ 52,639	\$ 22,302	\$ 20,623

The unrealized holding gain on available-for-sale investments during the 2010 thirty-nine-week period represents the mark-to-market adjustment of \$948,000, net of related income taxes of \$336,000. The unrealized holding gain on available-for-sale investments during the 2010 thirteen-week period represents the mark-to-market adjustment of \$752,000, net of related income taxes of \$266,000. The unrealized holding gain on available-for-sale investments during the 2009 thirty-nine-week period represents the mark-to-market adjustment of \$680,000, net of related income taxes of \$241,000. The unrealized holding gain on available-for-sale investments during the 2009 thirteen-week period represents the mark-to-market adjustment of \$305,000, net of related income taxes of \$108,000. The foreign currency translation gain represents the unrealized net gain on the translation of the financial statements of the Company's Canadian operations. Accumulated other comprehensive income as reported as a component of equity at September 25, 2010 of \$1,181,000 represents the unrealized net gain on the translation of the financial statements of the Company's Canadian operations of \$279,000 and the cumulative unrealized holding gains on available-for-sale investments, net of income taxes, of \$902,000.

#### (7) Investments

Investments include investment-grade bonds and mortgage-backed securities having maturities of up to five years (the Bond Portfolio). Bonds in the Bond Portfolio are reported as available-for-sale and are carried at fair value. Bonds maturing less than one year from the balance sheet date are included in short-term investments and bonds maturing more than one year from the balance sheet date are included in other assets in the consolidated balance sheets. Management has performed an analysis of the nature of the unrealized losses on available-for-sale investments to determine whether such losses are other-than-temporary. Unrealized losses, representing the excess of the purchase price of an investment over its fair value as of the end of a period, considered to be other-than-temporary are to be included as a charge in the statement of income while unrealized losses considered to be temporary are to be included as a component of equity. Investments whose values are based on quoted market prices in active markets are classified within Level 1. Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices are classified within Level 2. As Level 2 investments include positions that are not traded in active markets, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information. Transfers between levels are recognized as of the beginning of the period. Fair value of the Bond Portfolio was determined using Level 1 inputs related to U.S. Treasury obligations and money market investments and Level 2 inputs related to investment-grade corporate bonds, mortgage-backed securities and direct obligations of U.S. government agencies.

The amortized cost and fair values of available-for-sale investments are as follows at September 25, 2010 and December 26, 2009 (in thousands):

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>September 25, 2010</b>				
Money market investments	\$ 788			\$ 788
Mortgage-backed securities	3,489	\$ 92	\$ 13	3,568
Corporate bonds and direct obligations of U.S. government agencies	64,082	1,342	33	65,391
U.S. Treasury obligations	11,780	9		11,789
Total	\$ 80,139	\$ 1,443	\$ 46	\$ 81,536

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 26, 2009</b>				
Corporate bonds and direct obligations of U.S. government agencies	\$ 39,261	\$ 668	\$ 226	\$ 39,703
U.S. Treasury obligations	11,489	6		11,495
<b>Total</b>	<b>\$ 50,750</b>	<b>\$ 674</b>	<b>\$ 226</b>	<b>\$ 51,198</b>

For those available-for-sale investments with unrealized losses at September 25, 2010 and December 26, 2009, the following table summarizes the duration of the unrealized loss (in thousands):

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<b>September 25, 2010</b>						
Corporate bonds and direct obligations of U.S. government agencies	\$ 348	\$ 2	\$ 7,423	\$ 44	\$ 7,771	\$ 46
Mortgage-backed securities	234	13			234	13
<b>Total</b>	<b>\$ 582</b>	<b>\$ 15</b>	<b>\$ 7,423</b>	<b>\$ 44</b>	<b>\$ 8,005</b>	<b>\$ 59</b>

**December 26, 2009**

Corporate bonds and direct obligations of U.S. government agencies	\$ 1,989	\$ 10	\$ 1,192	\$ 216	\$ 3,181	\$ 226
(8) Commitments and Contingencies						

Short-term investments include \$22,662,000 in current maturities of investment-grade bonds and money market investments and \$1,581,000 of cash equivalents held by the Company's insurance segment at September 25, 2010. These short-term investments together with \$25,265,000 of the non-current portion of investment-grade bonds included in other assets at September 25, 2010 provide collateral for the \$44,715,000 of letters of credit issued to guarantee payment of insurance claims. As of September 25, 2010, Landstar also had \$33,699,000 of letters of credit outstanding under the Company's credit agreement.

Under the terms of the purchase agreement by which the Company acquired National Logistics Management Co. (NLM) in July 2009, Landstar agreed to pay additional purchase price contingent upon the achievement by NLM of certain levels of earnings through 2014. Landstar recently agreed with the prior owner of NLM to buy-out the Company's contingent payment obligations for a total payment of \$3,800,000. This one-time charge is included in selling, general and administrative costs in the thirty-nine-week and thirteen-week periods ended September 25, 2010.

As further described in periodic and current reports previously filed by the Company with the Securities and Exchange Commission (the SEC), the Company and certain of its subsidiaries (the Defendants) are defendants in a

suit (the *Litigation* ) brought in the United States District Court for the Middle District of Florida (the *District Court* ) by the Owner-Operator Independent Drivers Association, Inc. ( *OOIDA* ) and four former BCO Independent Contractors (the *Named Plaintiffs* and, with *OOIDA*, the *Plaintiffs* ) on behalf of all independent contractors who provide truck capacity to the Company and its subsidiaries under exclusive lease arrangements (the *BCO Independent Contractors* ). The *Plaintiffs* allege that certain aspects of the Company's motor carrier leases and related practices with its *BCO Independent Contractors* violate certain federal leasing regulations and seek injunctive relief, an unspecified amount of damages and attorneys' fees.

On March 29, 2007, the *District Court* denied the request by *Plaintiffs* for injunctive relief, entered a judgment in favor of the *Defendants* and issued written orders setting forth its rulings related to the decertification of the plaintiff class and other important elements of the *Litigation* relating to liability, injunctive relief and monetary relief. The *Plaintiffs* filed an appeal with the United States Court of Appeals for the Eleventh Circuit (the *Appellate Court* ) of certain of the *District Court*'s rulings in favor of the *Defendants*. The *Defendants* asked the *Appellate Court* to affirm such rulings and filed a cross-appeal with the *Appellate Court* with respect to certain other rulings of the *District Court*. On September 3, 2008, the *Appellate Court* issued its initial ruling. Each of the parties to the *Litigation* subsequently filed a petition with the *Appellate Court* seeking rehearing of the *Appellate Court*'s ruling.

On October 4, 2010, the Appellate Court denied each of the motions for rehearing, withdrew its initial ruling and substituted a new ruling in its place. The new ruling by the Appellate Court confirmed the absence of any violations alleged by the Plaintiffs of the federal leasing regulations with respect to the written terms of all leases currently in use between the Defendants and BCO Independent Contractors. In particular, the new ruling, among other things, held that (i) the Defendants are not prohibited by the applicable federal leasing regulations from charging administrative or other fees to BCO Independent Contractors in connection with voluntary programs offered by the Defendants through which a BCO Independent Contractor may purchase discounted products and services for a charge that is deducted against the amounts payable to the BCO Independent Contractor (a Charge-back Deduction), (ii) in the case of a Charge-back Deduction expressed as a flat-fee in the lease, the applicable federal leasing regulations do not require Defendants to do more than disclose the flat-fee Charge-back Deduction in the lease and follow up with settlement statements that explain the final amount charged back, (iii) the Plaintiffs are not entitled to restitution or disgorgement with respect to violations by Defendants of the applicable federal leasing regulations but instead may recover only actual damages, if any, which they sustained as a result of any such violations and (iv) the claims of BCO Independent Contractors may not be handled on a class action basis for purposes of determining the amount of actual damages, if any, they sustained as a result of any violations.

However, the new ruling of the Appellate Court reversed the District Court's ruling that an old version of the lease formerly used by Defendants but not in use with any current BCO Independent Contractor complied with applicable disclosure requirements under the federal leasing regulations with respect to adjustments to amounts payable to BCO Independent Contractors on certain loads sourced from the U. S. Department of Defense. The Appellate Court then remanded the case to the District Court to permit the Plaintiffs to seek injunctive relief with respect to this violation of the federal leasing regulations and to hold an evidentiary hearing to give the Named Plaintiffs an opportunity to produce evidence of any damages they actually sustained as a result of such violation.

The Plaintiffs have filed a petition with the Appellate Court seeking rehearing en banc of the Appellate Court's October 4, 2010 ruling.

Although no assurances can be given with respect to the outcome of the Litigation, including any possible award of attorneys' fees to the Plaintiffs, the Company believes that (i) no Plaintiff has sustained any actual damages as a result of any violations by the Defendants of the federal leasing regulations and (ii) injunctive relief, if any, that may be granted by the District Court on remand is unlikely to have a material adverse effect on the Company's financial condition or results of operations.

The Company is involved in certain other claims and pending litigation arising from the normal conduct of business. Based on knowledge of the facts and, in certain cases, opinions of outside counsel, management believes that adequate provisions have been made for probable losses with respect to the resolution of all such other claims and pending litigation and that the ultimate outcome, after provisions in respect thereof, will not have a material adverse effect on the financial condition of the Company, but could have a material effect on the results of operations in a given quarter or year.

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

The following discussion should be read in conjunction with the attached interim consolidated financial statements and notes thereto, and with the Company's audited financial statements and notes thereto for the fiscal year ended December 26, 2009 and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 2009 Annual Report on Form 10-K.

### FORWARD-LOOKING STATEMENTS

The following is a safe harbor statement under the Private Securities Litigation Reform Act of 1995. Statements contained in this document that are not based on historical facts are forward-looking statements. This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Form 10-Q contain forward-looking statements, such as statements which relate to Landstar's business objectives, plans, strategies and expectations. Terms such as anticipates, believes, estimates, expects, plans, predicts, may, should, negative thereof and similar expressions are intended to identify forward-looking statements. Such statements are by nature subject to uncertainties and risks, including but not limited to: an increase in the frequency or severity of accidents or other claims; unfavorable development of existing accident claims; dependence on third party insurance

companies; dependence on independent commission sales agents; dependence on third party capacity providers; substantial industry competition; disruptions or failures in the Company's computer systems; changes in fuel taxes; status of independent contractors; a downturn in economic growth or growth in the transportation sector; acquired businesses; intellectual property; and other operational, financial or legal risks or uncertainties detailed in Landstar's Form 10-K for the 2009 fiscal year, described in Item 1A "Risk Factors", this report or in Landstar's other Securities and Exchange Commission filings from time to time. These risks and uncertainties could cause actual results or events to differ materially from historical results or those anticipated. Investors should not place undue

reliance on such forward-looking statements and the Company undertakes no obligation to publicly update or revise any forward-looking statements.

### **Introduction**

Landstar System, Inc. and its subsidiary, Landstar System Holdings, Inc. (together, referred to herein as Landstar or the Company), is a non-asset based provider of freight transportation services and supply chain solutions. The Company offers services to its customers across multiple transportation modes, with the ability to arrange for individual shipments of freight to enterprise-wide solutions to manage all of a customer's transportation and logistics needs. Landstar provides services principally throughout the United States and to a lesser extent in Canada, and between the United States and Canada, Mexico and other countries around the world. The Company's services emphasize safety, information coordination and customer service and are delivered through a network of independent commission sales agents and third party capacity providers linked together by a series of technological applications which are provided and coordinated by the Company. Landstar markets its freight transportation services and supply chain solutions primarily through independent commission sales agents and exclusively utilizes third party capacity providers to transport and store customers' freight. The nature of the Company's business is such that a significant portion of its operating costs varies directly with revenue.

In the Company's 2009 fiscal third quarter, the Company completed the acquisitions of (i) National Logistics Management Co. (together with a limited liability company and certain corporate subsidiaries and affiliates, NLM) and (ii) A3i Integration LLC (A3i) through A3i Acquisition LLC, an entity of which the Company owns 100% of the non-voting, preferred interests and 75% of the voting, common equity interests. A3i is a wholly-owned subsidiary of A3i Acquisition. These two acquisitions are referred to herein collectively as the Recent Acquisitions. NLM and A3i offer customers technology-based supply chain solutions and other value-added services on a fee-for-service basis. NLM and A3i are herein referred to as the Acquired Entities. The results of operations from NLM and A3i are presented as part of the Company's transportation logistics segment.

Landstar markets its freight transportation services and supply chain solutions primarily through independent commission sales agents who enter into contractual arrangements with the Company and are responsible for locating freight, making that freight available to Landstar's capacity providers and coordinating the transportation of the freight with customers and capacity providers. The Company's third party capacity providers consist of independent contractors who provide truck capacity to the Company under exclusive lease arrangements (the BCO Independent Contractors), unrelated trucking companies who provide truck capacity to the Company under non-exclusive contractual arrangements (the Truck Brokerage Carriers), air cargo carriers, ocean cargo carriers, railroads and independent warehouse capacity providers (Warehouse Capacity Owners). The Company has contracts with all of the Class 1 domestic and Canadian railroads and certain short-line railroads and contracts with domestic and international airlines and ocean lines. Through this network of agents and capacity providers linked together by Landstar's technological applications, Landstar operates a transportation services and supply chain solutions business primarily throughout North America with revenue of approximately \$2.0 billion during the most recently completed fiscal year. The Company reports the results of two operating segments: the transportation logistics segment and the insurance segment.

The transportation logistics segment provides a wide range of transportation services and supply chain solutions. Transportation services offered by the Company include truckload and less-than-truckload transportation, rail intermodal, air cargo, ocean cargo, expedited ground and air delivery of time-critical freight, heavy-haul/specialized, U.S.-Canada and U.S.-Mexico cross-border, project cargo and customs brokerage. Supply chain solutions are based on advanced technology solutions offered by the Company and include integrated multi-modal solutions, outsourced logistics, supply chain engineering and warehousing. Also, supply chain solutions can be delivered through a software-as-a-service model. Industries serviced by the transportation logistics segment include automotive products, paper, lumber and building products, metals, chemicals, foodstuffs, heavy machinery, retail, electronics, ammunition and explosives and military hardware. In addition, the transportation logistics segment provides transportation services to other transportation companies, including logistics and less-than-truckload service providers. Each of the independent commission sales agents has the opportunity to market all of the services provided by the transportation logistics segment. Freight transportation services are typically charged to customers on a per shipment basis for the

physical transportation of freight. Supply chain solution customers are generally charged fees for the services provided. Revenue recognized by the transportation logistics segment when providing capacity to customers to haul their freight is referred to herein as transportation services revenue and revenue for freight management services recognized on a fee-for-service basis is referred to herein as transportation management fees. During the thirty nine weeks ended September 25, 2010, transportation services revenue hauled by BCO Independent Contractors, Truck Brokerage Carriers, rail intermodal, ocean cargo carriers and air cargo carriers represented 54%, 39%, 3%, 2%, and 1%, respectively, of the Company's transportation logistics segment revenue. Transportation management fees represented 1% of the Company's transportation logistics segment revenue in the thirty-nine-week period ended September 25, 2010.



The insurance segment is comprised of Signature Insurance Company, a wholly owned offshore insurance subsidiary, and Risk Management Claim Services, Inc. This segment provides risk and claims management services to certain of Landstar's operating subsidiaries. In addition, it reinsures certain risks of the Company's BCO Independent Contractors and provides certain property and casualty insurance directly to certain of Landstar's operating subsidiaries. Revenue, representing premiums on reinsurance programs provided to the Company's BCO Independent Contractors, at the insurance segment represented approximately 1% of the Company's total revenue for the thirty nine weeks ended September 25, 2010.

### Changes in Financial Condition and Results of Operations

Management believes the Company's success principally depends on its ability to generate freight through its network of independent commission sales agents and to efficiently deliver that freight utilizing third party capacity providers. Management believes the most significant factors to the Company's success include increasing revenue, sourcing capacity and controlling costs.

While customer demand, which is subject to overall economic conditions, ultimately drives increases or decreases in revenue, the Company primarily relies on its independent commission sales agents to establish customer relationships and generate revenue opportunities. Management's primary focus with respect to revenue growth is on revenue generated by independent commission sales agents who on an annual basis generate \$1 million or more of Landstar revenue ( Million Dollar Agents ). Management believes future revenue growth is primarily dependent on its ability to increase both the revenue generated by Million Dollar Agents and the number of Million Dollar Agents through a combination of recruiting new agents and increasing the revenue opportunities generated by existing independent commission sales agents. During the 2009 fiscal year, 405 independent commission sales agents generated \$1 million or more of Landstar's revenue and thus qualified as Million Dollar Agents. During the 2009 fiscal year, the average revenue generated by a Million Dollar Agent was \$4,292,000 and revenue generated by Million Dollar Agents in the aggregate represented 87% of consolidated Landstar revenue. The Company had 1,341 and 1,403 agent locations at September 25, 2010 and September 26, 2009, respectively.

Management monitors business activity by tracking the number of loads (volume) and revenue per load by mode of transportation. Revenue per load can be influenced by many factors other than a change in price, including the average length of haul, freight type, fuel surcharges, special handling and equipment requirements and delivery time requirements. For shipments involving two or more modes of transportation, revenue is classified by the mode of transportation having the highest cost for the load. The following table summarizes this data by mode of transportation:

	<b>Thirty Nine Weeks Ended</b>		<b>Thirteen Weeks Ended</b>	
	<b>September</b>	<b>September</b>	<b>September</b>	<b>September</b>
	<b>25,</b>	<b>26,</b>	<b>25,</b>	<b>26,</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Revenue generated through (in thousands):				
BCO Independent Contractors	\$ 966,221	\$ 840,391	\$ 334,485	\$ 289,726
Truck Brokerage Carriers	705,189	495,661	239,026	166,182
Rail intermodal	51,840	57,094	17,748	20,366
Ocean cargo carriers	34,045	25,459	13,210	7,941
Air cargo carriers	13,853	10,259	5,291	2,751
Other <sup>(1)</sup>	41,487	32,217	13,066	13,704
	<b>\$ 1,812,635</b>	<b>\$ 1,461,081</b>	<b>\$ 622,826</b>	<b>\$ 500,670</b>

Number of loads:

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BCO Independent Contractors	624,270	561,840	203,500	196,840
Truck Brokerage Carriers	456,410	363,000	148,080	122,980
Rail intermodal	23,120	28,600	7,630	10,310
Ocean cargo carriers	4,930	3,920	1,820	1,330
Air cargo carriers	4,870	6,440	1,740	1,340
	1,113,600	963,800	362,770	332,800

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	Thirty Nine Weeks Ended		Thirteen Weeks Ended	
	September 25, 2010	September 26, 2009	September 25, 2010	September 26, 2009
Revenue per load:				
BCO Independent Contractors	\$ 1,548	\$ 1,496	\$ 1,644	\$ 1,472
Truck Brokerage Carriers	1,545	1,365	1,614	1,351
Rail intermodal	2,242	1,996	2,326	1,975
Ocean cargo carriers	6,906	6,495	7,258	5,971
Air cargo carriers	2,845	1,593	3,041	2,053

(1) Includes premium revenue generated by the insurance segment and warehousing and transportation management fee revenue generated by the transportation logistics segment.

Also critical to the Company's success is its ability to secure capacity, particularly truck capacity, at rates that allow the Company to profitably transport customers' freight. The following table summarizes available truck capacity providers:

	September 25, 2010	September 26, 2009
BCO Independent Contractors	7,893	8,070
Truck Brokerage Carriers:		
Approved and active <sup>(1)</sup>	17,393	14,541
Other approved	9,490	10,576
	26,883	25,117
Total available truck capacity providers	34,776	33,187
Number of trucks provided by BCO Independent Contractors	8,481	8,655

(1)

Active refers to  
Truck  
Brokerage  
Carriers who  
moved at least  
one load in the  
180 days  
immediately  
preceding the  
fiscal quarter  
end.

The Company incurs costs that are directly related to the transportation of freight that include purchased transportation and commissions to agents. The Company incurs indirect costs associated with the transportation of freight that include other operating costs and insurance and claims. In addition, the Company incurs selling, general and administrative costs essential to administering its business operations. Management continually monitors all components of the costs incurred by the Company and establishes annual cost budgets which, in general, are used to benchmark costs incurred on a monthly basis.

Purchased transportation represents the amount a BCO Independent Contractor or other third party capacity provider is paid to haul freight. The amount of purchased transportation paid to a BCO Independent Contractor is primarily based on a contractually agreed-upon percentage of revenue generated by the haul. Purchased transportation paid to a Truck Brokerage Carrier is based on either a negotiated rate for each load hauled or a contractually agreed-upon rate. Purchased transportation paid to rail intermodal, air cargo or ocean cargo carriers is based on contractually agreed-upon fixed rates. Purchased transportation as a percentage of revenue for truck brokerage, rail intermodal and ocean cargo services is normally higher than that of BCO Independent Contractor and air cargo services. Purchased transportation is the largest component of costs and expenses and, on a consolidated basis, increases or decreases in proportion to the revenue generated through BCO Independent Contractors and other third party capacity providers, transportation management fees and revenue from the insurance segment. Purchased transportation as a percent of revenue also increases or decreases in relation to the general availability of truck brokerage capacity in the marketplace and the price of fuel on revenue hauled by Truck Brokerage Carriers. Purchased transportation costs are recognized upon the completion of freight delivery.

Commissions to agents are based on contractually agreed-upon percentages of revenue or gross profit, defined as revenue less the cost of purchased transportation, or gross profit less a contractually agreed upon percentage of revenue retained by Landstar. Commissions to agents as a percentage of consolidated revenue will vary directly with fluctuations in the percentage of consolidated revenue generated by the various modes of transportation, transportation management fees and the insurance segment and with changes in gross profit on services provided by Truck Brokerage Carriers, rail intermodal, air cargo and ocean cargo carriers. Commissions to agents are recognized upon the completion of freight delivery.

Revenue less the cost of purchased transportation and commissions to agents is referred to as net revenue. Net revenue divided by revenue is referred to as net revenue margin. In general, net revenue margin on revenue hauled by BCO Independent Contractors represents a fixed percentage of revenue due to the terms of the applicable contracts with the Company that provide for the payment of a

fixed percentage of revenue to both the BCO Independent Contractors and independent commission sales agents. For revenue hauled by Truck Brokerage Carriers, net revenue margin is either fixed or variable as a percent of revenue, depending on the Company's contract with each individual independent commission sales agent. Under certain contracts with independent commission sales agents, the Company retains a fixed percentage of revenue and the agent retains the amount remaining less the cost of purchased transportation (the retention contracts). Net revenue margin on revenue hauled by rail intermodal, air cargo carriers, ocean cargo carriers and Truck Brokerage Carriers, other than under retention contracts, is variable in nature, as the Company's contracts with independent commission sales agents provide commissions to agents at a contractually agreed upon percentage of gross profit. Approximately 74% of the Company's revenue in the thirty-nine-week period ended September 25, 2010 had a fixed net revenue margin.

Maintenance costs for Company-provided trailing equipment, BCO Independent Contractor recruiting costs and bad debts from BCO Independent Contractors and independent commission sales agents are the largest components of other operating costs.

Potential liability associated with accidents in the trucking industry is severe and occurrences are unpredictable. For commercial trucking claims, Landstar retains liability up to \$5,000,000 per occurrence. The Company also retains liability for each general liability claim up to \$1,000,000, \$250,000 for each workers' compensation claim and up to \$250,000 for each cargo claim. The Company's exposure to liability associated with accidents incurred by Truck Brokerage Carriers, rail intermodal capacity providers and air cargo and ocean cargo carriers who transport freight on behalf of the Company is reduced by various factors including the extent to which they maintain their own insurance coverage. A material increase in the frequency or severity of accidents, cargo claims or workers' compensation claims or the unfavorable development of existing claims could be expected to materially adversely affect Landstar's results of operations.

Employee compensation and benefits account for over half of the Company's selling, general and administrative costs.

Depreciation and amortization primarily relate to depreciation of trailing equipment, amortization of intangible assets attributable to the Recent Acquisitions and management information services equipment.

The following table sets forth the percentage relationships of income and expense items to revenue for the periods indicated:

	Thirty Nine Weeks Ended		Thirteen Weeks Ended	
	September 25, 2010	September 26, 2009	September 25, 2010	September 26, 2009
Revenue	100.0%	100.0%	100.0%	100.0%
Investment income	0.1	0.1	0.1	0.1
Costs and expenses:				
Purchased transportation	76.3	74.6	76.2	74.4
Commissions to agents	7.4	8.1	7.6	7.9
Other operating costs	1.2	1.5	1.0	1.4
Insurance and claims	2.1	2.0	1.9	2.1
Selling, general and administrative	6.4	6.8	6.6	6.6
Depreciation and amortization	1.0	1.2	1.0	1.2
Total costs and expenses	94.4	94.2	94.3	93.6
Operating income	5.7	5.9	5.8	6.5
Interest and debt expense	0.1	0.2	0.2	0.2

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Income before income taxes	5.6	5.7	5.6	6.3
Income taxes	2.1	2.2	2.1	2.3
Net income	3.5%	3.5%	3.5%	4.0%

THIRTY NINE WEEKS ENDED SEPTEMBER 25, 2010 COMPARED TO THIRTY NINE WEEKS ENDED SEPTEMBER 26, 2009

Revenue for the 2010 thirty-nine-week period was \$1,812,635,000, an increase of \$351,554,000, or 24.1%, compared to the 2009 thirty-nine-week period. Revenue increased \$353,295,000, or 24.6%, at the transportation logistics segment. The increase in revenue at the transportation logistics segment was primarily attributable to a 16% increase in the number of loads hauled and a higher revenue per load of approximately 7%. The increase in the number of loads hauled was generally attributable to improved industrial production in the U.S.

during 2010 and the impact of market share gains from agents recruited during 2010 and 2009. The increase in revenue per load was generally attributable to increased demand and tightening capacity. Revenue hauled by BCO Independent Contractors, Truck Brokerage Carriers, air cargo carriers and ocean cargo carriers increased 15%, 42%, 35% and 34%, respectively, while revenue hauled by rail intermodal carriers decreased 9%. Included in the 2010 and 2009 thirty-nine-week periods was \$15,592,000 and \$4,764,000, respectively, of transportation management fees related to NLM. The number of loads in the 2010 period hauled by BCO Independent Contractors, Truck Brokerage Carriers and ocean cargo carriers increased 11%, 26% and 26%, respectively, compared to the 2009 period, while the number of loads hauled by rail intermodal carriers and air cargo carriers decreased 19% and 24%, respectively, over the same period. Revenue per load for loads hauled by BCO Independent Contractors, Truck Brokerage Carriers, rail intermodal carriers, air cargo carriers and ocean cargo carriers increased approximately 3%, 13%, 12%, 79% and 6%, respectively, compared to the 2009 period.

Investment income at the insurance segment was \$1,069,000 and \$954,000 in the 2010 and 2009 thirty-nine-week periods, respectively. The increase in investment income was primarily due to increased average investments held by the insurance segment in the 2010 period.

Purchased transportation was 76.3% and 74.6% of revenue in the 2010 and 2009 thirty-nine-week periods, respectively. The increase in purchased transportation as a percentage of revenue was primarily attributable to increased revenue hauled by Truck Brokerage Carriers, which tends to have a higher cost of purchased transportation, and increased rates of purchased transportation paid to Truck Brokerage Carriers. Commissions to agents were 7.4% of revenue in the 2010 period and 8.1% of revenue in the 2009 period. The decrease in commissions to agents as a percentage of revenue was primarily attributable to decreased gross profit on revenue hauled by Truck Brokerage Carriers. Other operating costs were 1.2% and 1.5% of revenue in the 2010 and 2009 periods, respectively. The decrease in other operating costs as a percentage of revenue was primarily attributable to the effect of increased revenue in the 2010 period, partly offset by an increase of \$954,000 in other operating costs attributable to the Acquired Entities in the 2010 period compared to the 2009 period. The increase in other operating costs of the Acquired Entities was primarily due to the results of the Acquired Entities being included in the Company's results for the complete thirty-nine-week period of 2010 compared to only thirteen weeks in 2009. Insurance and claims were 2.1% of revenue in the 2010 period and 2.0% of revenue in the 2009 period. The increase in insurance and claims as a percentage of revenue was primarily due to favorable development of prior year claims reported in 2009. Selling, general and administrative costs were 6.4% of revenue in the 2010 period and 6.8% of revenue in the 2009 period. The decrease in selling, general and administrative costs as a percentage of revenue was primarily attributable to the effect of increased revenue and a decreased provision for customer bad debt, partially offset by a \$10,193,000 provision for bonuses under the Company's incentive compensation programs in the 2010 period compared to no provision in the 2009 period and an increase of \$12,454,000 of selling, general and administrative costs attributable to the Acquired Entities in the 2010 period compared to the 2009 period. The increase in selling, general and administrative costs of the Acquired Entities was primarily due to the results of the Acquired Entities being included in the Company's results for the complete thirty-nine-week period of 2010 compared to only thirteen weeks in 2009. Under the terms of the purchase agreement by which the Company acquired NLM in July 2009, Landstar agreed to pay additional purchase price contingent upon the achievement by NLM of certain levels of earnings through 2014. Landstar recently agreed with the prior owner of NLM to buy-out the Company's contingent payment obligations for a total payment of \$3,800,000. This one-time charge is included in selling, general and administrative costs in the thirty-nine-week period ended September 25, 2010. Included in selling, general and administrative costs in the 2009 period was \$2,005,000 of one-time costs related to the acquisitions of the Acquired Entities. Depreciation and amortization was 1.0% of revenue in the 2010 period compared with 1.2% in the 2009 period. The decrease in depreciation and amortization as a percentage of revenue was primarily due to the effect of increased revenue, partially offset by amortization of intangible assets attributable to the Acquired Entities.

Interest and debt expense was 0.1% of revenue in the 2010 thirty-nine-week period, compared to 0.2% in the 2009 period. The decrease in interest and debt expense as a percentage of revenue was primarily attributable to the effect of increased revenue and lower average capital lease obligations.

The provisions for income taxes for the 2010 and 2009 thirty-nine-week periods were based on estimated full year combined effective income tax rates of approximately 38.2% and 37.9%, respectively, which were higher than the statutory federal income tax rate primarily as a result of state taxes, the meals and entertainment exclusion and non-deductible stock compensation expense. The increase in the effective income tax rate was primarily attributable to recognition of benefits relating to several uncertain tax positions for which the applicable statute of limitations passed in the 2009 third quarter.

The net loss attributable to noncontrolling interest of \$712,000 and \$214,000 in the 2010 and 2009 thirty-nine-week periods, respectively, represent the noncontrolling investor's 25 percent share of the net losses incurred by A3i.



Net income attributable to the Company was \$63,415,000, or \$1.27 per common share (\$1.27 per diluted share), in the 2010 thirty-nine-week period compared to \$51,827,000, or \$1.01 per common share (\$1.01 per diluted share), in the 2009 thirty-nine-week period. Included in the 2010 thirty-nine-week period was a one-time charge of \$3,800,000 related to the buy-out of the Company's contingent payment obligations to the prior owner of NLM. The one-time charge of \$3,800,000, net of related income taxes, decreased 2010 thirty-nine-week period net income attributable to the Company by \$2,348,000, or \$0.05 per common share (\$0.05 per diluted share).

THIRTEEN WEEKS ENDED SEPTEMBER 25, 2010 COMPARED TO THIRTEEN WEEKS ENDED SEPTEMBER 26, 2009

Revenue for the 2010 thirteen-week period was \$622,826,000, an increase of \$122,156,000, or 24.4%, compared to the 2009 thirteen-week period. Revenue increased \$122,493,000, or 24.9%, at the transportation logistics segment. The increase in revenue at the transportation logistics segment was primarily attributable to a 9% increase in the number of loads hauled and a higher revenue per load of approximately 15%. The increase in the number of loads hauled was generally attributable to improved industrial production in the U.S. during 2010 and the impact of market share gains from agents recruited during 2010 and 2009. The increase in revenue per load was generally attributable to increased demand and tightening capacity. Revenue hauled by BCO Independent Contractors, Truck Brokerage Carriers, air cargo carriers and ocean cargo carriers increased 15%, 44%, 92% and 66%, respectively, while revenue hauled by rail intermodal carriers decreased 13%. Included in the 2010 and 2009 thirteen-week periods was \$4,381,000 and \$4,764,000, respectively, of transportation management fees related to the Acquired Entities. The number of loads in the 2010 period hauled by BCO Independent Contractors, Truck Brokerage Carriers, air cargo carriers and ocean cargo carriers increased 3%, 20%, 30% and 37%, respectively, compared to the 2009 period, while the number of loads hauled by rail intermodal carriers decreased 26% over the same period. Revenue per load for loads hauled by BCO Independent Contractors, Truck Brokerage Carriers, rail intermodal carriers, air cargo carriers and ocean cargo carriers increased approximately 12%, 19%, 18%, 48% and 22%, respectively, compared to the 2009 period.

Investment income at the insurance segment was \$495,000 and \$279,000 in the 2010 and 2009 thirteen-week periods, respectively. The increase in investment income was primarily due to an increased rate of return on investments and increased average investments held by the insurance segment in the 2010 period.

Purchased transportation was 76.2% and 74.4% of revenue in the 2010 and 2009 thirteen-week periods, respectively. The increase in purchased transportation as a percentage of revenue was primarily attributable to increased revenue hauled by Truck Brokerage Carriers, which tends to have a higher cost of purchased transportation, and increased rates of purchased transportation paid to Truck Brokerage Carriers. Commissions to agents were 7.6% of revenue in the 2010 period and 7.9% of revenue in the 2009 period. The decrease in commissions to agents as a percentage of revenue was primarily attributable to decreased gross profit on revenue hauled by Truck Brokerage Carriers. Other operating costs were 1.0% and 1.4% of revenue in the 2010 and 2009 periods, respectively. The decrease in other operating costs as a percentage of revenue was primarily attributable to the effect of increased revenue in the 2010 period and a decrease of \$814,000 of other operating costs of the Acquired Entities in the 2010 period compared to the 2009 period. Insurance and claims were 1.9% of revenue in the 2010 period and 2.1% of revenue in the 2009 period. The decrease in insurance and claims as a percentage of revenue was primarily due to the effect of increased Truck Brokerage Carrier volume as a percent of total volume, which tends to have a lower claims risk profile, and decreased severity of commercial trucking claims in the 2010 period, partially offset by favorable development of prior year claims reported in 2009. Selling, general and administrative costs were 6.6% of revenue in both the 2010 and 2009 periods. Included in selling, general and administrative costs in the 2010 period was a one-time charge of \$3,800,000 related to the buyout of the Company's contingent payment obligations to the prior owner of NLM and a \$3,777,000 provision for incentive compensation. No such provision for incentive compensation was reported in the 2009 period. Depreciation and amortization was 1.0% of revenue in the 2010 period, compared with 1.2% of revenue in the 2009 period. The decrease in depreciation and amortization as a percentage of revenue was primarily due to the effect of increased revenue.

Interest and debt expense was 0.2% of revenue in each of the 2010 and 2009 thirteen-week periods.

The provisions for income taxes for the 2010 and 2009 thirteen-week periods were based on estimated full year combined effective income tax rates of approximately 38.2% and 37.4%, respectively, which were higher than the statutory federal income tax rate primarily as a result of state taxes, the meals and entertainment exclusion and non-deductible stock compensation expense. The increase in the effective income tax rate was primarily attributable to recognition of benefits relating to several uncertain tax positions for which the applicable statute of limitations passed in the 2009 third quarter.

The net loss attributable to noncontrolling interest of \$266,000 and \$214,000 in the 2010 and 2009 thirteen-week periods, respectively, represents the noncontrolling investor's 25 percent share of the net losses incurred by A3i.

Net income attributable to the Company was \$21,802,000, or \$0.44 per common share (\$0.44 per diluted share), in the 2010 thirteen-week period. Net income attributable to the Company was \$20,076,000, or \$0.39 per common share (\$0.39 per diluted share), in the 2009 thirteen-week period. Included in the 2010 thirteen-week period was a one-time charge of \$3,800,000 related to the buyout of the Company's contingent payment obligations to the prior owner of NLM. The one-time charge of \$3,800,000, net of related income taxes, decreased 2010 thirteen-week period net income attributable to the Company by \$2,348,000, or \$0.05 per common share (\$0.05 per diluted share).

#### CAPITAL RESOURCES AND LIQUIDITY

Equity was \$276,537,000, or 69% of total capitalization (defined as long-term debt including current maturities plus equity), at September 25, 2010, compared to \$268,151,000, or 74% of total capitalization, at December 26, 2009. The increase in equity was primarily a result of net income and the effect of the exercises of stock options during the period, partially offset by the purchase of 1,375,453 shares of the Company's common stock at a total cost of \$54,647,000 and dividends paid by the Company.

The Company paid \$0.14 per share, or \$7,003,000, in cash dividends during the thirty-nine-week period ended September 25, 2010. It is the intention of the Board of Directors to continue to pay a quarterly dividend. On August 23, 2010, Landstar System, Inc. announced that it had been authorized by its Board of Directors to purchase up to an additional 2,000,000 shares of its common stock from time to time in the open market and in privately negotiated transactions. As of September 25, 2010, the Company may purchase up to an additional 2,000,000 shares of its common stock under its authorized stock purchase program. Long-term debt, including current maturities, was \$127,131,000 at September 25, 2010, \$34,233,000 higher than at December 26, 2009.

Working capital and the ratio of current assets to current liabilities were \$162,499,000 and 1.6 to 1, respectively, at September 25, 2010, compared with \$167,977,000 and 1.6 to 1, respectively, at December 26, 2009. Landstar has historically operated with current ratios within the range of 1.5 to 1 to 2.0 to 1. Cash provided by operating activities was \$68,283,000 in the 2010 thirty-nine-week period compared with \$128,199,000 in the 2009 thirty-nine-week period. The decrease in cash flow provided by operating activities was primarily attributable to the increase in customer receivables related to the significant revenue growth experienced in 2010.

On June 27, 2008, Landstar entered into a credit agreement with a syndicate of banks and JPMorgan Chase Bank, N.A., as administrative agent (the Credit Agreement). The Credit Agreement, which expires on June 27, 2013, provides \$225,000,000 of borrowing capacity in the form of a revolving credit facility, \$75,000,000 of which may be utilized in the form of letter of credit guarantees.

The Credit Agreement contains a number of covenants that limit, among other things, the incurrence of additional indebtedness. The Company is required to, among other things, maintain a minimum Fixed Charge Coverage Ratio, as defined in the Credit Agreement, and maintain a Leverage Ratio, as defined in the Credit Agreement, below a specified maximum. The Credit Agreement provides for a restriction on cash dividends and other distributions to stockholders on the Company's capital stock to the extent there is a default under the Credit Agreement. In addition, the Credit Agreement under certain circumstances limits the amount of such cash dividends and other distributions to stockholders in the event that after giving effect to any payment made to effect such cash dividend or other distribution, the Leverage Ratio would exceed 2.5 to 1 on a pro forma basis as of the end of the Company's most recently completed fiscal quarter. The Credit Agreement provides for an event of default in the event, among other things, that a person or group acquires 25% or more of the outstanding capital stock of the Company or obtains power to elect a majority of the Company's directors. None of these covenants are presently considered by management to be materially restrictive to the Company's operations, capital resources or liquidity. The Company is currently in compliance with all of the debt covenants under the Credit Agreement.

At September 25, 2010, the Company had \$33,699,000 of letters of credit outstanding under the Credit Agreement. At September 25, 2010, there was \$111,301,000 available for future borrowings under the Credit Agreement. In addition, the Company has \$44,715,000 in letters of credit outstanding, as collateral for insurance claims, that are secured by investments totaling \$49,508,000. Investments, all of which are carried at fair value, consist of investment-grade bonds having maturities of up to five years and money market investments. Fair value of investments is based primarily on quoted market prices.

Historically, the Company has generated sufficient operating cash flow to meet its debt service requirements, fund continued growth, both internal and through acquisitions, complete or execute share purchases of its common stock under authorized share purchase programs, pay dividends and meet working capital needs. As a non-asset based provider of transportation services and supply chain solutions, the Company's annual capital requirements for operating property are generally for trailing equipment and management

information services equipment. In addition, a significant portion of the trailing equipment used by the Company is provided by third party capacity providers, thereby reducing the Company's capital requirements. During the 2010 thirty-nine-week period, the Company purchased \$25,474,000 of operating property, including \$21,135,000 for the purchase of the Company's primary facility in Jacksonville, Florida, and acquired \$14,145,000 of trailing equipment by entering into capital leases. Landstar anticipates purchasing approximately \$1,000,000 in operating property, primarily new trailing equipment to replace older trailing equipment, and information technology equipment during the remainder of fiscal year 2010 either by purchase or lease financing.

Management believes that cash flow from operations combined with the Company's borrowing capacity under the Credit Agreement will be adequate to meet Landstar's debt service requirements, fund continued growth, both internal and through acquisitions, pay dividends, complete the authorized share purchase programs and meet working capital needs.

#### LEGAL MATTERS

As further described in periodic and current reports previously filed by the Company with the Securities and Exchange Commission (the SEC), the Company and certain of its subsidiaries (the Defendants) are defendants in a suit (the Litigation) brought in the United States District Court for the Middle District of Florida (the District Court) by the Owner-Operator Independent Drivers Association, Inc. (OOIDA) and four former BCO Independent Contractors (the Named Plaintiffs and, with OOIDA, the Plaintiffs) on behalf of all independent contractors who provide truck capacity to the Company and its subsidiaries under exclusive lease arrangements (the BCO Independent Contractors). The Plaintiffs allege that certain aspects of the Company's motor carrier leases and related practices with its BCO Independent Contractors violate certain federal leasing regulations and seek injunctive relief, an unspecified amount of damages and attorneys' fees.

On March 29, 2007, the District Court denied the request by Plaintiffs for injunctive relief, entered a judgment in favor of the Defendants and issued written orders setting forth its rulings related to the decertification of the plaintiff class and other important elements of the Litigation relating to liability, injunctive relief and monetary relief. The Plaintiffs filed an appeal with the United States Court of Appeals for the Eleventh Circuit (the Appellate Court) of certain of the District Court's rulings in favor of the Defendants. The Defendants asked the Appellate Court to affirm such rulings and filed a cross-appeal with the Appellate Court with respect to certain other rulings of the District Court. On September 3, 2008, the Appellate Court issued its initial ruling. Each of the parties to the Litigation subsequently filed a petition with the Appellate Court seeking rehearing of the Appellate Court's ruling.

On October 4, 2010, the Appellate Court denied each of the motions for rehearing, withdrew its initial ruling and substituted a new ruling in its place. The new ruling by the Appellate Court confirmed the absence of any violations alleged by the Plaintiffs of the federal leasing regulations with respect to the written terms of all leases currently in use between the Defendants and BCO Independent Contractors. In particular, the new ruling, among other things, held that (i) the Defendants are not prohibited by the applicable federal leasing regulations from charging administrative or other fees to BCO Independent Contractors in connection with voluntary programs offered by the Defendants through which a BCO Independent Contractor may purchase discounted products and services for a charge that is deducted against the compensation payable to the BCO Independent Contractor (a Charge-back Deduction), (ii) in the case of a Charge-back Deduction expressed as a flat-fee in the lease, the applicable federal leasing regulations do not require Defendants to do more than disclose the flat-fee Charge-back Deduction in the lease and follow up with settlement statements that explain the final amount charged back, (iii) the Plaintiffs are not entitled to restitution or disgorgement with respect to violations by Defendants of the applicable federal leasing regulations but instead may recover only actual damages, if any, which they sustained as a result of any such violations and (iv) the claims of BCO Independent Contractors may not be handled on a class action basis for purposes of determining the amount of actual damages, if any, they sustained as a result of any violations.

However, the new ruling of the Appellate Court reversed the District Court's ruling that an old version of the lease formerly used by Defendants but not in use with any current BCO Independent Contractor complied with applicable disclosure requirements under the federal leasing regulations with respect to adjustments to compensation payable to BCO Independent Contractors on certain loads sourced from the U. S. Department of Defense. The Appellate Court then remanded the case to the District Court to permit the Plaintiffs to seek injunctive relief with respect to this

violation of the federal leasing regulations and to hold an evidentiary hearing to give the Named Plaintiffs an opportunity to produce evidence of any damages they actually sustained as a result of such violation.

The Plaintiffs have filed a petition with the Appellate Court seeking rehearing en banc of the Appellate Court's October 4, 2010 ruling.

Although no assurances can be given with respect to the outcome of the Litigation, including any possible award of attorneys' fees to the Plaintiffs, the Company believes that (i) no Plaintiff has sustained any actual damages as a result of any violations by the

Defendants of the federal leasing regulations and (ii) injunctive relief, if any, that may be granted by the District Court on remand is unlikely to have a material adverse financial effect on the Company.

The Company is involved in certain other claims and pending litigation arising from the normal conduct of business. Based on knowledge of the facts and, in certain cases, opinions of outside counsel, management believes that adequate provisions have been made for probable losses with respect to the resolution of all such other claims and pending litigation and that the ultimate outcome, after provisions in respect thereof, will not have a material adverse effect on the financial condition of the Company, but could have a material effect on the results of operations in a given quarter or year.

#### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The allowance for doubtful accounts for both trade and other receivables represents management's estimate of the amount of outstanding receivables that will not be collected. In 2009, the Company experienced a higher level of customer bad debt expense than typically experienced in the past. Management believes this resulted from the difficult economic environment experienced by the Company's customers. Historically, management's estimates for uncollectible receivables have been materially correct. Although management believes the amount of the allowance for both trade and other receivables at September 25, 2010 is appropriate, a prolonged period of low or no economic growth may adversely affect the collection of these receivables. Conversely, a more robust economic environment may result in the realization of some portion of the estimated uncollectible receivables.

Landstar provides for the estimated costs of self-insured claims primarily on an actuarial basis. The amount recorded for the estimated liability for claims incurred is based upon the facts and circumstances known on the applicable balance sheet date. The ultimate resolution of these claims may be for an amount greater or less than the amount estimated by management. The Company continually revises its existing claim estimates as new or revised information becomes available on the status of each claim. Historically, the Company has experienced both favorable and unfavorable development of prior years' claims estimates. During the 2010 thirty-nine-week period, insurance and claims costs included \$1,634,000 of unfavorable adjustments to prior years' claims estimates. During the 2009 thirty-nine-week period, insurance and claims costs included \$5,586,000 of favorable adjustments to prior years' claims estimates. It is reasonably likely that the ultimate outcome of settling all outstanding claims will be more or less than the estimated claims reserve at September 25, 2010.

The Company utilizes certain income tax planning strategies to reduce its overall cost of income taxes. Upon audit, it is possible that certain strategies might be disallowed resulting in an increased liability for income taxes. Certain of these tax planning strategies result in a level of uncertainty as to whether the related tax positions taken by the Company would result in a recognizable benefit. The Company has provided for its estimated exposure attributable to such tax positions due to the corresponding level of uncertainty with respect to the amount of income tax benefit that may ultimately be realized. Management believes that the provision for liabilities resulting from the uncertainty in certain income tax positions is appropriate. To date, the Company has not experienced an examination by governmental revenue authorities that would lead management to believe that the Company's past provisions for exposures related to the uncertainty of such income tax positions are not appropriate.

The Company tests for impairment of goodwill at least annually based on a two-step impairment test. The first step compares the fair value of each reporting unit with its carrying amount, including goodwill. Fair value of each reporting unit is estimated using a discounted cash flow model and market approach. The model includes a number of significant assumptions and estimates including future cash flows and discount rates. If the carrying amount exceeds fair value under the first step of the impairment test, then the second step is performed to measure the amount of any impairment loss. The goodwill impairment test is typically performed in the fourth quarter of each fiscal year and when changes in circumstances indicate an impairment event may have occurred. It has been approximately one year since the Company completed the acquisitions of the Acquired Entities. Therefore, during the second quarter of 2010, the Company tested the goodwill of the Acquired Entities. Only the first step of the impairment test was required as the estimated fair value of this reporting unit significantly exceeded its carrying value.

Significant variances from management's estimates for the amount of uncollectible receivables, the ultimate resolution of self-insured claims, the provision for uncertainty in income tax positions and impairment of goodwill can all be expected to positively or negatively affect Landstar's earnings in a given quarter or year. However, management

believes that the ultimate resolution of these items, given a range of reasonably likely outcomes, will not significantly affect the long-term financial condition of Landstar or its ability to fund its continuing operations.



## EFFECTS OF INFLATION

Management does not believe inflation has had a material impact on the results of operations or financial condition of Landstar in the past five years. However, inflation in excess of historic trends might have an adverse effect on the Company's results of operations.

## SEASONALITY

Landstar's operations are subject to seasonal trends common to the trucking industry. Results of operations for the quarter ending in March are typically lower than the quarters ending June, September and December. The results of operations in the fourth quarter have been more volatile than any other quarter over the past five years.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to changes in interest rates as a result of its financing activities, primarily its borrowings on the revolving credit facility, and investing activities with respect to investments held by the insurance segment.

On June 27, 2008, Landstar entered into a credit agreement with a syndicate of banks and JPMorgan Chase Bank, N.A., as administrative agent (the Credit Agreement). The Credit Agreement, which expires on June 27, 2013, provides \$225,000,000 of borrowing capacity in the form of a revolving credit facility, \$75,000,000 of which may be utilized in the form of letter of credit guarantees.

Borrowings under the Credit Agreement bear interest at rates equal to, at the option of the Company, either (i) the greater of (a) the prime rate as publicly announced from time to time by JPMorgan Chase Bank, N.A. and (b) the federal funds effective rate plus .5%, or, (ii) the rate at the time offered to JPMorgan Chase Bank, N.A. in the Eurodollar market for amounts and periods comparable to the relevant loan plus, in either case, a margin that is determined based on the level of the Company's Leverage Ratio, as defined in the Credit Agreement. As of September 25, 2010, the weighted average interest rate on borrowings outstanding was 1.14%. During the third quarters of 2010 and 2009, the average borrowings outstanding under the Credit Agreement were approximately \$73,732,000 and \$12,800,000, respectively. Based on the borrowing rates in the Credit Agreement and the repayment terms, the fair value of the outstanding borrowings as of September 25, 2010 was estimated to approximate carrying value. Assuming that debt levels on the Credit Agreement remain at \$80,000,000, the balance at September 25, 2010, a hypothetical increase of 100 basis points in current rates provided for under the Credit Agreement is estimated to result in an increase in interest expense of \$800,000 on an annualized basis.

Long-term investments, all of which are available-for-sale, consist of investment-grade bonds and mortgage-backed securities having maturities of up to five years. Assuming that the long-term portion of investments in bonds and mortgage-backed securities remains at \$58,874,000, the balance at September 25, 2010, a hypothetical increase or decrease in interest rates of 100 basis points would not have a material impact on future earnings on an annualized basis. The balance of the long-term portion of investments in bonds at September 26, 2009 was \$30,358,000. Short-term investments consist of short-term investment-grade instruments and the current maturities of investment-grade bonds. Accordingly, any future interest rate risk on these short-term investments would not be material.

Assets and liabilities of the Company's Canadian operations are translated from their functional currency to U.S. dollars using exchange rates in effect at the balance sheet date and revenue and expense accounts are translated at average monthly exchange rates during the period. Adjustments resulting from the translation process are included in accumulated other comprehensive income. Transactional gains and losses arising from receivable and payable balances, including intercompany balances, in the normal course of business that are denominated in a currency other than the functional currency of the applicable operation are recorded in the statements of income when they occur. The net assets held at the Company's Canadian subsidiary at September 25, 2010 were, as translated to U.S. dollars, less than 1% of total consolidated net assets. Accordingly, any translation gain or loss related to the Canadian operation would not be material.

### Item 4. Controls and Procedures

As of the end of the period covered by this quarterly report on Form 10-Q, an evaluation was carried out, under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the



Securities Exchange Act of 1934, as amended). Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of September 25, 2010, to provide reasonable assurance that information required to be disclosed by the Company in reports that it filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

There were no significant changes in the Company's internal controls over financial reporting during the Company's fiscal quarter ended September 25, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

In designing and evaluating controls and procedures, Company management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitation in any control system, no evaluation or implementation of a control system can provide complete assurance that all control issues and all possible instances of fraud have been or will be detected.

## PART II OTHER INFORMATION

### Item 1. Legal Proceedings

As further described in periodic and current reports previously filed by the Company with the Securities and Exchange Commission (the "SEC"), the Company and certain of its subsidiaries (the "Defendants") are defendants in a suit (the "Litigation") brought in the United States District Court for the Middle District of Florida (the "District Court") by the Owner-Operator Independent Drivers Association, Inc. ("OOIDA") and four former BCO Independent Contractors (the "Named Plaintiffs" and, with OOIDA, the "Plaintiffs") on behalf of all independent contractors who provide truck capacity to the Company and its subsidiaries under exclusive lease arrangements (the "BCO Independent Contractors"). The Plaintiffs allege that certain aspects of the Company's motor carrier leases and related practices with its BCO Independent Contractors violate certain federal leasing regulations and seek injunctive relief, an unspecified amount of damages and attorneys' fees.

On March 29, 2007, the District Court denied the request by Plaintiffs for injunctive relief, entered a judgment in favor of the Defendants and issued written orders setting forth its rulings related to the decertification of the plaintiff class and other important elements of the Litigation relating to liability, injunctive relief and monetary relief. The Plaintiffs filed an appeal with the United States Court of Appeals for the Eleventh Circuit (the "Appellate Court") of certain of the District Court's rulings in favor of the Defendants. The Defendants asked the Appellate Court to affirm such rulings and filed a cross-appeal with the Appellate Court with respect to certain other rulings of the District Court. On September 3, 2008, the Appellate Court issued its initial ruling. Each of the parties to the Litigation subsequently filed a petition with the Appellate Court seeking rehearing of the Appellate Court's ruling.

On October 4, 2010, the Appellate Court denied each of the motions for rehearing, withdrew its initial ruling and substituted a new ruling in its place. The new ruling by the Appellate Court confirmed the absence of any violations alleged by the Plaintiffs of the federal leasing regulations with respect to the written terms of all leases currently in use between the Defendants and BCO Independent Contractors. In particular, the new ruling, among other things, held that (i) the Defendants are not prohibited by the applicable federal leasing regulations from charging administrative or other fees to BCO Independent Contractors in connection with voluntary programs offered by the Defendants through which a BCO Independent Contractor may purchase discounted products and services for a charge that is deducted against the compensation payable to the BCO Independent Contractor (a "Charge-back Deduction"), (ii) in the case of a Charge-back Deduction expressed as a flat-fee in the lease, the applicable federal leasing regulations do not require Defendants to do more than disclose the flat-fee Charge-back Deduction in the lease and follow up with settlement statements that explain the final amount charged back, (iii) the Plaintiffs are not entitled to restitution or disgorgement with respect to violations by Defendants of the applicable federal leasing regulations but instead may recover only actual damages, if any, which they sustained as a result of any such violations and (iv) the claims of BCO Independent Contractors may not be handled on a class action basis for purposes of determining the amount of actual damages, if any, they sustained as a result of any violations.



However, the new ruling of the Appellate Court reversed the District Court's ruling that an old version of the lease formerly used by Defendants but not in use with any current BCO Independent Contractor complied with applicable disclosure requirements under the federal leasing regulations with respect to adjustments to compensation payable to BCO Independent Contractors on certain loads sourced from the U. S. Department of Defense. The Appellate Court then remanded the case to the District Court to permit the Plaintiffs to seek injunctive relief with respect to this violation of the federal leasing regulations and to hold an evidentiary hearing to give the Named Plaintiffs an opportunity to produce evidence of any damages they actually sustained as a result of such violation.

The Plaintiffs have filed a petition with the Appellate Court seeking rehearing en banc of the Appellate Court's October 4, 2010 ruling.

Although no assurances can be given with respect to the outcome of the Litigation, including any possible award of attorneys' fees to the Plaintiffs, the Company believes that (i) no Plaintiff has sustained any actual damages as a result of any violations by the Defendants of the federal leasing regulations and (ii) injunctive relief, if any, that may be granted by the District Court on remand is unlikely to have a material adverse financial effect on the Company.

The Company is involved in certain other claims and pending litigation arising from the normal conduct of business. Based on knowledge of the facts and, in certain cases, opinions of outside counsel, management believes that adequate provisions have been made for probable losses with respect to the resolution of all such other claims and pending litigation and that the ultimate outcome, after provisions in respect thereof, will not have a material adverse effect on the financial condition of the Company, but could have a material effect on the results of operations in a given quarter or year.

#### Item 1A. Risk Factors

For a discussion identifying risk factors and other important factors that could cause actual results to differ materially from those anticipated, see the discussions under Part I, Item 1A, "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended December 26, 2009, and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Notes to Consolidated Financial Statements" in this Quarterly Report on Form 10-Q.

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

##### Purchases of Equity Securities by the Company

The following table provides information regarding the Company's purchases of its Common Stock during the period from June 27, 2010 to September 25, 2010, the Company's third fiscal quarter:

<b>Fiscal Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Programs</b>	<b>Maximum Number of Shares That May Yet Be Purchased Under the Programs</b>
June 26, 2010				745,220
June 27, 2010 - July 24, 2010		\$		745,220
July 25, 2010 - August 21, 2010	745,220	\$ 39.70	745,220	
August 22, 2010 - Sept. 25, 2010		\$		2,000,000
<b>Total</b>	<b>745,220</b>	<b>\$ 39.70</b>	<b>745,220</b>	

On January 28, 2009, Landstar System, Inc. announced that it had been authorized by its Board of Directors to purchase up to 1,569,377 shares of its Common Stock from time to time in the open market and in privately negotiated transactions. During its 2010 third quarter, the Company completed the purchase of shares authorized for purchase under this program. On August 23, 2010, Landstar System, Inc. announced that it had been authorized by its

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Board of Directors to purchase up to an additional 2,000,000 shares of its common stock from time to time in the open market and in privately negotiated transactions. As of September 25, 2010, the Company may purchase 2,000,000 shares of its common stock under this authorization. No specific expiration date has been assigned to the August 23, 2010 authorization.

During the thirty-nine-week period ended September 25, 2010, Landstar paid dividends as follows:

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<b>Dividend Amount Per Share</b>	<b>Declaration Date</b>	<b>Record Date</b>	<b>Payment Date</b>
\$0.045	January 26, 2010	February 5, 2010	February 26, 2010
\$0.045	April 13, 2010	May 6, 2010	May 28, 2010
\$0.050	July 13, 2010	August 9, 2010	August 27, 2010

On June 27, 2008, Landstar entered into a credit agreement with a syndicate of banks and JPMorgan Chase Bank, N.A., as administrative agent (the Credit Agreement). The Credit Agreement provides for a restriction on cash dividends and other distributions to stockholders on the Company's capital stock to the extent there is a default under the Credit Agreement. In addition, the Credit Agreement, under certain circumstances, limits the amount of such cash dividends and other distributions to stockholders in the event that, after giving effect to any payment made to effect such cash dividend or other distribution, the Leverage Ratio, as defined in the Credit Agreement, would exceed 2.5 to 1 on a pro forma basis as of the end of the Company's most recently completed fiscal quarter.

Item 3. Defaults Upon Senior Securities

None.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits listed on the Exhibit Index are furnished as part of this quarterly report on Form 10-Q.

EXHIBIT INDEX

Registrant's Commission File No.: 0-21238

Exhibit No.	Description
(31)	Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002:
31.1*	Chief Executive Officer certification, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Chief Financial Officer certification, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(32)	Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002:
32.1**	Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Chief Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Schema Document
101.CAL**	XBRL Calculation Linkbase Document
101.LAB**	XBRL Labels Linkbase Document
101.PRE**	XBRL Presentation Linkbase Document
101.DEF**	XBRL Definition Linkbase Document

\* Filed herewith

\*\* Furnished  
herewith



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.

LANDSTAR SYSTEM, INC.

Date: October 29, 2010

/s/ Henry H. Gerken  
Henry H. Gerken  
Chairman, President and  
Chief Executive Officer

Date: October 29, 2010

/s/ James B. Gattoni  
James B. Gattoni  
Vice President and Chief  
Financial Officer