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

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 28, 1996

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________.

Commission File Number: 0-21238

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

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

First Shelton Place, 1000 Bridgeport Avenue, Shelton, Connecticut	06484-0898
(Address of principal executive offices)	(Zip Code)

(203) 925-2900
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, $.01 Par Value	Common Stock Rights
(Title of class)	(Title of class)

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 [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The number of shares of the registrant's common stock, par value $.01 per share, (the "Common Stock") outstanding as of the close of business on March 7, 1997 was 12,615,833; and the aggregate market value of the voting stock held by non-affiliates of the registrant was $279,050,409 (based on the $22.875 per share closing price on that date, as reported by NASDAQ National Market System). In making this calculation, the registrant has assumed, without admitting for any purpose, that all directors and executive officers of the registrant, and no other person, are affiliates.

LANDSTAR SYSTEM, INC.
1996 Annual Report on Form 10-K

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Part I

Item 1. - Business

General

Landstar System, Inc. (herein referred to as "Landstar," the "Company" or the "Registrant") was incorporated in January 1991 under the laws of the State of Delaware and acquired all of the capital stock of its predecessor, Landstar System Holdings, Inc. ("LSHI") on March 28, 1991. LSHI owns directly or indirectly all of the common stock of Landstar Ranger, Inc. ("Landstar Ranger"), Landstar Inway, Inc. ("Landstar Inway"), Landstar Ligon, Inc. ("Landstar Ligon"), Landstar Gemini, Inc. ("Landstar Gemini"), Landstar Poole, Inc. ("Landstar Poole"), Landstar Logistics, Inc. ("Landstar Logistics"), Landstar Express America, Inc. ("Landstar Express America"), Landstar T.L.C., Inc. ("Landstar T.L.C."), Landstar Contractor Financing, Inc. ("LCFI"), Landstar Capacity Services, Inc.("LCS"), Risk Management Claim Services, Inc. ("RMCS") and Landstar Corporate Services, Inc. ("LCSI"). Landstar Ranger, Landstar Inway, Landstar Ligon, Landstar Gemini, Landstar Poole, Landstar Logistics, Landstar Express America and Landstar T.L.C. are collectively herein referred to as Landstar's "Operating Subsidiaries" or "Operating Companies". The Company's principal executive offices are located at First Shelton Place, 1000 Bridgeport Avenue, Shelton, Connecticut 06484 and its telephone number is (203) 925-2900.

Historical Background

In March 1988, EnviroSource, Inc. ("EnviroSource") acquired IU International Corporation ("IU"), the former parent of Landstar Ranger, Landstar Inway, Landstar Ligon, Landstar Gemini, Landstar Poole and RMCS in a highly leveraged transaction. IU was a large conglomerate engaged in various unrelated businesses, including metals recovery, agriculture, food distribution and transportation. EnviroSource sought to reduce its acquisition debt by selling non-strategic assets and operations. In connection with these sales, EnviroSource sought to exit the transportation market and sold or closed certain unprofitable operations. EnviroSource formed LSHI in October 1988 to acquire the assets of certain of IU's truckload operating companies and caused LSHI to incur substantial debt to pay a special dividend to EnviroSource of approximately $72.3 million, and to repay approximately $21.5 million of debt owed to EnviroSource.

In March 1991, Landstar acquired LSHI in a buy-out organized by Kelso & Company, Inc. ("Kelso"). Investors in the acquisition included Kelso Investment Associates IV L.P. ("KIA IV"), an affiliate of Kelso, ABS MB Limited Partnership ("ABSMB"), an affiliate of Alex. Brown & Sons Incorporated, and certain management employees of Landstar and its subsidiaries (the "Management Stockholders"). Landstar was capitalized by the sale of an aggregate of 8,024,000 shares of Common Stock for $20.1 million, as follows: KIA IV ($15.5 million), ABSMB ($3.0 million), Management Stockholders ($1.3

million) and certain institutional stockholders ($.3 million). In March 1993, Landstar completed a recapitalization (the "Recapitalization") that increased shareholders' equity, reduced indebtedness and improved the Company's operating and financial flexibility. The Recapitalization involved three principal components: (i) the initial public offering (the "IPO") of 5,387,000 shares of Common Stock, at an initial price to the public of $13 per share, 2,500,000 of which were sold by Landstar and 2,887,000 of which were sold by certain of the Company's stockholders (including KIA IV), (ii) the retirement of all $38 million outstanding principal amount of LSHI's 14% Senior Subordinated Notes due 1998 (the "14% Notes"), and (iii) the refinancing of the Company's then existing senior debt facility with a senior bank credit agreement. The net proceeds to the Company from the IPO (net of underwriting discounts and commissions and expenses) of $28,450,000 and proceeds from the new term loan, were used to repay outstanding borrowings under the old credit agreement and redeem or purchase the 14% Notes. In October 1993, a secondary public offering by existing stockholders of 5,547,930 shares of Common Stock at an initial price to the public of $15 per share was completed. KIA IV sold 4,492,640 shares and ABSMB sold 1,055,290 shares. Immediately subsequent to the offering, KIA IV no longer owned any Landstar shares of Common Stock, and affiliates of Alex. Brown retained approximately 1% of the Common Stock outstanding.

In connection with the secondary offering, Landstar granted the underwriters an over-allotment option of up to 554,793 shares of Common Stock. The option was exercised and Landstar sold the 554,793 shares of Common Stock at an initial price to the public of $15 per share. Landstar received proceeds, net of underwriting discounts and commissions and expenses of the secondary offering, in the amount of $7,386,000.

During the first quarter of 1995, Landstar, through different subsidiaries of LSHI acquired the businesses and net assets of Intermodal Transport Company ("ITCO"), a California-based intermodal marketing company, LDS Truck Lines, Inc., a California-based drayage company, and T.L.C. Lines, Inc., a Missouri-based temperature-controlled and long-haul, time sensitive dry van carrier. Also in the 1995 first quarter, Landstar, through another subsidiary of LSHI, acquired all of the outstanding common stock of Express America Freight Systems, Inc., ("Express"), a North Carolina-based air freight and truck expedited service provider. The business acquired from ITCO comprises the majority of Landstar Logistics' intermodal operations, while the business acquired with Express comprises the majority of Landstar Express America's operations.

On December 18, 1996, the Company announced a plan to restructure its Landstar T.L.C. and Landstar Poole operations, in addition to the relocation of its Shelton, Connecticut corporate office headquarters to Jacksonville, Florida in the second quarter of 1997. The plan to restructure Landstar T.L.C. included the merger of Landstar T.L.C. into Landstar

Inway, the closing of the Landstar T.L.C. headquarters in St. Clair, Missouri and the disposal of all of Landstar T.L.C.'s company-owned tractors. The plan to restructure Landstar Poole included the transfer of the variable cost business component of Landstar Poole to Landstar Ranger and the disposal of 175 Landstar Poole company-owned tractors.

Description of Business

Landstar, a transportation services company, operates one of the largest truckload carrier businesses in North America, with revenue of $1,283.8 million in 1996. The Company seeks to provide transportation services which emphasize information coordination and customer service delivered primarily by a network of approximately 1,200 independent commission sales agents. Landstar utilizes a wide range of specialized equipment designed to meet customers' varied transportation requirements, which distinguishes the Company from many other large truckload carriers. The Company transports a variety of freight, including iron and steel, automotive products, paper, lumber and building products, aluminum, chemicals, foodstuffs, heavy machinery, ammunition and explosives, and military hardware. The Company provides truckload carrier services, intermodal transportation services and expedited air and truck services to shippers throughout the continental United States and, to a lesser extent, between the United States and each of Canada and Mexico. Four of Landstar's Operating Subsidiaries, Landstar Ranger, Landstar Inway, Landstar Ligon and Landstar Gemini (collectively the "Owner-Operator Companies") provide truckload transportation services through a network of independent commission sales agents and independent contractors. Management believes the Owner-Operator Companies utilize more independent contractors than any other U.S. truckload carrier. The use of independent contractors enables the Company to utilize a large fleet of revenue equipment while minimizing its capital investment and fixed costs, thereby enhancing the Company's return on investment.

Landstar Poole and Landstar T.L.C. use company-owned or leased equipment and company-employed drivers for a substantial portion of their operations. In 1992, Landstar Poole began to provide truckload transportation services through independent contractors and independent commission sales agents. In 1996, revenue generated through independent contractors was approximately 44% of Landstar Poole's total revenue and approximately 65% of Landstar T.L.C.'s total revenue. During the fourth quarter of 1996, the Company announced its plan to restructure the operations of both Landstar Poole and Landstar T.L.C. The Landstar Poole restructuring plan included the transfer of the variable cost business component of Landstar Poole to Landstar Ranger and the disposal of 175 company-owned tractors. The Landstar T.L.C. restructuring plan included the merger of Landstar T.L.C. into Landstar Inway and the disposal of all the company-owned tractors.

Landstar Logistics provides customers with contract logistics and intermodal services. Contract logistics services include

single source alternatives, truck brokerage and other transportation solutions for large customers. Intermodal transportation services primarily involves arranging for the movement of customers' goods by a combination of rail and truck. Both the railroad and drayage carriers utilized by Landstar Logistics are independent contractors. Landstar Logistics enables Landstar to market the full range of services offered by the entire Landstar system to customers with significant transportation needs, in addition to marketing separate logistics services.

Historically, Landstar T.L.C. and the intermodal operations of Landstar Logistics have principally utilized a company employee sales structure and to a lesser degree, independent commission sales agents. During 1996, management completed the process of converting the majority of company-owned sales locations at Landstar Logistics and Landstar T.L.C. to independent commission sales agent locations.

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

Landstar's business strategy is to offer high quality, specialized transportation services primarily in the truckload market to service-sensitive customers. Landstar focuses on providing transportation services which emphasize information coordination among its commission sales agents, customers and Operating Subsidiaries, as well as customer service, rather than the volume-driven approach of the generic dry van carriers. Landstar intends to continue developing appropriate systems and technologies to offer integrated transportation and logistic solutions to its customers' total transportation needs.

Since the Company is larger than most of its competitors, Landstar has competitive marketing and operating advantages. The Company has the overall size, geographic coverage, equipment and service capability to meet the needs of even the largest shippers and thereby qualifies as a "core carrier." Increasingly, the larger shippers are substantially reducing the number of authorized carriers in favor of a small number of core carriers whose size and diverse service capability enable these core carriers to satisfy most of the shippers' transportation needs. Examples of national account customers include the U.S. Department of Defense and shippers in particular industries, such as automobile manufacturers.

Landstar's network of approximately 1,200 independent commission sales agents allows the Company to provide both large and small shippers a level of local service and quality typically offered only by small, entrepreneurial carriers. The Company has a number of significant competitive advantages, including:

DIVERSITY OF SERVICES OFFERED. The Company offers its customers a wide range of transportation services, primarily truckload, through its Operating Subsidiaries, including a fleet of diverse equipment and extensive geographic coverage. Examples of the specialized services offered include a large fleet of flatbed trailers, multi-axle trailers capable of hauling extremely heavy or oversized loads, drivers certified to handle ammunition and explosive shipments for the U.S. Department of Defense, and intermodal capability with railroads and steamship lines, including short-to-medium haul movement of ocean-going containers between U.S. ports and inland cities. The Company's fleet (including revenue equipment leased from independent contractors) consists of 9,883 power units and 14,692 trailers, including dry vans of various capacities, a variety of flatbeds (including drop decks and light specialty trailers), specialty and temperature-controlled vans and containers.

The following table illustrates the diversity of this equipment as of December 28, 1996:

Power Units	9,883
Trailers:	
Vans	9,088
Specialty Vans	128
Temperature-Controlled	599
Flatbeds	3,002
Drop Deck/Low Boys	1,149
Light Specialty	109
Other Specialized Flatbeds	617
Total	14,692

MARKETING NETWORK. The Company's network of approximately 1,200 independent commission sales agents results in regular contact with shippers at the local level and the capability to be highly responsive to shippers' changing needs. The agent network enables Landstar to be responsive both in providing specialized equipment to both large and small shippers and in providing capacity on short notice from the Company's large fleet to high volume shippers. Through its agent network, the Company believes it offers smaller shippers a level of service comparable to that typically reserved by other truckload carriers only for their largest customers. Examples of services that Landstar is able to make available through the

agent network to smaller shippers include the ability to haul shipments on short notice (often within hours from notification to time of pick-up), multiple pick-up and delivery points, electronic data interchange capability and access to specialized equipment. In addition, a number of the Company's agents specialize in certain types of freight and transportation services (such as oversized or heavy loads). An agent is typically paid 7% of the revenue generated through that agent, with volume-based incentive commissions that can increase the percentage to 10% of revenue. During 1996, more than 350 agents generated revenue for Landstar of at least $1 million each, or approximately $924 million of Landstar's total revenue. The majority of the agents who generate revenue of $1 million or more have chosen to represent Landstar exclusively. Many of the agents represent one or more of the Operating Companies. The ten largest agencies in 1996 generated average revenue of approximately $10.9 million. The typical Landstar agent maintains a relationship with a number of shippers, and services these shippers by providing a base of operations for independent contractors, both single-unit owner-operator and multi-unit contractors. Contracts with agents are typically terminable upon 30 days' notice. Historically, Landstar has experienced very limited agent turnover, especially among its larger volume agents. The Operating Companies emphasize programs to support the agents' operations and to establish pricing parameters, The Operating Companies contract directly with customers and generally assume the credit risk and liability for freight losses or damages. Landstar Ranger, Landstar Inway, Landstar Gemini, Landstar T.L.C. and Landstar

Express America generally dispatch their fleets through their local agents, while Landstar Ligon and Landstar Poole generally operate through a central dispatch system. The operating subsidiaries who utilize independent commission sales agents hold regular regional agent meetings and Landstar holds an annual Company-wide agent convention.

TECHNOLOGY. The Company believes leadership in the development and application of technology is an ongoing part of providing high quality service at competitive prices. Landstar manages its technology program centrally through a Vice President of Management Information Systems ("MIS") who directs each of the Operating Companies' MIS departments.

The following technologies have been adopted by Landstar in recent years:

CUSTOMER COMMUNICATION. The Company has capability in Electronic Document and Data Interchange ("EDI"). These capabilities provide operating advantages to Landstar and enhanced customer service, including real time information flow, reduction or elimination of paperwork, error-free transcription and reductions in clerical personnel. EDI allows the Company to exchange data with its customers regarding their shipments in a variety of formats, which significantly enhances quality control and customer service.

AGENT COMMUNICATION. The Company has developed a proprietary personal computer-based software system called Landstar Electronic Administrative Dispatch System ("LEADS") to communicate electronically with its agents. LEADS interconnects agents' personal computers with the information systems of the Operating Subsidiaries. As of December 28, 1996, approximately 446 of the independent agents had installed LEADS. The Company encourages all of its agents to join the LEADS program. LEADS provides an agent with a variety of functions for sending information to and receiving information from the Operating Subsidiary. LEADS is used by an agent to dispatch trucks, to authorize cash advances to drivers in route (i.e., to purchase fuel or supplies) and to transmit and receive freight invoices. The Company is in the process of converting its current LEADS system to a Windows environment. The Company is also in the process of the development of an internet/intranet technology in order to more effectively match available loads with available equipment.

DRIVER COMMUNICATION. Management believes that onboard communications capability will be increasingly important, and intends to increase this capability throughout the Landstar system. Landstar has established and will continue to develop its Driver Communications Network, which consists of a variety of communications methods monitored and controlled at each Operating Subsidiary. Methods currently in use are pagers, cellular telephones, daily driver check-ins via telephone calls to a Company "800" number and satellite transceivers. The most common communications device, utilized by over 7,300 employee drivers and independent contractors, is the pager. Using the Company's directory of drivers, an agent is able to communicate with a specific driver to ascertain shipment status, pickup and delivery information, load availability and other relevant information. Management believes that pagers provide the communications capabilities required by most shippers, but at a substantially lower cost than the satellite communications now employed by a number of the Company's competitors. Satellite communications that provide instant location information and communication with the driver are used by the Company for highly critical movements such as Department of Defense ammunitions and explosives and "just-in-time" automotive shipments.

Landstar has also developed and continues to try to improve a number of additional technologies, including: an optical character recognition system (which scans documents such as bills of lading, driver logs and fuel receipts on to optical disks), designed to speed information retrieval and enhance availability and flexible utilization of data; bar coding of load documentation; image and workflow technology to speed paperwork processes; the use of portable computers to provide instant price quotes, marketing support and other information; the use of the Landstar debit card to track driver fuel and equipment purchases; and movement towards a client/server network computer environment.

CORPORATE SERVICES. Significant advantages result from the collective expertise and corporate services afforded by Landstar's headquarters management. The primary services provided are:

safety	purchasing
risk and claims management	strategic planning
technology and management information systems	human resource management
marketing, particularly national accounts	finance
quality programs	accounting, budgeting and taxes
	legal

INDEPENDENT CONTRACTORS. The Company operates the largest fleet of truckload independent contractors in North America. This provides marketing, operating, safety, recruiting and retention and financial advantages to the Company. Most of the Companies' truckload independent contractors are compensated on the basis of a fixed percentage of the revenue generated from the shipments they haul. This percentage generally ranges from 60% to 70% where the independent contractor supplies only the tractor and from 75% to 79% where the independent contractor supplies both the tractor and the trailer. The independent contractor must pay all the expenses of operating his equipment, including driver wages and benefits, fuel, physical damage insurance, maintenance, highway use taxes and debt service. In 1996, Landstar experienced a turnover rate among independent contractors of approximately 82%. A significant percentage of this turnover was attributable to independent contractors who had been independent contractors with the Company for less than one year. Management believes that the availability of loads is a significant factor in turnover. Management believes other factors that tend to limit turnover include the Company's extensive agent network, the Company's programs to reduce the operating costs of its independent contractors, and Landstar's reputation for quality, service and reliability. The Landstar Contractors' Advantage Purchasing Program ("LCAPP") leverages Landstar's purchasing power as one of the largest truckload carriers in North America to provide discounts to the independent contractors when they purchase equipment, fuel, tires and other items. Landstar also benefits from its use of independent contractors because the Company does not have to maintain a significant capital investment. As a result, the Owner-Operator Companies tend to have higher variable costs and lower fixed costs.

Description of Operating Subsidiaries

The following table presents financial and operating information about each of the Company's Operating Subsidiaries at or for the fiscal years ended December 28, 1996 and December 30, 1995.

	Landstar Ranger		Landstar Inway		Landstar Ligon		Landstar Gemini	
	1996	1995	1996	1995	1996	1995	1996	1995
Revenue (in millions)	$338.5	$336.4	$291.6	$270.6	$170.1	$157.4	$52.1	$54.0
Average length of haul in miles	634	684	642	670	583	620	208	183
Number of power units	3,237	3,335	2,181	2,153	1,640	1,502	503	630
Number of trailers	5,908	5,939	3,081	3,018	2,036	1,993	-	-
Number of agents	308	273	359	370	241	230	41	54

	Landstar T.L.C.		Landstar Poole		Landstar Express America		Landstar Logistics	
	1996	1995	1996	1995	1996	1995	1996	1995
Revenue (in millions)	$105.2	$87.9	$154.0	$150.0	$35.6	$24.5	$136.7	$123.9
Average length of haul in miles	1,253	1,495	630	635	504	334	N/A	N/A
Number of power units	680	630	1,413	1,431	229	210	N/A	N/A
Number of trailers	1,106	1,021	2,542	2,295	3	-	16	75
Number of agents	65	7	83	68	115	106	49	28

Each of the Operating Subsidiaries is managed by its own personnel and follows the strategic direction of the corporate office.
The Operating Subsidiaries are separately responsible for pricing, approving customer credit, recruiting agents and drivers, marketing transportation services, administering safety programs and overseeing shipments by their customers. In 1996, no single customer accounted for more than 10% of the Company's revenue. Landstar's Operating Subsidiaries deliver truckload transportation services through, as of December 28, 1996, approximately 6,900 independent contractors supplying more than 8,900 tractors and a network of approximately 1,200 independent commission sales agents. Approximately 90.4% of the Company's 1996 revenue was generated through independent contractors.

LANDSTAR RANGER. Founded in 1968 and headquartered in Jacksonville, Florida, Landstar Ranger operates a fleet of over 3,200 tractors and over 5,900 trailers. Approximately 83% of Landstar Ranger's trailers are dry vans and specialty vans (of varying lengths and volumes), and approximately 17% are flatbeds (standard, drop deck, side paneled and light specialty). Landstar Ranger operates primarily with independent contractors and commission agents. Although Landstar Ranger operates throughout the continental United States and much of Canada, its heaviest traffic is within the Southeast, within the Midwest, along east-west routes between the Midwestern states and Pennsylvania and New York, and on routes between the Southeast and the Midwest and eastern United States. Landstar Ranger transports a wide range of general commodities, including building materials, automotive

parts, plastics, foodstuffs, beverages, chemicals, metals, machinery and munitions. In a number of industries, Landstar Ranger is a primary carrier, in delivery of raw materials, of finished products, or both. In the beverage industry, Landstar Ranger hauls aluminum sheets to can manufacturers on flatbed trailers, ships empty cans to beverage producers in dry vans and delivers the filled cans to beverage distributors in temperature-controlled vans. Approximately 200 of Landstar Ranger's drivers (out of a total of approximately 3,200) are employees represented by the Teamsters (See "Business Regulation"). As of December 28, 1996, Landstar Ranger had 240 non-driver employees, none of whom are represented by a collective bargaining unit.

LANDSTAR INWAY. Founded in 1982 and headquartered in Rockford, Illinois, Landstar Inway operates the Company's largest fleet of flatbeds (over 1,680 trailers of various types), nearly 1,400 dry and specialty vans, and more than 2,180 tractors. Landstar Inway operates exclusively with independent contractors and commission sales agents. Landstar Inway operates throughout the United States and Canada, and between the United States and Mexico. Landstar Inway's heaviest traffic area is the eastern United States and routes between Texas and the Midwest. Landstar Inway transports a wide variety of general commodities, including steel and other metals, building materials, machinery and paper. Landstar Inway also offers flatbed multiple pick-up and delivery service without cross-docking and interlining typical of less-than-truckload service offered by other carriers. As of December 28, 1996, Landstar Inway employed 298 persons, none of whom are represented by a collective bargaining unit.

LANDSTAR LIGON. Founded in 1962 and headquartered in Madisonville, Kentucky, Landstar Ligon operates a fleet of approximately 1,640 tractors, nearly 1,500 flatbed and specialty trailers and 540 vans. Landstar Ligon offers flatbed and dry van service, primarily in the Eastern and Midwestern United States and on routes from Texas, Louisiana and Arkansas to both the Midwest states and other Southern states. Landstar Ligon operates exclusively with independent contractors. Landstar Ligon markets its services through both independent commission sales agents and Landstar Ligon employees. Landstar Ligon's marketing staff focuses on large, national accounts. Landstar Ligon has a centralized dispatch system which links its regional terminals and agent locations with Ligon's headquarters. Landstar Ligon has a specialized hauling division which offers a wide range of oversized load and heavy load services such as hauling military tanks, large construction equipment and heavy machinery. Trailers to serve this market feature air ride suspension and 5 to 13 axles.

Freight hauled by Landstar Ligon also includes metal products from mills both to distribution centers and to industrial consumers. As of December 28, 1996, Landstar Ligon employed 187 persons, none of whom are represented by a collective bargaining unit.

LANDSTAR GEMINI. Landstar Gemini was restructured in 1990 to focus on offering national drayage transportation services in order to take advantage of the growth in intermodal transportation (the hauling of truck trailers or containers on rail cars or ships). As part of this restructuring, Landstar Gemini transferred all of its then existing operations, including its independent contractors and agents, primarily to Landstar Ranger. Landstar Gemini now operates through 41 commission agents located in major Atlantic and Gulf ports and 449 independent contractors, who provide 503 tractors. Landstar Gemini services include short, intermediate, and long haul of marine containers between all major continental United States ports and inland points and intermodal drayage to and from all major railroads. Landstar Gemini's offices are located in Jacksonville, Florida adjacent to Landstar Ranger's offices. As of December 28, 1996, Landstar Gemini employed 35 persons, none of whom are represented by a collective bargaining unit.

LANDSTAR POOLE. Founded in 1950 and headquartered in Evergreen, Alabama, Landstar Poole owns or leases the majority of the tractors and employs most of the drivers used in its operations. In 1996, approximately 44% of Landstar Poole's revenue was generated through independent contractors. At December 28, 1996, Landstar Poole's fleet consisted of over 1,400 tractors, of which 667 were provided by independent contractors. On December 18, 1996, the Company announced a plan to transfer the variable cost business component of Landstar Poole to Landstar Ranger and the disposal of 175 Landstar Poole company-owned tractors. At December 28, 1996, Landstar Poole operated over 1,850 dry vans and 680 flatbed trailers, including various specialty flatbed trailers almost all of which were company owned. Landstar Poole's primary service area is the eastern United States and routes between the eastern United States and Canada. Its principal traffic lanes are between the South and the Northeast, the South and the Midwest and the Midwest and the Northeast. Landstar Poole's operating strategy is to provide a high level of service on short and medium length regional traffic lanes. Landstar Poole has considerable experience in hauling specialized freight such as forest products, telephone poles and plate glass.

Landstar Poole's executive office, located in Evergreen, Alabama, contains office space for all administrative activities (dispatch, accounting, customer service and marketing) as well as facilities for equipment maintenance and storage. As of December 28, 1996, Landstar Poole employed 975 persons, including 744 employee drivers, none of whom are represented by a collective bargaining unit.

LANDSTAR T.L.C. In January 1995, Landstar T.L.C. purchased the business and net assets of T.L.C. Lines, Inc., a Missouri-based temperature-controlled and long-haul, time sensitive dry van carrier. At December 28, 1996, Landstar T.L.C.'s fleet

consisted of approximately 680 tractors, of which 478 were provided by independent contractors. At December 28, 1996, Landstar T.L.C. operated over 1,100 dry and temperature controlled vans and 4 flatbed trailers, most of which were owned by Landstar T.L.C. Landstar T.L.C.'s primary service area is routes from the Northeast to the Western United States. Landstar T.L.C.'s length of haul is generally longer than other Operating Subsidiaries due to their coast to coast regular routes. As of December 28, 1996, Landstar T.L.C. employed 447 persons, including 328 employee drivers, none of whom are represented by a collective bargaining unit. On December 18, 1996, the Company announced a plan to dispose of all of Landstar T.L.C.'s company-owned equipment and to merge Landstar T.L.C. into Landstar Inway.

LANDSTAR LOGISTICS. Landstar Logistics provides customers with contract logistics and intermodal services. Landstar Logistics offers contract logistics services to customers who seek distribution solutions to their transportation needs. Contract logistics services provide customers with logistics support, single source alternatives, truck brokerage and other transportation solutions. Intermodal services primarily involves arranging for the movement of customers' goods by a combination of rail and truck throughout the United States. As of December 28, 1996, Landstar Logistics employed 46 persons, none of whom are represented by a collective bargaining unit.

LANDSTAR EXPRESS AMERICA. Headquartered in Charlotte, North Carolina, Landstar Express America provides emergency and expedited air freight and truck services throughout the United States marketed through independent commission sales agents and delivered through independent contractors. Landstar Express America's fleet consists of 229 cargo vans and straight trucks. As of December 28, 1996, Landstar Express America employed 65 persons, none of whom are represented by a collective bargaining unit.

RMCS. RMCS is responsible for the development, implementation, and administration of consistent risk management policies and programs for all of the Operating Subsidiaries. As of December 28, 1996, RMCS employed 12 persons, none of whom are represented by a collective bargaining unit.

LANDSTAR CORPORATE SERVICES, INC. LCSI, a Delaware corporation, is located in Jacksonville, Florida, and was formed on December 15, 1993. LCSI provides administrative support for Landstar Ranger, Landstar Gemini and Landstar Logistics. As of December 28, 1996, LCSI employed 110 persons, none of whom are represented by a collective bargaining unit.

LANDSTAR CONTRACTOR FINANCING, INC. and LANDSTAR CAPACITY SERVICES, INC. LCFI and LCS, both Delaware corporations, are located in Shelton, Connecticut, and were formed in 1996. LCFI and LCS provide various services to independent contractors

including financing to purchase tractors and/or trailers, marketing of LCAPP and management of truckstop partnerships. Substantially all of the loans provided by LCFI to owner-operators are secured by the equipment purchased by the owner-operators.

COMPETITION

Landstar competes primarily in the domestic transportation industry, focusing on the common and contract truckload segment. This segment has been characterized by significant change since the substantial economic deregulation of the trucking industry in 1980, which led to a rapid influx of small, often poorly capitalized truckload carriers and downward pressure on freight rates. Primarily because deregulation eliminated most route and commodity restrictions, the market for common and contract truckload services has grown as truckload carriers have attracted business from railroads, less-than-truckload carriers and private fleets. The Company believes the truckload segment will continue to undergo significant consolidation and that the barriers to entry will become higher. These barriers include the capital-intensive nature of the business, purchasing economies available only to larger carriers, increasing customer demand for sophisticated information systems, rising insurance costs, greater customer demand for specialized services and the reluctance of certain shippers to do business with smaller carriers.

The transportation services business is extremely competitive and fragmented. Landstar competes primarily with other truckload carriers and independent contractors and, with respect to certain aspects of its business, intermodal transportation, railroads and less-than-truckload carriers.

Competition for the freight transported by the Company is based in the long term primarily on service and efficiency and, to a lesser degree, on freight rates alone. Competition has created downward pressure on the truckload industry's pricing structure. Management believes that Landstar's overall size and availability of a wide range of equipment, together with its geographically dispersed local independent agent network, present the Company with significant competitive advantages over many other truckload carriers.

The Company also competes with other motor carriers for the services of independent contractors and commission agents, contracts with whom are terminable upon short notice. The Company's overall size, coupled with its reputation for good relations with agents and independent contractors, have enabled the Company to attract a sufficient number of qualified agents, independent contractors and drivers.

INSURANCE AND CLAIMS

Potential liability associated with accidents in the trucking industry is severe and occurrences are unpredictable.

Landstar retains liability up to $1,000,000 for each individual property, casualty and general liability claim, $500,000 for each workers' compensation claim and $250,000 for each cargo claim. The Company provides, on an actuarially determined basis, for the estimated cost of property, casualty and general liability claims reported and for claims incurred but not reported. Although Landstar has an active training and safety program, there can be no assurance that the frequency or severity of accidents or workers' compensation claims will not increase in the future, that there will not be unfavorable development of existing claims or that insurance premiums will not increase. 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 results. Management believes that Landstar and the Operating Subsidiaries realize significant savings in insurance premiums by retaining a larger amount of risk than might be prudent if any of the Operating Subsidiaries were stand-alone companies.

POTENTIAL CHANGES IN FUEL TAXES

From time to time, various legislative proposals are introduced to increase federal, state, or local taxes, including taxes on motor fuels. The Company cannot predict whether, or in what form, any increase in such taxes applicable to the Company will be enacted and, if enacted, whether or not the Company will be able to reflect the increases in prices to customers. Competition from non-trucking modes of transportation and from intermodal transportation would be likely to increase if state or federal taxes on fuel were to increase without a corresponding increase in taxes imposed upon other modes of transportation.

INDEPENDENT CONTRACTOR STATUS

From time to time various legislative or regulatory proposals are introduced at the federal or state levels to change the status of independent contractors classification as employees for either employment tax purposes (withholding, social security, Medicare and unemployment taxes) or other "benefits" available to employees. Currently, most individuals are classified as employees or independent contractors for employment tax purposes based on 20 "common-law" factors rather than any definition found in the Internal Revenue Code or Internal Revenue Service regulations. In addition, under Section 530 of the Revenue Act of 1978, taxpayers that meet certain criteria may treat an individual as an independent contractor for employment tax purposes if they have been audited without being told to treat similarly situated workers as employees, or if they have received a ruling from the Internal Revenue Service or a court decision affirming their treatment, or if they are following a long-standing recognized practice.

Although management is unaware of any proposals currently pending to change the employee/independent contractor classification, the costs associated with potential changes, if any, in the employee/independent contractor classification could adversely affect Landstar's results of operations if Landstar were unable to reflect them in its fee arrangements with the independent contractors and agents or in the prices charged to its customers.

REGULATION

Each of the Operating Subsidiaries, is a motor carrier, which prior to January 1, 1995, were regulated by the Interstate Commerce Commission (the "ICC") and is now regulated by the United States Department of Transportation (the "DOT") and by various state agencies. The DOT has broad powers, generally governing activities such as the regulation of, to a limited degree motor carrier operations, rates, accounting systems, periodic financial reporting and insurance. Subject to federal and state regulatory authorities or regulation, the Company may transport most types of freight to and from any point in the United States over any route selected by the Company. The trucking industry is subject to possible regulatory and legislative changes (such as increasingly stringent environmental regulations or limits on vehicle weight and size) that may affect the economics of the industry by requiring changes in operating practices or by changing the demand for common or contract carrier services or the cost of providing truckload services.

Congress deregulated transportation in 1994 by passage of the Trucking Industry Regulatory Reform Act of 1994 ("TIRRA") and the Federal Aviation Administration Authorization Act of 1994 ("FAAAA"). TIRRA substantially eliminated entry procedures for interstate transportation and eliminated the ICC tariff filing requirements for virtually all common carriers. FAAAA required all states to substantially deregulate intrastate transportation as of January 1, 1995. In 1995, Congress enacted The Interstate Commerce Commission Termination Act and substantially eliminated certain of the functions of the ICC and transferred most functions to the DOT.

Landstar Ranger is subject to the Multi Employer Pension Plan Amendments Act of 1980 ("MEPPA"), which could require Landstar Ranger, in the event of withdrawal, to fund its proportionate share of the union sponsored plans', in which it participates, unfunded benefit obligation. Management believes that the liability, if any, for withdrawal from any or all of these plans would 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.

Landstar Poole has various underground storage tanks for diesel fuel. As a result, Landstar Poole is subject to regulations promulgated by the Environmental Protection Agency in 1988 with respect to underground fuel storage tanks. These regulations generally govern the design, construction and

operation of underground storage tanks from installation to closure. For underground storage tanks in existence at the time the regulation were promulgated, the regulations require that such tanks be upgraded to meet specified standards concerning corrosion protection, spill or overfill protection and release detection on a phased timetable which began in 1989 and ends in 1998.

Interstate motor carrier operations are subject to safety requirements prescribed by the DOT. All of the Company's drivers are required to have national commercial driver's licenses and are subject to mandatory drug and alcohol testing. The DOT's national commercial driver's license and drug and alcohol testing requirement have not adversely affected the availability to the Company of qualified drivers.

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 in June, September and December due to reduced shipments and higher operating costs in the winter months.

EMPLOYEES

As of December 28, 1996, the Company and its subsidiaries employed 2,632 individuals. Approximately 200 Landstar Ranger drivers are members of the Teamsters (See "Business - Description of Operating Subsidiaries - Landstar Ranger."). The Company considers relations with its employees to be good.

I

tem 2. - Properties

The Company leases its headquarters in Shelton, Connecticut of approximately 14,300 square feet, as well as the headquarters of Landstar Gemini, LCSI, Landstar Logistics and Landstar Ranger together in Jacksonville, Florida of approximately 58,000 square feet, Landstar Inway in Rockford, Illinois of approximately 29,000 square feet, and RMCS in Madisonville, Kentucky of approximately 2,800 square feet, from third parties. Landstar Poole owns its headquarters located in Evergreen, Alabama of approximately 20 acres, and Landstar Ligon also owns its headquarters located in Madisonville, Kentucky of approximately 73 acres. Landstar Express America owns its headquarters in Charlotte, North Carolina, of approximately 7,560 square feet and one terminal of approximately 1,680 square feet. Landstar T.L.C. owns its headquarters located in St. Clair, Missouri of approximately 39,000 square feet on approximately 35 acres. The restructuring plan, announced on December 18, 1996, included the planned sale of the Landstar T.L.C. headquarters and the relocation of the Shelton, Connecticut corporate office to Jacksonville, Florida.

Management believes that Landstar's owned and leased properties are adequate for its current needs, and that leased properties can be retained or replaced at acceptable cost.

Item 3. - Legal Proceedings

In response to a breach of contract suit filed in January 1988 by Landstar Gemini in the Circuit Court, County of Genesee, in the state of Michigan against Vickie and Kevin Cresson, individually and doing business as V&C Trucking (the "Defendants"), the Defendants, who are former agents and independent contractors of Landstar Gemini, have asserted breach of contract, tort and state antitrust law counterclaims against Landstar Gemini and other parties, including EnviroSource, Landstar, Landstar Ranger and John B. Bowron, a director and executive officer of the Company. Defendants have claimed approximately $7,500,000 in actual damages (subject to trebling) as well as punitive damages.

On October 24, 1996, the court rendered an opinion on the parties' cross-motions for summary judgment. The court granted Gemini's motion for summary judgment in its entirety and denied Defendants motion for summary judgment in its entirety. The court also granted Landstar Gemini's request for costs and reasonable attorney's fees. Defendants have appealed the judge's decision. The Company, believing that its defenses are and will continue to be deemed good and meritorious, will vigorously contest the appeal. Although a trial in this matter is now considerably less likely in light of the judges favorable rulings, any such trial would not likely occur before 1998.

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

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

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 1996.

Part II

Item 5. - Market for Registrant's Common Equity and Related Stockholder Matters

The Common Stock of the Company is quoted through the National Association of Securities Dealers, Inc. National Market System (the "NASDAQ National Market System") under the symbol "LSTR". The following table sets forth the high and low reported sale prices for the Common Stock as quoted through the NASDAQ National Market System for the periods indicated.

Calendar Period	1996 Market Price		1995 Market Price	
	High	Low	High	Low
First Quarter	$27 1/4	$21 3/4	$ 37 3/4	$ 30
Second Quarter	30 5/8	23 1/4	32 1/4	21 1/4
Third Quarter	29 3/8	23 1/4	32 1/2	21 3/4
Fourth Quarter	27 1/4	21 1/2	30 1/2	22 1/4

The reported last sale price per share of the Common Stock as quoted through the NASDAQ National Market System on March 7, 1997 was $22.875 per share. As of such date, Landstar had 12,615,833 shares of Common Stock outstanding. As of March 7, 1997, the Company had 139 stockholders of record of its Common Stock. However, the Company estimates that it has a significantly greater number of stockholders of record because a substantial number of the Company's shares are held by broker or dealers for their customers in street name.

The Company has not within the past three years paid any cash dividends on the Common Stock, and does not intend to pay dividends on the Common Stock for the foreseeable future. The declaration and payment of any future dividends will be determined by the Company's Board of Directors, based on Landstar's results of operations, financial condition, cash requirements, certain corporate law requirements, restrictions under loan agreements and other factors deemed relevant. Landstar's ability to pay dividends on the Common Stock depends on LSHI's ability to pay dividends to Landstar. The Company's credit agreement limits the amount of dividends payable by LSHI to Landstar and thereby limits Landstar's ability to pay dividends on the Common Stock.

Item 6. - Selected Financial Data

The information required by this item is set forth under the caption "Selected Consolidated Financial Data" in Exhibit 13 attached hereto, and is incorporated by reference in this Annual Report on Form 10-K. This information is also included on page 38 of the Company's 1996 Annual Report to Shareholders.

Item 7. - Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required by this item is set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Exhibit 13 attached hereto, and is incorporated by reference in this Annual Report on Form 10-K. This information is also included on pages 21 to 25 of the Company's 1996 Annual Report to Shareholders.

Item 8. - Financial Statements and Supplementary Data

The information required by this item is set forth under the captions "Consolidated Balance Sheets", "Consolidated Statements of Income", "Consolidated Statements of Cash Flows", "Consolidated Statements of Changes in Shareholders' Equity", "Notes to Consolidated Financial Statements", "Independent Auditors' Report" and "Quarterly Financial Data" in Exhibit 13 attached hereto, and are incorporated by reference in this Annual Report on Form 10-K. This information is also included on pages 26 through 37 of the Company's 1996 Annual Report to Shareholders.

Item 9. - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Part III

Item 10. - Directors and Executive Officers of the Registrant

The information required by this Item concerning the Directors (and nominees for Directors) and Executive Officers of the Company is set forth under the captions "Election of Directors", "Directors of the Company", "Information Regarding Board of Directors and Committees", and "Executive Officers of the Company" on pages 2 through 8, and "Compliance with Section 16(a) of the Securities Exchange Act of 1934" on page 16 of the Company's definitive Proxy Statement for its annual meeting of shareholders filed with the Securities and Exchange Commission pursuant to Regulation 14A, and is incorporated herein by reference.

Item 11. - Executive Compensation

The information required by this Item is set forth under the captions "Compensation of Directors and Executive Officers", "Summary Compensation Table", "Options Granted in Last Fiscal Year", "Fiscal Year End Option Values", "Report of the Compensation Committee on Executive Compensation", "Performance Comparison" and "Employment Contracts with Management" on pages 9 through 13 of the Company's definitive Proxy Statement for its annual meeting of shareholders filed with the Securities and Exchange Commission pursuant to Regulation 14A, and is incorporated herein by reference.

Item 12. - Security Ownership of Certain Beneficial Owners and Management

The information required by this Item is set forth under the caption "Security Ownership by Management and Others" on pages 14 through 17 of the Company's definitive Proxy Statement for its annual meeting of shareholders filed with the Securities and Exchange Commission pursuant to Regulation 14A, and is incorporated herein by reference.

Item 13. - Certain Relationships and Related Transactions

The information required by this Item is set forth under the caption "Indebtedness of Management" on page 11 of the Company's definitive Proxy

Statement for its annual meeting of shareholders filed with the Securities and Exchange Commission pursuant to Regulation 14A, and is incorporated herein by reference.

Part IV

Item 14. - Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) (1) Financial Statements

Financial statements of the Company and related notes thereto, together with the report thereon of KPMG Peat Marwick LLP dated February 12, 1997, are in Exhibit 13 attached hereto, and are incorporated by reference in this Annual Report on Form 10-K. This information is also included on pages 26 through 36 of the Company's 1996 Annual Report to Shareholders.

(2) Financial Statement Schedules

The report of the Company's independent public accountants with respect to the financial statement schedules listed below appears on page 30 of this Annual Report on Form 10-K.

Schedule Number	Description	Page
I	Condensed Financial Information of Registrant Parent Company Only Balance Sheet Information	S-1
I	Condensed Financial Information of Registrant Parent Company Only Statement of Income Information	S-2
I	Condensed Financial Information of Registrant Parent Company Only Statement of Cash Flows Information	S-3
II	Valuation and Qualifying Accounts For the Fiscal Year Ended December 28, 1996	S-4
II	Valuation and Qualifying Accounts For the Fiscal Year Ended December 30, 1995	S-5
II	Valuation and Qualifying Accounts For the Fiscal Year Ended December 31, 1994	S-6

All other financial statement schedules not listed above have been omitted because the required information is included in the consolidated financial statements or the notes thereto, or is not applicable or required.

(3) Exhibits

The response to this portion of Item 14 is submitted as a separate section of this report (see "Exhibit Index").

THE COMPANY WILL FURNISH, WITHOUT CHARGE, TO ANY SHAREHOLDER OF THE COMPANY WHO SO REQUESTS IN WRITING, A COPY OF ANY EXHIBITS, AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. ANY SUCH REQUEST SHOULD BE DIRECTED TO LANDSTAR SYSTEM, INC., ATTENTION: INVESTOR RELATIONS, FIRST SHELTON PLACE, 1000 BRIDGEPORT AVENUE, P.O. BOX 898, SHELTON, CONNECTICUT 06484-0898.

(b) No reports on Form 8-K were filed during the last quarter of fiscal year 1996.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: Henry H. Gerkens

Henry H. Gerkens
Executive Vice President & Chief Financial Officer

By: Robert C. LaRose

Robert C. LaRose
Vice President Finance & Treasurer

Date: March 14, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
Jeffrey C. Crowe - -------------------- Jeffrey C. Crowe	Chairman of the Board, President & Chief Executive Officer, Principal Executive Officer	March 14, 1997
Henry H. Gerkens - -------------------- Henry H. Gerkens	Executive Vice President & Chief Financial Officer; Principal Financial Officer	March 14, 1997
Robert C. LaRose - -------------------- Robert C. LaRose	Vice President Finance & Treasurer; Principal Accounting Officer	March 14, 1997
* - -------------------- John B. Bowron	Senior Vice President and Director	March 14, 1997
* - -------------------- David G. Bannister	Director	March 14, 1997
* - -------------------- Ronald W. Drucker	Director	March 14, 1997
* - -------------------- Arthur J. Fritz, Jr.	Director	March 14, 1997
* - -------------------- Merritt J. Mott	Director	March 14, 1997

* Michael L. Harvey   Attorney In Fact
- ----------------------
By: Michael L. Harvey

EXHIBIT INDEX

Form 10-K for fiscal year ended 12/28/96

Exhibit No.	Description

(3) Articles of Incorporation and Bylaws:

3.1 Amended and Restated Certificate of Incorporation of the Company dated February 9, 1993 and Certificate of Designation of Junior Participating Preferred Stock. (Incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 (Registration No. 33-57174))

3.2 The Company's Bylaws, as amended and restated on February 9, 1993. (Incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-1 (Registration No. 33-57174))

(4) Instruments defining the rights of security holders, including indentures:

4.1 Specimen of Common Stock Certificate. (Incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-1 (Registration No. 33-57174))

4.2 Credit Agreement, dated as of March 12, 1993, among LSHI, Landstar, the lenders named therein, and Chemical Bank, as agent (including the exhibits and schedules thereto). (Incorporated by reference to Exhibit 2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 27, 1993 (Commission File No. 0-21238))

4.3 Amended and Restated Credit Agreement, dated as of October 7, 1994, among LSHI, Landstar, the lenders named therein, and Chemical Bank, as agent (including the exhibits and schedules thereto). (Incorporated by reference to Exhibit III to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 24, 1994 (Commission File No. 0-21238))

Exhibit No.	Description

4.4 First Amendment, dated as of October 4, 1995, to the Amended and Restated Credit Agreement, dated as of October 7, 1994, among LSHI, Landstar, the lenders named therein, and Chemical Bank, as agent. (Incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995 (Commission File No. 0-21238))

4.5* Second Amendment, dated as of March 1, 1996, to the Amended and Restated Credit Agreement, dated as of October 7, 1994, among LSHI, Landstar, the lenders named therein, and Chemical Bank (n/k/a Chase Manhattan Bank), as agent.

4.6 Stockholders Agreement, dated as of March 12, 1993, among KIA IV, ABSMB and the Company. (Incorporated by reference to Exhibit 4.9 of Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (Registration No. 33-57174))

4.7 Rights Agreement, dated as of February 10, 1993, between the Company and Chemical Bank, as Rights Agent. (Incorporated by reference to Exhibit 4.14 of Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (Registration No. 33-57174))

4.8 The Company agrees to furnish copies of any instrument defining the rights of holders of long-term debt of the Company and its respective consolidated subsidiaries that does not exceed 10% of the total assets of the Company and its respective consolidated subsidiaries to the Securities and Exchange Commission upon request.

(10) Material Contracts:

10.1+ Landstar System, Inc. 1993 Stock Option Plan. (Incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-1 (Registration No. 33-67666))

10.2+ LSHI Investors' Plan. (Incorporated by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form S-1 (Registration No. 33-57174))

10.3 Directors' and Consulting Service Agreement, dated March 27, 1991, between Alex. Brown & Sons Incorporated and the Company. (Incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form S-1 (Registration No. 33-57174))

10.4 Management Services Agreement, dated March 27, 1991, between Kelso and the Company. (Incorporated by reference to Exhibit 10.5 to the Registrant's Registration Statement on Form S-1 (Registration No. 33-57174))

Exhibit No.	Description

10.5 Irrevocable Guaranty, dated as of March 30, 1992, among the Company, Kelso Insurance Services, Inc., and the American Telephone and Telegraph Company. (Incorporated by reference to Exhibit 10.6 to the Registrant's Registration Statement on Form S-1 (Registration No. 33-57174))

10.6 Form of Indemnification Agreement between the Company and each of the directors and executive officers of the Company. (Incorporated by reference to Exhibit 10.7 of Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (Registration No. 33-57174))

10.7+ LSHI Management Incentive Compensation Plan. (Incorporated by reference to Exhibit 10.8 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 25, 1993 (Commission File No. 0-21238))

10.8+ Landstar System, Inc. 1994 Director's Stock Option Plan. (Incorporated by reference to Exhibit 99 to the Registrant's Registration Statement on Form S-8 filed July 5, 1995 (Registration No. 33-94304))

(11) Statement re Computation of Per Share Earnings:

11.1* Landstar System, Inc. and Subsidiary Calculation of Earnings Per Share.

(13) Annual Report to Shareholders, Form 10-Q or Quarterly Report to Shareholders:

13.1* Excerpts from the 1996 Annual Report to Shareholders.

Exhibit Index (continued)
Form 10-K for fiscal year ended 12/28/96

Exhibit No.	Description
(21)	Subsidiaries of the Registrant:
21.1*	List of Subsidiary Corporations of the Registrant.
(23)	Consents of Experts and Counsel:
23.1*	Consent of KPMG Peat Marwick LLP as Independent Auditors of the Registrant.
(24)	Power of Attorney
24.1*	Powers of Attorney.
(27)	Financial Data Schedule
27.1*	Financial Data Schedule

____
+management contract or compensatory plan or arrangement
*Filed herewith.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Landstar System, Inc.:

Under date of February 12, 1997, we reported on the consolidated balance sheets of Landstar System, Inc. and subsidiary as of December 28, 1996 and December 30, 1995, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the fiscal years ended December 28, 1996, December 30, 1995, and December 31, 1994, as contained in the 1996 annual report to shareholders. These consolidated financial statements and our report thereon are incorporated by reference in the annual report on Form 10-K for the year 1996. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related financial statement schedules as listed in Item 14 (a)(2). These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits.

In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

KPMG Peat Marwick LLP

Stamford, Connecticut
February 12, 1997

LANDSTAR SYSTEM, INC. AND SUBSIDIARY
SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT
PARENT COMPANY ONLY BALANCE SHEET INFORMATION
(Dollars in thousands, except per share amounts)

	Dec. 28, 1996	Dec. 30, 1995
ASSETS		

Investment in Landstar System Holdings, Inc., net of advances	$147,344	$128,179
Operating property, less accumulated amortization of $878 and $252	626	435
Total assets	$147,970	$128,614

Liabilities and Shareholders' Equity

Long-term debt, including current maturities of $413 and $187	$ 413	$ 218
Shareholders' equity:		
Common stock, $.01 par value, authorized 20,000,000 shares, issued 12,882,874 and 12,871,674 shares	129	129
Additional paid - in capital	61,740	61,504
Retained earnings	87,655	68,730
Cost of 94,041 shares of common stock in treasury	(1,967)	(1,967)
Total shareholders' equity	147,557	128,396
Total liabilities and shareholders' equity	$147,970	$128,614

LANDSTAR SYSTEM, INC. AND SUBSIDIARY
SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT
PARENT COMPANY ONLY STATEMENT OF INCOME INFORMATION
(Dollars in thousands, except per share amounts)

	FISCAL YEAR ENDED		
	Dec. 28, 1996	Dec. 30, 1995	Dec. 31, 1994
Rental income	$ 682	$ 323	-
Amortization expense	(626)	(252)	-
Interest expense	(56)	(71)	-
Equity in undistributed earnings of Landstar System Holdings, Inc.	18,942	25,019	$ 24,488
Income taxes	(17)	(57)	(81)
Net income	$ 18,925	$ 24,962	$ 24,407
Earnings per share	$ 1.48	$ 1.95	$ 1.90
Average number of common shares outstanding	12,785,000	12,807,000	12,848,000

LANDSTAR SYSTEM, INC. AND SUBSIDIARY
SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT
PARENT COMPANY ONLY STATEMENT OF CASH FLOWS INFORMATION
(Dollars in thousands)

	FISCAL YEAR ENDED Dec. 28, 1996	Dec. 30, 1995	Dec. 31, 1994
Operating Activities			
Net income	$ 18,925	$ 24,962	$ 24,407
Adjustments to reconcile net income to net cash provided(used) by operating activities:			
Amortization of operating property	626	252	-
Equity in undistributed earnings of Landstar System Holdings, Inc.	(18,942)	(25,019)	(24,488)
Decrease in other liabilities	-	-	(216)
Net Cash Provided (Used) By Operating Activities	609	195	(297)
Investing Activities			
Additional investments in and advances to Landstar System Holdings, Inc., net	(223)	2,001	297
Net Cash Provided (Used) By Investing Activities	(223)	2,001	297
Financing Activities			
Principal payments on borrowings under capital lease obligations	(622)	(469)	-
Proceeds from sales of common stock	236	-	-
Purchases of common stock	-	(1,727)	-
Net Cash Used By Financing Activities	(386)	(2,196)	-
Change in cash	0	0	0
Cash at beginning of period	0	0	0
Cash at end of period	$ 0	$ 0	$ 0

LANDSTAR SYSTEM, INC. AND SUBSIDIARY
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE FISCAL YEAR ENDED DECEMBER 28, 1996
(Dollars in thousands)

COL. A	COL. B	COL. C		COL. D	COL. E
	Balance at	Additions			
Description	Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts Describe	Deductions Describe(A)	Balance at End of Period
Allowance for doubtful accounts:					
Deducted from trade					

receivables	$ 6,923	$ 1,667	$ -	$ (2,064)	$ 6,526
Deducted from other receivables	4,205	3,084	-	(2,899)	4,390
Deducted from other non-current receivables	0	17	-	-	17
	$11,128	$ 4,768	$ -	$ (4,963)	$10,933

(A) Write-offs, net of recoveries.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE FISCAL YEAR ENDED DECEMBER 30, 1995
(Dollars in thousands)

COL. A	COL. B	COL. C		COL. D	COL. E
	Balance at	Additions			
Description	Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts Describe (A)	Deductions Describe	Balance at End of Period
Allowance for doubtful accounts:					
Deducted from trade receivables	$ 4,136	$ 3,755	$ 1,105	$ (2,073)	$ 6,923
Deducted from other receivables	3,662	2,477	95	(2,029)	4,205
	$ 7,798	$ 6,232	$ 1,200	$ (4,102)(B)	$11,128

(A) Amounts in this column represent opening balances from new businesses acquired during 1995.

(B) Write-offs, net of recoveries.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1994
(Dollars in thousands)

COL. A	COL. B	COL. C		COL. D	COL. E
	Balance at	Additions			
Description	Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts Describe (A)	Deductions Describe	Balance at End of Period
Allowance for doubtful accounts:					
Deducted from trade receivables	$ 3,150	$ 1,867	$ (184)	$ (697)	$ 4,136
Deducted from other receivables	2,169	1,708	243	(458)	3,662
Deducted from other non-current receivables	81	-	-	(81)	-
	$ 5,400	$ 3,575	$ 59	$ (1,236)(B)	$ 7,798

=======	=========	===========	========	=======

(A) Amounts in this column represent recoveries and reclassifications from trade receivables to other receivables.

(B) Write-offs.

Exhibit 4.5
Execution Copy

SECOND AMENDMENT

SECOND AMENDMENT, dated as of March 1, 1996 (this "Amendment"), to the Amended and Restated Credit Agreement, dated as of October 7, 1994 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among LANDSTAR SYSTEM HOLDINGS, INC., a Delaware Corporation (the "Borrower"), LANDSTAR SYSTEM, INC., a Delaware corporation (the "Parent"), the lenders parties thereto (the "Lenders") and CHEMICAL BANK, a New York banking corporation, as agent (in such capacity, the "Agent").

W I T N E S S E T H:

WHEREAS, the Borrower, the Parent, the Lenders and the Agent are parties to the Credit Agreement; and

WHEREAS, the Borrower and the Parent have requested that the Lenders agree to amend or waive certain provisions of the Credit Agreement and the Lenders are agreeable to such request upon the terms and subject to the conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and mutual agreements contained herein, and for other valuable consideration the receipt of which is hereby acknowledged, the Borrower, the Parent and the Agent hereby agree as follows:

1. Definitions. All terms defined in the Credit Agreement shall have such defined meanings when used herein unless otherwise defined herein.

2. Amendment of Subsection 1.1. Subsection 1.1 of the Credit Agreement is hereby amended by deleting the word "required" in the sixth line of the definition of "Permitted Specified Additional Debt" and inserting in lieu thereof the word "scheduled."

3. Amendment of Subsection 7.4. Subsection 7.4 of the Credit Agreement is hereby amended by (a) deleting paragraph (f) in its entirety and adding the following new paragraph (f):

> "(f) Guarantee Obligations of the Parent, the Borrower or any Subsidiary of the parent in respect of loans made pursuant to the Operator Financing Program which are sold as described in clause (iii) of the definition of such term, provided that such Guarantee Obligations do not, in the aggregate, exceed $50 million at any one time outstanding."

and (b) relettering paragraph (h) as (i) and adding the following new paragraph (h):

> "(h) Guarantee Obligations relating to obligations of any kind of the Borrower, the Parent, or any of the Parent's subsidiaries that are not prohibited by this Agreement".

4. Waivers. The Lenders hereby waive any Default or Event of Default that may have arisen by the reason of the incurrence, prior to the effective date of this Amendment, of a Guarantee Obligation of a type covered by subsection 7.4(h) of the Credit Agreement, as amended hereby.

5. Representations; No Default. On and as of the date hereof, and after giving effect to this Amendment, the Borrower confirms, reaffirms and restates that the representations and warranties set forth in Section 4 of the Credit Agreement are true and correct in all material respects, provided that the references to the Credit Agreement therein shall be deemed to be references to this Amendment and to the Credit Agreement as amended by this Amendment.

6. Conditions to Effectiveness. This Amendment shall become effective on the date on which the Agent shall have received counterparts of this Amendment, duly executed and delivered by a duly authorized officer of each of the Borrower, the Parent, each Guarantor which is a party to the Subsidiaries Guarantee and the Required Lenders.

7. Limited Effect. Except as expressly amended herein, the Credit Agreement shall continue to be, and shall remain, in full force and effect. This Amendment shall not be deemed to be a waiver of, or consent to, or a modification or amendment of, any other term or condition of the Credit Agreement or to prejudice any other right or rights which the Lenders may now have or may have in the future under or in connection with the Credit Agreement or any of the instruments or agreements referred to therein, as the same may be amended from time to time.

8. Costs and Expenses. The Borrower agrees to pay or reimburse the Agent for all its reasonable and customary out-of-pocket costs and expenses incurred in connection with this Amendment, including, without limitation, the reasonable fees and disbursements of its counsel.

9. Counterparts. This Amendment may be executed by one or more of the parties hereto in any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

10. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered by their respective duly authorized officers as of the date first above written.

LANDSTAR SYSTEM HOLDINGS, INC.

By: Robert C. LaRose

Title: Vice President Finance
and Treasurer

LANDSTAR SYSTEM, INC.

By: Robert C. LaRose

   Title: Vice President Finance
           and Treasurer

CHEMICAL BANK, as Agent and as a Lender

By: Rosemary Bradley

   Title: Vice President

ABN AMRO Bank N.V.

By: Frances O'R Logan

   Title: Vice President

By: Thomas Rogers

   Title: Assistant Vice President

AMSOUTH BANK OF ALABAMA

By: R. Mark Graf

   Title: Vice President

THE BANK OF NEW YORK

By: Nancy McEwen

   Title: Vice President

BARNETT BANK OF JACKSONVILLE, N.A.

By: Glenn Romm

   Title: Vice President

CORESTATES BANK, N.A.

By: Verna R. Prentice

   Title: Vice President

THE FIRST NATIONAL BANK OF BOSTON

By: Michael J. Blake

   Title: Director

FLEET BANK, NATIONAL ASSOCIATION

By: John V. Raliegh

   Title: Vice President

THE LONG-TERM CREDIT BANK OF JAPAN, LIMITED, NEW YORK BRANCH

By: Nobru Kubota

Title: Deputy General Manager

NATIONSBANK N.A. (CAROLINAS)

By:

Title:

PNC BANK, NATIONAL ASSOCIATION

By: Nancy S. Goldman

Title: Vice President

FIRST UNION BANK f/k/a FIRST FIDELITY BANK

By: Donald W. Whitman

Title: Vice President

The undersigned Guarantors do hereby consent and agree to the execution and delivery by the Borrower and the Parent of the foregoing Amendment:

LANDSTAR GEMINI, INC. (f.k.a. GEMINI TRANSPORTATION SERVICES, INC.)

LANDSTAR ITCO, INC. (f.k.a. LANDSTAR INTERMODAL, INC.)

LANDSTAR EXPEDITED, INC.

LANDSTAR GEMINI ACQUISITION

LANDSTAR CORPORATE SERVICES, INC.

LANDSTAR RANGER, INC. (f.k.a. RANGER TRANSPORTATION, INC.)

LANDSTAR LIGON, INC. (f.k.a. LIGON NATIONWIDE, INC.)

LANDSTAR POOLE, INC. (f.k.a. POOLE TRUCK LINE, INC.)

RISK MANAGEMENT CLAIM SERVICES, INC.

LANDSTAR TRANSPORTATION SERVICE, INC.

LANDSTAR EXPRESS AMERICA, INC.

LANDSTAR T.L.C., INC.

LANDSTAR INWAY, INC. (f.k.a. INDEPENDENT FREIGHTWAY, INC.)

By: Robert C. LaRose

Title: Vice President Finance
and Treasurer

EXHIBIT 11.1

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

	Fiscal Year Ended December 28, 1996	Fiscal Year Ended December 30, 1995	Fiscal Year Ended December 31, 1994
Net income	$ 18,925	$ 24,962	$ 24,407
Average number of common shares outstanding	12,785	12,807	12,848
Earnings per share	$ 1.48	$ 1.95	$ 1.90

EXHIBIT 13.1

LANDSTAR SYSTEM, INC. AND SUBSIDIARY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Introduction

Landstar System, Inc. and its subsidiary, Landstar System Holdings, Inc. ("Landstar" or the "Company"), serve a variety of different market niches through its operating subsidiaries which employ different operating strategies. Four of Landstar's subsidiaries, Landstar Ranger, Inc. ("Landstar Ranger"), Landstar Inway, Inc. ("Landstar Inway"), Landstar Ligon, Inc., and Landstar Gemini, Inc. (collectively, the "Owner-Operator Companies"), provide truckload transportation services through independent contractors and independent commission sales agents. The nature of the Owner-Operator Companies' business is such that a significant portion of their operating costs vary directly with revenue. Landstar Poole, Inc. ("Landstar Poole") and Landstar T.L.C., Inc. ("Landstar T.L.C.") provide truckload transportation services using both company-owned and leased equipment driven by company-employed drivers and independent contractors. The percentage of Landstar Poole's total revenue generated through independent contractors was approximately 44% in 1996, 29% in 1995 and 17% in 1994. The percentage of Landstar T.L.C.'s total revenue generated through independent contractors was approximately 65% in 1996 and 62% in 1995. During the fourth quarter of 1996, the Company announced its plan to restructure the operations of both Landstar Poole and Landstar T.L.C. The Landstar Poole restructuring plan includes the transfer of the variable cost business component of Landstar Poole to Landstar Ranger and the disposal of 175 company-owned tractors. The Landstar T.L.C. restructuring plan includes the merger of Landstar T.L.C. into Landstar Inway and the disposal of all the company-owned tractors. Another Landstar subsidiary, Landstar Logistics, Inc. ("Landstar Logistics"), provides customers with contract logistics and intermodal services. Contract logistics services include single source alternatives, truck brokerage and other transportation solutions for large customers. Intermodal transportation services primarily involves arranging for the movement of customers' goods by a combination of rail and truck. Both the railroad and drayage carriers utilized by Landstar Logistics are independent contractors. Landstar Express America, Inc. ("Landstar Express America"), provides air and surface expedited transportation services through independent contractors, including air cargo carriers, and principally utilizes independent commission sales agents.

During the first quarter of 1995, Landstar, through different subsidiaries of Landstar System Holdings, Inc. ("LSHI"), acquired the businesses and net assets of Intermodal Transport Company ("ITCO"), a California-based intermodal marketing company, LDS Truck Lines, Inc., a California-based drayage company, and T.L.C. Lines, Inc.("TLC"), a Missouri-based temperature-controlled and long-haul, time sensitive dry van carrier. Also, in the 1995 first quarter, Landstar, through another subsidiary of LSHI, acquired all of the outstanding common stock of Express America Freight Systems, Inc. ("Express"), a North Carolina-based air freight and truck expedited service provider. The business acquired from ITCO comprises the majority of Landstar Logistics' intermodal operations, while the business acquired with Express comprises the majority of Landstar Express America's operations.

Purchased transportation represents the amount an independent contractor is paid to haul freight and is primarily based on a contractually agreed upon percentage of revenue generated by the haul for truck operations. Purchased transportation for the intermodal services operations of Landstar Logistics and the air freight operations of Landstar Express America is based on a contractually agreed upon fixed rate. Purchased transportation as a percentage of revenue for the intermodal operations of Landstar Logistics is normally higher than that of Landstar's other transportation companies. Purchased transportation is the largest component of costs and expenses and, on a consolidated basis, increases or decreases in proportion to the revenue generated through independent contractors. Commissions to agents and brokers are primarily based on contractually agreed upon percentages of revenue or contractually agreed upon percentages of gross profit. Commissions to agents and brokers as a percentage of consolidated revenue will vary directly with the revenue generated through independent commission sales agents. Both purchased transportation and commissions to agents and brokers generally will also increase or decrease as a percentage of the Company's consolidated revenue if there is a change in the percentage of revenue contributed by the intermodal operations of Landstar Logistics or through the air freight operations of Landstar Express America or through company-employed drivers.

Drivers' wages and benefits represent the amount Landstar Poole and Landstar T.L.C. employee drivers are compensated. Employee drivers are compensated primarily on a cents per mile driven basis. Drivers' wages and benefits as a percentage of consolidated revenue generally will vary only if there is a change in the revenue contribution generated through the independent contractors or a change in the rate of employee driver pay or benefit structure.

The Company's intention is to continue its expansion of truckload capacity provided by independent contractors and to reduce its truckload capacity provided by company-owned equipment and company-employed drivers. It is also the Company's intention to favor independent commission sales agent locations over company-owned and operated locations. Historically, Landstar T.L.C. and the intermodal operations of Landstar Logistics have principally utilized a company employee sales structure and to a lesser degree, independent commission sales agents. During 1996, management completed the process of converting the majority of company-owned sales locations at Landstar Logistics and Landstar T.L.C. to independent commission sales agent locations. Accordingly, purchased transportation and commissions to agents and brokers are anticipated to increase as a percentage of total consolidated revenue and drivers' wages and benefits are anticipated to decline as a percentage of total consolidated revenue over time.

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

The cost of fuel is the largest component of fuel and other operating costs. Changes in prevailing prices of fuel or increases in fuel taxes can significantly affect Landstar Poole's or Landstar T.L.C.'s operating results. Also included in fuel and other operating costs are costs of equipment maintenance paid to third parties and the operating costs of Landstar Poole and Landstar T.L.C. terminals. Effective August 1, 1996, Landstar closed all but one of the Landstar Poole terminals, including those that had functioned as Landstar Centers. The closings are part of Landstar's strategy to reduce the fixed cost elements of Landstar Poole.

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

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

	Fiscal Year		
	1996	1995	1994
Revenue	100.0%	100.0%	100.0%
Costs and expenses:			
Purchased transportation	69.0	67.5	66.3
Drivers' wages and benefits	3.2	4.0	3.9
Fuel and other operating costs	5.5	5.6	5.5
Insurance and claims	2.8	3.1	3.6
Commissions to agents and brokers	6.8	6.2	6.3
Selling, general and administrative	7.1	7.7	8.4
Depreciation and amortization	1.9	1.7	1.4
Restructuring costs	0.6		
Total costs and expenses	96.9	95.8	95.4
Operating income	3.1	4.2	4.6
Interest and debt expense, net	0.6	0.7	0.4
Income before income taxes	2.5	3.5	4.2
Income taxes	1.0	1.4	1.7
Net income	1.5%	2.1%	2.5%

FISCAL YEAR ENDED DECEMBER 28, 1996 COMPARED TO FISCAL YEAR ENDED DECEMBER 30, 1995

Revenue for the fiscal year 1996 was $1,283,801,000, an increase of $79,134,000, or 6.6%, over the 1995 fiscal year. The increase was primarily attributable to an increase in revenue miles (volume) of 6.5%, which included the revenue of the businesses acquired during the first quarter of 1995 for the full fifty-two weeks of 1996, and an increase of less than 1% in revenue per revenue mile (price). During the 1996 year, revenue generated through independent contractors, including railroads and air cargo carriers, was 90.4% of consolidated revenue compared with 88.5% in the 1995 year.

Purchased transportation was 69.0% of revenue in 1996 compared with 67.5% in 1995. Drivers' wages and benefits were 3.2% of revenue in 1996 compared with 4.0% in 1995. Fuel and other operating costs were 5.5% of revenue in 1996 compared with 5.6% in 1995. The increase in purchased transportation and decrease in drivers' wages and benefits and fuel and other operating costs as a percentage of revenue was primarily attributable to an increase in the percentage of revenue generated through independent contractors. The decrease in fuel and other operating costs was partially offset by an increase in fuel prices. Insurance and claims were 2.8% of revenue in 1996 compared with 3.1% in 1995 due to a decrease in third-party premiums and favorable development of prior year claims. Commissions to agents and brokers were 6.8% of revenue in 1996 compared with 6.2% in 1995 due to an increase in the percentage of revenue generated through independent commission sales agents which reflected the conversion of company-owned sales locations to independent commission sales agent locations. Selling, general and administrative costs were 7.1% of revenue in 1996 compared with 7.7% of revenue in 1995, primarily due to a lower provision for customer bad debts, reduced employee sales costs which reflected the conversion of company-owned sales locations to independent commission sales agent locations and the effect of increased revenue.

On December 18, 1996, the Company announced a plan to restructure its Landstar T.L.C and Landstar Poole operations, in addition to the relocation of its Shelton, Connecticut corporate office headquarters to Jacksonville, Florida in the second quarter of 1997. During the 1996 fourth quarter, the Company recorded $7,263,000 in restructuring costs, which included approximately $4,166,000 for impairment of certain long-lived assets, $939,000 for the early termination of certain operating leases, $850,000 for employee termination costs and $1,308,000 of other costs. Long-lived assets, having an aggregate carrying value of $16,500,000, were reduced to their estimated sales value and primarily represented revenue equipment to be sold. The Company anticipates to incur additional pre-tax restructuring costs of approximately $2,200,000 during the 1997 first half.

Interest and debt expense, net was 0.6% of revenue in 1996 and 0.7% in 1995. This decrease was primarily attributable to the effect of increased revenue.

The provisions for income taxes for both the 1996 and 1995 fiscal years were based on an effective income tax rate of approximately 41%, which is 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. At December 28, 1996, the valuation allowance of $816,000 was attributable to deferred state income tax benefits, primarily state operating loss carryforwards at one subsidiary. The valuation allowance and goodwill were reduced by $190,000 for state operating loss carryforwards utilized in 1996. The valuation allowance was reduced by an additional $265,000 for state operating loss carryforwards that had expired. The valuation allowance and goodwill will be further reduced by $788,000 when realization of deferred state income tax benefits becomes likely. The Company believes that deferred income tax benefits, net of the valuation allowance, are more likely than not to be realized because of the Company's ability to generate future taxable earnings.

Net income was $18,925,000, or $1.48 per share, in 1996 compared with $24,962,000, or $1.95 per share, in the prior year. Excluding restructuring costs, 1996 net income would have been $23,174,000, or $1.81 per share. If the acquisitions had taken place at the beginning of 1995, pro forma net income for 1995 would have been $24,352,000, or $1.90 per share.

FISCAL YEAR ENDED DECEMBER 30, 1995 COMPARED TO FISCAL YEAR ENDED DECEMBER 31, 1994

Revenue for the fiscal year 1995 was $1,204,667,000, an increase of $220,308,000, or 22.4%, over the 1994 fiscal year. Revenue from the acquired businesses of ITCO, TLC and Express accounted for $198,926,000 of the increase.

The remaining increase of $21,382,000, or 2.2%, was attributable to an increase in revenue miles of approximately 1% and an increase in revenue per revenue mile of approximately 1%. During the 1995 year, revenue generated through independent contractors, including railroads and air cargo carriers, was 88.5% of consolidated revenue compared with 87.8% in the 1994 year.

Purchased transportation was 67.5% of revenue in 1995 compared with 66.3% in 1994. Drivers' wages and benefits were 4.0% of revenue in 1995 compared with 3.9% in 1994. Fuel and other operating costs were 5.6% of revenue in 1995 compared with 5.5% in 1994. The increase in purchased transportation as a percentage of revenue was primarily attributable to the purchased transportation incurred by the intermodal operations of Landstar Logistics which reflected the higher cost of intermodal purchased transportation. The increase in drivers' wages and benefits as a percentage of revenue was primarily attributable to the acquisition of TLC and the increase in Landstar Poole's driver pay package, partially offset by the increase in the percentage of revenue generated through independent contractors. The increase in fuel and other operating costs as a percentage of revenue was primarily attributable to the acquisition of TLC. Insurance and claims were 3.1% of revenue in 1995 compared with 3.6% in 1994. Excluding the 1995 revenue and insurance and claims of the intermodal operations of Landstar Logistics, which has a significantly lower risk of claims exposure due to the nature of its intermodal operations, insurance and claims as a percentage of revenue were 3.4% in 1995 versus 3.6% in 1994. This percentage decrease was primarily attributable to a decrease in the severity of accidents and a decrease in third-party premiums as a percentage of revenue. Commissions to agents and brokers were 6.2% of revenue in 1995 compared with 6.3% in 1994. The decrease was primarily attributable to an increase in the percentage of revenue generated through company store locations and employees, which reflected the sales structure of the acquired companies. No bonuses were accrued under the Company's management incentive compensation plan for the 1995 year. As a result, selling, general and administrative costs were 7.7% of revenue in 1995 compared with 8.4% of revenue in 1994.

Interest and debt expense, net was 0.7% of revenue in 1995 and 0.4% in 1994. This increase was primarily attributable to borrowings to finance the acquisitions.

The provisions for income taxes for the 1995 and 1994 fiscal years were based on an effective income tax rate of approximately 41%, which is higher than the statutory federal income tax rate primarily as a result of state income taxes, amortization of certain goodwill and the meals and entertainment exclusion.

Net income was $24,962,000, or $1.95 per share, in 1995 compared with $24,407,000, or $1.90 per share, in the prior year. If the acquisitions had taken place at the beginning of both fiscal years, pro forma net income for 1995 would have been $24,352,000, or $1.90 per share, compared to $22,876,000, or $1.78 per share in 1994.

CAPITAL RESOURCES AND LIQUIDITY

Landstar has a credit facility with a syndicate of banks and Chase Manhattan Bank, as agent (the "Credit Agreement"). The Credit Agreement provides $150,000,000 of borrowing capacity, consisting of $100,000,000 of revolving credit (the "Working Capital Facility") and $50,000,000 of revolving credit available to finance acquisitions (the "Acquisition Facility"). $50,000,000 of the total borrowing capacity under the Working Capital Facility may be utilized

in the form of letter of credit guarantees. At December 28, 1996, Landstar had no borrowings outstanding under the Working Capital Facility, $28,500,000 outstanding under the Acquisition Facility and had commitments for letters of credit outstanding in the amount of $20,459,000, primarily as collateral for estimated insurance claims. The Credit Agreement expires on October 7, 2000, and may be extended to October 7, 2002 upon Landstar's request and bank approval.

Borrowings under the 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 Chase Manhattan 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 Chase Manhattan 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 certain financial ratios. As of December 28, 1996, the margin was equal to 1/2 of 1%. The unused portion of the Credit Agreement carries a commitment fee determined based on the level of certain financial ratios. As of December 28, 1996, the commitment fee for the unused portion of the Credit Agreement was 0.200%. At December 28, 1996, the weighted average interest rate on borrowings outstanding under the Acquisition Facility was 6.09%. Based on the borrowing rates in the Credit Agreement and the repayment terms, the fair value of the outstanding borrowings under the Acquisition Facility were estimated to approximate carrying value.

The Credit Agreement contains a number of covenants that limit, among other things, the payment of dividends, the incurrence of additional indebtedness, the incurrence of operating or capital lease obligations and the purchase of operating property. The Credit Agreement also requires Landstar to meet certain financial tests. Landstar is required to, among other things, maintain minimum levels of Net Worth, as defined in the Credit Agreement, and Interest and Fixed Charge Coverages, as therein defined. Under the most restrictive covenant, Landstar exceeded the required minimum Interest Charge Coverage level by approximately $2,345,000 at December 28, 1996. The Credit Agreement limits the payment of dividends in any fiscal year to the lesser of 50% of Excess Cash Flow, as therein defined, or 25% of Consolidated Net Income, as therein defined.

The Credit Agreement provides a number of events of default related to a person or group of persons acquiring 25% or more of the outstanding capital stock of the Company or obtaining the power to elect a majority of the Company's directors. Borrowings under the Credit Agreement are unsecured, however, the Company and each of LSHI's subsidiaries guarantee LSHI's obligations under the Credit Agreement.

Shareholders' equity increased to $147,557,000, or 62.0% of total capitalization, at December 28, 1996, compared with $128,396,000, or 57.8% of total capitalization, at December 30, 1995, primarily as a result of earnings for the period. Working capital and the ratio of current assets to current liabilities were $70,653,000 and 1.54 to 1, respectively, at December 28, 1996, compared with $51,360,000 and 1.40 to 1, respectively, at December 30, 1995. Landstar has historically operated with current ratios ranging between 1.0 to 1 and 1.5 to 1. Cash provided by operating activities was $24,994,000 in 1996 compared with $19,963,000 in 1995. The increase in cash provided by operating activities was primarily attributable to the timing of payments, partially offset by reduced earnings. During the 1996 fiscal year, Landstar purchased $12,853,000 of operating property and acquired $20,690,000 of operating

property by entering into capital leases. Landstar plans to acquire approximately $15,000,000 of operating property during fiscal year 1997 either by purchase or by lease financing.

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.

Landstar Ranger is subject to the Multi Employer Pension Plan Amendments Act of 1980 ("MEPPA"), which could require Landstar Ranger, in the event of withdrawal, to fund its proportionate share of the union sponsored plans', in which it participates, unfunded benefit obligation. However, management believes that the liability, if any, for withdrawal from any or all of these plans would 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 believes that cash flow from operations combined with its borrowing capacity under the 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 are typically lower than the quarters ending June, September and December due to reduced shipments and higher operating costs in the winter months.

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

	December 28, 1996	December 30, 1995
ASSETS		
Current assets:		
Cash	$ 4,187	$ 3,415
Trade accounts receivable, less allowance of $6,526 and $6,923	176,892	151,009
Other receivables, including advances to independent contractors, less allowance of $4,390 and $4,205	10,740	13,359
Inventories	1,785	2,292
Prepaid expenses and other current assets	7,319	8,501
Total current assets	200,923	178,576
Operating property, less accumulated depreciation and amortization of $50,223 and $39,796	105,564	108,052
Goodwill, less accumulated amortization of $7,087 and $5,354	55,126	57,049
Deferred income taxes and other assets	9,188	9,402
Total assets	$370,801	$353,079
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Cash overdraft	$ 13,488	$ 13,449
Accounts payable	39,901	37,427
Current maturities of long-term debt	23,241	20,668
Estimated insurance claims	25,328	23,654
Other current liabilities	28,312	32,018
Total current liabilities	130,270	127,216
Long-term debt, excluding current maturities	67,155	73,199
Estimated insurance claims	25,819	24,031
Other liabilities		237
Shareholders' equity:		
Common stock, $.01 par value, authorized 20,000,000 shares, issued 12,882,874 shares and 12,871,674 shares	129	129
Additional paid-in capital	61,740	61,504
Retained earnings	87,655	68,730
Cost of 94,041 shares of common		

stock in treasury	(1,967)	(1,967)
Total shareholders' equity	147,557	128,396
Total liabilities and shareholders' equity	$370,801	$353,079

See accompanying notes to consolidated financial statements.

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

	Fiscal Year Ended		
	December 28, 1996	December 30, 1995	December 31, 1994
Revenue	$ 1,283,801	$ 1,204,667	$ 984,359
Costs and expenses:			
Purchased transportation	885,500	813,003	653,076
Drivers' wages and benefits	41,210	47,970	38,287
Fuel and other operating costs	70,207	67,861	53,627
Insurance and claims	36,495	37,816	35,413
Commissions to agents and brokers	87,935	73,974	61,542
Selling, general and administrative	91,267	93,194	83,143
Depreciation and amortization	24,027	20,841	13,509
Restructuring costs	7,263		
Total costs and expenses	1,243,904	1,154,659	938,597
Operating income	39,897	50,008	45,762
Interest and debt expense, net	7,547	7,552	4,134
Income before income taxes	32,350	42,456	41,628
Income taxes	13,425	17,494	17,221
Net income	$ 18,925	$ 24,962	$ 24,407
Earnings per share	$ 1.48	$ 1.95	$ 1.90
Average number of common shares outstanding	12,785,000	12,807,000	12,848,000

See accompanying notes to consolidated financial statements.

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

	Fiscal Year Ended		
	December 28, 1996	December 30, 1995	December 31, 1994
OPERATING ACTIVITIES			
Net income	$ 18,925	$ 24,962	$ 24,407
Adjustments to reconcile net income to net cash provided by operating activities:			
Impairment of long-lived assets	4,166		
Depreciation and amortization of operating property	21,878	18,824	12,612
Amortization of goodwill and non-competition agreements	2,149	2,017	897
Non-cash interest charges	264	253	366
Provisions for losses on trade and other receivables	4,768	6,232	3,575

Losses (gains) on sales of operating property	(2,530)	(2,080)	185
Deferred income taxes, net	355	(419)	(1,540)
Non-cash charge in lieu of income taxes	190		
Changes in operating assets and liabilities, net of businesses acquired:			
Increase in trade and other accounts receivable	(28,032)	(14,417)	(29,237)
Decrease (increase) in other assets	868	(2,635)	(2,170)
Increase (decrease) in accounts payable	2,474	(2,928)	5,673
Increase in estimated insurance claims	3,462	7,179	7,875
Increase (decrease) in other liabilities	(3,943)	(17,025)	13,707
NET CASH PROVIDED BY OPERATING ACTIVITIES	24,994	19,963	36,350
INVESTING ACTIVITIES			
Purchases of businesses, net of cash acquired		(33,932)	
Purchases of operating property	(12,853)	(7,286)	(7,491)
Proceeds from sales of operating property	12,517	7,154	2,460
NET CASH USED BY INVESTING ACTIVITIES	(336)	(34,064)	(5,031)
FINANCING ACTIVITIES			
Borrowings to finance businesses acquired		45,900	
Borrowings under revolving credit facility	16,000	10,000	
Increase in cash overdraft	39	4,029	280
Proceeds from exercise of stock options and related income tax benefit	236		
Purchases of common stock		(1,727)	
Principal payments on borrowings under revolving credit facility, long-term debt and capital lease obligations	(40,161)	(58,441)	(28,964)
NET CASH USED BY FINANCING ACTIVITIES	(23,886)	(239)	(28,684)
Increase (decrease) in cash	772	(14,340)	2,635
Cash at beginning of period	3,415	17,755	15,120
Cash at end of period	$ 4,187	$ 3,415	$ 17,755

See accompanying notes to consolidated financial statements.

LANDSTAR SYSTEM INC., AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Fiscal Year Ended December 28, 1996,
December 30, 1995 and December 31, 1994
(Dollars in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock at Cost Shares	Treasury Stock at Cost Amount	Total
Balance December 25, 1993	12,871,674	$ 129	$61,504	$19,361	24,041	$ (240)	$ 80,754
Net income				24,407			24,407
Balance December 31, 1994	12,871,674	129	61,504	43,768	24,041	(240)	105,161
Net income				24,962			24,962
Purchases of common stock					70,000	(1,727)	(1,727)
Balance December 30, 1995	12,871,674	129	61,504	68,730	94,041	(1,967)	128,396
Net income				18,925			18,925
Exercise of stock options and related income tax benefit	11,200		236				236
Balance December 28, 1996	12,882,874	$ 129	$61,740	$87,655	94,041	$ (1,967)	$147,557

See accompanying notes to consolidated financial statements.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Significant Accounting Policies

Consolidation
The consolidated financial statements include the accounts of Landstar System, Inc. and its subsidiary Landstar System Holdings, Inc. Landstar System, Inc. and its subsidiary are herein referred to as "Landstar" or the "Company". Significant inter-company accounts have been eliminated in consolidation. The preparation of the consolidated financial statements requires the use of management's estimates. Actual results could differ from those estimates.

Fiscal Year
Landstar's fiscal year is the 52 or 53 week period ending the last Saturday in December.

Revenue Recognition
Revenue and the related direct freight expenses are recognized upon completion of freight delivery.

Insurance Claim Costs
Landstar provides, on an actuarially determined basis, for the estimated costs of cargo, property, casualty, general liability and workers' compensation claims both reported and for claims incurred but not reported. Landstar retains liability up to $1,000,000 for each individual property, casualty and general liability claim, $500,000 for each workers' compensation claim and $250,000 for each cargo claim.

Inventories
Inventories, consisting of fuel, tires and vehicle repair parts, are valued at the lower of average cost or market.

Tires
Tires and tubes purchased as part of revenue equipment are capitalized as part of the cost of the equipment. Replacement tires and tubes are charged to expense when placed in service.

Operating Property
Operating property is recorded at cost. Depreciation is provided on the straight-line basis over the estimated useful lives of the related assets. Revenue equipment is being depreciated over a maximum of 7 years.

Goodwill
Goodwill represents the excess of purchase cost over the estimated fair value of net assets acquired. It is being amortized on a straight-line basis over periods of twenty and forty years. The Company assesses the recoverability of goodwill by determining whether the amortization of the goodwill balance over its remaining useful life can be recovered through projected undiscounted future operating cash flows. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's current average cost of funds.

Income Taxes
Income tax expense is equal to the current year's liability for income taxes

and a provision for deferred income taxes. Deferred tax assets and liabilities are recorded for the future tax effects attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Stock-Based Compensation
Compensation cost for the Company's stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the exercise price of the stock option.

Earnings Per Share
Earnings per share amounts are based on the weighted average number of common shares outstanding.

(2) Restructuring Costs

On December 18, 1996, the Company announced a plan to restructure its Landstar T.L.C., Inc. ("Landstar T.L.C.") and Landstar Poole, Inc. ("Landstar Poole") operations, in addition to the relocation of its Shelton, Connecticut corporate office headquarters to Jacksonville, Florida, in the second quarter of 1997.

The plan to restructure Landstar T.L.C. includes the merger of Landstar T.L.C. into Landstar Inway, Inc., the closing of the Landstar T.L.C. headquarters in St. Clair, Missouri and the disposal of all of Landstar T.L.C.'s company-owned tractors. The plan to restructure Landstar Poole includes the transfer of the variable cost business component of Landstar Poole to Landstar Ranger, Inc. ("Landstar Ranger") and the disposal of 175 Landstar Poole company-owned tractors.

During the 1996 fourth quarter, the Company recorded $7,263,000 in restructuring costs, which included $4,166,000 for the impairment of certain long-lived assets, $939,000 for the early termination of certain operating leases, $850,000 for employee termination costs and $1,308,000 of other costs. Long-lived assets, having an aggregate carrying value of $16,500,000, were reduced to their estimated sales value and primarily represented revenue equipment to be sold. After deducting related income tax benefits of $3,014,000, the restructuring charge reduced net income by $4,249,000, or $0.33 per share, in 1996. The Company anticipates to complete the restructuring by the end of fiscal year 1997 and to incur additional pre-tax restructuring costs of approximately $2,200,000.

(3) Acquisitions

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

the four acquisitions, including expenses, was $34,076,000, plus the assumption of $24,162,000 of long-term indebtedness, including current maturities.

The aggregate purchase price and a portion of the indebtedness assumed was paid or refinanced with proceeds received from $34,500,000 of borrowings under the acquisition line of Landstar's revolving credit facility, $11,400,000 of borrowings from Fleet Bank, N.A. and Mark Twain Bank, and available cash.

The acquisitions were accounted for under the purchase method and the net assets acquired and the results of operations of the four acquisitions were included in Landstar's consolidated financial statements from their respective dates of acquisition. The aggregate purchase price was allocated to the assets acquired, including $22,036,000 of operating property, and the liabilities assumed based on their respective estimated fair values. The aggregate purchase price exceeded the fair value of the net assets acquired by $27,415,000 of which $1,200,000 was assigned to non-competition agreements and $26,215,000 was assigned to goodwill. The non-competition agreements are being amortized on the straight-line method over the two and three year lives of the agreements, and goodwill is being amortized on the straight-line method over periods of twenty and forty years.

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

	Fiscal Year	
	1995	1994
Revenue	$1,214,267	$1,195,582
Net income	$ 24,352	$ 22,876
Earnings per share	$ 1.90	$ 1.78

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

(4) Income Taxes

The provisions for income taxes consisted of the following (in thousands):

	Fiscal Year		
	1996	1995	1994
Current:			
Federal	$10,830	$14,838	$16,121
State	2,050	3,075	2,640
	12,880	17,913	18,761
Deferred:			
Federal	869	413	(1,553)
State	(514)	(832)	13
	355	(419)	(1,540)
Non-cash charge in lieu of income taxes	190		
Provision for income taxes	$13,425	$17,494	$17,221

Temporary differences and carryforwards which gave rise to deferred tax assets and liabilities consisted of the following (in thousands):

	Dec. 28, 1996	Dec. 30, 1995
Deferred tax assets:		
Allowance for doubtful accounts	$ 3,750	$ 3,954
Deferred state income tax benefits	812	992
State net operating loss carryforwards	3,235	2,943
Self insured claims	20,294	19,570
Compensated absences	620	630
All other	1,245	837
	29,956	28,926
Valuation allowance	(816)	(1,271)
	$ 29,140	$ 27,655
Deferred tax liabilities:		
Operating property	$ 20,254	$ 18,482
All other	4,470	4,402
	$ 24,724	$ 22,884

At December 28, 1996, the valuation allowance of $816,000 was attributable to deferred state income tax benefits, primarily state operating loss carry-forwards at one subsidiary. The valuation allowance and goodwill were reduced by $190,000 for state operating loss carryforwards utilized in 1996. The valuation allowance was reduced by an additional $265,000 for state operating loss carryforwards that had expired. The valuation allowance and goodwill will be further reduced by $788,000 when realization of deferred state income tax benefits becomes likely.

The following table summarizes the differences between income taxes calculated at the federal income tax rate of 35% on income before income taxes and the provision for income taxes (in thousands):

	Fiscal Year		
	1996	1995	1994
Income taxes at federal income tax rate	$11,323	$14,860	$14,570
State income taxes, net of federal income tax benefit	1,122	1,458	1,724
Amortization of goodwill	439	420	314
Meals and entertainment exclusion	448	647	452
Other, net	93	109	161
Provision for income taxes	$13,425	$17,494	$17,221

Landstar paid income taxes of $15,949,000 in 1996, $19,679,000 in 1995, and $16,407,000 in 1994.

(5) Operating Property

Operating property is summarized as follows (in thousands):

	Dec. 28, 1996	Dec. 30, 1995
Land	$ 2,309	$ 2,947
Leasehold improvements	366	373
Buildings and improvements	10,937	8,387
Revenue equipment	125,124	123,258
Other equipment	17,051	12,883
	155,787	147,848
Less accumulated depreciation and amortization	50,223	39,796
	$105,564	$108,052

Included above is $110,936,000 in 1996 and $93,616,000 in 1995 of operating property under capital lease, $74,792,000 and $69,114,000, respectively, net of accumulated amortization. Landstar acquired operating property by entering into capital leases in the amount of $20,690,000 in 1996, $28,566,000 in 1995 and $24,570,000 in 1994.

(6) Pension Plans

Landstar sponsors an Internal Revenue Code section 401(k) defined contribution plan for the benefit of full time employees who have completed one year of service. Eligible employees make voluntary contributions up to 6% of their base salary subject to certain limitations. Landstar contributes an amount equal to 50% of such contributions, subject to certain limitations. In addition, one subsidiary, Landstar Ranger, makes contributions in accordance with negotiated labor contracts (generally based on the number of weeks worked) to union sponsored multi-employer defined benefit pension plans for the benefit of approximately 200 union drivers.

Landstar Ranger is subject to the Multi Employer Pension Plan Amendments Act of 1980 ("MEPPA"), which could require Landstar Ranger, in the event of withdrawal, to fund its proportionate share of these union sponsored plans' unfunded benefit obligation. Management believes that the liability, if any, for withdrawal from any or all of these plans would 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.

The expense for the Company sponsored defined contribution plan and for union sponsored plans was $1,144,000 and $1,085,000 in 1996, respectively, $1,185,000 and $937,000 in 1995, respectively, and $1,012,000 and $1,268,000 in 1994, respectively.

(7) Debt

Long-term debt is summarized as follows (in thousands):

	Dec. 28, 1996	Dec. 30, 1995
Capital leases	$61,896	$65,367
Acquisition Facility	28,500	28,500

	90,396	93,867
Less current maturities	23,241	20,668
Total long-term debt	$67,155	$73,199

Landstar has a credit facility with a syndicate of banks and Chase Manhattan Bank, as agent (the "Credit Agreement"). The Credit Agreement provides $150,000,000 of borrowing capacity, consisting of $100,000,000 of revolving credit (the "Working Capital Facility") and $50,000,000 of revolving credit available to finance acquisitions (the "Acquisition Facility"). $50,000,000 of the total borrowing capacity under the Working Capital Facility may be utilized in the form of letter of credit guarantees. At December 28, 1996, Landstar had commitments for letters of credit outstanding in the amount of $20,459,000, primarily as collateral for estimated insurance claims. The Credit Agreement expires on October 7, 2000, and may be extended to October 7, 2002 upon Landstar's request and bank approval.

Borrowings under the 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 Chase Manhattan 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 Chase Manhattan 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 certain financial ratios. As of December 28, 1996, the margin was equal to 1/2 of 1%. The unused portion of the Credit Agreement carries a commitment fee determined based on the level of certain financial ratios. As of December 28, 1996, the commitment fee for the unused portion of the Credit Agreement was 0.200%. At December 28, 1996, the weighted average interest rate on borrowings outstanding under the Acquisition Facility was 6.09%. Based on the borrowing rates in the Credit Agreement and the repayment terms, the fair value of the outstanding borrowings under the Acquisition Facility was estimated to approximate carrying value.

The Credit Agreement contains a number of covenants that limit, among other things, the payment of dividends, the incurrence of additional indebtedness, the incurrence of operating or capital lease obligations and the purchase of operating property. The Credit Agreement also requires Landstar to meet certain financial tests. Landstar is required to, among other things, maintain minimum levels of Net Worth, as defined in the Credit Agreement, and Interest and Fixed Charge Coverages, as therein defined. Under the most restrictive covenant, Landstar exceeded the required minimum Interest Charge Coverage level by approximately $2,345,000 at December 28, 1996. The Credit Agreement limits the payment of dividends in any fiscal year to the lesser of 50% of Excess Cash Flow, as therein defined, or 25% of Consolidated Net Income, as therein defined.

The Credit Agreement provides a number of events of default related to a person or group of persons acquiring 25% or more of the outstanding capital stock of the Company or obtaining the power to elect a majority of the Company's directors.

Borrowings under the Credit Agreement are unsecured, however, the Company and each of LSHI's subsidiaries guarantee LSHI's obligations under the Credit Agreement.

The amount outstanding on the Acquisition Facility is payable upon expiration of the Credit Agreement. There are no other installments of long-term debt, excluding capital lease obligations, maturing in the next five years.

Landstar paid interest of $7,180,000 in 1996, $7,359,000 in 1995 and $4,286,000 in 1994.

(8) Leases

The future minimum lease payments under all noncancellable leases at December 28, 1996, principally for revenue equipment, are shown in the following table (in thousands):

	Capital Leases	Operating Leases
1997	$26,920	$ 2,762
1998	20,889	1,762
1999	12,833	1,266
2000	6,828	540
2001	1,680	282
Thereafter		209
	69,150	$ 6,821
Less amount representing interest (6.0% to 10.7%)	7,254	
Present value of minimum lease payments	$61,896	

Total rent expense, net of sublease income, was $16,778,000 in 1996, $16,127,000 in 1995 and $14,779,000 in 1994.

(9) Stock Option Plans

The Company maintains two stock option plans. Under the 1993 Stock Option Plan (the "Plan"), the Compensation Committee of the Board of Directors may grant options to Company employees for up to 615,000 shares of common stock. Under the 1994 Directors Stock Option Plan (the "DSOP"), outside members of the Board of Directors will be granted up to an aggregate of 120,000 options to purchase common stock. Under the DSOP, each outside Director will be granted 12,000 options to purchase common stock upon election or re-election to the Board of Directors.

Options granted become exercisable in five equal annual installments under the Plan and three equal annual installments under the DSOP, commencing on the first anniversary of the date of grant, subject to acceleration in certain circumstances, and expire on the tenth anniversary of the date of grant. Under the plans, the exercise price of each option equals the market price of the Company's stock on the date of grant. At December 28, 1996, there were 723,800 shares of the Company's stock reserved for issuance upon exercise of options granted under the plans.

Information regarding the Company's stock option plans is as follows:

	Options Outstanding		Options Exercisable	
	Shares	Weighted Average Exercise Price Per Share	Shares	Weighted Average Exercise Price Per Share
Options at December 25, 1993	186,000	$ 18.33		
Granted	203,000	$ 25.50		
Options at December 31, 1994	389,000	$ 22.07	37,200	$ 18.33
Granted	212,000	$ 30.06		
Forfeited	(1,500)	$ 25.50		
Options at December 30, 1995	599,500	$ 24.89	121,100	$ 21.10
Granted	35,000	$ 27.53		
Exercised	(11,200)	$ 18.50		
Forfeited	(110,400)	$ 26.94		
Options at December 28, 1996	512,900	$ 24.77	201,000	$ 23.10

The fair value of each option grant on its grant date was calculated using the Black-Scholes option pricing model with the following assumptions for grants made in 1996 and 1995: expected volatility of 39%, risk free interest rate of 6.0%, expected lives of 5 years and no dividend yield. The weighted average grant date fair value of stock options granted was $12.06 and $13.20 per share in 1996 and 1995, respectively.

The following table summarizes stock options outstanding at December 28,1996:

	Options Outstanding		
Range of Exercise Prices Per Share	Number Outstanding Dec. 28, 1996	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price Per Share
$14.625 - $21.50	143,000	7.0	$ 18.47
$21.50 - $32.25	369,900	8.5	$ 27.20
$14.625 - $32.25	512,900	8.1	$ 24.77

	Options Exercisable	
Range of Exercise Prices Per Share	Number Exercisable Dec. 28, 1996	Weighted Average Exercise Price Per Share
$14.625 - $21.50	84,600	$ 18.47
$21.50 - $32.25	116,400	$ 26.46
$14.625 - $32.25	201,000	$ 23.10

The Company accounts for its stock option plans using the intrinsic value method as prescribed in Accounting Principal Board Opinion No. 25, Accounting for Stock Issued to Employees. Had compensation cost for the Company's stock option plans been determined using the fair value at grant date method as prescribed by Financial Accounting Standards Board Statement No. 123, Accounting for Stock-based Compensation, the effect on net income and earnings per share for fiscal years 1996 and 1995 would not have been material.

(10) Shareholders' Equity

The Company has 2,000,000 shares of preferred stock authorized and unissued. Under the terms of a Shareholder Rights Agreement (the "Agreement"), a preferred stock purchase right (the "Right") accompanies each outstanding share of common stock. Each Right entitles the holder to purchase from the Company one one-hundredth of a share of preferred stock at an exercise price of $60. Within the time limits and under the circumstances specified in the Agreement, the Rights entitle the holder to acquire shares of common stock in the Company, or the surviving Company in a business combination, having a value of two times the exercise price. The Rights may be redeemed prior to becoming exercisable by action of the Board of Directors at a redemption price of $.01 per Right. The Rights expire February 10, 2003. Until a Right is exercised, it has no rights including, without limitation, the right to vote or to receive dividends.

(11) Commitments and Contingencies

Landstar is involved in certain 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 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.

Independent Auditors' Report
- ----------------------------
Landstar System, Inc. and Subsidiary

The Board of Directors and Shareholders
Landstar System, Inc.:

We have audited the accompanying consolidated balance sheets of Landstar System, Inc. and subsidiary as of December 28, 1996 and December 30, 1995, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the fiscal years ended December 28, 1996, December 30, 1995, and December 31, 1994. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Landstar System, Inc. and subsidiary as of December 28, 1996 and December 30, 1995, and the results of their operations and their cash flows for the fiscal years ended December 28, 1996, December 30, 1995 and December 31, 1994, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Stamford, Connecticut
February 12, 1997

LANDSTAR SYSTEM, INC. AND SUBSIDIARY
QUARTERLY FINANCIAL DATA
(Dollars in thousands, except per share amounts)

	Fourth Quarter 1996 (1)	Third Quarter 1996	Second Quarter 1996	First Quarter 1996
Revenue	$329,017	$330,195	$329,112	$295,477
Operating income	$ 3,185	$ 15,261	$ 14,118	$ 7,333
Income before income taxes	$ 1,547	$ 13,325	$ 12,067	$ 5,411
Income taxes	484	5,631	5,053	2,257
Net income	$ 1,063	$ 7,694	$ 7,014	$ 3,154
Net income per share	$ 0.08	$ 0.60	$ 0.55	$ 0.25

	Fourth Quarter 1995	Third Quarter 1995	Second Quarter 1995	First Quarter 1995
Revenue	$302,132	$298,681	$308,148	$295,706
Operating income	$ 10,792	$ 14,166	$ 15,352	$ 9,698
Income before income taxes	$ 8,891	$ 12,185	$ 13,210	$ 8,170
Income taxes	3,682	5,009	5,390	3,413
Net income	$ 5,209	$ 7,176	$ 7,820	$ 4,757
Net income per share	$ 0.41	$ 0.56	$ 0.61	$ 0.37

(1) Includes pre-tax restructuring costs of $7,263. After deducting related income tax benefits of $3,014, the restructuring charges reduced net income by $4,249, or $0.33 per share.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY
SELECTED CONSOLIDATED FINANCIAL DATA
(Dollars in thousands, except per share amounts)

	Fiscal Year				
	1996	1995	1994	1993	1992
Income Statement Data:					
Revenue	$1,283,801	$1,204,667	$984,359	$ 780,520	$672,450
Costs and expenses:					
Purchased transportation	885,500	813,003	653,076	500,368	426,137
Drivers' wages & benefits	41,210	47,970	38,287	37,124	35,354
Fuel and other operating costs	70,207	67,861	53,627	55,376	55,209
Insurance and claims	36,495	37,816	35,413	30,314	21,238
Commissions to agents and brokers	87,935	73,974	61,542	45,965	37,783
Selling, general and administrative	91,267	93,194	83,143	68,390(2)	62,019
Depreciation and amortization	24,027	20,841	13,509	12,759	11,839
Restructuring costs	7,263				
Total costs and expenses	1,243,904	1,154,659	938,597	750,296	649,579
Operating income	39,897	50,008	45,762	30,224	22,871
Interest and debt expense, net	7,547	7,552	4,134	5,711	9,701
Income before income taxes and extraordinary loss	32,350	42,456	41,628	24,513	13,170
Income taxes	13,425	17,494	17,221	10,955	6,820
Income before extraordinary loss	18,925	24,962	24,407	13,558	6,350
Extraordinary loss				(1,830)(3)	
Net income	$ 18,925(1)	$ 24,962	$24,407	$ 11,728	$ 6,350
Earnings per share:					
Income before extraordinary loss	$ 1.48(1)	$ 1.95	$ 1.90	$ 1.14 (2)	$ 0.67
Extraordinary loss				(0.15)(3)	
Net income	$ 1.48(1)	$ 1.95	$ 1.90	$ 0.99(2),(4)	$ 0.67

	Dec. 28, 1996	Dec. 30, 1995	Dec. 31, 1994	Dec. 25, 1993	Dec. 26, 1992
Balance Sheet Data:					
Total assets	$ 370,801	$ 353,079	$ 267,084	$ 219,412	$ 181,078
Long-term debt, including current maturities	90,396	93,867	43,680	48,074	68,307
Warrants					2,899
Shareholders' equity	147,557	128,396	105,161	80,754	29,857

(1) After deducting related income tax benefits of $3,014, the restructuring charges reduced net income by $4,249, or $0.33 per share.

(2) Included in selling, general and administrative costs in 1993 are one-time charges in the amount of $1,200 for the termination of consulting and management services agreements with two parties in interest. After deducting related income tax benefits of $504, these charges reduced earnings per share by $.06 per share.

(3) Represents the after-tax loss on the early extinguishment of the Company's 14% senior subordinated notes.

(4) If the initial public offering and the redemption of the Company's 14% senior subordinated notes had taken place at the beginning of 1993, net income per share for 1993 would have been $1.16.

EXHIBIT 21.1

LIST OF SUBSIDIARY CORPORATIONS OF LANDSTAR SYSTEM, INC.

Name	Jurisdiction of Incorporation	% of Voting Securities Owned
Subsidiary of Landstar System, Inc.:		
Landstar System Holdings, Inc.	Delaware	100
Subsidiaries of Landstar System Holdings, Inc.:		
Landstar Express America, Inc.	Delaware	100
Landstar Inway, Inc. Also d/b/a Inway Nationwide Transportation Services	Delaware	100
Landstar Logistics, Inc.	Delaware	100
Landstar Ligon, Inc. Also d/b/a Ligon Contract Services in Kentucky	Delaware	100
Landstar Poole, Inc.	Alabama	100
Landstar Ranger, Inc. Also d/b/a Ranger/Landstar, Inc. in South Carolina	Delaware	100
Risk Management Claim Services, Inc. Also d/b/a RMCS, Inc. in Alabama and California	Kentucky	100

Landstar Contractor Financing, Inc.	Delaware	100
Landstar Capacity Services, Inc.	Delaware	100

Subsidiary of Landstar Gemini, Landstar Inway,
Landstar Ligon, Landstar Poole and Landstar Ranger:

Landstar Corporate Services, Inc.	Delaware	100

Subsidiary of Landstar Inway, Inc.

Landstar T.L.C., Inc.	Delaware	100

Subsidiary of Landstar Logistics, Inc.

Landstar Gemini, Inc.	Delaware	100

Also d/b/a Gemini Transportation Services of
Greensburg, PA in Ontario and New Jersey
Also d/b/a GTSI Transportation Services in Ontario

Exhibit 23.1

Independent Auditors' Consent

The Board of Directors
Landstar System, Inc.:

We consent to incorporation by reference in the registration statements (No. 33-76340 and No 33-94304) on Form S-8 of Landstar System, Inc. of our reports dated February 12, 1997, relating to the consolidated balance sheets of Landstar System, Inc. and subsidiary as December 28, 1996 and December 30, 1995, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the fiscal years ended December 28, 1996, December 30, 1995, and December 31, 1994, and all related schedules, which reports appear in or are incorporated by reference in the December 28, 1996 annual report on Form 10-K of Landstar System, Inc.

KPMG Peat Marwick LLP

Stamford, Connecticut
March 17, 1997

Exhibit 24.1

POWER OF ATTORNEY

Landstar System, Inc.
Annual Report on Form 10-K
for fiscal year ended 12/28/96

KNOW ALL MEN BY THESE PRESENTS, that the undersigned does hereby make, constitute and appoint Henry H. Gerkens, and Michael L. Harvey, and each of them, with full power in each to act without the other, his true and lawful attorney-in-fact and agent, in his name, place and stead to execute on his behalf, as an officer and/or director of Landstar System, Inc. (the "Company"), the Annual Report on Form 10-K of the Company for the fiscal year ended December 28, 1996, and file the same with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission (the "SEC") pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Act"), and any and all other instruments which either of said attorneys-in-fact and agents deems necessary or advisable to enable the Company to comply with the Act, the rules, regulations and requirements of the SEC in respect thereof, giving and granting to each of said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing whatsoever necessary or appropriate to be done in and about the premises as fully to all intents as he might or could do if personally present at the doing thereof, with full power of substitution and resubstitution, hereby ratifying and confirming all that his said attorneys-in-fact and agents or substitutes may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand on the date indicated below.

David G. Bannister

David G. Bannister

DATED: March 4, 1997

POWER OF ATTORNEY

Landstar System, Inc.
Annual Report on Form 10-K
for fiscal year ended 12/28/96

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Commission (the "SEC") pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Act"), and any and all other instruments which either of said attorneys-in-fact and agents deems necessary or advisable to enable the Company to comply with the Act, the rules, regulations and requirements of the SEC in respect thereof, giving and granting to each of said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing whatsoever necessary or appropriate to be done in and about the premises as fully to all intents as he might or could do if personally present at the doing thereof, with full power of substitution and resubstitution, hereby ratifying and confirming all that his said attorneys-in-fact and agents or substitutes may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand on the date indicated below.

John B. Bowron

John B. Bowron

DATED: March 4, 1997

POWER OF ATTORNEY

Landstar System, Inc.
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for fiscal year ended 12/28/96

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IN WITNESS WHEREOF, the undersigned has hereunto set his hand on the date indicated below.

Ronald W. Drucker

Ronald W. Drucker

DATED: March 4, 1997

POWER OF ATTORNEY

Landstar System, Inc.
Annual Report on Form 10-K
for fiscal year ended 12/28/96

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IN WITNESS WHEREOF, the undersigned has hereunto set his hand on the date indicated below.

Arthur J. Fritz, Jr.

Arthur J. Fritz, Jr.

DATED: March 4, 1997

POWER OF ATTORNEY

Landstar System, Inc.
Annual Report on Form 10-K
for fiscal year ended 12/28/96

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IN WITNESS WHEREOF, the undersigned has hereunto set his hand on the date indicated below.

Merritt J. Mott

Merritt J. Mott

DATED: March 4, 1997

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This schedule contains summary financial information extracted from the Consolidated Balance Sheets at December 28, 1996 and the Consolidated Statements of Income for the fiscal year ended December 28, 1996 and is qualified in its entirety by reference to such financial statements.
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