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

FORM 10-Q

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

For the quarterly period ended **September 25, 2004**

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.)

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

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ☒ No ☐

The number of shares of the registrant's Common Stock, par value $0.01 per share, outstanding as of the close of business on October 22, 2004 was 30,315,430.

PART I

FINANCIAL INFORMATION

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Item 1. Financial Statements

The interim consolidated financial statements contained herein reflect all adjustments (all of a normal, recurring nature) which, in the opinion of management, are necessary for a fair statement of the financial condition, results of operations, cash flows and changes in shareholders' equity for the periods presented. They have been prepared in accordance with Rule 10-01 of Regulation S-X and do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. Operating results for the thirty nine weeks ended September 25, 2004 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 25, 2004.

These interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 2003 Annual Report on Form 10-K.

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

	Sept. 25, 2004	Dec. 27, 2003
ASSETS		
Current Assets		
Cash and cash equivalents	$ 68,173	$ 42,640
Short-term investments	32,865	30,890
Trade accounts receivable, less allowance of $4,564 and $3,410	287,241	219,039
Other receivables, including advances to independent contractors, less allowance of $4,725 and $4,077	13,228	13,196
Deferred income taxes and other current assets	17,425	14,936
Total current assets	418,932	320,701
Operating property, less accumulated depreciation and amortization of $63,780 and $58,480	69,567	67,639
Goodwill	31,134	31,134
Other assets	19,309	18,983
Total assets	$ 538,942	$ 438,457
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Cash overdraft	$ 20,576	$ 20,523
Accounts payable	119,961	71,713
Current maturities of long-term debt	8,322	9,434
Insurance claims	31,351	26,293
Other current liabilities	53,129	45,223
Total current liabilities	233,339	173,186
Long-term debt, excluding current maturities	76,772	82,022
Insurance claims	31,498	27,282
Deferred income taxes	12,709	13,452
Shareholders' Equity		
Common stock, $0.01 par value, authorized 80,000,000 and 50,000,000 shares, issued 32,724,160 and 31,816,860	327	318
Additional paid-in capital	40,307	18,382
Retained earnings	271,674	224,368
Cost of 2,490,930 and 1,809,930 shares of common stock in treasury	(127,151)	(100,150)
Accumulated other comprehensive income	52	182
Notes receivable arising from exercises of stock options	(585)	(585)
Total shareholders' equity	184,624	142,515
Total liabilities and shareholders' equity	$ 538,942	$ 438,457

See accompanying notes to consolidated financial statements.

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

	Thirty Nine Weeks Ended		Thirteen Weeks Ended	
	Sept. 25, 2004	Sept. 27, 2003	Sept. 25, 2004	Sept. 27, 2003
Revenue	$ 1,430,212	$ 1,162,574	$ 526,883	$ 406,772
Investment income	879	960	337	337
Costs and expenses:				
Purchased transportation	1,066,739	862,371	392,646	300,907
Commissions to agents	113,414	91,224	42,777	32,601
Other operating costs	27,313	27,571	8,537	9,731
Insurance and claims	46,751	32,187	13,297	10,026
Selling, general and administrative	87,831	81,004	30,643	30,668
Depreciation and amortization	10,220	9,558	3,654	3,213
Total costs and expenses	1,352,268	1,103,915	491,554	387,146
Operating income	78,823	59,619	35,666	19,963
Interest and debt expense	2,213	2,400	662	856
Income before income taxes	76,610	57,219	35,004	19,107
Income taxes	29,304	21,667	13,390	7,280
Net income	$ 47,306	$ 35,552	$ 21,614	$ 11,827
Earnings per common share	$ 1.58	$ 1.15	$ 0.72	$ 0.39
Diluted earnings per share	$ 1.53	$ 1.10	$ 0.70	$ 0.38
Average number of shares outstanding:				
Earnings per common share	30,001,000	31,002,000	30,218,000	30,155,000
Diluted earnings per share	30,827,000	32,193,000	30,954,000	31,287,000

See accompanying notes to consolidated financial statements.

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

	Thirty Nine Weeks Ended	
	Sept. 25, 2004	Sept. 27, 2003
OPERATING ACTIVITIES		
Net income	$ 47,306	$ 35,552
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of operating property	10,220	9,558
Non-cash interest charges	305	204
Provisions for losses on trade and other accounts receivable	4,978	3,789
Losses on sales and disposals of operating property	81	184
Director compensation paid in common stock	402	85
Income tax benefit on stock option exercises	7,289	3,371
Deferred income taxes, net	(743)	(92)
Changes in operating assets and liabilities:		
Increase in trade and other accounts receivable	(73,212)	(14,694)
Increase in other assets	(3,250)	(4,182)
Increase in accounts payable	48,248	16,424
Increase (decrease) in other liabilities	7,906	(844)
Increase in insurance claims	9,274	4,057
NET CASH PROVIDED BY OPERATING ACTIVITIES	58,804	53,412
INVESTING ACTIVITIES		
Net change in other short-term investments	(3,775)	(27,327)
Maturities of long-term investments	1,800	4,219
Purchases of long-term investments		(4,542)
Purchases of operating property	(4,669)	(3,258)
Proceeds from sales of operating property	820	1,078
NET CASH USED BY INVESTING ACTIVITIES	(5,824)	(29,830)
FINANCING ACTIVITIES		
Increase (decrease) in cash overdraft	53	(1,110)
Proceeds from repayment of notes receivable arising from exercises of stock options		433
Proceeds from exercises of stock options	14,243	8,295
Borrowings on revolving credit facility	71,000	33,000
Purchases of common stock	(27,001)	(73,844)
Principal payments on long-term debt and capital lease obligations	(85,742)	(21,238)
NET CASH USED BY FINANCING ACTIVITIES	(27,447)	(54,464)
Increase (decrease) in cash and cash equivalents	25,533	(30,882)
Cash and cash equivalents at beginning of period	42,640	65,447
Cash and cash equivalents at end of period	$ 68,173	$ 34,565

See accompanying notes to consolidated financial statements.

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LANDSTAR SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
Thirty Nine Weeks Ended September 25, 2004
(Dollars in thousands)
(Unaudited)

	Common Stock		Add'l Paid-In Capital	Retained Earnings	Treasury Stock at Cost		Accumulated Other Comprehensive Income	Notes Receivable Arising from Exercises of Stock Options	Total
	Shares	Amount			Shares	Amount			
Balance December 27, 2003	31,816,860	$ 318	$18,382	$224,368	1,809,930	$(100,150)	$ 182	$ (585)	$142,515
Net income				47,306					47,306
Purchases of common stock					681,000	(27,001)			(27,001)
Exercises of stock options and related income tax benefit	898,300	9	21,523						21,532
Director compensation paid in common stock	9,000		402						402
Unrealized loss on available- for-sale investments, net of income tax benefit							(130)		(130)
Balance September 25, 2004	32,724,160	$ 327	$40,307	$271,674	2,490,930	$(127,151)	$ 52	$ (585)	$184,624

See accompanying notes to consolidated financial statements.

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

The consolidated financial statements include the accounts of Landstar System, Inc. and its subsidiary, Landstar System Holdings, Inc., and reflect all adjustments (all of a normal, recurring nature) which are, in the opinion of management, necessary for a fair statement of the results for the periods presented. The preparation of the consolidated financial statements requires the use of management's estimates. Actual results could differ from those estimates. Landstar System, Inc. and its subsidiary are herein referred to as "Landstar" or the "Company."

(1) Capital Stock

At the May 13, 2004 annual meeting of shareholders, the shareholders of the Company approved an amendment to Article IV of the Company's Restated Certificate of Incorporation to increase the number of authorized shares of the Company's common stock from 50,000,000 shares to 80,000,000 shares.

(2) Litigation Settlement Agreement

On September 20, 2001, a suit was filed entitled Gulf Bridge RoRo, Inc. v. Landstar System, Inc., Landstar Logistics, Inc. and Ford Motor Co., Inc. in Federal District Court in Mobile, Alabama. The complaint alleged breach of contract, fraud and tortious interference with contractual business relationships against Landstar System, Inc. and Landstar Logistics, Inc. arising out of a contract between Landstar Logistics, Inc. and the plaintiff involving a trans-Gulf of Mexico roll-on/roll-off shipping venture developed by the plaintiff. The suit made claim for $25,000,000 for damages for breach of contract and $50,000,000 in punitive and other damages related to the fraud and tortious interference claims. Landstar denies all claims made by the plaintiff. In order to avoid the cost of protracted litigation, on September 9, 2003 Landstar entered into a comprehensive settlement agreement with the plaintiffs and Landstar's insurance carrier with respect to all claims asserted in this lawsuit. The total cost incurred, net of insurance recoveries, by Landstar to defend and settle this suit during 2003 was approximately $4,150,000, approximately $3,180,000 of which was incurred in the thirteen week period ended September 27, 2003. The settlement component, net of insurance recoveries, was $2,700,000. Net of related income tax benefits, the total costs to defend and settle this suit reduced Landstar's net income for the thirty nine and thirteen week periods ended September 27, 2003 by approximately $2,650,000, or $0.09 per common share ($0.08 per diluted share), and $2,030,000, or $0.07 per common share ($0.06 per diluted share), respectively.

(3) Indebtedness

On July 8, 2004, Landstar renegotiated its existing credit agreement with a syndicate of banks and JPMorgan Chase Bank, as administrative agent (the "Fourth Amended and Restated Credit Agreement"). The Fourth Amended and Restated Credit Agreement, which expires on July 8, 2009, provides $225,000,000 of borrowing capacity in the form of a revolving credit facility, $75,000,000 of which may be utilized in the form of letter of credit guarantees. The initial borrowing of $70,000,000 under the facility has been used to refinance the Company's prior credit facility, which has been terminated.

Borrowings under the Fourth Amended and Restated Credit Agreement bear interest at rates equal to, at the option of Landstar, either (i) the greatest of (a) the prime rate as publicly announced from time to time by JPMorgan Chase Bank, (b) the three month CD rate adjusted for statutory reserves and FDIC assessment costs plus 1% and (c) the federal funds effective rate plus 1/2%, or, (ii) the rate at the time offered to JPMorgan Chase Bank in the Eurodollar market for amounts and periods comparable to the relevant loan plus a margin that is determined based on the level of the Company's Leverage Ratio, as defined in the Fourth Amended and Restated Credit Agreement. The margin is subject to an increase of 0.125% if the aggregate amount outstanding under the Fourth Amended and Restated Credit Agreement exceeds 50% of the total borrowing capacity.

The unused portion of the Fourth Amended and Restated Credit Agreement carries a commitment fee determined based on the level of the Leverage Ratio, as therein defined. As of September 25, 2004, the commitment fee for the unused portion of the Fourth Amended and Restated Credit Agreement was 0.200%. At September 25, 2004, the weighted average interest rate on borrowings under the Fourth Amended and Restated Credit Agreement was 2.45%.

The Fourth Amended and Restated Credit Agreement contains a number of covenants that limit, among other things, the incurrence of additional indebtedness, the incurrence of operating or capital lease obligations and the purchase of operating property. The Fourth Amended and Restated Credit Agreement also requires Landstar to meet certain financial tests. Landstar is required to, among other things, maintain minimum levels of Consolidated Net Worth and Fixed Charge Coverage, as each is defined in the Fourth Amended and Restated Credit Agreement.

The Fourth Amended and Restated Credit Agreement provides for an event of default related to a person or group 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 Fourth Amended and Restated Credit Agreement are unsecured; however, Landstar System, Inc. and all but one of Landstar System Holdings, Inc.'s ("LSHI") subsidiaries guarantee LSHI's obligations under the Fourth Amended and Restated Credit Agreement.

(4) Income Taxes

The provisions for income taxes for the 2004 and 2003 thirty nine week and thirteen week periods were based on estimated full year combined effective income tax rates of approximately 38.3% and 38.0%, respectively, which are higher than the statutory federal income tax rate primarily as a result of state income taxes and the meals and entertainment exclusion.

(5) Earnings Per Share

Earnings per common share amounts are based on the weighted average number of common shares outstanding, and diluted earnings per share amounts are based on the weighted average number of common shares outstanding plus the incremental shares that would have been outstanding upon the assumed exercise of all dilutive stock options.

The following table provides a reconciliation of the average number of common shares outstanding used to calculate earnings per share to the average number of common shares and common share equivalents outstanding used in calculating diluted earnings per share (in thousands):

	Thirty Nine Weeks Ended		**Thirteen Weeks Ended**	
	Sept. 25, 2004	**Sept. 27, 2003**	**Sept. 25, 2004**	**Sept. 27, 2003**
Average number of common shares outstanding	30,001	31,002	30,218	30,155
Incremental shares from assumed exercises of stock options	826	1,191	736	1,132
Average number of common shares and common share equivalents outstanding	30,827	32,193	30,954	31,287

For the thirty nine week periods ended September 25, 2004 and September 27, 2003, there were options outstanding to purchase 65,000 and 2,000 shares of common stock, respectively, excluded from the calculations of diluted earnings per share because such options were antidilutive.

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For the thirteen week period ended September 25, 2004, there were 65,000 options outstanding to purchase shares of common stock excluded from the calculation of diluted earnings per share. For the thirteen week period ended September 27, 2003 there were no such options outstanding.

(6) Additional Cash Flow Information

During the 2004 thirty nine week period, Landstar paid income taxes and interest of $22,209,000 and $2,382,000, respectively. During the 2003 thirty nine week period, Landstar paid income taxes and interest of $15,288,000 and $2,593,000, respectively. Landstar acquired operating property by entering into capital leases in the amount of $8,380,000 in the 2004 thirty nine week period. The Company did not acquire any property by entering into capital leases in the 2003 thirty nine week period.

(7) Segment Information

The following tables summarize information about Landstar's reportable business segments as of and for the thirty nine and thirteen week periods ended September 25, 2004 and September 27, 2003 (in thousands):

	Thirty Nine Weeks Ended September 25, 2004				
	Carrier	Multimodal	Insurance	Other	Total
External revenue	$1,054,016	$353,794	$22,402		$1,430,212
Investment income			879		879
Internal revenue	32,425	4,026	24,206		60,657
Operating income	91,631	14,290	7,164	$(34,262)	78,823
Goodwill	20,496	10,638			31,134

	Thirty Nine Weeks Ended September 27, 2003				
	Carrier	Multimodal	Insurance	Other	Total
External revenue	$901,041	$240,551	$20,982		$1,162,574
Investment income			960		960
Internal revenue	14,852	2,418	25,277		42,547
Operating income	66,398	2,756	17,830	$(27,365)	59,619
Goodwill	20,496	10,638			31,134

	Thirteen Weeks Ended September 25, 2004				
	Carrier	Multimodal	Insurance	Other	Total
External revenue	$368,821	$150,507	$ 7,555		$526,883
Investment income			337		337
Internal revenue	21,150	580	6,334		28,064
Operating income	36,492	8,277	4,126	$(13,229)	35,666

	Thirteen Weeks Ended September 27, 2003				
	Carrier	Multimodal	Insurance	Other	Total
External revenue	$307,755	$ 91,911	$ 7,106		$406,772
Investment income			337		337
Internal revenue	5,823	912	7,164		13,899
Operating income	23,542	(235)	6,769	$(10,113)	19,963

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(8) Stock-Based Compensation

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

	Thirty Nine Weeks Ended		Thirteen Weeks Ended	
	Sept. 25, 2004	**Sept. 27, 2003**	**Sept. 25, 2004**	**Sept. 27, 2003**
Net income, as reported	$ 47,306	$ 35,552	$ 21,614	$ 11,827
Deduct:				
Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related income tax benefits	(3,060)	(2,528)	(944)	(858)
Pro forma net income	$ 44,246	$ 33,024	$ 20,670	$ 10,969
Earnings per common share:				
As reported	$ 1.58	$ 1.15	$ 0.72	$ 0.39
Pro forma	$ 1.47	$ 1.07	$ 0.68	$ 0.36
Diluted earnings per share:				
As reported	$ 1.53	$ 1.10	$ 0.70	$ 0.38
Pro forma	$ 1.45	$ 1.05	$ 0.67	$ 0.36

Under the Directors' Stock Compensation Plan, all independent Directors who are elected or re-elected to the Board will receive 3,000 shares (1,500 prior to the two-for-one stock split declared on October 15, 2003) of common stock of the Company, subject to certain restrictions including restrictions on transfer. During the 2004 and 2003 thirty nine week periods, a total of 9,000 and 3,000 shares, respectively, of the Company's common stock were issued to members of the Board of Directors upon their re-election at the 2004 and 2003 annual shareholders' meetings. During the thirty nine week periods ended September 25, 2004 and September 27, 2003, the Company reported $402,000 and $85,000, respectively, in compensation expense representing the fair market value of these share awards.

(9) Comprehensive Income

The following table includes the components of comprehensive income for the thirty nine and thirteen week periods ended September 25, 2004. The Company did not have any transactions resulting in comprehensive income in the thirty nine or thirteen week periods ended September 27, 2003 (in thousands):

	Thirty Nine Weeks Ended	Thirteen Weeks Ended
	Sept. 25, 2004	Sept. 25, 2004
Net income	$ 47,306	$ 21,614
Unrealized holding gains (losses) on available-for-sale investments, net of income tax	(130)	8
Comprehensive income	$ 47,176	$ 21,622

Accumulated other comprehensive income at September 25, 2004 of $52,000 represents the unrealized holding gains on available for sale investments of $81,000, net of related income taxes of $29,000.

(10) Commitments and Contingencies

At September 25, 2004, Landstar had $27,357,000 of letters of credit outstanding under the Company's revolving credit facility and $39,614,000 of letters of credit secured by investments held at the Company's insurance segment. The short-term investments of $32,865,000 combined with $7,630,000 of the non-current portion of investment grade bonds included in other assets at September 25, 2004, provide collateral for the $39,614,000 of letters of credit issued to guarantee payment of insurance claims.

On November 1, 2002, the Owner Operator Independent Drivers Association, Inc. ("OOIDA") and six individual Independent Contractors filed a putative class action complaint in the United States District Court in Jacksonville, Florida, against the Company (the "Complaint"). The Complaint alleges that certain aspects of the Company's motor carrier leases with independent truckers known as "owner operators" violate the federal leasing regulations and seeks injunctive relief, an unspecified amount of damages and attorney's fees. On March 8 and June 4, 2004, the District Court dismissed all claims of one of the six named individual plaintiffs on grounds the ICC Termination ACT ("Act") is not applicable to leases signed before the Act's January 1, 1996, effective date, and dismissed all claims of all remaining Plaintiffs against four of the seven Company entities previously named as Defendants (Landstar System, Inc., Landstar Express America, Inc., Landstar Gemini, Inc. and Landstar Logistics, Inc.). With respect to the remaining claims, the June 4, 2004 Order held that the Act created a private right of action to which a four-year statute of limitations applies. On September 14, 2004, OOIDA filed a motion with the District Court to certify the case as a class action. Landstar intends to vigorously oppose this motion. Landstar is not in a position to conclude whether there is a reasonable possibility of an adverse outcome in this case, or what damages, if any, Plaintiffs would be awarded should they prevail on all or any part of their claims. However, Landstar believes it has meritorious defenses which it intends to continue asserting vigorously.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the attached interim consolidated financial statements and notes thereto, and with the Company's audited financial statements and notes thereto for the fiscal year ended December 27, 2003 and

Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 2003 Annual Report on Form 10-K.

Introduction

Landstar System, Inc. and its subsidiary, Landstar System Holdings, Inc. ("Landstar" or the "Company"), provide transportation services to a variety of market niches throughout the United States and to a lesser extent in Canada and between the United States and Canada and Mexico through its operating subsidiaries. Landstar's business strategy is to be a non-asset based provider of transportation capacity delivering safe, specialized transportation services to a broad range of customers throughout North America utilizing a network of independent commission sales agents and third party capacity providers. Landstar focuses on providing transportation services which emphasize customer service and information coordination among its independent commission sales agents, customers and capacity providers. The Company markets its services primarily through independent commission sales agents and utilizes exclusively third party capacity providers to transport customers' freight. The nature of the Company's business is such that a significant portion of its operating costs varies directly with revenue. The Company has three reportable business segments. These are the carrier, multimodal and insurance segments.

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

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

The insurance segment is comprised of Signature Insurance Company ("Signature"), a wholly-owned offshore insurance subsidiary, and Risk Management Claim Services, Inc. The insurance segment provides risk and claims management services to Landstar's operating subsidiaries. In addition, it reinsures certain property, casualty and occupational accident risks of certain Independent Contractors who have contracted to haul freight for Landstar and provides certain property and casualty insurance directly to Landstar's operating subsidiaries.

Changes in Financial Condition and Results of Operations

The Company's success depends on its ability to generate freight through its network of independent commission sales agents and to efficiently deliver that freight utilizing third party capacity providers. Management believes the most significant factors to the Company's success include increasing revenue, sourcing capacity and controlling costs.

While customer demand, which is subject to overall economic conditions, ultimately drives increases or decreases in revenue, the Company primarily relies on its independent commission sales agents to establish customer relationships and generate revenue opportunities. Management's primary focus with respect to revenue growth is on revenue generated by independent commission sales agents who on an annual basis generate $1 million or more of Landstar revenue ("Million Dollar Agents"). Management believes future revenue growth is primarily dependent on its ability to increase both the revenue generated by Million Dollar Agents and the number of Million Dollar Agents through a combination of recruiting new agents and increasing the revenue opportunities generated by existing independent commission sales agents.

During the 2003 fiscal year, 396 independent commission sales agents generated $1 million or more of Landstar's revenue and thus qualified as Million Dollar Agents. During the 2003 fiscal year, the average revenue generated by a Million Dollar Agent was $3,584,000 and revenue generated by Million Dollar Agents in the aggregate represented 89% of consolidated Landstar revenue.

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Management monitors business activity by tracking the number of loads (volume) and revenue per load generated by the carrier and multimodal segments. In addition, management tracks revenue per revenue mile, average length of haul and total revenue miles at the carrier segment. Revenue per revenue mile and revenue per load (collectively price) as well as the number of loads, can be influenced by many factors which do not necessarily indicate a change in price or volume. Those factors include the average length of haul, freight type, special handling and equipment requirements and delivery time requirements. The following table summarizes this data by reportable segment:

	Thirty Nine Weeks Ended		Thirteen Weeks Ended	
	Sept. 25, 2004	Sept. 27, 2003	Sept. 25, 2004	Sept. 27, 2003
Carrier Segment:				
Number of loads (1)	780,000	753,000	259,000	253,000
Revenue per load	$ 1,351	$ 1,197	$ 1,424	$ 1,216
Revenue per revenue mile	$ 1.76	$ 1.72	$ 1.78	$ 1.70
Average length of haul (miles)	766	695	798	716
Multimodal Segment:				
Number of loads (2)	233,000	184,000	85,000	68,000
Revenue per load (2)	$ 1,399	$ 1,307	$ 1,443	$ 1,352

(1) Effective with the 2004 second quarter, the Company has modified its methodology for reporting loads. The application of this new methodology to the 2003 thirty nine and thirteen week periods resulted in an increase of 8,000 and 5,000 loads, respectively. This change in load recognition has no impact on reported revenue in any period.

(2) Number of loads and revenue per load for the 2004 thirty nine and thirteen week periods exclude the effect of revenue derived from disaster relief efforts provided under a contract with the United States Federal Aviation Administration ("FAA") as discussed further in the paragraphs that follow.

Also critical to the Company's success is its ability to secure capacity, particularly truck capacity, at rates that allow the Company to profitably transport customers' freight. The following table summarizes available truck capacity:

	Sept. 25, 2004	Sept. 27, 2003
Independent Contractors	7,758	7,461
Other third party truck capacity providers:		
Approved and active(1)	10,324	9,139
Other approved	6,870	6,204
	17,194	15,343
Total available truck capacity providers	24,952	22,804
Number of trucks provided by Independent Contractors	8,644	8,451

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

Historically, the Company's carrier segment has primarily relied on capacity provided by Independent Contractors. Pursuant to a plan to augment its available capacity and increase its revenue, the Company has been increasing the carrier segment's use of capacity provided by other third party truck capacity providers. The percent of consolidated revenue generated through all truck brokerage carriers was 26.3% during the thirty nine week period ended September 25, 2004 and 22.1% during the thirty nine week period ended September 27, 2003.

The Company incurs costs that are directly related to the transportation of freight that include purchased transportation and commissions to agents. The Company incurs indirect costs associated with the transportation of freight that include other operating costs and insurance and claims. In addition, the Company incurs selling, general and administrative costs essential to administering its business operations. Management continually monitors all components of the costs incurred by the Company and establishes annual cost budgets, which, in general, are used to benchmark costs on a monthly basis.

Purchased transportation represents the amount an Independent Contractor or other third party capacity provider is paid to haul freight. The amount of purchased transportation paid to an Independent Contractor is primarily based on a contractually agreed-upon percentage of revenue generated by the haul. Purchased transportation for the brokerage services operations of the carrier and multimodal segments is based on a negotiated rate for each load hauled. Purchased transportation for the intermodal services operations and the air and ocean freight operations of the multimodal segment is based on a contractually agreed-upon fixed rate. Purchased transportation as a percentage of revenue for brokerage services and rail intermodal operations is normally higher than that of Landstar's other transportation operations. Purchased transportation is the largest component of costs and expenses and, on a consolidated basis, increases or decreases in proportion to the revenue generated through Independent Contractors, other third party capacity providers and revenue from the insurance segment.

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

Trailing equipment rent, maintenance costs for trailing equipment, Independent Contractor recruiting costs and bad debts from Independent Contractors and independent commission sales agents are the largest components of other operating costs.

Potential liability associated with accidents in the trucking industry is severe and occurrences are unpredictable. Landstar's retained liability for individual commercial trucking claims depends on when such claims are incurred. For commercial trucking claims incurred subsequent to March 30, 2004, Landstar retains liability up to $5,000,000 per occurrence. For commercial trucking claims incurred from June 19, 2003 through March 30, 2004, Landstar retains liability up to $10,000,000 per occurrence. For commercial trucking claims incurred from May 1, 2001 through June 18, 2003, Landstar retains liability up to $5,000,000 per occurrence. For commercial trucking claims incurred prior to May 1, 2001, Landstar retains liability up to $1,000,000 per occurrence. The Company also retains liability for each general liability claim up to $1,000,000, $250,000 for each workers' compensation claim and $250,000 for each cargo claim. The Company's exposure to liability associated with accidents incurred by other third party capacity providers who haul freight on behalf of the Company is reduced by various factors including the extent to which they maintain their own insurance coverage.

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

Depreciation and amortization primarily relate to depreciation of trailing equipment and management information services equipment.

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

	Thirty Nine Weeks Ended		Thirteen Weeks Ended	
	Sept. 25, 2004	Sept. 27, 2003	Sept. 25, 2004	Sept. 27, 2003
Revenue	100.0%	100.0%	100.0%	100.0%
Investment income	0.1	0.1	0.1	0.1
Costs and expenses:				
Purchased transportation	74.6	74.2	74.5	74.0
Commissions to agents	7.9	7.8	8.1	8.0
Other operating costs	1.9	2.4	1.6	2.4
Insurance and claims	3.3	2.8	2.6	2.5
Selling, general and administrative	6.2	7.0	5.8	7.5
Depreciation and amortization	0.7	0.8	0.7	0.8
Total costs and expenses	94.6	95.0	93.3	95.2
Operating income	5.5	5.1	6.8	4.9
Interest and debt expense	0.1	0.2	0.2	0.2
Income before income taxes	5.4	4.9	6.6	4.7
Income taxes	2.1	1.8	2.5	1.8
Net income	3.3%	3.1%	4.1%	2.9%

THIRTY NINE WEEKS ENDED SEPTEMBER 25, 2004 COMPARED TO THIRTY NINE WEEKS ENDED SEPTEMBER 27, 2003

Revenue for the 2004 thirty nine week period was $1,430,212,000, an increase of $267,638,000, or 23.0%, over the 2003 thirty nine week period. The increase was attributable to increased revenue of $152,975,000, $113,243,000 and $1,420,000 at the carrier, multimodal and insurance segments, respectively. With respect to the carrier segment, revenue per load increased approximately 13% in the 2004 thirty nine week period while the number of loads delivered in the 2004 thirty nine week period increased approximately 4%. The average length of haul per load at the carrier segment increased approximately 10% and revenue per revenue mile increased approximately 2%. Included in revenue at the multimodal segment in the 2004 period was $27,887,000 of revenue related to disaster relief efforts for the recent storms that impacted the southeastern United States. These emergency transportation services were provided primarily under a contract between Landstar Express America, Inc. and the United States Federal Aviation Administration (“FAA”). Excluding the number of loads and revenue related to the disaster relief efforts provided by the multimodal segment in 2004, the number of loads delivered by the multimodal segment in the 2004 thirty nine week period increased approximately 27% and revenue per load increased approximately 7% over the 2003 period. The increase in delivered loads at the multimodal segment was primarily attributable to increased freight opportunities from the multimodal segment’s existing customer base, while the increase in revenue per load was attributable to both increased rates and an increased length of haul.

Investment income at the insurance segment was $879,000 and $960,000 in the 2004 and 2003 periods, respectively. The decrease in investment income was primarily due to a reduced rate of return, attributable to the decline in interest rates, on investments held by the insurance segment.

Purchased transportation was 74.6% and 74.2% of revenue in 2004 and 2003, respectively. The increase in purchased transportation as a percentage of revenue was primarily due to increased truck brokerage revenue, which tends to have a higher cost of purchased transportation, and increased rates charged by other third party truck and rail capacity providers, partially offset by increased use of Company provided trailing equipment. Commissions to agents were 7.9% and 7.8% of revenue in 2004 and 2003, respectively. The increase in commissions to agents as a percentage of revenue was primarily attributable to a change in revenue mix. Other operating costs were 1.9% and 2.4% of revenue in 2004 and 2003, respectively. The decrease in other operating costs as a percentage of revenue was primarily attributable to reduced trailer maintenance and repair costs, reflecting a reduction in the average age of trailing equipment, increased brokerage revenue, which does not incur significant other operating costs, decreased independent contractor recruiting and qualification costs and the cost of trailer locks that were purchased and distributed to the Company’s Independent Contractors in 2003. Insurance and claims were 3.3% of revenue in 2004 compared with 2.8% of revenue in 2003. The increase in insurance and claims as a percentage of revenue was primarily attributable to $7,600,000 of costs incurred to settle one severe accident that occurred early in fiscal year 2004 and unfavorable development of prior year claims in the current year, partially offset by increased truck brokerage revenue which has a lower claims risk profile. Selling, general and administrative costs were 6.2% of revenue in 2004 compared with 7.0% of revenue in 2003. Included in selling, general and administrative costs in the 2003 period was $4,150,000 of costs to defend and settle the Gulf Bridge RoRo, Inc. litigation. Excluding these costs, selling, general and administrative costs were 6.6% of revenue in 2003. The decrease in selling, general and administrative costs as a percentage of revenue, excluding the costs of the Gulf Bridge RoRo, Inc. litigation, was primarily due to the effect of increased revenue, partially offset by an increased provision for bonuses under the Company’s incentive compensation plans. Depreciation and amortization was 0.7% and 0.8% of revenue in 2004 and 2003, respectively. The decrease in depreciation and amortization as a percentage of revenue was primarily attributable to the effect of increased revenue. Interest and debt expense was 0.1% and 0.2% of revenue in 2004 and 2003, respectively. The decrease in interest and debt expense as a percentage of revenue was primarily attributable to the effect of increased revenue and lower average capital lease obligations.

The provisions for income taxes for the 2004 and 2003 thirty nine week periods were based on estimated full year combined effective income tax rates of approximately 38.3% and 37.9%, respectively, which are higher than the statutory federal income tax rate primarily as a result of state income taxes and the meals and entertainment exclusion. The increase in the combined effective income tax rate was attributable to changes in tax laws enacted by a number of states in which the Company operates.

Net income in the 2004 period was $47,306,000, or $1.58 per common share ($1.53 per diluted share), which included the $7,600,000 charge to settle one accident referenced above. This charge, net of income tax benefits, reduced 2004 net income by $4,900,000, or $0.16 per diluted share. Also included in net income for the 2004 thirty nine week period is approximately $5,100,000 of operating income related to the $27,887,000 of revenue for emergency transportation services provided primarily under the FAA contract. The $5,100,000 of operating income, net of related income taxes, increased net income approximately $3,100,000, or $0.10 per common share ($0.10 per diluted share). Net income for the 2003 period was $35,552,000, or $1.15 per common share ($1.10 per diluted share). After deducting related income tax benefits of $1,500,000, the cost of the Gulf Bridge RoRo, Inc. litigation reduced net income by $2,650,000, or $0.09 per common share ($0.08 per diluted share), in the 2003 thirty nine week period. Excluding the costs of the Gulf Bridge RoRo, Inc. litigation, net income in the 2003 thirty nine week period would have been $38,202,000, or $1.23 per common share ($1.19 per diluted share).

THIRTEEN WEEKS ENDED SEPTEMBER 25, 2004 COMPARED TO THIRTEEN WEEKS ENDED SEPTEMBER 27, 2003

Revenue for the 2004 thirteen week period was $526,883,000, an increase of $120,111,000, or 30.0%, compared to the 2003 thirteen week period. The increase was attributable to increased revenue of $61,066,000, $58,596,000, and $449,000 at the carrier, multimodal and insurance segments, respectively. With respect to the carrier segment, revenue per load increased approximately 17% in the 2004 thirteen week period while the number of loads delivered in the 2004 thirteen week period increased approximately 2%. The average length of haul per load at the carrier segment increased approximately 11% and revenue per revenue mile increased approximately 5%. Included in revenue at the multimodal segment in the 2004 period was $27,887,000 of revenue related to disaster relief efforts referenced previously. Excluding the number of loads and revenue related to the disaster relief efforts provided by the multimodal segment in the 2004 period, the number of loads delivered by the multimodal segment in the 2004 thirteen week period increased approximately 25% and revenue per load increased approximately 7% over the 2003 thirteen week period. The increase in delivered loads at the multimodal segment was primarily attributable to increased freight opportunities from the multimodal segment’s existing customer base, while the increase in revenue per load was attributable to both increased rates and increased length of haul.

Investment income at the insurance segment was $337,000 in both the 2004 and 2003 thirteen week periods as a slight decrease in the amount of average investments during the 2004 thirteen week period, was offset by a slight increase in the rate of return on those investments compared to the 2003 thirteen week period.

Purchased transportation was 74.5% and 74.0% of revenue in 2004 and 2003, respectively. The increase in purchased transportation as a percentage of revenue was primarily due to increased truck brokerage revenue, which tends to have a higher cost of purchased transportation, and increased rates charged by rail capacity providers. Commissions to agents were 8.1% and 8.0% of revenue in 2004 and 2003, respectively. The increase in commissions to agents as a percentage of revenue was primarily due to a change in revenue mix. Other operating costs were 1.6% of revenue in 2004 and 2.4% of revenue in 2003. The decrease in other operating costs as a percentage of revenue was primarily due to decreased trailer rental costs and reduced trailer maintenance and repair costs, reflecting a reduction in the average age of trailing equipment, increased truck brokerage revenue, which usually does not incur significant other operating costs, and decreased independent contractor recruiting and qualification costs. Insurance and claims were 2.6% and 2.5% of revenue in 2004 and 2003, respectively. The increase in insurance and claims as a percentage of revenue was primarily due to the favorable development of prior year claims in 2003. Selling, general and administrative costs were 5.8% of revenue in 2004 compared with 7.5% of revenue in 2003. Included in selling, general and administrative costs in the 2003 period was $3,180,000 of costs to settle the Gulf Bridge RoRo, Inc. litigation. Excluding these costs, selling, general and administrative costs were 6.8% of revenue in the 2003 period. The decrease in selling, general and administrative costs as a percentage of revenue, excluding the costs of the Gulf Bridge RoRo, Inc. litigation, was primarily due to the effect of increased revenue, partially offset by an increased provision for bonuses under the Company's incentive compensation plans. Depreciation and amortization was 0.7% and 0.8% of revenue in 2004 and 2003, respectively. The decrease in depreciation and amortization as a percentage of revenue was primarily attributable to the effect of increased revenue. Interest and debt expense was 0.2% of revenue in both 2004 and 2003.

The provisions for income taxes for the 2004 and 2003 thirteen week periods were based on estimated full year combined effective income tax rates of approximately 38.3% and 38.1%, respectively, which are higher than the statutory federal income tax rate primarily as a result of state income taxes and the meals and entertainment exclusion. The increase in the combined effective income tax rate was attributable to changes in tax laws enacted by a number of states in which the Company operates.

Net income was $21,614,000, or $0.72 per common share ($0.70 per diluted share), in the 2004 period compared with $11,827,000, or $0.39 per common share ($0.38 per diluted share), in the 2003 period. Included in net income for the 2004 thirteen week period is approximately $5,100,000 of operating income related to the $27,887,000 of revenue for emergency transportation services provided primarily under the FAA contract. The $5,100,000 of operating income, net of related income taxes, increased net income by approximately $3,100,000 or $0.10 per common share ($0.10 per diluted share). In the 2003 thirteen week period, after deducting related income tax benefits of $1,150,000, the cost of the Gulf Bridge RoRo, Inc. litigation reduced net income by $2,030,000, or $0.07 per common share ($0.06 per diluted share). Excluding the costs of the Gulf Bridge RoRo, Inc. litigation, net income in the 2003 thirteen week period would have been $13,857,000, or $0.46 per common share ($0.44 per diluted share).

USE OF NON-GAAP FINANCIAL MEASURES

In this quarterly report on Form 10-Q, Landstar provided the following non-GAAP financial measures for the thirty nine and thirteen week periods ended September 25, 2004: (1) revenue per load for the multimodal segment excluding revenue and loads related to emergency transportation services provided primarily under a contract with the FAA and (2) the percentage change in revenue per load for the multimodal segment excluding revenue and loads related to emergency transportation services provided primarily under a contract with the FAA as compared to revenue per load for the multimodal segment for the corresponding prior year periods.

Also, in this quarterly report on Form 10-Q, Landstar provided the following non-GAAP financial measures for the thirty nine and thirteen week periods ended September 27, 2003: (1) earnings per diluted share before costs related to settlement of one lawsuit (the "Lawsuit"), (2) net income excluding costs relating to settlement of this Lawsuit and (3) selling, general and administrative costs excluding the costs related to settlement of the Lawsuit as a percentage of revenue. This non-GAAP financial information should be considered in addition to, and not as a substitute for, the corresponding GAAP financial information also presented in this Form 10-Q.

Management believes that it is appropriate to present this non-GAAP financial information for the following reasons: (1) a significant portion of the emergency relief transportation services were provided under the FAA contract on the basis of a daily rate for the use of transportation equipment in question, and therefore load and per load information is not necessarily available or appropriate for a significant portion of the related revenue; (2) the circumstances relating to the Lawsuit are unusual and unique and thus are not likely to recur as part of Landstar's normal operations; (3) disclosure of the impact of the emergency transportation services provided by Landstar relating to disaster relief efforts for the recent storms that impacted the southeastern United States and the settlement of the Lawsuit will allow investors to better understand the underlying trends in Landstar's financial condition and results of operations; (4) this information will facilitate comparisons by investors of Landstar's results as compared to the results of peer companies and (5) management considers this non-GAAP financial information in its decision making.

CAPITAL RESOURCES AND LIQUIDITY

Shareholders' equity was $184,624,000 at September 25, 2004, compared to $142,515,000 at December 27, 2003. The increase in shareholders' equity was a result of net income for the 2004 thirty nine week period and exercises of stock options, partially offset by the purchase of 681,000 shares of the Company's common stock at a total cost of $27,001,000. As of September 25, 2004, the Company may purchase up to an additional 699,140 shares of its common stock under its authorized stock purchase program. Shareholders' equity was 68% of total capitalization (defined as total debt plus equity) at September 25, 2004 compared to 61% at December 27, 2003.

Working capital and the ratio of current assets to current liabilities were $185,593,000 and 1.80 to 1, respectively, at September 25, 2004, compared with $147,515,000 and 1.85 to 1, respectively, at December 27, 2003. Landstar has historically operated with current ratios within the range of 1.5 to 1 to 2.0 to 1. Cash provided by operating activities was $58,804,000 in the 2004 thirty nine week period compared with $53,412,000 in the 2003 thirty nine week period. The increase in cash flow provided by operating activities was primarily attributable to increased earnings and the tax benefit on the exercise of stock options.

At September 25, 2004, the Company had $63,000,000 in borrowings outstanding and $27,357,000 of letters of credit outstanding under its Fourth Amended and Restated Credit Agreement. In addition, the Company had $39,614,000 in letters of credit outstanding, as collateral for insurance claims, secured by investments and cash equivalents totaling $40,495,000.

On July 8, 2004, Landstar renegotiated its existing credit agreement with a syndicate of banks and JPMorgan Chase Bank, as administrative agent (the "Fourth Amended and Restated Credit Agreement"). The Fourth Amended and Restated Credit Agreement, which expires on July 8, 2009, provides $225,000,000 of borrowing capacity in the form of a revolving credit facility, $75,000,000 of which may be utilized in the form of letter of credit guarantees. The initial borrowing of $70,000,000 under the facility has been used to refinance the Company's prior credit facility, which has been terminated.

Borrowings under the Fourth Amended and Restated Credit Agreement bear interest at rates equal to, at the option of Landstar, either (i) the greatest of (a) the prime rate as publicly announced from time to time by JPMorgan Chase Bank, (b) the three month CD rate adjusted for statutory reserves and FDIC assessment costs plus 1% and (c) the federal funds effective rate plus 1/2%, or, (ii) the rate at the time offered to JPMorgan Chase Bank in the Eurodollar market for amounts and periods comparable to the relevant loan plus a margin that is determined based on the level of the Company's Leverage Ratio, as defined in the Fourth Amended and Restated Credit Agreement. The margin is subject to an increase of 0.125% if the aggregate amount outstanding under the Fourth Amended and Restated Credit Agreement exceeds 50% of the total borrowing capacity.

The unused portion of the Fourth Amended and Restated Credit Agreement carries a commitment fee determined based on the level of the Leverage Ratio, as therein defined. As of September 25, 2004, the commitment fee for the unused portion of the Fourth Amended and Restated Credit Agreement was 0.200%. At September 25, 2004, the weighted average interest rate on borrowings under the Fourth Amended and Restated Credit Agreement was 2.45%.

The Fourth Amended and Restated Credit Agreement contains a number of covenants that limit, among other things, the incurrence of additional indebtedness, the incurrence of operating or capital lease obligations and the purchase of operating property. The Fourth Amended and Restated Credit Agreement also require Landstar to meet certain financial tests. Landstar is required to, among other things, maintain minimum levels of Consolidated Net Worth and Fixed Charge Coverage, as each is defined in the Fourth Amended and Restated Credit Agreement.

The Fourth Amended and Restated Credit Agreement provides for an event of default related to a person or group 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 Fourth Amended and Restated Credit Agreement are unsecured; however, Landstar System, Inc. and all but one of Landstar System Holdings, Inc.'s ("LSHI") subsidiaries guarantee LSHI's obligations under the Fourth Amended and Restated Credit Agreement.

Historically, the Company has generated sufficient operating cash flow to meet its debt service requirements, fund continued growth, both internal and through acquisitions and to meet working capital needs. As a non-asset based provider of transportation capacity, the Company's annual capital requirements for operating property are generally for trailers and management information services equipment. In addition, a significant portion of the trailing equipment used by the Company is provided by third party capacity providers and through leases at rental rates that vary with the revenue generated through the use of the leased equipment, thereby reducing the Company's capital requirements. During the 2004 thirty nine week period, the Company purchased $4,669,000 of operating property, acquired $8,380,000 of trailing equipment by entering into capital leases and acquired $14,300,000 of trailing equipment by entering into a five year operating lease. Landstar anticipates acquiring an additional $2,000,000 to $4,000,000 of operating property during the remainder of the 2004 fiscal year either by purchase or by lease financing. The Company does not anticipate any other significant capital requirements in the near future.

Management believes that cash flow from operations combined with the Company's borrowing capacity under the Fourth Amended and Restated Credit Agreement will be adequate to meet Landstar's debt service requirements, fund continued growth, both internal and through acquisitions, complete the authorized share purchase program and meet working capital needs.

LEGAL MATTERS

On November 1, 2002, the Owner Operator Independent Drivers Association, Inc. ("OOIDA") and six individual Independent Contractors filed a putative class action complaint in the United States District Court in Jacksonville, Florida, against the Company (the "Complaint"). The Complaint alleges that certain aspects of the Company's motor carrier leases with independent truckers known as "owner operators" violate the federal leasing regulations and seeks injunctive relief, an unspecified amount of damages and attorney's fees. On March 8 and June 4, 2004, the District Court dismissed all claims of one of the six named individual plaintiffs on grounds the ICC Termination ACT ("Act") is not applicable to leases signed before the Act's January 1, 1996, effective date, and dismissed all claims of all remaining Plaintiffs against four of the seven Company entities previously named as Defendants (Landstar System, Inc., Landstar Express America, Inc., Landstar Gemini, Inc. and Landstar Logistics, Inc.). With respect to the remaining claims, the June 4, 2004 Order held that the Act created a private right of action to which a four-year statute of limitations applies. On September 14, 2004, OOIDA filed a motion with the District Court to certify the case as a class action. Landstar intends to vigorously oppose this motion. Landstar is not in a position to conclude whether there is a reasonable possibility of an adverse outcome in this case, or what damages, if any, Plaintiffs would be awarded should they prevail on all or any part of their claims. However, Landstar believes it has meritorious defenses which it intends to continue asserting vigorously.

Landstar is involved in certain other 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 such 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The allowance for doubtful accounts for both trade and other receivables represents management's estimate of the amount of outstanding receivables that will not be collected. Historically, management's estimates for uncollectible receivables have been materially correct. Although management believes the amount of the allowance for both trade and other receivables at September 25, 2004 is appropriate, a prolonged period of low or no economic growth may adversely affect the collection of these receivables. Conversely, a more robust economic environment may result in the realization of some portion of the estimated uncollectible receivables.

Landstar provides for the estimated costs of self-insured claims primarily on an actuarial basis. The amount recorded for the estimated liability for claims incurred is based upon the facts and circumstances known on the balance sheet date. The ultimate resolution of these claims may be for an amount greater or less than the amount estimated by management. Historically, the Company has experienced both favorable and unfavorable development of prior year claims estimates. The Company is continually revising its existing claim estimates as new or revised information becomes available on the status of each claim. During the 2004 and 2003 thirty nine week periods, insurance and claims costs included $2,940,000 and $66,000, respectively, of unfavorable adjustments to prior years claims estimates. It is reasonably likely that the ultimate outcome of settling all outstanding claims will be more or less than the estimated claims reserve at September 25, 2004.

The Company utilizes certain income tax planning strategies to reduce its overall cost of income taxes. Upon audit, it is possible that certain strategies might be disallowed resulting in an increased liability for income taxes. The Company has provided for its estimated exposure attributable to income tax planning strategies. Management believes that the provision for liabilities resulting from the implementation of income tax planning strategies is appropriate. To date, the Company has not experienced an examination by governmental revenue authorities that would lead management to believe that the Company's past provisions for exposures related to income tax planning strategies are not appropriate.

Significant variances from management's estimates for the amount of uncollectible receivables, the ultimate resolution of claims or the provision for liabilities for income tax planning strategies can be expected to positively or negatively affect Landstar's earnings in a given quarter or year. However, management believes that the ultimate resolution of these items, given a range of reasonably likely outcomes, will not significantly affect the long-term financial condition of Landstar or its ability to fund its continuing operations.

FORWARD-LOOKING STATEMENTS

The following is a "safe harbor" statement under the Private Securities Litigation Reform Act of 1995. Statements contained in this document that are not based on historical facts are "forward-looking statements." This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Form 10-Q contain forward-looking statements, such as statements which relate to Landstar's business objectives, plans, strategies and expectations. Terms such as "anticipates," "believes," "estimates," "expects," "plans," "predicts," "may," "should," "will," the negative thereof and similar expressions are intended to identify forward-looking statements. Such statements are by nature subject to uncertainties and risks, including but not limited to: the operational, financial or legal risks or uncertainties detailed in Landstar's Form 10-K for the 2003 fiscal year, described in the section Factors That May Affect Future Results and/or Forward-Looking Statements, this report or in Landstar's other Securities and Exchange Commission filings from time to time. These risks and uncertainties could cause actual results or events to differ materially from historical results or those anticipated. Investors should not place undue reliance on such forward-looking statements and the Company undertakes no obligation to publicly update or revise any forward-looking statements.

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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to changes in interest rates as a result of its financial activities, primarily its borrowings on the revolving credit facility, and investing activities with respect to investments held by the insurance segment.

On July 8, 2004, Landstar entered into a new senior credit facility with a syndicate of banks and JPMorgan Chase Bank, as administrative agent (the "Fourth Amended and Restated Credit Agreement"). The Fourth Amended and Restated Credit Agreement, which expires on July 8, 2009, provides $225,000,000 of borrowing capacity in the form of a revolving credit facility, $75,000,000 of which may be utilized in the form of letter of credit guarantees. The initial borrowing of $70,000,000 under the facility has been used to refinance the Company's prior credit facility, which has been terminated.

The Fourth Amended and Restated Credit Agreement contains a number of covenants that limit, among other things, the incurrence of additional indebtedness, the incurrence of operating or capital lease obligations and the purchase of operating property. Landstar is required to, among other things, maintain minimum levels of Consolidated Net Worth and Fixed Charge Coverage, as each is defined in the Fourth Amended and Restated Credit Agreement.

Borrowings under the Fourth Amended and Restated Credit Agreement bear interest at rates equal to, at the option of Landstar, either (i) the greatest of (a) the prime rate as publicly announced from time to time by JPMorgan Chase Bank, (b) the three month CD rate adjusted for statutory reserves and FDIC assessment costs plus 1% and (c) the federal funds effective rate plus 1/2%, or, (ii) the rate at the time offered to JPMorgan Chase Bank in the Eurodollar market for amounts and periods comparable to the relevant loan plus a margin that is determined based on the level of the Company's Leverage Ratio, as defined in the Fourth Amended and Restated Credit Agreement. The margin is subject to an increase of 0.125% if the aggregate amount outstanding under the Fourth Amended and Restated Credit Agreement exceeds 50% of the borrowing capacity. During the third quarter of fiscal 2004, the average outstanding balance under the terminated Third Amended and Restated Credit Agreement and Fourth Amended and Restated Credit Agreement was approximately $66,000,000. Based on the borrowings rates in the Third Amended and Restated Credit Agreement and the repayment terms, the fair value of the outstanding borrowings as of September 25, 2004 was estimated to approximate carrying value. Assuming that debt levels on the Fourth Amended and Restated Credit Agreement remain at $63,000,000, the balance at September 25, 2004, a hypothetical increase of 100 basis points in current rates provided for under the Fourth Amended and Restated Credit Agreement is estimated to result in an increase in interest expense of $630,000 on an annualized basis.

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

Long-term investments, all of which are available-for-sale, consist of investment grade bonds having maturities of up to five years. Assuming that the long-term portion of investments in bonds remains at $7,630,000, the balance at September 25, 2004, a hypothetical increase or decrease in interest rates of 100 basis points would not have a material impact on future earnings on an annualized basis. Short-term investments consist of short term investment grade instruments and the current maturities of investment grade bonds. Accordingly, any future interest rate risk on these short-term investments would not be material.

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out, under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act, as amended). Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of September 25, 2004, to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

There were no significant changes in the Company's internal control over financial reporting during the Company's fiscal quarter ended September 25, 2004 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

On November 1, 2002, the Owner Operator Independent Drivers Association, Inc. ("OOIDA") and six individual Independent Contractors filed a putative class action complaint in the United States District Court in Jacksonville, Florida, against the Company (the "Complaint"). The Complaint alleges that certain aspects of the Company's motor carrier leases with independent truckers known as "owner operators" violate the federal leasing regulations and seeks injunctive relief, an unspecified amount of damages and attorney's fees. On March 8 and June 4, 2004, the District Court dismissed all claims of one of the six named individual plaintiffs on grounds the ICC Termination ACT ("Act") is not applicable to leases signed before the Act's January 1, 1996, effective date, and dismissed all claims of all remaining Plaintiffs against four of the seven Company entities previously named as Defendants (Landstar System, Inc., Landstar Express America, Inc., Landstar Gemini, Inc. and Landstar Logistics, Inc.). With respect to the remaining claims, the June 4, 2004 Order held that the Act created a private right of action to which a four-year statute of limitations applies. On September 14, 2004, OOIDA filed a motion with the District Court to certify the case as a class action. Landstar intends to vigorously oppose this motion. Landstar is not in a position to conclude whether there is a reasonable possibility of an adverse outcome in this case, or what damages, if any, Plaintiffs would be awarded should they prevail on all or any part of their claims. However, Landstar believes it has meritorious defenses which it intends to continue asserting vigorously.

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities by the Company

The following table provides information regarding the Company's purchases of its common stock during the period from June 27, 2004 to September 25, 2004, the Company's third fiscal quarter:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares that May Yet Be Purchased Under the Programs
June 27, 2004 – July 24, 2004				918,140
July 25, 2004 – Aug. 21, 2004	219,000	$ 48.37	219,000	699,140
Aug. 22, 2004 – Sept. 25, 2004				699,140
Total	219,000	$ 48.37	219,000	

On December 4, 2003, the Company announced that it had been authorized by its Board of Directors to purchase up to 1,000,000 shares of its common stock from time to time in the open market and in privately-negotiated transactions. As of September 25, 2004, the Company may purchase up to 699,140 shares of its common stock under the authorized purchase program.

No specific expiration date has been assigned to the December 4, 2003 authorization.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

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

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EXHIBIT INDEX

Registrant's Commission File No.: 0-21238

Exhibit No.	Description
(10)	Material Contracts
10.1	The Fourth Amended and Restated Credit Agreement, dated July 8, 2004, among Landstar System Holdings, Inc., Landstar System, Inc., the lenders named therein and JP Morgan Chase Bank as administrative agent incorporated by reference to the Current Report on Form 8-K filed by Landstar System, Inc. on July 12, 2004 { File No. 000-21238}
(31)	Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002:
31.1 *	Chief Executive Officer certification, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 *	Chief Financial Officer certification, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(32)	Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.1 **	Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 **	Chief Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith

** Furnished herewith

SIGNATURES

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

	LANDSTAR SYSTEM, INC.
Date: October 28, 2004	/s/ Henry H. Gerkens
	Henry H. Gerkens President and Chief Executive Officer
Date: October 28, 2004	/s/ Robert C. LaRose
	Robert C. LaRose Vice President, Chief Financial Officer and Secretary

EXHIBIT 31.1

SECTION 302 CERTIFICATION

I, Henry H. Gerkens, certify that:

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

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

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

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

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

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

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

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

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

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

Date: October 28, 2004

/s/ Henry H. Gerkens

Henry H. Gerkens
President and Chief Executive Officer

EXHIBIT 31.2

SECTION 302 CERTIFICATION

I, Robert C. LaRose, certify that:

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

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

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

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

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

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

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

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

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

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

Date: October 28, 2004

/s/ Robert C. LaRose

Robert C. LaRose
Vice President, Chief Financial Officer and Secretary

EXHIBIT 32.1

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

In connection with the Quarterly Report of Landstar System, Inc. (the "Company") on Form 10-Q for the period ending September 25, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Henry H. Gerkens, President and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/S/ Henry H. Gerkens

Henry H. Gerkens
President and Chief Executive Officer
October 28, 2004

EXHIBIT 32.2

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

In connection with the Quarterly Report of Landstar System, Inc. (the "Company") on Form 10-Q for the period ending September 25, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert C. LaRose, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/S/ Robert C. LaRose

Robert C. LaRose
Vice President, Chief Financial Officer and Secretary
October 28, 2004