

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 June 29, 1996

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934

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

Commission File Number: 0-21238

LANDSTAR SYSTEM, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

06-1313069  
(I.R.S. Employer  
Identification No.)

First Shelton Place, 1000 Bridgeport Avenue, Shelton, Connecticut  
(Address of principal executive offices)

06484-0898  
(Zip Code)

(203) 925-2900  
(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 (  )

The number of shares of the registrant's Common Stock, par value \$.01 per

share, outstanding as of the close of business on August 7, 1996 was 12,787,833.

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 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 thirteen and twenty-six weeks ended June 29, 1996 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 28, 1996.

These interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 1995 Annual Report on Form 10-K.

Index

Item 1

Consolidated Balance Sheets as of June 29, 1996 and December 30, 1995 .....	Page 3
Consolidated Statements of Income for the Twenty-Six and Thirteen Weeks Ended June 29, 1996 and July 1, 1995 .....	Page 4
Consolidated Statements of Cash Flows for the Twenty-Six Weeks Ended June 29, 1996 and July 1, 1995 .....	Page 5
Consolidated Statement of Changes in Shareholders' Equity for the Twenty-Six Weeks Ended June 29, 1996.....	Page 6
Notes to Consolidated Financial Statements.....	Page 7

Item 2

Management's Discussion and Analysis of Financial Condition and Results of Operations .....	Page 9
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LANDSTAR SYSTEM, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS  
(Dollars in thousands, except per share amounts)  
(Unaudited)

	June 29,	December 30,
	1996	1995
	-----	-----
<b>ASSETS</b>		
Current assets:		
Cash	\$ 3,503	\$ 3,415
Trade accounts receivable, less allowance of \$6,132 and \$6,923	174,300	151,009
Other receivables, including advances to independent contractors, less allowance of \$5,316 and \$4,205	11,739	13,359
Inventories	2,119	2,292
Prepaid expenses and other current assets	12,586	8,501
	-----	-----
Total current assets	204,247	178,576
	-----	-----
Operating property, less accumulated depreciation and amortization of \$47,984 and \$39,796	111,977	108,052
Goodwill, less accumulated amortization of \$6,219 and \$5,354	56,184	57,049
Deferred income taxes and other assets	9,269	9,402
	-----	-----
Total assets	\$ 381,677	\$ 353,079
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Cash overdraft	\$ 12,588	\$ 13,449
Accounts payable	43,809	37,427
Current maturities of long-term debt	39,236	20,668
Estimated insurance claims	22,241	23,654
Other current liabilities	26,043	32,018
	-----	-----
Total current liabilities	143,917	127,216
	-----	-----
Long-term debt, excluding current maturities	73,709	73,199
Estimated insurance claims	25,092	24,031
Other liabilities	178	237
Shareholders' equity:		
Common stock, \$.01 par value, authorized 20,000,000 shares, issued 12,881,874 shares and 12,871,674 shares	129	129
Additional paid-in capital	61,721	61,504
Retained earnings	78,898	68,730
Cost of 94,041 shares of common stock in treasury	(1,967)	(1,967)
	-----	-----
Total shareholders' equity	138,781	128,396
	-----	-----
Total liabilities and shareholders' equity	\$ 381,677	\$ 353,079
	=====	=====

See accompanying notes to consolidated financial statements.

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

Twenty-Six Weeks Ended		Thirteen Weeks Ended	
-----		-----	
June 29,	July 1,	June 29,	July 1,

	1996	1995	1996	1995
	-----	-----	-----	-----
Revenue	\$ 624,589	\$ 603,854	\$ 329,112	\$ 308,148
Costs and expenses:				
Purchased transportation	425,229	407,490	225,016	206,466
Drivers' wages and benefits	22,730	24,149	11,225	12,228
Fuel and other operating costs	37,292	33,479	19,514	16,572
Insurance and claims	17,756	19,428	7,959	9,833
Commissions to agents and brokers	40,661	35,506	21,894	18,286
Selling, general and administrative	47,269	48,945	23,199	24,275
Depreciation and amortization	12,201	9,807	6,187	5,136
	-----	-----	-----	-----
Total costs and expenses	603,138	578,804	314,994	292,796
	-----	-----	-----	-----
Operating income	21,451	25,050	14,118	15,352
Interest and debt expense, net	3,973	3,670	2,051	2,142
	-----	-----	-----	-----
Income before income taxes	17,478	21,380	12,067	13,210
Income taxes	7,310	8,803	5,053	5,390
	-----	-----	-----	-----
Net income	\$ 10,168	\$ 12,577	\$ 7,014	\$ 7,820
	=====	=====	=====	=====
Earnings per share	\$ 0.80	\$ 0.98	\$ 0.55	\$ 0.61
	=====	=====	=====	=====
Average number of common shares outstanding	12,781,000	12,836,000	12,783,000	12,824,000
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

4

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

	Twenty-Six Weeks Ended	
	June 29, 1996	July 1, 1995
	-----	-----
OPERATING ACTIVITIES		
Net income	\$ 10,168	\$ 12,577
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization of operating property	11,113	8,896
Amortization of goodwill and non-competition agreements	1,088	911
Non-cash interest charges	132	125
Provisions for losses on trade and other accounts receivable	1,361	1,675
Gains on sales of operating property	(1,183)	(435)
Deferred income taxes, net	(176)	1,073
Changes in operating assets and liabilities, net of businesses acquired:		
Increase in trade and other accounts receivable	(23,032)	(6,841)
Increase inventories, prepaid expenses and		

other assets	(3,958)	(1,740)
Increase (decrease) in accounts payable and other liabilities	348	(19,903)
Increase (decrease) in estimated insurance claims	(352)	3,140
NET CASH USED BY OPERATING ACTIVITIES	(4,491)	(522)
INVESTING ACTIVITIES		
Purchases of businesses, net of cash acquired		(32,373)
Purchases of operating property	(4,774)	(4,126)
Proceeds from sales of operating property	4,616	2,623
NET CASH USED BY INVESTING ACTIVITIES	(158)	(33,876)
FINANCING ACTIVITIES		
Borrowings to finance businesses acquired		45,900
Borrowings under revolving credit facility	16,000	10,000
Proceeds from exercise of stock options and related income tax benefit	217	
Increase (decrease) in cash overdraft	(861)	543
Purchases of Common Stock		(1,727)
Principal payments on long-term debt and capital lease obligations	(10,619)	(32,416)
NET CASH PROVIDED BY FINANCING ACTIVITIES	4,737	22,300
Increase (decrease) in cash	88	(12,098)
Cash at beginning of period	3,415	17,755
Cash at end of period	\$ 3,503	\$ 5,657

See accompanying notes to consolidated financial statements.

5

LANDSTAR SYSTEM, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF CHANGES  
IN SHAREHOLDERS' EQUITY  
Twenty-Six Weeks Ended June 29, 1996  
(Dollars in thousands)  
(Unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock at Cost		Total
	Shares	Amount			Shares	Amount	
Balance December 30, 1995	12,871,674	\$ 129	\$ 61,504	\$ 68,730	94,041	\$ (1,967)	\$128,396
Exercise of stock options and related income tax benefit	10,200		217				217
Net income				10,168			10,168
Balance June 29, 1996	12,881,874	\$ 129	\$ 61,721	\$ 78,898	94,041	\$ (1,967)	\$138,781

See accompanying notes to consolidated financial statements.

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".

(1) Acquisitions

During the first quarter of 1995, Landstar, through different subsidiaries of Landstar System Holdings, Inc. ("LSHI"), acquired the businesses and net assets of Intermodal Transport Company, a California-based intermodal marketing company, LDS Truck Lines, Inc., a California-based drayage company, and T.L.C. Lines, Inc., a Missouri-based temperature-controlled and long-haul, time sensitive dry van carrier. Also in the 1995 first quarter, Landstar, through another subsidiary of LSHI, acquired all of the outstanding common stock of Express America Freight Systems, Inc., a North Carolina-based air freight and truck expedited service provider.

The following unaudited pro forma information represents the consolidated results of operations of Landstar and the four acquired businesses as if the acquisitions had occurred at the beginning of the period presented, and gives effect to increased depreciation of operating property, amortization of goodwill and non-competition agreements and increased interest expense, at rates available to Landstar under the acquisition line of its revolving credit facility (in thousands, except per share amounts):

	Twenty-Six Weeks Ended July 1, 1995 -----
Revenue	\$ 613,454
Net income	\$ 11,957
Earnings per share	\$ .93

The above pro forma information is not necessarily indicative of the results of operations which actually would have been obtained during such period.

7

(2) Income Taxes

The provisions for income taxes for the 1996 and 1995 twenty-six week periods were based on estimated combined full year effective income tax rates of approximately 42% and 41%, respectively, which are higher than the statutory federal income tax rate, primarily as a result of state income taxes, amortization of certain goodwill and the meals and entertainment exclusion.

(3) Earnings Per Share

Earnings per share amounts were based on the weighted average number of common shares outstanding.

(4) Additional Cash Flow Information

During the 1996 period, Landstar paid income taxes and interest of \$10,430,000 and \$3,523,000, respectively, and acquired operating property by entering into capital leases in the amount of \$13,697,000. During the 1995 period, Landstar paid income taxes and interest of \$13,060,000 and \$3,563,000, respectively, and acquired operating property by entering into capital leases in the amount of \$15,964,000.

(5) Commitments and Contingencies

At June 29, 1996, Landstar had commitments for letters of credit outstanding in the amount of \$22,939,000, primarily as collateral for estimated insurance claims.

Landstar is involved in certain claims and pending litigation arising from the normal conduct of business. Based on the 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 claims and pending litigation and that the ultimate outcome, after provisions thereof, will not have a material adverse effect on the financial condition of Landstar, but could have a material effect on the results of operations in a given quarter or year.

(6) Subsequent Event

On July 1, 1996, Landstar announced it would close all but one of the Landstar Poole, Inc. terminals, including those that function as Landstar Centers, effective August 1, 1996. A provision for the cost of closing the facilities in the amount \$347,000 was recorded in the 1996 thirteen week period. This charge, after related income tax benefits of \$145,000, reduced earnings per share by \$.02 in the 1996 thirteen and twenty-six week periods.

8

## 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, 1995 and Management's Discussion and Analysis of Financial Condition and Results of Operations, included in the Annual Report to Shareholders.

### RESULTS OF OPERATIONS

#### Introduction

Landstar System, Inc. and its subsidiary, Landstar System Holdings, Inc. ("Landstar" or the "Company"), serve a variety of different market niches through its operating subsidiaries which employ different operating strategies. Four of Landstar's subsidiaries, Landstar Ranger, Inc., Landstar Inway, Inc., Landstar Ligon, Inc. and Landstar Gemini, Inc. (collectively, the "Owner-Operator Companies"), provide truckload transportation services through independent contractors and independent commission sales agents. The nature of the Owner-Operator Companies' business is such that a significant portion of their operating costs vary directly with revenue.

Landstar Poole, Inc. ("Poole") and Landstar T.L.C., Inc. ("TLC") provide truckload transportation services using both company-owned or leased equipment driven by company-employed drivers, and independent contractors. During the twenty-six week period ended June 29, 1996, revenue generated through independent contractors was 39.3% of Poole's total revenue and 61.7% of TLC's total revenue.

During the first quarter of 1996, the operations of Landstar ITCO, Inc. and Landstar Logistics, Inc. ("Logistics") were combined. As a result, Logistics' operations have been divided into a contract services division and an intermodal services division. The contract services division provides logistics support, single source alternatives, dedicated fleet services, brokerage and other transportation solutions to large customers. The intermodal services division provides intermodal transportation services primarily by arranging for the movement of customers' goods by a combination of rail and truck. Both the railroad and drayage carriers utilized by Logistics are independent contractors.

Landstar Express America, Inc. ("Express") provides air and surface expedited transportation services through independent contractors, including air cargo carriers, and principally utilizes independent commission sales agents.

Purchased transportation represents the amount an independent contractor is paid to haul freight and is primarily based on a contractually agreed upon percentage of revenue generated by the haul for the Owner-Operator Companies, TLC and the truck operations of Express. Purchased transportation for Poole is primarily based on a fixed rate per mile. Purchased transportation for the intermodal services division of



Logistics and the air freight operations of Express is based on a contractually agreed-upon fixed rate. Purchased transportation as a percentage of revenue for the intermodal services division of Logistics is normally higher than that of Landstar's other transportation companies. 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 independent contractors. Commissions to agents and brokers are primarily based on contractually agreed upon percentages of revenue or contractually agreed upon percentages of gross profit. Commissions to agents and brokers as a percentage of consolidated revenue will vary directly with the revenue generated through independent commission sales agents. Both purchased transportation and commissions to agents and brokers generally will also increase or decrease as a percentage of the Company's consolidated revenue if there is a change in the percentage of revenue contributed by the intermodal services division of Logistics or through air cargo carriers or through company-employed drivers.

Drivers' wages and benefits represent the amount Poole and TLC employed drivers are compensated. Drivers are compensated on a cents per mile driven basis. Drivers' wages and benefits as a percentage of consolidated revenue generally will vary only if there is a change in the revenue contribution generated through independent contractors or a change in Poole's or TLC's rate of driver pay or benefit structure.

The Company's intention is to continue its expansion of truckload capacity provided by independent contractors and to reduce its truckload capacity provided by company-owned equipment and company-employed drivers. It is also the Company's intention to favor independent commission sales agent locations over company-owned and operated locations. Historically, the intermodal services division of Logistics, and TLC have principally utilized a company employee sales structure and to a lesser degree, independent commission sales agents. During the second quarter of 1995, Management began the process of converting company-owned sales locations to independent commission sales agent locations. Accordingly, purchased transportation and commissions to agents and brokers are anticipated to increase as a percentage of total consolidated revenue and drivers' wages and benefits are anticipated to decline as a percentage of total consolidated revenue over time.

Potential liability associated with accidents in the trucking industry is severe and occurrences are unpredictable. The industry is also subject to substantial workers' compensation expense. A material increase in the frequency or severity of accidents or workers' compensation claims or the unfavorable development of existing claims can be expected to adversely affect Landstar's operating income.

The cost of fuel is the largest component of fuel and other operating costs. Changes in prevailing prices of fuel or increases in fuel taxes can significantly affect Poole's or TLC's operating results. Also included in fuel and other operating costs are costs of equipment maintenance paid to third parties and the operating costs of Poole and TLC terminals. On July 1, 1996, Landstar announced it would close all

but one of the Landstar Poole terminals, including those that function as Landstar Centers, effective August 1, 1996. The closings are part of Landstar's strategy to reduce the fixed cost elements of Landstar Poole.

Employee compensation and benefits account for more than half of the Company's selling, general and administrative expense. Other significant components of selling, general and administrative expense are data processing expense, communications costs and rent expense.

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

	Twenty-Six Weeks Ended		Thirteen Weeks Ended	
	June 29, 1996	July 1, 1995	June 29, 1996	July 1, 1995
Revenue	100.0%	100.0%	100.0%	100.0%
Costs and expenses:				
Purchased transportation	68.1%	67.5%	68.4%	67.0%
Drivers' wages and benefits	3.6%	4.0%	3.4%	4.0%
Fuel and other operating costs	6.0%	5.5%	5.9%	5.4%
Insurance and claims	2.8%	3.2%	2.4%	3.2%
Commissions to agents and brokers	6.5%	5.9%	6.7%	5.9%
Selling, general and administrative	7.6%	8.1%	7.0%	7.9%
Depreciation and amortization	2.0%	1.6%	1.9%	1.6%
Total costs and expenses	96.6%	95.8%	95.7%	95.0%
Operating income	3.4%	4.2%	4.3%	5.0%
Interest and debt expense, net	0.6%	0.6%	0.6%	0.7%
Income before income taxes	2.8%	3.6%	3.7%	4.3%
Income taxes	1.2%	1.5%	1.6%	1.8%
Net income	1.6%	2.1%	2.1%	2.5%

11

TWENTY-SIX WEEKS ENDED JUNE 29, 1996 COMPARED TO TWENTY-SIX WEEKS ENDED JULY 1, 1995

Revenue for the 1996 twenty-six week period was \$624,589,000, an increase of \$20,735,000, or 3.4%, over the 1995 twenty-six week period entirely due to the inclusion of the revenue of the businesses acquired during the first quarter of 1995 for the full twenty-six weeks in 1996. Revenue from the Owner-Operator Companies and Poole decreased \$1,599,000 which was attributable to a decrease of approximately 840,000 revenue miles (volume) to approximately 326,900,000 and a decrease in revenue per revenue mile (price) of less than 1%. In the 1996 period, revenue generated through independent contractors, including railroads and air cargo carriers, was 89.2% of total consolidated revenue compared with 88.2% in the 1995 period.

Purchased transportation was 68.1% of revenue in 1996 compared with 67.5% in 1995. Drivers' wages and benefits were 3.6% of revenue in 1996 compared with 4.0% in 1995. The increase in purchased transportation and decrease in drivers' wages and benefits as a percentage of revenue was primarily attributable to an increase in the percentage of revenue generated through independent contractors.

Fuel and other operating costs were 6.0% of revenue in 1996 compared with 5.5% in 1995. The increase in fuel and other operating costs as a percentage of revenue was attributable to the effects of the 1995 first

quarter acquisition of TLC, increased net trailer costs, which primarily reflected decreased rental income from independent contractors for trailers, increased provision for contractor bad debts and a \$347,000 charge to record certain costs associated with closing the Poole and Landstar Center terminals. Insurance and claims were 2.8% of revenue in 1996 compared with 3.2% in 1995. The favorable variance to prior year was due to lower third party premiums and favorable development of prior years' claims. Commissions to agents and brokers were 6.5% of revenue in 1996 compared with 5.9% in 1995, primarily due to an increased percentage of revenue generated through independent commission sales agents. Selling, general and administrative costs were 7.6% of revenue in 1996 compared with 8.1% of revenue in 1995, primarily due to a lower bonus accrual under the Company's management incentive compensation plan and a lower provision for customer bad debts.

Depreciation and amortization was 2.0% of revenue in 1996 compared with 1.6% in 1995, primarily due to increased depreciation of company tractors. Although the number of company-owned or leased tractors has decreased compared to the 1995 period, depreciation increased as a percentage of revenue as a result of the modernization of the company-owned or leased fleet.

Interest and debt expense, net was 0.6% of revenue both in 1996 and in 1995.

The provisions for income taxes for the 1996 and 1995 twenty-six week periods were based on estimated full year combined effective income tax rates of approximately 42% and 41%, respectively, which are higher than the statutory federal income tax rate primarily as a result of state income taxes, amortization of certain goodwill and the meals and entertainment exclusion.

12

Net income was \$10,168,000, or \$0.80 per share, in the 1996 period, compared with \$12,577,000, or \$0.98 per share, in the 1995 period. If the 1995 first quarter acquisitions had taken place at the beginning of 1995, net income for the 1995 period would have been \$11,957,000, or \$0.93 per share.

THIRTEEN WEEKS ENDED JUNE 29, 1996 COMPARED TO THIRTEEN WEEKS ENDED JULY 1, 1995

Revenue for the 1996 thirteen week period was \$329,112,000, an increase of \$20,964,000, or 6.8%, over the 1995 thirteen week period. The increase was primarily attributable to an increase in revenue miles of approximately 16,200,000 to 202,800,000 and an increase in revenue per revenue mile of approximately 1%, at the Owner-Operator Companies, Poole and TLC. In the 1996 period, revenue generated through independent contractors, including railroads and air cargo carriers, was 89.7% of total consolidated revenue compared with 88.1% in the 1995 period.

Purchased transportation was 68.4% of revenue in 1996 compared with 67.0% in 1995. Drivers' wages and benefits were 3.4% of revenue in 1996 compared with 4.0% in 1995. The increase in purchased transportation and decrease in drivers' wages and benefits as a percentage of revenue was primarily attributable to an increase in the percentage of revenue generated through independent contractors.

Fuel and other operating costs were 5.9% of revenue in 1996 compared with 5.4% in 1995. The increase in fuel and other operating costs as a percentage of revenue was attributable to increased net trailer costs, which primarily reflected decreased rental income from independent contractors for trailers, increased fuel costs, increased provision for contractor bad debts and the costs associated with closing the Poole and Landstar Center

terminals. Insurance and claims were 2.4% of revenue in 1996 compared with 3.2% in 1995. The favorable variance to prior year was primarily attributable to lower third party premiums and favorable development of prior years' claims. Commissions to agents and brokers were 6.7% of revenue in 1996 compared with 5.9% in 1995, primarily due to an increased percentage of revenue generated through independent commission sales agents. Selling, general and administrative costs were 7.0% of revenue in 1996 compared with 7.9% of revenue in 1995, primarily due to a lower bonus accrual under the Company's management incentive compensation plan and a lower provision for customer bad debts in 1996.

Depreciation and amortization was 1.9% of revenue in 1996 compared with 1.6% in 1995, primarily due to increased depreciation of company-owned or leased tractors.

Interest and debt expense, net was 0.6% of revenue in 1996 and 0.7% in 1995 primarily attributable to lower average borrowings outstanding under the senior credit facility during the 1996 period.

13

The provisions for income taxes for the 1996 and 1995 thirteen week periods were based on estimated full year combined effective income tax rates of approximately 42% and 41%, respectively, which are higher than the statutory federal income tax rate primarily as a result of state income taxes, amortization of certain goodwill and the meals and entertainment exclusion.

Net income was \$7,014,000, or \$0.55 per share, in the 1996 period compared with \$7,820,000, or \$0.61 per share, in the 1995 period.

#### CAPITAL RESOURCES AND LIQUIDITY

Shareholders' equity increased to \$138,781,000 at June 29, 1996, compared with \$128,396,000 at December 30, 1995, reflecting the results of operations for the period. Shareholders' equity declined to 55.1% of total capitalization at June 29, 1996, compared with 57.8% at December 30, 1995, as a result of net borrowings, including capital lease additions, in excess of net income during the 1996 period.

Working capital and the ratio of current assets to current liabilities were \$60,330,000 and 1.42 to 1, respectively, at June 29, 1996, compared with \$51,360,000 and 1.40 to 1, respectively, at December 30, 1995. Landstar has historically operated with current ratios ranging from approximately 1.0 to 1 to 1.4 to 1. Cash used by operating activities was \$4,491,000 in the 1996 twenty-six week period compared with \$522,000 in the 1995 twenty-six week period. The increase in cash flow used by operating activities was primarily attributable to reduced earnings and the timing of cash collections and payments. During the 1996 twenty-six week period, Landstar purchased \$4,774,000 of operating property and acquired \$13,697,000 of operating property by entering into capital leases. Landstar plans to acquire approximately \$18,000,000 of operating property during the remainder of fiscal year 1996 either by purchase or by lease financing.

Management believes that cash flow from operations combined with its borrowing capacity under the Amended and Restated Credit Agreement will be adequate to meet Landstar's debt service requirements, fund continued growth, both internal and through acquisitions, and meet

working capital needs.

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 is typically lower than the quarters ending June, September and December due to reduced shipments and higher operating costs in the winter months.

14

## PART II

### OTHER INFORMATION

#### Item 1. Legal Proceedings

The Company is routinely a party to litigation incidental to its business, primarily involving claims for personal injury and property damage incurred in the transportation of freight. The Company maintains insurance which covers liability amounts in excess of retained liabilities from personal injury and property damages claims.

#### Item 2. Changes in Securities

None.

#### Item 3. Defaults Upon Senior Securities

None.

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

On April 18, 1996, Landstar System, Inc. (the "Company") held its Annual Meeting of Shareholders (the "Meeting") at the Trumbull Marriott, 180 Hawley Lane, Trumbull, Connecticut 06611. The matters voted upon at the Meeting included (i) the election of two Class III directors for terms to expire at the 1999 Annual Meeting of Shareholders and (ii) the ratification of appointment of KPMG Peat Marwick LLP as the Company's independent auditors for fiscal year 1996.

Pursuant to the Company's Restated Certificate of Incorporation, the Board of Directors has fixed the number of directors at six: two Class I directors whose members' terms will expire at the 1997 Annual Meeting of Shareholders; two Class II directors whose members' terms will expire at the 1998 Annual Meeting of Shareholders; and two Class III directors whose members' terms will expire at the 1999 Annual Meeting of Shareholders. With respect to the election of the two Class III directors, nominee David G. Bannister and nominee Jeffrey C. Crowe were elected to the Board of Directors of the Company. Mr. Bannister received 10,769,496 votes for election to the Board and 22,843 votes were withheld. Mr. Crowe received 10,678,159 votes for election to the Board and 114,180 votes were withheld. The names of the other directors whose terms of office as a director continued after the Meeting are as follows: John B. Bowron (a Class I director), Ronald W. Drucker (a Class I director), Arthur J. Fritz, Jr. (a Class II director), and Merritt J. Mott (a Class II director).

The appointment of KPMG Peat Marwick LLP as the Company's independent auditors for fiscal year 1996 was ratified by the Company's shareholders. Votes for the ratification were 10,776,769, votes against were 13,345, and votes abstaining were 2,225.

Item 5. Other Information

None.

15

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

(b) Form 8-K

No reports on Form 8-K were filed by the Registrant during the twenty-six week period ended June 29, 1996.

EXHIBIT INDEX

Registrant's Commission File No.: 0-21238

Exhibit No.	Description
- - - - -	- - - - -
(11)	Statement re: Computation of Per Share Earnings:
(11.1)*	Statement re: Computation of Per Share Earnings for the Twenty-Six and Thirteen Weeks ended June 29, 1996.
(11.2)*	Statement re: Computation of Per Share Earnings for the Twenty-Six and Thirteen Weeks ended July 1, 1995.
(27)	Statement re: Financial Data Schedule:
(27 )*	Statement re: Financial Data Schedule

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\* Filed herewith

16

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: August 8, 1996

Henry H. Gerkens

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Henry H. Gerkens  
Executive Vice President and  
Chief Financial Officer;  
Principal Financial Officer

Date: August 8, 1996

Robert C. LaRose

-----

Robert C. LaRose  
Vice President Finance and Treasurer  
Principal Accounting Officer

[DESCRIPTION] CALCULATION OF 1996 EARNINGS PER SHARE

EXHIBIT 11.1

LANDSTAR SYSTEM, INC. AND SUBSIDIARY  
CALCULATION OF EARNINGS PER SHARE  
(In thousands, except per share amounts)  
(Unaudited)

	Twenty-Six Weeks Ending June 29, 1996 -----	Thirteen Weeks Ending June 29, 1996 -----
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Earnings available for earnings per share:

Net income	\$ 10,168 =====	\$ 7,014 =====
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Average number of common shares outstanding	12,781 =====	12,783 =====
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Earnings per share

\$	0.80	\$	0.55
<u>=====</u>		<u>=====</u>	

[DESCRIPTION]      CALCULATION OF 1995 EARNINGS PER SHARE

EXHIBIT 11.2

LANDSTAR SYSTEM, INC. AND SUBSIDIARY  
CALCULATION OF EARNINGS PER SHARE  
(In thousands, except per share amounts)  
(Unaudited)

	Twenty-Six Weeks Ending July 1, 1995 -----	Thirteen Weeks Ending July 1, 1995 -----
Earnings available for earnings per share:		
Net income	\$      12,577 =====	\$      7,820 =====
Average number of common shares outstanding	12,836 =====	12,824 =====
Earnings per share	\$      0.98 =====	\$      0.61 =====

<ARTICLE> 5

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This schedule contains summary financial information extracted from the Consolidated Balance Sheets at June 29, 1996 (Unaudited) and the Consolidated Statements of Income for the twenty-six weeks ended June 29, 1996 (Unaudited) and is qualified in its entirety by reference to such financial statements.

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