UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)
[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 26, 1998

or

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

For the transition period from ________________ to ____________________

Commission File Number: 0-21238

LANDSTAR SYSTEM, INC.
(Exact name of registrant as specified in its charter)

Delaware	06-1313069
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4160 Woodcock Drive, Jacksonville, Florida
(Address of principal executive offices)

32207
(Zip Code)

(904) 390-1234
(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 (X) No ( )

The number of shares of the registrant's Common Stock, par value $.01 per share, outstanding as of the close of business on October 30, 1998 was 10,390,733.

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 thirty-nine weeks ended September 26, 1998 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 26, 1998.

These interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 1997 Annual Report on Form 10-K.

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LANDSTAR SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)
(Unaudited)

	September 26, 1998	December 27, 1997
ASSETS		
Current assets:		
Cash	$ 20,181	$ 17,994
Short-term investments	1,461	3,012
Trade accounts receivable, less allowance of $7,490 and $5,957	172,975	176,785
Other receivables, including advances to independent contractors, less allowance of $4,866 and $4,009	13,552	12,599
Prepaid expenses and other current assets	8,148	7,832
Total current assets	216,317	218,222
Operating property, less accumulated depreciation and amortization of $29,520 and $50,301	47,828	81,258
Goodwill, less accumulated amortization of $6,256 and $8,818	35,306	53,289
Deferred income taxes and other assets	13,717	4,410
Total assets	$ 313,168	$ 357,179
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Cash overdraft	$ 14,018	$ 12,475
Accounts payable	55,569	50,394
Current maturities of long-term debt	5,078	14,228
Insurance claims	31,112	28,247
Other current liabilities	40,374	33,827
Total current liabilities	146,151	139,171
Long-term debt, excluding current maturities	30,756	36,218
Insurance claims	30,273	27,890
Deferred income taxes		2,204
Shareholders' equity:		
Common stock, $.01 par value, authorized 20,000,000 shares, issued 12,945,974 shares and 12,900,974 shares	129	129
Additional paid-in capital	63,287	62,169
Retained earnings	112,911	112,345
Cost of 2,445,041 and 915,441 shares of common stock in treasury	(70,339)	(22,947)
Total shareholders' equity	105,988	151,696
Total liabilities and shareholders' equity	$ 313,168	$ 357,179

See accompanying notes to consolidated financial statements.

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

	Thirty-Nine Weeks Ended		Thirteen Weeks Ended	
	Sept. 26, 1998	Sept. 27, 1997	Sept. 26, 1998	Sept. 27, 1997
Revenue	$ 949,742	$ 893,980	$ 324,033	$ 304,157
Investment income	1,191		441	
Costs and expenses:				
Purchased transportation	701,981	657,736	239,952	224,418

Other operating costs	20,818	25,366	6,574	7,553
Insurance and claims	32,886	31,069	8,300	9,000
Commissions to agents and brokers	74,803	71,877	25,688	24,954
Selling, general and administrative	71,414	63,824	24,766	20,576
Depreciation and amortization	7,531	8,701	2,678	2,919
Restructuring costs		3,247		
Total costs and expenses	909,433	861,820	307,958	289,420
Operating income	41,500	32,160	16,516	14,737
Interest and debt expense	2,584	2,293	988	494
Income from continuing operations before income taxes	38,916	29,867	15,528	14,243
Income taxes	15,761	12,455	6,289	5,940
Income from continuing operations	23,155	17,412	9,239	8,303
Discontinued operations, net of income taxes	(22,589)	(402)		(738)
Net income	$ 566	$ 17,010	$ 9,239	$ 7,565
Earnings (loss) per common share:				
Income from continuing operations	$ 2.06	$ 1.38	$ 0.86	$ 0.66
Loss from discontinued operations	(2.01)	(0.03)		(0.06)
Earnings per common share	$ 0.05	$ 1.35	$ 0.86	$ 0.60
Diluted earnings (loss) per share:				
Income from continuing operations	$ 2.05	$ 1.37	$ 0.85	$ 0.66
Loss from discontinued operations	(2.00)	(0.03)		(0.06)
Diluted earnings per share	$ 0.05	$ 1.34	$ 0.85	$ 0.60
Average number of shares outstanding:				
Earnings per common share	11,223,000	12,636,000	10,743,000	12,565,000
Diluted earnings per share	11,316,000	12,664,000	10,852,000	12,612,000

See accompanying notes to consolidated financial statements.

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

	Thirty-Nine Weeks Ended	
	Sept. 26, 1998	Sept. 27, 1997
OPERATING ACTIVITIES		
Net income	$ 566	$ 17,010
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:		

Discontinued operations	22,589	402
Depreciation and amortization of operating property	6,570	7,484
Amortization of goodwill and non-competition agreements	961	1,217
Non-cash interest charges	243	199
Provisions for losses on trade and other accounts receivable	3,850	2,961
Gains on sales of operating property	(306)	(486)
Deferred income taxes, net	(2,118)	4,629
Changes in operating assets and liabilities, net of discontinued operations:		
Increase in trade and other accounts receivable	(6,817)	(5,146)
Increase in prepaid expenses and other assets	(4,146)	(8,815)
Increase in accounts payable	7,427	10,300
Increase in other liabilities	5,019	1,841
Increase in insurance claims	6,848	8,980
NET CASH PROVIDED BY OPERATING ACTIVITIES OF CONTINUING OPERATIONS	40,686	40,576
INVESTING ACTIVITIES		
Purchases of investments		(4,799)
Maturities of short-term investments	1,552	303
Purchases of operating property	(4,347)	(7,743)
Proceeds from sales of operating property	1,383	9,039
Proceeds from sale of discontinued operations	40,435	
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	39,023	(3,200)
FINANCING ACTIVITIES OF CONTINUING OPERATIONS		
Increase (decrease) in cash overdraft	1,870	(1,203)
Borrowings on revolving credit facility	15,000	
Proceeds from exercise of stock options and related income tax benefit	1,118	429
Purchases of common stock	(47,392)	(8,656)
Principal payments on long-term debt and capital lease obligations	(21,646)	(25,507)
NET CASH USED BY FINANCING ACTIVITIES OF CONTINUING OPERATIONS	(51,050)	(34,937)
NET CASH PROVIDED (USED) BY DISCONTINUED OPERATIONS	(26,472)	5,520
Increase in cash	2,187	7,959
Cash at beginning of period	17,994	4,187
Cash at end of period	$ 20,181	$ 12,146

See accompanying notes to consolidated financial statements.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES
IN SHAREHOLDERS' EQUITY
Thirty-Nine Weeks Ended September 26, 1998
(Dollars in thousands)
(Unaudited)

	Common Stock		Additional		Treasury Stock at Cost		
	Shares	Amount	Paid-In Capital	Retained Earnings	Shares	Amount	Total
Balance December 27, 1997	12,900,974	$ 129	$ 62,169	$ 112,345	915,441	$ (22,947)	$ 151,696
Purchases of common stock					1,529,600	(47,392)	(47,392)
Exercise of stock options and related income tax benefit	45,000		1,118				1,118
Net income				566			566
Balance September 26, 1998	12,945,974	$ 129	$ 63,287	$ 112,911	2,445,041	$ (70,339)	$ 105,988

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) Discontinued Operations

On August 22, 1998, Landstar Poole, Inc. ("Landstar Poole"), a wholly-owned subsidiary of Landstar which comprised the entire company-owned tractor segment, completed the sale of all of its tractors and trailers, certain operating assets and the Landstar Poole business to Schneider National, Inc. for approximately $40,435,000 in cash. In addition, Landstar Poole entered into an agreement to sell its remaining truck terminal to an unrelated third party for approximately $732,000 in cash. Accordingly, the financial results of this segment have been reported as discontinued operations in the accompanying financial statements.

The loss from discontinued operations of $22,589,000 in the thirty-nine week period ended September 26, 1998, included an estimated loss on sale of $21,489,000, net of income tax benefits of $2,511,000, and a loss from operations of $1,100,000, net of income tax benefits of $597,000. Certain liabilities of the company-owned tractor segment were retained by Landstar, primarily insurance claims, capital lease obligations and accounts payable.

The company-owned tractor segment had revenues of $58,715,000 and $13,357,000 for the thirty-nine weeks and thirteen weeks ended September 26, 1998, respectively, and $71,571,000 and $22,154,000 for the thirty-nine weeks and thirteen weeks ended September 27, 1997, respectively.

(2) Reclassification of Certain Costs

Certain costs have been reclassified for the 1997 period to conform with the classification of these costs in 1998. The reclassification had no effect on operating income or net income for the periods presented.

(3) Income Taxes

The provisions for income taxes on continuing operations for the 1998 and 1997 thirty-nine week periods were based on estimated combined full year effective income tax rates of 40.5% and 41.7%, 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.

(4) 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.

(5) Additional Cash Flow Information

During the 1998 period, Landstar paid income taxes and interest of $18,718,000 and $3,207,000 ($836,000 related to Landstar Poole), respectively, and acquired operating property by entering into capital leases in the amount of $12,902,000. During the 1997 period, Landstar paid income taxes and interest of $10,090,000 and $4,363,000 ($1,487,000 related to Landstar Poole), respectively.

(6) Segment Information

The following tables summarize information about Landstar's reportable business segments for the thirty-nine and thirteen weeks ended September 26, 1998 and September 27, 1997 (in thousands):

Thirty-Nine Weeks Ended September 26, 1998

	Carrier	Multimodal	Insurance	Other	Total
External revenue	$ 730,119	$ 201,558	$ 18,065		$ 949,742
Investment income			1,191		1,191
Internal revenue	28,089	378	16,385		44,852
Operating income	48,774	4,839	13,002	$(25,115)	41,500

Thirty-Nine Weeks Ended September 27, 1997

	Carrier	Multimodal	Insurance	Other	Total
External revenue	$ 699,613	$ 181,195	$ 13,172		$ 893,980
Internal revenue	29,918	790	10,258		40,966
Operating income	43,987	2,188	8,184	$(22,199)	32,160

Thirteen Weeks Ended September 26, 1998

	Carrier	Multimodal	Insurance	Other	Total
External revenue	$ 247,908	$ 69,858	$ 6,267		$ 324,033
Investment income			441		441
Internal revenue	9,639	115	4,844		14,598
Operating income	17,779	2,089	6,576	$ (9,928)	16,516

Thirteen Weeks Ended September 27, 1997

	Carrier	Multimodal	Insurance	Other	Total
External revenue	$ 236,036	$ 62,643	$ 5,478		$ 304,157
Internal revenue	8,938	367	5,500		14,805
Operating income	14,799	1,598	5,223	$ (6,883)	14,737

(7) Commitments and Contingencies

At September 26, 1998, Landstar had commitments for letters of credit outstanding in the amount of $26,292,000, primarily as collateral for insurance claims. The commitments for letters of credit outstanding included $19,292,000 under the Second Amended and Restated Credit Agreement and $7,000,000 secured by assets deposited with a financial institution.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

All statements in this quarterly report on Form 10-Q that do not reflect historical information are forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward looking statements are subject to risks and uncertainties including the ability to complete the conversion of the Company's computer systems in order for them to be year 2000 compliant on schedule.

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 27, 1997 and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 1997 Annual Report to Shareholders.

RESULTS OF OPERATIONS

Landstar System, Inc. and its subsidiary, Landstar System Holdings, Inc. ("Landstar" or the "Company"), provide transportation services to a variety of market niches throughout the United States and to a lesser extent in Canada and between the United States and Canada and Mexico through its operating subsidiaries which employ different operating strategies. The Company has three reportable business segments: the carrier segment, the multimodal segment and the insurance segment.

The carrier segment consists of Landstar Ranger, Inc.("Landstar Ranger"), Landstar Inway, Inc. ("Landstar Inway") and Landstar Ligon, Inc.("Landstar Ligon"). The carrier segment provides truckload transportation for a wide range of general commodities over irregular routes with its fleet of dry and specialty vans and unsided trailers, including flatbed, drop deck and specialty. The carrier segment markets its services primarily through independent commission sales agents and utilizes tractors provided by independent contractors. The nature of the carrier segment's business is such that a significant portion of its operating costs varies directly with revenue.

The multimodal segment is comprised of Landstar Logistics, Inc. and Landstar Express America, Inc. ("Landstar Express"). Transportation services provided by the multimodal segment include the arrangement of intermodal moves, contract logistics, truck brokerage, short-to-long haul movement of containers by truck and emergency and expedited air freight and truck services. The multimodal segment markets its services through independent commission sales agents and utilizes capacity provided by independent contractors, including railroads and air cargo carriers. The nature of the multimodal segment's business is such that a significant portion of its operating costs also varies directly with revenue.

The insurance segment is Signature Insurance Company ("Signature"), a wholly-owned offshore insurance subsidiary, formed in March 1997. The insurance segment reinsures certain property, casualty and occupational accident risks of certain independent contractors who have contracted to haul freight for Landstar. In addition, the insurance segment provides certain property and casualty insurance directly to Landstar's operating subsidiaries.

On August 22, 1998, Landstar Poole, Inc. ("Landstar Poole"), a wholly-owned subsidiary of Landstar which comprised the entire company-owned tractor segment, completed the sale of all of its tractors and trailers, certain operating assets and the Landstar Poole business to Schneider National, Inc. for approximately $40,435,000 in cash. In addition, Landstar Poole entered into an agreement to sell its remaining truck terminal to an unrelated third party for approximately $732,000 in cash. Accordingly, the financial results of this segment have been reported as discontinued operations in the accompanying financial statements.

In accordance with a restructuring plan announced in the fourth quarter of 1996, the operations of Landstar T.L.C., Inc. ("Landstar T.L.C.") were merged into Landstar Inway, and all of Landstar T.L.C.'s company-owned tractors were disposed of by June 1997.

Purchased transportation represents the amount an independent contractor is paid to haul freight and is based on a contractually agreed-upon percentage of revenue generated by the haul for truck capacity provided by independent contractors. Purchased transportation for the intermodal services operations and the air freight operations of the multimodal segment is based on a contractually agreed-upon fixed rate. Purchased transportation as a percentage of revenue for the intermodal services 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. 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 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 Signature or by the intermodal services operations or the air freight operations of the multimodal segment.

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.

Trailer rental and maintenance costs, paid to third parties, are the largest component of other operating costs.

Employee compensation and benefits account for nearly 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 and loss items and investment income to revenue for the periods indicated:

	Thirty-Nine Weeks Ended		Thirteen Weeks Ended	
	Sept. 26, 1998	Sept. 27, 1997	Sept. 26, 1998	Sept. 27, 1997
Revenue	100.0%	100.0%	100.0%	100.0%
Investment income	0.1%		0.1%	
Costs and expenses:				
Purchased transportation	73.9%	73.6%	74.1%	73.8%
Other operating costs	2.2%	2.8%	2.0%	2.5%
Insurance and claims	3.4%	3.5%	2.6%	2.9%
Commissions to agents and brokers	7.9%	8.0%	7.9%	8.2%
Selling, general and administrative	7.5%	7.1%	7.6%	6.8%
Depreciation and amortization	0.8%	1.0%	0.8%	1.0%
Restructuring costs		0.4%		
Total costs and expenses	95.7%	96.4%	95.0%	95.2%
Operating income	4.4%	3.6%	5.1%	4.8%
Interest and debt expense	0.3%	0.3%	0.3%	0.1%
Income from continuing operations before income taxes	4.1%	3.3%	4.8%	4.7%
Income taxes	1.7%	1.4%	1.9%	2.0%
Income from continuing operations	2.4%	1.9%	2.9%	2.7%
Discontinued operations, net of income taxes	(2.3%)			(0.2%)
Net income	0.1%	1.9%	2.9%	2.5%

THIRTY-NINE WEEKS ENDED SEPTEMBER 26, 1998 COMPARED TO THIRTY-NINE WEEKS ENDED SEPTEMBER 27, 1997

Revenue for the 1998 thirty-nine week period was $949,742,000, an increase of $55,762,000, or 6.2%, over the 1997 thirty-nine week period. The increase was attributable to increased revenue of $30,506,000, $20,363,000 and $4,893,000 at the carrier, multimodal and insurance segments, respectively. Overall, revenue per revenue mile (price) increased approximately 3%, which reflected improved freight quality, while revenue miles (volume) were approximately 2% higher than 1997. During the 1998 period, $1,191,000 of investment income was generated by the insurance segment.

Purchased transportation was 73.9% of revenue in 1998 compared with 73.6% in 1997. Other operating costs were 2.2% of revenue in 1998 compared with 2.8% in 1997. The increase in purchased transportation and the decrease in fuel and other operating costs as a percentage of revenue was primarily attributable to the effects of the restructuring of the Landstar T.L.C. operations. Insurance and claims were 3.4% of revenue in 1998 compared with 3.5% in 1997. The decrease in insurance and claims as a percentage of revenue was primarily attributable to decreased frequency and severity of accidents and favorable development of prior year claims. Commissions to agents and brokers were 7.9% of revenue in 1998 and 8.0% in 1997. The decrease in commissions to agents and brokers as a percentage of revenue was primarily due to the effect of increased premium revenue at the insurance segment. Selling, general and administrative costs were 7.5% of revenue in 1998 compared with 7.1% of revenue in 1997, primarily due to a higher provision for bonuses under the Company's management incentive compensation plan, an increase in the provision for customer bad debts, increased management information systems costs and one time costs of $560,000 related to the relocation of Landstar Express from Charlotte, North Carolina to Jacksonville, Florida, partially offset by reduced wages and benefits and the effect of the increase in revenue.

On December 18, 1996, the Company announced a plan to restructure its Landstar T.L.C. operations, in addition to the relocation of its Shelton, Connecticut corporate office headquarters to Jacksonville, Florida in the second quarter of 1997. During the 1997 period, the Company recorded $3,247,000 of restructuring costs. The restructuring was substantially completed by June 28, 1997.

Interest and debt expense was 0.3% of revenue in both 1998 and 1997.

The provisions for income taxes on continuing operations for the 1998 and 1997 thirty-nine week periods were based on estimated full year combined effective income tax rates of approximately 40.5% and 41.7%, 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.

Income from continuing operations was $23,155,000, or $2.06 per common share, in the 1998 period compared with $17,412,000, or $1.38 per common share, in the 1997 period. Including the dilutive effect of the Company's stock options, diluted earnings per share from continuing operations was $2.05 in the 1998 period and $1.37 in the 1997 period. Excluding restructuring costs, income from continuing operations for the 1997 period would have been $19,305,000, or $1.53 per common share ($1.52 diluted earnings per share).

The Company recorded a loss from discontinued operations of $22,589,000, or $2.01 per share ($2.00 diluted loss per share), for the 1998 period, which included a loss from operations of $1,100,000, net of income tax benefits of $597,000 and an estimated loss on disposal of $21,489,000, net of income tax benefits of $2,511,000. The loss from discontinued operations for 1997 was $402,000, or $0.03 loss per common share ($0.03 diluted loss per share).

THIRTEEN WEEKS ENDED SEPTEMBER 26, 1998 COMPARED TO THIRTEEN WEEKS ENDED SEPTEMBER 27, 1997

Revenue for the 1998 thirteen-week period was $324,033,000, an increase of $19,876,000, or 6.5%, over the 1997 thirteen-week period. The increase was attributable to increased revenue of $11,872,000, $7,215,000 and $789,000 at the carrier, multimodal and insurance segments, respectively. Overall, revenue per revenue mile increased approximately 2%, which reflected improved freight quality, while revenue miles were approximately 4% higher than 1997. During the 1998 period, $441,000 of investment income was generated by the insurance segment.

Purchased transportation was 74.1% of revenue in 1998 compared with 73.8% in 1997. The increase in purchased transportation as a percentage of revenue was primarily attributable to an increase in intermodal revenue. Other operating costs were 2.0% of revenue in 1998 compared with 2.5% in 1997. The decrease in other operating costs was primarily attributable to the effects of the restructuring of the Landstar T.L.C. operations and a decrease in the provision for contractor bad debts. Insurance and claims were 2.6% of revenue in 1998 compared with 2.9% in 1997. The decrease in insurance and claims as a percent of revenue was primarily attributable to decreased frequency and severity of accidents and the favorable development of prior year claims. Commissions to agents and brokers were 7.9% of revenue in 1998 and 8.2% in 1997. The decrease in commissions to agents and brokers as a percentage of revenue was due to a decrease in the percentage of brokered freight and the effect of increased premium revenue at the insurance segment. Selling, general and administrative costs were 7.6% of revenue in 1998 and 6.8% in 1997, primarily due to an increase in the provision for bonuses under the Company's management incentive compensation plan, increased management information systems costs and an increase in the provision for customer bad debts, partially offset by increased revenue.

Interest and debt expense was 0.3% of revenue in 1998 and 0.1% in 1997. The increase in interest and debt expense as a percent of revenue was due to increased average borrowings under the senior credit facility in order to finance the Company's stock repurchase program.

The provisions for income taxes on continuing operations for the 1998 and 1997 thirteen-week periods were based on estimated full year combined effective income tax rates of approximately 40.5% and 41.7%, 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.

Income from continuing operations was $9,239,000, or $0.86 per common share, in the 1998 period compared with $8,303,000, or $0.66 per common share, in the 1997 period. Including the dilutive effect of the Company's stock options, diluted earnings per share for continuing operations was $0.85 in the 1998 period and $0.66 in the 1997 period.

The loss from discontinued operations for 1997 was $738,000, or $0.06 loss per common share ($0.06 diluted loss per share).

CAPITAL RESOURCES AND LIQUIDITY

Shareholders' equity decreased to $105,988,000 at September 26, 1998, compared with $151,696,000 at December 27, 1997, primarily as a result of the repurchase of 1,529,600 shares of common stock, at an aggregate cost of $47,392,000. Shareholders' equity was 75% of total capitalization at September 26, 1998 and December 27, 1997.

Working capital and the ratio of current assets to current liabilities were $70,166,000 and 1.48 to 1, respectively, at September 26, 1998, compared with $79,051,000 and 1.57 to 1, respectively, at December 27, 1997. Landstar has historically operated with a current ratio of approximately 1.5 to 1. Cash provided by operating activities of continuing operations was $40,686,000 in the 1998 period compared with $40,576,000 in the 1997 period. The increase in cash flow provided by operating activities of continuing operations was primarily attributable to increased earnings from continuing operations and the timing of cash collections and payments. During the 1998 period, Landstar purchased $4,347,000 of operating property and acquired $12,902,000 of revenue equipment by entering into capital leases. Management does not anticipate significant additional capital expenditures during the remainder of fiscal year 1998.

The Company is aware of the issues associated with the programming code in its existing computer systems in order for the systems to recognize date sensitive information when the year changes to 2000. The Company believes it has identified all of its information technology (IT) and non-information technology (non-IT) systems which require change to ensure all of its systems will be year 2000 compliant. The Company plans to replace all non-IT systems that are not year 2000 compliant with year 2000 compliant systems prior to September 1999. The Company is utilizing in-house staff, with third party assistance, to convert the IT systems to year 2000 compliance. The Company believes that its pricing, billing and settlement systems are critical to the Company's operations. These systems enable the Company to invoice customers and pay independent contractors and commission sales agents properly. The operating subsidiaries comprising the multimodal segment are already year 2000 compliant. Several years ago the Company began to implement a strategy to standardize the carrier group's critical IT systems using the Landstar Ranger system as the base. Landstar Ranger, whose revenue represents 43% of the carrier segment's revenue, is year 2000 compliant. As part of its ongoing system development, the Company is in the process of converting the critical IT systems of Landstar Ligon, whose revenue represents approximately 22% of the carrier segment's revenue, to the same systems as Landstar Ranger. This conversion is expected to be completed by July 1999. Landstar Inway, the remaining operating company in the carrier segment, has successfully converted approximately 35% of its critical IT systems and expects to complete the project by May 1999. In addition, as part of the overall standardization plan, the Company intends to convert all of it's operating companies to a generic, year 2000 compliant general ledger and accounts payable software system during 1999.

As part of the Company's comprehensive review of its systems, it is continuing to verify the year 2000 readiness of third parties (customer and vendors) that provide services that are material to the Company's operations. The Company is currently communicating with its material vendors and customers to assess their year 2000 readiness and will continue to monitor their progress throughout 1999.

The vast majority of the changes necessary to make the Company's IT systems year 2000 compliant were incurred as part of ongoing system development or as part of a Company-wide strategy to standardize computer systems. As such, management has not separately quantified the cost of year 2000 compliance. However, management estimates the total cost of third party assistance for year 2000 compliance will approximate $500,000, of which approximately $300,000 has been incurred. Although management expects the cost of maintaining and upgrading the Company's computer systems to increase over the next few years compared to prior years, management does not believe that the future costs of maintaining and upgrading Landstar's computer systems will have a material adverse effect on the results of operations.

The Company's contingency plan for Landstar Inway, which is still in the process of converting its critical IT systems, is to accelerate the transfer of data processing information to the Landstar Ranger based system. In the event the Company determines that one or more of its material vendors will not become year 2000 compliant, the Company's contingency plan is to select alternative vendors.

The Company believes that the year 2000 project will be completed in sufficient time to ensure that transactions affecting the year 2000 will be properly recognized by the revised programming code. Failure to complete the year 2000 project, both internal and the readiness of third party vendors, could have a material adverse effect on the Company's future operating results or financial condition.

Management believes that cash flow from operations combined with the Company's borrowing capacity under its revolving 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.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

On September 29, 1998, suit entitled United States of America vs. Landstar Ligon, et al was filed in the U.S. District Court in the District Court of Colorado (Ligon). Ligon is co-defendant with 14 other defendants. This suit claims cost of removal of environmental hazards and remedial action at a Chemical Handling Corporation (CHC) facility in Jefferson County, Colorado, which was operated as a treatment facility for hazardous materials as defined by the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (CERCLA). Ligon transported a shipment of batteries in 1992 and an accident in Colorado caused the spillage of battery acid and related materials. The batteries and related materials were disposed of at the Chemical Handling Corporation (CHC) facility. CHC became insolvent and the United States Environmental Protection Agency pursuant to CERCLA sponsored a clean-up of the facility. The government claims $173,063 against Ligon as its portion of the clean-up costs. A Consent Decree was executed by all parties and submitted to the Court with the Complaint. Ligon anticipates the Court will approve the Consent Decree for damages that have been paid into escrow. The escrow will be released to the U.S. Government upon court approval. The Company anticipates no further liability from the suit, the CHC site clean-up or the accident giving rise to the spillage.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

Cutoff for Shareholder Proposals to be Voted Upon at the Landstar Annual Meeting of Shareholders Scheduled May 19, 1999

The bylaws of the corporation provide that any proposal by any shareholder to transact any corporate business at the annual meeting of shareholders shall be made by notice in writing and mailed certified mail to the secretary of the corporation and received by the corporation no later than 35 days prior to the annual meeting. The date therefore for shareholder proposals to be voted upon at Landstar's Annual Meeting of Shareholders for the 1999 Annual Meeting of Shareholders should be received by the Landstar Corporate Secretary on/or before April 14, 1999, which is 35 days prior to the annual meeting.

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

A current report on Form 8-K was filed on September 8, 1998 reporting the sale of Landstar Poole, Inc. to Schneider National, Inc. which took place on August 22, 1998.

EXHIBIT INDEX

Registrant's Commission File No.: 0-21238

Exhibit No.	Description
(11)	Statement re: Computation of Per Share Earnings:
11.1 *	Landstar System, Inc. and Subsidiary Calculation of Earnings Per Common Share for the Thirty-Nine and Thirteen Weeks Ended September 26, 1998 and September 27, 1997
11.2 *	Landstar System, Inc. and Subsidiary Calculation of Diluted Earnings Per Share for the Thirty-Nine and Thirteen Weeks Ended September 26, 1998 and September 27, 1997
(27)	Financial Data Schedules:
27.1 *	Restated 1997 Financial Data Schedule
27.2 *	1998 Financial Data Schedule

* Filed 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: November 6, 1998

Henry H. Gerkens

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

Date: November 6, 1998

Robert C. LaRose

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

EXHIBIT 11.1

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

	Thirty-Nine Weeks Ended		Thirteen Weeks Ended	
	Sept. 26, 1998	Sept. 27, 1997	Sept. 26, 1998	Sept. 27, 1997
Earnings available for earnings per share:				
Income from continuing operations	$ 23,155	$ 17,412	$ 9,239	$ 8,303
Discontinued operations, net of income taxes	(22,589)	(402)		(738)

Net income	$ 566	$ 17,010	$ 9,239	$ 7,565
Average number of common shares outstanding	11,223	12,636	10,743	12,565
Earnings (loss) per common share:				
Income from continuing operations	$ 2.06	$ 1.38	$ 0.86	$ 0.66
Loss from discontinued operations	(2.01)	(0.03)		(0.06)
Earnings per common share	$ 0.05	$ 1.35	$ 0.86	$ 0.60

EXHIBIT 11.2

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

	Thirty-Nine Weeks Ended		Thirteen Weeks Ended	
	Sept. 26, 1998	Sept. 27, 1997	Sept. 26, 1998	Sept. 27, 1997
Income from continuing operations	$ 23,155	$ 17,412	$ 9,239	$ 8,303
Discontinued operations, net of income taxes	(22,589)	(402)		(738)
Net income	$ 566	$ 17,010	$ 9,239	$ 7,565
Average number of common shares outstanding	11,223	12,636	10,743	12,565
Plus: Incremental shares from assumed exercise of stock options	93	28	109	47
Average number of common shares and common share equivalents outstanding	11,316	12,664	10,852	12,612
Diluted earnings (loss) per share:				
Income from continuing operations	$ 2.05	$ 1.37	$ 0.85	$ 0.66
Loss from discontinued operations	(2.00)	(0.03)		(0.06)
Diluted earnings per share	$ 0.05	$ 1.34	$ 0.85	$ 0.60

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This schedule contains summary financial information extracted from the Consolidated Balance Sheets at September 27, 1997 (Unaudited) and the Consolidated Statements of Income for the thirty-nine weeks ended September 27, 1997 (Unaudited) and is qualified in its entirety by reference to such financial statements.
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This schedule contains summary financial information extracted from the Consolidated Balance Sheets at September 26, 1998 (Unaudited) and the Consolidated Statements of Income for the thirty-nine weeks ended September 26, 1998 (Unaudited) and is qualified in its entirety by reference to such financial statements.
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