LANDSTAR SYSTEM INC
Form 10-Q
April 30, 2010

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

(Mark One)

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

For the quarterly period ended March 27, 2010

OR

o **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	**06-1313069**
(State or other jurisdiction of incorporation or organization)	(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 þ No o

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 o No o

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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Yes o No þ

The number of shares of the registrant s common stock, par value $0.01 per share, outstanding as of the close of business on April 19, 2010 was 50,151,922.

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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

thirteen weeks ended March 27, 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.

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LANDSTAR SYSTEM, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share amounts)
(Unaudited)

	March 27, 2010	December 26, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	$ 82,493	$ 85,719
Short-term investments	24,391	24,325
Trade accounts receivable, less allowance of $5,399 and $5,547	290,785	278,854
Other receivables, including advances to independent contractors, less allowance of $5,954 and $5,797	28,073	18,149
Deferred income taxes and other current assets	13,890	19,565
Total current assets	439,632	426,612
Operating property, less accumulated depreciation and amortization of $129,949 and $124,810	140,188	116,656
Goodwill	57,470	57,470
Other assets	49,068	48,054
Total assets	$ 686,358	$ 648,792
LIABILITIES AND EQUITY		
Current Liabilities		
Cash overdraft	$ 23,291	$ 28,919
Accounts payable	133,505	121,030
Current maturities of long-term debt	25,562	24,585
Insurance claims	38,194	41,627
Other current liabilities	50,011	42,474
Total current liabilities	270,563	258,635
Long-term debt, excluding current maturities	82,641	68,313
Insurance claims	30,931	30,680
Deferred income taxes	22,345	23,013
Equity		
Landstar System, Inc. and subsidiary shareholders equity		
Common stock, $0.01 par value, authorized 160,000,000 shares, issued 66,281,824 and 66,255,358 shares	663	663
Additional paid-in capital	162,614	161,261

Retained earnings	780,954	766,040
Cost of 16,142,282 and 16,022,111 shares of common stock in treasury	(664,953)	(660,446)
Accumulated other comprehensive income	684	498
Total Landstar System, Inc. and subsidiary shareholders equity	279,962	268,016
Noncontrolling interest	(84)	135
Total equity	279,878	268,151
Total liabilities and equity	$ 686,358	$ 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)

	Thirteen Weeks Ended	
	March 27, 2010	**March 28, 2009**
Revenue	$ 548,088	$ 469,247
Investment income	285	425
Costs and expenses:		
Purchased transportation	417,201	351,324
Commissions to agents	40,408	38,324
Other operating costs	7,536	7,450
Insurance and claims	12,298	9,002
Selling, general and administrative	36,843	34,369
Depreciation and amortization	5,792	5,485
Total costs and expenses	520,078	445,954
Operating income	28,295	23,718
Interest and debt expense	854	1,163
Income before income taxes	27,441	22,555
Income taxes	10,484	8,661
Net income	16,957	13,894
Less: Net loss attributable to noncontrolling interest	(219)	
Net income attributable to Landstar System, Inc. and subsidiary	$ 17,176	$ 13,894
Earnings per common share attributable to Landstar System, Inc. and subsidiary	$ 0.34	$ 0.27
Diluted earnings per share attributable to Landstar System, Inc. and subsidiary	$ 0.34	$ 0.27
Average number of shares outstanding:		
Earnings per common share	50,207,000	51,575,000
Diluted earnings per share	50,318,000	51,782,000
Dividends paid per common share	$ 0.0450	$ 0.0400

See accompanying notes to consolidated financial statements.

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LANDSTAR SYSTEM, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Thirteen Weeks Ended	
	March 27, 2010	March 28, 2009
OPERATING ACTIVITIES		
Net income	$ 16,957	$ 13,894
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of operating property and intangible assets	5,792	5,485
Non-cash interest charges	55	55
Provisions for losses on trade and other accounts receivable	1,027	2,743
Losses on sales/disposals of operating property	20	2
Deferred income taxes, net	(805)	783
Stock-based compensation	1,185	1,389
Changes in operating assets and liabilities:		
Decrease (increase) in trade and other accounts receivable	(22,882)	71,948
Decrease in other assets	5,977	7,278
Increase (decrease) in accounts payable	12,475	(17,845)
Increase (decrease) in other liabilities	7,490	(5,149)
Increase (decrease) in insurance claims	(3,182)	410
NET CASH PROVIDED BY OPERATING ACTIVITIES	24,109	80,993
INVESTING ACTIVITIES		
Net change in other short-term investments	(1,237)	6,505
Sales and maturities of investments	6,082	442
Purchases of investments	(6,275)	(8,828)
Purchases of operating property	(22,239)	(555)
Proceeds from sales of operating property	55	28
NET CASH USED BY INVESTING ACTIVITIES	(23,614)	(2,408)
FINANCING ACTIVITIES		
Decrease in cash overdraft	(5,628)	(8,230)
Dividends paid	(2,262)	(2,068)
Proceeds from exercises of stock options	159	533
Excess tax benefit on stock option exercises	9	239
Borrowings on revolving credit facility	15,000	
Purchases of common stock	(4,507)	(11,958)
Principal payments on long-term debt and capital lease obligations	(6,592)	(25,540)

NET CASH USED BY FINANCING ACTIVITIES	(3,821)	(47,024)
Effect of exchange rate changes on cash and cash equivalents	100	(87)
Increase (decrease) in cash and cash equivalents	(3,226)	31,474
Cash and cash equivalents at beginning of period	85,719	98,904
Cash and cash equivalents at end of period	$ 82,493	$ 130,378

See accompanying notes to consolidated financial statements.

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LANDSTAR SYSTEM, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Thirteen Weeks Ended March 27, 2010
(Dollars in thousands)
(Unaudited)

	Landstar System, Inc. and Subsidiary Shareholders								
	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock at Cost		Accumulated Other Comprehensive Income	Non-controlling Interest	Total
	Shares	Amount			Shares	Amount			
Balance December 26, 2009	66,255,358	$663	$161,261	$766,040	16,022,111	$(660,446)	$498	$ 135	$268,151
Net income (loss)				17,176				(219)	16,957
Dividends paid ($0.045 per share)				(2,262)					(2,262)
Purchases of common stock					120,171	(4,507)			(4,507)
Stock-based compensation			1,185						1,185
Exercises of stock options and issuance of non-vested stock, including excess tax benefit	26,466		168						168
Foreign currency translation							100		100
Unrealized gain on available-for-sale investments, net of income taxes							86		86
Balance March 27, 2010	66,281,824	$663	$162,614	$780,954	16,142,282	$(664,953)	$684	$ (84)	$279,878

See accompanying notes to consolidated financial statements.

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LANDSTAR SYSTEM, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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) Acquisitions

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. Consideration paid with respect to the acquisitions, net of cash acquired of $2.4 million, was approximately $15.9 million, which included 27,323 shares, or $1.0 million, of common stock of Landstar, subject to certain vesting and other restrictions including restrictions on transfer. Net liabilities acquired were approximately $17.0 million. Identified in the allocation of purchase price was approximately $9.0 million of identifiable intangible assets which are included in other assets on the consolidated balance sheets. The resulting goodwill arising from the acquisitions was approximately $26.3 million, all of which is expected to be deductible for income tax purposes. The results of operations from NLM and A3i are presented as part of the Company s transportation logistics segment.

(2) Share-based Payment Arrangements

As of March 27, 2010, the Company had an employee stock option plan, an employee stock option and stock incentive plan (the ESOSIP) and one stock option plan for members of its Board of Directors (the Plans). In addition, the Company had a stock compensation plan for members of its Board of Directors (the Directors Stock Compensation Plan). 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):

	Thirteen Weeks Ended	
	March 27, 2010	March 28, 2009
Total cost of the Plans during the period	$ 1,185	$ 1,389
Amount of related income tax benefit recognized during the period	299	353
Net cost of the Plans during the period	$ 886	$ 1,036

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 thirteen-week periods:

	2010	**2009**
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

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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 thirteen-week periods ended March 27, 2010 and March 28, 2009 was $11.98 and $11.75, respectively.

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

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (000s)
Options outstanding at December 26, 2009	2,557,802	$ 36.86		
Granted	223,250	$ 37.37		
Exercised	(44,920)	$ 26.95		
Forfeited	(50,367)	$ 43.22		
Options outstanding at March 27, 2010	2,685,765	$ 36.95	6.7	$ 11,945
Options exercisable at March 27, 2010	1,316,815	$ 33.43	5.1	$ 10,501

The total intrinsic value of stock options exercised during the thirteen-week periods ended March 27, 2010 and March 28, 2009 was $532,000 and $939,000, respectively.

As of March 27, 2010, there was $12,803,000 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 3.3 years.

The fair value of each share of non-vested restricted stock issued under the ESOSIP 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 ESOSIP:

	Number of Shares	Grant Date Fair Value
Restricted stock outstanding at December 26, 2009	11,500	$34.82
Granted	8,400	$39.10
Restricted stock outstanding at March 27, 2010	19,900	$36.63

As of March 27, 2010, there was $650,000 of total unrecognized compensation cost related to non-vested shares of restricted stock granted under the ESOSIP. The unrecognized compensation cost related to these non-vested shares of restricted stock is expected to be recognized over a weighted average period of 3.7 years.

As of March 27, 2010, there were 5,080,482 shares of the Company s common stock reserved for issuance upon exercise of options granted and to be granted under the Plans and 138,423 shares of the Company s common stock reserved for issuance upon the grant of stock under the Directors Stock Compensation Plan.

(3) Income Taxes

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 38.4%, 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-based compensation.

(4) Earnings Per Share

Earnings per common share attributable to Landstar System, Inc. and subsidiary are based on the weighted average number of common shares outstanding and 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):

	Thirteen Weeks Ended	
	March 27, 2010	**March 28, 2009**
Average number of common shares outstanding	50,207	51,575
Incremental shares from assumed exercises of stock options	111	207
Average number of common shares and common share equivalents outstanding	50,318	51,782

For the thirteen-week periods ended March 27, 2010 and March 28, 2009, there were options outstanding of 1,653,913 and 2,037,747, respectively, to purchase shares of common stock excluded from the calculation of diluted earnings per share attributable to Landstar System, Inc. and subsidiary because they were antidilutive.

(5) Additional Cash Flow Information

During the 2010 thirteen-week period, Landstar paid income taxes and interest of $1,795,000 and $895,000, respectively. During the 2009 thirteen-week period, Landstar paid income taxes and interest of $1,655,000 and $1,395,000, respectively. Landstar acquired operating property by entering into capital leases in the amount of $6,897,000 and $6,585,000 in the 2010 and 2009 thirteen-week periods, respectively. During the 2010 thirteen-week period, the Company purchased $22,239,000 of operating property, including $21,135,000 for the purchase of the Company s primary facility in Jacksonville, Florida.

(6) Segment Information

The following tables summarize information about Landstar s reportable business segments as of and for the thirteen-week periods ended March 27, 2010 and March 28, 2009 (in thousands):

	Thirteen Weeks Ended					
	March 27, 2010			**March 28, 2009**		
	Transportation Logistics	**Insurance**	**Total**	**Transportation Logistics**	**Insurance**	**Total**
External revenue	$539,615	$8,473	$548,088	$459,934	$9,313	$469,247
Investment income		285	285		425	425
Internal revenue		5,903	5,903		5,831	5,831
Operating income	22,527	5,768	28,295	15,106	8,612	23,718
Expenditures on long-lived assets	22,239		22,239	555		555
Goodwill	57,470		57,470	31,134		31,134

In the thirteen-week period ended March 27, 2010, one customer accounted for approximately 14 percent of the Company s revenue. In the thirteen-week period ended March 28, 2009, there were no customers who accounted for 10 percent or more of the Company s revenue.

(7) Comprehensive Income

The following table includes the components of comprehensive income attributable to Landstar System, Inc. and subsidiary for the thirteen-week periods ended March 27, 2010 and March 28, 2009 (in thousands):

	Thirteen Weeks Ended	
	March 27, 2010	**March 28, 2009**
Net income attributable to Landstar System, Inc. and subsidiary	$ 17,176	$ 13,894
Unrealized gains/(losses) on available-for-sale investments, net of income taxes	86	(152)
Foreign currency translation gains/(losses)	100	(87)
Comprehensive income attributable to Landstar System, Inc. and subsidiary	$ 17,362	$ 13,655

The unrealized holding gain on available-for-sale investments during the 2010 thirteen-week period represents the mark-to-market adjustment of $133,000, net of related income taxes of $47,000. The unrealized holding loss on available-for-sale investments during the 2009 thirteen-week period represents the mark-to-market adjustment of $235,000, net of related income tax benefits of $83,000. The foreign currency translation gain/loss represents the unrealized net gain or loss 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 March 27, 2010 of $684,000 represents the unrealized net gain on the translation of the financial statements of the Company s Canadian operations of $308,000 and the cumulative unrealized holding gains on available-for-sale investments, net of income taxes, of $376,000.

(8) Investments

Investments consist of investment-grade bonds 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 market 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 Level 2 inputs related to investment-grade corporate bonds and direct obligations of U.S. government agencies. Net unrealized gains on the bonds in the bond portfolio were $581,000 at March 27, 2010 and $448,000 at December 26, 2009.

The amortized cost and fair market values of available-for-sale investments are as follows at March 27, 2010 and December 26, 2009 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
March 27, 2010				
Corporate bonds and direct obligations of U.S. government agencies	$ 39,372	$ 609	$ 32	$ 39,949
U.S. Treasury obligations	11,492	4		11,496
Total	$ 50,864	$ 613	$ 32	$ 51,445
December 26, 2009				
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

Total	$ 50,750	$ 674	$ 226	$ 51,198

For those available-for-sale investments with unrealized losses at March 27, 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 Market Value	**Unrealized Loss**	**Fair Market Value**	**Unrealized Loss**	**Fair Market Value**	**Unrealized Loss**
March 27, 2010						
Corporate bonds and direct obligations of U.S. government agencies	$2,019	$ 4	$ 780	$ 28	$2,799	$ 32
December 26, 2009						
Corporate bonds and direct obligations of U.S. government agencies	$1,989	$ 10	$1,192	$216	$3,181	$226

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(9) Commitments and Contingencies

Short-term investments include $21,423,000 in current maturities of investment-grade bonds and $2,968,000 of cash equivalents held by the Company s insurance segment at March 27, 2010. These short-term investments together with $25,444,000 of the non-current portion of investment-grade bonds included in other assets at March 27, 2010 provide collateral for the $45,148,000 of letters of credit issued to guarantee payment of insurance claims. As of March 27, 2010, Landstar also had $33,837,000 of letters of credit outstanding under the Company s credit agreement.

In the Company s 2009 fiscal third quarter, the Company completed the acquisitions of NLM and A3i. As it relates to NLM, the Company may be required to pay additional consideration to the prior owner of NLM contingent on NLM achieving certain levels of earnings through December 2014. As it relates to the noncontrolling interest of A3i Acquisition, the Company has the option, during the period commencing on the fourth anniversary of June 29, 2009, the closing date of the acquisition (the Closing Date), and ending on the sixth anniversary of the Closing Date, to purchase at fair value all but not less than all of the noncontrolling interest. The noncontrolling interest is also subject to customary restrictions on transfer, including a right of first refusal in favor of the Company, and drag-along rights. For a specified period following each of the sixth, seventh and eighth anniversaries of the Closing Date, the owner of the noncontrolling interest shall have the right, but not the obligation, to sell at fair value to the Company up to one third annually of the investment then held by such owner. The owner of the non-controlling interest also has certain preemptive rights and tag-along rights.

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 ruling, which, among other things, affirmed the District Court s rulings 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) 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 (iii) 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. Further, the analysis of 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.

However, the ruling of the Appellate Court reversed the District Court s rulings (i) 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, and (ii) that the

Defendants had provided sufficient documentation to BCO Independent

Contractors under the applicable federal leasing regulations relating to how the component elements of Charge-back Deductions were computed. The Appellate Court then remanded the case to the District Court to permit the Plaintiffs to seek injunctive relief with respect to these violations 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 violations.

Each of the parties to the Litigation has filed a petition with the Appellate Court seeking rehearing of the Appellate Court s ruling; however, there can be no assurance that any petition for rehearing will be granted.

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 therefore, 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 our 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 customers services 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) A3 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. Transportation management fees represented 1% of the Company s transportation logistics segment revenue in the thirteen-week period ended March 27, 2010.

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 thirteen weeks ended March 27, 2010, transportation services revenue hauled by BCO Independent Contractors, Truck Brokerage Carriers, rail intermodal, ocean cargo carriers and air cargo carriers represented 53%, 41%, 3%, 1%, and 1%, respectively, of the Company s transportation logistics segment revenue.

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 2% of the Company s total revenue for the thirteen weeks ended March 27, 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 1,372 and 1,445 agent locations at March 27, 2010 and March 28, 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. Those factors include the average length of haul, freight type, 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:

	Thirteen Weeks Ended	
	March 27, 2010	**March 28, 2009**
Revenue generated through (in thousands):		
BCO Independent Contractors	$ 286,141	$ 262,065
Truck Brokerage Carriers	219,755	164,243
Rail intermodal	14,776	19,318
Ocean cargo carriers	9,135	8,851
Air cargo carriers	4,603	5,387
Other [1]	13,678	9,383
	$ 548,088	$ 469,247
Number of loads:		
BCO Independent Contractors	197,750	170,650
Truck Brokerage Carriers	149,350	117,650
Rail intermodal	6,870	9,580
Ocean cargo carriers	1,460	1,240
Air cargo carriers	1,500	3,260
	356,930	302,380
Revenue per load:		
BCO Independent Contractors	$ 1,447	$ 1,536
Truck Brokerage Carriers	1,471	1,396
Rail intermodal	2,151	2,016
Ocean cargo carriers	6,257	7,138
Air cargo carriers	3,069	1,652

(1) Includes premium revenue generated by the insurance segment and warehousing revenue and transportation management fees 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:

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	March 27, 2010	March 28, 2009
BCO Independent Contractors	7,800	8,424
Truck Brokerage Carriers:		
Approved and active [1]	15,644	14,877
Other approved	9,674	10,682
	25,318	25,559
Total available truck capacity providers	33,118	33,983
Number of trucks provided by BCO Independent Contractors	8,384	9,013

(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 over revenue is referred to as net margin. In general, net margin on revenue hauled by BCO Independent Contractors represents a fixed percentage of revenue due to the nature of the contracts that pay a fixed percentage of revenue to both the BCO Independent Contractors and independent commission sales agents. For revenue hauled by Truck Brokerage Carriers, net margin is either fixed or variable as a percent of revenue, depending on the 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 margin on revenue hauled by rail, 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 thirteen-week period ended March 27, 2010 had a fixed net 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:

	Thirteen Weeks Ended	
	March 27, 2010	**March 28, 2009**
Revenue	100.0%	100.0%
Investment income	0.1	0.1
Costs and expenses:		
Purchased transportation	76.1	74.9
Commissions to agents	7.4	8.1
Other operating costs	1.4	1.6
Insurance and claims	2.2	1.9
Selling, general and administrative	6.7	7.3
Depreciation and amortization	1.1	1.2
Total costs and expenses	94.9	95.0
Operating income	5.2	5.1
Interest and debt expense	0.2	0.3
Income before income taxes	5.0	4.8
Income taxes	1.9	1.8
Net income	3.1%	3.0%

THIRTEEN WEEKS ENDED MARCH 27, 2010 COMPARED TO THIRTEEN WEEKS ENDED MARCH 28, 2009

Revenue for the 2010 thirteen-week period was $548,088,000, an increase of $78,841,000, or 16.8%, compared to the 2009 thirteen-week period. Revenue increased $79,681,000, or 17.3%, at the transportation logistics segment. The increase in revenue at the transportation logistics segment was primarily attributable to an 18% increase in the number of loads hauled, partly offset by a lower revenue per load amount of approximately 2%. Revenue hauled by BCO Independent Contractors, Truck Brokerage Carriers and ocean cargo carriers increased 9%, 34% and 3%, respectively, partially offset by decreased revenue hauled by rail intermodal carriers and air cargo carriers of 24% and 15%, respectively. Included in the 2010 thirteen-week period was $5,085,000 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 and ocean cargo carriers increased 16%, 27% and 18%, respectively, compared to the 2009 period,

while the number of loads hauled by rail intermodal carriers and air cargo carriers decreased 28% and 54%, respectively, over the same period. Revenue per load for loads hauled by Truck Brokerage Carriers, rail intermodal carriers and air cargo carriers increased approximately 5%, 7% and 86%, respectively, compared to the 2009 period. Revenue per load for loads hauled by BCO Independent Contractors and ocean cargo carriers decreased approximately 6% and 12%, respectively, compared to the 2009 period. The increase in revenue per load on Truck Brokerage Carrier revenue was partly attributable to increased fuel surcharges identified separately in billings to customers in the 2010 period compared to the 2009 period. Fuel surcharges on Truck Brokerage Carrier revenue identified separately in billings to customers and included as a component of Truck Brokerage Carrier revenue were $18,959,000 and $9,776,000 in the 2010 and 2009 periods, respectively. Fuel surcharges billed to customers on revenue hauled by BCO Independent Contractors are excluded from revenue.

Investment income at the insurance segment was $285,000 and $425,000 in the 2010 and 2009 thirteen-week periods, respectively. The decrease in investment income was primarily due to decreased average investments held by the insurance segment in the 2010 period.

Purchased transportation was 76.1% and 74.9% 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 7.4% 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 1.4% and 1.6% 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 and lower trailing equipment rental costs in the 2010 period, partly offset by $834,000 of other operating costs of the Acquired Entities in the 2010 period. Insurance and claims were 2.2% of revenue in the 2010 period and 1.9% of revenue in the 2009 period. The increase in insurance and claims as a percentage of revenue was primarily due to increased cost of cargo claims and increased frequency and severity of commercial trucking claims in the 2010 period. Selling, general and administrative costs were 6.7% of revenue in the 2010 period and 7.3% 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 $2,400,000 provision for bonuses under the Company s incentive compensation programs in the 2010 period compared to no provision in the 2009 period and $3,944,000 of selling, general and administrative costs of the Acquired Entities in the 2010 period. Depreciation and amortization was 1.1% 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.

Interest and debt expense was 0.2% of revenue in the 2010 thirteen-week period, compared to 0.3% 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 borrowings on the Company s senior credit facility.

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 38.4%, 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 net loss attributable to noncontrolling interest of $219,000 represents the noncontrolling investor s 25 percent share of the net loss incurred by A3i during the 2010 thirteen-week period.

Net income attributable to the Company was $17,176,000, or $0.34 per common share ($0.34 per diluted share), in the 2010 thirteen-week period. Net income attributable to the Company was $13,894,000, or $0.27 per common share ($0.27 per diluted share), in the 2009 thirteen-week period.

CAPITAL RESOURCES AND LIQUIDITY

Equity was $279,878,000, or 72% of total capitalization (defined as long-term debt including current maturities plus equity), at March 27, 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 120,171 shares of the Company s common stock at a total cost of $4,507,000 and dividends paid by the Company.

The Company paid $0.045 per share, or $2,262,000, in cash dividends during the thirteen-week period ended March 27, 2010. It is the intention of the Board of Directors to continue to pay a quarterly dividend. As of March 27, 2010, the Company may purchase up to an additional 1,255,282 shares of its common stock under its authorized stock purchase program. Long-term debt, including current maturities, was $108,203,000 at March 27, 2010, $15,305,000 higher than at December 26, 2009.

Working capital and the ratio of current assets to current liabilities were $169,069,000 and 1.6 to 1, respectively, at March 27, 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 $24,109,000 in the 2010 thirteen-week period compared with $80,993,000 in the 2009 thirteen-week period. The decrease in cash flow provided by operating activities was primarily attributable to the timing of collections of receivables.

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 March 27, 2010, the Company had $33,837,000 of letters of credit outstanding under the Credit Agreement. At March 27, 2010, there was $136,163,000 available for future borrowings under the Credit Agreement. In addition, the Company has $45,148,000 in letters of credit outstanding, as collateral for insurance claims, that are secured by investments and cash equivalents totaling $49,835,000. Investments, all of which are carried at fair value, consist of investment-grade bonds having maturities of up to five years. 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 thirteen-week period, the Company purchased $22,239,000 of operating property, including $21,135,000 for the purchase of the Company s primary facility in Jacksonville, FL and acquired $6,897,000 of trailing equipment by entering into capital leases. Landstar anticipates purchasing approximately $20,000,000 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 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 ruling, which, among other things, affirmed the District Court s rulings 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) 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 (iii) 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. Further, the analysis of 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.

However, the ruling of the Appellate Court reversed the District Court s rulings (i) 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, and (ii) that the Defendants had provided sufficient documentation to BCO Independent Contractors under the applicable federal leasing regulations relating to how the component elements of Charge-back Deductions were computed. The Appellate Court then remanded the case to the District Court to permit the Plaintiffs to seek injunctive relief with respect to these violations 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 violations.

Each of the parties to the Litigation has filed a petition with the Appellate Court seeking rehearing of the Appellate Court s ruling; however, there can be no assurance that any petition for rehearing will be granted.

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 March 27, 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 thirteen-week period, insurance and claims costs included $418,000 of unfavorable adjustments to prior years claims estimates. During the 2009

thirteen-week period, insurance and claims costs included $132,000 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 March 27, 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.

Significant variances from management s estimates for the amount of uncollectible receivables, the ultimate resolution of self-insured claims or the provision for uncertainty in income tax positions 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.

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 March 27, 2010, the weighted average interest rate on borrowings outstanding was 1.10%. During the first quarter of 2010, the average outstanding balance under the Credit Agreement was approximately $32,934,000. Based on the borrowing rates in the Credit Agreement and the repayment terms, the fair value of the outstanding borrowings as of March 27, 2010 was estimated to approximate carrying value. Assuming that debt levels on the Credit Agreement remain at $55,000,000, the balance at March 27, 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 $550,000 on an annualized basis.

Long-term investments, all of which are available-for-sale, consist of investment-grade bonds having maturities of up to five years. Assuming that the long-term portion of investments in bonds remains at $30,022,000, the balance at March 27, 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. 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 March 27, 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 March 27, 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 March 27, 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 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 ruling, which, among other things, affirmed the District Court s rulings 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) 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 (iii) 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. Further, the analysis of 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.

However, the ruling of the Appellate Court reversed the District Court s rulings (i) 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, and (ii) that the Defendants had provided sufficient documentation to BCO Independent Contractors under the applicable federal leasing regulations relating to how the component elements of Charge-back Deductions were computed. The Appellate Court then remanded the case to the District Court to permit the Plaintiffs to seek injunctive relief with respect to these violations 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 violations.

Each of the parties to the Litigation has filed a petition with the Appellate Court seeking rehearing of the Appellate Court s ruling; however, there can be no assurance that any petition for rehearing will be granted.

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 December 27, 2009 to March 27, 2010, the Company s first fiscal quarter:

Fiscal Period	**Total Number of Shares Purchased**	**Average Price Paid Per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Programs**	**Maximum Number of Shares That May Yet Be Purchased Under the Programs**
December 26, 2009				1,375,453
Dec. 27, 2009 Jan. 23, 2010		$		1,375,453
Jan. 24, 2010 Feb. 20, 2010	80,882	$ 35.70	80,882	1,294,571
Feb. 21, 2010 Mar. 27, 2010	39,289	$ 41.23	39,289	1,255,282
Total	120,171	$ 37.51	120,171	

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. No specific expiration date has been assigned to the January 28, 2009 authorization.

During the thirteen-week period ended March 27, 2010, Landstar paid dividends as follows:

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Dividend Amount per share	Declaration Date	Record Date	Payment Date
$0.045	January 26, 2010	February 5, 2010	February 26, 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 4. Submission of Matters to a Vote of Security Holders

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.

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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.

* 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: April 30, 2010	/s/ Henry H. Gerkens
	Henry H. Gerkens Chairman, President and Chief Executive Officer
Date: April 30, 2010	/s/ James B. Gattoni
	James B. Gattoni Vice President and Chief Financial Officer

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