Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 25, 2005**

**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**<br>(State or other jurisdiction of incorporation or organization) | **06-1313069**<br>(I.R.S. Employer Identification No.) |
|---|---|

**13410 Sutton Park Drive South, Jacksonville, Florida**
(Address of principal executive offices)
**32224**
(Zip Code)
**(904) 398-9400**
(Registrant's telephone number, including area code)

**N/A**
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☑ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange 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 July 22, 2005 was 58,541,443.

**PART I**

FINANCIAL INFORMATION

Index

**Item 1**

Consolidated Balance Sheets as of June 25, 2005 and December 25, 2004 Page 3

Consolidated Statements of Income for the Twenty Six and Thirteen Weeks Ended June 25, 2005 and June 26, 2004 Page 4

Consolidated Statements of Cash Flows for the Twenty Six Weeks Ended June 25, 2005 and June 26, 2004 Page 5

Consolidated Statement of Changes in Shareholders' Equity for the Twenty Six Weeks Ended June 25, 2005 Page 6

Notes to Consolidated Financial Statements Page 7

**Item 2**

Management's Discussion and Analysis of Financial Condition and Results of Operations Page 10

**Item 3**

Quantitative and Qualitative Disclosures About Market Risk Page 19

**Item 4**

Controls and Procedures Page 20
Section 302 Chief Executive Officer Certification
Section 302 Chief Financial Officer Certification
Section 906 Chief Executive Officer Certification
Section 906 Chief Financial Officer Certification

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 twenty six weeks ended June 25, 2005 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 31, 2005.

These interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 2004 Annual Report on Form 10-K.

Table of Contents

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

| | June 25, 2005 | Dec. 25, 2004 |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | $ 61,885 | $ 61,684 |
| Short-term investments | 25,998 | 21,942 |
| Trade accounts receivable, less allowance of $4,268 and $4,021 | 279,840 | 338,774 |
| Other receivables, including advances to independent contractors, less allowance of $4,382 and $4,245 | 14,274 | 13,929 |
| Deferred income taxes and other current assets | 24,158 | 13,503 |
| Total current assets | 406,155 | 449,832 |
| Operating property, less accumulated depreciation and amortization of $66,474 and $65,315 | 80,604 | 76,834 |
| Goodwill | 31,134 | 31,134 |
| Other assets | 25,490 | 26,712 |
| Total assets | $ 543,383 | $ 584,512 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Cash overdraft | $ 24,586 | $ 23,547 |
| Accounts payable | 104,693 | 120,197 |
| Current maturities of long-term debt | 7,844 | 8,797 |
| Insurance claims | 33,144 | 32,612 |
| Other current liabilities | 52,013 | 54,926 |
| Total current liabilities | 222,280 | 240,079 |
| Long-term debt, excluding current maturities | 93,774 | 83,293 |
| Insurance claims | 33,159 | 32,430 |
| Deferred income taxes | 14,106 | 15,871 |
| Shareholders' Equity | | |
| Common stock, $0.01 par value, authorized 160,000,000 and 80,000,000 shares, issued 63,605,986 and 63,154,190 | 636 | 632 |
| Additional paid-in capital | 49,213 | 43,845 |
| Retained earnings | 337,307 | 295,936 |
| Cost of 4,893,210 and 2,490,930 shares of common stock in treasury | (206,835) | (127,151) |
| Accumulated other comprehensive income (loss) | (62) | 47 |
| Notes receivable arising from exercises of stock options | (195) | (470) |
| Total shareholders' equity | 180,064 | 212,839 |
| Total liabilities and shareholders' equity | $ 543,383 | $ 584,512 |

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 25, 2005** | **June 26, 2004** | **June 25, 2005** | **June 26, 2004** |
| Revenue | $ 1,041,316 | $ 903,329 | $ 539,104 | $ 482,303 |
| Investment income | 1,235 | 542 | 696 | 239 |
| Costs and expenses: | | | | |
| Purchased transportation | 783,092 | 674,093 | 405,514 | 360,296 |
| Commissions to agents | 82,039 | 70,637 | 42,913 | 38,203 |
| Other operating costs | 16,615 | 18,776 | 7,917 | 8,882 |
| Insurance and claims | 22,904 | 33,454 | 9,779 | 12,748 |
| Selling, general and administrative | 60,823 | 57,188 | 30,520 | 29,778 |
| Depreciation and amortization | 7,928 | 6,566 | 3,966 | 3,367 |
| Total costs and expenses | 973,401 | 860,714 | 500,609 | 453,274 |
| Operating income | 69,150 | 43,157 | 39,191 | 29,268 |
| Interest and debt expense | 1,989 | 1,551 | 1,052 | 783 |
| Income before income taxes | 67,161 | 41,606 | 38,139 | 28,485 |
| Income taxes | 25,790 | 15,914 | 14,646 | 10,895 |
| Net income | $ 41,371 | $ 25,692 | $ 23,493 | $ 17,590 |
| Earnings per common share (1) | $ 0.69 | $ 0.43 | $ 0.40 | $ 0.29 |
| Diluted earnings per share (1) | $ 0.68 | $ 0.42 | $ 0.39 | $ 0.29 |
| Average number of shares outstanding: | | | | |
| Earnings per common share (1) | 59,878,000 | 59,786,000 | 59,402,000 | 59,863,000 |
| Diluted earnings per share (1) | 61,240,000 | 61,505,000 | 60,639,000 | 61,587,000 |

(1) 2004 earnings per share amounts and average number of shares outstanding have been adjusted to give retroactive effect to a two-for-one stock split effected in the form of a 100% stock dividend declared December 9, 2004.

See accompanying notes to consolidated financial statements.

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

| | Twenty Six Weeks Ended | |
|---|---|---|
| | June 25, 2005 | June 26, 2004 |
| OPERATING ACTIVITIES | | |
| Net income | $ 41,371 | $ 25,692 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization of operating property | 7,928 | 6,566 |
| Non-cash interest charges | 87 | 261 |
| Provisions for losses on trade and other accounts receivable | 2,884 | 3,291 |
| (Gains) losses on sales and disposals of operating property | (668) | 102 |
| Director compensation paid in common stock | 193 | 402 |
| Tax benefit on stock option exercises | 1,522 | 3,490 |
| Deferred income taxes, net | (1,765) | (771) |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in trade and other accounts receivable | 55,705 | (28,899) |
| Increase in other assets | (9,382) | (8,688) |
| Increase (decrease) in accounts payable | (15,504) | 30,624 |
| Increase (decrease) in other liabilities | (2,239) | 5,323 |
| Increase in insurance claims | 1,261 | 4,789 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 81,393 | 42,182 |
| INVESTING ACTIVITIES | | |
| Net change in other short-term investments | (6,067) | (1,323) |
| Sales and maturities of long-term investments | 3,013 | 500 |
| Purchases of long-term investments | (1,309) | |
| Purchases of operating property | (1,184) | (4,130) |
| Proceeds from sales of operating property | 3,109 | 639 |
| NET CASH USED BY INVESTING ACTIVITIES | (2,438) | (4,314) |
| FINANCING ACTIVITIES | | |
| Increase (decrease) in cash overdraft | 1,039 | (670) |
| Proceeds from repayment of notes receivable arising from exercises of stock options | 275 | |
| Proceeds from exercises of stock options | 4,018 | 8,086 |
| Borrowings on revolving credit facility | 2,000 | 1,000 |
| Purchases of common stock | (80,659) | (16,407) |
| Principal payments on long-term debt and capital lease obligations | (5,427) | (14,196) |
| NET CASH USED BY FINANCING ACTIVITIES | (78,754) | (22,187) |
| Increase in cash and cash equivalents | 201 | 15,681 |
| Cash and cash equivalents at beginning of period | 61,684 | 42,640 |
| Cash and cash equivalents at end of period | $ 61,885 | $ 58,321 |

See accompanying notes to consolidated financial statements.

Table of Contents

LANDSTAR SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
Twenty Six Weeks Ended June 25, 2005
(Dollars in thousands)
(Unaudited)

| | Common Stock | | Add'l Paid-In | Retained | Treasury Stock at Cost | | Accumulated Other Comprehensive | Notes Receivable Arising from Exercises of Stock | |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Earnings | Shares | Amount | Income (Loss) | Options | Total |
| Balance December 25, 2004 | 63,154,190 | $ 632 | $43,845 | $295,936 | 2,490,930 | $(127,151) | $ 47 | $ (470) | $212,839 |
| Net income | | | | 41,371 | | | | | 41,371 |
| Purchases of common stock | | | | | 2,421,380 | (80,659) | | | (80,659) |
| Exercises of stock options and related income tax benefit | 445,796 | 4 | 5,536 | | | | | | 5,540 |
| Repayment of notes receivable arising from exercises of stock options | | | | | | | | 275 | 275 |
| Director compensation paid in common stock | 6,000 | | 193 | | | | | | 193 |
| Incentive compensation paid in common stock | | | (361) | | (19,100) | 975 | | | 614 |
| Unrealized loss on available- for-sale investments, net of income taxes | | | | | | | (109) | | (109) |
| Balance June 25, 2005 | 63,605,986 | $ 636 | $49,213 | $337,307 | 4,893,210 | $(206,835) | $ (62) | $ (195) | $180,064 |

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" or the "Company."

(1) Stock Split

On December 9, 2004, Landstar declared a two-for-one stock-split of its common stock effected in the form of a 100% stock dividend. Stockholders of record on December 28, 2004 received one additional share of common stock for each share held. The additional shares were distributed on January 7, 2005.

Unless otherwise indicated, all share and per share amounts have been adjusted to give retroactive effect to this stock-split.

(2) Income Taxes

The provisions for income taxes for the 2005 and 2004 twenty six and thirteen week periods were based on estimated full year combined effective income tax rates of approximately 38.4% and 38.3%, respectively, which are higher than the statutory federal income tax rate primarily as a result of state income taxes and the meals and entertainment exclusion.

(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 in calculating diluted earnings per share (in thousands):

| | Twenty Six Weeks Ended | | Thirteen Weeks Ended | |
|---|---|---|---|---|
| | **June 25, 2005** | **June 26, 2004** | **June 25, 2005** | **June 26, 2004** |
| Average number of common shares outstanding | 59,878 | 59,786 | 59,402 | 59,863 |
| Incremental shares from assumed exercises of stock options | 1,362 | 1,719 | 1,237 | 1,724 |
| Average number of common shares and common share equivalents outstanding | 61,240 | 61,505 | 60,639 | 61,587 |

For the twenty six week periods ended June 25, 2005 and June 26, 2004, there were 470,000 and 2,000, respectively, options outstanding to purchase shares of common stock excluded from the calculation of diluted earnings per share because they were antidilutive.

For the thirteen week period ended June 25, 2005, there were 495,000 options outstanding to purchase shares of common stock excluded from the calculation of diluted earnings per share because they were antidilutive. For the thirteen week period ended June 26, 2004, there were no such options outstanding.

Table of Contents

(4) Additional Cash Flow Information

During the 2005 twenty six week period, Landstar paid income taxes and interest of $29,760,000 and $2,221,000, respectively. During the 2004 twenty six week period, Landstar paid income taxes and interest of $18,705,000 and $1,616,000, respectively. Landstar acquired operating property by entering into capital leases in the amount of $12,955,000 in the 2005 twenty six week period. Landstar acquired operating property by entering into capital leases in the amount of $8,380,000 in the 2004 twenty six week period.

(5) Segment Information

The following tables summarize information about Landstar's reportable business segments as of and for the twenty six and thirteen week periods ended June 25, 2005 and June 26, 2004 (in thousands):

| | Twenty Six Weeks Ended June 25, 2005 | | | | |
|---|---|---|---|---|---|
| | Carrier | Multimodal | Insurance | Other | Total |
| External revenue | $783,521 | $ 242,588 | $ 15,207 | | $1,041,316 |
| Investment income | | | 1,235 | | 1,235 |
| Internal revenue | 11,640 | 888 | 17,848 | | 30,376 |
| Operating income | 70,933 | 9,512 | 11,628 | $(22,923) | 69,150 |
| Goodwill | 20,496 | 10,638 | | | 31,134 |

| | Twenty Six Weeks Ended June 26, 2004 | | | | |
|---|---|---|---|---|---|
| | Carrier | Multimodal | Insurance | Other | Total |
| External revenue | $685,195 | $ 203,287 | $ 14,847 | | $903,329 |
| Investment income | | | 542 | | 542 |
| Internal revenue | 11,275 | 3,446 | 17,872 | | 32,593 |
| Operating income | 55,139 | 6,013 | 3,038 | $(21,033) | 43,157 |
| Goodwill | 20,496 | 10,638 | | | 31,134 |

| | Thirteen Weeks Ended June 25, 2005 | | | | |
|---|---|---|---|---|---|
| | Carrier | Multimodal | Insurance | Other | Total |
| External revenue | $412,478 | $ 118,892 | $ 7,734 | | $539,104 |
| Investment income | | | 696 | | 696 |
| Internal revenue | 5,756 | 538 | 11,258 | | 17,552 |
| Operating income | 39,575 | 4,161 | 7,536 | $(12,081) | 39,191 |

| | Thirteen Weeks Ended June 26, 2004 | | | | |
|---|---|---|---|---|---|
| | Carrier | Multimodal | Insurance | Other | Total |
| External revenue | $363,587 | $ 111,273 | $ 7,443 | | $482,303 |
| Investment income | | | 239 | | 239 |
| Internal revenue | 6,146 | 962 | 10,891 | | 17,999 |
| Operating income | 31,442 | 3,274 | 5,864 | $(11,312) | 29,268 |

(6) Stock-Based Compensation – Stock Options

The Company has two employee stock option plans and one stock option plan for members of its Board of Directors (the "Plans"). The Company accounts for stock options issued under the Plans pursuant to the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. No stock-based employee compensation is reflected in net income from the Plans, as all options granted under the Plans had an exercise price equal to the fair market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share from the Plans, as if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123

(revised 2004), "Accounting for Stock-Based Compensation," to stock-based employee compensation (in thousands, except per share amounts):

| | Twenty Six Weeks Ended | | Thirteen Weeks Ended | |
|---|---|---|---|---|
| | June 25, 2005 | June 26, 2004 | June 25, 2005 | June 26, 2004 |
| Net income, as reported | $ 41,371 | $ 25,692 | $ 23,493 | $ 17,590 |
| Deduct: | | | | |
| Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related income tax benefits | (2,122) | (2,116) | (1,069) | (1,066) |
| Pro forma net income | $ 39,249 | $ 23,576 | $ 22,424 | $ 16,524 |
| Earnings per common share: | | | | |
| As reported | $ 0.69 | $ 0.43 | $ 0.40 | $ 0.29 |
| Pro forma | $ 0.66 | $ 0.39 | $ 0.38 | $ 0.28 |
| Diluted earnings per share: | | | | |
| As reported | $ 0.68 | $ 0.42 | $ 0.39 | $ 0.29 |
| Pro forma | $ 0.65 | $ 0.38 | $ 0.37 | $ 0.27 |

Under the Directors' Stock Compensation Plan, all independent Directors who are elected or re-elected to the Board will receive 6,000 shares (after giving effect to a two-for-one stock split declared on December 9, 2004) of common stock of the Company, subject to certain restrictions including restrictions on transfer. During the 2005 and 2004 twenty six week periods, a total of 6,000 and 18,000 shares, respectively, of the Company's common stock were issued to members of the Board of Directors upon their re-election at the 2005 and 2004 annual shareholders' meetings. During the twenty six and thirteen week periods ended June 25, 2005 and June 26, 2004, the Company reported $193,000 and $402,000, respectively, in compensation expense representing the fair market value of these share awards.

(7) Comprehensive Income

The following table includes the components of comprehensive income for the twenty six and thirteen week periods ended June 25, 2005 and June 26, 2004 (in thousands):

| | Twenty Six Weeks Ended | | Thirteen Weeks Ended | |
|---|---|---|---|---|
| | June 25, 2005 | June 26, 2004 | June 25, 2005 | June 26, 2004 |
| Net income | $ 41,371 | $ 25,692 | $ 23,493 | $ 17,590 |
| Unrealized holding losses on available -for-sale investments, net of income tax | (109) | (138) | (31) | (144) |
| Comprehensive income | $ 41,262 | $ 25,554 | $ 23,462 | $ 17,446 |

Accumulated other comprehensive loss at June 25, 2005 of $62,000 represents the unrealized holding losses on available-for-sale investments of $96,000, net of related income tax benefits of $34,000.

(8) Commitments and Contingencies

At June 25, 2005, Landstar had $27,219,000 of letters of credit outstanding under the Company's revolving credit facility and $40,862,000 of letters of credit secured by investments held at the Company's insurance segment. The short-term investments of $25,998,000 combined with $16,627,000 of the non-current portion of investment grade bonds included in other assets at June 25, 2005, provide collateral for the $40,862,000 of letters of credit issued to guarantee payment of insurance claims.

On November 1, 2002, the Owner Operator Independent Drivers Association, Inc. ("OOIDA") and six individual Independent Contractors filed a putative class action complaint (the "Complaint") in the United States District Court

for the Middle District of Florida (the "Court") in Jacksonville, Florida, against the Company. The Complaint alleges that certain aspects of the Company's motor carrier leases with its Independent Contractors violate certain federal leasing regulations and seeks injunctive relief, an unspecified amount of damages and attorney's fees. On March 8 and June 4, 2004, the Court dismissed all claims of one of the six individual Plaintiffs on the grounds that the ICC Termination Act (the "Act") is not applicable to leases signed before the Act's January 1, 1996, effective date, and dismissed all claims of all remaining Plaintiffs against four of the seven Company entities previously named as Defendants. Claims currently survive against the following Company entities: Landstar Inway, Inc., Landstar Ligon, Inc. and Landstar Ranger, Inc. With respect to the remaining claims, the June 4, 2004 order held that the Act created a private right of action to which a four-year statute of limitation applies. On November 30, 2004, the Court heard oral argument on a motion by OOIDA to certify the case as a class action. On April 7, 2005, Plaintiffs' filed an Amended Complaint that included additional allegations with respect to violations of certain federal leasing regulations. On April 18 and June 10, 2005, Defendants filed motions for partial summary judgment to address the claims of the Amended Complaint. The Court is expected to rule prior to trial on the pending motions for class-certification and summary judgment. A court ordered mediation is currently scheduled for September 7, 2005. Trial for this matter has been set for the trial term beginning October 3, 2005.

Due to a number of factors, including resolution of the pending motions for class-certification and summary judgment, the lack of completion of discovery in this matter and the lack of litigated final judgments in a number of similar cases or otherwise applicable precedents, the Company does not believe it is in a position to conclude whether or not there is a reasonable possibility of an adverse outcome in this case or what damages, if any, Plaintiffs would be awarded should they prevail on all or any part of their claims. However, the Company believes it has meritorious defenses, including to the expanded allegations in the Amended Complaint, 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 25, 2004 and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 2004 Annual Report on Form 10-K.

FORWARD-LOOKING STATEMENTS

The following is a "safe harbor" statement under the Private Securities Litigation Reform Act of 1995. Statements contained in this document that are not based on historical facts are "forward-looking statements." This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Form 10-Q statement 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," "could," "will," the 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: the operational, financial or legal risks or uncertainties detailed in Landstar's Form 10-K for the 2004 fiscal year, described in the section Factors That May Affect Future Results and/or Forward-Looking Statements, this report or in Landstar's other Securities and Exchange Commission filings from time to time. These risks and uncertainties could cause actual results or events to differ materially from historical results or those anticipated. Investors should not place undue reliance on such forward-looking statements and the Company undertakes no obligation to publicly update or revise any forward-looking statements.

Introduction

Landstar System, Inc. and its subsidiary, Landstar System Holdings, Inc. (together, referred to herein as “Landstar” or the “Company”), 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, Canada and Mexico through its operating subsidiaries. Landstar’s business strategy is to be a non-asset based provider of transportation capacity delivering safe, specialized transportation services to a broad range of customers primarily throughout North America utilizing a network of independent commission sales agents and third party capacity providers. Landstar focuses on providing transportation services which emphasize customer service and information coordination among its independent commission sales agents, customers and capacity providers. The Company markets its services primarily through independent commission sales agents and utilizes exclusively 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, multimodal 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 “Independent Contractors”) and other third party truck capacity providers (truck brokerage carriers).

The multimodal segment is comprised of Landstar Logistics, Inc. and Landstar Express America, Inc. Transportation services provided by the multimodal segment include the arrangement of intermodal moves, contract logistics, truck brokerage and emergency and expedited ground and air and ocean freight. The multimodal segment markets its services primarily through independent commission sales agents and utilizes capacity provided by Independent Contractors and other third party capacity providers, including truck brokerage carriers, railroads, air and ocean cargo carriers.

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 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 2004 fiscal year, 427 independent commission sales agents generated $1 million or more of Landstar's revenue and thus qualified as Million Dollar Agents. During the 2004 fiscal year, the average revenue generated by a Million Dollar Agent was $4,374,000 and revenue generated by Million Dollar Agents in the aggregate represented 92% of consolidated Landstar revenue.

Management monitors business activity by tracking the number of loads (volume) and revenue per load generated by the carrier and multimodal segments. In addition, management tracks revenue per revenue mile, average length of haul and total revenue miles at the carrier segment. Revenue per revenue mile and revenue per load (collectively, price) as well as the number of loads, can be influenced by many factors which do not necessarily indicate a change in price or volume. 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:

| | Twenty Six Weeks Ended | | Thirteen Weeks Ended | |
|---|---|---|---|---|
| | June 25, 2005 | June 26, 2004 | June 25, 2005 | June 26, 2004 |
| Carrier Segment: | | | | |
| External revenue generated through (in thousands): | | | | |
| Independent Contractors | $ 599,222 | $ 578,091 | $316,547 | $305,860 |
| Other third party truck capacity providers | 184,299 | 107,104 | 95,931 | 57,727 |
| | $ 783,521 | $ 685,195 | $412,478 | $363,587 |
| Revenue per revenue mile | $ 1.81 | $ 1.75 | $ 1.82 | $ 1.76 |
| Revenue per load | $ 1,454 | $ 1,315 | $ 1,463 | $ 1,362 |
| Average length of haul (miles) | 802 | 752 | 802 | 774 |
| Number of loads | 539,000 | 521,000 | 282,000 | 267,000 |
| Multimodal Segment: | | | | |
| External revenue generated through (in thousands): | | | | |
| Independent Contractors (1) | $ 35,335 | $ 33,888 | $ 17,497 | $ 18,475 |
| Other third party truck capacity providers | 154,665 | 118,778 | 75,584 | 65,294 |
| Rail, air and ocean carriers | 52,588 | 50,621 | 25,811 | 27,504 |
| | $ 242,588 | $ 203,287 | $118,892 | $111,273 |
| Revenue per load (2) | $ 1,484 | $ 1,374 | $ 1,431 | $ 1,391 |
| Number of loads (2) | 158,000 | 148,000 | 82,000 | 80,000 |

(1) Includes revenue from freight hauled by carrier segment Independent Contractors for multimodal customers.

(2) Number of loads and revenue per load excludes the effect of revenue derived from emergency transportation services provided under a contract between Landstar Express America, Inc. and the United States Federal Aviation Administration (the "FAA").

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:

| | June 25, 2005 | June 26, 2004 |
|---|---|---|
| Independent Contractors | 7,840 | 7,629 |
| Other third party truck capacity providers: | | |
| Approved and active (1) | 12,458 | 9,800 |
| Other approved | 7,605 | 6,416 |
| | 20,063 | 16,216 |
| Total available truck capacity providers | 27,903 | 23,845 |
| Number of trucks provided by Independent Contractors | 8,609 | 8,560 |

(1) Active refers to other third party truck capacity providers who moved at least one load in the 180 days immediately preceding the fiscal quarter end.

Historically, the Company’s carrier segment has primarily relied on capacity provided by Independent Contractors. Pursuant to a continuing plan to augment its available capacity and increase its revenue, the Company has been increasing the carrier segment’s use of capacity provided by other third party truck capacity providers. The percent of consolidated revenue generated through all truck brokerage carriers was 32.6% during the twenty six week period ended June 25, 2005 and 25.0% during the twenty six week period ended June 26, 2004.

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 an Independent Contractor or other third party capacity provider is paid to haul freight. The amount of purchased transportation paid to an 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 multimodal segment is based on either a negotiated rate for each load hauled or a contractually agreed-upon rate. Purchased transportation for the intermodal, air and ocean freight operations of the multimodal segment is based on a contractually agreed-upon fixed rate. Purchased transportation as a percentage of revenue for brokerage services and rail intermodal 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 Independent Contractors, other third party capacity providers and revenue from the insurance segment. Commissions to agents are primarily based on contractually agreed-upon percentages of revenue at the carrier segment and of gross profit, defined as revenue less the cost of purchased transportation, at the multimodal 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 multimodal segment and the insurance segment and with changes in gross profit at the multimodal segment.

Trailing equipment rent, maintenance costs for trailing equipment, Independent Contractor recruiting costs and bad debts from 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 depends on when such claims are incurred. For commercial trucking claims incurred 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. For commercial trucking claims incurred from May 1, 2001 through June 18, 2003, Landstar retains liability up to $5,000,000 per occurrence. For commercial trucking claims incurred prior to May 1, 2001, Landstar retains liability up to $1,000,000 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.

Table of Contents

All historical share-related financial information presented herein has been adjusted to reflect a two-for-one stock split effected in the form of a 100% stock dividend distributed on January 7, 2005 to stockholders of record on December 28, 2004.

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

| | Twenty Six Weeks Ended | | Thirteen Weeks Ended | |
|---|---|---|---|---|
| | June 25, 2005 | June 26, 2004 | June 25, 2005 | June 26, 2004 |
| Revenue | 100.0% | 100.0% | 100.0% | 100.0% |
| Investment income | 0.1 | 0.1 | 0.1 | 0.0 |
| Costs and expenses: | | | | |
| Purchased transportation | 75.2 | 74.6 | 75.2 | 74.7 |
| Commissions to agents | 7.9 | 7.8 | 7.9 | 7.9 |
| Other operating costs | 1.6 | 2.1 | 1.5 | 1.8 |
| Insurance and claims | 2.2 | 3.7 | 1.8 | 2.6 |
| Selling, general and administrative | 5.8 | 6.4 | 5.7 | 6.2 |
| Depreciation and amortization | 0.8 | 0.7 | 0.7 | 0.7 |
| Total costs and expenses | 93.5 | 95.3 | 92.8 | 93.9 |
| Operating income | 6.6 | 4.8 | 7.3 | 6.1 |
| Interest and debt expense | 0.2 | 0.2 | 0.2 | 0.2 |
| Income before income taxes | 6.4 | 4.6 | 7.1 | 5.9 |
| Income taxes | 2.4 | 1.8 | 2.7 | 2.3 |
| Net income | 4.0% | 2.8% | 4.4% | 3.6% |

TWENTY SIX WEEKS ENDED JUNE 25, 2005 COMPARED TO TWENTY SIX WEEKS ENDED JUNE 26, 2004

Revenue for the 2005 twenty six week period was $1,041,316,000, an increase of $137,987,000, or 15.3%, over the 2004 twenty six week period. The increase was attributable to increased revenue of $98,326,000, $39,301,000 and $360,000 at the carrier, multimodal and insurance segments, respectively. With respect to the carrier segment, revenue per load increased approximately 11% in the 2005 twenty six week period while the number of loads delivered in the 2005 twenty six week period increased approximately 3%. The average length of haul per load at the carrier segment increased approximately 7% and revenue per revenue mile increased approximately 3%. Included in revenue at the multimodal segment for the 2005 twenty six week period was $8,075,000 of revenue related to disaster relief efforts for the storms that impacted the southeastern United States in the later half of 2004. These emergency transportation services were provided primarily under a contract between Landstar Express America, Inc. and the United States Federal Aviation Administration (the “FAA”). Excluding the number of loads and revenue related to disaster relief efforts provided by the multimodal segment in the 2005 twenty six week period, the number of loads delivered by the multimodal segment in the 2005 twenty six week period increased approximately 7% and revenue per load increased approximately 8% over the 2004 period.

Investment income at the insurance segment was $1,235,000 and $542,000 in the 2005 and 2004 periods, respectively. The increase in investment income was primarily due to an increased rate of return, attributable to a general increase in interest rates, on investments held by the insurance segment and a higher average investment balance.

Purchased transportation was 75.2% and 74.6% of revenue in 2005 and 2004, respectively. The increase in purchased transportation as a percentage of revenue was primarily attributable to increased truck brokerage revenue, which tends to have a higher cost of purchased transportation, partially offset by a reduction in rates charged by third party truck brokerage carriers. Commissions to agents were 7.9% and 7.8% of revenue in 2005 and 2004, respectively. The increase in commissions to agents as a percentage of revenue was primarily attributable to a change in revenue mix. Other operating costs were 1.6% and 2.1% of revenue in 2005 and 2004, respectively. The decrease in other operating costs as a percentage of revenue was primarily attributable to increased brokerage

revenue, which does not incur significant other operating costs, decreased rent expense for company provided trailing equipment, which reflected an increase in the number of company owned trailers as opposed to leased, and reduced rental rates on trailers leased. Insurance and claims were 2.2% of revenue in 2005 compared with 3.7% of revenue in 2004. The decrease in insurance and claims as a percentage of revenue was primarily attributable to $7,600,000 of costs incurred to settle one severe accident that occurred early in the first quarter of 2004, favorable development of prior year claims in the current year and increased truck brokerage revenue which has a lower claims risk profile. Selling, general and administrative costs were 5.8% of revenue in 2005 compared with 6.4% of revenue in 2004. The decrease in selling, general and administrative costs as a percentage of revenue was primarily attributable to the effect of increased revenue, partially offset by an increased provision for bonuses under the Company's incentive compensation plans. Depreciation and amortization was 0.8% and 0.7% of revenue in 2005 and 2004, respectively. The increase in depreciation and amortization as a percentage of revenue was primarily attributable to the increase in the number of company owned trailers.

Interest and debt expense was 0.2% of revenue in both 2005 and 2004.

The provisions for income taxes for the 2005 and 2004 twenty six week periods were based on estimated full year combined effective income tax rates of approximately 38.4% and 38.3%, respectively, which are higher than the statutory federal income tax rate primarily as a result of state income taxes and the meals and entertainment exclusion. The increase in the combined effective income tax rate is primarily attributable to changes in the tax law enacted by a number of states in which the Company operates.

Net income was $41,371,000, or $0.69 per common share ($0.68 per diluted share), in the 2005 twenty six week period compared with $25,692,000, or $0.43 per common share ($0.42 per diluted share), in the 2004 twenty six week period, which included the $7,600,000 charge to settle one accident referenced above. This charge, net of related income tax benefits, reduced 2004 net income by $4,900,000, or $0.08 per common share ($0.08 per diluted share).

THIRTEEN WEEKS ENDED JUNE 25, 2005 COMPARED TO THIRTEEN WEEKS ENDED JUNE 26, 2004

Revenue for the 2005 thirteen week period was $539,104,000, an increase of $56,801,000, or 11.8%, compared to the 2004 thirteen week period. The increase was attributable to increased revenue of $48,891,000, $7,619,000 and $291,000 at the carrier, multimodal and insurance segments, respectively. With respect to the carrier segment, revenue per load increased approximately 7% in the 2005 thirteen week period while the number of loads delivered in the 2005 thirteen week period increased approximately 6%. The average length of haul per load at the carrier segment increased approximately 4% and revenue per revenue mile increased approximately 3%. Excluding the number of loads and revenue related to disaster relief efforts provided by the multimodal segment in the 2005 thirteen week period, the number of loads delivered by the multimodal segment in the 2005 thirteen week period increased approximately 3% and revenue per load increased approximately 3% over the 2004 period.

Investment income at the insurance segment was $696,000 and $239,000 in the 2005 and 2004 periods, respectively. The increase in investment income was primarily due to an increased rate of return, attributable to a general increase in interest rates, on investments held by the insurance segment and a higher average investment balance.

Purchased transportation was 75.2% and 74.7% of revenue in 2005 and 2004, respectively. The increase in purchased transportation as a percentage of revenue was primarily attributable to increased truck brokerage revenue, which tends to have a higher cost of purchased transportation, partially offset by a reduction in rates charged by third party truck brokerage carriers. Commissions to agents were 7.9% of revenue in both the 2005 and 2004 periods. Other operating costs were 1.5% of revenue in 2005 and 1.8% of revenue in 2004. The decrease in other operating costs as a percentage of revenue was primarily attributable to increased brokerage revenue, which does not incur significant other operating costs, decreased rent expense for company provided trailing equipment, which reflected an increase in the number of company owned trailers as opposed to leased, reduced rental rates on leased trailers and lower trailer maintenance costs. Insurance and claims were 1.8% of revenue in 2005 compared with 2.6% of revenue in 2004. The decrease in insurance and claims as a percentage of revenue was primarily attributable to favorable development of prior year claims in the current year, a lower

frequency of cargo claims in the current year and increased revenue hauled by other third party truck capacity providers which generally has a lower claims risk profile. Selling, general and administrative costs were 5.7% of revenue in 2005 compared with 6.2% of revenue in 2004. The decrease in selling, general and administrative costs as a percentage of revenue was primarily attributable to the effect of increased revenue, a decreased provision for bonuses under the Company's incentive compensation plans and a decreased provision for customer bad debts. Depreciation and amortization was 0.7% of revenue in both 2005 and 2004.

Interest and debt expense was 0.2% of revenue in both 2005 and 2004.

The provisions for income taxes for the 2005 and 2004 thirteen week periods were based on estimated full year combined effective income tax rates of approximately 38.4% and 38.3%, respectively, which are higher than the statutory federal income tax rate primarily as a result of state income taxes and the meals and entertainment exclusion. The increase in the combined effective income tax rate is primarily attributable to changes in the tax law enacted by a number of states in which the Company operates.

Net income was $23,493,000, or $0.40 per common share ($0.39 per diluted share), in the 2005 thirteen week period compared with $17,590,000, or $0.29 per common share ($0.29 per diluted share), in the 2004 thirteen week period.

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 multimodal segment excluding revenue and loads related to emergency transportation services provided primarily under a contract with the FAA and (2) the percentage change in revenue per load for the multimodal segment excluding revenue and loads related to emergency transportation services provided primarily under a contract with the FAA as compared to revenue per load for the multimodal 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 emergency 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 emergency transportation services provided by Landstar relating to disaster relief efforts for the storms that impacted the southeastern United States during the later half of 2004 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 $180,064,000 at June 25, 2005, compared to $212,839,000 at December 25, 2004. The decrease in shareholders' equity was primarily a result of the purchase of 2,421,380 shares of the Company's common stock at a total cost of $80,659,000, partially offset by net income for the 2005 twenty six week period and proceeds related to the exercise of stock options. At June 25, 2005, the Company may purchase up to an additional 976,900 shares of its common stock under its authorized stock purchase program. Shareholders' equity was 64% of total capitalization (defined as total debt plus equity) at June 25, 2005 compared to 70% at December 25, 2004.

Long-term debt including current maturities was $101,618,000 at June 25, 2005, $9,528,000 higher than at December 25, 2004, primarily as a result of capital lease additions during the 2005 twenty six week period.

Working capital and the ratio of current assets to current liabilities were $183,875,000 and 1.83 to 1, respectively, at June 25, 2005, compared with $209,753,000 and 1.87 to 1, respectively, at December 25, 2004. 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 $81,393,000 in the 2005 twenty six week period compared with $42,182,000 in the 2004 twenty six week period. The increase in cash flow provided by operating activities was primarily attributable to the timing of

collections of trade accounts receivable, including a significant portion of the receivable from the FAA for emergency transportation services provided during the later half of 2004.

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 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 initial borrowing of $70,000,000 under the facility was used to refinance the Company's prior credit facility, which has been terminated.

At June 25, 2005, the Company had $65,000,000 in borrowings outstanding and $27,219,000 of letters of credit outstanding under the Fourth Amended and Restated Credit Agreement. At June 25, 2005, there was $132,781,000 available for future borrowings under the Company's Fourth Amended and Restated Credit Agreement. In addition, the Company has $40,862,000 in letters of credit outstanding, as collateral for insurance claims, that are secured by investments and cash equivalents totaling $42,625,000.

Historically, the Company has generated sufficient operating cash flow to meet its debt service requirements, fund continued growth, both internal and through acquisitions, and to meet working capital needs. As a non-asset based provider of transportation capacity, the Company's annual capital requirements for operating property are generally for trailers and management information services equipment. In addition, a significant portion of the trailing equipment used by the Company is provided by third party capacity providers and through leases at rental rates that vary with the revenue generated through the use of the leased equipment, thereby reducing the Company's capital requirements. During the 2005 twenty six week period, the Company purchased $1,184,000 of operating property and acquired $12,955,000 worth of trailing equipment by entering into capital leases. Landstar anticipates acquiring approximately $20,000,000 of operating property during the remainder of the 2005 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 2005. The Company does not anticipate any other significant capital requirements in the near future.

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, 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 six individual Independent Contractors filed a putative class action complaint (the "Complaint") in the United States District Court for the Middle District of Florida (the "Court") in Jacksonville, Florida, against the Company. The Complaint alleges that certain aspects of the Company's motor carrier leases with its Independent Contractors violate certain federal leasing regulations and seeks injunctive relief, an unspecified amount of damages and attorney's fees. On March 8 and June 4, 2004, the Court dismissed all claims of one of the six individual Plaintiffs on the grounds that the ICC Termination Act (the "Act") is not applicable to leases signed before the Act's January 1, 1996, effective date, and dismissed all claims of all remaining Plaintiffs against four of the seven Company entities previously named as Defendants. Claims currently survive against the following Company entities: Landstar Inway, Inc., Landstar Ligon, Inc. and Landstar Ranger, Inc. With respect to the remaining claims, the June 4, 2004 order held that the Act created a private right of action to which a four-year statute of limitation applies. On November 30, 2004, the Court heard oral argument on a motion by OOIDA to certify the case as a class action. On April 7, 2005, Plaintiffs' filed an Amended Complaint that included additional allegations with respect to violations of certain federal leasing regulations. On April 18 and June 10, 2005, Defendants filed motions for partial summary judgment to address the claims of the Amended Complaint. The Court is expected to rule prior to trial on the pending motions for class-certification and summary judgment. A court ordered mediation is currently scheduled for September 7, 2005. Trial for this matter has been set for the trial term beginning October 3, 2005.

Due to a number of factors, including resolution of the pending motions for class-certification and summary judgment, the lack of completion of discovery in this matter and the lack of litigated final judgments in a number of similar cases or otherwise applicable precedents, the Company does not believe it is in a position to conclude

whether or not there is a reasonable possibility of an adverse outcome in this case or what damages, if any, Plaintiffs would be awarded should they prevail on all or any part of their claims. However, the Company believes it has meritorious defenses, including to the expanded allegations in the Amended Complaint, 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 June 25, 2005 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 balance sheet date. The ultimate resolution of these claims may be for an amount greater or less than the amount estimated by management. Historically, the Company has experienced both favorable and unfavorable development of prior year claims estimates. The Company is continually revising its existing claims estimates as new or revised information becomes available on the status of each claim. During the 2005 twenty six week period, insurance and claims costs included $2,301,000 of favorable adjustments to prior years claims estimates. During the 2004 twenty six week period, insurance and claims costs included $2,199,000 of unfavorable 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 June 25, 2005.

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. The Company has provided for its estimated exposure attributable to income tax planning strategies. Management believes that the provision for liabilities resulting from the implementation of income tax planning strategies 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 income tax planning strategies are not appropriate.

Significant variances from management's estimates for the amount of uncollectible receivables, the ultimate resolution of claims or the provision for liabilities for income tax planning strategies 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.

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 December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment ("FAS No. 123"). FAS No. 123 establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. FAS No. 123 focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. Under FAS No. 123, the Company, beginning in the first quarter of 2006, will be required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award (with limited exceptions). The cost will be recognized over the period during which an employee is required to provide services in exchange for the award.

Currently, the Company discloses the estimated effect on net income of these share-based payments in the footnotes to the financial statements. The estimated fair value (cost) of the share-based payments has historically been determined using the Black-Scholes pricing model. As of the date of this report, the Company has not determined which method to use upon implementation of this standard. The actual compensation cost resulting from share-based payments to be included in the Company's future results of operations may vary significantly from the amounts currently disclosed in the footnotes to the financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to changes in interest rates as a result of its financial 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 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 initial borrowing of $70,000,000 under the facility was used to refinance the Company's prior credit facility, which has been terminated.

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.

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 June 25, 2005, the weighted average interest rate on borrowings outstanding was 3.54%. During the second quarter of fiscal 2005, the average outstanding balance under the Fourth Amended and Restated Credit Agreement was approximately $75,000,000. 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 June 25, 2005 was estimated to approximate carrying value. Assuming that debt levels on the Fourth Amended and Restated Credit Agreement remain at $65,000,000, the balance at June 25, 2005, 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 $650,000 on an annualized basis.

All amounts outstanding under the Fourth Amended and Restated Credit Agreement are payable on July 8, 2009, the expiration date 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 five years. Assuming that the long-term portion of investments in bonds remains at $16,627,000, the balance at June 25, 2005, 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 June 25, 2005, 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 control over financial reporting during the Company's fiscal quarter ended June 25, 2005 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II
## OTHER INFORMATION

Item 1. Legal Proceedings

On November 1, 2002, the Owner Operator Independent Drivers Association, Inc. ("OOIDA") and six individual Independent Contractors filed a putative class action complaint (the "Complaint") in the United States District Court for the Middle District of Florida (the "Court") in Jacksonville, Florida, against the Company. The Complaint alleges that certain aspects of the Company's motor carrier leases with its Independent Contractors violate certain federal leasing regulations and seeks injunctive relief, an unspecified amount of damages and attorney's fees. On March 8 and June 4, 2004, the Court dismissed all claims of one of the six individual Plaintiffs on the grounds that the ICC Termination Act (the "Act") is not applicable to leases signed before the Act's January 1, 1996, effective date, and dismissed all claims of all remaining Plaintiffs against four of the seven Company entities previously named as Defendants. Claims currently survive against the following Company entities: Landstar Inway, Inc., Landstar Ligon, Inc. and Landstar Ranger, Inc. With respect to the remaining claims, the June 4, 2004 order held that the Act created a private right of action to which a four-year statute of limitation applies. On November 30, 2004, the Court heard oral argument on a motion by OOIDA to certify the case as a class action. On April 7, 2005, Plaintiffs' filed an Amended Complaint that included additional allegations with respect to violations of certain federal leasing regulations. On April 18 and June 10, 2005, Defendants filed motions for partial summary judgment to address the claims of the Amended Complaint. The Court is expected to rule prior to trial on the pending motions for class-certification and summary judgment. A court ordered mediation is currently scheduled for September 7, 2005. Trial for this matter has been set for the trial term beginning October 3, 2005.

Due to a number of factors, including resolution of the pending motions for class-certification and summary judgment, the lack of completion of discovery in this matter and the lack of litigated final judgments in a number of similar cases or otherwise applicable precedents, the Company does not believe it is in a position to conclude whether or not there is a reasonable possibility of an adverse outcome in this case or what damages, if any, Plaintiffs would be awarded should they prevail on all or any part of their claims. However, the Company believes it has meritorious defenses, including to the expanded allegations in the Amended Complaint, 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. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities by Landstar System, Inc.

The following table provides information regarding purchases by Landstar System, Inc. ("LSI") of its common stock during the period from March 27, 2005 to June 25, 2005, LSI's second fiscal quarter:

| Fiscal Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Programs | Maximum Number of Shares that May Yet Be Purchased Under the Programs |
|---|---|---|---|---|
| March 26, 2005 | | | | 405,862 |
| March 27, 2005 – April 23, 2005 | 405,862 | $ 33.00 | 405,862 | 0 |
| April 24, 2005 – May 21, 2005 | 589,100 | $ 31.90 | 589,100 | 1,410,900 |
| May 22, 2005 - June 25, 2005 | 434,000 | $ 31.17 | 434,000 | 976,900 |
| Total | 1,428,962 | $ 31.99 | 1,428,962 | |

On December 4, 2003, LSI announced that it had been authorized by its Board of Directors to purchase up to 1,000,000 shares, (not adjusted for the two-for-one stock split effected in the form of a 100% stock dividend declared December 9, 2004) of its common stock from time to time in the open market and in privately-negotiated transactions. LSI has recently completed this authorized share purchase program by purchasing 405,862 shares of its common stock during the month of April.

On April 28, 2005, LSI announced that it had been authorized by its Board of Directors to purchase up to an additional 2,000,000 shares of its common stock from time to time in the open market and in privately negotiated transactions. As of June 25, 2005, LSI may purchase up to 976,900 shares of its common stock under the authorized purchase program.

No specific expiration date has been assigned to the April 28, 2005 share purchase authorization.

Item 3. Defaults Upon Senior Securities

None.

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

On May 12, 2005, LSI held its Annual Meeting of Shareholders (the "Meeting") at its principal offices in Jacksonville, Florida. The matters voted upon at the Meeting included (i) the election of the two Class III directors for terms to expire at the 2008 Annual Meeting of Shareholders, (ii) the ratification of appointment of KPMG LLP as LSI's independent registered public accounting firm for fiscal year 2005 and (iii) a proposed amendment to Article IV, Section I of LSI's Restated Certificate of Incorporation to increase the authorized shares of Common Stock of LSI.

Pursuant to LSI's Restated Certificate of Incorporation, the Board of Directors has fixed the number of directors at seven: two Class I directors whose members' terms will expire at the 2006 Annual Meeting of Shareholders; three Class II directors whose members' terms will expire at the 2007 Annual Meeting of Shareholders; and two Class III directors whose members' terms will expire at the 2008 Annual Meeting of Shareholders. With respect to the election of two Class III directors at the Meeting, nominee David G. Bannister and nominee Jeffrey C. Crowe were elected to the Board of Directors of LSI. Mr. Bannister received 51,899,747 votes for election to the Board and 3,442,739 votes were withheld. Mr. Crowe received 53,548,015 votes for election to the Board and 1,794,471 votes

were withheld. The names of the other directors whose terms of office as directors continued after the Meeting are as follows: Ronald W. Drucker (a Class I director), Henry H. Gerkens (a Class I director), Merritt J. Mott (a Class II director), William S. Elston (a Class II director) and Diana M. Murphy (a Class II director).

The proposal to appoint KPMG LLP as LSI's independent registered public accounting firm for fiscal year 2005 was ratified by LSI's shareholders. Votes for the ratification were 54,827,881, votes against were 470,504 and votes abstaining were 44,101.

The proposal for the approval of the amendment to Article IV of LSI's Restated Certificate of Incorporation to increase the authorized shares of Common Stock of LSI was approved by a majority of the shareholders with 48,194,607 votes for the proposal, 7,127,896 votes against the proposal and 19,983 abstentions.

Item 5. Other Information

None.

Item 6. Exhibits

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

EXHIBIT INDEX

Registrant's Commission File No.: 0-21238

| Exhibit No. | Description |
|---|---|
| (31) | Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002: |
| 31.1 * | Chief Executive Officer certification, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 * | Chief Financial Officer certification, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| (32) | Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.1 ** | Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 ** | Chief Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

* Filed herewith

** Furnished herewith

SIGNATURES

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

LANDSTAR SYSTEM, INC.

Date: July 29, 2005

/s/ Henry H. Gerkens

Henry H. Gerkens
President and Chief Executive Officer

Date: July 29, 2005

/s/ Robert C. LaRose

Robert C. LaRose
Executive Vice President and Chief Financial Officer

EXHIBIT 31.1

SECTION 302 CERTIFICATION

I, Henry H. Gerkens, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Landstar System, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: July 29, 2005

/s/ Henry H. Gerkens

Henry H. Gerkens
President and Chief Executive Officer

EXHIBIT 31.2

SECTION 302 CERTIFICATION

I, Robert C. LaRose, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Landstar System, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: July 29, 2005

/s/ Robert C. LaRose

Robert C. LaRose
Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Landstar System, Inc. (the “Company”) on Form 10-Q for the period ending June 25, 2005, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Henry H. Gerkens, President and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Henry H. Gerkens

Henry H. Gerkens
President and Chief Executive Officer
July 29, 2005

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Landstar System, Inc. (the "Company") on Form 10-Q for the period ending June 25, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert C. LaRose, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert C. LaRose

Robert C. LaRose
Executive Vice President and Chief Financial Officer
July 29, 2005