UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended December 31, 2005

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number: 0-21238

Landstar System, Inc.
(Exact name of registrant as specified in its charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**06-1313069** *(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)

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

Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock, $0.01 Par Value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one)

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

The aggregate market value of the voting stock held by non-affiliates of the registrant was $1,600,997,000 (based on the per share closing price on June 24, 2005, the last business day of the Company's second fiscal quarter, as reported by the NASDAQ National Market System). In making this calculation, the registrant has assumed, without admitting for any purpose, that all directors and executive officers of the registrant, and no other persons, are affiliates.

The number of shares of the registrant's common stock, par value $.01 per share (the "Common Stock"), outstanding as of the close of business on March 7, 2006 was 58,973,419.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following document are incorporated by reference in this Form 10-K as indicated herein:

Part of 10-K

Document	Part of Form 10-K into Which Incorporated
Proxy Statement relating to Landstar System, Inc.'s Annual Meeting of Stockholders to be held on May 4, 2006	Part III

LANDSTAR SYSTEM, INC.
2005 ANNUAL REPORT ON FORM 10-K

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PART I

Item 1. *Business*

General

Landstar System, Inc. was incorporated in January 1991 under the laws of the State of Delaware. It acquired all of the capital stock of its predecessor, Landstar System Holdings, Inc. ("LSHI") on March 28, 1991. LSHI owns directly or indirectly all of the common stock of Landstar Ranger, Inc. ("Landstar Ranger"), Landstar Inway, Inc. ("Landstar Inway"), Landstar Ligon, Inc. ("Landstar Ligon"), Landstar Gemini, Inc. ("Landstar Gemini"), Landstar Carrier Services, Inc. ("Landstar Carrier Services"), Landstar Global Logistics, Inc. ("Landstar Global Logistics"), Landstar Logistics, Inc. ("Landstar Logistics"), Landstar Express America, Inc. ("Landstar Express America"), Landstar Contractor Financing, Inc. ("LCFI"), Risk Management Claim Services, Inc. ("RMCS") and Signature Insurance Company ("Signature"). Landstar Ranger, Landstar Inway, Landstar Ligon, Landstar Gemini, Landstar Carrier Services, Landstar Global Logistics, Landstar Logistics and Landstar Express America are collectively herein referred to as Landstar's "Operating Subsidiaries." Landstar System, Inc., LSHI, LCFI, RMCS, Signature and the Operating Subsidiaries are collectively referred to herein as "Landstar" or the "Company," unless the context otherwise requires. The Company's principal executive offices are located at 13410 Sutton Park Drive South, Jacksonville, Florida 32224 and its telephone number is (904) 398-9400. The Company makes available free of charge through its website its annual report on Form 10-K, quarterly reports on Form 10-Q, proxy and current reports on Form 8-K as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission ("SEC"). The Company's website is www.landstar.com. The SEC maintains a website at www.sec.gov that contains the Company's current and periodic reports, proxy and information statements and other information filed electronically with the SEC.

Historical Background

In March 1991, Landstar acquired LSHI in a buy-out organized by Kelso & Company, Inc. ("Kelso"). Investors in the acquisition included Kelso Investment Associates IV, L.P.("KIA IV"), an affiliate of Kelso, ABS MB Limited Partnership, an affiliate of DB Alex. Brown LLC (formerly known as Alex. Brown & Sons Incorporated), and certain management employees of the Company. In March 1993, Landstar completed a recapitalization which consisted of three principal components: (i) an initial public offering of Common Stock at a price of $13.00 per share, $1.625 per share adjusted for subsequent stock splits, (ii) the retirement of all its outstanding 14% Senior Subordinated Notes, and (iii) the refinancing of the Company's then existing senior debt facility with a senior bank credit agreement.

In October 1993, the Company completed a secondary public offering. Immediately subsequent to the offering, KIA IV no longer owned any shares of Landstar Common Stock and affiliates of DB Alex. Brown LLC retained approximately 1% of the Common Stock outstanding.

On July 17, 2002, the Company declared a two-for-one stock split effected in the form of a 100% stock dividend distributed on August 12, 2002 to stockholders of record on August 2, 2002.

On October 15, 2003, the Company declared a two-for-one stock split effected in the form of a 100% stock dividend distributed on November 13, 2003 to stockholders of record on November 3, 2003.

On December 9, 2004, the Company declared a two-for-one stock split effected in the form of a 100% stock dividend distributed on January 7, 2005 to stockholders of record on December 28, 2004.

Description of Business

Landstar is a non-asset based transportation and logistics services company, providing transportation capacity and related transportation services to shippers throughout the United States, and to a lesser extent, in Canada, and between the United States and Canada, Mexico and other countries. These business services emphasize safety, information coordination and customer service and are delivered through a network of independent commission sales agents and third party capacity providers linked together by a series of technological applications which are provided and coordinated by the Company. The Company's independent commission sales agents typically enter into non-exclusive contractual arrangements with Landstar and are responsible for locating freight, making that freight available to Landstar's capacity providers and coordinating the transportation of the freight with customers and capacity providers. The Company's third party capacity providers consist of independent contractors who provide truck capacity to the Company under exclusive lease arrangements (the "Business Capacity Owner Independent Contractors" or "BCO Independent Contractors"), unrelated trucking companies who provide truck capacity to the Company under non-exclusive contractual arrangements (the "Truck Brokerage Carriers"), air cargo carriers, ocean cargo carriers, railroads and unrelated bus providers. Through this network of agents and capacity providers, Landstar operates a transportation services business throughout North America with revenue exceeding $2.5 billion during the most recently completed fiscal year.

Landstar provides transportation services to a variety of industries, including iron and steel, automotive products, paper, lumber and building products, aluminum, chemicals, foodstuffs, heavy machinery, retail, electronics, ammunition and explosives and military hardware. In addition, Landstar provides transportation services to other transportation companies including logistics and less-than-truckload service providers. Landstar's transportation services include a full array of truckload transportation utilizing a wide range of specialized equipment including dry vans of various sizes, flatbeds (including drop decks and light specialty trailers), temperature-controlled vans and containers. In addition, Landstar provides dedicated contract and logistics solutions, including freight optimization and less than truckload freight consolidations. Landstar also provides truck brokerage, expedited land and air delivery of time-critical freight and the movement of containers via ocean.

Landstar focuses on providing transportation and logistics services which emphasize customer service and information coordination among its independent commission sales agents, customers and capacity providers. Landstar intends to continue developing appropriate systems and technologies that offer integrated transportation and logistics solutions to meet the total transportation needs of its customers.

The Company has three reportable business segments. These are the carrier, global logistics (formerly multimodal) and insurance segments. The financial information relating to the Company's reportable business segments as of and for the fiscal years ending 2005, 2004 and 2003 is included in Footnote 12 of Item 8, "Financial Statements and Supplementary Data" of this Form 10-K.

The carrier segment consists of Landstar Ranger, Landstar Inway, Landstar Ligon, Landstar Gemini and Landstar Carrier Services. The carrier segment primarily provides transportation services to the truckload market for a wide range of general commodities over irregular or non-repetitive routes utilizing dry and specialty vans and unsided trailers, including flatbed, drop deck and specialty. It also provides short-to-long haul movement of containers by truck, dedicated power-only truck capacity and truck brokerage. The carrier segment markets its services primarily through independent commission sales agents and utilizes tractors and in certain instances trailers provided by BCO Independent Contractors and Truck Brokerage Carriers. Carrier segment independent commission sales agents generally receive a percentage of the revenue they generate if the load is hauled by a BCO Independent Contractor and a contractually agreed upon percentage of the revenue or gross profit, defined as revenue less the cost of purchased transportation, from each load they generate if hauled by a Truck Brokerage Carrier.

The nature of the carrier segment business is such that a significant portion of its operating costs varies directly with revenue. At December 31, 2005, the carrier segment operated a fleet of 8,321 tractors, provided by 7,642 BCO Independent Contractors, and 13,419 trailers. Approximately 4,826 of the trailers available to the carrier segment are provided by BCO Independent Contractors, 2,036 are leased by the Company at rental rates that vary with the revenue generated through the trailer, 4,867 are owned by the Company, 1,597 are under a long-term rental arrangement at a fixed rate, and 93 are rented on a short-term basis from trailer rental companies. In addition, the Company has over 22,000 qualified Truck Brokerage Carriers who provide additional tractor and trailer capacity. Over 14,000 of these qualified Truck Brokerage Carriers have moved at least one load of freight for the Company during the 180 day period immediately preceding December 31, 2005. The use of BCO Independent Contractors, Truck Brokerage Carriers and other third party capacity providers enables the carrier segment to utilize a large fleet of revenue equipment while minimizing capital investment and fixed costs, thereby enhancing return on investment. BCO Independent Contractors who provide a tractor receive a percentage of the revenue generated for the freight hauled and a larger percentage of such revenue for providing both a tractor and a trailer. Truck Brokerage Carriers are paid a negotiated rate for each load they haul. The carrier segment's network of over 1,000 independent commission sales agent locations provides an in-market presence throughout the continental United States and Canada.

The global logistics segment is comprised of Landstar Global Logistics and its subsidiaries, Landstar Logistics and Landstar Express America. Transportation and logistics services provided by the global logistics segment include the arrangement of multimodal (ground, air, ocean and rail) moves, contract logistics, truck brokerage and emergency and expedited ground, air and ocean freight. The global logistics segment markets its services primarily through independent commission sales agents and utilizes capacity provided by BCO Independent Contractors and other third party capacity providers, including Truck Brokerage Carriers, railroads, air and ocean cargo carriers and bus providers. Global logistics independent commission sales agents generally receive a percentage of the gross profit from each load they generate. BCO Independent Contractors who provide truck capacity to the global logistics segment are compensated based on a percentage of the revenue generated by the haul depending on the type and timing of the shipment. Truck Brokerage Carriers are paid either a negotiated rate for each load they haul or a contractually agreed-upon fixed amount per load. Railroads, air and ocean cargo carriers generally receive a contractually fixed amount per load and bus providers receive a negotiated rate per mile or per day.

The nature of the global logistics segment business is such that a significant portion of its operating costs also varies directly with revenue. At December 31, 2005, the global logistics segment operated a fleet of 407 trucks, provided by approximately 369 BCO Independent Contractors. Global logistics segment BCO Independent Contractors primarily provide cargo vans and straight trucks that are utilized for emergency and expedited freight services. The global logistics segment's network of over 130 independent commission sales agents provide over 130 sales locations. Approximately 25% of the global logistics segment's revenue is contributed by one independent commission sales agent who derives the majority of his revenue from 2 customers. During the fiscal years 2005 and 2004, 35% and 12%, respectively, of the global logistics segment's revenue was derived from disaster relief services provided under a contract between Landstar Express America and the United States Department of Transportation/Federal Aviation Administration (the "FAA Contract").

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

Factors Significant to the Company's Operations

Management believes the following factors are particularly significant to the Company's operations:

Agent Network

Management believes the Company has more independent commission sales agents than any other domestic truckload carrier. Landstar's network of over 1,000 independent commission sales agent locations provides the Company with regular contact with shippers at the local level and the capability to be highly responsive to shippers' changing needs. The agent network also enables Landstar to be responsive both in providing specialized equipment to both large and small shippers and in providing capacity on short notice from the Company's large fleet. Through its agent network, the Company believes it offers smaller shippers a level of service comparable to that typically enjoyed only by larger customers. Examples of services that Landstar is able to make available through the agent network to smaller shippers include the ability to provide transportation services on short notice (often within hours from notification to time of pick-up), multiple pick-up and delivery points, electronic data interchange capability and access to specialized equipment. In addition, a number of the Company's agents specialize in certain types of freight and transportation services (such as oversized or heavy loads).

The typical Landstar agent maintains a relationship with a number of shippers and services these shippers by providing a base of operations for the Company's BCO Independent Contractors and other third party capacity providers. Independent commission sales agents in the carrier segment receive a commission generally between 5% and 8% of the revenue they generate if the load is hauled by a BCO Independent Contractor and a contractually agreed-upon percentage of the revenue or the gross profit, defined as revenue less the cost of purchased transportation, from each load they generate if hauled by a Truck Brokerage Carrier. In most cases, the carrier segment independent commission sales agents are paid volume-based incentives. Global logistics independent commission sales agents are typically paid a contractually agreed-upon percentage of the gross profit from each load they generate.

The Company's primary day to day contact with its customers is through its agents and not through employees of the Company. Nevertheless, it is important to note that Operating Subsidiaries contract directly with customers and generally assume the credit risk and liability for freight losses or damages.

The carrier segment's independent commission sales agents use the Company's Landstar Electronic Administrative Dispatch System (LEADS) software program which enables these agents to enter available freight, dispatch capacity and process most administrative procedures and then communicate that information to Landstar and its capacity providers via the internet. The global logistics segment's independent commission sales agents use other Landstar proprietary software to process customer shipments and communicate the necessary information to third party capacity providers and Landstar. The Company's web-based available freight and truck information system provides a listing of available trucks to the Company's independent commission sales agents.

The Operating Subsidiaries emphasize programs to support the agents' operations and to establish pricing parameters. The carrier segment and global logistics segment maintain regular contact with their independent commission sales agents and Landstar holds an annual company-wide agent convention.

During 2005, 466 agents generated revenue for Landstar of at least $1 million each, or approximately $2.4 billion of Landstar's total revenue, and one agent generated approximately $197,000,000 of Landstar's total revenue.

Although the Company generally enters into non-exclusive contractual relationships with its independent commission sales agents, management believes that the majority of the agents who generate revenue of $1 million or more choose to represent Landstar exclusively. Historically, Landstar has experienced very limited agent turnover among its larger-volume agents.

Capacity

The Company relies exclusively on independent third parties for its hauling capacity. These third party capacity providers consist of BCO Independent Contractors, Truck Brokerage Carriers, air and ocean cargo carriers, railroads and bus providers. Landstar's use of capacity provided by its BCO Independent Contractors and other third party capacity providers allows it to maintain a lower level of capital investment, resulting in lower fixed costs. Historically, with the exception of air revenue, the margin generated from freight hauled by BCO Independent Contractors has been greater than from freight hauled by other third party capacity providers.

BCO Independent Contractors. Management believes the Company has the largest fleet of truckload BCO Independent Contractors in the United States. This provides marketing, operating, safety, recruiting, retention and financial advantages to the Company. The Company's BCO Independent Contractors are compensated based on a fixed percentage of the revenue generated from the freight they haul. This percentage generally ranges from 60% to 70% where the BCO Independent Contractor provides only a tractor and from 73% to 79% where the BCO Independent Contractor provides both a tractor and a trailer. The BCO Independent Contractor must pay substantially all of the expenses of operating his/her equipment, including driver wages and benefits, fuel, physical damage insurance, maintenance, highway use taxes and debt service.

The Company maintains an internet site through which BCO Independent Contractors can view a complete listing of all the Company's available freight, allowing them to consider rate, size, origin and destination when planning trips.

The Landstar Contractors' Advantage Purchasing Program leverages Landstar's purchasing power to provide discounts to eligible BCO Independent Contractors when they purchase equipment, fuel, tires and other items. In addition, LCFI provides a source of funds at competitive interest rates to the Independent Contractors to purchase primarily trailing equipment and mobile communication equipment.

Trucks provided to the Company by the BCO Independent Contractors were 8,728 at December 31, 2005, compared to 8,677 at December 25, 2004. The number of trucks provided by BCO Independent Contractors fluctuates daily as a result of truck recruiting and truck terminations. Trucks recruited were lower in 2005 than in 2004, however, lower truck terminations in 2005 resulted in a net gain of 51 trucks. Landstar's truck turnover ratio was approximately 31% in 2005 compared to 35% in 2004. More than half of this turnover was attributable to BCO Independent Contractors who had been BCO Independent Contractors with the Company for less than one year. Management believes that factors that have historically favorably impacted turnover include the Company's extensive agent network, the Company's programs to reduce the operating costs of its BCO Independent Contractors and Landstar's reputation for quality, service and reliability. Management believes that a reduction in the amount of available freight may cause an increase in truck turnover.

Truck Brokerage Carriers. The Company maintains a database of over 22,000 qualified Truck Brokerage Carriers who provide additional truck hauling capacity to the Company. Truck Brokerage Carriers are paid either a negotiated rate for each load they haul or a contractually agreed-upon amount per load. The Company recruits, qualifies, establishes contracts with, tracks safety ratings and service records of and generally maintains the relationships with these third party trucking companies. In addition to augmenting the Company's capability during periods of extraordinary demand and traffic lane imbalance, the use of Truck Brokerage Carriers enables the Company to pursue different types and quality of freight such as temperature-controlled, short-haul traffic and, in certain instances, lower priced freight that would generally not be handled by the Company's BCO Independent Contractors.

The Company maintains an internet site through which Truck Brokerage Carriers can view a listing of all the Company's freight that is available to be hauled by Truck Brokerage Carriers.

The Landstar SavingsPlus Program leverages Landstar's purchasing power to provide discounts to eligible Truck Brokerage Carriers when they purchase fuel and equipment and provides the Truck Brokerage Carriers with an electronic payment option.

Third Party Rail, Air, Ocean and Other Capacity. The Company maintains contractual relationships with various railroads and air cargo capacity providers. These relationships allow the Company to pursue the freight best serviced by these forms of transportation capacity. Railroads and air and ocean cargo carriers are generally paid a contractually fixed amount per load. The Company also contracts with other third party capacity providers, such as air charter and bus companies, when required by specific customer needs.

Diversity of Services Offered

The Company offers its customers a wide range of transportation and logistics services through the Operating Subsidiaries, including a fleet of diverse trailing equipment and extensive geographic coverage. Specialized services offered by the Company include those provided by a large fleet of flatbed trailers, multi-axle trailers capable of hauling extremely heavy or oversized loads, drivers certified to handle ammunition and explosives shipments for the U.S. Department of Defense, emergency and expedited surface and air cargo services and intermodal capability with railroads and, to a lesser extent, steamship lines.

The following table illustrates the diversity of the trailing equipment available to the Company as of December 31, 2005:

Trailers by Type	
Vans	9,755
Temperature-controlled	108
Flatbeds, including step decks, drop decks and low boys	3,566
Total	13,429

Customers

The Company has a diversified group of customers. The Company's top 100 customers accounted for approximately 55% and 53% of the Company's revenue during fiscal 2005 and 2004, respectively. Management believes that the Company's overall size, geographic coverage, equipment and service capability offer the Company significant competitive marketing and operating advantages. These advantages allow the Company to meet the needs of even the largest shippers. Increasingly, larger shippers are substantially reducing the number of authorized carriers they use in favor of a small number of "core carriers", such as the Company, whose size and diverse service capabilities enable these core carriers to satisfy most of the shippers' transportation needs. Examples of national account customers include the United States Department of Defense, the United States Department of Transportation/Federal Aviation Administration (the "FAA") and many of the companies included in the Fortune 500. Large shippers are also using third party logistics providers ("3PLs") to outsource the management and coordination of their transportation needs. In turn, 3PLs require significant amounts of capacity from carriers, such as the Company, to service the needs of customers. In addition, other transportation companies utilize the Company's transportation capacity to satisfy their obligations to their shippers. There were 13 transportation service providers, including 3PLs, included in the Company's top 25 revenue generating accounts for the fiscal year ended December 31, 2005. In addition, management believes the Company's network of agents and third party capacity providers allows it to efficiently attract and service smaller shippers which may not be as desirable to other large transportation providers (see above under "Agent Network").

Prior to fiscal year 2005, no customer accounted for more than 10% of the Company's revenue. Historically, the United States Government has been the Company's largest customer. During 2005 and 2004, revenue derived from the United States Government, which is included as a top 100 customer, was approximately 17% and 9% of revenue, respectively. Included in the revenue derived from the United States Government in both fiscal years was revenue related to disaster relief services provided by the Company for storms that impacted the United States. These disaster relief services were provided primarily under a contract with the FAA. Revenue included $275.9 million and $63.8 million in 2005 and 2004, respectively, under the FAA contract. The FAA contract expires December 31, 2006.

There can be no assurance with respect to the provision of disaster relief services provided by Landstar Express America under a contract with the FAA following the expiration of the FAA contract (see "Expiration of contract with the United States Department of Transportation/Federal Aviation Administration" under Item 1A "Risk Factors").

The amount of revenue derived under the FAA contract, if any, is dependent on the occurrence of specific events, primarily disasters, natural or otherwise, for which the Company provides emergency transportation services in support of disaster relief efforts undertaken by the United States Government and administered by the FAA. Because of the unpredictable nature of the occurrence and severity of such events, even if Landstar Express America were to enter into a new FAA contract, there can be no assurance that such events will occur, and if such events occur, the extent to which the FAA will require the services of Landstar Express America, if at all.

Technology

Management believes leadership in the development and application of technology is an ongoing part of providing high quality service at competitive prices. The Company's focus is on developing and implementing software applications which are designed to improve its operational and administrative efficiency, assist its independent commission sales agents in sourcing capacity, assist customers in meeting their transportation needs and to assist its third party capacity providers in identifying desirable freight. Landstar manages its technology programs centrally through its information services department.

The Company's information technology systems used in connection with its operations are located in Jacksonville, Florida and, to a lesser extent, in Rockford, Illinois. Landstar relies, in the regular course of its business, on the proper operation of its information technology systems.

Corporate Services

Management believes that significant advantages result from the collective expertise and corporate services afforded by Landstar's corporate management. The primary services provided are:

accounting, budgeting and taxes	quality programs
finance	risk management insurance services
human resource management	safety
legal	strategic planning
purchasing	technology and management information systems

Competition

Landstar competes primarily in the transportation services industry with truckload carriers, intermodal transportation and logistics service providers, railroads, less-than-truckload carriers, third party broker carriers and other non-asset based transportation and logistics service providers. The transportation services industry is extremely competitive and fragmented.

Management believes that competition for the freight transported by the Company is based primarily on service and efficiency and, to a lesser degree, on freight rates alone. Management believes that Landstar's overall size and availability of a wide range of equipment, together with its geographically-dispersed local independent agent network, present the Company with significant competitive advantages over many transportation and logistics service providers.

Self-Insured Claims

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 prior to June 19, 2003 and 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. 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 Truck Brokerage Carriers and other third party capacity providers who transport freight on behalf of the Company is reduced by various factors including the extent to which they maintain their own insurance coverage. A material increase in the frequency or severity of accidents, cargo or workers' compensation claims or the unfavorable development of existing claims could be expected to materially adversely affect Landstar's results of operations.

Insurance Above Self-Insured Retention

The Company has historically maintained insurance coverage above its self-insured retention amounts. For the fiscal year ended and as of December 31, 2005, the Company maintains insurance for liabilities attributable to commercial trucking accidents with third party insurance companies for each and every occurrence in an amount in excess of $200,000,000 per occurrence above the Company's $5,000,000 self insured retention. Historically, the Company has relied on a limited number of third party insurance companies to provide insurance coverage for commercial trucking claims in excess of specific per occurrence limits, up to various maximum amounts. Over the past few years, the premiums proposed by the third party insurance companies providing coverage for commercial trucking liability insurance over the Company's self insured retention amounts have varied dramatically. In an attempt to manage the significant fluctuations in the cost of these premiums required by the third party insurance companies, the Company has historically increased or decreased the level of its exposure to commercial trucking claims on a per occurrence basis. To the extent that the third party insurance companies increase their proposed premiums for coverage of commercial trucking claims, the Company may increase its exposure in aggregate or on a per occurrence basis. However, to the extent the third party insurance companies reduce their premiums proposed for coverage of commercial trucking claims, the Company may reduce its exposure in aggregate or on a per occurrence basis.

Regulation

Certain of the Operating Subsidiaries are considered motor carriers which are regulated by the Federal Motor Carrier Safety Administration (the "FMCSA") and by various state agencies. The FMCSA has broad regulatory powers, with respect to activities such as motor carrier operations, practices, periodic financial reporting and insurance. Subject to federal and state regulatory authorities or regulation, the Company may transport most types of freight to and from any point in the United States over any route selected by the Company.

The trucking industry is subject to possible regulatory and legislative changes (such as the possibility of more stringent environmental and/or safety/security regulations or limits on vehicle weight and size) that may affect the economics of the industry by requiring changes in operating practices or by changing the demand for common or contract carrier services or the cost of providing truckload services.

Interstate motor carrier operations are subject to safety requirements prescribed by the FMCSA. Each driver, whether a BCO Independent Contractor or Truck Brokerage Carrier, is required to have a commercial driver's license and is subject to mandatory drug and alcohol testing. The FMCSA's commercial driver's license and drug and alcohol testing requirements have not adversely affected the Company's ability to source the capacity necessary to meet its customers' transportation needs.

Seasonality

Landstar's operations are subject to seasonal trends common to the trucking industry. Results of operations for the quarter ending in March are typically lower than the quarters ending in June, September and December.

Employees

As of December 31, 2005, the Company and its subsidiaries employed 1,285 individuals. Approximately 24 Landstar Ranger drivers (out of a Company total of 8,728 drivers for BCO Independent Contractors) are members of the International Brotherhood of Teamsters. The Company considers relations with its employees to be good.

Item 1A. *Risk Factors*

Increased severity or frequency of accidents and other claims. As noted above in Item 1, "Business — Factors Significant to the Company's Operations — Self Insured-Claims," 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 prior to June 19, 2003 and 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. The Company also retains liability up to $1,000,000 for each general liability claim, $250,000 for each workers compensation claim, and $250,000 for each cargo claim. A material increase in the frequency or severity of accidents, cargo or workers' compensation claims or the unfavorable development of existing claims could have a material adverse effect on Landstar, including its results of operations and financial condition.

Dependence on third party insurance companies. As noted above in Item 1, "Business — Factors Significant to the Company's Operations — Insurance Above Self-Insured Retention," the Company is dependent on a limited number of third party insurance companies to provide insurance coverage in excess of its self-insured retention amounts. Historically, the Company has maintained insurance coverage for commercial trucking claims in excess of specific per occurrence limits, up to various maximum amounts, with a limited number of third party insurance companies. Over the past three years, the premiums proposed by the third party insurance companies providing coverage for commercial trucking liability insurance above the Company's self-insured retention amounts have varied dramatically. In an attempt to manage the significant fluctuations in the cost of these premiums required by the third party insurance companies, the Company has historically increased or decreased the level of its exposure to commercial trucking claims on a per occurrence basis. To the extent the third party insurance companies increase their proposed premiums for coverage of commercial trucking liability claims, the Company may increase its exposure or reduce the maximum amount of coverage in aggregate or on a per occurrence basis. However, to the extent the third party insurance companies reduce their premiums proposed for coverage of commercial trucking claims, the Company may reduce its exposure or increase the maximum amount of coverage in aggregate or on a per occurrence basis.

Dependence on independent commission sales agents. As noted above in Item 1, "Business — Factors Significant to the Company's Operations — Agent Network," the Company markets its services primarily through independent commission sales agents, and currently has a network of over 900 such agents. During 2005, 466 agents generated revenue for Landstar of at least $1 million each, or approximately 94% of Landstar's consolidated revenue and one agent generated approximately $197,000,000, or 8%, of Landstar's total revenue. Although the Company competes with motor carriers and other third parties for the services of these independent commission sales agents, Landstar has historically experienced very limited agent turnover among its larger-volume agents. However, Landstar's contracts with its agents are typically terminable upon 10 to 30 days notice by either party and generally do not restrict the ability of a former agent to compete with Landstar following any such termination. The loss of some of the Company's key agents or a significant decrease in volume generated by Landstar's larger agents could have a material adverse effect on Landstar, including its results of operations and revenue.

Dependence on third party capacity providers. As noted above in Item 1, "Business — Factors Significant to the Company's Operations — Capacity," Landstar does not own trucks or other transportation equipment (other than trailing equipment) and relies on third party capacity providers, including BCO Independent Contractors, Truck Brokerage Carriers, railroads, and air and ocean cargo carriers to transport freight for its customers. The Company competes with motor carriers and other third parties for the services of BCO Independent Contractors and other third party capacity providers. Freight hauled by BCO Independent Contractors represented 55.9% of Landstar's revenue in 2005. A significant decrease in available capacity provided by either the Company's BCO Independent Contractors or other third party capacity providers could have a material adverse effect on Landstar, including its results of operations and revenue.

Change in capacity mix. Historically, the Company's carrier segment has primarily relied on capacity provided by BCO 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 Truck Brokerage Carriers. Freight hauled by BCO Independent Contractors represented 55.9%, 64.2% and 69.3% of Landstar's consolidated revenue in 2005, 2004 and 2003, respectively. Historically, with the exception of air revenue, the net margin (defined as revenue less the cost of purchased transportation and agent commissions) generated from freight hauled by BCO Independent Contractors has been greater than freight hauled by other third party capacity providers. An increase in the amount of revenue generated through other third party capacity providers without an increase in total revenue and/or a corresponding reduction in other costs, including other operating, insurance and claims, selling, general and administrative and depreciation and amortization could have a negative effect on the Company's operating margin (defined as operating income divided by revenue).

Expiration of contract with the United States Department of Transportation/Federal Aviation Administration. Historically, the United States Government has been the Company's largest customer. During fiscal years 2001 through 2003, revenue derived from various departments of the United States Government, primarily the United States Department of Defense, contributed between 5.0% and 7.5% of the Company's annual revenue. During 2005 and 2004, revenue derived from the United States Government, represented approximately 17% and 9% of consolidated revenue, respectively. Included in revenue derived from United States Government during fiscal years 2005 and 2004 was $275.9 million and $63.8 million of revenue, respectively, related to disaster relief services provided by the Company for storms that impacted the United States. These emergency transportation services were provided primarily under a contract with the FAA. The $275.9 million recognized under the FAA contract during the 2005 fiscal year generated $51.9 million of operating income which, net of related income taxes, increased net income by $31.6 million. The $63.8 million of revenue recognized under the FAA contract during the 2004 fiscal year generated $11.8 million of operating income which, net of related income taxes, increased net income $7.3 million. The FAA contract expires December 31, 2006.

It is expected that the FAA will request proposals from various companies for a new contract regarding disaster relief services to be provided subsequent to 2006. The Company cannot predict whether a request for proposal, if any, will: a) be made to Landstar Express America, b) include pricing and other provisions that are the same or similar to the current contract provisions, or c) if a request for proposal is received by Landstar Express America, there can be no assurances that Landstar Express America would submit a proposal, or if it did, the FAA would select Landstar Express America as the transportation provider for disaster relief services in years subsequent to 2006.

The amount of revenue derived under the FAA contract, if any, is dependent on the occurrence of specific events, primarily disasters, natural or otherwise, for which the Company provides emergency transportation services in support of disaster relief efforts undertaken by the United States Government and administered by the FAA. Because of the unpredictable nature of the occurrence and severity of such events, even if Landstar Express America were to enter into a new FAA contract, there can be no assurance that such events will occur, and if such events occur, the extent to which the FAA will require the services of Landstar Express America, if at all.

Decreased demand for transportation services. The transportation industry historically has experienced cyclical financial results as a result of slowdowns in economic activity, the business cycles of customers, price increases by capacity providers, interest rate fluctuations, and other economic factors beyond Landstar's control. Certain of the Company's third party capacity providers can be expected to charge higher prices to cover increased operating expenses, and the Company's operating income may decline if it is unable to pass through to its customers the full amount of such higher transportation costs. If a slowdown in economic activity or a downturn in the Company's customers' business cycles causes a reduction in the volume of freight shipped by those customers, the Company's operating results could be materially adversely affected.

Substantial industry competition. As noted above in Item 1, "Business — Factors Significant to the Company's Operations — Competition," Landstar competes primarily in the transportation services industry. The transportation services industry is extremely competitive and fragmented. Landstar competes primarily with truckload carriers, intermodal transportation service providers, railroads, less-than-truckload carriers, third party broker carriers and other non-asset based transportation and logistics service providers. Management believes that competition for the freight transported by the Company is based primarily on service and efficiency and, to a lesser degree, on freight rates alone. Historically, competition has created downward pressure on freight rates. A decrease in freight rates could have a material adverse effect on Landstar, including its revenue and operating income.

Dependence on key personnel. The Company is dependent on the services of certain of its executive officers. Although the Company believes it has an experienced and highly qualified management group, the loss of the services of certain of the Company's executive officers could have a material adverse effect on the Company.

Disruptions or failures in the Company's computer systems. As noted above in Item 1, "Business — Factors Significant to the Company's Operations — Technology," the Company's information technology systems used in connection with its operations are located in Jacksonville, Florida and to a lesser extent in Rockford, Illinois. Landstar relies in the regular course of its business on the proper operation of its information technology systems to link its extensive network of customers, agents and third party capacity providers, including its BCO Independent Contractors. Any significant disruption or failure of its technology systems could significantly disrupt the Company's operations and impose significant costs on the Company.

Potential changes in fuel taxes. From time to time, various legislative proposals are introduced to increase federal, state, or local taxes, including taxes on motor fuels. The Company cannot predict whether, or in what form, any increase in such taxes applicable to the transportation services provided by the Company will be enacted and, if enacted, whether or not the Company's BCO Independent Contractors and Truck Brokerage Carriers would attempt to pass the increase onto the Company or if the Company will be able to reflect this potential increased cost of capacity, if any, in prices to customers. Any such increase in fuel taxes could have a material adverse effect on Landstar, including its results of operations and financial condition. Moreover, competition from other transportation service companies including those that provide non-trucking modes of transportation and intermodal transportation would likely increase if state or federal taxes on fuel were to increase without a corresponding increase in taxes imposed upon other modes of transportation.

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

The Company classifies all of its BCO Independent Contractors and independent commission sales agents as independent contractors for all purposes, including employment tax and employee benefit purposes. There can be no assurance that legislative, judicial, or regulatory (including tax) authorities will not introduce proposals or assert interpretations of existing rules and regulations that would change the employee/independent contractor classification of BCO Independent Contractors or independent commission sales agents currently doing business with the Company. Although management believes that there are no proposals currently pending that would change the employees/independent contractor classification of BCO Independent Contractors or independent commission sales agents currently doing business with the Company, the costs associated with potential changes, if any, with respect to these BCO Independent Contractor classifications could have a material adverse effect on Landstar, including its results of operations and financial condition if Landstar were unable to reflect them in its fee arrangements with the BCO Independent Contractors or independent commission sales agents or in the prices charged to its customers.

Regulatory and legislative changes. As noted above in Item 1, "Business — Factors Significant to the Company's Operations — Regulation," certain of the Operating Subsidiaries are motor carriers which are regulated by the Federal Motor Carrier Safety Administration (FMCSA) and by various state agencies. The trucking industry is subject to possible regulatory and legislative changes (such as increasingly stringent environmental and/or safety/security regulations or limits on vehicle weight and size) that may affect the economics of the industry by requiring changes in operating practices or by changing the demand for common or contract carrier services or the cost of providing truckload services. Any such regulatory or legislative changes could have a material adverse effect on Landstar, including its results of operations and financial condition.

Catastrophic loss of a Company facility. The Company faces the risk of a catastrophic loss of the use of all or a portion of its facilities located in Jacksonville, Florida and Rockford, Illinois due to hurricanes, flooding, tornados or other weather conditions or natural disasters, terrorist attack or otherwise. The Company's corporate headquarters and approximately two-thirds of the Company's employees are located in its Jacksonville, Florida facility and a significant portion of the Company's operations with respect to the carrier segment and Truck Brokerage Carriers is located in its Rockford, Illinois facility. In particular, a Category 3, 4 or 5 hurricane that impacts the Jacksonville, Florida metropolitan area or a tornado that strikes the Rockford, Illinois area could significantly disrupt the Company's operations and impose significant costs on the Company.

Although the Company maintains insurance covering its facilities, including business interruption insurance, the Company's insurance may not be adequate to cover all losses that may be incurred in the event of a catastrophic loss of either the Jacksonville, Florida or Rockford, Illinois facility. In addition, such insurance, including business interruption insurance, could in the future become more expensive and difficult to maintain and may not be available on commercially reasonable terms or at all.

Item 1B. *Unresolved Staff Comments*

None

Item 2. *Properties*

The Company owns or leases various properties in the U.S. for the Company's operations and administrative staff that support its independent commission sales agents, BCO Independent Contractors and other third party capacity providers. The carrier segment's primary facilities are located in Jacksonville, Florida and Rockford, Illinois. The global logistics segment's primary facility is located in Jacksonville, Florida. In addition, the Company's corporate headquarters are located in Jacksonville, Florida. The Rockford, Illinois facility is owned by the Company and all other primary facilities are leased.

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

Item 3. *Legal Proceedings*

On November 1, 2002, the Owner Operator Independent Drivers Association, Inc. ("OOIDA") and six individual BCO Independent Contractors (the "Plaintiffs") filed a putative class action complaint (the "Complaint") in the United States District Court for the Middle District of Florida (the "Court") in Jacksonville, Florida, against the Company. The Complaint alleges that certain aspects of the Company's motor carrier leases with its BCO Independent Contractors violate certain federal leasing regulations and seeks injunctive relief, an unspecified amount of damages and attorney's fees. On March 8 and June 4, 2004, the Court dismissed all claims of one of the six individual Plaintiffs on the grounds that the ICC Termination Act (the "Act") is not applicable to leases signed before the Act's January 1, 1996, effective date, and dismissed all claims of all remaining Plaintiffs against four of the seven Company entities previously named as defendants. Claims currently survive against the following Company entities: Landstar Inway, Inc., Landstar Ligon, Inc. and Landstar Ranger, Inc. (the "Defendants"). With respect to the remaining claims, the June 4, 2004 order held that the Act created a private right of action to which a four-year statute of limitation applies. On April 7, 2005, Plaintiffs filed an Amended Complaint that included additional allegations with respect to violations of certain federal leasing regulations. On August 30, 2005, the Court granted a motion by Plaintiffs to certify the case as a class action. On October 19, 2005, the U.S. Court of Appeals for the Eleventh Circuit denied the Defendants' petition for permission to file an interlocutory appeal of the class-certification order.

Discovery is ongoing in the case, which is set for a jury trial in October 2006. On January 13, 2006, the Plaintiffs filed a motion for partial summary judgment on liability. On February 15, 2006, the Defendants filed their opposition to that motion and their own motion for partial summary judgment to address the claims of the Amended Complaint. The Defendants' motion for partial summary judgment filed February 15, 2006 supersedes and replaces prior motions for partial summary judgment filed with the Court on April 18 and June 10, 2005. On March 6, 2006, the Plaintiffs filed their opposition to the Defendants' motion for partial summary judgement. The District Court is expected to rule prior to trial on the pending motions for partial summary judgment.

Due to a number of factors, including the unresolved motions for summary judgment, the incomplete state of discovery in this matter, particularly classwide discovery, the absence of final expert reports and the lack of litigated final judgments in a number of similar cases or otherwise applicable precedents, the Company does not believe it is in a position to conclude whether or not there is a reasonable possibility of an adverse outcome in this case or what damages, if any, Plaintiffs would be awarded should they prevail on all or any part of their claims. However, the Company believes it has meritorious defenses, including to the expanded allegations in the Amended Complaint, and it intends to continue asserting these defenses vigorously.

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

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

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 2005.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

The Common Stock of the Company is quoted through the National Association of Securities Dealers, Inc. National Market System (the "NASDAQ National Market System") under the symbol "LSTR." The following table sets forth the high and low reported sale prices for the Common Stock as quoted through the NASDAQ National Market System for the periods indicated. All historical share- related financial information presented herein has been adjusted to reflect three two-for-one stock splits, each effected in the form of a 100% stock dividend. The first such stock split was distributed on August 12, 2002 to stockholders of record on August 2, 2002, the second such stock split was distributed on November 13, 2003 to stockholders of record on November 3, 2003, and the third such stock split was distributed on January 7, 2005 to stockholders of record on December 28, 2004.

	2005 Market Price		2004 Market Price	
Fiscal Period	High	Low	High	Low
First Quarter	$ 39.250	$29.250	$ 20.870	$ 17.000
Second Quarter	35.850	26.750	26.110	20.260
Third Quarter	40.420	27.450	28.590	23.140
Fourth Quarter	44.500	36.100	37.495	27.125

The reported last sale price per share of the Common Stock as quoted through the NASDAQ National Market System on March 7, 2006 was $44.77 per share. As of such date, Landstar had 58,973,419 shares of Common Stock outstanding. As of February 17, 2006, the Company had 87 stockholders of record of its Common Stock. However, the Company estimates that it has a significantly greater number of stockholders because a substantial number of the Company's shares are held by brokers or dealers for their customers in street name.

On July 28, 2005, Landstar System, Inc. announced that its Board of Directors declared the Company's first ever cash dividend of $0.025 per share with respect to its outstanding shares of Common Stock. The distribution date for this cash dividend was on August 31, 2005, to stockholders of record on August 17, 2005. On October 13, 2005, Landstar System, Inc. announced that its Board of Directors declared its second quarterly dividend of $0.025 per share. The distribution date for this cash dividend was on November 30, 2005, to stockholders of record at the close of business on November 10, 2005. It is the intention of the Board of Directors to pay a quarterly dividend going forward. No such cash dividends were paid in 2004.

On April 28, 2005, Landstar System, Inc. announced that it had been authorized by its Board of Directors to purchase up to an additional 2,000,000 shares of its Common Stock from time to time in the open market and in privately negotiated transactions.

On July 28, 2005, Landstar System, Inc. announced that it had been authorized by its Board of Directors to purchase up to an additional 2,000,000 shares of its Common Stock from time to time in the open market and in privately negotiated transactions.

At December 31, 2005, Landstar System, Inc. had 2,525,227 shares of Common Stock remaining to be purchased under the authorized share repurchase programs.

The Company did not purchase any shares of its Common Stock during the period from September 24, 2005, the end of the Company's third fiscal quarter, to December 31, 2005, the end of the Company's fourth fiscal quarter.

At the May 12, 2005 annual meeting of stockholders, the stockholders 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 80,000,000 shares to 160,000,000 shares.

The Company maintains three stock option plans and one stock compensation plan. The following table presents information related to securities authorized for issuance under these plans at December 31, 2005:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity Compensation Plans Approved by Security Holders	2,794,652	$ 19.07	4,677,160
Equity Compensation Plans Not Approved by Security Holders	0	0	0

Included in the number of securities remaining available for future issuance under equity compensation plans was 170,000 shares of Common Stock reserved for issuance under the 2003 Directors' Stock Compensation Plan.

Item 6. ***Selected Financial Data***

LANDSTAR SYSTEM, INC. AND SUBSIDIARY

SELECTED CONSOLIDATED FINANCIAL DATA

Income Statement Data:	Fiscal Years 2005	2004	2003	2002	2001
	(Dollars in thousands, except per share amounts)				
Revenue	$2,517,828	$2,019,936	$1,596,571	$1,506,555	$ 1,392,771
Investment income	2,695	1,346	1,220	1,950	3,567
Costs and expenses:					
Purchased transportation	1,880,431	1,510,963	1,185,043	1,116,009	1,030,454
Commissions to agents	203,730	161,011	125,997	118,864	110,513
Other operating costs	36,709	37,130	37,681	34,325	32,750
Insurance and claims	50,166	60,339	45,690	42,188	32,930
Selling, general and administrative	134,085	118,461	105,849	101,918	99,762
Depreciation and amortization	15,920	13,959	12,736	11,520	13,543
Total costs and expenses	2,321,041	1,901,863	1,512,996	1,424,824	1,319,952
Operating income	199,482	119,419	84,795	83,681	76,386
Interest and debt expense	4,744	3,025	3,240	4,292	6,802
Income before income taxes	194,738	116,394	81,555	79,389	69,584
Income taxes	74,782	44,522	30,855	30,168	26,790
Net income	$ 119,956	$ 71,872	$ 50,700	$ 49,221	$ 42,794
Earnings per common share	$ 2.03	$ 1.19	$ 0.82	$ 0.76	$ 0.64
Diluted earnings per share	$ 1.98	$ 1.16	$ 0.79	$ 0.73	$ 0.63
Dividends paid per common share	$ 0.05				

Balance Sheet Data:	Dec. 31, 2005	Dec. 25, 2004	Dec. 27, 2003	Dec. 28, 2002	Dec. 29, 2001
Total assets	$ 762,760	$584,512	$ 438,457	$ 400,748	$364,651
Long-term debt, including current maturities	166,973	92,090	91,456	77,360	101,874
Shareholders' equity	252,635	212,839	142,515	149,093	117,440

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of 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-K statement contain forward-looking statements, such as statements which relate to Landstar's business objectives, plans, strategies and expectations. Terms such as "anticipates," "believes," "estimates," "expects," "plans," "predicts," "may," "should," "could," "will," the negative thereof and similar expressions are intended to identify forward-looking statements. Such statements are by nature subject to uncertainties and risks, including but not limited to: an increase in the frequency or severity of accidents or workers' compensation claims; unfavorable development of existing accident claims; dependence on independent commission sales agents; dependence on third party capacity providers; disruptions or failures in our computer systems; a downturn in domestic economic growth or growth in the transportation sector; substantial industry competition; and other operational, financial or legal risks or uncertainties detailed in this and

Landstar's other SEC filings from time to time and described in Item 1A of this Form 10-K under the heading "Risk Factors". These risks and uncertainties could cause actual results or events to differ materially from historical results or those anticipated. Investors should not place undue reliance on such forward-looking statements, and the Company undertakes no obligation to publicly update or revise any forward-looking statements.

Introduction

Landstar System, Inc. and its subsidiary, Landstar System Holdings, Inc. (together, referred to herein as "Landstar" or the "Company"), provide transportation services to a variety of market niches throughout the United States and to a lesser extent in Canada, and between the United States and Canada, Mexico and other countries through its operating subsidiaries. Landstar's business strategy is to be a non-asset based provider of transportation capacity and logistics services delivering safe, specialized transportation services globally 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, global logistics (formerly multimodal) and insurance segments.

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

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

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

During the fiscal year ended December 31, 2005, the carrier segment contributed 67% of Landstar's consolidated revenue, the global logistics segment contributed 32% of Landstar's consolidated revenue and the insurance segment contributed 1% of Landstar's consolidated revenue.

Changes in Financial Condition and Results of Operations

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

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

	Fiscal Year		
	2005	2004	2003
Number of Million Dollar Agents	466	427	396
Average revenue generated per Million Dollar Agent	$ 5,063,000	$ 4,374,000	$ 3,584,000
Percent of consolidated revenue generated by Million Dollar Agents	94%	92%	89%

Management monitors business activity by tracking the number of loads (volume) and revenue per load generated by the carrier and global logistics 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 for the past three fiscal years:

	Fiscal Year		
	2005	2004	2003
Carrier Segment:			
External revenue generated through (in thousands):			
BCO Independent Contractors	$ 1,249,159	$ 1,191,605	$ 1,052,346
Truck Brokerage Carriers	442,509	263,257	174,825
	$ 1,691,668	$ 1,454,862	$ 1,227,171
Revenue per revenue mile	$ 1.92	$ 1.79	$ 1.72
Revenue per load	$ 1,542	$ 1,391	$ 1,219
Average length of haul (miles)	804	779	707
Number of loads	1,097,000	1,046,000	1,007,000
Global Logistics Segment:			
External revenue generated through (in thousands):			
BCO Independent Contractors(1)	$ 159,273	$ 105,815	$ 53,766
Truck Brokerage Carriers	439,604	308,106	182,333
Rail, Air, Ocean and Bus Carriers(2)	196,259	121,001	105,142
	$ 795,136	$ 534,922	$ 341,241
Revenue per load(3)	$ 1,555	$ 1,454	$ 1,332
Number of loads(3)	334,000	324,000	256,000

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

(2) Included in the 2005 fiscal year was $44,007,000 of revenue attributable to buses provided under a contract between Landstar Express America, Inc. and the United States Department of Transportation/Federal Aviation Administration (the "FAA").

(3) Number of loads and revenue per load for the 2005 and 2004 fiscal years exclude the effect of $275,929,000 and $63,790,000, respectively, of revenue derived from disaster relief efforts provided primarily under a contract with the FAA as discussed further in the paragraphs that follow. (See the section "*Use of Non-GAAP Financial Measures*" on page 24.)

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 providers as of the end of the three most recent fiscal years:

	Dec. 31, 2005	Dec. 25, 2004	Dec. 27, 2003
BCO Independent Contractors	8,011	7,800	7,584
Truck Brokerage Carriers:			
Approved and active(1)	14,014	11,077	9,296
Other approved	8,497	7,144	6,240
	22,511	18,221	15,536
Total available truck capacity providers	30,522	26,021	23,120
Number of trucks provided by BCO Independent Contractors	8,728	8,677	8,573

(1) Active refers to Truck Brokerage Carriers who moved at least one load in the 180 days immediately preceding the fiscal year end.

Historically, the Company's carrier segment has primarily relied on capacity provided by BCO Independent Contractors. Pursuant to a continuing plan to augment its available capacity and increase its revenue, the Company has been increasing the carrier segment's use of capacity provided by Truck Brokerage Carriers. The percent of consolidated revenue generated through all Truck Brokerage Carriers was 35.0% during 2005, 28.3% during 2004 and 22.4% during 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 incurred on a monthly basis.

Purchased transportation represents the amount a BCO Independent Contractor or other third party capacity provider is paid to haul freight. The amount of purchased transportation paid to a BCO Independent Contractor is primarily based on a contractually agreed-upon percentage of revenue generated by the haul. Purchased transportation for the brokerage services operations of the carrier segment is based on a negotiated rate for each load hauled. Purchased transportation for the brokerage services operations of the global logistics segment is based on either a negotiated rate for each load hauled or a contractually agreed-upon rate. Purchased transportation for the rail intermodal, air and ocean freight operations of the global logistics segment is based on a contractually agreed-upon fixed rate. Purchased transportation for bus services is based upon a negotiated rate per mile or per day. Purchased transportation as a percentage of revenue for truck brokerage services, rail intermodal and bus 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 BCO Independent Contractors, other third party capacity providers and revenue from the insurance segment.

Commissions to agents are based on contractually agreed-upon percentages of revenue or gross profit, defined as revenue less the cost of purchased transportation, at the carrier segment and of gross profit at the global logistics 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 global logistics segment and the insurance segment and with changes in gross profit at the global logistics segment and the truck brokerage operations of the carrier segment.

Trailing equipment rent, maintenance costs for trailing equipment, BCO Independent Contractor recruiting costs and bad debts from BCO 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 prior to June 19, 2003 and 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. The Company also retains liability for each general liability claim up to $1,000,000, $250,000 for each workers' compensation claim and $250,000 for each cargo claim. The Company's exposure to liability associated with accidents incurred by other third party capacity providers who haul freight on behalf of the Company is reduced by various factors including the extent to which they maintain their own insurance coverage. A material increase in the frequency or severity of accidents, cargo or workers' compensation claims or the unfavorable development of existing claims could be expected to materially adversely affect Landstar's results of operations.

Employee compensation and benefits account for over half of the Company's selling, general and administrative costs.

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

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

	Fiscal Year		
	2005	2004	2003
Revenue	100.0%	100.0%	100.0%
Investment income	0.1	0.1	0.1
Costs and expenses:			
Purchased transportation	74.7	74.8	74.2
Commissions to agents	8.1	8.0	7.9
Other operating costs	1.5	1.8	2.4
Insurance and claims	2.0	3.0	2.9
Selling, general and administrative	5.3	5.9	6.6
Depreciation and amortization	0.6	0.7	0.8
Total costs and expenses	92.2	94.2	94.8
Operating income	7.9	5.9	5.3
Interest and debt expense	0.2	0.1	0.2
Income before income taxes	7.7	5.8	5.1
Income taxes	2.9	2.2	1.9
Net income	4.8%	3.6%	3.2%

Fiscal Year Ended December 31, 2005 Compared to Fiscal Year Ended December 25, 2004

Revenue for the fiscal year 2005 was $2,517,828,000, an increase of $497,892,000, or 24.6%, compared to revenue for the 2004 fiscal year. Revenue increased $236,806,000, $260,214,000 and $872,000 at the carrier, global logistics and insurance segments, respectively. With respect to the carrier segment, revenue per load increased approximately 11% while the number of loads delivered in 2005 increased approximately 5% over the number of loads delivered in 2004. The average length of haul per load at the carrier segment increased approximately 3% and revenue per revenue mile increased approximately 7%. Included in revenue at the global logistics segment for the 2005 and 2004 fiscal years was $275,929,000 and $63,790,000, respectively, of revenue related to disaster relief efforts for the storms that impacted the United States. These emergency transportation services were provided primarily under a contract between Landstar Express America, Inc. and the United States Department of Transportation/Federal Aviation Administration (the "FAA"). Excluding the number of loads and revenue related to the disaster relief efforts provided by the global logistics segment in 2005 and 2004, the number of loads delivered by the global logistics segment in fiscal year 2005 increased approximately 3% over 2004 and average revenue per load increased approximately 7%. The increase in average revenue per load was primarily attributable to an increase in the average length of haul of truck brokerage loads.

Investment income at the insurance segment was $2,695,000 and $1,346,000 for fiscal years 2005 and 2004, respectively. The increase in investment income was primarily due to an increased rate of return, attributable to a general increase in interest rates, on investments held by the insurance segment.

Purchased transportation was 74.7% of revenue in 2005 compared with 74.8% in 2004. The decrease in purchased transportation as a percentage of revenue was primarily attributable to increased revenue provided for disaster relief services under the FAA contract which tends to have a lower cost of purchased transportation and lower rates paid to Truck Brokerage Carriers for non-FAA related revenue. These reductions in costs were partially offset by an increase in revenue generated through truck brokerage which tends to have a higher cost of purchased transportation compared to revenue generated through BCO Independent Contractors. Commissions to agents were 8.1% of revenue in 2005 and 8.0% of revenue in 2004. The increase in commissions to agents as a percentage of revenue was primarily attributable to a change in revenue mix and the increase in gross profit on truck brokerage loads. Other operating costs were 1.5% of revenue in 2005 and 1.8% of revenue in 2004, primarily due to increased brokerage revenue, which does not incur significant other operating costs, and reduced trailer maintenance and repair costs, reflecting a reduction in the average age of Company provided trailing equipment. Insurance and claims were 2.0% of revenue in 2005 and 3.0% of revenue in 2004. The decrease in insurance and claims as a percentage of revenue was primarily attributable to $7,600,000 of costs incurred to settle one severe accident that occurred early in fiscal year 2004, favorable development of prior year claims in 2005 and increased truck brokerage revenue, which has a lower claims risk profile than revenue hauled by BCO Independent Contractors. Selling, general and administrative costs were 5.3% of revenue in 2005 and 5.9% in 2004. The decrease in selling, general and administrative costs as a percentage of revenue was primarily due to the effect of increased revenue, partially offset by an increased provision for bonuses under the Company's incentive compensation programs. Depreciation and amortization was 0.6% of revenue in 2005 and 0.7% of revenue in 2004. The decrease in depreciation and amortization as a percentage of revenue was due to the effect of increased revenue in 2005.

Interest and debt expense was 0.2% of revenue in 2005 and 0.1% of revenue in 2004. This increase was primarily attributable to increased interest rates on the Company's revolving credit facility, increased capital lease obligations and increased borrowings under the Company's credit facility, partially offset by the effect of increased revenue.

The provisions for income taxes for the 2005 and 2004 fiscal years were based on estimated full year combined effective income tax rates of approximately 38.4% and 38.3%, respectively, which are higher than the statutory federal income tax rate primarily as a result of state income taxes and the meals and entertainment exclusion. The increase in the combined effective income tax rate was primarily attributable to increased apportionment of income to states having higher tax rates and changes in tax laws enacted by a number of states in which the Company operates. The Company believes that deferred income tax benefits are more likely than not to be realized because of the Company's ability to generate future taxable earnings.

Net income for the 2005 fiscal year was $119,956,000, or $2.03 per common share ($1.98 per diluted share), which included approximately $51,945,000 of operating income related to the $275,929,000 of revenue related to emergency transportation services provided primarily under the FAA contract. The $51,945,000 of operating income, net of related income taxes, increased net income approximately $31,626,000, or $0.53 per common share ($0.52 per diluted share). Net income for the 2004 fiscal year was $71,872,000, or $1.19 per common share ($1.16 per diluted share), which included the $7,600,000 charge to settle one accident referenced above. This charge, net of related income tax benefits, reduced 2004 net income by $4,900,000, or $0.08 per common share ($0.08 per diluted share). Also included in net income for the 2004 fiscal year is approximately $11,847,000 of operating income related to the $63,790,000 of revenue related to emergency transportation services provided primarily under the FAA contract. The $11,847,000 of operating income, net of related income taxes, increased net income approximately $7,314,000, or $0.12 per common share ($0.12 per diluted share).

Fiscal Year Ended December 25, 2004 Compared to Fiscal Year Ended December 27, 2003

Revenue for the fiscal year 2004 was $2,019,936,000, an increase of $423,365,000, or 26.5%, compared to revenue for the 2003 fiscal year. Revenue increased $227,691,000, $193,681,000 and $1,993,000 at the carrier, global logistics and insurance segments, respectively. With respect to the carrier segment, revenue per load increased approximately 14% while the number of loads delivered in 2004 increased approximately 4% over the number of loads delivered in 2003. The average length of haul per load at the carrier segment increased approximately 10% and revenue per revenue mile increased approximately 4%. Included in revenue at the global logistics segment for the 2004 fiscal year was $63,790,000 of revenue related to disaster relief efforts for the storms that impacted the United States during the 2004 third and fourth quarters. These emergency transportation services were provided primarily under a contract between Landstar Express America, Inc. and the FAA. Excluding the number of loads and revenue related to the disaster relief efforts provided by the global logistics segment in 2004, the number of loads delivered by the global logistics segment in fiscal year 2004 increased approximately 27% over 2003 and average revenue per load increased approximately 9%. The increase in average revenue per load was primarily attributable to an increase in the average length of haul.

Investment income at the insurance segment was $1,346,000 and $1,220,000 for fiscal years 2004 and 2003, respectively. The increase in investment income was primarily due to an increased rate of return, attributable to a general increase in interest rates, on investments held by the insurance segment and an increase in the average investment balance.

Purchased transportation was 74.8% of revenue in 2004 compared with 74.2% in 2003. The increase in purchased transportation as a percentage of revenue was primarily attributable to increased truck brokerage revenue and rail intermodal revenue, both of which tend to have a higher cost of purchased transportation than that associated with BCO Independent Contractors, and increased rates charged by rail capacity providers, partially offset by increased use of Company provided trailing equipment versus trailing equipment provided by BCO Independent Contractors. Commissions to agents were 8.0% of revenue in 2004 and 7.9% of revenue in 2003. The increase in commissions to agents as a percentage of revenue was primarily attributable to a change in revenue mix. Other operating costs were 1.8% of revenue in 2004 and 2.4% of revenue in 2003, primarily due to increased brokerage revenue, which does not incur significant other operating costs, and reduced trailer maintenance and repair costs, reflecting a reduction in the average age of Company provided trailing equipment. Insurance and claims were 3.0% of revenue in 2004 and 2.9% 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 2004, partially offset by increased truck brokerage revenue, which has a lower claims risk profile. Selling, general and administrative costs were 5.9% of revenue in 2004 and 6.6% in 2003. Included in selling, general and administrative costs in 2003 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 6.4% 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 programs. Depreciation and amortization was 0.7% of revenue in 2004 and 0.8% of revenue in 2003. The decrease in depreciation and amortization as a percentage of revenue was primarily due to the effect of increased revenue in 2004.

Interest and debt expense was 0.1% of revenue in 2004 and 0.2% of revenue in 2003. This decrease was primarily attributable to a decrease in capital lease obligations partially offset by increased interest on the Company’s revolving credit facility resulting from higher average borrowings.

The provisions for income taxes for the 2004 and 2003 fiscal years were based on estimated full year combined effective income tax rates of approximately 38.3% and 37.8%, 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 $71,872,000, or $1.19 per common share ($1.16 per diluted share), which included the $7,600,000 charge to settle one accident referenced above. This charge, net of related income tax benefits, reduced 2004 net income by $4,900,000, or $0.08 per common share ($0.08 per diluted share). Also included in net income for the 2004 fiscal year is approximately $11,847,000 of operating income related to the $63,790,000 of revenue related to emergency transportation services provided primarily under the FAA contract. The $11,847,000 of operating income, net of related income taxes, increased net income approximately $7,314,000, or $0.12 per common share ($0.12 per diluted share). Net income for the 2003 fiscal year was $50,700,000, or $0.82 per common share ($0.79 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 $0.04 per common share ($0.04 per diluted share), in 2003. Excluding the costs of the Gulf Bridge RoRo, Inc. litigation, net income would have been $53,350,000, or $0.87 per common share ($0.84 per diluted share), in 2003.

Use of Non-GAAP Financial Measures

In this annual report on Form 10-K, Landstar provided the following information that may be deemed non-GAAP financial measures for the 2005 and 2004 fiscal years: (1) revenue per load for the global logistics 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 global logistics 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 global logistics segment for the corresponding prior year periods. Also, in this annual report on Form 10-K, Landstar provided the following information that may be deemed non-GAAP financial measures for the 2003 fiscal year: (1) selling, general and administrative costs, excluding the costs to defend and settle the Gulf Bridge RoRo, Inc. litigation, as a percentage of revenue, (2) earnings per common share before costs to defend and settle the Gulf Bridge RoRo, Inc. litigation, (3) earnings per diluted share before costs to defend and settle the Gulf Bridge RoRo, Inc. litigation, and (4) net income excluding costs relating to the defense and settlement of the Gulf Bridge RoRo, Inc. litigation. Each of the foregoing financial measures should be considered in addition to, and not as a substitute for, the corresponding GAAP financial information also presented in the press release.

Management believes that it is appropriate to present these financial measures 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 Gulf Bridge RoRo, Inc. litigation are unusual and unique and thus are not likely to recur as part of Landstar’s normal operations, (3) disclosure of the effect of the emergency transportation services provided by Landstar relating to disaster relief efforts for the storms that impacted the United States during 2005 and 2004 and the settlement of the Gulf Bridge RoRo, Inc. litigation 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 these financial measures in its decision making.

Capital Resources and Liquidity

Shareholders' equity was $252,635,000, or 60% of total capitalization (defined as total debt plus equity), at December 31, 2005, compared with $212,839,000, or 70% of total capitalization, at December 25, 2004. The increase in shareholders' equity was primarily attributable to current year net income, partially offset by the purchase of 2,873,053 shares of the Company's common stock at a total cost of $95,600,000. As of December 31, 2005, the Company may purchase an additional 2,525,227 shares of its common stock under its authorized stock purchase program. Long-term debt including current maturities was $166,973,000 at December 31, 2005, compared to $92,090,000 at December 25, 2004. Working capital and the ratio of current assets to current liabilities were $314,305,000 and 2.0 to 1, respectively, at December 31, 2005, compared with $209,753,000 and 1.87 to 1, respectively, at December 25, 2004. Landstar has historically operated with current ratios within the range of 1.5 to 1 to 2.0 to 1. Cash provided by operating activities was $6,529,000 in 2005 compared with $49,744,000 in 2004. Included in accounts receivable at December 31, 2005 was trade accounts receivable due from various departments of the United States Government of $226,057,000, which includes $215,250,000 in trade receivables from disaster relief services provided under the contract with the FAA. The decrease in cash provided by operating activities was primarily due to an increase in trade receivables resulting in large part from revenue related to the emergency transportation services provided under the FAA contract. The financing of a portion of this $215,250,000 receivable from the FAA with borrowings under the Company's revolving credit agreement is the primary reason for the increase in long term debt.

On July 8, 2004, Landstar renegotiated its existing credit agreement with a syndicate of banks and JPMorgan Chase Bank, as administrative agent (the "Fourth Amended and Restated Credit Agreement"). The Fourth Amended and Restated Credit Agreement provides $225,000,000 of borrowing capacity in the form of a revolving credit facility, $75,000,000 of which may be utilized in the form of letter of credit guarantees.

At December 31, 2005, the Company had $120,000,000 in borrowings outstanding and $27,219,000 of letters of credit outstanding under its Fourth Amended and Restated Credit Agreement. At December 31, 2005, there was $77,781,000 available for future borrowings under the Company's Fourth Amended and Restated Credit Agreement. In addition, the Company has $39,054,000 in letters of credit outstanding, as collateral for insurance claims, that are secured by investments and cash equivalents totaling $41,095,000.

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. As of December 31, 2005, the margin was equal to 87.5/100 of 1%.

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 December 31, 2005, the commitment fee for the unused portion of the Fourth Amended and Restated Credit Agreement was 0.20%. At December 31, 2005, the weighted average interest rate on borrowings outstanding under the Fourth Amended and Restated Credit Agreement was 5.09%.

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 and limit its borrowings to a specified ratio of indebtedness to earnings before interest, taxes, depreciation and amortization (the "Leverage Ratio"), as each is defined in the Fourth Amended and Restated Credit Agreement. Under the most restrictive covenant, the

Leverage Ratio, borrowings were $160,766,000 lower than the maximum amount allowed at December 31, 2005.

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., LSHI and all but one subsidiary guarantee the obligations under the Fourth Amended and Restated Credit Agreement.

The Fourth Amended and Restated Credit Agreement provides for a restriction on cash dividends on the Company's capital stock only to the extent there is an event of default 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, pay dividends and to meet working capital needs. As a non-asset based provider of transportation capacity and logistics services, 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 2005, the Company purchased $3,857,000 of operating property and acquired $28,512,000 of trailing equipment by entering into capital leases. Landstar anticipates acquiring approximately $45,000,000 of operating property during fiscal year 2006 either by purchase or by lease financing. Prior to 2003, the Company historically funded its acquisition of Company provided fixed cost trailing equipment using capital leases. During 2004 and 2003, the Company acquired van trailing equipment under a long-term operating lease at a fixed monthly rental price per trailer. It is expected that capital leases will fund any significant acquisitions of Company provided trailing equipment made during 2006. The Company does not currently anticipate any other significant capital requirements in 2006.

Since 1997, the Company has purchased $410,748,000 of its common stock under programs authorized by the Board of Directors of the Company in open market and private block transactions. The Company has used cash provided by operating activities and borrowings on the Company's revolving credit facilities to fund the purchases.

Contractual Obligations and Commitments

At December 31, 2005, the Company's obligations and commitments to make future payments under contracts, such as debt and lease agreements, were as follows (in thousands):

	Payments Due by Period				
Contractual Obligation	Total	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
Long-term debt	$ 120,000			$ 120,000	
Capital lease obligations	51,560	$ 14,005	$23,987	13,568	
Operating leases	34,761	7,691	13,719	5,379	$ 7,972
	$ 206,321	$ 21,696	$ 37,706	$ 138,947	$ 7,972

Long-term debt represents borrowings under the Fourth Amended and Restated Credit Agreement and does not include interest. Capital lease obligations above include $4,587,000 of imputed interest. Operating leases primarily include $17,397,000 related to the Company's main office facility located in Jacksonville, Florida and $13,838,000 related to a long-term operating lease for trailing equipment.

Off-Balance Sheet Arrangements

As of December 31, 2005, the Company had no off-balance sheet arrangements, other than operating leases as disclosed in the table of Contractual Obligations and Commitments above, that have or are reasonably likely to have a current or future material effect on the Company's financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

Legal Matters

On November 1, 2002, the Owner Operator Independent Drivers Association, Inc. ("OOIDA") and six individual BCO Independent Contractors (the "Plaintiffs") filed a putative class action complaint (the "Complaint") in the United States District Court for the Middle District of Florida (the "Court") in Jacksonville, Florida, against the Company. The Complaint alleges that certain aspects of the Company's motor carrier leases with its BCO Independent Contractors violate certain federal leasing regulations and seeks injunctive relief, an unspecified amount of damages and attorney's fees. On March 8 and June 4, 2004, the Court dismissed all claims of one of the six individual Plaintiffs on the grounds that the ICC Termination Act (the "Act") is not applicable to leases signed before the Act's January 1, 1996, effective date, and dismissed all claims of all remaining Plaintiffs against four of the seven Company entities previously named as defendants. Claims currently survive against the following Company entities: Landstar Inway, Inc., Landstar Ligon, Inc. and Landstar Ranger, Inc. (the "Defendants"). With respect to the remaining claims, the June 4, 2004 order held that the Act created a private right of action to which a four-year statute of limitation applies. On April 7, 2005, Plaintiffs filed an Amended Complaint that included additional allegations with respect to violations of certain federal leasing regulations. On August 30, 2005, the Court granted a motion by Plaintiffs to certify the case as a class action. On October 19, 2005, the U.S. Court of Appeals for the Eleventh Circuit denied the Defendants' petition for permission to file an interlocutory appeal of the class-certification order.

Discovery is ongoing in the case, which is set for a jury trial in October 2006. On January 13, 2006, the Plaintiffs filed a motion for partial summary judgment on liability. On February 15, 2006, the Defendants filed their opposition to that motion and their own motion for partial summary judgment to address the claims of the Amended Complaint. The Defendants' motion for partial summary judgment filed February 15, 2006 supersedes and replaces prior motions for partial summary judgment filed with the Court on April 18 and June 10, 2005. On March 6, 2006, the Plaintiffs filed their opposition to the Defendants' motion for partial summary judgement. The District Court is expected to rule prior to trial on the pending motions for partial summary judgment.

Due to a number of factors, including the unresolved motions for summary judgment, the incomplete state of discovery in this matter, particularly classwide discovery, the absence of final expert reports and the lack of litigated final judgments in a number of similar cases or otherwise applicable precedents, the Company does not believe it is in a position to conclude whether or not there is a reasonable possibility of an adverse outcome in this case or what damages, if any, Plaintiffs would be awarded should they prevail on all or any part of their claims. However, the Company believes it has meritorious defenses, including to the expanded allegations in the Amended Complaint, and it intends to continue asserting these defenses vigorously.

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

Critical Accounting Policies and Estimates

The allowance for doubtful accounts for both trade and other receivables represents management's estimate of the amount of outstanding receivables that will not be collected. Historically, management's estimates for uncollectible receivables have been materially correct. Although management believes the amount of the allowance for both trade and other receivables at December 31, 2005 is appropriate, a prolonged period of low or no economic growth may adversely affect the collection of these receivables. Conversely, a more robust economic environment may result in the realization of some portion of the estimated uncollectible receivables.

Landstar provides for the estimated costs of self-insured claims primarily on an actuarial basis. The amount recorded for the estimated liability for claims incurred is based upon the facts and circumstances known on the balance sheet date. The ultimate resolution of these claims may be for an amount greater or less than the amount estimated by management. Historically, the Company has experienced both favorable and unfavorable development of prior year claims estimates. The Company is continually revising its existing claim estimates as new or revised information becomes available on the status of each claim. During fiscal year 2005, insurance and claims costs included $1,525,000 of favorable adjustments to prior years claims estimates. During fiscal years 2004 and 2003, insurance and claims costs included $4,390,000 and $498,000, 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 December 31, 2005.

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

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

Effects of Inflation

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

Seasonality

Landstar’s operations are subject to seasonal trends common to the trucking industry. Results of operations for the quarter ending in March are typically lower than the quarters ending June, September and December.

Recently Issued Accounting Standards Not Currently Effective

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

The estimated fair value (cost) of the share-based payments has historically been determined using the Black-Scholes pricing model. The estimated effect on net income of share based payments for fiscal years ended 2005, 2004 and 2003 are disclosed in Item 8, “Financial Statements and Supplementary Data”, footnote 1.

The Company expects to continue to utilize the Black-Scholes pricing model to determine the fair value of future option grants. Under the Black-Scholes pricing model, the Company expects to report compensation cost of approximately $7 to $8 million, $5 to $6 million net of related income tax benefits, or approximately $0.09 per share, $0.09 per diluted share during 2006. The calculation of estimated compensation cost for 2006 includes various assumptions, such as estimates of the number of awards to be granted during 2006, the timing of such awards, the price of the Company's common stock on the date of grant, the number of options to be forfeited, the value of option awards eligible for tax benefits, the volatility of the price of the Company's common stock, the risk free interest rate and dividend yield on the Company's common stock and the average number of common shares and common share equivalents outstanding during 2006. If the actual number of awards granted, the stock price on the date of grant, the number of options forfeited, the value of option awards eligible for tax benefits, the volatility of the price of the Company's common stock, the risk free interest rate or dividend yield on the Company's common stock or the average number of common shares or common share equivalents outstanding during 2006 differ from those assumptions used in calculating the estimate above, the actual compensation cost reported in 2006 may differ significantly from the estimate provided.

Item 7a. *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 under 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.

Borrowings under the Fourth Amended and Restated Credit Agreement bear interest at rates equal to, at the option of Landstar, either (i) the greatest of (a) the prime rate as publicly announced from time to time by JPMorgan Chase Bank, (b) the three month CD rate adjusted for statutory reserves and FDIC assessment costs plus 1% and (c) the federal funds effective rate plus 1/2%, or, (ii) the rate at the time offered to JPMorgan Chase Bank in the Eurodollar market for amounts and periods comparable to the relevant loan plus a margin that is determined based on the level of the Company's Leverage Ratio, as defined in the Fourth Amended and Restated Credit Agreement. The margin is subject to an increase of 0.125% if the aggregate amount outstanding under the Fourth Amended and Restated Credit Agreement exceeds 50% of the borrowing capacity. As of December 31, 2005, the weighted average interest rate on borrowings outstanding was 5.09%. During fiscal 2005, the average outstanding balance under the Fourth Amended and Restated Credit Agreement was approximately $78,500,000. Based on the borrowing rates in the Fourth Amended and Restated Credit Agreement and the repayment terms, the fair value of the outstanding borrowings as of December 31, 2005 was estimated to approximate carrying value. Assuming that debt levels on the Fourth Amended and Restated Credit Agreement remain at $120,000,000, the balance at December 31, 2005, a hypothetical increase of 100 basis points in current rates provided for under the Fourth Amended and Restated Credit Agreement is estimated to result in an increase in interest expense of $1,200,000 on an annualized basis.

Borrowings under the Fourth Amended and Restated Credit Agreement are unsecured, however, Landstar System, Inc., LSHI and all but one subsidiary guarantee the obligations under 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 $20,402,000, the balance at December 31, 2005, a hypothetical increase or decrease in interest rates of 100 basis points would not have a material impact on future earnings on an annualized basis. Short-term investments consist of short-term investment grade instruments and the current maturities of investment grade bonds. Accordingly, any future interest rate risk on these short-term investments would not be material.

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Item 8. ***Financial Statements and Supplementary Data***

LANDSTAR SYSTEM, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
(Dollars in thousands,
except per share amounts)

	Dec. 31, 2005	Dec. 25, 2004
ASSETS		
Current Assets		
Cash and cash equivalents	$ 29,398	$ 61,684
Short-term investments	20,693	21,942
Trade accounts receivable, less allowance of $4,655 and $4,021	534,274	338,774
Other receivables, including advances to independent contractors, less allowance of $4,342 and $4,245	11,384	13,929
Deferred income taxes and other current assets	18,052	13,503
Total current assets	613,801	449,832
Operating property, less accumulated depreciation and amortization of $68,561 and $65,315	89,131	76,834
Goodwill	31,134	31,134
Other assets	28,694	26,712
Total assets	$ 762,760	$ 584,512
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Cash overdraft	$ 29,829	$ 23,547
Accounts payable	164,509	120,197
Current maturities of long-term debt	12,122	8,797
Insurance claims	27,887	32,612
Accrued compensation	20,299	14,609
Other current liabilities	44,850	40,317
Total current liabilities	299,496	240,079
Long-term debt, excluding current maturities	154,851	83,293
Insurance claims	37,840	32,430
Deferred income taxes	17,938	15,871
Shareholders' Equity		
Common stock, $0.01 par value, authorized 160,000,000 and 80,000,000 shares, issued 64,151,902 and 63,154,190 shares	642	632
Additional paid-in capital	61,057	43,845
Retained earnings	412,970	295,936
Cost of 5,344,883 and 2,490,930 shares of common stock in treasury	(221,776)	(127,151)
Accumulated other comprehensive income (loss)	(211)	47
Notes receivable arising from exercises of stock options	(47)	(470)
Total shareholders' equity	252,635	212,839
Total liabilities and shareholders' equity	$ 762,760	$ 584,512

See accompanying notes to consolidated financial statements.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share amounts)

	Fiscal Years Ended		
	Dec. 31, 2005	Dec. 25, 2004	Dec. 27, 2003
Revenue	$ 2,517,828	$ 2,019,936	$ 1,596,571
Investment income	2,695	1,346	1,220
Costs and expenses:			
Purchased transportation	1,880,431	1,510,963	1,185,043
Commissions to agents	203,730	161,011	125,997
Other operating costs	36,709	37,130	37,681
Insurance and claims	50,166	60,339	45,690
Selling, general and administrative	134,085	118,461	105,849
Depreciation and amortization	15,920	13,959	12,736
Total costs and expenses	2,321,041	1,901,863	1,512,996
Operating income	199,482	119,419	84,795
Interest and debt expense	4,744	3,025	3,240
Income before income taxes	194,738	116,394	81,555
Income taxes	74,782	44,522	30,855
Net income	$ 119,956	$ 71,872	$ 50,700
Earnings per common share	$ 2.03	$ 1.19	$ 0.82
Diluted earnings per share	$ 1.98	$ 1.16	$ 0.79
Average number of shares outstanding:			
Earnings per common share	59,199,000	60,154,000	61,458,000
Diluted earnings per share	60,492,000	61,800,000	63,840,000
Dividends paid per common share	$ 0.05		

See accompanying notes to consolidated financial statements.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Fiscal Years Ended		
	Dec. 31, 2005	Dec. 25, 2004	Dec. 27, 2003
OPERATING ACTIVITIES			
Net income	$ 119,956	$ 71,872	$ 50,700
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of operating property	15,920	13,959	12,736
Non-cash interest charges	174	348	272
Provisions for losses on trade and other accounts receivable	5,939	6,250	5,094
(Gains) losses on sales and disposals of operating property	(340)	215	344
Director compensation paid in common stock	193	402	85
Deferred income taxes, net	(1,255)	3,967	(2,899)
Tax benefit on stock option exercises	8,174	9,035	5,110
Changes in operating assets and liabilities:			
Increase in trade and other accounts receivable	(198,894)	(126,718)	(34,637)
Decrease (increase) in other assets	686	677	(3,335)
Increase in accounts payable	44,312	48,484	11,416
Increase in other liabilities	10,979	9,786	4,630
Increase in insurance claims	685	11,467	3,880
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,529	49,744	53,396
INVESTING ACTIVITIES			
Net change in other short-term investments	(1,747)	8,461	(27,354)
Sales and maturities of investments	4,977	4,006	4,219
Purchases of long-term investments	(6,450)	(12,606)	(4,542)
Purchases of operating property	(3,857)	(6,377)	(5,557)
Proceeds from sales of operating property	4,492	971	1,612
NET CASH USED BY INVESTING ACTIVITIES	(2,585)	(5,545)	(31,622)
FINANCING ACTIVITIES			
Increase in cash overdraft	6,282	3,024	3,978
Proceeds from repayment of notes receivable arising from exercises of stock options	423	115	605
Dividends paid	(2,922)		
Proceeds from exercises of stock options	9,216	16,036	10,584
Borrowings on revolving credit facility	57,000	71,000	38,000
Purchases of common stock	(95,600)	(27,001)	(73,844)
Principal payments on long-term debt and capital lease obligations	(10,629)	(88,329)	(23,904)
NET CASH USED BY FINANCING ACTIVITIES	(36,230)	(25,155)	(44,581)
Increase (decrease) in cash and cash equivalents	(32,286)	19,044	(22,807)
Cash and cash equivalents at beginning of period	61,684	42,640	65,447
Cash and cash equivalents at end of period	$ 29,398	$ 61,684	$ 42,640

See accompanying notes to consolidated financial statements.

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LANDSTAR SYSTEM, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Fiscal Years Ended December 31, 2005, December 25, 2004 and December 27, 2003 (Dollars in thousands)

	Common Stock		Add'l	Retained	Treasury Stock at Cost		Accumulated Other	Notes Receivable Arising from Exercises	
	Shares	Amount	Paid-In Capital	Earnings	Shares	Amount	Comprehensive Income (Loss)	of Stock Options	Total
Balance December 28, 2002	16,337,506	$ 163	$ 2,609	$ 173,817	554,879	$ (26,306)		$ (1,190)	$ 149,093
Net income				50,700					50,700
Purchases of common stock					1,255,051	(73,844)			(73,844)
Exercises of stock options and related income tax benefit	564,021	6	15,688						15,694
Director compensation paid in common stock	1,500		85						85
Repayment of notes receivable arising from exercises of stock options								605	605
Unrealized gain on available-for-sale investments, net of income taxes							$ 182		182
Stock split effected in the form of a 100% stock dividend	14,913,833	149		(149)					—
Balance December 27, 2003	31,816,860	318	18,382	224,368	1,809,930	(100,150)	182	(585)	142,515
Net income				71,872					71,872
Purchases of common stock					681,000	(27,001)			(27,001)
Exercises of stock options and related income tax benefit	996,700	10	25,061						25,071
Director compensation paid in common stock	9,000		402						402
Repayment of notes receivable arising from exercises of stock options								115	115
Unrealized loss on available-for-sale investments, net of income taxes							(135)		(135)
Stock split effected in the form of a 100% stock dividend	30,331,630	304		(304)					—
Balance December 25, 2004	63,154,190	632	43,845	295,936	2,490,930	(127,151)	47	(470)	212,839
Net income				119,956					119,956
Dividends paid				(2,922)					(2,922)
Purchases of common stock					2,873,053	(95,600)			(95,600)
Exercises of stock options and related income tax benefit	991,712	10	17,380						17,390
Director compensation paid in common stock	6,000		193						193
Repayment of notes receivable arising from exercises of stock options								423	423
Incentive compensation paid in common stock			(361)		(19,100)	975			614
Unrealized loss on available-for-sale investments, net of income taxes							(258)		(258)
Balance December 31, 2005	64,151,902	$ 642	$ 61,057	$ 412,970	5,344,883	$ (221,776)	$ (211)	$ (47)	$ 252,635

See accompanying notes to consolidated financial statements.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Significant Accounting Policies

Consolidation

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

Fiscal Year

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

Revenue Recognition

The Company is the primary obligor with respect to freight delivery and assumes the related credit risk. Accordingly, revenue and the related direct freight expenses of the carrier and global logistics segments are recognized on a gross basis upon completion of freight delivery. Insurance premiums of the insurance segment are recognized over the period earned, which is usually on a monthly basis. Fuel surcharges billed to customers for freight hauled by independent contractors who provide truck capacity to the Company under exclusive lease arrangements (the "Business Capacity Owner Independent Contractors" or "BCO Independent Contractors") are excluded from revenue and paid in entirety to the BCO Independent Contractors.

Insurance Claim Costs

Landstar provides, primarily on an actuarially determined basis, for the estimated costs of cargo, property, casualty, general liability and workers' compensation claims both reported and for claims incurred but not reported. Landstar retains liability for individual commercial trucking claims incurred prior to June 19, 2003 or subsequent to March 30, 2004, 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. 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.

Tires

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

Cash and Cash Equivalents

Included in cash and cash equivalents are all investments, except those provided for collateral, with an original maturity of 3 months or less.

Investments

Investments, all of which are available-for-sale, consist of investment-grade bonds having maturities of up to five years. Investments are carried at fair value, with unrealized gains and losses, net of related income taxes, reported as accumulated other comprehensive income. Short-term investments include the current maturities of the investment grade bonds and $20,678,000 of cash equivalents held at the Company's insurance segment at December 31, 2005. These short-term investments together with $20,402,000 of the non-current portion of the investment grade bonds included in other assets at December 31, 2005 provided collateral for $39,054,000 of letters of credit issued to guarantee payment of insurance claims. Based upon quoted market prices, the unrealized loss on these bonds at December 31, 2005 was $336,000. Unrealized gains on bonds was $64,000 at December 25, 2004.

Investment income represents the earnings on the insurance segment's assets. Investment income earned from the assets of the insurance segment are included as a component of operating income as the investing activities and earnings thereon comprise a significant portion of the insurance segment's profitability.

Operating Property

Operating property is recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets. Trailing equipment is being depreciated over 7 years. Hardware and software included in management information services equipment is generally being depreciated over 3 years.

Income Taxes

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

Stock-Based Compensation — Stock Options

The Company has two employee stock option plans and one stock option plan for members of its Board of Directors (the "Plans"). The Company accounts for stock options issued under the Plans pursuant to the recognition and measurement principles of Accounting Principal Board ("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 Standard ("FAS No. 123"), "Accounting for Stock-Based Compensation," to stock-based employee compensation (in thousands, except per share amounts).

	Fiscal Year		
	2005	2004	2003
Net income, as reported	$119,956	$ 71,872	$ 50,700
Deduct:			
Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related income tax benefits	(4,358)	(3,607)	(3,522)
Pro forma net income	$115,598	$68,265	$47,178
Earnings per common share:			
As reported	$ 2.03	$ 1.19	$ 0.82
Pro forma	$ 1.95	$ 1.13	$ 0.77
Diluted earnings per share:			
As reported	$ 1.98	$ 1.16	$ 0.79
Pro forma	$ 1.92	$ 1.11	$ 0.75

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

The estimated fair value (cost) of the share-based payments has historically been determined using the Black-Scholes pricing model. The Company expects to continue to utilize the Black-Scholes pricing model to determine the fair value of future option grants. The estimated effect on net income of these share-based payments are disclosed above in this footnote.

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 number of average common shares outstanding used to calculate earnings per share to the number of common shares and common share equivalents outstanding used in calculating diluted earnings per share (in thousands):

	Fiscal Year		
	2005	2004	2003
Average number of common shares outstanding	59,199	60,154	61,458
Incremental shares from assumed exercises of stock options	1,293	1,646	2,382
Average number of common shares and common share equivalents outstanding	60,492	61,800	63,840

For the fiscal years ended December 31, 2005 and December 25, 2004, there were 470,000 and 130,000, respectively, of options outstanding to purchase shares of common stock excluded from the calculation of diluted earnings per share because of antidilution. For the fiscal year ended December 27, 2003, there were no options outstanding to purchase shares of common stock excluded from the calculation of diluted earnings per share because of antidilution.

(2) Stock Splits and Dividends

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

On October 15, 2003, Landstar declared a two-for-one stock-split of its common stock to be effected in the form of a 100% stock dividend. Stockholders of record on November 3, 2003 received one additional share of common stock for each share held. The additional shares were distributed on November 13, 2003.

During 2005, the Company paid cash dividends of $0.05 per common share. Dividends of $0.025 per common share were paid on November 30, 2005 and August 31, 2005 to stockholders of record on November 10, 2005 and August 17, 2005, respectively.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(3) 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 System, Inc. and all of its subsidiaries denied 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 the Company'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. The settlement component, net of insurance recoveries, was $2,700,000. Net of related income tax benefits these costs reduced Landstar's net income for 2003 by approximately $2,650,000, or $0.04 per common share ($0.04 per diluted share).

(4) Comprehensive Income

The following table includes the components of comprehensive income for the fiscal years ended December 31, 2005, December 25, 2004 and December 27, 2003 (in thousands):

	Fiscal Year		
	2005	2004	2003
Net income	$119,956	$71,872	$ 50,700
Unrealized holding gains (losses) on available-for-sale investments, net of income taxes	(258)	(135)	182
Comprehensive income	$119,698	$71,737	$50,882

The unrealized holding loss on available-for-sale investments for 2005 represents the mark-to-market adjustment of $400,000 net of related income tax benefits of $142,000. The unrealized holding loss on available-for-sale investments for 2004 represents the mark-to-market adjustment of $218,000 net of related income tax benefits of $83,000. The unrealized holding gain on available-for-sale investments for 2003 represents the mark-to-market adjustment of $282,000, net of the related income taxes of $100,000.

(5) Income Taxes

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

	Fiscal Year		
	2005	2004	2003
Current:			
Federal	$66,787	$ 37,233	$25,217
State	9,250	3,322	8,537
	76,037	40,555	33,754
Deferred:			
Federal	(1,443)	3,400	3,063
State	188	567	(5,962)
	(1,255)	3,967	(2,899)
Income taxes	$ 74,782	$ 44,522	$ 30,855

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

	Dec. 31, 2005	Dec. 25, 2004
Deferred tax assets:		
Receivable valuations	$ 3,702	$ 3,538
State net operating loss carryforwards	633	1,282
Self-insured claims	4,365	4,045
Other	5,165	4,125
	13,865	12,990
Valuation allowance		(420)
	$13,865	$ 12,570
Deferred tax liabilities:		
Operating property	$ 16,384	$16,913
Goodwill	4,459	3,890
	$ 20,843	$ 20,803
Net deferred tax liability	$ 6,978	$ 8,233

At December 25, 2004, the valuation allowance of $420,000 was attributable to deferred state income tax benefits, which primarily represented state operating loss carryforwards at one subsidiary. During 2005, the loss carryforwards were charged against the valuation allowance.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	Fiscal Year		
	2005	2004	2003
Income taxes at federal income tax rate	$68,158	$ 40,738	$ 28,544
State income taxes, net of federal income tax benefit	6,135	2,528	1,674
Meals and entertainment exclusion	229	789	500
Other, net	260	467	137
Income taxes	$ 74,782	$44,522	$30,855

Landstar paid income taxes of $65,367,000 in 2005, $30,644,000 in 2004 and $25,506,000 in 2003.

(6) Operating Property

Operating property is summarized as follows (in thousands):

	Dec. 31, 2005	Dec. 25, 2004
Land	$ 1,921	$ 1,999
Leasehold improvements	8,926	8,730
Buildings and improvement	8,117	8,221
Trailing equipment	110,226	93,739
Other equipment	28,502	29,460
	157,692	142,149
Less accumulated depreciation and amortization	68,561	65,315
	$ 89,131	$ 76,834

Included above is $62,708,000 in 2005 and $57,941,000 in 2004 of operating property under capital leases, $52,841,000 and $40,640,000, respectively, net of accumulated amortization. Landstar acquired operating property by entering into capital leases in the amount of $28,512,000 in 2005 and $17,963,000 in 2004. Landstar did not acquire any property by entering into capital leases in 2003.

(7) Retirement Plan

Landstar sponsors an Internal Revenue Code section 401(k) defined contribution plan for the benefit of full-time employees who have completed one year of service. Eligible employees make voluntary contributions up to 75% of their base salary, subject to certain limitations. Landstar contributes an amount equal to 100% of the first 3% and 50% of the next 2% of such contributions, subject to certain limitations.

The expense for the Company-sponsored defined contribution plan was $1,312,000 in 2005, $1,201,000 in 2004 and $1,127,000 in 2003.

(8) Debt

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

	Dec. 31, 2005	Dec. 25, 2004
Capital leases	$ 46,973	$29,090
Revolving credit facility	120,000	63,000
	166,973	92,090
Less current maturities	12,122	8,797
Total long-term debt	$ 154,851	$ 83,293

On July 8, 2004, Landstar renegotiated its existing credit agreement with a syndicate of banks and JP Morgan 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.

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. As of December 31, 2005, the margin was equal to 87.5/100 of 1%.

The unused portion of the Fourth Amended and Restated Credit Agreement carries a commitment fee determined based on the level of the Company's Leverage Ratio, as therein defined. As of December 31, 2005, the commitment fee for the unused portion of the Fourth Amended and Restated Credit Agreement was 0.20%. At December 31, 2005, the weighted average interest rate on borrowings outstanding under the Fourth Amended and Restated Credit Agreement was 5.09%. Based on the borrowing rates in the Fourth Amended and Restated Credit Agreement and the repayment terms, the fair value of the outstanding borrowings under the Fourth Amended and Restated Credit Agreement was estimated to approximate carrying value.

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 and limit its borrowings to a specified ratio of indebtedness to earnings before interest, taxes, depreciation and amortization (the "Leverage Ratio"), as each is defined in the Fourth Amended and Restated Credit Agreement. Under the most restrictive covenant, the Leverage Ratio, borrowings were $160,766,000 lower than the maximum amount allowed at December 31, 2005.

The Company's Fourth Amended and Restated Credit Agreement provides for a restriction on cash dividends on the Company's capital stock only to the extent there is an event of default under the Fourth Amended and Restated Credit Agreement.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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., LSHI and all but one subsidiary guarantee the obligations under the Fourth Amended and Restated Credit Agreement.

Landstar paid interest of $5,040,000 in 2005, $3,247,000 in 2004 and $3,475,000 in 2003.

(9) Leases

The future minimum lease payments under all noncancelable leases at December 31, 2005, principally for trailing equipment and the Company's headquarters facility in Jacksonville, Florida, are shown in the following table (in thousands):

	Capital Leases	Operating Leases
2006	$ 14,005	$ 7,691
2007	13,558	7,092
2008	10,429	6,627
2009	9,497	3,277
2010	4,071	2,102
Thereafter		7,972
	51,560	$ 34,761
Less amount representing interest (3.6% to 5.3%)	4,587	
Present value of minimum lease payments	$ 46,973	

Total rent expense, net of sublease income, was $17,969,000 in 2005, $17,106,000 in 2004 and $18,125,000 in 2003.

(10) Stock Compensation Plans

On May 15, 2003, the stockholders of the Company voted for the proposal to implement a new Directors' Stock Compensation Plan. Under this new plan, all independent directors who are elected or re-elected to the Board will receive 6,000 shares of common stock of the Company, subject to certain restrictions including restrictions on transfer. During 2005, 2004 and 2003, 6,000, 18,000 and 6,000 shares, respectively, of the Company's common stock were issued to members of the Board of Directors upon re-election at the annual stockholder meetings. During 2005, 2004 and 2003, the Company reported $193,000, $402,000 and $85,000, respectively, in compensation expense representing the fair market value of these share awards.

Under the 1993 Stock Option Plan, as amended, the Compensation Committee of the Board of Directors was authorized to grant options to Company employees to purchase up to 4,460,000 shares of common stock. Under the 2002 Employee Stock Option Plan, the Compensation Committee of the Board of Directors was authorized to grant options to Company employees to purchase up to 6,400,000 shares of common stock. Under the 1994 Directors' Stock Option Plan, as amended (the "DSOP"), options to purchase up to 420,000 shares of common stock were authorized to be granted to outside members of the Board of Directors upon election or re-election to the Board of Directors. Effective May 15, 2003, no further grants will be made under the DSOP. Also, no further grants will be made under the 1993 Stock Option Plan as it has expired.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Options granted under the Plans become exercisable in either three or five equal annual installments commencing on the first anniversary of the date of grant or vest 100% four and one-half years from the date of grant or 100% on the fifth anniversary from the date of grant, subject to acceleration in certain circumstances. All options granted under the Plans expire on the tenth anniversary of the date of grant. Under the Plans, the exercise price of each option equals the fair market value of the Company's common stock on the date of grant. At December 31, 2005, there were 7,301,812 shares of the Company's common stock reserved for issuance upon exercise of options granted and to be granted under the Plans and 170,000 shares reserved for issuance under the 2003 Directors' Stock Compensation Plan.

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

	Options Outstanding		Options Exercisable	
	Shares	Weighted Average Exercise Price per Share	Shares	Weighted Average Exercise Price per Share
Options at December 28, 2002	5,494,080	$ 7.07	1,861,752	$ 5.29
Granted	985,200	$ 14.06		
Exercised	(1,897,556)	$ 5.58		
Forfeited	(22,400)	$ 10.72		
Options at December 27, 2003	4,559,324	$ 9.18	1,328,204	$ 7.11
Granted	660,000	$ 20.59		
Exercised	(1,993,400)	$ 8.04		
Forfeited	(110,160)	$ 9.85		
Options at December 25, 2004	3,115,764	$ 12.31	664,324	$ 8.56
Granted	683,000	$ 35.77		
Exercised	(991,712)	$ 9.29		
Forfeited	(12,400)	$ 22.31		
Options at December 31, 2005	2,794,652	$ 19.07	855,816	$ 10.37

The following tables summarize stock options outstanding and exercisable at December 31, 2005:

	Options Outstanding		
Range of Exercise Prices per Share	Number Outstanding Dec. 31, 2005	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price per Share
$ 3.99 - $ 6.00	113,176	2.5	$ 4.14
$ 6.01 - $ 9.00	643,600	5.2	$ 8.12
$ 9.01 - $13.50	299,860	6.9	$ 13.08
$13.51 - $20.00	913,016	7.6	$ 17.06
$20.01 - $30.00	148,000	8.5	$ 26.02
$30.01 - $37.31	677,000	9.0	$ 35.80
	2,794,652	7.2	$ 19.07

LANDSTAR SYSTEM, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Options Exercisable	
Range of Exercise Prices per Share	Number Exercisable Dec. 31, 2005	Weighted Average Exercise Price per Share
$ 3.99 - $ 6.00	113,176	$ 4.14
$ 6.01 - $ 9.00	416,880	$ 8.03
$ 9.01 - $13.50	78,340	$ 12.98
$13.51 - $19.03	247,420	$ 16.33
	855,816	$ 10.37

The fair value of each option grant on its grant date was calculated using the Black-Scholes option pricing model with the following assumptions for grants made in 2005, 2004 and 2003: risk-free interest rate of 4.5% in 2005 and 3.5% in 2004 and 2003, expected lives of 5 years and no dividend yield. The expected volatility used in calculating the fair market value of stock options granted was 31% in 2005 and 40% in 2004 and 2003. The weighted average grant date fair value of stock options granted was $12.76, $8.32 and $5.67 per share in 2005, 2004 and 2003, respectively.

(11) Shareholders' Equity

On April 28, 2005, the Company announced that it had been authorized by its Board of Directors to purchase up to an additional 2,000,000 shares of its common stock from time to time in the open market and in privately negotiated transactions. On July 28, 2005, the Company announced that it had been authorized by its Board of Directors to purchase up to an additional 2,000,000 shares of its common stock from time to time in the open market and in privately negotiated transactions.

During 2005, Landstar purchased 2,873,053 shares of its common stock at a total cost of $95,600,000 pursuant to its previously announced stock purchase programs. The Company did not purchase any shares of its common stock under the programs during the period from September 24, 2005, the end of the Company's third fiscal quarter, to December 31, 2005, the end of the Company's fourth fiscal quarter. As of December 31, 2005, Landstar may purchase an additional 2,525,227 shares of its common stock under its authorized stock purchase programs.

At the May 12, 2005 annual meeting of stockholders, the stockholders 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 80,000,000 shares to 160,000,000 shares.

During 1998, the Company established an employee stock option loan program. Under the terms of the program, the Company provided employees financing in order for them to exercise fully vested stock options. The loans are full recourse with the principal repayable in lump sum on the fifth anniversary of the loan. During 2002, $92,000 of such loans were issued. Effective May 1, 2002, the Company ceased making loans under the employee stock option loan program and terminated the program with respect to future stock option exercises.

The Company has 2,000,000 shares of preferred stock authorized and unissued.

(12) Segment Information

The Company has three reportable business segments. These are the carrier, global logistics (formerly multimodal) and insurance segments. The carrier segment provides truckload transportation for a wide range of general commodities primarily over irregular or non-repetitive routes with its fleet of 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 tractors provided by independent contractors who provide truck capacity to the Company under exclusive lease arrangements (the "Business Capacity Owner Independent Contractors" or "BCO Independent Contractors") and other third party truck capacity providers who provide truck capacity to the Company under non-exclusive contractual arrangements ("Truck Brokerage Carriers"). Transportation services provided by the global logistics segment include the arrangement of intermodal moves, contract logistics, truck brokerage and emergency and expedited ground and air freight, ocean cargo and buses. The global logistics segment markets its services through independent commission sales agents and primarily utilizes capacity provided by BCO Independent Contractors and other third party capacity providers, including Truck Brokerage Carriers, railroads, air and ocean cargo carriers and bus providers. The nature of the carrier and global logistics segments' businesses is such that a significant portion of their operating costs varies directly with revenue. 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 BCO Independent Contractors and provides certain property and casualty insurance directly to Landstar's operating subsidiaries.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates a segment's performance based on operating income.

Internal revenue for transactions between the carrier and global logistics segments is based on quoted rates which are believed to approximate the cost that would have been incurred had similar services been obtained from an unrelated third party. Internal revenue for premiums billed by the insurance segment to the carrier and global logistics segments is calculated each fiscal period based primarily on an actuarial calculation of historical loss experience and is believed to approximate the cost that would have been incurred by the carrier and global logistics segments had similar insurance been obtained from an unrelated third party.

During 2005, 2004 and 2003, revenue derived from various departments of the United States Government represented 17%, 9% and 7%, respectively, of consolidated revenue. Included in consolidated revenue derived from the various departments of the United States Government in 2005 and 2004 was $275,929,000 and $63,790,000, respectively, of emergency transportation services related to disaster relief efforts for storms that impacted the United States. These emergency transportation services were provided primarily under a contract between Landstar Express America and the United States Department of Transportation/Federal Aviation Administration and reflected in revenue of the global logistics segment. No other single customer accounted for more than 10% of consolidated revenue in 2005, 2004 or 2003. In addition, during 2005 approximately 9% of the Company's revenue was attributable to the automotive industry. One agent in the global logistics segment contributed approximately $197,000,000 of the Company's revenue in 2005. Substantially all of the Company's revenue is generated in the United States.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following tables summarize information about the Company's reportable business segments as of and for the fiscal years ending December 31, 2005, December 25, 2004 and December 27, 2003 (in thousands):

	Carrier	Global Logistics	Insurance	Other	Total
2005					
External revenue	$1,691,668	$795,136	$ 31,024		$ 2,517,828
Internal revenue	95,872	2,222	31,036		129,130
Investment income			2,695		2,695
Interest and debt expense				$ 4,744	4,744
Depreciation and amortization	11,262	309		4,349	15,920
Operating income	171,236	60,856	19,374	(51,984)	199,482
Expenditures on long-lived assets	798	20		3,039	3,857
Goodwill	20,496	10,638			31,134
Capital lease additions	28,512				28,512
Total assets	360,083	304,727	58,379	39,571	762,760
2004					
External revenue	$ 1,454,862	$ 534,922	$ 30,152		$ 2,019,936
Internal revenue	48,673	4,967	30,538		84,178
Investment income			1,346		1,346
Interest and debt expense				$ 3,025	3,025
Depreciation and amortization	9,473	270		4,216	13,959
Operating income	128,400	26,211	12,456	(47,648)	119,419
Expenditures on long-lived assets	730	206		5,441	6,377
Goodwill	20,496	10,638			31,134
Capital lease additions	17,963				17,963
Total assets	317,466	136,311	91,183	39,552	584,512
2003					
External revenue	$ 1,227,171	$ 341,241	$28,159		$1,596,571
Internal revenue	20,852	4,300	32,442		57,594
Investment income			1,220		1,220
Interest and debt expense				$ 3,240	3,240
Depreciation and amortization	8,728	272		3,736	12,736
Operating income	94,303	6,403	21,227	(37,138)	84,795
Expenditures on long-lived assets	2,652	712		2,193	5,557
Goodwill	20,496	10,638			31,134
Total assets	254,606	70,607	64,363	48,881	438,457

(13) Significant Concentrations of Credit

At December 31, 2005, trade accounts receivable included $226,057,000 receivable from various departments of the United States Government, including $215,250,000 due with respect to disaster relief services provided under the FAA contract.

(14) Commitments and Contingencies

At December 31, 2005, in addition to the $39,054,000 letters of credit secured by investments, Landstar had $27,219,000 of letters of credit outstanding under the Company's revolving credit facility.

On November 1, 2002, the Owner Operator Independent Drivers Association, Inc. ("OOIDA") and six individual BCO Independent Contractors (the "Plaintiffs") filed a putative class action complaint (the "Complaint") in the United States District Court for the Middle District of Florida (the "Court") in Jacksonville, Florida, against the Company. The Complaint alleges that certain aspects of the Company's motor carrier leases with its BCO Independent Contractors violate certain federal leasing regulations and seeks injunctive relief, an unspecified amount of damages and attorney's fees. On March 8 and June 4, 2004, the Court dismissed all claims of one of the six individual Plaintiffs on the grounds that the ICC Termination Act (the "Act") is not applicable to leases signed before the Act's January 1, 1996, effective date, and dismissed all claims of all remaining Plaintiffs against four of the seven Company entities previously named as defendants. Claims currently survive against the following Company entities: Landstar Inway, Inc., Landstar Ligon, Inc. and Landstar Ranger, Inc. (the "Defendants"). With respect to the remaining claims, the June 4, 2004 order held that the Act created a private right of action to which a four-year statute of limitation applies. On April 7, 2005, Plaintiffs filed an Amended Complaint that included additional allegations with respect to violations of certain federal leasing regulations. On August 30, 2005, the Court granted a motion by Plaintiffs to certify the case as a class action. On October 19, 2005, the U.S. Court of Appeals for the Eleventh Circuit denied the Defendants' petition for permission to file an interlocutory appeal of the class-certification order.

Discovery is ongoing in the case, which is set for a jury trial in October 2006. On January 13, 2006, the Plaintiffs filed a motion for partial summary judgment on liability. On February 15, 2006, the Defendants filed their opposition to that motion and their own motion for partial summary judgment to address the claims of the Amended Complaint. The Defendants' motion for partial summary judgment filed February 15, 2006 supersedes and replaces prior motions for partial summary judgment filed with the Court on April 18 and June 10, 2005. On March 6, 2006, the Plaintiffs filed their opposition to the Defendants' motion for partial summary judgement. The District Court is expected to rule prior to trial on the pending motions for partial summary judgment.

Due to a number of factors, including the unresolved motions for summary judgment, the incomplete state of discovery in this matter, particularly classwide discovery, the absence of final expert reports and the lack of litigated final judgments in a number of similar cases or otherwise applicable precedents, the Company does not believe it is in a position to conclude whether or not there is a reasonable possibility of an adverse outcome in this case or what damages, if any, Plaintiffs would be awarded should they prevail on all or any part of their claims. However, the Company believes it has meritorious defenses, including to the expanded allegations in the Amended Complaint, and it intends to continue asserting these defenses vigorously.

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Landstar System, Inc. and subsidiary as of December 31, 2005 and December 25, 2004, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the fiscal years ended December 31, 2005, December 25, 2004 and December 27, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Landstar System, Inc. and subsidiary as of December 31, 2005 and December 25, 2004, and the results of their operations and their cash flows for the fiscal years ended December 31, 2005, December 25, 2004 and December 27, 2003, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Landstar System, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 9, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

March 9, 2006
Jacksonville, Florida
Certified Public Accountants

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LANDSTAR SYSTEM, INC. AND SUBSIDIARY

QUARTERLY FINANCIAL DATA
(Dollars in thousands, except per share amounts)
(Unaudited)

	Fourth Quarter 2005	Third Quarter 2005	Second Quarter 2005	First Quarter 2005
Revenue	$ 800,442	$676,070	$539,104	$502,212
Operating income	$ 71,295	$ 59,037	$ 39,191	$ 29,959
Income before income taxes	$ 69,745	$ 57,832	$ 38,139	$ 29,022
Income taxes	26,785	22,207	14,646	11,144
Net income	$ 42,960	$ 35,625	$ 23,493	$ 17,878
Earnings per common share(1)	$ 0.73	$ 0.61	$ 0.40	$ 0.30
Diluted earnings per share(1)	$ 0.72	$ 0.60	$ 0.39	$ 0.29
Dividends paid per common share	$ 0.025	$ 0.025		

	Fourth Quarter 2004	Third Quarter 2004	Second Quarter 2004	First Quarter 2004
Revenue	$589,724	$526,883	$ 482,303	$421,026
Operating income	$ 40,596	$ 35,666	$ 29,268	$ 13,889
Income before income taxes	$ 39,784	$ 35,004	$ 28,485	$ 13,121
Income taxes	15,218	13,390	10,895	5,019
Net income	$ 24,566	$ 21,614	$ 17,590	$ 8,102
Earnings per common share(1)	$ 0.41	$ 0.36	$ 0.29	$ 0.14
Diluted earnings per share(1)	$ 0.40	$ 0.35	$ 0.29	$ 0.13
Dividends paid per common share				

(1) Due to the changes in the number of average common shares and common stock equivalents outstanding during the year, the sum of earnings per share amounts for each quarter do not necessarily add to the earnings per share amounts for the full year.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Under date of March 9, 2006, we reported on the consolidated balance sheets of Landstar System, Inc. and subsidiary as of December 31, 2005 and December 25, 2004, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the fiscal years ended December 31, 2005, December 25, 2004 and December 27, 2003, as contained in the 2005 annual report to shareholders. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedules as listed in Item 15(a)(2). These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits.

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

/s/ KPMG LLP

March 9, 2006
Jacksonville, Florida
Certified Public Accountants

LANDSTAR SYSTEM, INC.

SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF REGISTRANT
PARENT COMPANY ONLY BALANCE SHEET INFORMATION
(Dollars in thousands, except per share amounts)

	Dec. 31, 2005	Dec. 25, 2004
ASSETS		
Investment in Landstar System Holdings, Inc., net of advances	$ 252,635	$ 212,839
Total assets	$ 252,635	$ 212,839
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' equity:		
Common stock, $.01 par value, authorized 160,000,000 and 80,000,000 shares, issued 64,151,902 and 63,154,190	$ 642	$ 632
Additional paid-in capital	61,057	43,845
Retained earnings	412,970	295,936
Cost of 5,344,883 and 2,490,930 shares of common stock in treasury	(221,776)	(127,151)
Accumulated other comprehensive income (loss)	(211)	47
Notes receivable arising from exercises of stock options	(47)	(470)
Total shareholders' equity	252,635	212,839
Total liabilities and shareholders' equity	$ 252,635	$ 212,839

LANDSTAR SYSTEM, INC.

SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF REGISTRANT
PARENT COMPANY ONLY STATEMENT OF INCOME INFORMATION
(Dollars in thousands, except per share amounts)

	Fiscal Years Ended		
	Dec. 31, 2005	Dec. 25, 2004	Dec. 27, 2003
Equity in undistributed earnings of Landstar System Holdings, Inc	$ 119,378	$ 71,968	$ 50,773
Income taxes	(578)	96	73
Net income	$ 119,956	$ 71,872	$ 50,700
Earnings per common share	$ 2.03	$ 1.19	$ 0.82
Diluted earnings per share	$ 1.98	$ 1.16	$ 0.79
Dividends paid per common share	$ 0.05		
Average number of shares outstanding:			
Earnings per common share	59,199,000	60,154,000	61,458,000
Diluted earnings per share	60,492,000	61,800,000	63,840,000

LANDSTAR SYSTEM, INC.

SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF REGISTRANT
PARENT COMPANY ONLY STATEMENT OF CASH FLOWS INFORMATION
(Dollars in thousands)

	Fiscal Years Ended		
	Dec. 31, 2005	Dec. 25, 2004	Dec. 27, 2003
Operating Activities			
Net income	$119,956	$ 71,872	$ 50,700
Adjustments to reconcile net income to net cash provided by operating activities:			
Tax benefit on stock option exercises	8,174	9,035	5,110
Equity in undistributed earnings of Landstar System Holdings, Inc.	(119,378)	(71,968)	(50,773)
Net Cash Provided By Operating Activities	8,752	8,939	5,037
Investing Activities			
Additional investments in and advances from Landstar System Holdings, Inc., net	80,131	1,911	57,618
Net Cash Provided By Investing Activities	80,131	1,911	57,618
Financing Activities			
Proceeds from repayment of notes arising from exercises of stock options	423	115	605
Proceeds from exercises of stock options	9,216	16,036	10,584
Dividends Paid	(2,922)		
Purchases of common stock	(95,600)	(27,001)	(73,844)
Net Cash Used By Financing Activities	(88,883)	(10,850)	(62,655)
Change in cash	0	0	0
Cash at beginning of period	0	0	0
Cash at end of period	$ 0	$ 0	$ 0

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LANDSTAR SYSTEM, INC. AND SUBSIDIARY

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
For the Fiscal Year Ended December 31, 2005
(Dollars in thousands)

Col A	Col B Balance at Beginning of Period	Col C Additions: Charged to Costs and Expenses	Col C Additions: Charged to Other Accounts Describe	Col D Deductions Describe(A)	Col E Balance at End of Period
Description					
Allowance for doubtful accounts:					
Deducted from trade receivables	$ 4,021	$ 3,399		$ (2,765)	$ 4,655
Deducted from other receivables	4,245	2,521		(2,424)	4,342
Deducted from other non-current receivables	263	19			282
	$ 8,529	$ 5,939		$ (5,189)	$ 9,279

(A) Write-offs, net of recoveries.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
For the Fiscal Year Ended December 25, 2004
(Dollars in thousands)

Col A	Col B Balance at Beginning of Period	Col C Additions Charged to Costs and Expenses	 Charged to Other Accounts Describe	Col D Deductions Describe(A)	Col E Balance at End of Period
Description					
Allowance for doubtful accounts:					
Deducted from trade receivables	$ 3,410	$ 2,883		$ (2,272)	$ 4,021
Deducted from other receivables	4,077	3,348		(3,180)	4,245
Deducted from other non-current receivables	244	19			263
	$ 7,731	$ 6,250		$ (5,452)	$ 8,529

(A) Write-offs, net of recoveries.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
For the Fiscal Year Ended December 27, 2003
(Dollars in thousands)

Col A	Col B Balance at Beginning of Period	Col C Additions Charged to Costs and Expenses	Col C Additions Charged to Other Accounts Describe	Col D Deductions Describe(A)	Col E Balance at End of Period
Description					
Allowance for doubtful accounts:					
Deducted from trade receivables	$ 3,953	$ 2,401		$ (2,944)	$ 3,410
Deducted from other receivables	5,331	2,674		(3,928)	4,077
Deducted from other non-current receivables	230	19		(5)	244
	$ 9,514	$ 5,094		$ (6,877)	$ 7,731

(A) Write-offs, net of recoveries.

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

None.

Item 9A. ***Controls and Procedures***

Disclosure Controls and Procedure

As of the end of the period covered by this Annual Report on Form 10-K, an evaluation was carried out, under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended). Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2005 to provide reasonable assurance that information required to be disclosed by the Company in reports that it filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

In designing and evaluating the disclosure controls and procedures, Company management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitation in any control system, no evaluation or implementation of a control system can provide complete assurance that all control issues and all possible instances of fraud have been or will be detected.

Internal Control Over Financial Reporting

(a) Management's Report on Internal Control over Financial Reporting

Management of Landstar System, Inc. (the "Company") is responsible for establishing and maintaining effective internal controls over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act, as amended.

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's financial statements.

Management, with the participation of the Company's principal executive and principal financial officers, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. This assessment was performed using the criteria established under the Internal Control-Integrated Framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations, including the possibility of human error or circumvention or overriding of internal control. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and reporting and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on the assessment performed using the criteria established by COSO, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2005.

KPMG LLP, the independent registered public accounting firm that audited the financial statements included in this Annual Report on Form 10-K for the fiscal year ended December 31, 2005, has issued an audit report on management's assessment of the Company's internal control over financial reporting. Such report appears immediately below.

(b) Attestation Report of the Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Landstar System, Inc:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Landstar System, Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Landstar System, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Landstar System, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control — Integrated Framework issued by COSO. Also, in our opinion, Landstar System, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control — Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Landstar System, Inc. and subsidiary as of December 31, 2005 and December 25, 2004, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the fiscal years ended December 31, 2005, December 25, 2004 and December 27, 2003, and our report dated March 9, 2006 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

March 9, 2006
Jacksonville, Florida
Certified Public Accountants

(c) Changes in Internal Control Over Financial Reporting

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

Item 9b. *Other Information*

None.

PART III

Item 10. *Directors and Executive Officers of the Registrant*

The information required by this Item concerning the Directors (and nominees for Directors) and Executive Officers of the Company is set forth under the captions "Election of Directors," "Directors of the Company," "Information Regarding Board of Directors and Committees," and "Executive Officers of the Company" and "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in the Company's definitive Proxy Statement for its annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, and is incorporated herein by reference. The information required by this Item concerning Director Independence, the Company's Audit Committee and the Audit Committee's Financial Expert is set forth under the caption "Information Regarding Board of Directors and Committees" and "Report of the Audit Committee" in the Company's definitive Proxy Statement for its annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, and is incorporated herein by reference.

The Company has adopted a Code of Ethics that applies to each of its directors and employees, including its principal executive officer, principal financial officer, controller and all other employees performing similar functions. The Code of Ethics is available on the Company's website at *www.landstar.com* under "Investors — Corporate Governance". The Company intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding amendments to, or waivers from, a provision or provisions of the Code of Ethics by posting such information on its website at the web address indicated above.

Item 11. *Executive Compensation*

The information required by this Item is set forth under the captions "Compensation of Directors and Executive Officers," "Summary Compensation Table," "Number of Securities Underlying Options Granted," "Aggregated Options Exercised in Last Fiscal Year and Fiscal Year-End Option Values," "Report of the Compensation Committee on Executive Compensation," "Performance Comparison" and "Key Executive Employment Protection Agreements" in the Company's definitive Proxy Statement for its annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, and is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this Item pursuant to Item 201(d) of Regulation S-K is set forth under the caption "Market for Registrants Common Equity and Related Stockholder Matters" in Part II, Item 5 of this report, and is incorporated by reference herein.

The information required by this Item pursuant to Item 403 of Regulation S-K is set forth under the caption "Security Ownership by Management and Others" in the Company's definitive Proxy Statement for its annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, and is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions***

None.

Item 14. ***Principal Accounting Fees and Services***

The information required by this item is set forth under the caption "Report of the Audit Committee" and "Ratification of Appointment of Independent Registered Public Accounting Firm" in the Company's definitive Proxy Statement for its annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, and is incorporated herein by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a)(1) *Financial Statements and Supplementary Data*

(2) *Financial Statement Schedules*

The report of the Company's independent registered public accounting firm with respect to the financial statement schedules listed below appears on page 49 of this Annual Report on Form 10-K.

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

(3) *Exhibits*

Exhibit No.	
(2)	**Plan of acquisition, reorganization, arrangement, liquidation or succession**
2.1	Asset Purchase Agreement by and between Landstar Poole, Inc. as the seller, and Landstar System, Inc., as the guarantor, and Schneider National, Inc., as the purchaser, dated as of July 15, 1998. (Incorporated by reference to Exhibit 2.1 to the Registrant's Quarterly Report on Form 10-K for the quarter ended June 27, 1998 (Commission File No. 0-21238))

Exhibit No.	
(3)	**Articles of Incorporation and By-Laws:**
3.1*	Restated Certificate of Incorporation of the Company dated March 6, 2006, including Certificate of Designation of Junior Participating Preferred Stock dated February 10, 1993
3.2	The Company's Bylaws, as amended and restated on February 9, 1993. (Incorporated by reference to Exhibit 3 to the Registrant's Registration Statement on Form S-1 (Registration No. 33-57174))
(4)	**Instruments defining the rights of security holders, including indentures:**
4.1	Specimen of Common Stock Certificate. (Incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-1 (Registration No. 33-57174))
4.2	Fourth Amended and Restated Credit Agreement, dated July 8, 2004, among LSHI, Landstar, the lenders named therein and JPMorgan Chase Bank as administrative agent (including exhibits and schedules thereto). (Incorporated by reference to Exhibit 99.1 to the Registrant's Form 8-K filed on July 12, 2004 (Commission File No. 0-21238))
(10)	**Material contracts:**
10.1†	Landstar System, Inc. Executive Incentive Compensation Plan (Incorporated by reference to Exhibit B to the Registrant's Definitive Proxy Statement filed on March 22, 2002 (Commission File No. 0-21238))
10.2†	LSHI Management Incentive Compensation Plan. (Incorporated by reference to Exhibit 10.8 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 25, 1993. (Commission File No. 0-21238))
10.3†	Landstar System, Inc. 1993 Stock Option Plan. (Incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-1. (Registration No. 33-67666))
10.4†	Amendment to the Landstar System, Inc. 1993 Stock Option Plan (Incorporated by reference to Exhibit 10.10 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 27, 1997 (Commission File No. 0-21238))
10.5†	Landstar System, Inc. 2002 Employee Stock Option Plan (Incorporated by reference to Exhibit A to the Registrant's Definitive Proxy Statement filed on March 22, 2002 (Commission File No. 0-21238))
10.6†	Landstar System, Inc. 1994 Director's Stock Option Plan. (Incorporated by reference to Exhibit 99 to the Registrant's Registration Statement on Form S-8 filed July 5, 1995. (Registration No. 33-94304))
10.7†	First Amendment to the Landstar System, Inc. 1994 Directors Stock Option Plan (Incorporated by reference to Exhibit 10.8 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 30, 2000 (Commission File No. 0-21238))
10.8†	Second Amendment to the Landstar System, Inc. 1994 Directors Stock Option Plan (Incorporated by reference to Exhibit 10.9 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 30, 2000 (Commission File No. 0-21238))
10.9†	Directors Stock Compensation Plan, dated May 15, 2003 (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 28, 2003 (Commission File No. 0-21238))
10.10†	Form of Indemnification Agreement between the Company and each of the directors and certain executive officers of the Company. (Incorporated by reference to Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 27, 2003 (Commission No. 0-21238))
10.11†	Form of Key Executive Employment Protection Agreement dated January 30, 1998 between Landstar System, Inc. and each of Henry H. Gerkens, Robert C. LaRose, Jeffrey Pundt and Ronald G. Stanley (Incorporated by reference to Exhibit 10.9 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 27, 1997 (Commission File No. 0-21238))

Exhibit No.	
10.12*†	Form of Key Executive Employment Protection Agreement between Landstar System, Inc. and each of James B. Gattoni and Joseph J. Beacom
10.13*†	Key Executive Employment Agreement dated June 27, 2005 between Landstar System, Inc. and Michael K. Kneller
10.14†	Amendment to Key Executive Employment Protection Agreement, dated August 7, 2002, between Landstar System, Inc. and Henry H. Gerkens (Incorporated by reference to Exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 28, 2002 (Commission File No. 0-21238))
10.15†	Amendment to Key Executive Employment Protection Agreement, dated August 7, 2002, between Landstar System, Inc. and Robert C. LaRose (Incorporated by reference to Exhibit 10.8 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 28, 2002 (Commission File No. 0-21238))
10.16*†	Amendment to Key Executive Employment Protection Agreement, dated August 7, 2002, between Landstar System, Inc. and Jeffrey L. Pundt
10.17†	Amendment to Key Executive Employment Protection Agreement, dated August 7, 2002, between Landstar System, Inc. and Ronald G. Stanley (Incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 25, 2004 (Commission File No. 0-21238))
10.18*†	Form of Amendment to Key Executive Employment Protection Agreement, dated August 7, 2002, between Landstar System, Inc. and each of James B. Gattoni and Joseph J. Beacom
10.19†	Letter Agreement, dated July 2, 2002 from Jeffrey C. Crowe to Henry H. Gerkens. (Incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 28, 2002 (Commission File No. 0-21238))
10.20†	Letter agreement, dated April 27, 2004, between Landstar System, Inc. and Henry H. Gerkens (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on April 28, 2004 (Commission File No. 0-21238))
10.21†	Letter Agreement, dated April 27, 2004, between Landstar System, Inc. and Jeffrey C. Crowe (Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on April 28, 2004 (Commission No. 0-21238))
10.22	Solicitation, Offer and Award Agreement, dated October 1, 2002, as amended January 31, 2003, January 1, 2004, January 10, 2005 and September 12, 2005, between the United States Department of Transportation/Federal Aviation Administration and Landstar Express America, Inc. (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 24, 2005.) (Commission File No. 0-21238)
(21)	**Subsidiaries of the Registrant:**
21.1*	List of Subsidiary Corporations of the Registrant
(23)	**Consents of experts and counsel:**
23.1*	Consent of KPMG LLP as Independent Registered Public Accounting Firm of the Registrant
(24)	**Power of attorney:**
24.1*	Powers of Attorney
(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

Exhibit No.	
(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

† management contract or compensatory plan or arrangement

* Filed herewith.

** Furnished herewith.

THE COMPANY WILL FURNISH, WITHOUT CHARGE, TO ANY SHAREHOLDER OF THE COMPANY WHO SO REQUESTS IN WRITING, A COPY OF ANY EXHIBITS, AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. ANY SUCH REQUEST SHOULD BE DIRECTED TO LANDSTAR SYSTEM, INC., ATTENTION: INVESTOR RELATIONS, 13410 SUTTON PARK DRIVE SOUTH, JACKSONVILLE, FLORIDA 32224.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

LANDSTAR SYSTEM, INC.

By: /s/ Henry H. Gerkens
Henry H. Gerkens
President and Chief Executive Officer

By: /s/ Robert C. Larose
Robert C. LaRose
Executive Vice President and Chief Financial Officer

Date: March 9, 2006

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

Signature		Date
* Jeffrey C. Crowe	Chairman of the Board	March 9, 2006
/s/ Henry H. Gerkens Henry H. Gerkens	Director, President and Chief Executive Officer; Principal Executive Officer	March 9, 2006
/s/ Robert C. LaRose Robert C. LaRose	Executive Vice President and Chief Financial Officer; Principal Accounting Officer	March 9, 2006
* David G. Bannister	Director	March 9, 2006
* Ronald W. Drucker	Director	March 9, 2006
* Merritt J. Mott	Director	March 9, 2006
* William S. Elston	Director	March 9, 2006
* Diana M. Murphy	Director	March 9, 2006

By: /s/ MICHAEL K. KNELLER
Michael K. Kneller
*Attorney In Fact**

Exhibit 3.1

RESTATED

CERTIFICATE OF INCORPORATION

OF

LANDSTAR SYSTEM. INC.

Pursuant to Section 245 of
the General Corporation Law of the State of Delaware

Landstar System, Inc., a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

1. The Corporation was incorporated as Landstar Holding Corporation and its original Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on January 8, 1991.

2. This Restated Certificate of Incorporation was duly adopted in accordance with Section 245 of the General Corporation Law of the State of Delaware and it only restates and integrates and does not further amend the provisions of the Certificate of Incorporation of the Corporation as heretofore amended or supplemented and there is no discrepancy between such provisions and the provisions of this Restated Certificate of Incorporation.

3. The text of the Certificate of Incorporation as heretofore amended is hereby amended and restated to read in its entirety as follows:

ARTICLE I

The name of the Corporation is Landstar System, Inc. (the "Corporation").

ARTICLE II

The address of the registered office of the Corporation in the State of Delaware is Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New

Castle, Delaware 19801, and the name of its registered agent at the address of the Corporation's registered office is The Corporation Trust Company.

ARTICLE III

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV

Section 1. The total number of shares of capital stock which the Corporation shall have the authority to issue is one hundred sixty-two million (162,000,000), consisting of (a) one hundred sixty million (160,000,000) shares of common stock, par value $.01 per share ("Common Stock"), and (b) two million (2,000,000) shares of preferred stock, par value $1.00 per share ("Preferred Stock").

Section 2. Each holder of Common Stock shall be entitled to one vote for each share of Common Stock held of record by such holder and shall be entitled to vote with respect to all matters as to which a stockholder of a Delaware corporation would be entitled to vote.

Section 3. The Preferred Stock may be issued at any time and from time to time in one or more series. The board of directors of the Corporation ("Board of Directors") is hereby authorized to provide for the issuance of shares of Preferred Stock in series and, by filing a certificate of designation pursuant to the applicable provisions of the General Corporation Law of the State of Delaware (hereinafter referred to as a "Preferred Stock Certificate of Designation"), to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of shares of each such series and the qualifications, limitations and restrictions thereof. The authority of the Board of Directors with respect to each series shall include, but not be limited to, determination of the following:

(a) The designation of the series, which may be by distinguishing number, letter or title.

(b) The number of shares of the series, which number the Board of Directors may thereafter (except where otherwise provided in the applicable Preferred Stock Certificate of Designation) increase or decrease (but not below the number of shares thereof then outstanding).

(c) Whether dividends, if any, shall be cumulative or noncumulative and the dividend rate of the series.

(d) The dates on which dividends, if any, shall be payable.

(e) The redemption rights and price or prices, if any, for shares of the series.

(f) The terms and amount of any sinking fund provided for the purchase or redemption of shares of the series.

(g) The amounts payable on shares of the series in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation.

(h) Whether the shares of the series shall be convertible or exchangeable into shares of any other class or series, or any other security, of the Corporation or any other corporation, and, if so, the specification of such other class or series or such other security, the conversion or exchange price or prices or rate or rates, any adjustments thereof, the date or dates as of which such shares shall be convertible or exchangeable and all other terms and conditions upon which such conversion or exchange may be made.

(i) Restrictions on the issuance of shares of the same series or of any other class or series.

(j) The voting rights, if any, of the holders of shares of the series.

A Certificate of Designation of Junior Participating Cumulative Preferred Stock effective February 10, 1993 is attached hereto as Exhibit A.

Section 4. The Common Stock shall be subject to the express terms of the Preferred Stock and any series thereof.

Section 5. Except as may be provided in this Restated Certificate of Incorporation or in a Preferred Stock Certificate of Designation, the Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes, and holders of Preferred Stock shall not be entitled to receive notice of any meeting of stockholders at which they are not entitled to vote.

Section 6. The Corporation shall be entitled to treat the person in whose name any share of its stock is registered as the owner thereof for all purposes and shall not be bound to recognize any equitable or other claim to, or interest in, such share on the part of any other person, whether or not the Corporation shall have notice thereof, except as expressly provided by applicable law.

ARTICLE V

The Board of Directors is hereby authorized to create and issue, whether or not in connection with the issuance and sale of any of its stock or other securities or property, rights entitling the holders thereof to purchase from the Corporation shares of stock or other securities of the Corporation or any other corporation. The times at which and the terms upon which such rights are to be issued will be determined by the Board of Directors and set forth in the contracts or instruments that evidence such rights. The authority of the Board of Directors with respect to such rights shall include, but not be limited to, determination of the following:

(a) The initial purchase price per share or other unit of the stock or other securities or property to be purchased upon exercise of such rights.

(b) Provisions relating to the times at which and the circumstances under which such rights may be exercised or sold or otherwise transferred, either together with or separately from, any other stock or other securities of the Corporation.

(c) Provisions which adjust the number or exercise price of such rights, or amount or nature of the stock or other securities or property receivable upon exercise of such rights, in the event of a combination, split or recapitalization of any stock of the Corporation, a change in ownership of the Corporation's stock or other securities or a reorganization, merger, consolidation, sale of assets or other occurrence relating to the Corporation or any stock of the Corporation, and provisions restricting the ability of the Corporation to enter into any such transaction absent an assumption by the other party or parties thereto of the obligations of the Corporation under such rights.

(d) Provisions which deny the holder of a specified percentage of the outstanding stock or other securities of the Corporation the right to exercise such rights and/or cause the rights held by such holder to become void.

(e) Provisions which permit the Corporation to redeem such rights.

(f) The appointment of a rights agent with respect to such rights.

ARTICLE VI

In furtherance and not in limitation of the powers conferred upon it by law, the Board of Directors is expressly authorized to adopt, repeal, alter or amend the Bylaws of the Corporation by the vote of a majority of the entire Board of Directors. In addition to any requirements of law and any other provision of this Restated Certificate of Incorporation, the stockholders of the Corporation may adopt, repeal, alter or amend any provision of the Bylaws upon the affirmative vote of the holders of 75% or more of the combined voting power of the then outstanding stock of the Corporation entitled to vote generally in the election of directors.

ARTICLE VII

Section 1. The business and affairs of the Corporation shall be managed by or under the direction of its Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by law or by this Restated Certificate of Incorporation directed or required to be exercised or done by the stockholders.

Section 2. The number of directors constituting the initial Board of Directors shall be seven (7) and thereafter the number of directors shall be as set forth in or pursuant to the Bylaws of the Corporation, but shall not be more than ten (10). The Board of Directors shall be divided by the directors into three classes, designated Classes I, II and III, which shall be as nearly equal in number as possible. Directors of Class I shall be elected to hold office for a term expiring at the annual meeting of stockholders to be held in 1994, directors of Class II shall be elected to hold office for a term expiring at the annual meeting of stockholders to be held in 1995 and directors of Class III shall be elected to hold office for a term expiring at the annual meeting of stockholders to be held in 1996. At each succeeding annual meeting of stockholders following such initial classification and election, the respective successors of each class shall be elected for three year terms. The holders of a majority of the shares then entitled to vote at an election of directors may remove any director or the entire Board of Directors, but only for cause.

Section 3. Advance notice of nominations for elections for the election of directors shall be given in the manner and to the extent provided in the Bylaws of the Corporation.

ARTICLE VIII

A director shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director; provided that this provision shall not eliminate or limit the liability of a director (i) for any breach of his duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of the law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, or (iv) for any transaction from which the director derives an improper personal benefit. If the General Corporation Law of the State of Delaware is amended after the filing of this Restated Certificate of Incorporation to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the General Corporation Law of the State of Delaware, as so amended.

Any repeal or modification of the foregoing paragraph by the stockholders of the Corporation shall not adversely affect any right or protection of a director or the Corporation existing at the time of such repeal or modification.

ARTICLE IX

Section 1. Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director or officer of another corporation (including Landstar System Holdings, Inc., Ranger Transportation, Inc., Independent Freightway, Inc., Ligon Nationwide, Inc., Gemini Transportation Services, Inc., Poole Truck Line, Inc., Landstar Transportation Service, Inc. and Risk Management Claim Services, Inc.) or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (hereinafter an "indemnitee"), whether the basis of such proceeding is alleged action or omission in an official capacity as a director or officer or in any other capacity while serving as a director or officer, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the General Corporation Law of the State of Delaware, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than permitted prior thereto), against all expense, liability and loss (including, without limitation, attorneys' fees, judgments, fines, excise taxes or penalties and amounts paid or to be paid in settlement) incurred or suffered by such indemnitee in connection therewith and such indemnification shall continue with respect to an indemnitee who has ceased to be a director or officer and shall inure to the benefit of the indemnitee's heirs, executors and administrators; provided, however, that, except as provided in Section 2 of this Article IX with respect to proceedings to enforce rights to indemnification, the Corporation shall indemnify any such indemnitee in connection with a proceeding initiated by such indemnitee only if such proceeding was authorized by the Board of Directors of the Corporation. The right to indemnification conferred in this Article IX shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition (hereinafter an "advancement of expenses"); and, provided, further, that, if required by the General Corporation Law of the State of Delaware, an advancement of expenses incurred by an indemnitee shall be made only upon delivery to the Corporation of an undertaking (hereinafter an "undertaking"), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal (hereinafter a “final adjudication”) that such indemnitee is not entitled to be indemnified for such expenses under this Article IX or otherwise.

Section 2. If a claim under Section 1 of this Article IX is not paid in full by the Corporation within sixty days after a written claim has been received by the Corporation (except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty days), the indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, the indemnitee shall also be entitled to be paid the expense of prosecuting or defending such suit. In (i) any suit brought by the indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the indemnitee to enforce a right to an advancement of expenses) it shall be a defense that, and (ii) in any suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Corporation shall be entitled to recover such expenses upon a final adjudication that, the indemnitee has not met the applicable standard of conduct set forth in the General Corporation Law of the State of Delaware. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in the General Corporation Law of the State of Delaware, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the indemnitee has not met the applicable standard of conduct, shall create a presumption that the indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the indemnitee, be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder or by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled under this Article IX or otherwise to be indemnified, or to such advancement of expenses, shall be on the Corporation.

Section 3. The rights to indemnification and to the advancement of expenses conferred in this Article IX shall not be exclusive of any other right which any person may have or hereafter acquire under this Restated Certificate of Incorporation or any bylaw, contract, agreement, vote of stockholders or disinterested directors or otherwise.

Section 4. The Corporation may maintain insurance, at its expense, to protect itself and any indemnitee against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the General Corporation Law of the State of Delaware.

Section 5. The Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification and to the advancement of expenses to any employee or agent of the Corporation to the fullest extent of the provisions of this Article IX or as otherwise permitted under the General Corporation Law of the State of Delaware with respect to the indemnification and advancement of expenses of directors and officers of the Corporation.

ARTICLE X

A director of the Corporation, in determining what he reasonably believes to be in the best interests of the Corporation, shall consider the interests of the Corporation's stockholders and, in his discretion, may consider any of the following:

(a) The interests of the Corporation's employees, independent contractors, agents, suppliers, creditors and customers;

(b) The economy of the nation;

(c) Community and societal interests; and

(d) The long-term as well as short-term interests of the Corporation and its stockholders, including the possibility that these interests may be best served by the continued independence of the Corporation.

ARTICLE XI

Election of directors at an annual or special meeting of stockholders need not be by written ballot unless the Bylaws of the Corporation shall so provide.

ARTICLE XII

Cumulative voting for the election of directors shall not be permitted.

ARTICLE XIII

Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders of the Corporation, and the ability of the stockholders to consent in writing to the taking of any action is hereby specifically denied. The foregoing sentence shall take effect on the day following the date on which the Corporation's initial underwritten public offering of Common Stock closes. Except as otherwise required by law, special meetings of stockholders of the Corporation may be called only by the Chairman of the Board, the Board of Directors pursuant to a resolution approved by a majority of the entire Board of Directors, by the President or as otherwise provided in the Bylaws of the Corporation.

ARTICLE XIV

The vote of stockholders of the Corporation required to approve Business Combinations (as hereinafter defined) shall be as set forth in this Article XIV.

Section 1. In addition to any affirmative vote required by law or by this Restated Certificate of Incorporation, and except as otherwise expressly provided in Section 3 of this article XIV:

(a) any merger or consolidation of the Corporation with (i) any Interested Stockholder or (ii) any other corporation (whether or not itself an Interested Stockholder) which is, or after such merger or consolidation would be, an Affiliate or Associate of an Interested Stockholder; or

(b) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) to or with any Interested Stockholder or any Affiliate or Associate of any Interested Stockholder of (i) all or substantially all the assets of the Corporation or (ii) assets of the Corporation or any of its Subsidiaries representing in the aggregate more than 75% of the total value of the assets of the Corporation and its consolidated Subsidiaries as reflected on the most recent consolidated balance sheet of the Corporation and its consolidated Subsidiaries prepared in accordance with generally accepted accounting principles then in effect; or

(c) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) to or with any Interested Stockholder or any Affiliate or Associate of any Interested Stockholder of any assets of the Corporation or of any Subsidiary having an aggregate Fair Market Value of $10,000,000 or more, but less than the amount referred to in clause (ii) of paragraph (b) of this Section 1, or (ii) any merger or consolidation of any Subsidiary of the Corporation having assets with an aggregate Fair Market Value of $10,000,000 or more in a transaction not covered by paragraph (b) of this Section 1 with (x) any Interested Stockholder or (y) any other corporation (whether or not itself an Interested Stockholder) which is, or after such merger or consolidation would be, an Affiliate or Associate of an Interested Stockholder; or

(d) the issuance or transfer by the Corporation or any Subsidiary (in one transaction or a series of transactions) to any Interested Stockholder or any Affiliate or Associate of any Interested Stockholder of any securities of the Corporation or any Subsidiary in exchange for cash, securities of other property (or a combination thereof) having an aggregate Fair Market Value of $10,000,000 or more, other than the issuance of securities upon the conversion of convertible securities of the Corporation or any Subsidiary which were not acquired by such

Interested Stockholder (or such Affiliate or Associate) from the Corporation or a Subsidiary; or

(e) The adoption of any plan or proposal for the liquidation or dissolution of the Corporation proposed by or on behalf of any Interested Stockholder or any Affiliate or Associate of any Interested Stockholder; or

(f) any reclassification of securities (including any reverse stock split) or recapitalization of the Corporation, or any merger or consolidation of the Corporation with any of its Subsidiaries or any other transaction (whether or not with or into or otherwise involving any Interested Stockholder), which in any such case has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class or series of stock or securities convertible into stock of the Corporation or any Subsidiary which is directly or indirectly beneficially owned by any Interested Stockholder or any Affiliate or Associate of any Interested Stockholder;

shall not be consummated without (i) the affirmative vote of the holders of at least 75% of the combined voting power of the then outstanding shares of stock of all classes and series of the Corporation entitled to vote generally in the election of directors ("Voting Stock") and (ii) the affirmative vote of a majority of the combined voting power of the then outstanding shares of Voting Stock held by Disinterested Stockholders, in each case voting together as a single class. Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified, by law or by this Restated Certificate of Incorporation or by a registered securities association or in any agreement with any national securities exchange or otherwise.

Section 2. The term "Business Combination" as used in this Article XIV shall mean any transaction which is referred to in any one or more of paragraphs (a) through (f) of Section 1 of this Article XIV.

Section 3. The provisions of Section 1 of this Article XIV shall not be applicable to any particular Business Combination, and such Business Combination shall require only such affirmative vote as is required by law and any other provision of this Restated Certificate of Incorporation, if all the conditions specified in any of the following paragraphs (a), (b) or (c) are met:

(a) (i) such Business Combination shall have been approved by a majority of the Disinterested Directors and (ii) the Interested Stockholder involved in such Business Combination (x) acquired such status as an Interested Stockholder in a manner substantially consistent with an agreement or memorandum of understanding approved by the Board of Directors (including a majority of the Disinterested Directors) prior to the time such Interested

Stockholder became an Interested Stockholder and (y) has complied with all requirements imposed by such agreement or memorandum of understanding; or

(b) in the case of any Business Combination described in paragraph (a) or (f) of Section 1 of this Article XIV, (i) such Business Combination shall have been approved by a majority of the Disinterested Directors, (ii) such Business Combination shall not have resulted, directly or indirectly, in an increase of more than 10% in the total amount of shares of any class or series of stock or securities convertible into stock of the Corporation or any Subsidiary which was directly or indirectly beneficially owned by an Interested Stockholder and all Affiliates and Associates of such Interested Stockholder at the time of the approval of such Business Combination by a majority of the Disinterested Directors, and (iii) such Business Combination shall not have been consummated within a period of two years after the consummation of any other Business Combination described in paragraph (a), (b), (c), (d), (e) or (f) of Section 1 of this Article XIV (whether or not such other Business Combination shall have been approved by a majority of the Disinterested Directors) which had the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class or series of stock or securities convertible into stock of the Corporation or any Subsidiary which was directly or indirectly beneficially owned by such Interested Stockholder or any Affiliate or Associate of such Interested Stockholder; or

(c) in the case of any Business Combination described in paragraph (c) or (d) of Section 1 of this Article XIV, such Business Combination shall have been approved by a majority of the Disinterested Directors.

Section 4. For the purposes of this Article XIV:

(a) A "person" shall mean any individual, group, firm, corporation, partnership, trust or other entity.

(b) "Interested Stockholder" shall mean any person (other than the Corporation, any Subsidiary, or Kelso Investment Associates IV, L.P. or any of its Affiliates or Associates, and other than any group consisting of the directors and officers or the Corporation which may be deemed to be a group solely by reason of each of them being directors or officers of the Corporation or members of a slate proposed by the Corporation as directors) who or which:

(1) is the beneficial owner, directly or indirectly, of 10% or more of the combined voting power of the then outstanding shares of Voting Stock; or

(2) is an Affiliate of the Corporation and at any time within the two-year period immediately prior to the date in question was the

beneficial owner, directly or indirectly, of 10% or more of the combined voting power of the then outstanding shares of Voting Stock; or

(3) is an assignee of or has otherwise succeeded to the beneficial ownership of any shares of Voting Stock which were at any time within the two-year period immediately prior to the date in question beneficially owned by any Interested Stockholder, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933.

(c) "Disinterested Stockholder" shall mean a stockholder of the Corporation who is not an Interested Stockholder or an Affiliate or an Associate of an Interested Stockholder.

(d) a person shall be a "beneficial owner" of any Voting Stock:

(1) which such person or any of its Affiliates or Associates beneficially owns, directly or indirectly; or

(2) which such person or any of its Affiliates or Associates has (a) the right to acquire (whether such right is exercisable immediately or only after the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (b) the right to vote or to direct the vote pursuant to any agreement, arrangement or understanding; or

(3) which are beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of Voting Stock.

(e) For the purposes of determining whether a person is an Interested Stockholder pursuant to paragraph (b) of this Section 4, the number of shares of Voting Stock deemed to be outstanding shall include shares deemed owned by such person through application of paragraph (d) of this Section 4 but shall not include any other shares of Voting Stock which may be issuable to other persons pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, exchange rights, warrants or options, or otherwise.

(f) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on February 1, 1993.

(g) “Subsidiary” shall mean any Corporation more than 50% of whose outstanding stock having ordinary voting power in the election of directors is owned by the Corporation, by a Subsidiary or by the Corporation and one or more Subsidiaries, provided, however, that for the purposes of the definition of Interested Stockholder set forth in paragraph (b) of this Section 4, the term “Subsidiary” shall mean only a corporation of which a majority of each class of equity security is owned by the Corporation, by a Subsidiary or by the Corporation and one or more Subsidiaries.

(h) “Disinterested Director” means any member of the Board of Directors of the Corporation who is unaffiliated with, and not a nominee of, the Interested Stockholder and was a member of the Board of Directors prior to the time that the Interested Stockholder became an Interested Stockholder, and any successor of a Disinterested Director who is unaffiliated with, and not a nominee of, the Interested Stockholder and who is recommended to succeed a Disinterested Director by a majority of Disinterested Directors then on the Board of Directors.

(i) “Fair Market Value” means: (1) in the case of stock, the highest closing sale price during the 30-day period immediately preceding the date in question of a share of such stock on the New York Stock Exchange Composite Tape, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934 on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing sales price or bid quotation with respect to a share of such stock during the 30-day period preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by a majority of the Disinterested Directors in good faith; and (2) in the case of stock of any class or series which is not traded on any securities exchange or in the over-the-counter market or in the case of property other than cash or stock, the fair market value of such stock or property, as the case may be, on the date in question as determined by a majority of the Disinterested Directors in good faith.

Section 5. A majority of the Disinterested Directors of the Corporation shall have the power and duty to determine, on the basis of information known to them after reasonable inquiry, all facts necessary to determine compliance with this Article XIV, including, without limitation, (a) whether a person is an Interested Stockholder, (b) the number of shares of Voting Stock beneficially owned by any person, (c) whether a person is an Affiliate or Associate of another person, (d) whether the requirements of Section 3 of this Article XIV have been met with respect to any Business Combination and (e) whether the assets which are the subject of any Business Combination have, or the consideration to be received for the issuance or transfer of securities by the Corporation or any Subsidiary in any Business Combination has, (i) an aggregate Fair Market Value of $10,000,000 or more or (ii) represent in the aggregate more than 75% of the total value of the assets of the Corporation and its consolidated Subsidiaries prepared in accordance with generally accepted accounting principles then in effect; and the good faith determination of a majority of the Disinterested Directors on such matters shall be conclusive and binding for all purposes of this Article XIV.

Section 6. Nothing contained in this Article XIV shall be construed to relieve an Interested Stockholder from any fiduciary obligation imposed by law.

ARTICLE XV

The Corporation reserves the right at any time and from time to time to amend, alter, change or repeal any provision contained in this Restated Certificate of Incorporation, and any other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or hereafter prescribed herein or by applicable law, and all rights, preferences and privileges of whatsoever nature conferred upon stockholders, directors or any other persons whomsoever by and pursuant to this Restated Certificate of Incorporation in its present form or as hereafter amended are granted subject to the right reserved in this Article XV; provided, however, that any amendment or repeal of Article VIII or Article IX of this Restated Certificate of Incorporation shall not adversely affect any right or protection existing hereunder immediately prior to such amendment or repeal; and provided, further, that Articles V, VI, VII, VIII, IX, X, XII, XIII, XIV and XV of this Restated Certificate of Incorporation shall not be amended, altered, changed or repealed without the affirmative vote of the holders of at least 75% of the then outstanding stock of the Corporation entitled to vote generally in the election of directors.

IN WITNESS WHEREOF, this Restated Certificate of Incorporation has been signed this 6th day of March, 2006.

Landstar System, Inc.

/s/ Henry H. Gerkens
Name: Henry H. Gerkens
Title: President and Chief Executive Officer

Attested by:

/s/ Michael K. Kneller
Michael K. Kneller, Secretary

EXHIBIT A

CERTIFICATE OF DESIGNATION OF JUNIOR
PARTICIPATING CUMULATIVE PREFERRED STOCK
Par Value $1.00 Per Share

of

Landstar System, Inc.
(formerly Landstar Holding Corporation)

Pursuant to Section 151 of the General Corporation
Law of the State of Delaware

We, Henry H. Gerkens, Vice President, and Michael L. Harvey, Secretary, of Landstar System, Inc., (formerly Landstar Holding Corporation), a corporation organized and existing under the General Corporation Law of the State of Delaware, in accordance with the provisions of Section 103 thereof, DO HEREBY CERTIFY:

That pursuant to the authority conferred upon the Board of Directors by the Restated Certificate of Incorporation (the “Restated Certificate”) of the said Corporation, the said Board of Directors on February 9, 1993, by the affirmative vote of at least two-thirds of the members of the Board of Directors, adopted the following resolution creating a series of Two Hundred Thousand (200,000) shares of Preferred Stock, par value $1.00 per share:

RESOLVED, that contingent upon the approval of the Restated Certificate, a series of Preferred Stock of the Corporation be, and it hereby is, created, and that the designation and amount thereof and the voting powers, preferences and relative participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof are as follows:

Section 1. Designation and Amount.

The shares of such series shall be designated as Junior Participating Cumulative Preferred Stock, par value $1.00 per share (the “Junior Preferred Stock”) and the number of shares constituting such series shall be Two Hundred Thousand (200,000). Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, that no decrease shall reduce the number of shares of Junior Preferred Stock to a number less than the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the Corporation convertible into Junior Preferred Stock.

Section 2. Dividends and Distributions.

(A) Subject to the rights of the holders of any shares of any series of preferred stock (or any similar stock) ranking prior and superior to the Junior Preferred Stock with respect to dividends, the holders of shares of Junior Preferred Stock, in preference to the holders of Common Stock, and of any other junior stock which may be outstanding, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the first day of January, April, July and October in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Junior Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) $2.50 per share ($10.00 per annum), or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions, other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Junior Preferred Stock. In the event the Corporation shall at any time declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Junior Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Junior Preferred Stock as provided in paragraph (A) of this Section immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment date and the next subsequent Quarterly Dividend Payment date, a dividend of $2.50 per share ($10.00 per annum) on the Junior Preferred stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Junior Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Junior Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Junior Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall accumulate but shall not bear interest. Dividends paid on the shares of Junior Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Junior Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 60 days prior to the date fixed for the payment thereof.

Section 3. Voting Rights.

The holders of shares of Junior Preferred Stock shall have the following voting rights.

(A) Subject to the provisions for adjustment as hereinafter set forth, each share of Junior Preferred Stock shall entitle the holder thereof to 100 votes (and each one one-hundredth of a share of Junior Preferred Stock shall entitle the holder thereof to one vote) on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporation shall at any time declare or pay any dividend on Common Stock payable in shares of Common Stock or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by classification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or less number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Junior Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein, in the Restated Certificate, in any other certificate of designation creating a series of preferred stock or any similar stock, or by law, the holders of shares of Junior Preferred Stock and the holders of shares of Common Stock and any other capital stock of the Corporation having general voting rights shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(C) If at any time the Corporation shall not have declared and paid all accrued and unpaid dividends on the Junior Preferred Stock as provided in Section 2 hereof for four consecutive Quarterly Dividend Payment Dates, then, in addition to any voting rights provided for in paragraphs (A) and (B), the holders of the Junior Preferred Stock shall have the exclusive right, voting separately as class, to elect two directors on the Board of Directors of the Corporation (such directors, the “Preferred Directors”). The right of the holders of the Junior Preferred Stock to elect the Preferred Directors shall continue until all such accrued and unpaid dividends shall have been paid. At such time, the terms of any of the Preferred Directors shall terminate. At any time when the holders of the Junior Preferred Stock shall have thus become entitled to elect Preferred Directors, a special meeting of shareholders shall be called for the purpose of electing such Preferred Directors, to be held within 30 days after the right of the holders of the Junior Preferred Stock to elect such Preferred Directors shall arise, upon notice given in the manner provided by law or the by-laws of the Corporation for giving notice of a special meeting of shareholders (provided, however, that such a special meeting shall not be called if the annual meeting of shareholders is to convene within said 30 days). At any such special meeting or at any annual meeting at which the holders of the Junior Preferred Stock shall be entitled to elect Preferred Directors, the holders of a majority of the then outstanding Junior Preferred Stock present in person or by proxy shall be sufficient to constitute a quorum for the election of such directors. The persons elected by the holders of the Junior Preferred Stock at any meeting in accordance with the terms of the preceding sentence shall become directors on the date of such election.

Section 4. Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Junior Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Junior Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends or, make any other distributions on any shares or stock ranking junior (either as to dividends or upon liquidation, dissolution or winding-up) to the Junior Preferred Stock;

(ii) declare or pay dividends, or make any other distributions, on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding-up) with the Junior Preferred Stock except dividends paid ratably on the Junior Preferred Stock, and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding-up) with the Junior Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding-up) to the Junior Preferred Stock; or

(iv) purchase or otherwise acquire for consideration any shares of Junior Preferred Stock, or any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding-up) with the Junior Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. Reacquired Shares.

Any shares of Junior Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever, shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of preferred stock, without designation as to series, and may be reissued as part of a new series of preferred stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein, in the Restated Certificate, in any other certificate of designation creating a series of preferred stock or any similar stock or as otherwise required by law.

Section 6. Liquidation, Dissolution or Winding-Up.

Upon any voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, no distribution shall be made (A) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding-up) to the Junior Preferred Stock unless prior thereto, the holders of shares of Junior Preferred Stock shall have received the higher of (i) $10.00 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, or (ii) an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount to be distributed per share to holders of Common Stock; nor shall any distribution be made (B) to the holders of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding-up) with the Junior Preferred Stock, except distributions made ratably on the Junior Preferred Stock and all other such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding-up. In the event the Corporation shall at any time declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Junior Preferred Stock are entitled immediately prior to such event under the provision in clause (A) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. Consolidation, Merger, etc.

In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, or otherwise changed, then in any such case each share of Junior Preferred Stock shall at the same time be similarly exchanged or changed into an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Junior Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 8. No Redemption.

The shares of Junior Preferred Stock shall not be redeemable.

Section 9. Rank.

Unless otherwise provided in the Restated Certificate or a certificate of designation relating to a subsequent series of preferred stock of the Corporation, the Junior Preferred Stock shall rank junior to all other series of the Corporation’s preferred stock as to the payment of dividends and the distribution of assets on liquidation, dissolution or winding-up, and senior to the Common Stock of the Corporation.

Section 10. Amendment.

The Restated Certificate, as amended and restated, shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Junior Preferred Stock so as to affect them adversely without the affirmative vote of the Junior Preferred Stock, voting together as a single series.

Section 11. Fractional Shares.

Junior Preferred stock may be issued in fractions of a share (in one one-hundredths (1/100) of a share and integral multiples thereof) which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Junior Preferred Stock.

IN WITNESS WHEREOF, this Certificate of Designation is executed on behalf of the Corporation by its Vice President and attested by its Secretary this 10th day of February, 1993.

/s/ Henry H. Gerkens
Vice President

ATTEST:

/s/ Michael L. Harvey
Secretary

Exhibit 10.12

FORM OF
KEY EXECUTIVE EMPLOYMENT PROTECTION AGREEMENT

THIS AGREEMENT between Landstar System, Inc., a Delaware corporation (the "Company"), and _______________ (the "Executive"), dated as of this ___ day of _______________, 200__.

W I T N E S S E T H:

WHEREAS, the Company has employed the Executive in an executive officer position and has determined that the Executive holds a position of significant importance with the Company;

WHEREAS, the Company believes that, in the event it is confronted with a situation that could result in a change in ownership or control of the Company, continuity of management will be essential to its ability to evaluate and respond to such situation in the best interests of shareholders;

WHEREAS, the Company understands that any such situation will present significant concerns for the Executive with respect to his financial and job security;

WHEREAS, the Company desires to assure itself of the Executive's services during the period in which it is confronting such a situation, and to provide the Executive certain financial assurances to enable the Executive to perform the responsibilities of his position without undue distraction and to exercise his judgment without bias due to his personal circumstances;

WHEREAS, to achieve these objectives, the Company and the Executive desire to enter into an agreement providing the Company and the Executive with certain rights and obligations upon the occurrence of a Change of Control (as defined in Section 2);

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, it is hereby agreed by and between the Company and the Executive as follows:

1. Operation of Agreement. (a) Effective Date. The effective date of this Agreement shall be the date on which a Change of Control occurs (the "Change of Control Date"), provided that, except as provided in Section 1(b), if the Executive is not employed by the Company on the Change of Control Date, this Agreement shall be void and without effect. Notwithstanding the foregoing, if, prior to the occurrence of a Change of Control or a Potential Change of Control (as defined in Section 2), the Executive is demoted, the Board of Directors shall have the right to declare this Agreement void and without effect.

(b) Termination of Employment Following a Potential Change of Control. Notwithstanding Section 1(a), if (i) the Executive's employment is terminated by the Company without Cause (as defined in Section 2) after the occurrence of a Potential Change of Control and prior to the occurrence of a Change of Control and (ii) a Change of Control occurs within one year of such termination, the Executive shall be deemed, solely for purposes of determining his rights under this Agreement, to have remained employed until the date such Change of Control occurs and to have been terminated by the Company without Cause immediately after this Agreement becomes effective.

(c) Termination of Employment Following Death or Disability. This Agreement shall terminate automatically upon the Executive's death or termination due to Disability (as defined in Section 2).

2. Definitions. (a) Change of Control. For the purposes of this Agreement, a "Change of Control" shall mean (i) any "person," including a "group" (as such terms are used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended ("the Act")), but excluding the Company, any of its subsidiaries, or any employee benefit plan of the Company or any of its subsidiaries, or any employee benefit plan of the Company or any of its subsidiaries, is or becomes the "beneficial owner" (as defined in Rule 13(d)(3) under the Act), directly or indirectly, of common stock of the Company representing the greater of 35% or more of the combined voting power of the Company's then outstanding common stock; (ii) the shareholders of the Company approve a definitive agreement (a) for the merger or other business combination of the Company with or into another corporation, a majority of the directors of which were not directors of the Company immediately prior to the merger and in which the shareholders of the Company immediately prior to the effective date of such merger directly or indirectly own less than 50% of the voting power in such corporation or (b) for the sale or other disposition of all or substantially all of the assets of the Company; or (iii) the purchase of common stock of the Company pursuant to any tender or exchange offer made by any "person," including a "group" (as such terms are used in Sections 13(d) and 14(d)(2) of the Act), other than the Company, any of its subsidiaries, or an employee benefit plan of the Company or any of its subsidiaries for 35% or more of the common stock of the Company.

(b) Potential Change of Control. For the purposes of this Agreement, a "Potential Change of Control" shall be deemed to have occurred if (i) any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Act) commences a tender offer for common stock, which if consummated, would result in such person owning 35% or more of the combined voting power of the Company's then outstanding common stock; (ii) the Company enters into an agreement the consummation of which would constitute a Change of Control; (iii) proxies for the election of directors of the Company are solicited by anyone other than the Company; or (iv) any other event occurs which is deemed to be a Potential Change of Control by the Board of Directors of the Company.

(c) Cause. For the purposes of this Agreement, "Cause" means (i) the Executive's conviction or plea of nolo contendere to a felony; (ii) an act or acts of extreme dishonesty or gross misconduct on the Executive's part which result or are intended to result in material damage to the Company's business or reputation; or (iii) repeated material violations by the Executive of his position, authority or responsibilities as in effect at the Change of Control Date, which violations are demonstrably willful and deliberate on the Executive's part and which result in material damage to the Company's business or reputation.

(d) Good Reason. "Good Reason" means the occurrence of any of the following, without the express written consent of the Executive, after the occurrence of a Potential Change of Control or a Change of Control:

(i) (A) the assignment to the Executive of any duties inconsistent in any material adverse respect with the Executive's position, authority or responsibilities as in effect at the Change of Control Date, or (B) any other material adverse change in such position, including titles, authority or responsibilities;

(ii) any failure by the Company, other than an insubstantial or inadvertent failure remedied by the Company promptly after receipt of notice thereof given by the Executive, to provide the Executive with (A) an annual base salary, as it may be increased from time to time (the "Base Salary"), which is at least equal to the Base Salary paid to the Executive immediately prior to the Change of Control Date, or (B) incentive compensation opportunities at a level which is at least equal to the level of incentive compensation opportunities made available, to the Executive immediately prior to the Change of Control Date;

(iii) the failure by the Company to permit the Executive (and, to the extent applicable, his dependents) to participate in or be covered under all pension, retirement, deferred compensation, savings, medical, dental, health, disability, group life, accidental death and travel accident insurance plans and programs of the Company and its affiliated companies at a level that is commensurate with the Executive's participation in such plans immediately prior to the Change of Control Date (or, if more favorable to the Executive, at the level made available to the Executive or other similarly situated officers at any time thereafter);

(iv) the Company's requiring the Executive to be based at any office or location more than 50 miles from that location at which he performed his services for the Company immediately prior to the Change of Control, except for travel reasonably required in the performance of the Executive's responsibilities; or

(v) any failure by the Company to obtain the assumption and agreement to perform this Agreement by a successor as contemplated by Section 5.

In no event shall the mere occurrence of a Change of Control, absent any further impact on the Executive, be deemed to constitute Good Reason.

(e) Disability. For purposes of this Agreement, "Disability" shall mean the Executive's inability to perform the duties of his position, as determined in accordance with the policies and procedures applicable with respect to the Company's long-term disability plan, as in effect immediately prior to the Change of Control Date.

(f) Notice of Termination. Any termination by the Company for Cause or by the Executive for Good Reason shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 6(d). For purposes of this Agreement, a "Notice of Termination" means a written notice given, in the case of a termination for Cause, within 10 business days of the Company's having actual knowledge of the events giving rise to such termination, and in the case of a termination for Good Reason, within 90 days of the later to occur of (x) the Change of Control Date or (y) the Executive's having actual knowledge of the events giving rise to such termination, and which (i) indicates the specific termination provision in this Agreement relied upon, (ii) sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, and (iii) if the termination date is other than the date of receipt of such notice, specifies the termination date of this Agreement (which date shall be not more than 30 days after the giving of such notice). The failure by the Executive to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason shall not waive any right of the Executive hereunder or preclude the Executive from asserting such fact or circumstance in enforcing his rights hereunder.

(g) Date of Termination. For the purpose of this Agreement, the term "Date of Termination" means (i) in the case of a termination for which a Notice of Termination is required, the date of receipt of such notice of Termination or, if later, the date specified therein, as the case may be, and (ii) in all other cases, the actual date on which the Executive's employment terminates.

3. Employment Protection Benefits. (a) Basic Benefits. If (x) on or before the second anniversary of the Change of Control Date (i) the Company terminates the Executive's employment for any reason other than for Cause or Disability or (ii) the Executive voluntarily terminates his employment for Good Reason at any time on or before the second anniversary of the Change of Control Date or (y) if the Executive voluntarily terminates his employment, with or without Good Reason, at any time within the 60 day period beginning on the 181st day following the Change of Control Date, then the Company shall pay the Executive the following amounts:

(i) the Executive's Base Salary earned through the Date of Termination (the "Earned Salary");

(ii) a cash amount (the "Severance Amount") equal to one times the sum of

(A) one-half (1/2) of the Executive's Annual Base Salary; and

(B) the amount that would have been payable to the Executive as a target bonus for the year in which the Change of Control occurs; and

(iii) any vested amounts or benefits owing to the Executive under the Company's otherwise applicable employee benefit plans and programs, including any compensation previously deferred by the Executive (together with any accrued earnings thereon) and not yet paid by the Company and any accrued vacation pay not yet paid by the Company (the "Accrued Obligations").

The Earned Salary and Severance Amount shall be paid in a single lump sum as soon as practicable, but in no event more than ten business days (or at such earlier date required by law) following the Executive's Date of Termination. Accrued Obligations shall be paid in accordance with the terms of the applicable plan, program or arrangement.

(b) Continuation of Benefits. If the Executive receives the Severance Amount described in this Section 3, the Executive (and, to the extent applicable, his dependents) shall be entitled, after the Date of Termination until the earlier of (x) the first anniversary of his Date of Termination (the "End Date") or (y) the date the Executive becomes eligible for comparable benefits under a similar plan, policy or program of a subsequent employer, to continue participation in all of the Company's employee and executive welfare and fringe benefit plans (the "Benefit Plans") as were generally provided to the Executive in accordance with the Company's policies and practices immediately prior to the Change of Control Date. To the extent any such benefits cannot be provided under the terms of the applicable plan, policy or program, the Company shall provide a comparable benefit under another plan or from the Company's general assets. The Executive's participation in the Benefit Plans will be on the same terms and conditions that would have applied had the Executive continued to be employed by the Company through the End Date.

(c) Indemnification. The Company shall indemnify the Executive and hold the Executive harmless from and against any claim, loss or cause of action arising from or out of the Executive's performance as an officer, director or employee of the Company or any of its subsidiaries or in any other capacity, including any fiduciary capacity, in which the Executive serves at the request of the Company to the maximum extent permitted by applicable law and the Company's Certificate of Incorporation and By-Laws (the "Governing Documents"), provided that in no event shall the protection afforded to the Executive hereunder be less than that afforded under the Governing Documents as in effect immediately prior to the Change of Control Date.

(d) Certain Further Payments by the Company. In the event that any amounts or benefits paid or distributed to the Executive pursuant to this Agreement, taken together with any amounts or benefits otherwise paid or distributed to the Executive by the Company or any affiliated company (collectively, the "Covered Payments"), are or become subject to the tax (the "Excise Tax") imposed under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any similar tax that may hereafter be imposed, the Company shall pay to the Executive at the time specified below an additional amount (the "Tax Reimbursement Payment") such that the net amount retained by the Executive with respect to such Covered Payments, after deduction of any Excise Tax on the Covered Payments and any Federal, state and local income or employment tax and Excise Tax on the Tax Reimbursement Payment provided for by this Section 3(d), but before deduction for any Federal, state or local income or employment tax withholding on such Covered Payments, shall be equal to the amount of the Covered Payments.

The Tax Reimbursement Payment shall be paid to the Executive not later than 10 business days following the payment of the Covered Payments; provided, however, that if the amount of such Tax Reimbursement Payment cannot be finally determined on or before the date on which payment is due, the Company shall pay to the Executive by such date an amount estimated in good faith by the Company's independent certified public accountants appointed prior to the Change of Control Date or tax counsel selected by such accountants (the "Accountants") to be the minimum amount of such Tax Reimbursement Payment and shall pay the remainder of such Tax Reimbursement Payment (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code) as soon as the amount thereof can be determined, but in no event later than 45 calendar days after payment of the related Covered Payments. In the event that the amount of the estimated Tax Reimbursement Payment exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to the Executive, payable on the fifth business day after written demand by the Company for payment (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code).

For purposes of determining whether any of the Covered Payments will be subject to the Excise Tax and the amount of such Excise Tax,

(i) such Covered Payments will be treated as "parachute payments" within the meaning of Section 280G of the Code, and all "parachute payments" in excess of the "base amount" (as defined under Section 280G(b)(3) of the Code) shall be treated as subject to the Excise Tax, unless, and except to the extent that, in the good faith judgment of the Accountants, the Company has a reasonable basis to conclude that such Covered Payments (in whole or in part) either do not constitute "parachute payments" or represent reasonable compensation for personal services actually rendered (within the meaning of Section 280G(b)(4)(B) of the Code) in excess of the base amount, or such parachute payments are otherwise not subject to such Excise Tax, and

(ii) the value of any non-cash benefits or any deferred payment or benefit shall be determined by the Accountants in accordance with the principles of Section 280G of the Code.

For purposes of determining the amount of the Tax Reimbursement Payment, the Executive shall be deemed to pay:

(A) Federal income taxes at the highest applicable marginal rate of Federal income taxation for the calendar year in which the Tax Reimbursement Payment is to be made, and

(B) any applicable state and local income taxes at the highest applicable marginal rate of taxation for the calendar year in which the Tax Reimbursement Payment is to be made, net of the maximum reduction in Federal income taxes which could be obtained from the deduction of such state or local taxes if paid in such year.

(e) Adjustments to the Tax Reimbursement Payment. In the event that the Excise Tax is subsequently determined by the Accountants or pursuant to any proceeding or negotiations with the Internal Revenue Service to be less than the amount taken into account hereunder in calculating the Tax Reimbursement Payment made, the Executive shall repay to the Company, at the time that the amount of such reduction in the Excise Tax is finally determined, the portion of such prior Tax Reimbursement Payment that would not have been paid if such Excise Tax had been applied in initially calculating such Tax Reimbursement Payment, plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code. Notwithstanding the foregoing, in the event any portion of the Tax Reimbursement Payment to be refunded to the Company has been paid to any Federal, state or local tax authority, repayment thereof shall not be required until actual refund or credit of such portion has been made to the Executive, and interest payable to the Company shall not exceed interest received or credited to the Executive by such tax authority for the period it held such portion. The Executive and the Company shall mutually agree upon the course of action to be pursued (and the method of allocating the expenses thereof) if the Executive's good faith claim for refund or credit is denied.

In the event that the Excise Tax is later determined by the Accountants or pursuant to any proceeding or negotiations with the Internal Revenue Service to exceed the amount taken into account hereunder at the time the Tax Reimbursement Payment is made (including, but not limited to, by reason of any payment the existence or amount of which cannot be determined at the time of the Tax Reimbursement Payment), the Company shall make an additional Tax Reimbursement Payment in respect of such excess (plus any interest or penalty payable with respect to such excess) at the time that the amount of such excess is finally determined.

(f) Discharge of the Company's Obligations. Except as expressly provided in Section 4, the Severance Amount and the other amounts payable and benefits provided in respect of the Executive pursuant to this Section 3 following termination of his employment shall be in full and complete satisfaction of the Executive's rights under this Agreement and any other claims he may have in respect of his employment by the Company or any of its subsidiaries. Such amounts shall constitute liquidated damages with respect to any and all such rights and claims and, upon the Executive's receipt of such amounts, the Company shall be released and discharged from any and all liability to the Executive in connection with this Agreement or otherwise in connection with the Executive's employment with the Company and its subsidiaries. Without limiting the generality of the foregoing, the Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which the Company may have against the Executive or others whether by reason of the subsequent employment of the Executive or otherwise. Nothing in this Section 3(f), however, shall in any way limit the Company's obligations to the Executive pursuant to Section 3(c) hereof.

4. Legal Fees and Expenses. If the Executive asserts any claim in any contest (whether initiated by the Executive or by the Company) as to the validity, enforceability or interpretation of any provision of this Agreement, the Company shall pay the Executive's legal expenses (or cause such expenses to be paid) including, without limitation, his reasonable attorney's fees, on a quarterly basis, upon presentation of proof of such expenses, provided that the Executive shall reimburse the Company for such amounts, plus simple interest thereon at the 90-day United States Treasury Bill rate as in effect from time to time, compounded annually, if the Executive shall not prevail, in whole or in part, as to any material issue as to the validity, enforceability or interpretation of any provision of this Agreement.

5. Successors. This Agreement shall inure to the benefit of and be binding upon the Company and its successors. The Company shall require any successor to all or substantially all of the business and/or assets of the Company, whether direct or indirect, by purchase, merger, consolidation, acquisition of stock, or otherwise, by an agreement in form and substance satisfactory to the Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent as the Company would be required to perform if no such succession had taken place. This Agreement is personal to the Executive and is not assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

6. Miscellaneous. (a) Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, applied without reference to principles of conflict of laws.

(b) Arbitration. Any dispute or controversy arising under or in connection with this Agreement shall be resolved by binding arbitration. The arbitration shall be held in Jacksonville, Florida, and except to the extent inconsistent with this Agreement, shall be conducted in accordance with the Expedited Employment Arbitration Rules of the American Arbitration Association then in effect at the time of the arbitration, and otherwise in accordance with principles which would be applied by a court of law or equity. The arbitrator shall be acceptable to both the Company and the Executive. If the parties cannot agree on an acceptable arbitrator, the dispute shall be heard by a panel of three arbitrators, one appointed by each of the parties and the third appointed by the other two arbitrators.

(c) Entire Agreement. Upon the Change of Control Date, this Agreement shall constitute the entire agreement between the parties hereto with respect to the matters referred to herein. There are no promises, representations, inducements or statements between the parties other than those that are expressly contained herein. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives. In the event any provision of this Agreement is invalid or unenforceable, the validity and enforceability of the remaining provisions hereof shall not be affected. The Executive acknowledges that he is entering into this Agreement of his own free will and accord, and with no duress, that he has read this Agreement and that he understands it and its legal consequences.

(d) Notices. All notices and other communications hereunder shall be in writing and shall be given by hand-delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:	at the home address of the Executive noted on the records of the Company
If to the Company:	Landstar System, Inc. 13410 Sutton Park Drive South Jacksonville, Florida 32224 Attn.: General Counsel

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

IN WITNESS WHEREOF, the Executive has hereunto set his hand and the Company has caused this Agreement to be executed in its name on its behalf, and its corporate seal to be hereunto affixed and attested by its Secretary, all as of the day and year first above written.

LANDSTAR SYSTEM, INC.

By: /s/
Name:
Title:

WITNESSED:

____

____

WITNESSED:

____

Exhibit 10.13

KEY EXECUTIVE EMPLOYMENT PROTECTION AGREEMENT

THIS AGREEMENT between Landstar System, Inc., a Delaware corporation (the “Company”), and Michael Kneller (the “Executive”), dated as of this 27th day of June, 2005.

W I T N E S S E T H:

WHEREAS, the Company employs the Executive in an executive officer position and has determined that the Executive holds a position of significant importance with the Company;

WHEREAS, the Company believes that, in the event it is confronted with a situation that could result in a change in ownership or control of the Company, continuity of management will be essential to its ability to evaluate and respond to such situation in the best interests of shareholders;

WHEREAS, the Company understands that any such situation will present significant concerns for the Executive with respect to his financial and job security;

WHEREAS, the Company desires to assure itself of the Executive’s services during the period in which it is confronting such a situation, and to provide the Executive certain financial assurances to enable the Executive to perform the responsibilities of his position without undue distraction and to exercise his judgment without bias due to his personal circumstances;

WHEREAS, to achieve these objectives, the Company and the Executive desire to enter into an agreement providing the Company and the Executive with certain rights and obligations upon the occurrence of a Change of Control (as defined in Section 2);

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, it is hereby agreed by and between the Company and the Executive as follows:

1. Operation of Agreement. (a) Effective Date. The effective date of this Agreement shall be the date on which a Change of Control occurs (the “Change of Control Date”), provided that, except as provided in Section 1(b), if the Executive is not employed by the Company on the Change of Control Date, this Agreement shall be void and without effect. Notwithstanding the foregoing, if, prior to the occurrence of a Change of Control or a Potential Change of Control (as defined in Section 2), the Executive is demoted, the Board of Directors shall have the right to declare this Agreement void and without effect.

(b) Termination of Employment Following a Potential Change of Control. Notwithstanding Section 1(a), if (i) the Executive's employment is terminated by the Company without Cause (as defined in Section 2) after the occurrence of a Potential Change of Control and prior to the occurrence of a Change of Control and (ii) a Change of Control occurs within one year of such termination, the Executive shall be deemed, solely for purposes of determining his rights under this Agreement, to have remained employed until the date such Change of Control occurs and to have been terminated by the Company without Cause immediately after this Agreement becomes effective.

(c) Termination of Employment Following Death or Disability. This Agreement shall terminate automatically upon the Executive's death or termination due to Disability (as defined in Section 2).

2. Definitions. (a) Change of Control. For the purposes of this Agreement, a "Change of Control" shall mean (i) any "person," including a "group" (as such terms are used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended ("the Act")), but excluding the Company, any of its subsidiaries, or any employee benefit plan of the Company or any of its subsidiaries, is or becomes the "beneficial owner" (as defined in Rule 13(d)(3) under the Act), directly or indirectly, of common stock of the Company representing the greater of 35% or more of the combined voting power of the Company's then outstanding common stock; (ii) the Shareholders of the Company approve a definitive agreement (a "Definitive Agreement") (a) for the merger or other business combination of the Company with or into another corporation, a majority of the directors of which were not directors of the Company immediately prior to the merger and in which the shareholders of the Company immediately prior to the effective date of such merger directly or indirectly own less than 50% of the voting power in such corporation or (b) for the sale or other disposition of all or substantially all of the assets of the Company, and the transactions contemplated by such Definitive Agreement are, in either case, consummated; or (iii) the purchase of common stock of the Company pursuant to any tender or exchange offer made by any "person," including a "group" (as such terms are used in Sections 13(d) and 14(d)(2) of the Act), other than the Company, any of its subsidiaries, or an employee benefit plan of the Company or any of its subsidiaries for 35% or more of the common stock of the Company.

(b) Potential Change of Control. For the purposes of this Agreement, a "Potential Change of Control" shall be deemed to have occurred if (i) any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Act) commences a tender offer for common stock, which if consummated, would result in such person owning 35% or more of the combined voting power of the Company's then outstanding common stock; (ii) the Company enters into an agreement the consummation of which would constitute a Change of Control; (iii) proxies for the election of directors of the Company are solicited by anyone other than the Company; or (iv) any other event occurs which is deemed to be a Potential Change of Control by the Board of Directors of the Company.

(c) Cause. For the purposes of this Agreement, "Cause" means (i) the Executive's conviction or plea of nolo contendere to a felony; (ii) an act or acts of extreme dishonesty or gross misconduct on the Executive's part which result or are intended to result in material damage to the Company's business or reputation; or (iii) repeated material violations by the Executive of his position, authority or responsibilities as in effect at the Change of Control Date, which violations are demonstrably willful and deliberate on the Executive's part and which result in material damage to the Company's business or reputation.

(d) Good Reason. "Good Reason" means the occurrence of any of the following, without the express written consent of the Executive, after the occurrence of a Potential Change of Control or a Change of Control:

(i) (A) the assignment to the Executive of any duties inconsistent in any material adverse respect with the Executive's position, authority or responsibilities as in effect at the Change of Control Date, or (B) any other material adverse change in such position, including titles, authority or responsibilities;

(ii) any failure by the Company, other than an insubstantial or inadvertent failure remedied by the Company promptly after receipt of notice thereof given by the Executive, to provide the Executive with (A) an annual base salary, as it may be increased from time to time (the "Base Salary"), which is at least equal to the Base Salary paid to the Executive immediately prior to the Change of Control Date, or (B) incentive compensation opportunities at a level which is at least equal to the level of incentive compensation opportunities made available, to the Executive immediately prior to the Change of Control Date;

(iii) the failure by the Company to permit the Executive (and, to the extent applicable, his dependents) to participate in or be covered under all pension, retirement, deferred compensation, savings, medical, dental, health, disability, group life, accidental death and travel accident insurance plans and programs of the Company and its affiliated companies at a level that is commensurate with the Executive's participation in such plans immediately prior to the Change of Control Date (or, if more favorable to the Executive, at the level made available to the Executive or other similarly situated officers at any time thereafter);

(iv) the Company's requiring the Executive to be based at any office or location more than 50 miles from that location at which he performed his services for the Company immediately prior to the Change of Control, except for travel reasonably required in the performance of the Executive's responsibilities; or

(v) any failure by the Company to obtain the assumption and agreement to perform this Agreement by a successor as contemplated by Section 5.

In no event shall the mere occurrence of a Change of Control, absent any further impact on the Executive, be deemed to constitute Good Reason.

(e) Disability. For purposes of this Agreement, "Disability" shall mean the Executive's inability to perform the duties of his position, as determined in accordance with the policies and procedures applicable with respect to the Company's long-term disability plan, as in effect immediately prior to the Change of Control Date.

(f) Notice of Termination. Any termination by the Company for Cause or by the Executive for Good Reason shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 6(d). For purposes of this Agreement, a "Notice of Termination" means a written notice given, in the case of a termination for Cause, within 10 business days of the Company's having actual knowledge of the events giving rise to such termination, and in the case of a termination for Good Reason, within 90 days of the later to occur of (x) the Change of Control Date or (y) the Executive's having actual knowledge of the events giving rise to such termination, and which (i) indicates the specific termination provision in this Agreement relied upon, (ii) sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, and (iii) if the termination date is other than the date of receipt of such notice, specifies the termination date of this Agreement (which date shall be not more than 30 days after the giving of such notice). The failure by the Executive to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason shall not waive any right of the Executive hereunder or preclude the Executive from asserting such fact or circumstance in enforcing his rights hereunder.

(g) Date of Termination. For the purpose of this Agreement, the term "Date of Termination" means (i) in the case of a termination for which a Notice of Termination is required, the date of receipt of such notice of Termination or, if later, the date specified therein, as the case may be, and (ii) in all other cases, the actual date on which the Executive's employment terminates.

3. Employment Protection Benefits. (a) Basic Benefits. If (x) on or before the second anniversary of the Change in Control Date (i) the Company terminates the Executive's employment for any reason other than for Cause or Disability or (ii) the Executive voluntarily terminates his employment for Good Reason or (y) the Executive voluntarily terminates his employment for any reason at any time within the 60-day period beginning on the 181 st day following the Change in Control Date or (z) if the Executive's employment is terminated by the Company for any reason other than death, Disability or Cause or by the Executive for Good Reason, after the execution of a Definitive Agreement but prior to the consummation thereof and the transaction contemplated by such Definitive Agreement are consummated, then the Company shall pay to the Executive the following amounts:

(i) the Executive's Base Salary earned through the Date of Termination (the "Earned Salary");

(ii) a cash amount (the "Severance Amount") equal to two times the sum of

(A) the Executive's Annual Base Salary; and

(B) the amount that would have been payable to the Executive as a bonus for the year in which the Change of Control occurs, determined by multiplying the Executive's annual Base Salary by his Participant's Percentage Participation ("PPP") established for such year under the Company's Executive Incentive Compensation Plan (or any successor plan thereto); and

(iii) any vested amounts or benefits owing to the Executive under the Company's otherwise applicable employee benefit plans and programs, including any compensation previously deferred by the Executive (together with any accrued earnings thereon) and not yet paid by the Company and any accrued vacation pay not yet paid by the Company (the "Accrued Obligations").

The Earned Salary and Severance Amount shall be paid in a single lump sum as soon as practicable, but in no event more than ten business days (or at such earlier date required by law) following the Executive's Date of Termination. Accrued Obligations shall be paid in accordance with the terms of the applicable plan, program or arrangement.

(b) Continuation of Benefits. If the Executive receives the Severance Amount described in this Section 3, the Executive (and, to the extent applicable, his dependents) shall be entitled, after the Date of Termination until the earlier of (x) the first anniversary of his Date of Termination (the "End Date") or (y) the date the Executive becomes eligible for comparable benefits under a similar plan, policy or program of a subsequent employer, to continue participation in all of the Company's employee and executive welfare and fringe benefit plans (the "Benefit Plans") as were generally provided to the Executive in accordance with the Company's policies and practices immediately prior to the Change of Control Date. To the extent any such benefits cannot be provided under the terms of the applicable plan, policy or program, the Company shall provide a comparable benefit under another plan or from the Company's general assets. The Executive's participation in the Benefit Plans will be on the same terms and conditions that would have applied had the Executive continued to be employed by the Company through the End Date.

(c) Indemnification. The Company shall indemnify the Executive and hold the Executive harmless from and against any claim, loss or cause of action arising from or out of the Executive's performance as an officer, director or employee of the Company or any of its subsidiaries or in any other capacity, including any fiduciary capacity, in which the Executive serves at the request of the Company to the maximum extent permitted by applicable law and the Company's Certificate of Incorporation and By-Laws (the "Governing Documents"), provided that in no event shall the protection afforded to the Executive hereunder be less than that afforded under the Governing Documents as in effect immediately prior to the Change of Control Date.

(d) Certain Further Payments by the Company. In the event that any amounts or benefits paid or distributed to the Executive pursuant to this Agreement, taken together with any amounts or benefits otherwise paid or distributed to the Executive by the Company or any affiliated company (collectively, the "Covered Payments"), are or become subject to the tax (the "Excise Tax") imposed under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any similar tax that may hereafter be imposed, the Company shall pay to the Executive at the time specified below an additional amount (the "Tax Reimbursement Payment") such that the net amount retained by the Executive with respect to such Covered Payments, after deduction of any Excise Tax on the Covered Payments and any Federal, state and local income or employment tax and Excise Tax on the Tax Reimbursement Payment provided for by this Section 3(d), but before deduction for any Federal, state or local income or employment tax withholding on such Covered Payments, shall be equal to the amount of the Covered Payments.

The Tax Reimbursement Payment shall be paid to the Executive not later than 10 business days following the payment of the Covered Payments; provided, however, that if the amount of such Tax Reimbursement Payment cannot be finally determined on or before the date on which payment is due, the Company shall pay to the Executive by such date an amount estimated in good faith by the Company's independent certified public accountants appointed prior to the Change of Control Date or tax counsel selected by such accountants (the "Accountants") to be the minimum amount of such Tax Reimbursement Payment and shall pay the remainder of such Tax Reimbursement Payment (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code) as soon as the amount thereof can be determined, but in no event later than 45 calendar days after payment of the related Covered Payments. In the event that the amount of the estimated Tax Reimbursement Payment exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to the Executive, payable on the fifth business day after written demand by the Company for payment (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code).

For purposes of determining whether any of the Covered Payments will be subject to the Excise Tax and the amount of such Excise Tax,

(i) such Covered Payments will be treated as "parachute payments" within the meaning of Section 280G of the Code, and all "parachute payments" in excess of the "base amount" (as defined under Section 280G(b)(3) of the Code) shall be treated as subject to the Excise Tax, unless, and except to the extent that, in the good faith judgment of the Accountants, the Company has a reasonable basis to conclude that such Covered Payments (in whole or in part) either do not constitute "parachute payments" or represent reasonable compensation for personal services actually rendered (within the meaning of Section 280G(b)(4)(B) of the Code) in excess of the base amount, or such parachute payments are otherwise not subject to such Excise Tax, and

(ii) the value of any non-cash benefits or any deferred payment or benefit shall be determined by the Accountants in accordance with the principles of Section 280G of the Code.

For purposes of determining the amount of the Tax Reimbursement Payment, the Executive shall be deemed to pay:

(A) Federal income taxes at the highest applicable marginal rate of Federal income taxation for the calendar year in which the Tax Reimbursement Payment is to be made, and

(B) any applicable state and local income taxes at the highest applicable marginal rate of taxation for the calendar year in which the Tax Reimbursement Payment is to be made, net of the maximum reduction in Federal income taxes which could be obtained from the deduction of such state or local taxes if paid in such year.

(e) Adjustments to the Tax Reimbursement Payment. In the event that the Excise Tax is subsequently determined by the Accountants or pursuant to any proceeding or negotiations with the Internal Revenue Service to be less than the amount taken into account hereunder in calculating the Tax Reimbursement Payment made, the Executive shall repay to the Company, at the time that the amount of such reduction in the Excise Tax is finally determined, the portion of such prior Tax Reimbursement Payment that would not have been paid if such Excise Tax had been applied in initially calculating such Tax Reimbursement Payment, plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code. Notwithstanding the foregoing, in the event any portion of the Tax Reimbursement Payment to be refunded to the Company has been paid to any Federal, state or local tax authority, repayment thereof shall not be required until actual refund or credit of such portion has been made to the Executive, and interest payable to the Company shall not exceed interest received or credited to the Executive by such tax authority for the period it held such portion. The Executive and the Company shall mutually agree upon the course of action to be pursued (and the method of allocating the expenses thereof) if the Executive’s good faith claim for refund or credit is denied.

In the event that the Excise Tax is later determined by the Accountants or pursuant to any proceeding or negotiations with the Internal Revenue Service to exceed the amount taken into account hereunder at the time the Tax Reimbursement Payment is made (including, but not limited to, by reason of any payment the existence or amount of which cannot be determined at the time of the Tax Reimbursement Payment), the Company shall make an additional Tax Reimbursement Payment in respect of such excess (plus any interest or penalty payable with respect to such excess) at the time that the amount of such excess is finally determined.

(f) Discharge of the Company’s Obligations. Except as expressly provided in Section 4, the Severance Amount and the other amounts payable and benefits provided in respect of the Executive pursuant to this Section 3 following termination of his employment shall be in full and complete satisfaction of the Executive’s rights under this

Agreement and any other claims he may have in respect of his employment by the Company or any of its subsidiaries. Such amounts shall constitute liquidated damages with respect to any and all such rights and claims and, upon the Executive's receipt of such amounts, the Company shall be released and discharged from any and all liability to the Executive in connection with this Agreement or otherwise in connection with the Executive's employment with the Company and its subsidiaries. Without limiting the generality of the foregoing, the Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which the Company may have against the Executive or others whether by reason of the subsequent employment of the Executive or otherwise. Nothing in this Section 3(f), however, shall in any way limit the Company's obligations to the Executive pursuant to Section 3(c) hereof.

4. Legal Fees and Expenses. If the Executive asserts any claim in any contest (whether initiated by the Executive or by the Company) as to the validity, enforceability or interpretation of any provision of this Agreement, the Company shall pay the Executive's legal expenses (or cause such expenses to be paid) including, without limitation, his reasonable attorney's fees, on a quarterly basis, upon presentation of proof of such expenses, provided that the Executive shall reimburse the Company for such amounts, plus simple interest thereon at the 90-day United States Treasury Bill rate as in effect from time to time, compounded annually, if the Executive shall not prevail, in whole or in part, as to any material issue as to the validity, enforceability or interpretation of any provision of this Agreement.

5. Successors. This Agreement shall inure to the benefit of and be binding upon the Company and its successors. The Company shall require any successor to all or substantially all of the business and/or assets of the Company, whether direct or indirect, by purchase, merger, consolidation, acquisition of stock, or otherwise, by an agreement in form and substance satisfactory to the Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent as the Company would be required to perform if no such succession had taken place. This Agreement is personal to the Executive and is not assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

6. Miscellaneous. (a) Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, applied without reference to principles of conflict of laws.

(b) Arbitration. Any dispute or controversy arising under or in connection with this Agreement shall be resolved by binding arbitration. The arbitration shall be held in Jacksonville, Florida, and except to the extent inconsistent with this Agreement, shall be conducted in accordance with the Expedited Employment Arbitration Rules of the American Arbitration Association then in effect at the time of the arbitration, and otherwise in accordance with principles which would be applied by a court of law or equity. The arbitrator shall be acceptable to both the Company and the Executive. If the parties cannot agree on an acceptable arbitrator, the dispute shall be heard by a panel of three arbitrators, one appointed by each of the parties and the third appointed by the other two arbitrators.

(c) Entire Agreement. Upon the Change of Control Date, this Agreement shall constitute the entire agreement between the parties hereto with respect to the matters referred to herein. There are no promises, representations, inducements or statements between the parties other than those that are expressly contained herein. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives. In the event any provision of this Agreement is invalid or unenforceable, the validity and enforceability of the remaining provisions hereof shall not be affected. The Executive acknowledges that he is entering into this Agreement of his own free will and accord, and with no duress, that he has read this Agreement and that he understands it and its legal consequences.

(d) Notices. All notices and other communications hereunder shall be in writing and shall be given by hand-delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:	at the home address of the Executive noted on the records of the Company
If to the Company:	Landstar System, Inc. 13410 Sutton Park Drive South Jacksonville, Florida 32224 Attn.: General Counsel

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

IN WITNESS WHEREOF, the Executive has hereunto set his hand and the Company has caused this Agreement to be executed in its name on its behalf, and its corporate seal to be hereunto affixed and attested by its Secretary, all as of the day and year first above written.

LANDSTAR SYSTEM, INC.

By: /s/ Robert C. LaRose
Title:

MICHAEL KNELLER

/s/ Michael Kneller

Exhibit 10.16

Amendment to
Key Executive Employment Protection Agreement

This amendment (this "Amendment") to the Key Executive Employment Protection Agreement (the "Agreement") between Landstar System, Inc., a Delaware corporation (the "Company"), and Jeffrey L. Pundt (the "Executive"), dated January 30, 1998, is entered into as of August 7, 2002.

WHEREAS, the parties to the Agreement desire to amend the Agreement in certain respects.

NOW THEREFORE, the Agreement is hereby amended as follows:

1. Section 2(a)(ii) of the Agreement is hereby deleted in its entirety and a new Section 2(a)(ii) shall be added to read as follows:

> (ii) the Shareholders of the Company approve a definitive agreement (a "Definitive Agreement") (a) for the merger or other business combination of the Company with or into another corporation, a majority of the directors of which were not directors of the Company immediately prior to the merger and in which the shareholders of the Company immediately prior to the effective date of such merger directly or indirectly own less than 50% of the voting power in such corporation or (b) for the sale or other disposition of all or substantially all of the assets of the Company, and the transactions contemplated by such Definitive Agreement are, in either case, consummated;

2. The first sentence of Section 3(a) of the Agreement is hereby deleted in its entirety and a new first sentence of such Section 3(a) shall be added to read as follows:

> If (x) on or before the second anniversary of the Change in Control Date (i) the Company terminates the Executive's employment for any reason other than for Cause or Disability or (ii) the Executive voluntarily terminates his employment for Good Reason or (y) the Executive voluntarily terminates his employment for any reason at any time within the 60-day period beginning on the 181st day following the Change in Control Date or (z) if the Executive's employment is terminated by the Company for any reason other than death, Disability or Cause or by the Executive for Good Reason, after the execution of a Definitive Agreement but prior to

the consummation thereof and the transaction contemplated by such Definitive Agreement are consummated, then the Company shall pay to the Executive the following amounts:

3. Except as set forth above, the Agreement shall remain in full force and effect in all respects.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed on the 7th day of August, 2002.

LANDSTAR SYSTEM, INC.

By: /s/ Jeffrey C. Crowe
Jeffrey C. Crowe,
Chairman of the Board
& Chief Executive Officer

Agreed and Accepted:

/s/ Jeffrey L. Pundt
Jeffrey L. Pundt

Exhibit 10.18

Form of Amendment to
Key Executive Employment Protection Agreement

This amendment (this "Amendment") to the Key Executive Employment Protection Agreement (the "Agreement") between Landstar System, Inc., a Delaware corporation (the "Company"), and _______________ (the "Executive"), dated _______________ __, 200__, is entered into as of _______________, 200__.

WHEREAS, the parties to the Agreement desire to amend the Agreement in certain respects.

NOW THEREFORE, the Agreement is hereby amended as follows:

1. Section 2(a)(ii) of the Agreement is hereby deleted in its entirety and a new Section 2(a)(ii) shall be added to read as follows:

> (ii) the Shareholders of the Company approve a definitive agreement (a "Definitive Agreement") (a) for the merger or other business combination of the Company with or into another corporation, a majority of the directors of which were not directors of the Company immediately prior to the merger and in which the shareholders of the Company immediately prior to the effective date of such merger directly or indirectly own less than 50% of the voting power in such corporation or (b) for the sale or other disposition of all or substantially all of the assets of the Company, and the transactions contemplated by such Definitive Agreement are, in either case, consummated;

2. The first sentence of Section 3(a) of the Agreement is hereby deleted in its entirety and a new first sentence of such Section 3(a) shall be added to read as follows:

> If (x) on or before the second anniversary of the Change in Control Date (i) the Company terminates the Executive's employment for any reason other than for Cause or Disability or (ii) the Executive voluntarily terminates his employment for Good Reason or (y) the Executive voluntarily terminates his employment for any reason at any time within the 60-day period beginning on the 181st day following the Change in Control Date or (z) if the Executive's employment is terminated by the Company for any reason other than death, Disability or Cause or by the Executive for Good Reason, after the execution of a Definitive Agreement but prior to

the consummation thereof and the transaction contemplated by such Definitive Agreement are consummated, then the Company shall pay to the Executive the following amounts:

3. Except as set forth above, the Agreement shall remain in full force and effect in all respects.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed on the ___ day of _______________, 200__.

LANDSTAR SYSTEM, INC.

By: /s/
Name:
Title:

Agreed and Accepted:

____

____

Date

Exhibit 21.1

LIST OF SUBSIDIARY CORPORATIONS OF LANDSTAR SYSTEM, INC.

Name	Jurisdiction of Incorporation	% of Voting Securities Owned
Subsidiary of Landstar System, Inc.:		
Landstar System Holdings, Inc.	Delaware	100
Subsidiaries of Landstar System Holdings, Inc.:		
Landstar Inway, Inc.	Delaware	100
Also d/b/a Inway Nationwide Transportation Services		
Also d/b/a Independent Freightways, Inc.		
Landstar Global Logistics, Inc.	Delaware	100
Landstar Ligon, Inc.	Delaware	100
Also d/b/a Ligon Contract Services in Kentucky		
Landstar Ranger, Inc.	Delaware	100
Also d/b/a Ranger/Landstar, Inc. in South Carolina		
Risk Management Claim Services, Inc.	Kentucky	100
Also d/b/a RMCS, Inc. in Alabama and California		
Landstar Carrier Services, Inc.	Delaware	100
Landstar Contractor Financing, Inc.	Delaware	100
Signature Insurance Company	Cayman Islands, BWI	100
Signature Technology Services, Inc.	Delaware	100
Subsidiaries of Landstar Global Logistics, Inc.		
Landstar Express America, Inc.	North Carolina	100
Landstar Logistics, Inc.	Delaware	100
Subsidiary of Landstar Ranger, Inc.		
Landstar Gemini, Inc.	Delaware	100
Also d/b/a Gemini Transportation Services of Greensburg, PA in Ontario and New Jersey		
Also d/b/a GTSI Transportation Services in Ontario		
Also d/b/a Landstar Less Than Truck Load		
Also d/b/a Landstar LTL		

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Landstar System, Inc.:

We consent to incorporation by reference in the registration statements (No. 33-76340 and No 33-94304) on Form S-8 of Landstar System, Inc. of our reports dated March 9, 2006, with respect to the consolidated balance sheets of Landstar System, Inc. and subsidiary as of December 31, 2005 and December 25, 2004, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the fiscal years ended December 31, 2005, December 25, 2004, and December 27, 2003, and all related financial statement schedules, management's assessment of the effectiveness of internal controls over financial reporting as of December 31, 2005 and the effectiveness of internal controls over financial reporting as of December 31, 2005, which reports appear in the December 31, 2005 annual report on Form 10-K of Landstar System, Inc.

/s/ KPMG LLP

March 9, 2006
Jacksonville, Florida
Certified Public Accountants

Exhibit 24.1

POWER OF ATTORNEY

Landstar System, Inc.
Annual Report on Form 10-K
for fiscal year ended 12/31/05

KNOW ALL MEN BY THESE PRESENTS, that the undersigned does hereby make, constitute and appoint Robert C. LaRose and Michael K. Kneller, and each of them, with full power in each to act without the other, his true and lawful attorney-in-fact and agent, in his name, place and stead to execute on his behalf, as an officer and/or director of Landstar System, Inc. (the "Company"), the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2005, and file the same with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission (the "SEC") pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Act"), and any and all other instruments which either of said attorneys-in-fact and agents deems necessary or advisable to enable the Company to comply with the Act, the rules, regulations and requirements of the SEC in respect thereof, giving and granting to each of said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing whatsoever necessary or appropriate to be done in and about the premises as fully to all intents as he might or could do if personally present at the doing thereof, with full power of substitution and resubstitution, hereby ratifying and confirming all that his said attorneys-in-fact and agents or substitutes may or shall lawfully do or cause to be done by virtue hereof.

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

/s/ David G. Bannister

David G. Bannister

DATED: February 24, 2006

POWER OF ATTORNEY

Landstar System, Inc.
Annual Report on Form 10-K
for fiscal year ended 12/31/05

KNOW ALL MEN BY THESE PRESENTS, that the undersigned does hereby make, constitute and appoint Robert C. LaRose and Michael K. Kneller, and each of them, with full power in each to act without the other, his true and lawful attorney-in-fact and agent, in his name, place and stead to execute on his behalf, as an officer and/or director of Landstar System, Inc. (the "Company"), the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2005, and file the same with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission (the "SEC") pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Act"), and any and all other instruments which either of said attorneys-in-fact and agents deems necessary or advisable to enable the Company to comply with the Act, the rules, regulations and requirements of the SEC in respect thereof, giving and granting to each of said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing whatsoever necessary or appropriate to be done in and about the premises as fully to all intents as he might or could do if personally present at the doing thereof, with full power of substitution and resubstitution, hereby ratifying and confirming all that his said attorneys-in-fact and agents or substitutes may or shall lawfully do or cause to be done by virtue hereof.

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

/s/ Ronald W. Drucker

Ronald W. Drucker

DATED: February 24, 2006

POWER OF ATTORNEY

Landstar System, Inc.
Annual Report on Form 10-K
for fiscal year ended 12/31/05

KNOW ALL MEN BY THESE PRESENTS, that the undersigned does hereby make, constitute and appoint Robert C. LaRose and Michael K. Kneller, and each of them, with full power in each to act without the other, his true and lawful attorney-in-fact and agent, in his name, place and stead to execute on his behalf, as an officer and/or director of Landstar System, Inc. (the “Company”), the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2005, and file the same with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission (the “SEC”) pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the “Act”), and any and all other instruments which either of said attorneys-in-fact and agents deems necessary or advisable to enable the Company to comply with the Act, the rules, regulations and requirements of the SEC in respect thereof, giving and granting to each of said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing whatsoever necessary or appropriate to be done in and about the premises as fully to all intents as he might or could do if personally present at the doing thereof, with full power of substitution and resubstitution, hereby ratifying and confirming all that his said attorneys-in-fact and agents or substitutes may or shall lawfully do or cause to be done by virtue hereof.

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

/s/ William S. Elston

William S. Elston

DATED: February 24, 2006

POWER OF ATTORNEY

Landstar System, Inc.
Annual Report on Form 10-K
for fiscal year ended 12/31/05

KNOW ALL MEN BY THESE PRESENTS, that the undersigned does hereby make, constitute and appoint Robert C. LaRose and Michael K. Kneller, and each of them, with full power in each to act without the other, his true and lawful attorney-in-fact and agent, in his name, place and stead to execute on his behalf, as an officer and/or director of Landstar System, Inc. (the “Company”), the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2005, and file the same with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission (the “SEC”) pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the “Act”), and any and all other instruments which either of said attorneys-in-fact and agents deems necessary or advisable to enable the Company to comply with the Act, the rules, regulations and requirements of the SEC in respect thereof, giving and granting to each of said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing whatsoever necessary or appropriate to be done in and about the premises as fully to all intents as he might or could do if personally present at the doing thereof, with full power of substitution and resubstitution, hereby ratifying and confirming all that his said attorneys-in-fact and agents or substitutes may or shall lawfully do or cause to be done by virtue hereof.

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

/s/ Diana M. Murphy

Diana M. Murphy

DATED: February 24, 2006

POWER OF ATTORNEY

Landstar System, Inc.
Annual Report on Form 10-K
for fiscal year ended 12/31/05

KNOW ALL MEN BY THESE PRESENTS, that the undersigned does hereby make, constitute and appoint Robert C. LaRose and Michael K. Kneller, and each of them, with full power in each to act without the other, his true and lawful attorney-in-fact and agent, in his name, place and stead to execute on his behalf, as an officer and/or director of Landstar System, Inc. (the “Company”), the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2005, and file the same with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission (the “SEC”) pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the “Act”), and any and all other instruments which either of said attorneys-in-fact and agents deems necessary or advisable to enable the Company to comply with the Act, the rules, regulations and requirements of the SEC in respect thereof, giving and granting to each of said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing whatsoever necessary or appropriate to be done in and about the premises as fully to all intents as he might or could do if personally present at the doing thereof, with full power of substitution and resubstitution, hereby ratifying and confirming all that his said attorneys-in-fact and agents or substitutes may or shall lawfully do or cause to be done by virtue hereof.

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

/s/ Jeffrey C. Crowe

Jeffrey C. Crowe

DATED: February 24, 2006

POWER OF ATTORNEY

Landstar System, Inc.
Annual Report on Form 10-K
for fiscal year ended 12/31/05

KNOW ALL MEN BY THESE PRESENTS, that the undersigned does hereby make, constitute and appoint Robert C. LaRose and Michael K. Kneller, and each of them, with full power in each to act without the other, his true and lawful attorney-in-fact and agent, in his name, place and stead to execute on his behalf, as an officer and/or director of Landstar System, Inc. (the “Company”), the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2005, and file the same with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission (the “SEC”) pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the “Act”), and any and all other instruments which either of said attorneys-in-fact and agents deems necessary or advisable to enable the Company to comply with the Act, the rules, regulations and requirements of the SEC in respect thereof, giving and granting to each of said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing whatsoever necessary or appropriate to be done in and about the premises as fully to all intents as he might or could do if personally present at the doing thereof, with full power of substitution and resubstitution, hereby ratifying and confirming all that his said attorneys-in-fact and agents or substitutes may or shall lawfully do or cause to be done by virtue hereof.

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

/s/ Merritt J. Mott

Merritt J. Mott

DATED: February 24, 2006

EXHIBIT 31.1

SECTION 302 CERTIFICATION

I, Henry H. Gerkens, certify that:

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

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

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

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

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

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

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

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

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the 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 control 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 control over financial reporting.

Date: March 9, 2006

/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 annual report on Form 10-K of Landstar System, Inc.;

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

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

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

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

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

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

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

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the 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 control 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 control over financial reporting.

Date: March 9, 2006

/s/ Robert C. LaRose

Robert C. LaRose
Executive Vice President and
Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Annual Report of Landstar System, Inc. (the "Company") on Form 10-K for the period ending December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Henry H. Gerkens, 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

March 9, 2006

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 Annual Report of Landstar System, Inc. (the "Company") on Form 10-K for the period ending December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert C. LaRose, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Robert C. LaRose

Robert C. LaRose
Executive Vice President and
Chief Financial Officer

March 9, 2006