

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 26, 1999

or

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

For the transition period from _____ to _____

Commission File Number: 0-21238

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

Delaware
(State or other jurisdiction
of incorporation or organization)

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

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

32207
(Zip Code)

(904) 390-1234
(Registrant's telephone number, including area code)

N/A

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

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

Yes () No ()

The number of shares of the registrant's Common Stock, par value \$.01 per
share, outstanding as of the close of business on July 30, 1999 was
9,983,933.

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 twenty six weeks ended June 26, 1999 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 25, 1999.

These interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 1998 Annual Report on Form 10-K.

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

	June 26, 1999	December 26, 1998
	-----	-----
ASSETS		
Current assets:		
Cash	\$ 30,613	\$ 26,681
Trade accounts receivable, less allowance of \$4,118 and \$6,428	176,276	172,471
Other receivables, including advances to independent contractors, less allowance of \$4,303 and \$4,007	14,832	13,980
Prepaid expenses and other current assets	7,787	5,428
	-----	-----
Total current assets	229,508	218,560
	-----	-----
Operating property, less accumulated depreciation		

and amortization of \$33,346 and \$29,603	51,951	46,958
Goodwill, less accumulated amortization of \$7,170 and \$6,561	34,340	34,949
Deferred income taxes and other assets	15,896	13,198
	-----	-----
Total assets	\$ 331,695	\$ 313,665
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Cash overdraft	\$ 16,304	\$ 14,746
Accounts payable	57,936	50,624
Current maturities of long-term debt	5,579	4,708
Insurance claims	30,592	29,873
Accrued compensation	6,187	9,881
Other current liabilities	33,138	33,058
	-----	-----
Total current liabilities	149,736	142,890
	-----	-----
Long-term debt, excluding current maturities	34,862	29,732
Insurance claims	31,525	29,195
Shareholders' equity:		
Common stock, \$.01 par value, authorized 20,000,000 shares, issued 13,061,974 shares and 13,041,574 shares	131	130
Additional paid-in capital	65,592	65,198
Retained earnings	142,467	124,237
Cost of 2,998,041 and 2,618,041 shares of common stock in treasury	(90,975)	(76,176)
Notes receivable arising from exercise of stock options	(1,643)	(1,541)
	-----	-----
Total shareholders' equity	115,572	111,848
	-----	-----
Total liabilities and shareholders' equity	\$ 331,695	\$ 313,665
	=====	=====

See accompanying notes to consolidated financial statements.

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

	Twenty Six Weeks Ended		Thirteen Weeks Ended	
	June 26, 1999	June 27, 1998	June 26, 1999	June 27, 1998
	-----	-----	-----	-----
Revenue	\$ 656,499	\$ 625,709	\$ 345,064	\$ 327,525
Investment income	1,118	750	574	419
Costs and expenses:				
Purchased transportation	483,277	462,029	253,847	242,095
Commissions to agents and brokers	52,148	49,115	27,877	25,849
Other operating costs	13,769	14,244	7,100	6,814
Insurance and claims	21,963	24,586	11,818	12,363
Selling, general and administrative	48,731	46,648	23,213	22,376
Depreciation and amortization	5,431	4,853	2,788	2,400
	-----	-----	-----	-----
Total costs and expenses	625,319	601,475	326,643	311,897
	-----	-----	-----	-----
Operating income	32,298	24,984	18,995	16,047
Interest and debt expense	1,660	1,596	921	943
	-----	-----	-----	-----
Income from continuing operations before income taxes	30,638	23,388	18,074	15,104
Income taxes	12,408	9,472	7,319	6,117
	-----	-----	-----	-----
Income from continuing operations	18,230	13,916	10,755	8,987
Discontinued operations, net of income taxes		(22,589)		(22,152)
	-----	-----	-----	-----
Net income (loss)	\$ 18,230	\$ (8,673)	\$ 10,755	\$ (13,165)
	=====	=====	=====	=====

Earnings (loss) per common share:				
Income from continuing operations	\$ 1.78	\$ 1.21	\$ 1.06	\$ 0.80
Loss from discontinued operations		(1.97)		(1.97)
	-----	-----	-----	-----
Earnings (loss) per common share	\$ 1.78	\$ (0.76)	\$ 1.06	\$ (1.17)
	=====	=====	=====	=====
Diluted earnings (loss) per share:				
Income from continuing operations	\$ 1.76	\$ 1.21	\$ 1.05	\$ 0.79
Loss from discontinued operations		(1.96)		(1.95)
	-----	-----	-----	-----
Diluted earnings (loss) per share	\$ 1.76	\$ (0.75)	\$ 1.05	\$ (1.16)
	=====	=====	=====	=====
Average number of shares outstanding:				
Earnings per common share	10,246,000	11,462,000	10,125,000	11,239,000
	=====	=====	=====	=====
Diluted earnings per share	10,366,000	11,547,000	10,242,000	11,348,000
	=====	=====	=====	=====
See accompanying notes to consolidated financial statements.				

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

	Twenty Six Weeks Ended	
	June 26, 1999	June 27, 1998
	-----	-----
OPERATING ACTIVITIES OF CONTINUING OPERATIONS		
Net income (loss)	\$ 18,230	\$ (8,673)
Adjustments to reconcile net income (loss) to net cash provided by operating activities of continuing operations:		
Discontinued operations		22,589
Depreciation and amortization of operating property	4,822	4,195
Amortization of goodwill and non-competition agreement	609	658
Non-cash interest charges	162	162
Provisions for losses on trade and other accounts receivable	22	2,604
Gains on sales of operating property	(142)	(217)
Deferred income taxes, net	673	48
Changes in operating assets and liabilities, net of discontinued operations:		
Increase in trade and other accounts receivable	(4,679)	(4,581)
Increase in prepaid expenses and other assets	(5,892)	(4,019)
Increase in accounts payable	7,312	9,173
Decrease in other liabilities	(3,614)	(3)
Increase in insurance claims	3,049	8,531
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES OF CONTINUING OPERATIONS	20,552	30,467
	-----	-----
INVESTING ACTIVITIES		

Maturities of short-term investments		1,552
Purchases of operating property	(1,419)	(2,293)
Proceeds from sales of operating property	856	1,065
	-----	-----
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(563)	324
	-----	-----
FINANCING ACTIVITIES OF CONTINUING OPERATIONS		
Increase in cash overdraft	1,558	2,519
Borrowings on revolving credit facility		15,000
Proceeds from exercise of stock options and related income tax benefit	293	1,047
Purchases of common stock	(14,799)	(34,337)
Principal payments on long-term debt and capital lease obligations	(3,109)	(2,700)
	-----	-----
NET CASH USED BY FINANCING ACTIVITIES OF CONTINUING OPERATIONS	(16,057)	(18,471)
	-----	-----
NET CASH USED BY DISCONTINUED OPERATIONS		(8,528)
	-----	-----
Increase in cash	3,932	3,792
Cash at beginning of period	26,681	17,994
	-----	-----
Cash at end of period	\$ 30,613	\$ 21,786
	=====	=====

See accompanying notes to consolidated financial statements.

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LANDSTAR SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES
IN SHAREHOLDERS' EQUITY
Twenty Six Weeks Ended June 26, 1999
(Dollars in thousands)
(Unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock at Cost		Notes Receivable Arising from Exercise of Stock Options	Total
	Shares	Amount			Shares	Amount		
Balance December 26, 1998	13,041,574	\$ 130	\$ 65,198	\$ 124,237	2,618,041	\$ (76,176)	\$ (1,541)	\$ 111,848
Net income				18,230				18,230
Purchases of common stock					380,000	(14,799)		(14,799)
Exercise of stock options and related income tax benefit	20,400	1	394				(102)	293
Balance June 26, 1999	13,061,974	\$ 131	\$ 65,592	\$ 142,467	2,998,041	\$ (90,975)	\$ (1,643)	\$ 115,572
	=====	=====	=====	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

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

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

(1) Discontinued Operations

On August 22, 1998, Landstar Poole, Inc. ("Landstar Poole"), a wholly-owned subsidiary of Landstar which comprised the entire company-owned tractor segment, completed the sale of all of its tractors and trailers, certain operating assets and the Landstar Poole business to Schneider National, Inc. for \$40,435,000 in cash. Certain liabilities of the company-owned tractor segment were retained by Landstar, primarily insurance claims, capital lease obligations and accounts payable. Accordingly, the financial results of this segment have been reported as discontinued operations in the accompanying financial statements.

The loss from discontinued operations of \$22,589,000 in the twenty six-week period ended June 27, 1998 included a loss on sale of \$21,489,000, net of income tax benefits of \$2,511,000, and a loss from operations of \$1,100,000, net of income tax benefits of \$597,000.

The company-owned tractor segment had revenue of \$45,358,000 and \$23,374,000 for the twenty six and thirteen weeks ended June 27, 1998.

(2) Income Taxes

The provisions for income taxes from continuing operations for the 1999 and 1998 twenty six-week periods were based on an estimated combined full year effective income tax rate of 40.5%, 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.

(3) Earnings Per Share

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

(4) Additional Cash Flow Information

During the 1999 period, Landstar paid income taxes and interest of \$16,014,000 and \$1,802,000, respectively, and acquired operating property by entering into capital leases in the amount of \$9,110,000. During the 1998 period, Landstar paid income taxes and interest of \$9,052,000 and \$2,057,000 (\$695,000 related to Landstar Poole), respectively.

(5) Segment Information

The following tables summarize information about Landstar's reportable business segments for the twenty six and thirteen weeks ended June 26, 1999 and June 27, 1998 (in thousands):

Twenty Six Weeks Ended June 26, 1999

	Carrier	Multimodal	Insurance	Other	Total
External revenue	\$ 508,122	\$ 135,651	\$ 12,726		\$ 656,499
Investment income			1,118		1,118
Internal revenue	16,240	231	15,171		31,642
Operating income	38,231	4,211	8,619	\$(18,763)	32,298

Twenty Six Weeks Ended June 27, 1998

	Carrier	Multimodal	Insurance	Other	Total
External revenue	\$ 482,211	\$ 131,700	\$ 11,798		\$ 625,709
Investment income			750		750
Internal revenue	18,450	263	11,541		30,254
Operating income	30,995	2,750	5,737	\$(14,498)	24,984

Thirteen Weeks Ended June 26, 1999

	Carrier	Multimodal	Insurance	Other	Total
	-----	-----	-----	-----	-----
External revenue	\$ 267,378	\$ 71,192	\$ 6,494		\$ 345,064
Investment income			574		574
Internal revenue	9,686	135	6,271		16,092
Operating income	21,832	2,396	4,441	\$ (9,674)	18,995

Thirteen Weeks Ended June 27, 1998

	Carrier	Multimodal	Insurance	Other	Total
	-----	-----	-----	-----	-----
External revenue	\$ 252,515	\$ 69,122	\$ 5,888		\$ 327,525
Investment income			419		419
Internal revenue	9,840	143	6,299		16,282
Operating income	18,606	1,816	3,012	\$ (7,387)	16,047

(6) Commitments and Contingencies

At June 26, 1999, Landstar had commitments for letters of credit outstanding in the amount of \$22,540,000, primarily as collateral for insurance claims. The commitments for letters of credit outstanding included \$12,480,000 under the Second Amended and Restated Credit Agreement and \$10,060,000 secured by assets deposited with a financial institution.

Landstar is involved in certain claims and pending litigation arising from the normal conduct of business. Based on the knowledge of the facts and, in certain cases, opinions of outside counsel, management believes that adequate provisions have been made for probable losses with respect to the resolution of all claims and pending litigation and that the ultimate outcome, after provisions thereof, will not have a material adverse effect on the financial condition of Landstar, but could have a material effect on the results of operations in a given quarter or year.

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 26, 1998 and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 1998 Annual Report to Shareholders.

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RESULTS OF OPERATIONS

Landstar System, Inc. and its subsidiary, Landstar System Holdings, Inc. ("Landstar" or the "Company"), provide transportation services to a variety of market niches throughout the United States and to a lesser extent in Canada and between the United States and Canada and Mexico through its operating subsidiaries which employ different operating strategies. Under the provisions of Financial Accounting Standards Board Statement of Financial Accounting Standards No. 131, "Disclosure about Segments of an Enterprise and Related Information," the Company determined it has three reportable business segments. These are the carrier, multimodal and insurance segments.

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

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

The insurance segment is comprised of Signature Insurance Company ("Signature"), a wholly-owned offshore insurance subsidiary that was formed in March 1997, and Risk Management Claim Services, Inc. The insurance segment provides risk and claims management services to Landstar's operating companies. 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.

On August 22, 1998, Landstar Poole, Inc. ("Landstar Poole"), a wholly-owned subsidiary of Landstar which comprised the entire company-owned tractor segment, completed the sale of all of its tractors and trailers, certain

operating assets and the Landstar Poole business to Schneider National, Inc. for \$40,435,000 in cash. Accordingly, the financial results of this segment have been reported as discontinued operations in the accompanying financial statements.

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 capacity provided by independent contractors. Purchased transportation for the intermodal services operations and the air freight operations of the multimodal segment is based on a contractually agreed-upon fixed rate. Purchased transportation as a percentage of revenue for the intermodal services operations is normally higher than that of Landstar's other transportation operations. Purchased transportation is the largest component of costs and expenses and, on a consolidated basis, increases or decreases in proportion to the revenue generated through independent contractors. Commissions to agents and brokers are primarily based on contractually agreed-upon percentages of revenue at the carrier segment and of gross profit at the multimodal segment. Commissions to agents and brokers as a percentage of consolidated revenue will vary directly with revenue generated through independent commission sales agents. Both purchased transportation and commissions to agents and brokers generally will also increase or decrease as a percentage of the Company's consolidated revenue if there is a change in the percentage of revenue contributed by Signature or by the intermodal services or air freight operations of the multimodal segment.

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

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

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 relates to depreciation of trailers and management information services equipment.

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

	Twenty Six Weeks Ended		Thirteen Weeks Ended	
	June 26, 1999	June 27, 1998	June 26, 1999	June 27, 1998
Revenue	100.0%	100.0%	100.0%	100.0%
Investment income	0.2	0.1	0.2	0.1
Costs and expenses:				
Purchased transportation	73.6	73.8	73.6	73.9
Commissions to agents and brokers	8.0	7.8	8.1	7.9
Other operating costs	2.1	2.3	2.1	2.1
Insurance and claims	3.4	3.9	3.4	3.8
Selling, general and administrative	7.4	7.5	6.7	6.8
Depreciation and amortization	0.8	0.8	0.8	0.7
Total costs and expenses	95.3	96.1	94.7	95.2
Operating income	4.9	4.0	5.5	4.9
Interest and debt expense	0.2	0.3	0.3	0.3
Income from continuing operations before income taxes	4.7	3.7	5.2	4.6
Income taxes	1.9	1.5	2.1	1.9
Income from continuing operations	2.8	2.2	3.1	2.7
Discontinued operations, net of income taxes		(3.6)		(6.7)
Net income (loss)	2.8%	(1.4%)	3.1%	(4.0%)

TWENTY SIX WEEKS ENDED JUNE 26, 1999 COMPARED TO TWENTY SIX WEEKS ENDED JUNE 27, 1998

Revenue for the 1999 twenty six-week period was \$656,499,000, an increase of \$30,790,000, or 4.9%, over the 1998 twenty six-week period. The increase was attributable to increased revenue of \$25,911,000, \$3,951,000 and \$928,000 at the carrier, multimodal and insurance segments, respectively. Overall, revenue per revenue mile at the carrier and multimodal segments increased approximately 2%, which reflected improved freight quality, while revenue miles were approximately 2% higher than 1998. The insurance segment generated

investment income of \$1,118,000 and \$750,000 during the 1999 and 1998 periods, respectively.

Purchased transportation was 73.6% of revenue in 1999 compared with 73.8% in 1998. The decrease in purchased transportation as a percentage of revenue was due to an increase in the percentage of revenue contributed by the carrier and insurance segments. Commissions to agents and brokers were 8.0% of revenue in 1999 and 7.8% in 1998. The increase in commissions to agents and brokers as a percentage of revenue was primarily attributable 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. Other operating costs were 2.1% of revenue in 1999 and 2.3% in 1998. The decrease in other operating costs as a percentage of revenue was due to a one-time reduction in the cost of fuel taxes and permits which resulted from a favorable fuel tax audit and a permit refund and lower net trailer costs. These decreases were partially offset by increased contractor recruiting costs and an increased provision for contractor bad debt. Insurance and claims were 3.4% of revenue in 1999 compared with 3.9% in 1998. The decrease in insurance and claims as a percentage of revenue was primarily attributable to lower premium expense and favorable development of prior year claims. Selling, general and administrative costs were 7.4% of revenue in 1999 compared with 7.5% of revenue in 1998. This decrease was primarily due to a decrease in the provision for customer bad debts, partially offset by a higher provision for bonuses under the Company's management incentive compensation plan and increased management information services costs. In addition, selling, general and administrative costs in the prior year included \$560,000 of one time costs incurred for the relocation of Landstar Express America, Inc. from Charlotte, North Carolina to Jacksonville, Florida.

Interest and debt expense was 0.2% and 0.3% of revenue in 1999 and 1998, respectively.

The provisions for income taxes from continuing operations for the 1999 and 1998 twenty six-week periods were based on an estimated full year combined effective income tax rate of approximately 40.5%, 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 \$18,230,000, or \$1.78 per common share (\$1.76 per diluted share), in the 1999 period. Income from continuing operations for the 1998 period was \$13,916,000, or \$1.21 per common share (\$1.21 per diluted share). The loss from discontinued operations for the 1998 period was \$22,589,000, or \$1.97 loss per common share (\$1.96 loss per diluted share).

THIRTEEN WEEKS ENDED JUNE 26, 1999 COMPARED TO THIRTEEN WEEKS
ENDED JUNE 27, 1998

Revenue for the 1999 thirteen-week period was \$345,064,000, an increase of \$17,539,000, or 5.4%, over the 1998 thirteen-week period. The increase was attributable to increased revenue of \$14,863,000, \$2,070,000 and \$606,000 at the carrier, multimodal and insurance segments, respectively. Overall, revenue per revenue mile increased approximately 3%, which reflected improved freight quality, while revenue miles were approximately 3% higher than 1998. The insurance segment generated investment income of \$574,000 and \$419,000 during the 1999 and 1998 periods, respectively.

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Purchased transportation was 73.6% of revenue in 1999 compared with 73.9% in 1998. The decrease in purchased transportation as a percentage of revenue was due to an increase in the percentage of revenue contributed by the carrier segment. Commissions to agents and brokers were 8.1% of revenue in 1999 and 7.9% in 1998. The increase in commissions to agents and brokers as a percentage of revenue was primarily attributable 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 agents. Other operating costs were 2.1% of revenue in both 1999 and 1998. Insurance and claims were 3.4% of revenue in 1999 compared with 3.8% in 1998. The decrease in insurance and claims as a percentage of revenue was primarily attributable to lower premium expense and favorable development of prior year claims. Selling, general and administrative costs were 6.7% of revenue in 1999 compared with 6.8% of revenue in 1998. This decrease was primarily due to a decrease in the provision for customer bad debts, partially offset by a higher provision for bonuses under the Company's management incentive compensation plan and increased management information services costs.

Interest and debt expense was 0.3% of revenue in 1999 and 1998.

The provisions for income taxes from continuing operations for the 1999 and 1998 thirteen-week periods were based on an estimated full year combined effective income tax rate of approximately 40.5%, 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 \$10,755,000, or \$1.06 per common share (\$1.05 per diluted share), in the 1999 period. Income from continuing operations for the 1998 period was \$8,987,000, or \$0.80 per common share (\$0.79 per diluted share). The loss from discontinued operations for the 1998 period was \$22,152,000, or \$1.97 loss per common share (\$1.95 loss per diluted share).

CAPITAL RESOURCES AND LIQUIDITY

Shareholders' equity increased to \$115,572,000 at June 26, 1999 compared with \$111,848,000 at December 26, 1998, as a result of net income, partially offset by the purchase of 380,000 shares of the Company's common stock at an aggregate cost of \$14,799,000. Shareholders' equity was 74% and 76% of total capitalization at June 26, 1999 and December 26, 1998, respectively.

Working capital and the ratio of current assets to current liabilities were \$79,772,000 and 1.53 to 1, respectively, at June 26, 1999, compared with \$75,670,000 and 1.53 to 1, respectively, at December 26, 1998. Landstar has historically operated with current ratios approximating 1.5 to 1. Cash provided by operating activities of continuing operations was \$20,552,000 in the 1999 period compared with \$30,467,000 in the 1998 period. The decrease in cash flow provided by operating activities of continuing operations was primarily attributable to timing of payments, partially offset by increased earnings. During the 1999 period, Landstar purchased \$1,419,000 of operating property and acquired \$9,110,000 of revenue equipment by entering into capital leases. Management anticipates acquiring approximately \$19,000,000 of operating property during the remainder of fiscal year 1999 either by purchase or lease financing.

Management believes that cash flow from operations combined with the Company's borrowing capacity under its revolving credit agreement will be adequate to meet Landstar's debt service requirements, fund continued growth, both internal and through acquisitions, and meet working capital needs.

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

As part of the Company's comprehensive review of its systems, it is continuing

to verify the year 2000 readiness of third parties (customers and vendors) who provide services that are material to the Company's operations. The Company is currently communicating with its material vendors and customers to assess their year 2000 readiness and will continue to monitor their progress throughout 1999.

The vast majority of the changes necessary to make the Company's IT systems year 2000 compliant were incurred as part of ongoing system development or as part of a Company-wide strategy to standardize computer systems. As such, management has not separately quantified the cost of year 2000 compliance. However, management estimates the total cost of third party assistance for year 2000 compliance will approximate \$600,000, of which approximately \$500,000 has been incurred. Although management expects the cost of maintaining and upgrading the Company's computer systems to increase over the next few years compared to prior years, management does not believe that the future costs of maintaining and upgrading Landstar's computer systems will have a material adverse effect on the results of operations.

In the event the Company determines that one or more of its material vendors will not become year 2000 compliant, the Company's contingency plan is to select alternative vendors or implement alternate procedures for an interim period.

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

INFLATION

Management does not believe inflation has had a material impact on the results of operations or financial condition of Landstar in the past five years. However, inflation higher than that experienced in the past five years might have an adverse effect on the Company's results of operations.

FORWARD-LOOKING STATEMENTS

The Company has included various statements in Management's Discussion and Analysis of Financial Condition and Results of Operations, which may be considered as forward-looking statements of expected future results of operations or events. Such statements, based upon management's interpretation of currently available information, are subject to risks and uncertainties that could cause future financial results or events to differ materially from those which are presented. Such risks and factors which are outside of the Company's control include general economic conditions, competition in the transportation industry, governmental regulation, the Company's ability to recruit and retain qualified independent contractors, fuel prices, adverse weather conditions and the conversion of the Company's or its vendors' critical IT systems to year 2000 compliance.

SEASONALITY

Landstar's operations are subject to seasonal trends common to the trucking industry. Results of operations for the quarter ending in March is typically lower than the quarters ending June, September and December due to reduced shipments and higher operating costs in the winter months.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company maintains a credit agreement with a syndicate of banks and The Chase Manhattan Bank, as the administrative agent, (the "Second Amended and Restated Credit Agreement") that provides \$200,000,000 of borrowing capacity, consisting of \$150,000,000 revolving credit and \$50,000,000 revolving credit to finance acquisitions. Borrowings under the Second 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 The 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 The 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 the Company's Leverage Ratio, as defined in the Second Amended and Restated Credit Agreement. There have been no significant changes that would affect the information provided in Item 7a of the 1998 Annual Report on Form 10-K regarding quantitative and qualitative disclosures about market risk.

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PART II

OTHER INFORMATION

Item 1. Legal Proceedings

On August 5, 1998, suit was filed entitled Rene Alberto Rivas vs. Landstar System, Inc., Landstar Gemini, Inc., Landstar Ranger, Inc., Risk Management Claim Services, Inc., Insurance Management Corporation, and Does 1 through 500, inclusive, in federal district court in Los Angeles. The suit claims Rivas represents a class of all drivers who, according to the suit, should be classified as employees and are therefore allegedly aggrieved by the practice of Landstar Gemini, Inc., requiring such drivers, as independent contractors, to provide either a worker's compensation certificate or to participate in an occupational accident insurance program. Rivas claims violations of federal leasing regulations for allegedly improperly disclosing the program. Rivas also claims violations of Racketeer Influence and Corrupt Organizations ("RICO") Act and the California Business and Professions Act. He seeks on behalf of himself and the class damages of \$15 million trebled by virtue of trebling provisions in the RICO Act plus punitive damages. A motion to dismiss these claims was argued to the court on February 9, 1998. On March 24, 1998, the court granted defendant's motion to dismiss the RICO claim.

The federal court has now held that plaintiff has no independent federal claim for damages and must first seek relief from the U.S. Dept. of Transportation to determine whether a violation of the FHWA leasing regulations entitles him to a monetary recovery. As a consequence of this decision, whether this litigation will remain in the federal court or be re-filed by the plaintiff in the California Superior Court in Los Angeles will depend on an expected ruling on whether the U.S. District Court has continued to retain jurisdiction over the plaintiff's claim for injunctive relief under the ICC Termination Act. The Company continues to vigorously contest this action. It believes that the drivers in question are properly classified as independent contractors and it also has other meritorious defenses to the various claims.

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

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

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

On May 19, 1999, Landstar System, Inc. (the "Company") held its Annual Meeting of Shareholders (the "Meeting") at the Ponte Vedra Inn, Ponte Vedra Beach, Florida, 32082. The matters voted upon at the Meeting included (i) the election of two Class III directors for the terms to expire at the 2002 Annual Meeting of Shareholders and (ii) the ratification of appointment of KPMG LLP as the Company's independent auditors for fiscal year 1999.

Pursuant to the Company's Restated Certificate of Incorporation, the Board of Directors has fixed the number of directors at seven: two Class III directors whose members' terms will expire at the 2002 Annual Meeting of Shareholders; two Class I directors whose members' terms will expire at the 2000 Annual Meeting of Shareholders; and the three Class II directors whose members' terms will expire at the 2001 Annual Meeting of Shareholders. With respect to the election of the two Class III directors at the Meeting, nominee Jeffrey C. Crowe, and nominee David G. Bannister were elected to the Board of Directors of the Company. Mr. Crowe received 8,637,295 votes for election to the Board and 269,850 were withheld. Mr. Bannister received 8,637,295 votes for election to the Board and 269,850 were withheld. The names of the other directors whose terms of office as a director continued after the Meeting are as follows: John B. Bowron (a Class I director), Ronald W. Drucker (a Class I director), William S. Elston (a Class II director), Merritt J. Mott (a Class II director), and Diana M. Murphy (a Class II director).

The appointment of KPMG LLP as the Company's independent auditors for fiscal year 1999 was ratified by the Company's shareholders. Votes for the ratification were 8,848,214, votes against were 2,016 and votes abstaining

were 56,915.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

(b) Form 8-K

None.

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EXHIBIT INDEX

Registrant's Commission File No.: 0-21238

Exhibit No. -----	Description -----
(11)	Statement re: Computation of Per Share Earnings:
11.1 *	Landstar System, Inc. and Subsidiary Calculation of Earnings Per Common Share for the Twenty Six and Thirteen Weeks Ended June 26, 1999 and June 27, 1998
11.2 *	Landstar System, Inc. and Subsidiary Calculation of Diluted Earnings Per Share for the Twenty Six and Thirteen Weeks Ended June 26, 1999 and June 27, 1998
(27)	Financial Data Schedules:
27.1 *	1999 Financial Data Schedule

* Filed herewith

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SIGNATURES

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

LANDSTAR SYSTEM, INC.

Date: August 3, 1999

Henry H. Gerkens

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

Date: August 3, 1999

Robert C. LaRose

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

EXHIBIT 11.1

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

	Twenty Six Weeks Ended		Thirteen Weeks Ended	
	June 26, 1999	June 27, 1998	June 26, 1999	June 27, 1998
Earnings available for earnings per share:				
Income from continuing operations	\$ 18,230	\$ 13,916	\$ 10,755	\$ 8,987
Discontinued operations, net of income taxes		(22,589)		(22,152)
Net income (loss)	\$ 18,230	\$ (8,673)	\$ 10,755	\$ (13,165)
Average number of common shares outstanding	10,246	11,462	10,125	11,239

Earnings (loss) per common share:				
Income from continuing operations	\$ 1.78	\$ 1.21	\$ 1.06	\$ 0.80
Loss from discontinued operations		(1.97)		(1.97)
	-----	-----	-----	-----
Earnings (loss) per common share	\$ 1.78	\$ (0.76)	\$ 1.06	\$ (1.17)
	=====	=====	=====	=====

EXHIBIT 11.2

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

	Twenty Six Weeks Ended		Thirteen Weeks Ended	
	June 26, 1999	June 27, 1998	June 26, 1999	June 27, 1998
Earnings available for earnings per share:				
Income from continuing operations	\$ 18,230	\$ 13,916	\$ 10,755	\$ 8,987
Discontinued operations, net of income taxes		(22,589)		(22,152)
Net income (loss)	\$ 18,230	\$ (8,673)	\$ 10,755	\$ (13,165)
Average number of common shares outstanding	10,246	11,462	10,125	11,239
Plus: Incremental shares from assumed exercise of stock options	120	85	117	109
Average number of common shares and common share equivalents outstanding	10,366	11,547	10,242	11,348
Diluted earnings (loss) per share:				
Income from continuing operations	\$ 1.76	\$ 1.21	\$ 1.05	\$ 0.79
Loss from discontinued operations		(1.96)		(1.95)
Diluted earnings (loss) per share	\$ 1.76	\$ (0.75)	\$ 1.05	\$ (1.16)

<ARTICLE> 5

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This schedule contains summary financial information extracted from the Consolidated Balance Sheets at June 26, 1999 (Unaudited) and the Consolidated Statements of Income for the twenty six weeks ended June 26, 1999 (Unaudited) and is qualified in its entirety by reference to such financial statements.

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