

LANDSTAR SYSTEM INC

Form 10-Q

November 02, 2007

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**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 29, 2007**

**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** **06-1313069**  
(State or other jurisdiction (I.R.S. Employer  
of incorporation or organization) 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one)

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Yes  No

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 22, 2007 was 53,758,356.

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## 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 shareholders' 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 29, 2007 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 29, 2007.

These interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 2006 Annual Report on Form 10-K.

**LANDSTAR SYSTEM, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS**  
(Dollars in thousands, except per share amounts)  
(Unaudited)

	<b>Sept 29, 2007</b>	<b>Dec 30, 2006</b>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 59,047	\$ 91,491
Short-term investments	20,948	21,548
Trade accounts receivable, less allowance of \$5,326 and \$4,834	310,110	318,983
Other receivables, including advances to independent contractors, less allowance of \$4,744 and \$4,512	11,398	14,198
Deferred income taxes and other current assets	34,984	25,142
Total current assets	436,487	471,362
Operating property, less accumulated depreciation and amortization of \$83,696 and \$77,938	128,203	110,957
Goodwill	31,134	31,134
Other assets	36,355	33,198
Total assets	\$ 632,179	\$ 646,651
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Cash overdraft	\$ 32,201	\$ 25,435
Accounts payable	125,068	122,313
Current maturities of long-term debt	21,848	18,730
Insurance claims	26,099	25,238
Other current liabilities	57,096	58,478
Total current liabilities	262,312	250,194

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Long-term debt, excluding current maturities	106,187	110,591
Insurance claims	40,042	36,232
Deferred income taxes	22,178	19,360
Shareholders' Equity		
Common stock, \$0.01 par value, authorized 160,000,000 shares, issued 65,613,866 and 64,993,143	656	650
Additional paid-in capital	130,116	108,020
Retained earnings	574,505	499,273
Cost of 11,855,510 and 9,028,009 shares of common stock in treasury	(503,810)	(377,662)
Accumulated other comprehensive loss	(7)	(7)
Total shareholders' equity	201,460	230,274
Total liabilities and shareholders' equity	\$ 632,179	\$ 646,651

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>Sept 29, 2007</b>	<b>Sept 30, 2006</b>	<b>Sept 29, 2007</b>	<b>Sept 30, 2006</b>
Revenue	\$ 1,844,412	\$ 1,902,477	\$ 634,811	\$ 649,197
Investment income	4,103	2,589	1,106	1,337
Costs and expenses:				
Purchased transportation	1,394,781	1,430,411	481,946	486,102
Commissions to agents	148,574	149,694	51,170	52,173
Other operating costs	21,208	37,125	7,986	14,837
Insurance and claims	38,878	30,230	9,319	9,656
Selling, general and administrative	95,002	102,809	31,082	31,885
Depreciation and amortization	14,045	12,230	4,766	4,180
Total costs and expenses	1,712,488	1,762,499	586,269	598,833
Operating income	136,027	142,567	49,648	51,701
Interest and debt expense	4,464	4,950	1,764	1,808
Income before income taxes	131,563	137,617	47,884	49,893
Income taxes	50,941	53,222	18,536	19,313
Net income	\$ 80,622	\$ 84,395	\$ 29,348	\$ 30,580
Earnings per common share	\$ 1.46	\$ 1.45	\$ 0.54	\$ 0.53
Diluted earnings per share	\$ 1.45	\$ 1.43	\$ 0.54	\$ 0.53
Average number of shares outstanding:				
Earnings per common share	55,221,000	58,229,000	54,189,000	57,287,000
Diluted earnings per share	55,740,000	59,155,000	54,608,000	57,948,000
Dividends paid per common share	\$ 0.0975	\$ 0.0800	\$ 0.0375	\$ 0.0300

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)

	<b>Thirty Nine Weeks Ended</b>	
	<b>Sept 29, 2007</b>	<b>Sept 30, 2006</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 80,622	\$ 84,395
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of operating property	14,045	12,230
Non-cash interest charges	130	130
Provisions for losses on trade and other accounts receivable	3,094	4,218
(Gains) losses on sales of operating property	(1,689)	120
Director compensation paid in common stock	678	265
Deferred income taxes, net	2,627	(440)
Stock-based compensation	5,500	5,125
Changes in operating assets and liabilities:		
Decrease in trade and other accounts receivable	8,579	165,131
Increase in other assets	(7,641)	(9,915)
Increase (decrease) in accounts payable	2,755	(23,090)
Decrease in other liabilities	(1,383)	(7,368)
Increase (decrease) in insurance claims	4,671	(906)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>111,988</b>	<b>229,895</b>
<b>INVESTING ACTIVITIES</b>		
Net change in other short-term investments	(2,845)	(2,829)
Sales and maturities of investments	30,282	25,015
Purchases of investments	(32,133)	(25,974)
Purchases of operating property	(5,829)	(2,756)
Proceeds from sales of operating property	3,688	1,106
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(6,837)</b>	<b>(5,438)</b>
<b>FINANCING ACTIVITIES</b>		
Increase (decrease) in cash overdraft	6,766	(334)
Proceeds from repayment of notes receivable arising from exercises of stock options		47
Dividends paid	(5,390)	(4,652)
Proceeds from exercises of stock options	12,264	8,271
Excess tax benefit on stock option exercises	3,660	5,007
Borrowings on revolving credit facility	24,000	5,000
Purchases of common stock	(126,148)	(114,597)

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Principal payments on long-term debt and capital lease obligations	(52,747)	(69,778)
<b>NET CASH USED BY FINANCING ACTIVITIES</b>	<b>(137,595)</b>	<b>(171,036)</b>
Increase (decrease) in cash and cash equivalents	(32,444)	53,421
Cash and cash equivalents at beginning of period	91,491	29,398
Cash and cash equivalents at end of period	\$ 59,047	\$ 82,819

See accompanying notes to consolidated financial statements.



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LANDSTAR SYSTEM, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
Thirty Nine Weeks Ended September 29, 2007  
(Dollars in thousands)  
(Unaudited)

	Common Stock Shares	Common Stock Amount	Add 1 Paid-In Capital	Retained Earnings	Treasury Stock at Cost Shares	Treasury Stock at Cost Amount	Accumulated Other Comprehensive Loss	Total
Balance December 30, 2006	64,993,143	\$ 650	\$ 108,020	\$ 499,273	9,028,009	\$ (377,662)	\$ (7)	\$ 230,274
Net income				80,622				80,622
Dividends paid				(5,390)				(5,390)
Director compensation paid in common stock	13,577		678					678
Purchases of common stock					2,827,501	(126,148)		(126,148)
Stock-based compensation			5,500					5,500
Exercises of stock options, including excess tax benefit	607,146	6	15,918					15,924
Balance September 29, 2007	65,613,866	\$ 656	\$ 130,116	\$ 574,505	11,855,510	\$ (503,810)	\$ (7)	\$ 201,460

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".

**(1) Share-based Payments**

As of September 29, 2007, the Company had two employee stock option plans and one stock option plan for members of its Board of Directors (the "Plans"). 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>Sept 29, 2007</b>	<b>Sept 30, 2006</b>	<b>Sept 29, 2007</b>	<b>Sept 30, 2006</b>
Total cost of the Plans during the period	\$ 5,500	\$ 5,125	\$ 1,856	\$ 1,828
Amount of related income tax benefit recognized during the period	1,732	1,611	547	548
Net cost of the Plans during the period	\$ 3,768	\$ 3,514	\$ 1,309	\$ 1,280

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 2007 and 2006 thirty-nine-week periods:

	2007	2006
Expected volatility	33.0%	34.0%
Expected dividend yield	0.3%	0.3%
Risk-free interest rate	4.75%	4.75%
Expected lives (in years)	4.2	4.5

The Company utilizes historical data, including exercise patterns and employee departure behavior, in estimating the term 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 29, 2007 and September 30, 2006 was \$14.26 and \$15.32, respectively.

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

<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>
2,566,571	\$ 27.35		

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Options outstanding at December 30,  
2006

Granted	275,500	\$	43.00
Exercised	(607,146)	\$	20.20
Forfeited	(18,100)	\$	39.47

Options outstanding at September 29,  
2007

2,216,825	\$	31.15	7.1	\$	23,987
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Options exercisable at September 29,  
2007

760,343	\$	24.92	5.9	\$	12,966
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As of September 29, 2007, there were 5,853,725 shares of the Company's common stock reserved for issuance upon exercise of options granted and to be granted under the Plans.

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The total intrinsic value of stock options exercised during the thirty-nine-week periods ended September 29, 2007 and September 30, 2006 was \$16,234,000 and \$22,548,000, respectively. The total intrinsic value of stock options exercised during the thirteen-week periods ended September 29, 2007 and September 30, 2006 was \$6,415,000 and \$6,138,000, respectively.

As of September 29, 2007, there was \$10,654,000 of total unrecognized compensation cost related to non-vested stock options granted under the Plans. The compensation cost related to these non-vested options is expected to be recognized over a weighted average period of 2.5 years.

Under the Directors' Stock Compensation Plan, outside members of the Board of Directors who are elected or re-elected to the Board will receive 6,000 shares of common stock of the Company, subject to certain restrictions including restrictions on transfer. The Company issued 12,000 shares of the Company's common stock to members of the Board of Directors upon such members' re-election at the 2007 annual shareholders' meeting and 6,000 shares of the Company's common stock to a member of the Board of Directors upon such member's re-election at the 2006 annual shareholders' meeting. On July 19, 2007, 1,577 shares of the Company's common stock were issued to a member of the Board of Directors upon such member's election to the Board of Directors. During the 2007 and 2006 thirty-nine-week periods, the Company reported \$678,000 and \$265,000, respectively, of compensation expense representing the fair market value of these share awards. As of September 29, 2007, there were 150,423 shares of the Company's common stock reserved for issuance upon the grant of common stock under the Directors' Stock Compensation Plan.

**(2) Income Taxes**

The provisions for income taxes for both the 2007 and 2006 thirty-nine-week periods were based on an estimated full year combined effective income tax rate of approximately 38.7%, which was higher than the statutory federal income tax rate primarily as a result of state income taxes, the meals and entertainment exclusion and non-deductible stock-based compensation.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

As of December 31, 2006, the date of adoption of FIN 48, the Company had \$11.5 million of net unrecognized tax benefits representing the provision for the uncertainty of certain tax positions plus a component of interest and penalties. The implementation of FIN 48 did not have a significant impact on the provision for unrecognized tax benefits as of December 31, 2006. Estimated interest and penalties on the provision for the uncertainty of certain tax positions is included in income tax expense. Upon adoption there was \$5,116,000 accrued for the estimated interest and penalties related to the uncertainty of certain tax positions. The Company does not currently anticipate any significant increase or decrease to the unrecognized tax benefit during the remainder of 2007.

The Company is subject to U.S. federal income tax as well as income tax in the majority of state jurisdictions. The Company has concluded all U.S. federal income tax matters through 2002. Substantially all material income tax matters in major state and local income tax jurisdictions have been concluded for all years prior to 2002.

**(3) Earnings Per Share**

Earnings per common share amounts are based on the weighted average number of common shares outstanding and diluted earnings per share amounts 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 to the average number of common shares and common share equivalents outstanding used to calculate diluted earnings per share (in thousands):

<b>Thirty Nine Weeks Ended</b>		<b>Thirteen Weeks Ended</b>	
<b>Sept 29,</b>	<b>Sept 30,</b>	<b>Sept 29,</b>	<b>Sept 30,</b>

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	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Average number of common shares outstanding	55,221	58,229	54,189	57,287
Incremental shares from assumed exercises of stock options	519	926	419	661
Average number of common shares and common share equivalents outstanding	55,740	59,155	54,608	57,948

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**Table of Contents****(4) Additional Cash Flow Information**

During the 2007 thirty-nine-week period, Landstar paid income taxes and interest of \$45,441,000 and \$5,289,000, respectively. During the 2006 thirty-nine-week period, Landstar paid income taxes and interest of \$54,381,000 and \$5,919,000, respectively. Landstar acquired operating property by entering into capital leases in the amount of \$27,461,000 and \$24,915,000 in the 2007 and 2006 thirty-nine-week periods, respectively.

**(5) Segment Information**

The following tables summarize information about Landstar's reportable business segments as of and for the thirty-nine and thirteen-week periods ended September 29, 2007 and September 30, 2006 (in thousands):

**Thirty-Nine-Week Period Ended September 29, 2007**

	<b>Global</b>				
	<b>Carrier</b>	<b>Logistics</b>	<b>Insurance</b>	<b>Other</b>	<b>Total</b>
External revenue	\$ 1,354,855	\$ 461,896	\$ 27,661		\$ 1,844,412
Investment income			4,103		4,103
Internal revenue	33,583	2,568	23,019		59,170
Operating income	135,542	12,874	25,586	\$(37,975)	136,027
Goodwill	20,496	10,638			31,134

**Thirty-Nine-Week Period Ended September 30, 2006**

	<b>Global</b>				
	<b>Carrier</b>	<b>Logistics</b>	<b>Insurance</b>	<b>Other</b>	<b>Total</b>
External revenue	\$ 1,356,780	\$ 520,080	\$ 25,617		\$ 1,902,477
Investment income			2,589		2,589
Internal revenue	39,343	1,604	22,351		63,298
Operating income	137,398	25,353	24,056	\$(44,240)	142,567
Goodwill	20,496	10,638			31,134

**Thirteen-Week Period Ended September 29, 2007**

	<b>Global</b>				
	<b>Carrier</b>	<b>Logistics</b>	<b>Insurance</b>	<b>Other</b>	<b>Total</b>
External revenue	\$ 460,894	\$ 164,687	\$ 9,230		\$ 634,811
Investment income			1,106		1,106
Internal revenue	10,357	1,048	6,196		17,601
Operating income	45,664	4,858	11,577	\$(12,451)	49,648

**Thirteen-Week Period Ended September 30, 2006**

	<b>Global</b>				
	<b>Carrier</b>	<b>Logistics</b>	<b>Insurance</b>	<b>Other</b>	<b>Total</b>
External revenue	\$ 460,847	\$ 179,613	\$ 8,737		\$ 649,197
Investment income			1,337		1,337
Internal revenue	15,435	605	5,940		21,980
Operating income	49,334	8,331	8,967	\$(14,931)	51,701

**(6) Comprehensive Income**

The following table includes the components of comprehensive income for the thirty-nine and thirteen-week periods ended September 29, 2007 and September 30, 2006 (in thousands):

	<b>Thirty Nine Weeks Ended</b>		<b>Thirteen Weeks Ended</b>	
	<b>Sept 29,</b>	<b>Sept 30,</b>	<b>Sept 29,</b>	<b>Sept 30,</b>

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	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net income	\$ 80,622	\$ 84,395	\$ 29,348	\$ 30,580
Unrealized holding gains/(losses) on available-for-sale investments, net of income taxes		194	(15)	41
Comprehensive income	\$ 80,622	\$ 84,589	\$ 29,333	\$ 30,621

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Accumulated other comprehensive loss at September 29, 2007 of \$7,000 represents the unrealized holding losses on available-for-sale investments of \$10,000, net of related income taxes of \$3,000.

(7) Commitments and Contingencies

As of September 29, 2007, Landstar had \$26,868,000 of letters of credit outstanding under the Company's revolving credit facility and \$47,277,000 of letters of credit secured by investments held by the Company's insurance segment. Short-term investments include \$19,436,000 in current maturities of investment grade bonds and \$1,512,000 of cash equivalents held by the Company's insurance segment at September 29, 2007. These short-term investments together with \$2,000,000 of the non-current portion of investment grade bonds and \$26,473,000 of cash equivalents included in other assets at September 29, 2007, provide collateral for the \$47,277,000 of letters of credit issued to guarantee payment of insurance claims.

On November 1, 2002, the Owner-Operator Independent Drivers Association, Inc. (OOIDA) and certain BCO Independent Contractors (as defined below) (collectively with OOIDA, the Plaintiffs) filed a putative class action complaint on behalf of independent contractors who provide truck capacity to the Company and its subsidiaries under exclusive lease arrangements (BCO Independent Contractors) in the United States District Court for the Middle District of Florida (the District Court) in Jacksonville, Florida, against the Company and certain of its subsidiaries. The complaint was amended on April 7, 2005 (as amended, the Amended Complaint). The Amended Complaint alleged that certain aspects of the Company's motor carrier leases and related practices with its BCO Independent Contractors violate certain federal leasing regulations and sought injunctive relief, an unspecified amount of damages and attorney's fees. On August 30, 2005, the District Court granted a motion by the Plaintiffs to certify the case as a class action.

On January 16, 2007, the District Court ordered the decertification of the class of BCO Independent Contractors for purposes of determining remedies. Immediately thereafter, the trial commenced for purposes of determining what remedies, if any, would be awarded to the remaining named BCO Independent Contractor Plaintiffs against the following subsidiaries of the Company: Landstar Inway, Inc., Landstar Ligon, Inc. and Landstar Ranger, Inc. (the Defendants). On March 29, 2007, the District Court denied Plaintiffs' request 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 class and the denial of Plaintiffs' requests for damages and injunctive relief. The Plaintiffs and the Defendants have each filed motions with the District Court concerning an award of attorney fees from the other party.

The Plaintiffs have filed an appeal with the United States Court of Appeals for the Eleventh Circuit (the Appellate Court) with respect to certain of the District Court's rulings, including the judgments entered by the District Court in favor of the Defendants on the issues of damages and injunctive relief. The Defendants have asked the Appellate Court to affirm the rulings of the District Court that have been appealed by the Plaintiffs. The Defendants have also filed a cross-appeal with the Appellate Court with respect to certain other rulings of the District Court. Although no assurances can be given with respect to the outcome of the appeal or any proceedings that may be conducted thereafter, the Company believes it has meritorious defenses and it intends to continue asserting these defenses vigorously.

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 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 30, 2006 and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 2006 Annual Report on Form 10-K.

**Introduction**



Landstar System, Inc. and its subsidiary, Landstar System Holdings, Inc. (together, referred to herein as Landstar or the Company ), provide transportation services to a variety of market niches throughout the United States and to a lesser extent in Canada, and between the United States and Canada, Mexico and other countries through its operating subsidiaries. Landstar's business strategy is to be a non-asset based provider of transportation capacity and logistics services delivering safe, specialized transportation services globally, utilizing a network of independent commission sales agents, third party capacity providers and employees. Landstar focuses on providing transportation services which emphasize safety, customer service and information

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coordination among its independent commission sales agents, customers and capacity providers. The Company markets its services primarily through independent commission sales agents and exclusively utilizes third party capacity providers to transport customers' freight. The nature of the Company's business is such that a significant portion of its operating costs varies directly with revenue. The Company has three reportable business segments. These are the carrier, global logistics and insurance segments.

The carrier segment consists of Landstar Ranger, Inc., Landstar Inway, Inc., Landstar Ligon, Inc., Landstar Gemini, Inc. and Landstar Carrier Services, Inc. The carrier segment primarily provides transportation services to the truckload market for a wide range of general commodities over irregular or non-repetitive routes utilizing dry and specialty vans and unsided trailers, including flatbed, drop deck and specialty. It also provides short-to-long haul movement of containers by truck, dedicated power-only truck capacity and truck brokerage. The carrier segment markets its services primarily through independent commission sales agents and utilizes independent contractors who provide truck capacity to the Company under exclusive lease arrangements (the Business Capacity Owner Independent Contractors or BCO Independent Contractors) and other third party truck capacity providers under non-exclusive contractual arrangements (Truck Brokerage Carriers).

The global logistics segment is comprised of Landstar Global Logistics, Inc. and its subsidiary, Landstar Express America, Inc. Transportation and logistics services provided by the global logistics segment include the arrangement of multimodal (ground, air, ocean and rail) moves, contract logistics, truck brokerage, emergency and expedited ground, air and ocean freight, bus brokerage and warehousing. The global logistics segment markets its services primarily through independent commission sales agents and utilizes capacity provided by BCO Independent Contractors and other third party capacity providers, including Truck Brokerage Carriers, railroads, air and ocean cargo carriers, bus providers and warehouse owners. Beginning in August 2006, the global logistics segment began the rollout of warehousing services with independent contractors who provide warehouse capacity to the Company under non-exclusive contractual arrangements (Warehouse Capacity Owners or WCO Independent Contractors). As of September 29, 2007, Landstar Global Logistics, Inc. has executed contracts with 128 Warehouse Capacity Owners.

The insurance segment is comprised of Signature Insurance Company (Signature), a wholly-owned offshore insurance subsidiary, and Risk Management Claim Services, Inc. The insurance segment provides risk and claims management services to 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 Landstar's operating subsidiaries.

**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 2006 fiscal year, 490 independent commission sales agents generated \$1 million or more of Landstar's revenue and thus qualified as Million Dollar Agents. During the 2006 fiscal year, the average revenue generated by a Million Dollar Agent was \$4,700,000 and revenue generated by Million Dollar Agents in the aggregate represented 92% of consolidated Landstar revenue. As of September 29, 2007 and September 30, 2006, the Company had a network of 1,414 and 1,291 independent commission sales agent locations, respectively.

Management monitors business activity by tracking the number of loads (volume) and revenue per load generated by the carrier and global logistics segments. In addition, management tracks revenue per revenue mile, average length

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of haul and total revenue miles at the carrier segment. Revenue per revenue mile and revenue per load (collectively, price) can be influenced by many factors which do not necessarily indicate a change in price. Those factors include the average length of haul, freight type, special handling and equipment requirements and delivery time requirements. The following table summarizes this data by reportable segment:

	<b>Thirty Nine Weeks Ended</b>		<b>Thirteen Weeks Ended</b>	
	<b>Sept 29,</b>	<b>Sept 30,</b>	<b>Sept 29,</b>	<b>Sept 30,</b>
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<u>Carrier Segment:</u>				
External revenue generated through (in thousands):				
BCO Independent Contractors	\$ 970,432	\$ 964,260	\$ 330,776	\$ 323,664
Truck Brokerage Carriers	384,423	392,520	130,118	137,183
	\$ 1,354,855	\$ 1,356,780	\$ 460,894	\$ 460,847
Revenue per revenue mile	\$ 2.02	\$ 2.02	\$ 2.06	\$ 2.05
Revenue per load	\$ 1,608	\$ 1,613	\$ 1,645	\$ 1,651
Average length of haul (miles)	795	800	798	806
Number of loads	842,500	841,200	280,200	279,200

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	<b>Thirty Nine Weeks Ended</b>		<b>Thirteen Weeks Ended</b>	
	<b>Sept 29, 2007</b>	<b>Sept 30, 2006</b>	<b>Sept 29, 2007</b>	<b>Sept 30, 2006</b>
<u>Global Logistics Segment:</u>				
External revenue generated through (in thousands):				
BCO Independent Contractors (1)	\$ 76,175	\$ 78,308	\$ 23,990	\$ 31,145
Truck Brokerage Carriers	261,344	302,746	95,449	104,445
Rail, air, ocean and bus carriers (2)	124,377	139,026	45,248	44,023
	\$ 461,896	\$ 520,080	\$ 164,687	\$ 179,613
Revenue per load (3)	\$ 1,514	\$ 1,510	\$ 1,530	\$ 1,520
Number of loads (3) (4)	301,000	287,400	105,800	98,600

- (1) Includes revenue from freight hauled by carrier segment BCO Independent Contractors for global logistics customers.
- (2) Included in the 2007 and 2006 thirty-nine-week periods was \$481,000 and \$23,032,000, respectively, of revenue attributable to buses provided under a contract between Landstar Express America, Inc. and the United States Department of Transportation/Federal Aviation Administration (the FAA ). Included in the 2006 thirteen-week period was \$3,594,000 of revenue attributable to buses provided under the FAA contract.
- (3) Revenue per load and number of loads in the

thirty-nine and thirteen-week periods ended September 29, 2007 exclude the effect of \$6,209,000 and \$2,764,000, respectively, of revenue derived under the FAA contract.

Revenue per load and number of loads in the thirty-nine and thirteen-week periods ended September 30, 2006 exclude the effect of \$85,998,000 and \$29,701,000, respectively, of revenue derived from transportation services provided under the FAA contract. See Use of Non-GAAP Financial Measures.

- (4) The number of loads in the thirty-nine and thirteen-week periods ended 2006 were restated. This change had no impact on reported revenue in any period.

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:

	<b>Sept 29, 2007</b>	<b>Sept 30, 2006</b>
BCO Independent Contractors	8,452	8,463
Truck Brokerage Carriers:		
Approved and active <sup>(1)</sup>	15,765	14,604
Other approved	9,224	8,009
	24,989	22,613
Total available truck capacity providers	33,441	31,076
Number of trucks provided by BCO Independent Contractors	9,056	9,164

- (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 for the brokerage services operations of the carrier segment is based on a negotiated rate for each load hauled. Purchased transportation for the brokerage services operations of the global logistics segment is based on either a negotiated rate for each load hauled or a contractually agreed-upon rate. Purchased transportation for the rail intermodal, air and ocean freight operations of the global logistics segment is based on a contractually agreed-upon fixed rate. Purchased transportation for bus services is based upon a negotiated rate per mile or per day. Purchased transportation as a percentage of revenue for truck brokerage services, rail intermodal and bus operations is normally higher than that of Landstar's other transportation operations. 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 and revenue from the insurance segment.

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Commissions to agents are based on contractually agreed-upon percentages of revenue or gross profit, defined as revenue less the cost of purchased transportation, at the carrier segment and of gross profit at the global logistics segment. Commissions to agents as a percentage of consolidated revenue will vary directly with fluctuations in the percentage of consolidated revenue generated by the carrier segment, the global logistics segment and the insurance segment and with changes in gross profit at the global logistics segment and the truck brokerage operations of the carrier segment.

Rent and 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. Landstar's retained liability for individual commercial trucking claims varies depending on when such claims were incurred. For commercial trucking claims incurred prior to June 19, 2003 and subsequent to March 30, 2004, Landstar retains liability up to \$5,000,000 per occurrence. For commercial trucking claims incurred from June 19, 2003 through March 30, 2004, Landstar retains liability up to \$10,000,000 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 \$250,000 for each cargo claim. The Company's exposure to liability associated with accidents incurred by other third party capacity providers who haul 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 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 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	
	Sept 29, 2007	Sept 30, 2006	Sept 29, 2007	Sept 30, 2006
Revenue	100.0%	100.0%	100.0%	100.0%
Investment income	0.2	0.1	0.2	0.2
Costs and expenses:				
Purchased transportation	75.6	75.2	75.9	74.9
Commissions to agents	8.1	7.9	8.1	8.0
Other operating costs	1.1	1.9	1.3	2.3
Insurance and claims	2.1	1.6	1.5	1.5
Selling, general and administrative	5.1	5.4	4.9	4.9
Depreciation and amortization	0.8	0.6	0.7	0.6
Total costs and expenses	92.8	92.6	92.4	92.2
Operating income	7.4	7.5	7.8	8.0
Interest and debt expense	0.2	0.3	0.3	0.3

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Income before income taxes	7.2	7.2	7.5	7.7
Income taxes	2.8	2.8	2.9	3.0
Net income	4.4%	4.4%	4.6%	4.7%

THIRTY NINE WEEKS ENDED SEPTEMBER 29, 2007 COMPARED TO THIRTY NINE WEEKS ENDED SEPTEMBER 30, 2006

Revenue for the 2007 thirty-nine-week period was \$1,844,412,000, a decrease of \$58,065,000, or 3.1%, compared to the 2006 thirty-nine-week period. The decrease in revenue was primarily attributable to lower disaster relief revenue provided under the FAA contract in the thirty-nine-week period ended September 29, 2007 compared to the thirty-nine-week period ended September 30, 2006. Revenue for disaster relief services provided under the FAA contract in the thirty-nine-week periods ended September 29, 2007 and September 30, 2006 was \$6,209,000 and \$85,998,000, respectively, including trailer rental revenue of \$1,221,000 and



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\$15,993,000, respectively. Revenue decreased \$1,925,000 and \$58,184,000 at the carrier and global logistics segments, respectively, while revenue increased \$2,044,000 at the insurance segment. With respect to the carrier segment, revenue per load, the number of loads delivered, the average length of haul and revenue per revenue mile in the 2007 thirty-nine-week period all were approximately the same as compared to the 2006 thirty-nine-week period. The decrease in revenue at the global logistics segment was primarily due to the decreased revenue for disaster relief services provided under the FAA contract. Excluding the number of loads and revenue related to disaster relief services provided by the global logistics segment in the 2007 and 2006 thirty-nine-week periods, the number of loads delivered by the global logistics segment in the 2007 thirty-nine-week period increased approximately 5% and revenue per load was approximately the same as compared to the 2006 thirty-nine-week period.

Investment income at the insurance segment was \$4,103,000 and \$2,589,000 in the 2007 and 2006 thirty-nine-week periods, respectively. The increase in investment income was primarily due to an increased average investment balance and an increased rate of return, attributable to a general increase in interest rates, on investments held by the insurance segment in the 2007 period.

Purchased transportation was 75.6% and 75.2% of revenue in the 2007 and 2006 thirty-nine-week periods, respectively. The increase in purchased transportation as a percentage of revenue was primarily attributable to the effect of decreased revenue under the FAA contract, which tends to have a lower cost of purchased transportation, and increased rates for purchased transportation paid to rail intermodal carriers, partially offset by decreased rates for purchased transportation paid to Truck Brokerage Carriers. Commissions to agents were 8.1% of revenue in 2007 and 7.9% in 2006. The increase in commissions to agents as a percentage of revenue was primarily attributable to decreased revenue for disaster relief services provided under the FAA contract, which tends to have a lower agent commission rate, and increased commissions to agents primarily attributable to increased gross profit, revenue less the cost of purchased transportation, on truck brokerage revenue. Other operating costs were 1.1% and 1.9% of revenue in 2007 and 2006, respectively. The decrease in other operating costs as a percentage of revenue was primarily attributable to reduced trailer rental costs incurred in support of disaster relief services under the FAA contract and reduced other trailer rent expense, partially offset by increased trailer maintenance costs. Insurance and claims were 2.1% of revenue in 2007 compared with 1.6% of revenue in 2006. The increase in insurance and claims as a percentage of revenue was primarily attributable to a \$5,000,000 charge for the estimated cost of one severe accident that occurred during the first quarter of 2007 and increased cargo claims expense in the 2007 thirty-nine-week period. Selling, general and administrative costs were 5.1% of revenue in 2007 compared with 5.4% of revenue in 2006. The decrease in selling, general and administrative costs as a percentage of revenue was primarily attributable to a decreased provision for bonuses under the Company's incentive compensation programs, partially offset by the effect of decreased revenue. Depreciation and amortization was 0.8% of revenue in 2007 and 0.6% in 2006. The increase in depreciation and amortization as a percentage of revenue was primarily due to an increase in Company-owned trailing equipment and the effect of decreased revenue.

Interest and debt expense was 0.2% of revenue in the 2007 thirty-nine-week period and 0.3% in 2006 thirty-nine-week period. The decrease in interest and debt expense was primarily attributable to lower average outstanding borrowings on the Company's senior credit facility.

The provisions for income taxes for both the 2007 and 2006 thirty-nine-week periods were based on an estimated full year combined effective income tax rate of approximately 38.7%, which was higher than the statutory federal income tax rate primarily as a result of state income taxes, the meals and entertainment exclusion and non-deductible stock compensation expense.

Net income was \$80,622,000, or \$1.46 per common share (\$1.45 per diluted share), in the 2007 thirty-nine-week period, which included approximately \$1,638,000 of operating income related to the \$6,209,000 of revenue attributable to disaster relief services provided primarily under the FAA contract. The \$1,638,000 of operating income, net of related income taxes, increased net income by \$1,009,000, or \$0.02 per common share (\$0.02 per diluted share). Also included in the 2007 thirty-nine-week period net income was a \$5,000,000 charge for the estimated cost of one severe accident that occurred during the first quarter of 2007. This charge, net of related income tax benefits, reduced the 2007 thirty-nine-week period net income by \$3,065,000, or \$0.06 per common share (\$0.05 per diluted share). Net income was \$84,395,000, or \$1.45 per common share (\$1.43 per diluted share), in the 2006

thirty-nine-week period, which included \$12,162,000 of operating income related to the \$85,998,000 of revenue attributable to disaster relief services provided primarily under the FAA contract. The \$12,162,000 of operating income, net of related income taxes, increased net income by \$7,492,000, or \$0.13 per common share (\$0.13 per diluted share).

**THIRTEEN WEEKS ENDED SEPTEMBER 29, 2007 COMPARED TO THIRTEEN WEEKS ENDED SEPTEMBER 30, 2006**

Revenue for the 2007 thirteen-week period was \$634,811,000, a decrease of \$14,386,000, or 2.2%, compared to the 2006 thirteen-week period. The decrease in revenue was primarily attributable to lower disaster relief revenue provided under the FAA contract in the thirteen-week period ended September 29, 2007 compared to the thirteen-week period ended September 30, 2006. Revenue for disaster relief services provided under the FAA contract in the thirteen-week periods ended September 29, 2007 and September 30, 2006 was \$2,764,000 and \$29,701,000, respectively, including trailer rental revenue of \$1,193,000 and \$7,610,000, respectively. Revenue increased \$47,000 and \$493,000 at the carrier and insurance segments, respectively, while revenue decreased \$14,926,000 at the global logistics segment. With respect to the carrier segment, revenue per load, the number of loads delivered, the average length

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of haul and revenue per revenue mile in the 2007 thirteen-week period all were approximately the same as compared to the 2006 thirteen-week period. The decrease in revenue at the global logistics segment was primarily due to the decreased revenue for disaster relief services provided under the FAA contract. Excluding the number of loads and revenue related to disaster relief services provided by the global logistics segment in the 2007 and 2006 thirteen-week periods, the number of loads delivered by the global logistics segment in the 2007 thirteen-week period increased approximately 7% and revenue per load increased approximately 1% compared to the 2006 thirteen-week period.

Investment income at the insurance segment was \$1,106,000 and \$1,337,000 in the 2007 and 2006 thirteen-week periods, respectively. The decrease in investment income was primarily due to a decreased average investment balance on investments held by the insurance segment in the 2007 period.

Purchased transportation was 75.9% and 74.9% of revenue in the 2007 and 2006 thirteen-week periods, respectively. The increase in purchased transportation as a percentage of revenue was primarily attributable to the effect of decreased revenue under the FAA contract, which tends to have a lower cost of purchased transportation, and increased rates for purchased transportation paid to rail intermodal carriers, partially offset by decreased rates for purchased transportation paid to Truck Brokerage Carriers. Commissions to agents were 8.1% of revenue in 2007 and 8.0% in 2006. The increase in commissions to agents as a percentage of revenue was primarily attributable to decreased revenue for disaster relief services provided under the FAA contract, which tends to have a lower agent commission rate. Other operating costs were 1.3% and 2.3% of revenue in 2007 and 2006, respectively. The decrease in other operating costs as a percentage of revenue was primarily attributable to trailer rental costs incurred in support of disaster relief services under the FAA contract in 2006 and reduced other trailer rent expense. Insurance and claims were 1.5% of revenue in both 2007 and 2006. Selling, general and administrative costs were 4.9% of revenue in both 2007 and 2006. Depreciation and amortization was 0.7% of revenue in 2007 and 0.6% in 2006. The increase in depreciation and amortization as a percentage of revenue was primarily due to an increase in Company-owned trailing equipment and the effect of decreased revenue.

Interest and debt expense was 0.3% of revenue in both the 2007 and 2006 thirteen-week periods.

The provisions for income taxes for both the 2007 and 2006 thirteen-week periods were based on an estimated full year combined effective income tax rate of approximately 38.7%, which was higher than the statutory federal income tax rate primarily as a result of state income taxes, the meals and entertainment exclusion and non-deductible stock compensation expense.

Net income was \$29,348,000, or \$0.54 per common share (\$0.54 per diluted share), in the 2007 thirteen-week period, which included approximately \$642,000 of operating income related to the \$2,764,000 of revenue attributable to disaster relief services provided primarily under the FAA contract. The \$642,000 of operating income, net of related income taxes, increased net income by \$394,000, or \$0.01 per common share (\$0.01 per diluted share). Net income was \$30,580,000, or \$0.53 per common share (\$0.53 per diluted share), in the 2006 thirteen-week period, which included approximately \$4,547,000 of operating income related to the \$29,701,000 of revenue attributable to disaster relief services provided primarily under the FAA contract. The \$4,547,000 of operating income, net of related income taxes, increased net income by \$2,802,000, or \$0.05 per common share (\$0.05 per diluted share).

**USE OF NON-GAAP FINANCIAL MEASURES**

In this quarterly report on Form 10-Q, Landstar provided the following information that may be deemed non-GAAP financial measures: (1) revenue per load for the global logistics segment excluding revenue and loads related to disaster relief transportation services provided under a contract with the FAA and (2) the percentage change in revenue per load for the global logistics segment excluding revenue and loads related to disaster relief transportation services provided under a contract with the FAA as compared to revenue per load for the global logistics segment for the corresponding prior year period. This financial information should be considered in addition to, and not as a substitute for, the corresponding GAAP financial information also presented in this Form 10-Q.

Management believes that it is appropriate to present this financial information for the following reasons: (1) a significant portion of the disaster relief transportation services were provided under the FAA contract on the basis of a daily rate for the use of transportation equipment in question, and therefore load and per load information is not necessarily available or appropriate for a significant portion of the related revenue, (2) disclosure of the effect of the transportation services provided by Landstar relating to disaster relief efforts will allow investors to better understand

the underlying trends in Landstar's financial condition and results of operations, (3) this information will facilitate comparisons by investors of Landstar's results as compared to the results of peer companies and (4) management considers this financial information in its decision making.

#### CAPITAL RESOURCES AND LIQUIDITY

Shareholders' equity was \$201,460,000 at September 29, 2007, compared to \$230,274,000 at December 30, 2006. The decrease in shareholders' equity was primarily a result of the purchase of 2,827,501 shares of the Company's common stock at a total cost of \$126,148,000 and dividends paid of \$5,390,000 in the thirty-nine-week period ended September 29, 2007, partially offset by net income and the effect of the exercises of stock options during the period. As of September 29, 2007, the Company may purchase up to an additional 2,000,000 shares of its common stock under its recently authorized stock purchase program. Shareholders' equity was 61% of total capitalization (defined as total debt plus equity) at September 29, 2007 compared to 64% at December 30, 2006.

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Long-term debt, including current maturities, was \$128,035,000 at September 29, 2007, \$1,286,000 lower than at December 30, 2006.

Working capital and the ratio of current assets to current liabilities were \$174,175,000 and 1.7 to 1, respectively, at September 29, 2007, compared with \$221,168,000 and 1.9 to 1, respectively, at December 30, 2006. 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 \$111,988,000 in the 2007 thirty-nine-week period compared with \$229,895,000 in the 2006 thirty-nine-week period. The decrease in cash flow provided by operating activities was primarily attributable to the collection of a significant portion of the 2005 fiscal year end receivable from the FAA for disaster relief transportation services during the first half of 2006.

On July 8, 2004, Landstar renegotiated its existing credit agreement with a syndicate of banks and JPMorgan Chase Bank, as administrative agent (the Fourth Amended and Restated Credit Agreement). The Fourth Amended and Restated Credit Agreement, which expires on July 8, 2009, 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 Fourth Amended and Restated Credit Agreement contains a number of covenants that limit, among other things, the incurrence of additional indebtedness, the incurrence of operating or capital lease obligations and the purchase of operating property. Landstar is required to, among other things, maintain minimum levels of Consolidated Net Worth and Fixed Charge Coverage, as each is defined in the Fourth Amended and Restated Credit Agreement. 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 Fourth Amended and Restated Credit Agreement.

At September 29, 2007, the Company had \$46,000,000 in borrowings outstanding and \$26,868,000 of letters of credit outstanding under the Fourth Amended and Restated Credit Agreement. At September 29, 2007, there was \$152,132,000 available for future borrowings under the Company's Fourth Amended and Restated Credit Agreement. In addition, the Company has \$47,277,000 in letters of credit outstanding, as collateral for insurance claims, that are secured by investments and cash equivalents totaling \$49,421,000.

The Company paid its first cash dividend in the third quarter of 2005 and has paid a cash dividend each quarter thereafter. The Company paid cash dividends of \$0.03, \$0.03 and \$0.0375 per share in the 2007 first, second and third quarters, respectively. The Company paid \$5,390,000 in cash dividends during the thirty-nine-week period ended September 29, 2007. It is the intention of the Board of Directors to continue to pay a quarterly dividend.

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 capacity and logistics services, the Company's annual capital requirements for operating property are generally for trailing equipment and management information services equipment. In addition, a 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 2007 thirty-nine-week period, the Company purchased \$5,829,000 of operating property and acquired \$27,461,000 of trailing equipment by entering into capital leases. Landstar anticipates acquiring approximately \$15,000,000 of operating property, primarily trailing equipment, during the remainder of the 2007 fiscal year either by purchase or by lease financing. It is expected that capital leases will fund any significant acquisitions of Company-provided trailing equipment made during the remainder of 2007.

Management believes that cash flow from operations combined with the Company's borrowing capacity under the Fourth Amended and Restated 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 program and meet working capital needs.

**LEGAL MATTERS**

On November 1, 2002, the Owner-Operator Independent Drivers Association, Inc. (OOIDA) and certain BCO Independent Contractors (as defined below) (collectively with OOIDA, the Plaintiffs) filed a putative class action complaint on behalf of independent contractors who provide truck capacity to the Company and its subsidiaries under exclusive lease arrangements (BCO Independent Contractors) in the United States District Court for the Middle

District of Florida (the District Court ) in Jacksonville, Florida, against the Company and certain of its subsidiaries.  
The complaint was amended on April 7, 2005 (as amended, the

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Amended Complaint ). The Amended Complaint alleged that certain aspects of the Company's motor carrier leases and related practices with its BCO Independent Contractors violate certain federal leasing regulations and sought injunctive relief, an unspecified amount of damages and attorney's fees. On August 30, 2005, the District Court granted a motion by the Plaintiffs to certify the case as a class action.

On January 16, 2007, the District Court ordered the decertification of the class of BCO Independent Contractors for purposes of determining remedies. Immediately thereafter, the trial commenced for purposes of determining what remedies, if any, would be awarded to the remaining named BCO Independent Contractor Plaintiffs against the following subsidiaries of the Company: Landstar Inway, Inc., Landstar Ligon, Inc. and Landstar Ranger, Inc. (the Defendants ). On March 29, 2007, the District Court denied Plaintiffs' request 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 class and the denial of Plaintiffs' requests for damages and injunctive relief. The Plaintiffs and the Defendants have each filed motions with the District Court concerning an award of attorney fees from the other party.

The Plaintiffs have filed an appeal with the United States Court of Appeals for the Eleventh Circuit (the Appellate Court ) with respect to certain of the District Court's rulings, including the judgments entered by the District Court in favor of the Defendants on the issues of damages and injunctive relief. The Defendants have asked the Appellate Court to affirm the rulings of the District Court that have been appealed by the Plaintiffs. The Defendants have also filed a cross-appeal with the Appellate Court with respect to certain other rulings of the District Court. Although no assurances can be given with respect to the outcome of the appeal or any proceedings that may be conducted thereafter, the Company believes it has meritorious defenses and it intends to continue asserting these defenses vigorously.

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 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. 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 29, 2007 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 year claims estimates. During the 2007 and 2006 thirty-nine-week periods, insurance and claims costs included \$7,437,000 and \$6,923,000, respectively, 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 29, 2007.

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 will 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 such 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 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.



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**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 higher than that experienced in the past five years 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.

**RECENTLY ISSUED ACCOUNTING STANDARDS NOT CURRENTLY EFFECTIVE**

In September 2006, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a formal framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective the first fiscal year beginning after November 15, 2007. The Company does not expect the adoption of SFAS 157 to have a significant effect on the Company's financial condition or results of operations.

**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; dependence on key personnel; 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; and other operational, financial or legal risks or uncertainties detailed in Landstar's Form 10-K for the 2006 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.

**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 July 8, 2004, Landstar entered into a new senior credit facility with a syndicate of banks and JPMorgan Chase Bank, as administrative agent (the Fourth Amended and Restated Credit Agreement). The Fourth Amended and Restated Credit Agreement, which expires on July 8, 2009, 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 Fourth Amended and Restated Credit Agreement bear interest at rates equal to, at the option of Landstar, either (i) the greatest of (a) the prime rate as publicly announced from time to time by JPMorgan Chase Bank, (b) the three month CD rate adjusted for statutory reserves and FDIC assessment costs plus 1% and (c) the federal funds effective rate plus 1/2%, or, (ii) the rate at the time offered to JPMorgan Chase Bank in the Eurodollar market for amounts and periods comparable to the relevant loan plus a margin that is determined based on the level of the Company's Leverage Ratio, as defined in the Fourth Amended and Restated Credit Agreement. The margin is subject to an increase of 0.125% if the aggregate amount outstanding under the Fourth Amended and Restated Credit Agreement exceeds 50% of the borrowing capacity. As of September 29, 2007, the weighted average interest rate on borrowings outstanding was 6.22%. During the third quarter of fiscal 2007, the average outstanding balance under the Fourth Amended and Restated Credit Agreement was approximately \$55,901,000. Based on the borrowing rates in the Fourth Amended and Restated Credit Agreement and the repayment terms, the fair value of the outstanding

borrowings as of September 29, 2007 was estimated to approximate carrying value. Assuming that debt levels on the Fourth Amended and Restated Credit Agreement remain at \$46,000,000, the balance at September 29, 2007, a hypothetical increase of 100 basis points in current rates provided for under the Fourth Amended and Restated Credit Agreement is estimated to result in an increase in interest expense of \$460,000 on an annualized basis.

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All amounts outstanding on the Fourth Amended and Restated Credit Agreement are payable on July 8, 2009, the expiration of the Fourth Amended and Restated Credit Agreement.

The Company's obligations under the Fourth Amended and Restated Credit Agreement are guaranteed by all but one of Landstar System Holdings, Inc.'s subsidiaries.

Long-term investments, all of which are available-for-sale, consist of investment grade bonds having maturities of up to two years. Assuming that the long-term portion of investments in bonds remains at \$2,000,000, the balance at September 29, 2007, 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.

**Item 4. Controls and Procedures**

As of the end of the period covered by this report, 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 29, 2007, 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 29, 2007 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**

On November 1, 2002, the Owner-Operator Independent Drivers Association, Inc. ( OOIDA ) and certain BCO Independent Contractors (as defined below) (collectively with OOIDA, the Plaintiffs ) filed a putative class action complaint on behalf of independent contractors who provide truck capacity to the Company and its subsidiaries under exclusive lease arrangements ( BCO Independent Contractors ) in the United States District Court for the Middle District of Florida (the District Court ) in Jacksonville, Florida, against the Company and certain of its subsidiaries. The complaint was amended on April 7, 2005 (as amended, the Amended Complaint ). The Amended Complaint alleged that certain aspects of the Company's motor carrier leases and related practices with its BCO Independent Contractors violate certain federal leasing regulations and sought injunctive relief, an unspecified amount of damages and attorney's fees. On August 30, 2005, the District Court granted a motion by the Plaintiffs to certify the case as a class action.

On January 16, 2007, the District Court ordered the decertification of the class of BCO Independent Contractors for purposes of determining remedies. Immediately thereafter, the trial commenced for purposes of determining what remedies, if any, would be awarded to the remaining named BCO Independent Contractor Plaintiffs against the following subsidiaries of the Company: Landstar Inway, Inc., Landstar Ligon, Inc. and Landstar Ranger, Inc. (the

Defendants ). On March 29, 2007, the District Court denied Plaintiffs' request 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 class and the denial of Plaintiffs' requests for damages and injunctive relief. The Plaintiffs and the Defendants have each filed motions with the District Court concerning an award of attorney fees from the other party.



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The Plaintiffs have filed an appeal with the United States Court of Appeals for the Eleventh Circuit (the Appellate Court) with respect to certain of the District Court's rulings, including the judgments entered by the District Court in favor of the Defendants on the issues of damages and injunctive relief. The Defendants have asked the Appellate Court to affirm the rulings of the District Court that have been appealed by the Plaintiffs. The Defendants have also filed a cross-appeal with the Appellate Court with respect to certain other rulings of the District Court. Although no assurances can be given with respect to the outcome of the appeal or any proceedings that may be conducted thereafter, the Company believes it has meritorious defenses and it intends to continue asserting these defenses vigorously.

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 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 30, 2006, under Part II, Item 1A, Risk Factors in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007, 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 July 1, 2007 to September 29, 2007, 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 30, 2007				1,320,786
July 1, 2007 - July 28, 2007	282,800	\$ 46.34	282,800	1,037,986
July 29, 2007 - Aug. 25, 2007	1,037,986	\$ 43.63	1,037,986	0
Aug. 26, 2007 - Sept. 29, 2007				2,000,000
<b>Total</b>	<b>1,320,786</b>	<b>\$ 44.21</b>	<b>1,320,786</b>	

On April 19, 2007, Landstar System, Inc. announced that it had been authorized by its Board of Directors to purchase up to 2,000,000 shares of its common stock from time to time in the open market and in privately negotiated transactions. During its third fiscal quarter, the Company completed the purchase of shares authorized for purchase under this program. On August 27, 2007, 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. No specific expiration date has been assigned to the August 27, 2007 authorization.

During the thirty-nine-week period ended September 29, 2007, Landstar paid dividends as follows:

<b>Dividend Amount per share</b>	<b>Declaration Date</b>	<b>Record Date</b>	<b>Payment Date</b>
\$0.0300	February 1, 2007	February 13, 2007	February 28, 2007
\$0.0300	April 19, 2007	May 10, 2007	May 31, 2007
\$0.0375	July 19, 2007	August 10, 2007	August 31, 2007

The Fourth Amended and Restated Credit Agreement provides for a restriction in cash dividends on the Company's capital stock only to the extent there is an event of default under the Fourth Amended and Restated Credit Agreement.

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Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

Effective November 1, 2007, the board of directors (the Board) of Landstar System, Inc. (the Company) adopted Amended and Restated Bylaws (the Amended and Restated Bylaws) of the Company, superseding and replacing the Company's existing bylaws (the Previous Bylaws). The changes to the Previous Bylaws effected by the Amended and Restated Bylaws are briefly summarized below:

Section 5.01 provides for the use of uncertificated shares, which will permit book entry ownership of the Company's capital stock, as required in order to comply with NASDAQ's new listing requirement that all listed companies become DRS Eligible by January 1, 2008. The Previous Bylaws did not permit the use of uncertificated shares.

Section 1.12(b) requires that stockholders wishing to make nominations to the Board or proposals to be considered by the Company's stockholders must deliver written notice thereof to the Company not less than 90 days nor more than 120 days prior to the first anniversary of the date of the Company's proxy statement for the preceding year's annual meeting, other than in certain circumstances. The Previous Bylaws required that such notice be given at least 35 days prior to the meeting at which any such nomination or proposal was to be considered.

Section 2.09 expressly permits the Board to take action without a meeting if all of the members of the Board consent to such action in writing or by electronic transmission.

Certain other changes were made in the Amended and Restated Bylaws to conform to changes in the General Corporation Law of the State of Delaware since the date that the Previous Bylaws were adopted.

The foregoing brief summary of the changes to the Previous Bylaws effected by the Amended and Restated Bylaws is not intended to be complete and is qualified in its entirety by reference to the Amended and Restated Bylaws, attached as Exhibit 3.1 to this Form 10-Q.

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
(3)	Articles of Incorporation and By-laws
3.1*	The Company's Bylaws, as amended and restated on November 1, 2007.
(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



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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LANDSTAR SYSTEM, INC.

Date: November 2, 2007

/s/ Henry H. Gerkens  
Henry H. Gerkens  
President and  
Chief Executive Officer

Date: November 2, 2007

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

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