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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 29, 2018

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)

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

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

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files):

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The number of shares of the registrant’s common stock, par value $0.01 per share, outstanding as of the close of business on October 22, 2018 was 41,114,477.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The interim consolidated financial statements contained herein reflect all adjustments (all of a normal, recurring nature) which, in the opinion of management, are necessary for a fair statement of the financial condition, results of operations, cash flows and changes in equity for the periods presented. They have been prepared in accordance with Rule 10-01 of Regulation S-X and do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. Operating results for the thirty nine weeks ended September 29, 2018 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 29, 2018.

These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's 2017 Annual Report on Form 10-K.

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

	September 29, 2018	December 30, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	$ 213,974	$ 242,416
Short-term investments	40,203	48,928
Trade accounts receivable, less allowance of $6,173 and $6,131	702,183	631,164
Other receivables, including advances to independent contractors, less allowance of $6,188 and $6,012	18,586	24,301
Other current assets	24,191	14,394
Total current assets	999,137	961,203
Operating property, less accumulated depreciation and amortization of $241,321 and $218,700	268,011	276,011
Goodwill	38,560	39,065
Other assets	85,004	76,181
Total assets	$ 1,390,712	$ 1,352,460
LIABILITIES AND EQUITY		
Current Liabilities		
Cash overdraft	$ 39,759	$ 42,242
Accounts payable	313,728	285,132
Current maturities of long-term debt	40,960	42,051
Insurance claims	43,268	38,919
Dividends payable	—	62,985
Accrued compensation	23,908	30,103
Other current liabilities	53,553	47,211
Total current liabilities	515,176	548,643
Long-term debt, excluding current maturities	72,887	83,062
Insurance claims	30,775	30,141
Deferred income taxes and other noncurrent liabilities	45,664	36,737
Equity		
Landstar System, Inc. and subsidiary shareholders' equity		
Common stock, $0.01 par value, authorized 160,000,000 shares, issued 67,869,378 and 67,740,380 shares	679	677
Additional paid-in capital	221,563	209,599
Retained earnings	1,779,680	1,611,158
Cost of 26,755,001 and 25,749,493 shares of common stock in treasury	(1,273,512)	(1,167,600)
Accumulated other comprehensive loss	(4,569)	(3,162)
Total Landstar System, Inc. and subsidiary shareholders' equity	723,841	650,672
Noncontrolling interest	2,369	3,205
Total equity	726,210	653,877
Total liabilities and equity	$ 1,390,712	$ 1,352,460

See accompanying notes to consolidated financial statements.

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

	Thirty Nine Weeks Ended		Thirteen Weeks Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Revenue	$ 3,432,793	$ 2,594,772	$ 1,202,081	$ 943,430
Investment income	2,754	1,733	1,002	711
Costs and expenses:				
Purchased transportation	2,658,710	1,989,938	931,473	726,827
Commissions to agents	275,828	210,678	99,304	76,598
Other operating costs, net of gains on asset sales/dispositions	24,176	22,497	8,966	8,097
Insurance and claims	57,718	46,333	18,819	17,927
Selling, general and administrative	140,948	123,179	46,699	43,995
Depreciation and amortization	32,520	29,961	10,754	10,130
Total costs and expenses	3,189,900	2,422,586	1,116,015	883,574
Operating income	245,647	173,919	87,068	60,567
Interest and debt expense	2,455	2,559	816	657
Income before income taxes	243,192	171,360	86,252	59,910
Income taxes	56,279	59,047	19,304	17,490
Net income	186,913	112,313	66,948	42,420
Less: Net loss attributable to noncontrolling interest	(112)	(23)	(37)	(23)
Net income attributable to Landstar System, Inc. and subsidiary	$ 187,025	$ 112,336	$ 66,985	$ 42,443
Earnings per common share attributable to Landstar System, Inc. and subsidiary	$ 4.50	$ 2.68	$ 1.63	$ 1.01
Diluted earnings per share attributable to Landstar System, Inc. and subsidiary	$ 4.50	$ 2.67	$ 1.63	$ 1.01
Average number of shares outstanding:				
Earnings per common share	41,530,000	41,924,000	41,101,000	41,957,000
Diluted earnings per share	41,576,000	42,013,000	41,137,000	42,028,000
Dividends per common share	$ 0.465	$ 0.280	$ 0.165	$ 0.100

See accompanying notes to consolidated financial statements.

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

	Thirty Nine Weeks Ended		Thirteen Weeks Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Net income attributable to Landstar System, Inc. and subsidiary	$ 187,025	$ 112,336	$ 66,985	$ 42,443
Other comprehensive (loss) income:				
Unrealized holding (losses) gains on available-for-sale investments, net of tax (benefit) expense of ($231), $136, $2 and $47	(876)	251	7	86
Foreign currency translation (losses) gains	(531)	1,130	708	545
Other comprehensive (loss) income	(1,407)	1,381	715	631
Comprehensive income attributable to Landstar System, Inc. and subsidiary	$ 185,618	$ 113,717	$ 67,700	$ 43,074

See accompanying notes to consolidated financial statements.

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

	Thirty Nine Weeks Ended	
	September 29, 2018	September 30, 2017
OPERATING ACTIVITIES		
Net income	$ 186,913	$ 112,313
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of operating property and intangible assets	32,520	29,961
Non-cash interest charges	190	189
Provisions for losses on trade and other accounts receivable	5,360	5,643
Gains on sales/disposals of operating property	(1,025)	(900)
Deferred income taxes, net	7,459	(708)
Stock-based compensation	13,003	3,660
Changes in operating assets and liabilities:		
Increase in trade and other accounts receivable	(60,785)	(89,504)
Increase in other assets	(9,779)	(8,671)
Increase in accounts payable	22,121	53,290
Increase in other liabilities	3,245	12,980
Increase in insurance claims	4,983	14,011
NET CASH PROVIDED BY OPERATING ACTIVITIES	204,205	132,264
INVESTING ACTIVITIES		
Sales and maturities of investments	34,259	42,917
Purchases of investments	(36,296)	(44,423)
Purchases of operating property	(7,325)	(8,800)
Proceeds from sales of operating property	3,542	3,594
Consideration paid for acquisitions	—	(8,199)
NET CASH USED BY INVESTING ACTIVITIES	(5,820)	(14,911)
FINANCING ACTIVITIES		
Decrease in cash overdraft	(2,483)	(2,398)
Dividends paid	(82,261)	(11,739)
Proceeds from exercises of stock options	1,397	2,531
Taxes paid in lieu of shares issued related to stock-based compensation plans	(3,936)	(371)
Purchases of common stock	(105,488)	—
Principal payments on capital lease obligations	(32,663)	(35,662)
Payment of contingent consideration	(985)	—
NET CASH USED BY FINANCING ACTIVITIES	(226,419)	(47,639)
Effect of exchange rate changes on cash and cash equivalents	(408)	1,130
(Decrease) increase in cash and cash equivalents	(28,442)	70,844
Cash and cash equivalents at beginning of period	242,416	178,897
Cash and cash equivalents at end of period	$ 213,974	$ 249,741

See accompanying notes to consolidated financial statements.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Thirty Nine Weeks Ended September 29, 2018
(Dollars in thousands)
(Unaudited)

	Landstar System, Inc. and Subsidiary Shareholders								
	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock at Cost		Accumulated Other Comprehensive Loss	Non-controlling Interests	Total
	Shares	Amount			Shares	Amount			
Balance December 30, 2017	67,740,380	$ 677	$ 209,599	$ 1,611,158	25,749,493	$ (1,167,600)	$ (3,162)	$ 3,205	$ 653,877
Adoption of accounting standards (Note 12)				773					773
Net income (loss)				187,025				(112)	186,913
Dividends ($0.465 per share)				(19,276)					(19,276)
Purchases of common stock					1,000,000	(105,488)			(105,488)
Transaction with noncontrolling interests			1,078					(1,078)	—
Issuance of stock related to stock-based compensation plans	128,998	2	(2,117)		5,508	(424)			(2,539)
Stock-based compensation			13,003						13,003
Other comprehensive (loss) income							(1,407)	354	(1,053)
Balance September 29, 2018	67,869,378	$ 679	$ 221,563	$ 1,779,680	26,755,001	$ (1,273,512)	$ (4,569)	$ 2,369	$ 726,210

See accompanying notes to consolidated financial statements.

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

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

Landstar owns, through various subsidiaries, a controlling interest in Landstar Metro, S.A.P.I. de C.V., a transportation logistics company ("Landstar Metro"), and Landstar Metro Servicios S.A.P.I. de C.V., a services company ("Landstar Servicios"), each based in Mexico City, Mexico. Given Landstar's controlling interest in each of Landstar Metro and Landstar Servicios, the accounts of Landstar Metro and Landstar Servicios have been consolidated herein and a noncontrolling interest has been recorded for the noncontrolling investors' interests in the net assets and operations of Landstar Metro and Landstar Servicios.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09—*Revenue from Contracts with Customers* ("ASU 2014-09"). The new comprehensive revenue recognition standard supersedes all existing revenue recognition guidance under U.S. GAAP. The Company adopted ASU 2014-09 on December 31, 2017 under the modified retrospective transition method resulting in a $773,000 cumulative adjustment to retained earnings. The Company has updated our revenue recognition policy included in our Annual Report on Form 10-K for the year ended December 30, 2017, as set forth below in footnote 1 to our unaudited financial statements.

(1) Significant Accounting Policies

Revenue Recognition

The nature of the Company's freight transportation services and its performance obligations to customers, regardless of the mode of transportation used to perform such services, relate to the safe and on-time pick-up and delivery of a customer's freight on a shipment-by-shipment basis. Landstar customers are typically invoiced on a shipment-by-shipment basis at a pre-defined rate, payable thirty to sixty (30-60) days after the customer's receipt of such invoice. Payment terms to customers do not contain a significant financing component and the amount owed by the customer does not contain variable terms, embedded or otherwise. We have determined that revenue recognition over the transit period provides a faithful depiction of the transfer of services to the customer as our obligation for which we are primarily responsible for fulfilling is performed over the transit period. Accordingly, transportation revenue billed to a customer for the physical transportation of freight and related direct freight expenses are recognized on a gross basis over the transit period as the performance obligation is satisfied. The Company determines the transit period for a given shipment based upon the pick-up date and the delivery date, which may be estimated if delivery has not occurred as of the reporting date. Determining the transit period and how much of it has been completed as of a given reporting date may therefore require management to make judgments that affect the timing of revenue recognized. With respect to shipments with a pick-up date in one reporting period and a delivery date in another, the Company recognizes such transportation revenue based on relative transit time in each reporting period. A days in transit output method is used to measure the progress of the performance of the Company's freight transportation services as of the reporting date and a portion of the total revenue that will be billed to the customer once a load is delivered is recognized in each reporting period based on the percentage of total transit time that has been completed at the end of the applicable reporting period.

(2) Acquired Business and Noncontrolling Interests

During 2017, the Company incorporated each of Landstar Metro and Landstar Servicios. On September 20, 2017, Landstar Metro acquired substantially all of the assets of the asset-light transportation logistics business of Fletes Avella, S.A. de C.V., a Mexican transportation logistics company (the "Mexican Asset Acquisition"). At December 30, 2017, there was approximately $1,900,000 in liabilities outstanding consisting of additional contingent purchase price and associated indirect taxes. In connection with the Mexican Asset Acquisition, individuals affiliated with the seller subscribed in the aggregate for equity interests in Landstar Metro and Landstar Servicios and, as of September 29, 2018, own in the aggregate approximately 21% of the equity interests of each of them. The Mexican Asset Acquisition was accounted for as a business combination in accordance with Accounting Standards Codification 805, *Business*

Combinations ("ASC 805"). The resulting goodwill arising from the acquisition was approximately $7,900,000 as of September 29, 2018. A significant portion of this goodwill is expected to be deductible by the Company for U.S. income tax purposes, and following a purchase of the noncontrolling interests by the Company, up to 100% of this goodwill would be expected to be deductible by the Company. Pro forma financial information for prior periods is not presented as the Company does not believe the Mexican Asset Acquisition to be material to our consolidated results. The results of operations from Landstar Metro and Landstar Servicios are presented as part of the Company's transportations logistics segment.

As it relates to the noncontrolling interests of Landstar Metro and Landstar Servicios, the Company has the option to purchase, and the minority equityholders have the option to sell, during the period commencing on the third anniversary of September 20, 2017, the closing date of the subscription by the minority equityholders (the "Closing Date"), and at any time after the fourth anniversary of the Closing Date, at fair value all but not less than all of the noncontrolling interests in Landstar Metro and Landstar Servicios. The noncontrolling interests are also subject to customary restrictions on transfer, including a right of first refusal in favor of the Company.

(3) Share-based Payment Arrangements

As of September 29, 2018, the Company had two employee equity incentive plans, the 2002 employee stock option and stock incentive plan (the "ESOSIP") and the 2011 equity incentive plan (the "2011 EIP"). No further grants can be made under the ESOSIP. The Company also has a stock compensation plan for members of its Board of Directors, the Amended and Restated 2013 Directors Stock Compensation Plan (as amended and restated as of May 17, 2016, the "2013 DSCP"). 6,000,000 shares of the Company's common stock were authorized for issuance under the 2011 EIP and 115,000 shares of the Company's common stock were authorized for issuance under the 2013 DSCP. The ESOSIP, 2011 EIP and 2013 DSCP are each referred to herein as a "Plan," and, collectively, as the "Plans." Amounts recognized in the financial statements with respect to these Plans are as follows (in thousands):

	Thirty Nine Weeks Ended		Thirteen Weeks Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Total cost of the Plans during the period	$ 13,003	$ 3,660	$ 4,901	$ 1,423
Amount of related income tax benefit recognized during the period	(5,305)	(2,492)	(1,837)	(678)
Net cost of the Plans during the period	$ 7,698	$ 1,168	$ 3,064	$ 745

Included in income tax benefits recognized in the thirty-nine-week periods ended September 29, 2018 and September 30, 2017 were income tax benefits of $80,000 and $310,000, respectively, recognized on disqualifying dispositions of the Company's common stock by employees who obtained shares of common stock through exercises of incentive stock options. Also included in income tax benefits recognized in the thirty-nine-week periods ended September 29, 2018 and September 30, 2017 were excess tax benefits from stock-based awards of $2,046,000 and $868,000, respectively.

As of September 29, 2018, there were 72,742 shares of the Company's common stock reserved for issuance under the 2013 DSCP and 4,439,761 shares of the Company's common stock reserved for issuance in the aggregate under the ESOSIP and 2011 EIP.

Restricted Stock Units

The following table summarizes information regarding the Company's outstanding restricted stock unit ("RSU") awards with either a performance condition or a market condition under the Plans:

	Number of RSUs	Weighted Average Grant Date Fair Value
Outstanding at December 30, 2017	387,372	$ 55.75
Granted	65,494	$ 96.08
Vested	(67,971)	$ 53.92
Forfeited	(92,880)	$ 52.36
Outstanding at September 29, 2018	292,015	$ 66.30

During the thirty-nine-week period ended September 29, 2018, the Company granted RSUs with a performance condition and RSUs with a market condition, as further described below. Outstanding RSUs at both December 30, 2017 and September 29, 2018 include RSUs with a performance condition and RSUs with a market condition, as further described in the Company's 2017 Annual Report on Form 10-K.

RSUs with a performance condition granted on February 2, 2018 may vest on January 31 of 2021, 2022 and 2023 based on growth in operating income and pre-tax income per share from continuing operations attributable to Landstar System, Inc. and subsidiary as compared to the results from the 2017 fiscal year.

On April 24, 2018, the Company granted 9,324 RSUs that vest based on a market condition. These RSUs may vest on June 30 of 2022, 2023 and 2024 based on the Company's total shareholder return ("TSR") compound annual growth rate over the vesting periods, adjusted to reflect dividends (if any) paid during such periods and capital adjustments as may be necessary. The maximum number of common shares available for issuance under the April 24, 2018 grant equals 150% of the number of RSUs granted. The fair value of this RSU award was determined at the time of grant based on the expected achievement of the market condition at the end of each vesting period. With respect to these RSU awards, the Company reports compensation expense ratably over the life of the award based on an estimated number of units that will vest over the life of the award, multiplied by the fair value of the RSU. Previously recognized compensation cost would be reversed only if the employee terminated employment prior to completing the requisite service period.

The Company recognized approximately $11,303,000 and $2,254,000 of share-based compensation expense related to RSU awards in the thirty-nine-week periods ended September 29, 2018 and September 30, 2017, respectively. As of September 29, 2018, there was a maximum of $23.1 million of total unrecognized compensation cost related to RSU awards granted under the Plans with an expected average remaining life of approximately 3.3 years. With respect to RSU awards with a performance condition, the amount of future compensation expense to be recognized will be determined based on future operating results.

Stock Options

The following table summarizes information regarding the Company's outstanding stock options under the Plans:

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (000s)
Options outstanding at December 30, 2017	189,040	$ 49.34		
Exercised	(97,676)	$ 48.38		
Options outstanding at September 29, 2018	91,364	$ 50.36	3.3	$ 6,546
Options exercisable at September 29, 2018	90,364	$ 50.27	3.3	$ 6,482

The total intrinsic value of stock options exercised during the thirty-nine-week periods ended September 29, 2018 and September 30, 2017 was $6,584,000 and $5,303,000, respectively.

As of September 29, 2018, there was no unrecognized compensation cost related to non-vested stock options granted under the Plans.

Non-vested Restricted Stock and Deferred Stock Units

The following table summarizes information regarding the Company's outstanding shares of non-vested restricted stock and Deferred Stock Units (defined below) under the Plans:

	Number of Shares and Deferred Stock Units	Weighted Average Grant Date Fair Value
Non-vested at December 30, 2017	54,755	$ 78.02
Granted	22,803	$ 113.35
Vested	(19,814)	$ 75.11
Forfeited	(1,757)	$ 71.12
Non-vested at September 29, 2018	55,987	$ 93.66

The fair value of each share of non-vested restricted stock issued and Deferred Stock Unit granted under the Plans is based on the fair value of a share of the Company's common stock on the date of grant. Shares of non-vested restricted stock are generally subject to vesting in three equal annual installments either on the first, second and third anniversary of the date of the grant or the third, fourth and fifth anniversary of the date of the grant, or 100% on the first anniversary of the date of the grant. For restricted stock awards granted under the 2013 DSCP plan, each recipient may elect to defer receipt of shares and instead receive restricted stock units ("Deferred Stock Units"), which represent contingent rights to receive shares of the Company's common stock on the date of recipient separation from service from the Board of Directors, or, if earlier, upon a change in control event of the Company. Deferred Stock Units become vested 100% on the first anniversary of the date of the grant. Deferred Stock Units do not represent actual ownership in shares of the Company's common stock and the recipient will not have voting rights or other incidents of ownership until the shares are issued. However, Deferred Stock Units do contain the right to receive dividend equivalent payments prior to settlement into shares.

As of September 29, 2018, there was $3,756,000 of total unrecognized compensation cost related to non-vested shares of restricted stock and Deferred Stock Units granted under the Plans. The unrecognized compensation cost related to these non-vested shares of restricted stock and Deferred Stock Units is expected to be recognized over a weighted average period of 2.3 years.

(4) Income Taxes

The Tax Cuts and Jobs Act (the "Tax Reform Act") permanently reduced the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. The provisions for income taxes for the 2018 and 2017 thirty-nine-week periods were based on estimated annual effective income tax rates of 24.5% and 37.8%, respectively, adjusted for discrete events, such as benefits resulting from stock-based awards. The applicable effective income tax rates for the 2018 and 2017 thirty-nine-week periods were 23.1% and 34.5%, respectively. The effective income tax rate for the 2018 thirty-nine week period was higher than the statutory federal income tax rate primarily as a result of state taxes, the elimination of the performance-based compensation exception under Section 162(m) included in the Tax Reform Act and the meals and entertainment exclusion, partially offset by excess tax benefits realized on stock based awards and favorable adjustments recognized during the 2018 period relating to federal domestic production activities deductions and research and development credits during the thirteen-week period ended September 29, 2018. The effective income tax rate for the 2017 thirty-nine week period was lower than the statutory federal income tax rate primarily as a result of federal domestic production activities deductions and research and development credits recognized as discrete items during the thirteen-week period ended September 30, 2017, partially offset by the effect of state taxes and the meals and entertainment exclusion.

(5) Earnings Per Share

Earnings per common share attributable to Landstar System, Inc. and subsidiary are based on the weighted average number of shares outstanding, including outstanding non-vested restricted stock and outstanding Deferred Stock Units. Diluted earnings per share attributable to Landstar System, Inc. and subsidiary are based on the weighted average number of common shares and Deferred Stock Units outstanding plus the incremental shares that would have been outstanding upon the assumed exercise of all dilutive stock options.

The following table provides a reconciliation of the average number of common shares outstanding used to calculate earnings per common share attributable to Landstar System, Inc. and subsidiary to the average number of common shares and common share equivalents outstanding used to calculate diluted earnings per share attributable to Landstar System, Inc. and subsidiary (in thousands):

	Thirty Nine Weeks Ended		Thirteen Weeks Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Average number of common shares outstanding	41,530	41,924	41,101	41,957
Incremental shares from assumed exercises of stock options	46	89	36	71
Average number of common shares and common share equivalents outstanding	41,576	42,013	41,137	42,028

For both of the thirty-nine-week periods ended September 29, 2018 and September 30, 2017, no options outstanding to purchase shares of common stock were antidilutive. Outstanding RSUs were excluded from the calculation of diluted earnings per share attributable to Landstar System, Inc. and subsidiary for all periods because the performance metric requirements or market condition for vesting had not been satisfied.

(6) Additional Cash Flow Information

During the 2018 thirty-nine-week period, Landstar paid income taxes and interest of $56,083,000 and $2,737,000, respectively. During the 2017 thirty-nine-week period, Landstar paid income taxes and interest of $65,688,000 and $2,981,000, respectively. Landstar acquired operating property by entering into capital leases in the amounts of $21,397,000 and $14,760,000 in the 2018 or 2017 thirty-nine-week periods. During the 2018 thirty-nine-week period, Landstar paid $2,162,000 relating to the completion of its freight staging and transload facility in Laredo, Texas, for which the Company accrued a corresponding liability included in accounts payable at December 30, 2017. Capital expenditure purchases are recorded as cash outflows from investing activities in the consolidated statement of cash flows in the period in which they are paid.

(7) Segment Information

The following table summarizes information about the Company's reportable business segments as of and for the thirty-nine-week and thirteen-week periods ended September 29, 2018 and September 30, 2017 (in thousands):

	Thirty Nine Weeks Ended					
	September 29, 2018			September 30, 2017		
	Transportation Logistics	Insurance	Total	Transportation Logistics	Insurance	Total
External revenue	$ 3,394,298	$ 38,495	$3,432,793	$ 2,559,847	$ 34,925	$2,594,772
Internal revenue		30,413	30,413		29,773	29,773
Investment income		2,754	2,754		1,733	1,733
Operating income	227,176	18,471	245,647	148,693	25,226	173,919
Expenditures on long-lived assets	7,325		7,325	8,800		8,800
Goodwill	38,560		38,560	39,914		39,914

	Thirteen Weeks Ended					
	September 29, 2018			September 30, 2017		
	Transportation Logistics	Insurance	Total	Transportation Logistics	Insurance	Total
External revenue	$ 1,188,737	$ 13,344	$1,202,081	$ 931,692	$ 11,738	$ 943,430
Internal revenue		7,496	7,496		7,335	7,335
Investment income		1,002	1,002		711	711
Operating income	80,878	6,190	87,068	54,181	6,386	60,567
Expenditures on long-lived assets	3,204		3,204	2,172		2,172

In the thirty-nine-week and thirteen-week periods ended September 29, 2018 and September 30, 2017, no single customer accounted for more than 10% of the Company's consolidated revenue.

(8) Other Comprehensive Income

The following table presents the components of and changes in accumulated other comprehensive income attributable to Landstar System, Inc. and subsidiary, net of related income taxes, as of and for the thirty-nine-week period ended September 29, 2018 (in thousands):

	Unrealized Holding Losses on Available-for-Sale Securities	Foreign Currency Translation	Total
Balance as of December 30, 2017	$ (144)	$ (3,018)	$(3,162)
Other comprehensive loss	(876)	(531)	(1,407)
Balance as of September 29, 2018	$ (1,020)	$ (3,549)	$(4,569)

Amounts reclassified from accumulated other comprehensive income to investment income due to the realization of previously unrealized gains and losses in the accompanying consolidated statements of income were not significant for the thirty-nine-week period ended September 29, 2018.

(9) Investments

Investments include primarily investment-grade corporate bonds having maturities of up to five years (the "bond portfolio") and money market investments. Investments in the bond portfolio are reported as available-for-sale and are carried at fair value. Investments maturing less than one year from the balance sheet date are included in short-term investments and investments maturing more than one year from the balance sheet date are included in other assets in the consolidated balance sheets. Management performs an analysis of the nature of the unrealized losses on available-for-sale investments to determine whether such losses are other-than-temporary. Unrealized losses, representing the excess of the purchase price of an investment over its fair value as of the end of a period, considered to be other-than-temporary, are to be included as a charge in the statement of income, while unrealized losses considered to be temporary are to be included as a component of equity. Investments whose values are based on quoted market prices in active markets are classified within Level 1. Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, are classified within Level 2. As Level 2 investments include positions that are not traded in active markets, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information. Any transfers between levels are recognized as of the beginning of any reporting period. Fair value of the bond portfolio was determined using Level 1 inputs related to money market investments and Level 2 inputs related to investment-grade corporate bonds, asset-backed securities and direct obligations of government agencies. Unrealized losses, net of unrealized gains, on the investments in the bond portfolio were $1,299,000 and $223,000 at September 29, 2018 and December 30, 2017, respectively.

The amortized cost and fair values of available-for-sale investments are as follows at September 29, 2018 and December 30, 2017 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 29, 2018				
Money market investments	$ 12,430	$ —	$ —	$ 12,430
Asset-backed securities	728	—	5	723
Corporate bonds and direct obligations of government agencies	99,833	15	1,309	98,539
Total	$112,991	$ 15	$ 1,314	$111,692
December 30, 2017				
Money market investments	$ 27,895	$ —	$ —	$ 27,895
Asset-backed securities	2,805	—	5	2,800
Corporate bonds and direct obligations of government agencies	80,442	117	335	80,224
Total	$111,142	$ 117	$ 340	$110,919

For those available-for-sale investments with unrealized losses at September 29, 2018 and December 30, 2017, the following table summarizes the duration of the unrealized loss (in thousands):

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 29, 2018						
Asset-backed securities	$ 300	$ 2	$ 423	$ 3	$ 723	$ 5
Corporate bonds and direct obligations of government agencies	73,890	831	20,368	478	94,258	1,309
Total	$74,190	$ 833	$20,791	$ 481	$94,981	$ 1,314
December 30, 2017						
Asset-backed securities	$ 1,864	$ 4	$ 632	$ 1	$ 2,496	$ 5
Corporate bonds and direct obligations of government agencies	41,322	220	14,016	115	55,338	335
Total	$43,186	$ 224	$14,648	$ 116	$57,834	$ 340

The Company believes unrealized losses on investments were primarily caused by rising interest rates rather than changes in credit quality. The Company expects to recover the amortized cost basis of these securities as it does not intend to sell, and does not anticipate being required to sell, these securities before recovery of the cost basis. For these reasons, the Company does not consider the unrealized losses on these securities to be other-than-temporary at September 29, 2018.

(10) Commitments and Contingencies

Short-term investments include $40,203,000 in current maturities of investments held by the Company's insurance segment at September 29, 2018. The non-current portion of the bond portfolio of $71,489,000 is included in other assets. The short-term investments, together with $29,194,000 of non-current investments, provide collateral for the $62,457,000 of letters of credit issued to guarantee payment of insurance claims. As of September 29, 2018, Landstar also had $34,370,000 of additional letters of credit outstanding under the Company's Credit Agreement.

During 2017, the Company incorporated each of Landstar Metro and Landstar Servicios. On September 20, 2017, Landstar Metro acquired substantially all of the assets of the asset-light transportation logistics business of Fletes Avella, S.A. de C.V., a Mexican transportation logistics company. In connection with the Mexican Asset Acquisition, individuals affiliated with the seller subscribed in the aggregate for equity interests in Landstar Metro and Landstar Servicios and, as of September 29, 2018, own in the aggregate approximately 21% of the equity interests of each of them. As it relates to the noncontrolling interests of Landstar Metro and Landstar Servicios, the Company has the option to purchase, and the minority equityholders have the option to sell, during the period commencing on the third anniversary of September 20, 2017, the closing date of the subscription by the minority equityholders (the "Closing Date"), and at any time after the fourth anniversary of the Closing Date, at fair value all but not less than all of the noncontrolling interests in Landstar Metro and Landstar Servicios. The noncontrolling interests are also subject to customary restrictions on transfer, including a right of first refusal in favor of the Company.

The Company is involved in certain claims and pending litigation arising from the normal conduct of business. Many of these claims are covered in whole or in part by insurance. 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 claims and pending litigation and that the ultimate outcome, after provisions therefor, 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.

(11) Change in Accounting Estimate for Self-Insured Claims

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 applicable balance sheet date. The ultimate resolution of these claims may be for an amount greater or less than the amount estimated by management. The Company continually revises its existing claim estimates as new or revised information becomes available on the status of each claim. Historically, the Company has experienced both favorable and unfavorable development of prior years' claims estimates.

The following table summarizes the effect of the increase in the cost of insurance claims resulting from unfavorable development of prior year self-insured claims estimates on operating income, net income attributable to Landstar System, Inc. and subsidiary and earnings per share attributable to Landstar System, Inc. and subsidiary amounts in the consolidated statements of income for the thirty-nine-week and thirteen-week periods ended September 29, 2018 and September 30, 2017 (in thousands, except per share amounts):

	Thirty Nine Weeks Ended		Thirteen Weeks Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Operating income	$ 11,596	$ 1,327	$ 3,352	$ 1,124
Net income attributable to Landstar System, Inc. and subsidiary	8,755	825	2,531	699
Earnings per share attributable to Landstar System, Inc. and subsidiary	$ 0.21	$ 0.02	$ 0.06	$ 0.02
Diluted earnings per share attributable to Landstar System, Inc. and subsidiary	$ 0.21	$ 0.02	$ 0.06	$ 0.02

The unfavorable development of prior years' claims in the thirty-nine-week period ended September 29, 2018 was primarily attributable to five claims.

(12) Recent Accounting Pronouncements

Adoption of New Accounting Standards

In May 2014, the FASB issued ASU 2014-09. ASU 2014-09 is a comprehensive revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. The standard requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 became effective for us December 31, 2017 and permits either a full retrospective or a modified retrospective transition approach. The Company adopted ASU 2014-09 for our transportation services using the modified retrospective method. The adoption of this standard has changed the timing of revenue recognition for most of our transportation business from at delivery to over the transit period as the performance obligation is completed. The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Company had no material contract assets, contract liabilities or deferred contract costs recorded on the consolidated balance sheets at December 30, 2017 or September 29, 2018. During the thirty nine weeks ended September 29, 2018, revenue generated by BCO Independent Contractors, Truck Brokerage Carriers and railroads represented approximately 44%, 49% and 3%, respectively, of the Company's consolidated revenue. Collectively, revenue generated by air and ocean cargo carriers represented approximately 2% of the Company's consolidated revenue in the thirty-nine-week period ended September 29, 2018. Included in truck transportation revenue generated by BCO Independent Contractors and Truck Brokerage Carriers during the thirty-nine-week period ended September 29, 2018 was $2,086,523,000 hauled via van equipment, $1,039,784,000 hauled via unsided/platform equipment and $76,448,000 of less-than-truckload. As of September 29, 2018, the Company had no material remaining performance obligations. The Company does not expect the adoption of the new standard to have a material impact on its net income in future periods.

The cumulative effect of the changes made to our consolidated December 31, 2017 balance sheet for the adoption of ASU 2014-09 was as follows (in thousands):

	Balance at December 30, 2017	Adjustments Due to ASU 2014-09	Balance at December 31, 2017
Balance Sheet			
Assets			
Trade accounts receivable, net	$ 631,164	$ 9,879	$ 641,043
Other current assets	14,394	(469)	13,925
Liabilities			
Accounts payable	285,132	8,637	293,769
Equity			
Retained earnings	1,611,158	773	1,611,931

In accordance with the new revenue standard requirements, the impact of adoption on our consolidated income statement and balance sheet was as follows (in thousands):

	For the Thirty Nine Weeks ended September 29, 2018		
	As Reported	Balances Without Adoption of ASU 2014-09	Effect of Change Higher/(Lower)
Income statement			
Revenues			
Transportation	$3,394,298	$ 3,390,242	$ 4,056
Insurance	38,495	38,495	—
Costs and expenses			
Purchased transportation	2,658,710	2,655,491	3,219
Commissions to agents	275,828	275,538	290
Income taxes	56,279	56,145	134
Net income attributable to Landstar System, Inc. and subsidiary	187,025	186,612	413

	September 29, 2018		
	As Reported	Balances Without Adoption of ASU 2014-09	Effect of Change Higher/(Lower)
Balance Sheet			
Assets			
Trade accounts receivable, net	$ 702,183	$ 688,248	$ 13,935
Other current assets	24,191	24,794	(603)
Liabilities			
Accounts payable	313,728	301,582	12,146
Equity			
Retained earnings	1,779,680	1,778,494	1,186

Accounting Standards Issued But Not Yet Adopted

In February 2016, the FASB issued Accounting Standards Update 2016-02 – *Leases* ("ASU 2016-02"). ASU 2016-02 requires a company to recognize a right-of-use asset and lease liability for the obligation to make lease payments measured at the present value of the lease payments for all leases with terms greater than twelve months. Companies are required to use a modified retrospective transition approach to recognize leases at the beginning of the earliest period presented. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, and interim periods therein, and early adoption is permitted. ASU 2016-02 is not expected to have a material impact on the Company's financial statements.

In June 2016, the FASB issued Accounting Standards Update 2016-13– *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which requires measurement and recognition of expected versus incurred credit losses for financial assets held. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, and interim periods therein. The Company is currently evaluating the impact of ASU 2016-13 on its financial statements.

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

The following discussion should be read in conjunction with the interim consolidated financial statements and notes thereto included herein, and with the Company's audited financial statements and notes thereto for the fiscal year ended December 30, 2017 and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 2017 Annual Report on Form 10-K.

FORWARD-LOOKING STATEMENTS

The following is a "safe harbor" statement under the Private Securities Litigation Reform Act of 1995. Statements contained in this document that are not based on historical facts are "forward-looking statements." This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Form 10-Q contain forward-looking statements, such as statements which relate to Landstar's business objectives, plans, strategies and expectations. Terms such as "anticipates," "believes," "estimates," "intention," "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 other claims; unfavorable development of existing accident claims; dependence on third party insurance companies; dependence on independent commission sales agents; dependence on third party capacity providers; decreased demand for transportation services; U.S. foreign trade relationships; substantial industry competition; disruptions or failures in the Company's computer systems; cyber and other information security incidents; dependence on key vendors; changes in fuel taxes; status of independent contractors; regulatory and legislative changes; regulations focused on diesel emissions and other air quality matters; catastrophic loss of a Company facility; intellectual property; unclaimed property; and other operational, financial or legal risks or uncertainties detailed in Landstar's Form 10-K for the 2017 fiscal year, described in Item 1A "Risk Factors", in this report or in Landstar's other Securities and Exchange Commission filings from time to time. These risks and uncertainties could cause actual results or events to differ materially from historical results or those anticipated. Investors should not place undue reliance on such forward-looking statements and the Company undertakes no obligation to publicly update or revise any forward-looking statements.

Introduction

Landstar System, Inc. and its subsidiary, Landstar System Holdings, Inc. (together, referred to herein as "Landstar" or the "Company"), is a worldwide asset-light provider of integrated transportation management solutions. The Company offers services to its customers across multiple transportation modes, with the ability to arrange for individual shipments of freight to enterprise-wide solutions to manage all of a customer's transportation needs. Landstar provides services principally throughout the United States and to a lesser extent in Canada and Mexico, and between the United States and Canada, Mexico and other countries around the world. The Company's 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 nature of the Company's business is such that a significant portion of its operating costs varies directly with revenue.

Landstar markets its integrated transportation management solutions primarily through independent commission sales agents and exclusively utilizes third party capacity providers to transport customers' freight. Landstar's independent commission sales agents enter into contractual arrangements with the Company 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 "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 and railroads. Through this network of agents and capacity providers linked together by Landstar's information technology systems, Landstar operates an integrated transportation management solutions business primarily throughout North America with revenue of $3.6 billion during the most recently completed fiscal year. The Company reports the results of two operating segments: the transportation logistics segment and the insurance segment.

The transportation logistics segment provides a wide range of integrated transportation management solutions. Transportation services offered by the Company include truckload and less-than-truckload transportation, rail intermodal, air cargo, ocean cargo, expedited ground and air delivery of time-critical freight, heavy-haul/specialized, U.S.-Canada and U.S.-Mexico cross-border, intra-Mexico, intra-Canada, project cargo and customs brokerage. Examples of the industries serviced by the transportation logistics segment include automotive products, building products, metals, chemicals, foodstuffs, heavy machinery, retail, electronics and military equipment. In addition, the transportation logistics segment provides transportation services to other transportation companies, including third party logistics and less-than-truckload service providers. Each of the independent commission sales agents has the opportunity to market all of the services provided by the transportation logistics segment. Billings for freight transportation services are typically charged to customers on a per shipment basis for the physical transportation of freight and are referred to as transportation revenue. During the thirty nine weeks ended September 29, 2018, revenue generated by BCO Independent Contractors, Truck Brokerage Carriers and railroads represented approximately 44%, 49% and 3%, respectively, of the Company's consolidated revenue. Collectively, revenue generated by air and ocean cargo carriers represented approximately 2% of the Company's consolidated revenue in the thirty-nine-week period ended September 29, 2018.

During 2017, the Company incorporated Landstar Metro, S.A.P.I. de C.V., a transportation logistics company ("Landstar Metro"), and Landstar Metro Servicios S.A.P.I. de C.V., a services company ("Landstar Servicios"), each based in Mexico City, Mexico. On September 20, 2017, Landstar Metro acquired substantially all of the assets of the asset-light transportation logistics business of a Mexican transportation logistics company. In connection with the acquisition, individuals affiliated with the seller subscribed for equity interests in Landstar Metro and Landstar Servicios, and as of September 29, 2018, own in the aggregate approximately 21% of the equity interests of each of them. Landstar Metro provides freight and logistics services within the country of Mexico and in conjunction with Landstar's U.S./Mexico cross-border services. Landstar Servicios provides various administrative, financial, operational, safety and compliance services to Landstar Metro. The results of operations from Landstar Metro and Landstar Servicios are presented as part of the Company's transportation logistics segment. Revenue from Landstar Metro represented less than 1% of the Company's transportation logistics segment revenue in the thirty-nine-week period ended September 29, 2018.

The insurance segment is comprised of Signature Insurance Company, a wholly owned offshore insurance subsidiary ("Signature"), and Risk Management Claim Services, Inc. The insurance segment provides risk and claims management services to certain of 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 certain of Landstar's operating subsidiaries. Revenue at the insurance segment represents reinsurance premiums from third party insurance companies that provide insurance programs to BCO Independent Contractors where all or a portion of the risk is ultimately borne by Signature. Revenue at the insurance segment represented approximately 1% of the Company's consolidated revenue for the thirty-nine-week period ended September 29, 2018.

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 safely and 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, including insurance and claims.

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 emphasis 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, increasing the revenue opportunities generated by existing independent commission sales agents and providing its independent commission sales agents with technology-based tools they may use to grow revenue and increase efficiencies at their businesses. During the 2017 fiscal year, 542 independent commission sales agents generated $1 million or more of Landstar revenue and thus qualified as Million Dollar Agents. During the 2017 fiscal year, the average revenue generated by a Million Dollar Agent was $6,191,000 and revenue generated by Million Dollar Agents in the aggregate represented 92% of consolidated revenue.

Management monitors business activity by tracking the number of loads (volume) and revenue per load by mode of transportation. Revenue per load can be influenced by many factors other than a change in price. Those factors include the average length of haul, freight type, special handling and equipment requirements, fuel costs and delivery time requirements. For shipments involving two or more modes of transportation, revenue is generally classified by the mode of transportation having the highest cost for the load. The following table summarizes this information by trailer type for truck transportation and by mode for all others:

	Thirty Nine Weeks Ended		Thirteen Weeks Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Revenue generated through (in thousands):				
Truck transportation				
Truckload:				
Van equipment	$ 2,086,523	$ 1,529,402	$ 717,047	$ 550,484
Unsided/platform equipment	1,039,784	825,194	375,739	304,536
Less-than-truckload	76,448	65,397	25,500	22,598
Total truck transportation	3,202,755	2,419,993	1,118,286	877,618
Rail intermodal	96,026	68,570	34,439	24,213
Ocean and air cargo carriers	82,719	70,708	31,213	29,523
Other (1)	51,293	35,501	18,143	12,076
	$ 3,432,793	**$ 2,594,772**	**$ 1,202,081**	**$ 943,430**
Revenue on loads hauled via BCO Independent Contractors included in total truck transportation	$ 1,519,344	$ 1,211,564	$ 520,391	$ 435,479
Number of loads:				
Truck transportation				
Truckload:				
Van equipment	1,045,322	942,894	353,456	329,329
Unsided/platform equipment	388,759	362,936	133,425	126,509
Less-than-truckload	106,639	98,740	35,969	34,232
Total truck transportation	1,540,720	1,404,570	522,850	490,070
Rail intermodal	40,260	32,040	13,420	11,080
Ocean and air cargo carriers	21,250	18,150	8,220	6,210
	1,602,230	**1,454,760**	**544,490**	**507,360**
Loads hauled via BCO Independent Contractors included in total truck transportation	717,470	686,830	236,580	232,970
Revenue per load:				
Truck transportation				
Truckload:				
Van equipment	$ 1,996	$ 1,622	$ 2,029	$ 1,672
Unsided/platform equipment	2,675	2,274	2,816	2,407
Less-than-truckload	717	662	709	660
Total truck transportation	2,079	1,723	2,139	1,791
Rail intermodal	2,385	2,140	2,566	2,185
Ocean and air cargo carriers	3,893	3,896	3,797	4,754
Revenue per load on loads hauled via BCO Independent Contractors	$ 2,118	$ 1,764	$ 2,200	$ 1,869
Revenue by capacity type (as a % of total revenue):				
Truck capacity providers:				
BCO Independent Contractors	44%	47%	43%	46%
Truck Brokerage Carriers	49%	47%	50%	47%
Rail intermodal	3%	3%	3%	3%
Ocean and air cargo carriers	2%	3%	3%	3%
Other	1%	1%	2%	1%

(1) Includes primarily reinsurance premium revenue generated by the insurance segment and intra-Mexico transportation services revenue generated by Landstar Metro.

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 the number of available truck capacity providers on the dates indicated:

	September 29, 2018	September 30, 2017
BCO Independent Contractors	9,751	8,939
Truck Brokerage Carriers:		
Approved and active (1)	40,151	32,925
Other approved	16,803	15,138
	56,954	48,063
Total available truck capacity providers	66,705	57,002
Trucks provided by BCO Independent Contractors	10,443	9,548

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

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 loads hauled by the BCO Independent Contractor. Purchased transportation paid to a Truck Brokerage Carrier is based on either a negotiated rate for each load hauled or, to a lesser extent, a contractually agreed-upon fixed rate per load. Purchased transportation paid to railroads is based on either a negotiated rate for each load hauled or a contractually agreed-upon fixed rate per load. Purchased transportation paid to air cargo carriers is generally based on a negotiated rate for each load hauled and purchased transportation paid to ocean cargo carriers is generally based on contractually agreed-upon fixed rates. Purchased transportation as a percentage of revenue for truck brokerage, rail intermodal and ocean cargo services is normally higher than that of BCO Independent Contractor and air cargo services. Purchased transportation is the largest component of costs and expenses and, on a consolidated basis, increases or decreases as a percentage of consolidated revenue in proportion to changes in the percentage of consolidated revenue generated through BCO Independent Contractors and other third party capacity providers and external revenue from the insurance segment, consisting of reinsurance premiums. Purchased transportation as a percent of revenue also increases or decreases in relation to the availability of truck brokerage capacity and with changes in the price of fuel on revenue generated by Truck Brokerage Carriers. The Company passes 100% of fuel surcharges billed to customers for freight hauled by BCO Independent Contractors to its BCO Independent Contractors. These fuel surcharges are excluded from revenue and the cost of purchased transportation. Purchased transportation costs are recognized over the transit period as the performance obligation is completed.

Commissions to agents are based on contractually agreed-upon percentages of revenue or net revenue, defined as revenue less the cost of purchased transportation, or net revenue less a contractually agreed upon percentage of revenue retained by Landstar. Commissions to agents as a percentage of consolidated revenue will vary directly with fluctuations in the percentage of consolidated revenue generated by the various modes of transportation and reinsurance premiums and with changes in net revenue margin, defined as net revenue divided by revenue, on services provided by Truck Brokerage Carriers, railroads, air cargo carriers and ocean cargo carriers. Commissions to agents are recognized over the transit period as the performance obligation is completed.

The Company defines gross profit as revenue less the cost of purchased transportation and commissions to agents. Gross profit divided by revenue is referred to as gross profit margin. The Company's operating margin is defined as operating income divided by gross profit.

In general, gross profit margin on revenue generated by BCO Independent Contractors represents a fixed percentage of revenue due to the nature of the contracts that pay a fixed percentage of revenue to both the BCO Independent Contractors and independent commission sales agents. For revenue generated by Truck Brokerage Carriers, gross profit margin is either fixed or variable as a percent of revenue, depending on the contract with each individual independent commission sales agent. Under certain contracts with independent commission sales agents, the Company retains a fixed percentage of revenue and the agent retains the amount remaining less the cost of purchased transportation (the “retention contracts”). Gross profit margin on revenue generated by railroads, air cargo carriers, ocean cargo carriers and Truck Brokerage Carriers, other than those under retention contracts, is variable in nature as the Company’s contracts with independent commission sales agents provide commissions to agents at a contractually agreed upon percentage of net revenue for these types of loads. Approximately 51% of the Company’s consolidated revenue in the thirty-nine-week period ended September 29, 2018 was generated under contracts that have a fixed gross profit margin while 49% was under contracts that have a variable gross profit margin.

Maintenance costs for Company-provided trailing equipment and BCO Independent Contractor recruiting and qualification costs are the largest components of other operating costs. Also included in other operating costs are trailer rental costs, the provision for uncollectible advances and other receivables due from BCO Independent Contractors and independent commission sales agents and gains/losses, if any, on sales of Company-owned trailing equipment.

With respect to insurance and claims cost, potential liability associated with accidents in the trucking industry is severe and occurrences are unpredictable. For commercial trucking claims, Landstar retains liability up to $5,000,000 per occurrence. In addition, for commercial trucking claims exceeding its $5,000,000 per occurrence self-insured retention, the Company retains liability up to an additional $700,000 in the aggregate on any claims incurred on or after May 1, 2016 through April 30, 2017, up to an additional $500,000 in the aggregate on any claims incurred on or after May 1, 2017 through April 30, 2018 and up to an additional $350,000 in the aggregate on any claims incurred on or after May 1, 2018 through April 30, 2019. The Company also retains liability of up to $1,000,000 for each general liability claim, up to $250,000 for each workers’ compensation claim and up to $250,000 for each cargo claim. The Company’s exposure to liability associated with accidents incurred by Truck Brokerage Carriers, railroads and air and ocean cargo carriers who transport freight on behalf of the Company is reduced by various factors including the extent to which such carriers maintain their own insurance coverage. A material increase in the frequency or severity of accidents, cargo claims or workers’ compensation claims or the material unfavorable development of existing claims could have a material adverse effect on Landstar’s cost of insurance and claims and its results of operations.

During the thirty-nine-week period ended September 29, 2018, employee compensation and benefits accounted for approximately seventy percent of the Company’s selling, general and administrative costs.

Depreciation and amortization primarily relate to depreciation of trailing equipment and information technology hardware and software.

The following table sets forth the percentage relationship of purchased transportation and commissions to agents, both being direct costs, to revenue and indirect costs as a percentage of gross profit for the periods indicated:

	Thirty Nine Weeks Ended		**Thirteen Weeks Ended**	
	September 29, 2018	**September 30, 2017**	**September 29, 2018**	**September 30, 2017**
Revenue	100.0%	100.0%	100.0%	100.0%
Purchased transportation	77.5	76.7	77.5	77.0
Commissions to agents	8.0	8.1	8.3	8.1
Gross profit margin	14.5%	15.2%	14.3%	14.8%
Gross profit	100.0%	100.0%	100.0%	100.0%
Investment income	0.6	0.4	0.6	0.5
Indirect costs and expenses:				
Other operating costs, net of gains on asset sales/dispositions	4.9	5.7	5.2	5.8
Insurance and claims	11.6	11.8	11.0	12.8
Selling, general and administrative	28.3	31.3	27.3	31.4
Depreciation and amortization	6.5	7.6	6.3	7.2
Total costs and expenses	51.3	56.3	49.8	57.2
Operating margin	49.3%	44.1%	50.8%	43.3%

Management believes that a discussion of indirect costs as a percentage of gross profit is useful and meaningful to potential investors for the following principal reasons: (1) disclosure of these relative measures (i.e., each indirect operating cost line item as a percentage of gross profit) allows investors to better understand the underlying trends in the Company's results of operations; (2) due to the generally fixed nature of these indirect costs (other than insurance and claims costs), these relative measures are meaningful to investors' evaluations of the Company's management of its indirect costs attributable to operations; (3) management considers this financial information in its decision-making, such as budgeting for infrastructure, trailing equipment and selling, general and administrative costs; and (4) this information facilitates comparisons by investors of the Company's results to the results of other non-asset or asset-light companies in the transportation and logistics services industry who report "net revenue" in Management Discussion and Analysis, which represents revenue less the cost of purchased transportation. The difference between the Company's use of the term "gross profit" and use of the term "net revenue" by other companies in the transportation and logistics services industry is due to the direct cost of commissions to agents under the Landstar business model, whereas other companies in this industry generally have no commissions to agents.

Also, as previously mentioned, the Company reports two operating segments: the transportation logistics segment and the insurance segment. External revenue at the insurance segment, representing reinsurance premiums, has historically been relatively consistent at 2% or less of consolidated revenue and generally corresponds directly with the number of trucks provided by BCO Independent Contractors. The discussion of indirect cost line items in Management's Discussion and Analysis of Financial Condition and Results of Operations considers the Company's costs on a consolidated basis rather than on a segment basis. Management believes this presentation format is the most appropriate to assist users of the financial statements in understanding the Company's business for the following reasons: (1) the insurance segment has no other operating costs; (2) discussion of insurance and claims at either segment without reference to the other may create confusion amongst investors and potential investors due to intercompany arrangements and specific deductible programs that affect comparability of financial results by segment between various fiscal periods but that have no effect on the Company from a consolidated reporting perspective; (3) selling, general and administrative costs of the insurance segment comprise less than 10% of consolidated selling, general and administrative costs and have historically been relatively consistent on a year-over-year basis; and (4) the insurance segment has no depreciation and amortization.

THIRTY NINE WEEKS ENDED SEPTEMBER 29, 2018 COMPARED TO THIRTY NINE WEEKS ENDED SEPTEMBER 30, 2017

Revenue for the 2018 thirty-nine-week period was $3,432,793,000, an increase of $838,021,000, or 32%, compared to the 2017 thirty-nine-week period. Transportation revenue increased $834,451,000, or 33%. The increase in transportation revenue was attributable to an increased number of loads hauled of approximately 10% and an increased revenue per load of approximately 20%. Reinsurance premiums were $38,495,000 and $34,925,000 for the 2018 and 2017 thirty-nine-week periods, respectively. The increase in revenue from reinsurance premiums was primarily attributable to the increase in the average number of trucks provided by BCO Independent Contractors in the 2018 thirty-nine-week period compared to the 2017 thirty-nine-week period.

Truck transportation revenue generated by BCO Independent Contractors and Truck Brokerage Carriers (together, the "third party truck capacity providers") for the 2018 thirty-nine-week period was $3,202,755,000, representing 93% of total revenue, an increase of $782,762,000, or 32%, compared to the 2017 thirty-nine-week period. The number of loads hauled by third party truck capacity providers increased approximately 10% in the 2018 thirty-nine-week period compared to the 2017 thirty-nine-week period, and revenue per load on loads hauled by third party truck capacity providers increased approximately 21% compared to the 2017 thirty-nine-week period. The increase in the number of loads hauled via truck compared to the 2017 thirty-nine-week period was due to a broad-based increase in demand across many customers and industries for Landstar's various truck service offerings. The increase in revenue per load on loads hauled via truck was due to a tighter freight environment experienced during the 2018 thirty-nine-week period, which resulted in less readily available truck capacity as compared to the 2017 thirty-nine-week period, and the impact of higher diesel fuel costs on loads hauled via Truck Brokerage Carriers. Revenue per load on loads hauled via van equipment increased 23%, revenue per load on loads hauled via unsided/platform equipment increased 18% and revenue per load on less-than-truckload loadings increased 8% as compared to the 2017 thirty-nine-week period. Fuel surcharges billed to customers on revenue generated by BCO Independent Contractors are excluded from revenue. Fuel surcharges on Truck Brokerage Carrier revenue identified separately in billings to customers and included as a component of Truck Brokerage Carrier revenue were $72,282,000 and $46,479,000 in the 2018 and 2017 thirty-nine-week periods, respectively. It should be noted that many customers of truck brokerage services require a single all-in rate that does not separately identify fuel surcharges. Accordingly, the overall impact of changes in fuel prices on revenue and revenue per load on loads hauled via truck is likely to be greater than that indicated.

Transportation revenue generated by rail intermodal, air cargo and ocean cargo carriers (collectively, the "multimode capacity providers") for the 2018 thirty-nine-week period was $178,745,000, or 5% of total revenue, an increase of $39,467,000, or 28%, compared to the 2017 thirty-nine-week period. The number of loads hauled by multimode capacity providers increased approximately 23% in the 2018 thirty-nine-week period compared to the 2017 thirty-nine-week period, and revenue per load on revenue generated by multimode capacity providers increased approximately 5% over the same period. The increase in the number of loads hauled by multimode capacity providers was primarily due to a 26% increase in rail intermodal loads and a 26% increase in ocean loads. The increase in both rail intermodal and ocean loads was broad-based across many customers. The increase in revenue per load of 5% on loads hauled by multimode capacity providers was primarily attributable to increased revenue per load on rail intermodal loads. Also, revenue per load on revenue generated by multimode capacity providers is influenced by many factors, including revenue mix among the various modes of transportation used, length of haul, complexity of freight, density of freight lanes, fuel costs and availability of capacity.

Purchased transportation was 77.5% and 76.7% of revenue in the 2018 and 2017 thirty-nine-week periods, respectively. The increase in purchased transportation as a percentage of revenue was primarily due to a decrease in the percentage of revenue contributed by BCO Independent Contractors, which typically has a lower rate of purchased transportation than revenue generated by Truck Brokerage Carriers, and an increased rate of purchased transportation paid to Truck Brokerage Carriers. Commissions to agents were 8.0% and 8.1% of revenue in the 2018 and 2017 thirty-nine-week periods, respectively. The decrease in commissions to agents as a percentage of revenue was primarily attributable to a decreased net revenue margin on revenue generated by Truck Brokerage Carriers.

Investment income was $2,754,000 and $1,733,000 in the 2018 and 2017 thirty-nine-week periods, respectively. The increase in investment income was primarily due to higher average rates of return on investments in the 2018 thirty-nine-week period and a higher average investment balance held by the insurance segment in the 2018 thirty-nine-week period.

Other operating costs increased $1,679,000 in the 2018 thirty-nine-week period compared to the 2017 thirty-nine-week period and represented 4.9% of gross profit in the 2018 period compared to 5.7% of gross profit in the 2017 period. The increase in other operating costs compared to the prior year was primarily due to increased trailing equipment maintenance costs due to an increased number of Company-owned trailers in service in response to increased customer demand for the Company's drop and hook services. The decrease in other operating costs as a percentage of gross profit was caused by the effect of increased gross profit, partially offset by the increase in other operating costs.

Insurance and claims increased $11,385,000 in the 2018 thirty-nine-week period compared to the 2017 thirty-nine-week period and represented 11.6% of gross profit in the 2018 period compared to 11.8% of gross profit in the 2017 period. The increase in insurance and claims expense compared to prior year was primarily due to increased net unfavorable development of prior years' claims and increased severity of current year claims in the 2018 period. Net unfavorable development of prior years' claims was $11,596,000 and $1,327,000 in the 2018 and 2017 thirty-nine-week periods, respectively. The decrease in insurance and claims as a percent of gross profit was caused by the effect of increased gross profit, partially offset by the increase in insurance and claims costs.

Selling, general and administrative costs increased $17,769,000 in the 2018 thirty-nine-week period compared to the 2017 thirty-nine-week period and represented 28.3% of gross profit in the 2018 period compared to 31.3% of gross profit in the 2017 period. The increase in selling, general and administrative costs compared to prior year was attributable to increased stock-based compensation expense, increased wages and employee benefits and an increased provision for incentive compensation. Included in selling, general and administrative costs is stock-based compensation expense of $13,003,000 and $3,660,000 for the 2018 and 2017 thirty-nine-week periods, respectively, and incentive compensation expense of $14,643,000 and $13,634,000 for the 2018 and 2017 thirty-nine-week periods, respectively. The decrease in selling, general and administrative costs as a percent of gross profit was due primarily to the effect of increased gross profit, partially offset by the increase in selling, general and administrative costs.

Depreciation and amortization increased $2,559,000 in the 2018 thirty-nine-week period compared to the 2017 thirty-nine-week period and represented 6.5% of gross profit in the 2018 period compared to 7.6% of gross profit in the 2017 period. The increase in depreciation and amortization expenses was due to an increased number of Company-owned trailers in response to increased customer demand for the Company's drop and hook services and increased depreciation on information technology assets placed in service during the second half of fiscal year 2017. The decrease in depreciation and amortization as a percentage of gross profit was primarily due to the effect of increased gross profit, partially offset by the increased depreciation costs.

Interest and debt expense in the 2018 thirty-nine-week period decreased $104,000 compared to the 2017 thirty-nine-week period.

The Tax Reform Act permanently reduced the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. The provisions for income taxes for the 2018 and 2017 thirty-nine-week periods were based on estimated annual effective income tax rates of 24.5% and 37.8%, respectively, adjusted for discrete events, such as benefits resulting from stock-based awards. The effective income tax rates for the 2018 and 2017 thirty-nine-week periods were 23.1% and 34.5%, respectively. The increase in the effective tax rate as compared to the statutory federal income tax rate for the 2018 thirty-nine-week period was primarily attributable to state taxes, the elimination of the performance-based compensation exception under Section 162(m) included in the Tax Reform Act and the meals and entertainment exclusion. The effective income tax rate for the 2017 thirty-nine week period was lower than the 35% statutory federal income tax rate primarily as a result of federal domestic production activities deductions and research and development credits recognized as discrete items during the thirteen-week period ended September 30, 2017, partially offset by the effect of state taxes and the meals and entertainment exclusion. The effective income tax rate in the 2018 thirty-nine-week period of 23.1% was lower than the 24.5% estimated annual effective income tax rate primarily due to excess tax benefits recognized on stock-based compensation arrangements in the 2018 period and favorable adjustments recognized during the 2018 period relating to federal domestic production activities deductions and research and development credits. The effective income tax rate in the 2017 thirty-nine-week period of 34.5% was less than the 37.8% estimated annual effective income tax rate primarily as a result of federal domestic production activities deductions and research and development credits recognized during 2017 of approximately $5,200,000, excess tax benefits recognized on stock-based compensation arrangements resulting from the Company's adoption of ASU 2016-09 during 2017 and disqualifying dispositions of the Company's common stock by employees who obtained the stock through the exercises of incentive stock options in the 2017 period.

The net loss attributable to noncontrolling interest of $112,000 and $23,000 in the 2018 and 2017 thirty-nine-week periods, respectively, represents the noncontrolling investors' share of the net loss incurred by Landstar Metro and Landstar Servicios.

Net income attributable to the Company was $187,025,000, or $4.50 per common share ($4.50 per diluted share), in the 2018 thirty-nine-week period. Net income attributable to the Company was $112,336,000, or $2.68 per common share ($2.67 per diluted share), in the 2017 thirty-nine-week period. Net income attributable to the Company was favorably impacted by the enactment of the Tax Reform Act by approximately $32,345,000, or $0.78 per common share ($0.78 per diluted share), in the 2018 thirty-nine-week period, as a result of the permanent reduction of the U.S. corporate income tax rate from a maximum of 35% to a flat 21%.

THIRTEEN WEEKS ENDED SEPTEMBER 29, 2018 COMPARED TO THIRTEEN WEEKS ENDED SEPTEMBER 30, 2017

Revenue for the 2018 thirteen-week period was $1,202,081,000, an increase of $258,651,000, or 27%, compared to the 2017 thirteen-week period. Transportation revenue increased $257,045,000, or 28%. The increase in transportation revenue was attributable to an increased number of loads hauled of approximately 7% and increased revenue per load of approximately 18%. The increase was partially offset by the approximately $23,000,000 in revenue, on approximately 16,000 loads, recognized in the 2017 thirteen-week period in support of local, state and federal relief efforts related to hurricanes that impacted Texas, the southeastern United States and Puerto Rico. Reinsurance premiums were $13,344,000 and $11,738,000 for the 2018 and 2017 thirteen-week periods, respectively. The increase in revenue from reinsurance premiums was primarily attributable to the increase in the average number of trucks provided by BCO Independent Contractors in the 2018 thirteen-week period compared to the 2017 thirteen-week period.

Truck transportation revenue generated by third party truck capacity providers for the 2018 thirteen-week period was $1,118,286,000, representing 93% of total revenue, an increase of $240,668,000, or 27%, compared to the 2017 thirteen-week period. The number of loads hauled by third party truck capacity providers increased approximately 7% in the 2018 thirteen-week period compared to the 2017 thirteen-week period, and revenue per load on loads hauled by third party truck capacity providers increased approximately 19% compared to the 2017 thirteen-week period. The increase in the number of loads hauled via truck compared to the 2017 thirteen-week period was due to a broad-based increase in demand across many customers and industries for Landstar's various truck service offerings. The increase in revenue per load on loads hauled via truck was due to a tighter freight environment experienced during the 2018 thirteen-week period, which resulted in less readily available truck capacity as compared to the 2017 thirteen-week period, and the impact of higher diesel fuel costs on loads hauled via Truck Brokerage Carriers. Revenue per load on loads hauled via van equipment increased 21%, revenue per load on loads hauled via unsided/platform equipment increased 17% and revenue per load on less-than-truckload loadings increased 7% as compared to the 2017 thirteen-week period. Fuel surcharges billed to customers on revenue generated by BCO Independent Contractors are excluded from revenue. Fuel surcharges on Truck Brokerage Carrier revenue identified separately in billings to customers and included as a component of Truck Brokerage Carrier revenue were $25,380,000 and $16,171,000 in the 2018 and 2017 thirteen-week periods, respectively.

Transportation revenue generated by multimode capacity providers for the 2018 thirteen-week period was $65,652,000, or 5% of total revenue, an increase of $11,916,000, or 22%, compared to the 2017 thirteen-week period. The number of loads hauled by multimode capacity providers increased approximately 25% in the 2018 thirteen-week period compared to the 2017 thirteen-week period, while revenue per load on revenue generated by multimode capacity providers decreased approximately 2% over the same period. The increase in the number of loads hauled by multimode capacity providers was primarily due to a 21% increase in rail intermodal loads and a 46% increase in ocean loads. The 21% increase in rail intermodal loads was primarily attributable to increased loadings at one specific agency while the 46% increase in ocean loads was broad-based across many customers. The decrease in revenue per load of 2% was primarily attributable to the impact of high value air loadings provided in support of disaster relief efforts during the 2017 thirteen-week period, partially offset by increased revenue per load on loads hauled by rail intermodal. Also, revenue per load on revenue generated by multimode capacity providers is influenced by many factors, including revenue mix among the various modes of transportation used, length of haul, complexity of freight, density of freight lanes, fuel costs and availability of capacity.

Purchased transportation was 77.5% and 77.0% of revenue in the 2018 and 2017 thirteen-week periods, respectively. The increase in purchased transportation as a percentage of revenue was primarily due to a decrease in the percentage of revenue contributed by BCO Independent Contractors, which typically has a lower rate of purchased transportation than revenue generated by Truck Brokerage Carriers. Commissions to agents were 8.3% and 8.1% of revenue in the 2018 and 2017 thirteen-week periods, respectively. The increase in commissions to agents as a percentage of revenue was primarily attributable to an increased percentage of agents achieving revenue incentives during the 2018 thirteen-week period and an increased net revenue margin on revenue generated by Truck Brokerage Carriers.

Investment income was $1,002,000 and $711,000 in the 2018 and 2017 thirteen-week periods, respectively. The increase in investment income was primarily due to higher average rates of return on investments in the 2018 thirteen-week period.

Other operating costs increased $869,000 in the 2018 thirteen-week period compared to the 2017 thirteen-week period and represented 5.2% of gross profit in the 2018 period compared to 5.8% of gross profit in the 2017 period. The increase in other operating costs compared to the prior year was primarily due to increased trailing equipment maintenance and rental costs, partially offset by a decreased provision for contractor bad debt. The decrease in other operating costs as a percentage of gross profit was caused by the effect of increased gross profit, partially offset by the increase in other operating costs.

Insurance and claims increased $892,000 in the 2018 thirteen-week period compared to the 2017 thirteen-week period and represented 11.0% of gross profit in the 2018 period compared to 12.8% of gross profit in the 2017 period. The increase in insurance and claims expense compared to the prior year was primarily due to increased net unfavorable development of prior years' claims in the 2018 period. Net unfavorable development of prior years' claims was $3,352,000 and $1,124,000 in the 2018 and 2017 thirteen-week periods, respectively. The decrease in insurance and claims as a percent of gross profit was caused by the effect of increased gross profit, partially offset by the increase in insurance and claims costs.

Selling, general and administrative costs increased $2,704,000 in the 2018 thirteen-week period compared to the 2017 thirteen-week period and represented 27.3% of gross profit in the 2018 period compared to 31.4% of gross profit in the 2017 period. The increase in selling, general and administrative costs compared to the prior year was attributable to increased stock-based compensation expense and increased wages and employee benefit costs, partially offset by a decreased provision for incentive compensation. Included in selling, general and administrative costs is stock-based compensation expense of $4,901,000 and $1,423,000 for the 2018 and 2017 thirteen-week periods, respectively, and incentive compensation expense of $5,161,000 and $6,848,000 for the 2018 and 2017 thirteen-week periods, respectively. The decrease in selling, general and administrative costs as a percent of gross profit was due primarily to the effect of increased gross profit, partially offset by the increase in selling, general and administrative costs.

Depreciation and amortization increased $624,000 in the 2018 thirteen-week period compared to the 2017 thirteen-week period and represented 6.3% of gross profit in the 2018 period compared to 7.2% of gross profit in the 2017 period. The increase in depreciation and amortization expenses was primarily due to an increased number of Company-owned trailers in response to increased customer demand for the Company's drop and hook services. The decrease in depreciation and amortization as a percentage of gross profit was primarily due to the effect of increased gross profit, partially offset by the increased depreciation costs.

Interest and debt expense in the 2018 thirteen-week period increased $159,000 compared to the 2017 thirteen-week period.

The provisions for income taxes for the 2018 and 2017 thirteen-week periods were based on estimated annual effective income tax rates of 24.5% and 37.8%, respectively, adjusted for discrete events, such as benefits resulting from stock-based awards. The effective income tax rates for the 2018 and 2017 thirteen-week periods were 22.4% and 29.2%, respectively. The increase in the effective tax rate as compared to the statutory federal income tax rate for the 2018 thirteen-week period was primarily attributable to state taxes, the elimination of the performance-based compensation exception under Section 162(m) included in the Tax Reform Act and the meals and entertainment exclusion. The effective income tax rate for the 2017 thirteen-week period was lower than the statutory federal income tax rate primarily as a result of federal domestic production activities deductions and research and development credits recognized as discrete items during the thirteen-week period ended September 30, 2017, partially offset by the effect of state taxes and the meals and entertainment exclusion. The effective income tax rate in the 2018 thirteen-week period of 22.4% was lower than the 24.5% estimated annual effective income tax rate primarily due to favorable adjustments recognized during the 2018 period relating to federal domestic production activities deductions and research and development credits and excess tax benefits recognized on stock-based compensation arrangements in the 2018 period. The effective income tax rate in the 2017 thirteen-week period of 29.2% was less than the 37.8% estimated annual effective income tax rate primarily as a result of federal domestic production activities deductions and research and development credits recognized as discrete items during the thirteen-week period ended September 30, 2017, excess tax benefits recognized on stock-based compensation arrangements resulting from the Company's adoption of ASU 2016-09 during 2017 and disqualifying dispositions of the Company's common stock by employees who obtained the stock through the exercises of incentive stock options in the 2017 period.

The net loss attributable to noncontrolling interest of $37,000 and $23,000 in the 2018 and 2017 thirteen-week periods, respectively, represents the noncontrolling investors' share of the net loss incurred by Landstar Metro and Landstar Servicios.

Net income attributable to the Company was $66,985,000, or $1.63 per common share ($1.63 per diluted share), in the 2018 thirteen-week period. Net income attributable to the Company was $42,443,000, or $1.01 per common share ($1.01 per diluted share), in the 2017 thirteen-week period. Net income attributable to the Company was favorably impacted by the enactment of the Tax Reform Act by approximately $11,472,000, or $0.28 per common share ($0.28 per diluted share), in the 2018 thirteen-week period, as a result of the permanent reduction of the U.S. corporate income tax rate from a maximum of 35% to a flat 21%. Net income attributable to the Company was favorably impacted by the result of federal domestic production activities deductions and research and development credits of approximately $5,200,000, or $0.12 per common share ($0.12 per diluted share), in the 2017 thirteen-week period. The company does not expect significant federal domestic productions activities deductions or research and development credits in future periods.

CAPITAL RESOURCES AND LIQUIDITY

Working capital and the ratio of current assets to current liabilities were $483,961,000 and 1.9 to 1, respectively, at September 29, 2018, compared with $412,560,000 and 1.8 to 1, respectively, at December 30, 2017. 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 $204,205,000 in the 2018 thirty-nine-week period compared with $132,264,000 in the 2017 thirty-nine-week period. The increase in cash flow provided by operating activities was primarily attributable to increased net income.

The Company declared and paid $0.465 per share, or $19,276,000 in the aggregate, in cash dividends during the thirty-nine-week period ended September 29, 2018 and, during such period, also paid $62,985,000 of dividends payable which were declared during fiscal year 2017 and included in current liabilities in the consolidated balance sheet at December 30, 2017. The Company declared and paid $0.28 per share, or $11,739,000 in the aggregate, in cash dividends during the thirty-nine-week period ended September 30, 2017. During the thirty-nine-week period ended September 29, 2018, the Company purchased 1,000,000 shares of its common stock at a total cost of $105,488,000. During the thirty-nine-week period ended September 30, 2017, the Company did not purchase any shares of its common stock. As of September 29, 2018, the Company may purchase up to an additional 2,000,000 shares of its common stock under its authorized stock purchase programs. Long-term debt, including current maturities, was $113,847,000 at September 29, 2018, $11,266,000 lower than at December 30, 2017.

Equity was $726,210,000, or 86% of total capitalization (defined as long-term debt including current maturities plus equity), at September 29, 2018, compared to $653,877,000, or 84% of total capitalization, at December 30, 2017. The increase in equity was primarily a result of net income, partially offset by purchases of shares of the Company's common stock and dividends declared by the Company in the 2018 thirty-nine-week period.

On June 2, 2016, Landstar entered into a credit agreement with a syndicate of banks and JPMorgan Chase Bank, N.A., as administrative agent (the "Credit Agreement"). The Credit Agreement, which matures on June 2, 2021, provides $250,000,000 of borrowing capacity in the form of a revolving credit facility, $50,000,000 of which may be utilized in the form of letter of credit guarantees. The Credit Agreement includes an "accordion" feature providing for a possible increase up to an aggregate borrowing amount of $400,000,000. The Company's prior credit agreement was terminated on June 2, 2016.

The Credit Agreement contains a number of covenants that limit, among other things, the incurrence of additional indebtedness. The Company is required to, among other things, maintain a minimum Fixed Charge Coverage Ratio, as defined in the Credit Agreement, and maintain a Leverage Ratio, as defined in the Credit Agreement, below a specified maximum. The Credit Agreement provides for a restriction on cash dividends and other distributions to stockholders on the Company's capital stock to the extent there is a default under the Credit Agreement. In addition, the Credit Agreement under certain circumstances limits the amount of such cash dividends and other distributions to stockholders to the extent that, after giving effect to any payment made to effect such cash dividend or other distribution, the Leverage Ratio would exceed 2.5 to 1 on a pro forma basis as of the end of the Company's most recently completed fiscal quarter. The Credit Agreement provides for an event of default in the event that, among other things, a person or group acquires 35% or more of the outstanding capital stock of the Company or obtains power to elect a majority of the Company's directors or the directors cease to consist of a majority of Continuing Directors, as defined in the Credit Agreement. None of these covenants are presently considered by management to be materially restrictive to the Company's operations, capital resources or liquidity. The Company is currently in compliance with all of the debt covenants under the Credit Agreement.

At September 29, 2018, the Company had no borrowings outstanding and $34,370,000 of letters of credit outstanding under the Credit Agreement. At September 29, 2018, there was $215,630,000 available for future borrowings under the Credit Agreement. In addition, the Company has $62,457,000 in letters of credit outstanding as collateral for insurance claims that are secured by investments totaling $69,397,000 at September 29, 2018. Investments, all of which are carried at fair value, include primarily investment-grade bonds having maturities of up to five years. Fair value of investments is based primarily on quoted market prices. See Notes to Consolidated Financial Statements included herein for further discussion on measurement of fair value of investments.

Historically, the Company has generated sufficient operating cash flow to meet its debt service requirements, fund continued growth, both organic and through acquisitions, complete or execute share purchases of its common stock under authorized share purchase programs, pay dividends and meet working capital needs. As an asset-light provider of integrated transportation management solutions, the Company's annual capital requirements for operating property are generally for trailing equipment and information technology hardware and software. In addition, a significant portion of the trailing equipment used by the Company is provided by third party capacity providers, thereby reducing the Company's capital requirements. During the 2018 thirty-nine-week period, the Company purchased $7,325,000 of operating property. Included in the $7,325,000 of purchases of operating property during the 2018 thirty-nine-week period was $2,162,000 related to the completion of its Laredo, Texas facility for which the Company accrued a corresponding liability in accounts payable as of December 30, 2017. Landstar anticipates acquiring either by purchase or lease financing during the remainder of fiscal year 2018 approximately $31,000,000 in operating property, consisting primarily of new trailing equipment to replace older trailing equipment and information technology equipment.

On September 20, 2017, the Company completed the Mexican Asset Acquisition, as described in footnote 2 to our unaudited consolidated financial statements. Cash consideration paid during the 2017 third quarter for the acquisition was $8,199,000. In connection with the Mexican Asset Acquisition, the Company assumed approximately $2,200,000 in liabilities consisting of additional contingent purchase price and associated indirect taxes, none of which remained outstanding as of September 29, 2018. As it relates to the non-controlling interests of Landstar Metro and Landstar Servicios, the Company has the option to purchase, and the minority equityholders have the option to sell, during the period commencing on the third anniversary of September 20, 2017, the closing date of the subscription by the minority equityholders (the "Closing Date"), and at any time after the fourth anniversary of the Closing Date, at fair value all but not less than all of the noncontrolling interests in Landstar Metro and Landstar Servicios. The noncontrolling interests are also subject to customary restrictions on transfer, including a right of first refusal in favor of the Company.

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

LEGAL MATTERS

The Company is involved in certain claims and pending litigation arising from the normal conduct of business. Many of these claims are covered in whole or in part by insurance. 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 claims and pending litigation and that the ultimate outcome, after provisions therefor, 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 September 29, 2018 is appropriate, a prolonged period of low or no economic growth may adversely affect the collection of these receivables. In addition, liquidity concerns and/or unanticipated bankruptcy proceedings at any of the Company's larger customers in which the Company is carrying a significant receivable could result in an increase in the provision for uncollectible receivables and have a significant impact on the Company's results of operations in a given quarter or year. However, it is not expected that an uncollectible accounts receivable resulting from an individual customer would have a significant impact on the Company's financial condition. Conversely, a more robust economic environment or the recovery of a previously provided for uncollectible receivable from an individual customer 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 applicable balance sheet date. The ultimate resolution of these claims may be for an amount greater or less than the amount estimated by management. The Company continually revises its existing claim estimates as new or revised information becomes available on the status of each claim. Historically, the Company has experienced both favorable and unfavorable development of prior years' claims estimates. During the 2018 and 2017 thirty-nine-week periods, insurance and claims costs included $11,596,000 and $1,327,000 of net unfavorable adjustments to prior years' claims estimates, respectively. The unfavorable development of prior years' claims in the 2018 thirty-nine-week period was primarily attributable to five claims. It is reasonably likely that the ultimate outcome of settling all outstanding claims will be more or less than the estimated claims reserve at September 29, 2018.

The Company utilizes certain income tax planning strategies to reduce its overall cost of income taxes. If the Company were to be subject to an audit, it is possible that certain strategies might be disallowed resulting in an increased liability for income taxes. Certain of these tax planning strategies result in a level of uncertainty as to whether the related tax positions taken by the Company would result in a recognizable benefit. The Company has provided for its estimated exposure attributable to such tax positions due to the corresponding level of uncertainty with respect to the amount of income tax benefit that may ultimately be realized. Management believes that the provision for liabilities resulting from the uncertainty in certain income tax positions 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 the uncertainty of such income tax positions are not appropriate.

Significant variances from management's estimates for the amount of uncollectible receivables, the ultimate resolution of self-insured claims and the provision for uncertainty in income tax positions could each 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 in excess of historic trends might have an adverse effect on the Company's results of operations in the future.

SEASONALITY

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

On June 2, 2016, Landstar entered into a credit agreement with a syndicate of banks and JPMorgan Chase Bank, N.A., as administrative agent (the "Credit Agreement"). The Credit Agreement, which matures on June 2, 2021, provides $250,000,000 of borrowing capacity in the form of a revolving credit facility, $50,000,000 of which may be utilized in the form of letter of credit guarantees. The Credit Agreement includes an "accordion" feature providing for a possible increase up to an aggregate borrowing amount of $400,000,000.

Depending upon the specific type of borrowing, borrowings under the Credit Agreement bear interest based on either (a) the prime rate, (b) the Federal Reserve Bank of New York rate plus 0.5% or (c) the London Interbank Offered Rate, plus 1.25%. As of September 29, 2018 and during the entire 2018 third quarter, the Company had no borrowings outstanding under the Credit Agreement.

Long-term investments, all of which are available-for-sale and are carried at fair value, include primarily investment-grade bonds having maturities of up to five years. Assuming that the long-term portion of investments remains at $71,489,000, the balance at September 29, 2018, 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 corporate bonds. Accordingly, any future interest rate risk on these short-term investments would not be material to the Company's operating results.

Assets and liabilities of the Company's Canadian and Mexican operations are translated from their functional currency to U.S. dollars using exchange rates in effect at the balance sheet date and revenue and expense accounts are translated at average monthly exchange rates during the period. Adjustments resulting from the translation process are included in accumulated other comprehensive income. Transactional gains and losses arising from receivable and payable balances, including intercompany balances, in the normal course of business that are denominated in a currency other than the functional currency of the operation are recorded in the statements of income when they occur. The assets held at the Company's Canadian and Mexican subsidiaries at September 29, 2018 were, as translated to U.S. dollars, approximately 3% of total consolidated assets. Accordingly, any translation gain or loss related to the Canadian and Mexican operations would not be material.

Item 4. Controls and Procedures

As of the end of the period covered by this quarterly report on Form 10-Q, 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 concluded that the Company's disclosure controls and procedures were effective as of September 29, 2018 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.

There were no significant changes in the Company's internal control over financial reporting during the Company's fiscal quarter ended September 29, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

In designing and evaluating disclosure controls and procedures, Company management recognizes that any disclosure 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.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in certain claims and pending litigation arising from the normal conduct of business. Many of these claims are covered in whole or in part by insurance. 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 claims and pending litigation and that the ultimate outcome, after provisions therefor, 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 1A. Risk Factors

For a discussion identifying additional risk factors and other important factors that could cause actual results to differ materially from those anticipated, see the discussions under Part I, Item 1A, “Risk Factors” in the Company’s Annual Report on Form 10-K for the fiscal year ended December 30, 2017 and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Notes to Consolidated Financial Statements” in this Quarterly Report on Form 10-Q.

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

Purchases of Equity Securities by the Company

The Company did not purchase any shares of its common stock during the period from July 1, 2018 to September 29, 2018, the Company’s third fiscal quarter.

On May 19, 2015, the Landstar System, Inc. Board of Directors authorized the Company to increase the number of shares of the Company’s common stock that the Company is authorized to purchase from time to time in the open market and in privately negotiated transactions under a previously announced purchase program to 3,000,000 shares. On December 11, 2017, the Landstar System, Inc. Board of Directors authorized the Company to purchase up to an additional 1,963,875 shares of the Company’s common stock from time to time in the open market and in privately negotiated transactions. As of September 29, 2018, the Company has authorization to purchase up to 2,000,000 shares of its common stock under these programs. No specific expiration date has been assigned to either the May 19, 2015 or December 11, 2017 authorizations.

Dividends

During the thirty-nine-week period ended September 29, 2018, Landstar paid dividends as follows:

Dividend Amount per Share	Declaration Date	Record Date	Payment Date
$1.50	December 11, 2017	January 12, 2018	January 26, 2018
$0.15	January 30, 2018	February 19, 2018	March 16, 2018
$0.15	April 24, 2018	May 10, 2018	June 1, 2018
$0.165	July 24, 2018	August 13, 2018	August 31, 2018

Dividends payable of $1.50 per share, or $62,985,000 in the aggregate, were included in current liabilities in the consolidated balance sheet at December 30, 2017.

On June 2, 2016, Landstar entered into a credit agreement with a syndicate of banks and JPMorgan Chase Bank, N.A., as administrative agent (the “Credit Agreement”). The Credit Agreement provides for a restriction on cash dividends and other distributions to stockholders on the Company’s capital stock in the event there is a default under the Credit Agreement. In addition, the Credit Agreement, under certain circumstances, limits the amount of such cash dividends and other distributions to stockholders to the extent that, after giving effect to any payment made to effect such cash dividend or other distribution, the Leverage Ratio, as defined in the Credit Agreement, would exceed 2.5 to 1 on a pro forma basis as of the end of the Company’s most recently completed fiscal quarter.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

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EXHIBIT INDEX

Registrant's Commission File No.: 0-21238

Exhibit No.	Description
(10)	Material Contracts
10.1*	First Amendment, dated as of November 1, 2018, to the Landstar System, Inc. Supplemental Executive Retirement Plan (as amended and restated as of January 1, 2015).
(31)	Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.1*	Chief Executive Officer certification, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Chief Financial Officer certification, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(32)	Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.1**	Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Chief Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Schema Document
101.CAL*	XBRL Calculation Linkbase Document
101.DEF*	XBRL Definition Linkbase Document
101.LAB*	XBRL Labels Linkbase Document
101.PRE*	XBRL Presentation Linkbase Document

* Filed herewith
** Furnished herewith

SIGNATURES

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

	LANDSTAR SYSTEM, INC.
Date: November 2, 2018	/s/ James B. Gattoni
	James B. Gattoni President and Chief Executive Officer
Date: November 2, 2018	/s/ L. Kevin Stout
	L. Kevin Stout Vice President and Chief Financial Officer

First Amendment to the
Landstar System, Inc. Supplemental Executive Retirement Plan
(as Amended and Restated effective January 1, 2015)

Landstar System Holdings, Inc. (the “Employer”) hereby makes this Amendment effective as stated herein.

WHEREAS, the Employer has previously established the Landstar System, Inc. Supplemental Executive Retirement Plan (the “Plan”) primarily for the benefit of a select group of management or highly compensated employees; and

WHEREAS, pursuant to Section 6.03(A) of the Plan, the Employer is authorized to amend the Plan; and

NOW, THEREFORE, pursuant to Section 6.03(A) of the Plan, the following amendment is hereby made and shall be effective as stated herein.

1. Effective as of the date this First Amendment is adopted, Item 1.17 of the Plan’s Adoption Agreement is hereby amended in its entirety and replaced with the following:

1.17 **Disability.** Disability means (*choose one of (a) or (b)*):

[ ] (a) **All impairments.** All impairments constituting Disability.

[X] (b) **Limited.** Only the following impairments constituting Disability: Disability means total disability as determined in accordance with the terms of the long-term disability plan of the Employer or any of its subsidiaries in which the Participant is eligible to participate, provided, that in the case of any award subject to Section 409A of the Code, Disability shall have the meaning set forth in Section 409A of the Code.

2. Effective as of January 1, 2019, Item 2.04 of the Plan’s Adoption Agreement is hereby amended in its entirety and replaced with the following:

2.04 **Matching Contributions.** During each Taxable Year (or other computation period, if applicable, pursuant to Item 2.04(h)), the Employer will contribute a Matching Contribution equal to (*choose (a) or (i) or choose one or more of (b) – (h)*):

[ ] (a) **None.** The Employer will not make Matching Contributions to the Plan.

[ ] (b) **Fixed match-flat.** An amount equal to ________% of each Participant’s Elective Deferrals for each Taxable Year.

[X] (c) **Fixed match-tiered.** An amount equal to the following percentages for each specified level of a Participant’s Elective Deferrals or Years of Service for each payroll period within the Taxable Year:

Elective Deferrals *	Matching Percentage
1% to 3% of base pay	100%
4% to 5% of base pay	50%
Reduced by matching contributions actually made to the Landstar System, Inc. 401(k) Savings Plan for such payroll period.	

* Elective Deferrals for this purpose include the sum of Elective Deferrals under this Plan and the Landstar System, Inc. 401(k) Savings Plan for such payroll period. There is no Matching Contribution on Elective Deferrals from bonus pay.

Note: Specify Elective Deferrals subject to match as a percentage of Compensation or a dollar amount.

Years of Service	Matching Percentage
____________________	______________
____________________	______________
____________________	______________
____________________	______________

[ ] (d) **No other caps.** The Employer in applying the Matching Contribution formula under 2.04(b) or (c) above will not limit the Participant's Elective Deferrals taken into account (except as indicated above) and otherwise will not limit the amount of the match.

[ ] (e) **Limit on Elective Deferrals matched.** The Employer in making Matching Contributions will disregard a Participant's Elective Deferrals exceeding ____________ (*specify percentage or dollar amount of Compensation*) for the Taxable Year.

[ ] (f) **Limit on matching amount.** The Matching Contribution for any Participant for a Taxable Year may not exceed: ____________________________ (*specify percentage or dollar amount of Compensation*).

[ ] (g) **Discretionary.** Such Matching Contributions as the Employer may elect, including zero.

[X] (h) (*Specify*): At its sole discretion, the Employer may elect to supplement a Participant's Matching Contributions with a "true-up" allocation so that a Participant's total Matching Contribution for a Taxable Year or portion of a Taxable Year, as determined by the Employer, equals the allocation of Matching Contributions that the Participant would have received had the computation period used to determine the Matching Contribution in Item 2.04(c) been the Taxable Year or, if applicable, the portion of a Taxable Year.

[ ] (i) **Frozen Matching Contributions.** The Employer will not make any Matching Contributions as of: ____________________________ ______________.

3. Effective as of January 1, 2019, Item 2.06 of the Plan's Adoption Agreement is hereby amended in its entirety and replaced with the following:

2.06 **Allocation Conditions.** To receive an allocation of Employer Contributions, a Participant must satisfy the following conditions during the Taxable Year (*choose (a) or choose one or both of (b) and (c)*):

[ ] (a) **No allocation conditions.**

[ ] (b) **Year of continuous service.** The Participant must remain in continuous employment with the Employer (or render contract service to the Employer) for the entire Taxable Year.

[X] (c) (*Specify*): A Participant must make Elective Deferrals to this Plan during a payroll period in order to be eligible to receive an allocation of Matching Contributions for the payroll period. With regard to any "true-up" Matching Contribution made pursuant to Item 2.04(h), a Participant must make Elective Deferrals to this Plan during the applicable computation period in order to be eligible to receive an allocation of a "true-up" Matching Contribution for the computation period.

4. Effective as of the date this First Amendment is adopted, Item 4.01 of the Plan's Adoption Agreement is hereby amended in its entirety and replaced with the following:

4.01 **Payment Events/Elections.** The Plan payment events are (*choose one or more of (a) through (i) as applicable*):

Note: The Employer must elect the Plan permitted payment events. The Employer may elect all of the 409A permitted events or limit the payment events, but the Employer must elect at least one payment event. If the Plan is a separation pay plan, the Employer must elect 4.01(a) and the Employer also may elect 4.01(b). If the Plan permits initial payment elections, change payment elections, or both, as to any or all of the Plan permitted payment events, the Employer should elect 4.01(d)(iv), (e)(ii) and (i) as applicable. The Employer also should elect under 4.02(A) and 4.02(B) as to who has election rights and to specify any limitations on such rights. If the Plan will not offer any initial or change payment elections, the Employer should not elect 4.01(d)(iv), (e)(ii) or (i). If the Plan will not offer any initial payment elections the Employer also should elect 4.02(A)(a). If the Plan will not offer change payment elections, the Employer also should elect 4.02(B)(a).

[X] (a) **Separation from Service.** Applies on and after the effective date of this restated Plan.

[X] (b) **Death.**

[X] (c) **Disability.**

[X] (d) **Specified Time.** The Plan permits payment to a Participant at a Specified Time (*choose one of (i)—(iv)*): (Applies on and after the effective date of this restated Plan)

[ ] (i) **Forfeiture Lapse**. At the time that the Deferred Compensation no longer is subject to a Substantial Risk of Forfeiture.

[ ] (ii) **Stated Age**. Upon attainment of age: __________ (*specify age*).

[X] (iii) (*Specify*): On: <u>At the Participant's election, one of the following: (1) a specified date; (2) one year after Separation from Service; or (3) the later of Separation from Service or a specified date.</u> (*e.g.*, January 1, 2015).

[X] (iv) **Election**. In accordance with a Participant or Employer election under 4.02(A) or (B).

Note: The Employer must approve any Participant payment election. See Section 4.06. Payment at a Specified Time will be a lump-sum payment.

[ ] (e) **Fixed Schedule.** The Plan Permits payment to a Participant in accordance with the following Fixed Schedule (*choose one of (i) or (ii)*):

[ ] (i) **Schedule**: ____.

[ ] (ii) **Election.** In accordance with a Participant or Employer election under 4.02(A) or (B).

Note: The Employer must approve any Participant payment election. See Section 4.06. Payment pursuant to a Fixed Schedule will be installments or an annuity commencing at a specific time.

[ ] (f) **Change in Control.** The Plan permits payment to a Participant based on a Change in Control.

[ ] (g) **Unforeseeable Emergency.** The Plan permits payment to a Participant who has an Unforeseeable Emergency.

[X] (h) *(Specify)*: Participant elections made for a Taxable Year beginning before the date this First Amendment is adopted will continue to apply to amounts contributed (and earnings on such contributions) for such Taxable Year. (*e.g.*, based on Unforeseeable Emergency, but only as the Elective Deferral Accounts).

Note: The Employer in (h) may modify any of (a)-(g) but only if such modifications are consistent with Code §409A.

[X] (i) **Election.** As to 4.01 (a), (b), (c), (f), (g) and/or (h), in accordance with a Participant or Employer election under 4.02(A) or (B).

Note: The Employer must approve any Participant payment election. See Section 4.06.

5. Effective as of the date this First Amendment is adopted, Item 4.02(b) of the Plan's Adoption Agreement is hereby amended in its entirety and replaced with the following:

(b) **Form.** The Plan will make payment in the form of (*choose one or more of (i) – (v)*):

[X] (i) **Lump-sum**. A single payment.

[X] (ii) **Installments.** In installments as follows: Substantially equal annual installments over a period not to exceed 10 years; subject to a $25,000 post-2004 minimum account balance.

[ ] (iii) **Annuity.** An immediate annuity contract.

[X] (iv) (*Specify*)*:* Payments made as a result of a Participant's Death or Disability shall only be permitted in the form of a single lump-sum payment.

[X] (v) **Election.** In accordance with a Participant or Employer election under Sections 4.02(A) or (B).

IN WITNESS WHEREOF, the Employer has caused this instrument to be executed as of the date specified below.

LANDSTAR SYSTEM HOLDINGS, INC.

Dated: __________

By: ______________________________

Its: ______________________________

SECTION 302 CERTIFICATION

I, James B. Gattoni, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 15d-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: November 2, 2018

/s/ James B. Gattoni

James B. Gattoni
President and Chief Executive Officer

EXHIBIT 31.2

SECTION 302 CERTIFICATION

I, L. Kevin Stout, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 15d-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: November 2, 2018

/s/ L. Kevin Stout
L. Kevin Stout
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 Quarterly Report of Landstar System, Inc. (the “Company”) on Form 10-Q for the period ending September 29, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James B. Gattoni, President and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: November 2, 2018

/s/ James B. Gattoni

James B. Gattoni
President and Chief Executive Officer

EXHIBIT 32.2

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

In connection with the Quarterly Report of Landstar System, Inc. (the “Company”) on Form 10-Q for the period ending September 29, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, L. Kevin Stout, Vice President and 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.

Date: November 2, 2018

/s/ L. Kevin Stout
L. Kevin Stout
Vice President and Chief Financial Officer