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 26, 2020

OR

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

For the transition period from __________ to __________

Commission File Number: 0-21238

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

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

13410 Sutton Park Drive South, Jacksonville, Florida
(Address of principal executive offices)

32224
(Zip Code)

(904) 398-9400
(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	LSTR	NASDAQ

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 (§232.405 of this chapter) 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, a smaller reporting company, or an emerging growth 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 19, 2020 was 38,383,779.

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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 26, 2020 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 26, 2020.

These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's 2019 Annual Report on Form 10-K.

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

	September 26, 2020	December 28, 2019
ASSETS		
Current Assets		
Cash and cash equivalents	$ 218,554	$ 319,515
Short-term investments	39,068	32,901
Trade accounts receivable, less allowance of $8,120 and $7,284	637,908	588,549
Other receivables, including advances to independent contractors, less allowance of $8,827 and $7,667	40,550	35,553
Other current assets	27,989	21,370
Total current assets	964,069	997,888
Operating property, less accumulated depreciation and amortization of $291,159 and $280,849	279,495	285,855
Goodwill	40,251	38,508
Other assets	108,390	105,460
Total assets	$ 1,392,205	$ 1,427,711
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Cash overdraft	$ 47,459	$ 53,878
Accounts payable	339,798	271,996
Current maturities of long-term debt	34,723	42,632
Insurance claims	46,019	44,532
Dividends payable	—	78,947
Contractor escrow	28,345	24,902
Other current liabilities	47,206	36,017
Total current liabilities	543,550	552,904
Long-term debt, excluding current maturities	52,570	70,212
Insurance claims	36,344	33,575
Deferred income taxes and other noncurrent liabilities	54,107	49,551
Shareholders' Equity		
Common stock, $0.01 par value, authorized 160,000,000 shares, issued 68,181,418 and 68,083,419 shares	682	681
Additional paid-in capital	226,878	226,123
Retained earnings	2,065,999	1,962,161
Cost of 29,797,639 and 28,609,926 shares of common stock in treasury	(1,581,961)	(1,465,284)
Accumulated other comprehensive loss	(5,964)	(2,212)
Total shareholders' equity	705,634	721,469
Total liabilities and shareholders' equity	$ 1,392,205	$ 1,427,711

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 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Revenue	$ 2,836,626	$ 3,089,698	$ 1,085,546	$ 1,011,658
Investment income	2,716	3,736	714	1,315
Costs and expenses:				
Purchased transportation	2,183,143	2,365,646	838,753	774,520
Commissions to agents	236,490	257,862	85,848	84,568
Other operating costs, net of gains/losses on asset sales/dispositions	23,035	28,531	7,361	10,431
Insurance and claims	66,563	55,248	21,855	23,969
Selling, general and administrative	124,779	120,717	38,851	38,152
Depreciation and amortization	34,212	33,045	11,240	10,695
Impairment of intangible and other assets	2,582	—	—	—
Total costs and expenses	2,670,804	2,861,049	1,003,908	942,335
Operating income	168,538	232,385	82,352	70,638
Interest and debt expense	2,936	2,278	1,008	764
Income before income taxes	165,602	230,107	81,344	69,874
Income taxes	38,567	52,452	19,458	16,619
Net income	127,035	177,655	61,886	53,255
Less: Net loss attributable to noncontrolling interest	—	(17)	—	—
Net income attributable to Landstar System, Inc. and subsidiary	$ 127,035	$ 177,672	$ 61,886	$ 53,255
Earnings per common share attributable to Landstar System, Inc. and subsidiary	$ 3.28	$ 4.45	$ 1.61	$ 1.35
Diluted earnings per share attributable to Landstar System, Inc. and subsidiary	$ 3.28	$ 4.45	$ 1.61	$ 1.35
Average number of shares outstanding:				
Earnings per common share	38,673,000	39,891,000	38,386,000	39,566,000
Diluted earnings per share	38,673,000	39,891,000	38,386,000	39,566,000
Dividends per common share	$ 0.580	$ 0.515	$ 0.210	$ 0.185

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 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net income attributable to Landstar System, Inc. and subsidiary	$ 127,035	$ 177,672	$ 61,886	$ 53,255
Other comprehensive (loss) income:				
Unrealized holding gains on available-for-sale investments, net of tax expense of $413, $577, $75 and $83	1,510	2,112	273	307
Foreign currency translation (losses) gains	(5,262)	42	908	(1,083)
Other comprehensive (loss) income	(3,752)	2,154	1,181	(776)
Comprehensive income attributable to Landstar System, Inc. and subsidiary	$ 123,283	$ 179,826	$ 63,067	$ 52,479

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 26, 2020	September 28, 2019
OPERATING ACTIVITIES		
Net income	$ 127,035	$ 177,655
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of operating property and intangible assets	34,212	33,045
Non-cash interest charges	222	190
Provisions for losses on trade and other accounts receivable	7,206	6,942
Gains on sales/disposals of operating property	(2,295)	(1,188)
Impairment of intangible and other assets	2,582	—
Deferred income taxes, net	4,758	7,151
Stock-based compensation	2,691	4,470
Changes in operating assets and liabilities:		
(Increase) decrease in trade and other accounts receivable	(62,492)	84,607
Increase in other assets	(13,492)	(21,129)
Increase (decrease) in accounts payable	66,815	(28,692)
Increase (decrease) in other liabilities	14,050	(16,076)
Increase in insurance claims	4,256	13,739
NET CASH PROVIDED BY OPERATING ACTIVITIES	185,548	260,714
INVESTING ACTIVITIES		
Net changes in other short-term investments	131	—
Sales and maturities of investments	18,795	56,467
Purchases of investments	(21,102)	(58,829)
Purchases of operating property	(25,426)	(15,199)
Proceeds from sales of operating property	6,623	3,621
Consideration paid for acquisition	(2,766)	—
NET CASH USED BY INVESTING ACTIVITIES	(23,745)	(13,940)
FINANCING ACTIVITIES		
Decrease in cash overdraft	(6,419)	(10,714)
Dividends paid	(101,442)	(20,589)
Payment for debt issue costs	(959)	—
Proceeds from exercises of stock options	676	629
Taxes paid in lieu of shares issued related to stock-based compensation plans	(3,326)	(8,449)
Purchases of common stock	(115,962)	(88,578)
Principal payments on finance lease obligations	(33,036)	(34,141)
Purchase of noncontrolling interest	—	(600)
NET CASH USED BY FINANCING ACTIVITIES	(260,468)	(162,442)
Effect of exchange rate changes on cash and cash equivalents	(2,296)	366
(Decrease) increase in cash and cash equivalents	(100,961)	84,698
Cash and cash equivalents at beginning of period	319,515	199,736
Cash and cash equivalents at end of period	$ 218,554	$ 284,434

See accompanying notes to consolidated financial statements.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Thirty Nine and Thirteen Weeks Ended September 26, 2020 and September 28, 2019
(In thousands, except share and per share amounts)
(Unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock at Cost		Accumulated Other Comprehensive (Loss) Income	Total
	Shares	Amount			Shares	Amount		
Balance December 28, 2019	68,083,419	$ 681	$226,123	$ 1,962,161	28,609,926	$(1,465,284)	$ (2,212)	$ 721,469
Adoption of accounting standard (Note 15)				(702)				(702)
Net income				40,895				40,895
Dividends ($0.185 per share)				(7,336)				(7,336)
Purchases of common stock					1,178,970	(115,962)		(115,962)
Issuance of stock related to stock-based compensation plans	84,063	1	(1,781)		8,078	(639)		(2,419)
Stock-based compensation			631					631
Other comprehensive loss							(9,481)	(9,481)
Balance March 28, 2020	68,167,482	$ 682	$224,973	$ 1,995,018	29,796,974	$(1,581,885)	$ (11,693)	$ 627,095
Net income				24,254				24,254
Dividends ($0.185 per share)				(7,099)				(7,099)
Issuance of stock related to stock-based compensation plans	9,305	—	(211)		354	(36)		(247)
Stock-based compensation			570					570
Other comprehensive income							4,548	4,548
Balance June 27, 2020	68,176,787	$ 682	$225,332	$ 2,012,173	29,797,328	$(1,581,921)	$ (7,145)	$ 649,121
Net income				61,886				61,886
Dividends ($0.21 per share)				(8,060)				(8,060)
Issuance of stock related to stock-based compensation plans	4,631	—	56		311	(40)		16
Stock-based compensation			1,490					1,490
Other comprehensive income							1,181	1,181
Balance September 26, 2020	68,181,418	$ 682	$226,878	$ 2,065,999	29,797,639	$(1,581,961)	$ (5,964)	$ 705,634

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	Landstar System, Inc. and Subsidiary Shareholders								
	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock at Cost Shares	Treasury Stock at Cost Amount	Accumulated Other Comprehensive (Loss) Income	Non-controlling Interests	Total
Balance December 29, 2018	67,870,962	$ 679	$226,852	$ 1,841,279	27,755,001	$(1,376,111)	$ (5,875)	$ 2,309	$ 689,133
Net income (loss)				63,317				(17)	63,300
Dividends ($0.165 per share)				(6,629)					(6,629)
Purchases of common stock					124,481	(12,977)			(12,977)
Purchase of noncontrolling interests			1,842					(2,442)	(600)
Issuance of stock related to stock-based compensation plans	176,079	1	(7,081)		5,199	(524)			(7,604)
Stock-based compensation			1,938						1,938
Other comprehensive income							1,549	150	1,699
Balance March 30, 2019	68,047,041	$ 680	$223,551	$ 1,897,967	27,884,681	$(1,389,612)	$ (4,326)	$ —	$ 728,260
Net income				61,100					61,100
Dividends ($0.165 per share)				(6,628)					(6,628)
Purchases of common stock					549,929	(56,752)			(56,752)
Issuance of stock related to stock-based compensation plans	17,836	1	(431)		572	(61)			(491)
Stock-based compensation			1,430						1,430
Other comprehensive income							1,381		1,381
Balance June 29, 2019	68,064,877	$ 681	$224,550	$ 1,952,439	28,435,182	$(1,446,425)	$ (2,945)	$ —	$ 728,300
Net income				53,255					53,255
Dividends ($0.185 per share)				(7,332)					(7,332)
Purchases of common stock					174,658	(18,849)			(18,849)
Issuance of stock related to stock-based compensation plans	7,957	—	285		86	(10)			275
Stock-based compensation			1,102						1,102
Other comprehensive loss							(776)		(776)
Balance September 28, 2019	68,072,834	$ 681	$225,937	$ 1,998,362	28,609,926	$(1,465,284)	$ (3,721)	$ —	$ 755,975

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.

(1) Significant Accounting Policies

Revenue from Contracts with Customers – Disaggregation of Revenue

The following table summarizes the percentage of consolidated revenue generated by mode of transportation and the dollar amount included in truck transportation revenue generated by BCO Independent Contractors and Truck Brokerage Carriers hauled via equipment type during the thirty-nine-week and thirteen-week periods ended September 26, 2020 and September 28, 2019 (dollars in thousands):

	Thirty Nine Weeks Ended		Thirteen Weeks Ended	
Mode	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
BCO Independent Contractors – Truck	46%	45%	46%	46%
Brokerage Carriers - Truck	46%	47%	46%	46%
Rail intermodal	3%	3%	3%	3%
Ocean and air cargo carriers	3%	3%	3%	3%
Equipment Type - Truck				
Van equipment	$ 1,694,916	$ 1,799,421	$ 666,582	$ 575,042
Unsided/platform equipment	$ 848,187	$ 980,615	$ 314,471	$ 331,787
Less-than-truckload	$ 70,984	$ 73,475	$ 25,125	$ 25,367

(2) Acquired Business

On May 6, 2020, Landstar System Holdings, Inc. formed a new subsidiary that was subsequently renamed Landstar Blue, LLC ("Landstar Blue"). Landstar Blue arranges truckload brokerage services while helping the Company to develop and test digital technologies and processes for the benefit of all Landstar independent commission sales agents. On June 15, 2020, Landstar Blue completed the acquisition of an independent agent of the Company whose business focused on truckload brokerage services. Cash consideration paid for the acquisition was approximately $2,766,000. In addition, the Company assumed approximately $200,000 in liabilities consisting of additional contingent purchase price. The resulting goodwill arising from the acquisition was approximately $2,871,000. With respect to this goodwill, 100% is expected to be deductible by the Company for U.S. income tax purposes. Pro forma financial information for prior periods is not presented as the Company does not believe the acquisition to be material to the Company's consolidated results. The results of operations for Landstar Blue are presented as part of the Company's transportations logistics segment. Transaction costs for the acquisition were insignificant.

(3) Share-based Payment Arrangements

As of September 26, 2020, 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 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Total cost of the Plans during the period	$ 2,691	$ 4,470	$ 1,490	$ 1,102
Amount of related income tax benefit recognized during the period	(1,618)	(4,125)	(483)	(391)
Net cost of the Plans during the period	$ 1,073	$ 345	$ 1,007	$ 711

Included in income tax benefits recognized in the thirty-nine-week periods ended September 26, 2020 and September 28, 2019 were excess tax benefits from stock-based awards of $927,000 and $2,968,000, respectively.

As of September 26, 2020, there were 60,586 shares of the Company's common stock reserved for issuance under the 2013 DSCP and 3,675,862 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 28, 2019	198,875	$ 84.37
Granted	59,719	$ 102.62
Shares earned in excess of target [1]	11,648	$ 77.00
Vested shares, including shares earned in excess of target	(76,290)	$ 73.44
Forfeited	(10,987)	$ 100.55
Outstanding at September 26, 2020	182,965	$ 93.44

(1) Represents additional shares earned under the February 2, 2017 RSU awards as 2019 financial results exceeded target performance level.

During the thirty-nine-week period ended September 26, 2020, the Company granted RSUs with a performance condition. Outstanding RSUs at both December 28, 2019 and September 26, 2020 include RSUs with a performance condition and RSUs with a market condition, as further described below and in the Company's 2019 Annual Report on Form 10-K.

RSUs with a performance condition granted on January 31, 2020 may vest on January 31 of 2023, 2024 and 2025 based on growth in operating income and pre-tax income per diluted share from continuing operations attributable to Landstar System, Inc. and subsidiary as compared to the results from the 2019 fiscal year.

The Company recognized approximately $415,000 and $2,477,000 of share-based compensation expense related to RSU awards in the thirty-nine-week periods ended September 26, 2020 and September 28, 2019, respectively. As of September 26, 2020, there was a maximum of $34.6 million of total unrecognized compensation cost related to RSU awards granted under the Plans with an expected average remaining life of approximately 3.1 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 28, 2019	44,467	$ 51.24		
Exercised	(23,717)	$ 49.31		
Options outstanding at September 26, 2020	20,750	$ 53.44	1.9	$ 1,499
Options exercisable at September 26, 2020	20,750	$ 53.44	1.9	$ 1,499

The total intrinsic value of stock options exercised during the thirty-nine-week periods ended September 26, 2020 and September 28, 2019 was $1,599,000 and $1,877,000, respectively.

As of September 26, 2020, there was no unrecognized compensation cost related to 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 28, 2019	64,808	$ 98.24
Granted	26,604	$ 111.88
Vested	(28,621)	$ 98.83
Forfeited	(2,351)	$ 106.34
Non-vested at September 26, 2020	60,440	$ 103.65

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 or fifth 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 does 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 26, 2020, there was $4,074,000 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 1.9 years.

(4) Income Taxes

The provisions for income taxes for the 2020 and 2019 thirty-nine-week periods were each based on an estimated annual effective income tax rate of 24.2%, adjusted for discrete events, such as benefits resulting from stock-based awards. The effective income tax rate for the 2020 thirty-nine-week period was 23.3%, which was higher than the statutory federal income tax rate of 21% primarily attributable to state taxes and the meals and entertainment exclusion, partially offset by excess tax benefits realized on stock-based awards and state tax refunds. The provision for income taxes for the 2020 thirty-nine-week period was favorably impacted by $927,000 of excess tax benefits from stock-based awards. The effective income tax rate for the 2019 thirty-nine-week period was 22.8%, which was higher than the statutory federal income tax rate of 21% primarily attributable to state taxes and the meals and entertainment exclusion, partially offset by excess tax benefits realized on stock-based awards. The provision for income taxes for the 2019 thirty-nine-week period was favorably impacted by $2,968,000 of excess tax benefits from stock-based awards.

(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. During the 2020 and 2019 thirty-nine-week and thirteen-week periods, in reference to the determination of diluted earnings per share, the future compensation cost attributable to outstanding shares of non-vested restricted stock exceeded the impact of incremental shares that would have been outstanding upon the assumed exercise of all dilutive stock options.

For each of the thirty-nine-week periods ended September 26, 2020 and September 28, 2019, 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 2020 thirty-nine-week period, Landstar paid income taxes and interest of $28,761,000 and $3,087,000, respectively. During the 2019 thirty-nine-week period, Landstar paid income taxes and interest of $54,877,000 and $3,302,000, respectively. Landstar acquired operating property by entering into finance leases in the amounts of $7,485,000 and $6,481,000 in the 2020 and 2019 thirty-nine-week periods, respectively. In addition, during the 2020 thirty-nine-week period, Landstar acquired $1,068,000 of operating property for which the Company accrued a corresponding liability in accounts payable as of September 26, 2020. Capital expenditures 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 26, 2020 and September 28, 2019 (in thousands):

	Thirty Nine Weeks Ended					
	September 26, 2020			September 28, 2019		
	Transportation Logistics	Insurance	Total	Transportation Logistics	Insurance	Total
External revenue	$ 2,795,056	$ 41,570	$ 2,836,626	$ 3,047,329	$ 42,369	$ 3,089,698
Internal revenue		44,912	44,912		36,978	36,978
Investment income		2,716	2,716		3,736	3,736
Operating income	148,270	20,268	168,538	200,767	31,618	232,385
Expenditures on long-lived assets	25,426		25,426	15,199		15,199
Goodwill	40,251		40,251	38,232		38,232

	Thirteen Weeks Ended					
	September 26, 2020			September 28, 2019		
	Transportation Logistics	Insurance	Total	Transportation Logistics	Insurance	Total
External revenue	$ 1,071,374	$ 14,172	$ 1,085,546	$ 997,552	$ 14,106	$ 1,011,658
Internal revenue		9,078	9,078		9,611	9,611
Investment income		714	714		1,315	1,315
Operating income	71,752	10,600	82,352	64,848	5,790	70,638
Expenditures on long-lived assets	7,750		7,750	5,975		5,975

In the thirty-nine-week periods ended September 26, 2020 and September 28, 2019, 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 (loss), net of related income taxes, as of and for the thirty-nine-week period ended September 26, 2020 (in thousands):

	Unrealized Holding Gains on Available-for-Sale Securities	Foreign Currency Translation	Total
Balance as of December 28, 2019	$ 1,120	$ (3,332)	$ (2,212)
Other comprehensive gain (loss)	1,510	(5,262)	(3,752)
Balance as of September 26, 2020	$ 2,630	$ (8,594)	$ (5,964)

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 26, 2020.

(9) Investments

Investments include primarily investment-grade corporate bonds and U.S. Treasury obligations 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 an allowance for credit loss is necessary. 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 a result of credit-related factors, are to be included as a charge in the statement of income, while unrealized losses considered to be a result of noncredit-related factors are to be included as a component of shareholders' 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 U.S. Treasury obligations and money market investments and Level 2 inputs related to investment-grade corporate bonds, asset-backed securities and direct obligations of government agencies. Unrealized gains, net of unrealized losses, on the investments in the bond portfolio were $3,350,000 and $1,427,000 at September 26, 2020 and December 28, 2019, respectively.

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The amortized cost and fair values of available-for-sale investments are as follows at September 26, 2020 and December 28, 2019 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 26, 2020				
Money market investments	$ 14,456	$ —	$ —	$ 14,456
Asset-backed securities	569	—	38	531
Corporate bonds and direct obligations of government agencies	101,090	3,540	289	104,341
U.S. Treasury obligations	2,337	137	—	2,474
Total	$ 118,452	$ 3,677	$ 327	$ 121,802
December 28, 2019				
Money market investments	$ 15,691	$ —	$ —	$ 15,691
Asset-backed securities	572	—	1	571
Corporate bonds and direct obligations of government agencies	97,583	1,465	44	99,004
U.S. Treasury obligations	2,335	12	5	2,342
Total	$ 116,181	$ 1,477	$ 50	$ 117,608

For those available-for-sale investments with unrealized losses at September 26, 2020 and December 28, 2019, 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 26, 2020						
Asset-backed securities	$ 531	$ 38	$ —	$ —	$ 531	$ 38
Corporate bonds and direct obligations of government agencies	4,277	289	—	—	4,277	289
Total	$ 4,808	$ 327	$ —	$ —	$ 4,808	$ 327
December 28, 2019						
Asset-backed securities	$ 571	$ 1	$ —	$ —	$ 571	$ 1
Corporate bonds and direct obligations of government agencies	8,728	41	4,260	3	12,988	44
U.S. Treasury obligations	1,226	5	—	—	1,226	5
Total	$ 10,525	$ 47	$ 4,260	$ 3	$ 14,785	$ 50

The Company expects to recover, through collection of all of the contractual cash flows of each security, 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, no losses have been recognized in the Company’s consolidated statements of income.

(10) Leases

Landstar’s noncancelable leases are primarily comprised of finance leases for the acquisition of new trailing equipment. Each finance lease for the acquisition of trailing equipment is a five year lease with a $1 purchase option for the applicable equipment at lease expiration. Substantially all of Landstar’s operating lease right-of-use assets and operating lease liabilities represent leases for facilities maintained in support of the Company’s network of BCO Independent Contractors and office space used to conduct Landstar’s business. These leases do not have significant rent escalation holidays, concessions, leasehold improvement incentives or other build-out clauses. Further, the leases do not contain contingent rent provisions. Landstar also leases certain trailing equipment to supplement the Company-owned trailer fleet under “month-to-month” lease terms, which are not required to be recorded on the balance sheet due to the less than twelve month lease term exemption. Sublease income is primarily comprised of weekly trailing equipment rentals to our BCO Independent Contractors.

Most of Landstar’s operating leases include one or more options to renew. The exercise of lease renewal options is typically at Landstar’s sole discretion, and, as such, the majority of renewals to extend the lease terms are not included in the right-of-use assets and lease liabilities as they are not reasonably certain of exercise. Landstar regularly evaluates the renewal options, and when they are reasonably certain of exercise, Landstar includes the renewal period in the lease term.

As most of Landstar’s operating leases do not provide an implicit rate, Landstar utilized its incremental borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments. Landstar has a centrally managed treasury function; therefore, based on the applicable lease terms and the current economic environment, we apply a portfolio approach for determining the incremental borrowing rate.

The components of lease cost for finance leases and operating leases for the thirty nine weeks ended September 26, 2020 were (in thousands):

Finance leases:	
Amortization of right-of-use assets	$ 18,534
Interest on lease liability	2,447
Total finance lease cost	20,981
Operating leases:	
Lease cost	2,300
Variable lease cost	—
Sublease income	(3,513)
Total net operating lease income	(1,213)
Total net lease cost	$ 19,768

A summary of the lease classification on our consolidated balance sheet as of September 26, 2020 is as follows (in thousands):
Assets:

Operating lease right-of-use assets	Other assets	$ 2,391
Finance lease assets	Operating property, less accumulated depreciation and amortization	140,064
Total lease assets		$142,455

Liabilities:

The following table reconciles the undiscounted cash flows for the finance and operating leases to the finance and operating lease liabilities recorded on the balance sheet at September 26, 2020 (in thousands):

	Finance Leases	Operating Leases
2020 Remainder	$ 11,269	$ 166
2021	33,830	651
2022	24,358	653
2023	16,681	523
2024	6,742	454
Thereafter	793	154
Total future minimum lease payments	93,673	2,601
Less amount representing interest (2.1% to 4.4%)	6,380	210
Present value of minimum lease payments	$ 87,293	$ 2,391
Current maturities of long-term debt	34,723	
Long-term debt, excluding current maturities	52,570	
Other current liabilities		640
Deferred income taxes and other noncurrent liabilities		1,751

The weighted average remaining lease term and the weighted average discount rate for finance and operating leases as of September 26, 2020 were:

	Finance Leases	Operating Leases
Weighted average remaining lease term (years)	3.0	4.2
Weighted average discount rate	3.2%	4.0%

(11) Debt

Other than the finance lease obligations as presented on the consolidated balance sheets, the Company had no outstanding debt as of September 26, 2020 and December 28, 2019.

On June 2, 2016, Landstar entered into a credit agreement with a syndicate of banks and JPMorgan Chase Bank, N.A., as administrative agent, which was amended and restated on August 18, 2020 to extend the maturity date to August 2023 and amend certain other terms (as so amended and restated, the "Credit Agreement"). The Credit Agreement provides $250,000,000 of borrowing capacity in the form of a revolving credit facility, $35,000,000 of which may be utilized in the form of letters of credit. The Credit Agreement includes an "accordion" feature providing for a possible increase up to an aggregate borrowing capacity of $400,000,000.

The revolving credit loans under the Credit Agreement, at the option of Landstar, bear interest at (i) the Eurocurrency rate plus an applicable margin ranging from 1.25% to 2.00%, or (ii) an alternate base rate plus an applicable margin ranging from 0.25% to 1.00%, in each case with the applicable margin determined based upon the Company's Leverage Ratio, as defined in the Credit Agreement, at the end of the most recent applicable fiscal quarter for which financial statements have been delivered. The revolving credit facility bears a commitment fee, payable quarterly in arrears, of 0.25% to 0.35%, based on the Company's Leverage Ratio at the end of the most recent applicable fiscal quarter for which financial statements have been delivered. As of September 26, 2020 and December 28, 2019, the Company had no borrowings outstanding under the Credit Agreement.

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.

The interest rates on borrowings under the revolving credit facility are typically tied to short-term interest rates that adjust monthly and, as such, carrying value approximates fair value. Interest rates on borrowings under finance leases approximate the interest rates that would currently be available to the Company under similar terms and, as such, carrying value approximates fair value.

(12) Commitments and Contingencies

Short-term investments include $39,068,000 in current maturities of investments held by the Company's insurance segment at September 26, 2020. The non-current portion of the bond portfolio of $82,734,000 is included in other assets. The short-term investments, together with $26,969,000 of non-current investments, provide collateral for the $59,434,000 of letters of credit issued to guarantee payment of insurance claims. As of September 26, 2020, Landstar also had $33,618,000 of additional letters of credit outstanding under the Company's Credit Agreement.

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.

(13) 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 set forth in the consolidated statements of income for the thirty-nine-week and thirteen-week periods ended September 26, 2020 and September 28, 2019 (in thousands, except per share amounts):

	Thirty Nine Weeks Ended		Thirteen Weeks Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Operating income	$ 6,162	$ 9,497	$ 1,123	$ 6,597
Net income attributable to Landstar System, Inc. and subsidiary	$ 4,671	$ 7,199	$ 851	$ 5,001
Earnings per share attributable to Landstar System, Inc. and subsidiary	$ 0.12	$ 0.18	$ 0.02	$ 0.13
Diluted earnings per share attributable to Landstar System, Inc. and subsidiary	$ 0.12	$ 0.18	$ 0.02	$ 0.13

The unfavorable development of prior years' claims in the thirty-nine-week period ended September 26, 2020 and the thirty-nine-week period ended September 28, 2019 were each attributable to several claims as well as actuarially determined adjustments to prior year commercial trucking loss estimates.

(14) Impairment of Intangible and Other Assets

During the 2020 second fiscal quarter, the Company recorded a non-cash impairment charge of $2,582,000 in respect of certain assets, primarily customer contract and related customer relationship intangible assets, acquired on September 20, 2017, along with substantially all of the other assets of the asset-light transportation logistics business of Fletes Avella, S.A. de C.V. ("Fletes Avella"). As previously disclosed in Item 1A. Risk Factors in the Company's Form 10-Q for the 2020 first quarter, negative macroeconomic trends in Mexico have caused significant disruptions in the Mexican economy. Accordingly, management performed impairment tests of the carrying values of certain assets that primarily relate to intra-Mexico business acquired as a part of the Fletes Avella acquisition. The impairment tests resulted in an impairment charge of $2,582,000, as the negative macroeconomic trends in Mexico have caused current financial projections relating to these intangible assets to be substantially below those originally anticipated at the acquisition date. There was no corresponding goodwill impairment charge recorded as the fair value of the Company's Mexico and cross-border reporting unit continues to significantly exceed its carrying value as of September 26, 2020.

(15) Recent Accounting Pronouncements

Adoption of New Accounting Standards

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. The Company adopted ASU 2016-13 on December 29, 2019, under the modified retrospective transition method resulting in a $702,000 cumulative adjustment to retained earnings.

(16) Subsequent Event

In October 2020, the Company announced a new initiative in support of its BCO Independent Contractor network relating to its regional field operations centers located in the United States and Canada. It is the intent of the Company that this network of field operations centers will further support the Company's efforts in recruiting and retaining BCO Independent Contractors. In connection with this initiative, the Company expects to record a provision of approximately $15,000,000 during the 2020 fourth fiscal quarter relating to anticipated buyouts of certain incentive commission arrangements with several of its independent commission sales agents due to the Company's discontinuation of a BCO recruitment and retention program that involved those agents.

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 28, 2019 and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 2019 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: the impact of the coronavirus (COVID-19) pandemic; 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 2019 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 comprehensive third party logistics solutions to meet 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 over 1,200 independent commission sales agents and approximately 73,000 third party capacity providers, primarily truck capacity providers, linked together by a series of digital technologies 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 series of digital technologies, Landstar operates an integrated transportation management solutions business primarily throughout North America with revenue of $4.1 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 parts and assemblies, 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 26, 2020, revenue generated by BCO Independent Contractors, Truck Brokerage Carriers and railroads represented approximately 46%, 46% and 3%, respectively, of the Company's consolidated revenue. Collectively, revenue generated by air and ocean cargo carriers represented approximately 3% of the Company's consolidated revenue in the thirty-nine-week period ended September 26, 2020.

Landstar Metro, S.A.P.I. de C.V. ("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 Metro Servicios S.A.P.I. de C.V. ("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. On January 29, 2019, Landstar acquired all of the remaining equity interests in Landstar Metro and Landstar Servicios held by their former minority equityholders. Accordingly, as of such date, Landstar Metro and Landstar Servicios each became wholly owned subsidiaries of the Company. Revenue from Landstar Metro represented less than 1% of the Company's transportation logistics segment revenue in the thirty-nine-week period ended September 26, 2020.

On May 6, 2020, Landstar System Holdings, Inc. formed a new subsidiary that was subsequently renamed Landstar Blue, LLC (“Landstar Blue”). Landstar Blue arranges truckload brokerage services while helping the Company to develop and test digital technologies and processes for the benefit of all Landstar independent commission sales agents. The results of operations from Landstar Blue are presented as part of the Company’s transportations logistics segment. The Company expects that Landstar Blue will not have a material effect on its revenues and earnings for the remainder of fiscal year 2020. Revenue from Landstar Blue represented less than 1% of the Company’s transportation logistics segment revenue in the thirty-nine-week period ended September 26, 2020.

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 26, 2020.

Changes in Financial Condition and Results of Operations

Management believes the Company’s success principally depends on its ability to generate freight revenue through its network of independent commission sales agents and to safely and efficiently deliver 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 digital technologies they may use to grow revenue and increase efficiencies at their businesses. During the 2019 fiscal year, 555 independent commission sales agents generated $1 million or more of Landstar revenue and thus qualified as Million Dollar Agents. During the 2019 fiscal year, the average revenue generated by a Million Dollar Agent was $6,880,000 and revenue generated by Million Dollar Agents in the aggregate represented 93% 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 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Revenue generated through (in thousands):				
Truck transportation				
Truckload:				
Van equipment	$ 1,694,916	$ 1,799,421	$ 666,582	$ 575,042
Unsided/platform equipment	848,187	980,615	314,471	331,787
Less-than-truckload	70,984	73,475	25,125	25,367
Total truck transportation	2,614,087	2,853,511	1,006,178	932,196
Rail intermodal	81,747	87,555	30,432	28,970
Ocean and air cargo carriers	89,002	89,258	31,752	30,365
Other (1)	51,790	59,374	17,184	20,127
	$ 2,836,626	$ 3,089,698	$ 1,085,546	$ 1,011,658
Revenue on loads hauled via BCO Independent Contractors included in total truck transportation	$ 1,312,003	$ 1,390,135	$ 502,224	$ 466,207
Number of loads:				
Truck transportation				
Truckload:				
Van equipment	946,117	1,014,572	345,598	327,671
Unsided/platform equipment	356,670	391,112	125,548	130,192
Less-than-truckload	119,533	115,616	41,454	41,067
Total truck transportation	1,422,320	1,521,300	512,600	498,930
Rail intermodal	33,410	35,370	11,900	11,490
Ocean and air cargo carriers	22,720	22,150	8,290	7,340
	1,478,450	1,578,820	532,790	517,760
Loads hauled via BCO Independent Contractors included in total truck transportation	693,860	722,870	250,030	239,210
Revenue per load:				
Truck transportation				
Truckload:				
Van equipment	$ 1,791	$ 1,774	$ 1,929	$ 1,755
Unsided/platform equipment	2,378	2,507	2,505	2,548
Less-than-truckload	594	636	606	618
Total truck transportation	1,838	1,876	1,963	1,868
Rail intermodal	2,447	2,475	2,557	2,521
Ocean and air cargo carriers	3,917	4,030	3,830	4,137
Revenue per load on loads hauled via BCO Independent Contractors	$ 1,891	$ 1,923	$ 2,009	$ 1,949
Revenue by capacity type (as a % of total revenue):				
Truck capacity providers:				
BCO Independent Contractors	46%	45%	46%	46%
Truck Brokerage Carriers	46%	47%	46%	46%
Rail intermodal	3%	3%	3%	3%
Ocean and air cargo carriers	3%	3%	3%	3%
Other	2%	2%	2%	2%

(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 26, 2020	September 28, 2019
BCO Independent Contractors	9,866	9,738
Truck Brokerage Carriers:		
Approved and active [(1)]	41,246	39,963
Other approved	22,181	16,984
	63,427	56,947
Total available truck capacity providers	73,293	66,685
Trucks provided by BCO Independent Contractors	10,571	10,441

(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 a contractually agreed-upon fixed rate per load. 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 from shipments hauled 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 freight transit period as the performance obligation to the customer 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 freight transit period as the performance obligation to the customer 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 from shipments hauled 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 shipments. Approximately 52% of the Company's consolidated revenue in the thirty-nine-week period ended September 26, 2020 was generated under contracts that have a fixed gross profit margin while 48% 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 periods prior to May 1, 2019, Landstar retains liability for commercial trucking claims up to $5,000,000 per occurrence and maintains various third party insurance arrangements for liabilities in excess of its $5,000,000 self-insured retention.

Effective May 1, 2019, the Company entered into a new three year commercial auto liability insurance arrangement for losses incurred between $5,000,000 and $10,000,000 (the "Initial Excess Policy") with a third party insurance company. For commercial trucking claims incurred on or after May 1, 2019 through April 30, 2022, the Initial Excess Policy provides for a limit for a single loss of $5,000,000, with an aggregate limit of $15,000,000 for each policy year, an aggregate limit of $20,000,000 for the thirty-six month term ended April 30, 2022, and options to increase such aggregate limits for pre-established amounts of additional premium. If aggregate losses under the Initial Excess Policy exceed either the annual aggregate limit or the aggregate limit for the three year period ending April 30, 2022, and the Company did not elect to increase such aggregate limits for a pre-established amount of additional premium, Landstar would retain liability of up to $10,000,000 per occurrence, inclusive of its $5,000,000 self-insured retention for commercial trucking claims during the remainder of the applicable policy year(s). Moreover, in the event paid aggregate losses under the Initial Excess Policy during the three year period ending April 30, 2022 exceed a pre-determined threshold amount, the Initial Excess Policy would require the Company to pay additional premium up to a maximum amount of $3,500,000. As a result of the Company's aggregate loss experience since it entered into the Initial Excess Policy, the Company believes it is probable it will be required to pay additional premium under the Initial Excess Policy, which amount of additional premium was provided for in insurance and claims costs for the Company's 2020 fiscal first quarter.

The Company also maintains third party insurance arrangements providing excess coverage for commercial trucking liabilities in excess of $10,000,000. These third party arrangements provide coverage on a per occurrence or aggregated basis. Due to the increasing cost of commercial auto liability claims throughout the United States in recent years, the availability of such excess coverage has significantly decreased and the pricing associated with such excess coverage, to the extent available, has significantly increased. Effective May 1, 2020 with respect to the annual policy year ending April 30, 2021, the Company experienced an increase of approximately $14 million, or over 170%, in the premiums charged by third party insurance companies to the Company for excess coverage for commercial trucking liabilities in excess of $10,000,000. No assurances can be given that the availability of excess coverage for commercial trucking claims will not continue to deteriorate, that the pricing associated with such excess coverage, to the extent available, will not continue to increase, nor that insurance coverage from third party insurers for excess coverage of commercial trucking claims will even be available on commercially reasonable terms at certain levels.

Further, the Company 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. In addition, under reinsurance arrangements by Signature of certain risks of the Company's BCO Independent Contractors, the Company retains liability of up to $500,000, $1,000,000 or $2,000,000 with respect to certain occupational accident claims and up to $750,000 with respect to certain workers' compensation claims. 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 26, 2020, employee compensation and benefits accounted for approximately sixty-six 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 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Revenue	100.0%	100.0%	100.0%	100.0%
Purchased transportation	77.0	76.6	77.3	76.6
Commissions to agents	8.3	8.3	7.9	8.4
Gross profit margin	14.7%	15.1%	14.8%	15.1%
Gross profit	100.0%	100.0%	100.0%	100.0%
Investment income	0.7	0.8	0.4	0.9
Indirect costs and expenses:				
Other operating costs, net of gains/losses on asset sales/dispositions	5.5	6.1	4.6	6.8
Insurance and claims	16.0	11.9	13.6	15.7
Selling, general and administrative	29.9	25.9	24.1	25.0
Depreciation and amortization	8.2	7.1	7.0	7.0
Impairment of intangible and other assets	0.6	—	—	—
Total costs and expenses	60.2	51.0	49.3	54.6
Operating margin	40.4%	49.8%	51.2%	46.3%

Management believes that a discussion of indirect costs as a percentage of gross profit is useful and meaningful to 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 26, 2020 COMPARED TO THIRTY NINE WEEKS ENDED SEPTEMBER 28, 2019

Revenue for the 2020 thirty-nine-week period was $2,836,626,000, a decrease of $253,072,000, or 8%, compared to the 2019 thirty-nine-week period. Transportation revenue decreased $252,273,000, or 8%. The decrease in transportation revenue was attributable to a decreased number of loads hauled of approximately 6% and decreased revenue per load of approximately 2% compared to the 2019 thirty-nine-week period. Reinsurance premiums were $41,570,000 and $42,369,000 for the 2020 and 2019 thirty-nine-week periods, respectively. The decrease in revenue from reinsurance premiums was primarily attributable to the decrease in the average number of trucks provided by BCO Independent Contractors in the 2020 thirty-nine-week period compared to the 2019 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 2020 thirty-nine-week period was $2,614,087,000, representing 92% of total revenue, a decrease of $239,424,000, or 8%, compared to the 2019 thirty-nine-week period. The number of loads hauled by third party truck capacity providers decreased approximately 7% in the 2020 thirty-nine-week period compared to the 2019 thirty-nine-week period, and revenue per load on loads hauled by third party truck capacity providers decreased approximately 2% compared to the 2019 thirty-nine-week period. The decrease in the number of loads hauled via truck compared to the 2019 thirty-nine-week period was due to relative softness in the U.S. manufacturing sector in the 2020 period compared to the 2019 period and the unfavorable impact of the COVID-19 pandemic on demand for the Company’s truck transportation services, which significantly accelerated during the last week of the Company’s first fiscal quarter. However, following the demand lows experienced by the Company in April and May 2020, demand for the Company’s truck transportation services sequentially increased throughout the remainder of the thirty-nine week period. This significant, rapid decrease in demand followed by a similarly significant yet more gradual sequential increase in demand was unprecedented in the history of the Company. During the 2020 thirty-nine week period as compared to the 2019 thirty-nine-week period, loads hauled via van equipment decreased 7% and loads hauled via unsided/platform equipment decreased 9%, while less-than-truckload volumes increased 3%. The decrease in revenue per load on loads hauled via truck was primarily due to less demand for unsided/platform and heavy specialized freight services during the 2020 thirty-nine-week period. While revenue per load on loads hauled via van equipment increased 1%, revenue per load on loads hauled via unsided/platform equipment decreased 5% and revenue per load on less-than-truckload loadings decreased 7% as compared to the 2019 thirty-nine-week period. Revenue per load on heavy specialized loadings, which is included as a component of unsided/platform loadings, decreased 10% as compared to the 2019 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 $43,570,000 and $60,206,000 in the 2020 and 2019 thirty-nine-week periods, respectively. It should be noted that billings to many customers of the Company’s truck brokerage services include a single all-in rate that does not separately identify fuel surcharges on loads hauled via Truck Brokerage Carriers. 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 2020 thirty-nine-week period was $170,749,000, or 6% of total revenue, a decrease of $6,064,000, or 3%, compared to the 2019 thirty-nine-week period. The number of loads hauled by multimode capacity providers decreased approximately 2% in the 2020 thirty-nine-week period compared to the 2019 thirty-nine-week period, and revenue per load on revenue generated by multimode capacity providers decreased approximately 1% over the same period. The decrease in the number of loads hauled by multimode capacity providers was primarily due to a 6% decrease in rail intermodal loadings, mostly attributable to decreased loadings at four specific agencies, and a 4% decrease in ocean loadings, primarily due to decreased shipments originating in China for export to the United States. The decrease in revenue per load of 1% on loads hauled by multimode capacity providers was primarily attributable to decreased revenue per load on air shipments. 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 77.0% and 76.6% of revenue in the 2020 and 2019 thirty-nine-week periods, respectively. The increase in purchased transportation as a percentage of revenue was primarily due to an increased rate of purchased transportation paid on BCO Independent Contractor revenue due to the impact of COVID-19 pandemic relief incentive payments and an increased rate of purchased transportation paid on Truck Brokerage Carrier revenue. Under the pandemic relief program, for each load delivered by a BCO Independent Contractor with a confirmed delivery date from April 1, 2020 through May 30, 2020, the Company paid each of the BCO Independent Contractor who hauled the load and the independent commission sales agent who dispatched the load an extra $50. Commissions to agents were 8.3% of revenue in each of the 2020 and 2019 thirty-nine-week periods. Commissions to agents on BCO Independent Contractor revenue were higher during the 2020 thirty-nine-week period due to the impact of COVID-19 pandemic relief incentive payments, whereas commissions to agents on Truck Brokerage Carrier revenue were lower as compared to the 2019 thirty-nine-week period due to the impact of a decreased net revenue margin on revenue generated by Truck Brokerage Carriers. The Company paid a total of $12,593,000 in COVID-19 pandemic relief incentive payments during the 2020 thirty-nine week period.

Investment income was $2,716,000 and $3,736,000 in the 2020 and 2019 thirty-nine-week periods, respectively. The decrease in investment income was primarily attributable to lower average rates of return on investments in the 2020 thirty-nine-week period, partially offset by a higher average investment balance held by the insurance segment in the 2020 thirty-nine week period.

Other operating costs decreased $5,496,000 in the 2020 thirty-nine-week period compared to the 2019 thirty-nine-week period and represented 5.5% of gross profit in the 2020 period compared to 6.1% of gross profit in the 2019 period. The decrease in other operating costs compared to the prior year was primarily due to a decreased provision for contractor bad debt, the impact of the cancellation of an event for the Company's BCO Independent Contractors due to the COVID-19 pandemic, increased gains on the sales of used trailing equipment and decreased trailer rental costs. The decrease in other operating costs as a percentage of gross profit was caused by the decrease in other operating costs, partially offset by the effect of decreased gross profit.

Insurance and claims increased $11,315,000 in the 2020 thirty-nine-week period compared to the 2019 thirty-nine-week period and represented 16.0% of gross profit in the 2020 period compared to 11.9% of gross profit in the 2019 period. The increase in insurance and claims expense compared to the prior year was primarily due to a $5,000,000 charge for the Company's self-insured retention with respect to a tragic vehicular accident involving a fatality, a $3,500,000 charge relating to anticipated additional premium the Company expects to pay under the Initial Excess Policy in connection with certain aggregated losses, increased insurance premiums incurred for commercial trucking liability coverage following the Company's May 1, 2020 insurance renewal and increased severity of current year claims, partially offset by decreased net unfavorable development of prior years' claims in the 2020 period. During the 2020 and 2019 thirty-nine-week periods, insurance and claims costs included $6,162,000 and $9,497,000 of net unfavorable adjustments to prior years' claims estimates, respectively. The increase in insurance and claims as a percent of gross profit was caused by the increase in insurance and claims costs and the effect of decreased gross profit.

Selling, general and administrative costs increased $4,062,000 in the 2020 thirty-nine-week period compared to the 2019 thirty-nine-week period and represented 29.9% of gross profit in the 2020 period compared to 25.9% of gross profit in the 2019 period. The increase in selling, general and administrative costs compared to prior year was attributable to an increased provision for incentive compensation, increased information technology costs and an increased provision for customer bad debt, partially offset by decreased agent convention costs, decreased stock-based compensation expense and decreased travel and entertainment costs related to the impact of the COVID-19 pandemic. Included in selling, general and administrative costs was incentive compensation expense of $6,190,000 and $1,588,000 for the 2020 and 2019 thirty-nine-week periods, respectively, and stock-based compensation expense of $2,691,000 and $4,470,000 for the 2020 and 2019 thirty-nine-week periods, respectively. The increase in selling, general and administrative costs as a percent of gross profit was due to the effect of decreased gross profit and the increase in selling, general and administrative costs.

Depreciation and amortization increased $1,167,000 in the 2020 thirty-nine-week period compared to the 2019 thirty-nine-week period and represented 8.2% of gross profit in the 2020 period compared to 7.1% of gross profit in the 2019 period. The increase in depreciation and amortization expenses was primarily due to increased depreciation on information technology assets, partially offset by a decrease in trailing equipment depreciation. The increase in depreciation and amortization as a percentage of gross profit was due to the effect of decreased gross profit and increased depreciation.

During the 2020 second fiscal quarter, the Company recorded a non-cash impairment charge of $2,582,000 in respect of certain assets, primarily customer contract and related customer relationship intangible assets, acquired on September 20, 2017, along with substantially all of the other assets of the asset-light transportation logistics business of Fletes Avella, S.A. de C.V. ("Fletes Avella"). As previously disclosed in Item 1A. Risk Factors in the Company's Form 10-Q for the 2020 first quarter, negative macroeconomic trends in Mexico have caused significant disruptions in the Mexican economy. Accordingly, management performed impairment tests of the carrying values of certain assets that primarily relate to intra-Mexico business acquired as a part of the Fletes Avella acquisition. The impairment tests resulted in an impairment charge of $2,582,000, as the negative macroeconomic trends in Mexico have caused current financial projections relating to these intangible assets to be substantially below those originally anticipated at the acquisition date. There was no corresponding goodwill impairment charge recorded as the fair value of the Company's Mexico and cross-border reporting unit continues to significantly exceed its carrying value as of September 26, 2020.

Interest and debt expense in the 2020 thirty-nine-week period increased $658,000 compared to the 2019 thirty-nine-week period. The increase in interest and debt expense was primarily attributable to decreased interest income earned on cash balances held by the transportation logistics segment.

The provisions for income taxes for the 2020 and 2019 thirty-nine-week periods were each based on an estimated annual effective income tax rate of 24.2%, adjusted for discrete events, such as benefits resulting from stock-based awards. The effective income tax rate for the 2020 thirty-nine-week period was 23.3%, which was higher than the statutory federal income tax rate of 21% primarily attributable to state taxes and the meals and entertainment exclusion, partially offset by excess tax benefits realized on stock-based awards and state tax refunds. The effective income tax rate for the 2019 thirty-nine-week period was 22.8%, which was higher than the statutory federal income tax rate of 21% primarily attributable to state taxes and the meals and entertainment exclusion, partially offset by excess tax benefits realized on stock-based awards. The effective income tax rate in the 2020 thirty-nine-week period of 23.3% was lower than the 24.2% estimated annual effective income tax rate primarily due to excess tax benefits recognized on stock-based compensation arrangements and state tax refunds in the 2020 thirty-nine-week period. The effective income tax rate in the 2019 thirty-nine-week period of 22.8% was lower than the 24.2% estimated annual effective income tax rate primarily due to excess tax benefits recognized on stock-based compensation arrangements in the 2019 thirty-nine-week period.

The net loss attributable to noncontrolling interest of $17,000 in the 2019 thirty-nine-week period represents the former noncontrolling investors' share of the net loss incurred by Landstar Metro and Landstar Servicios.

Net income was $127,035,000, or $3.28 per common share ($3.28 per diluted share), in the 2020 thirty-nine-week period. Net income attributable to the Company was $177,672,000, or $4.45 per common share ($4.45 per diluted share), in the 2019 thirty-nine-week period. Net income was unfavorably impacted by approximately $12,593,000, or $0.25 per common share ($0.25 per diluted share), during the 2020 thirty-nine-week period, related to the impact of the COVID-19 pandemic relief incentive payments.

THIRTEEN WEEKS ENDED SEPTEMBER 26, 2020 COMPARED TO THIRTEEN WEEKS ENDED SEPTEMBER 28, 2019

Revenue for the 2020 thirteen-week period was $1,085,546,000, an increase of $73,888,000, or 7%, compared to the 2019 thirteen-week period. Transportation revenue increased $73,822,000, or 7%. The increase in transportation revenue was attributable to increased revenue per load of approximately 5% and an increased number of loads hauled of approximately 3% compared to the 2019 thirteen-week period. Reinsurance premiums were $14,172,000 and $14,106,000 for the 2020 and 2019 thirteen-week periods, respectively.

Truck transportation revenue generated by third party truck capacity providers for the 2020 thirteen-week period was $1,006,178,000, representing 93% of total revenue, an increase of $73,982,000, or 8%, compared to the 2019 thirteen-week period. Revenue per load on loads hauled by third party truck capacity providers increased approximately 5% in the 2020 thirteen-week period compared to the 2019 thirteen-week period, and the number of loads hauled by third party truck capacity providers increased approximately 3% compared to the 2019 thirteen-week period. The increase in revenue per load on loads hauled via truck was primarily due to a comparatively tighter truck capacity environment during the 2020 thirteen-week period compared to the 2019 thirteen-week period, as the domestic economy began to re-open and recover from the actions taken earlier this year by governmental authorities and businesses to reduce the spread of COVID-19. During the 2020 thirteen-week period, truck capacity throughout the United States gradually tightened on a sequential basis throughout the quarter, particularly with respect to the dry van spot market. Revenue per load on loads hauled via van equipment increased 10%, while revenue per load on loads hauled via unsided/platform equipment decreased 2% and revenue per load on less-than-truckload loadings decreased 2% as compared to the 2019 thirteen-week period. The increase in the number of loads hauled via truck compared to the 2019 thirteen-week period was due to increased demand for the Company's truck transportation services, particularly those services provided via van equipment, as we moved through the third fiscal quarter. Loads hauled via van equipment increased 5%, and loads hauled via less-than-truckload increased 1%, while unsided/platform equipment volumes decreased 4% as compared to the 2019 thirteen-week period. The number of loads hauled via truck decreased 1%, increased 2% and increased 7% during fiscal July, August and September, respectively, as compared to the corresponding periods in 2019. 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 $14,268,000 and $18,885,000 in the 2020 and 2019 thirteen-week periods, respectively.

Transportation revenue generated by multimode capacity providers for the 2020 thirteen-week period was $62,184,000, or 6% of total revenue, an increase of $2,849,000, or 5%, compared to the 2019 thirteen-week period. The number of loads hauled by multimode capacity providers increased approximately 7% in the 2020 thirteen-week period compared to the 2019 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 34% increase in air loadings, almost entirely attributable to increased loadings at one specific customer. The decrease in revenue per load of 2% on loads hauled by multimode capacity providers was primarily attributable to decreased revenue per load on air cargo shipments and a decrease in ocean loads as a percentage of loads hauled by multimode capacity providers, as ocean loads typically generate a higher revenue per load compared to loads hauled by rail or air cargo carriers. 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 77.3% and 76.6% of revenue in the 2020 and 2019 thirteen-week periods, respectively. The increase in purchased transportation as a percentage of revenue was primarily due to an increased rate of purchased transportation on revenue generated by Truck Brokerage Carriers. Commissions to agents were 7.9% and 8.4% of revenue in the 2020 and 2019 thirteen-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 $714,000 and $1,315,000 in the 2020 and 2019 thirteen-week periods, respectively. The decrease in investment income was primarily attributable to lower average rates of return on investments in the 2020 thirteen-week period and a lower average investment balance held by the insurance segment in the 2020 thirteen-week period.

Other operating costs decreased $3,070,000 in the 2020 thirteen-week period compared to the 2019 thirteen-week period and represented 4.6% of gross profit in the 2020 period compared to 6.8% of gross profit in the 2019 period. The decrease in other operating costs compared to the prior year was primarily due to a decreased provision for contractor bad debt, the impact of the cancellation of an event for the Company's BCO Independent Contractors due to the COVID-19 pandemic and increased gains on the sales of used trailing equipment. The decrease in other operating costs as a percentage of gross profit was caused by the decrease in other operating costs and the effect of increased gross profit.

Insurance and claims decreased $2,114,000 in the 2020 thirteen-week period compared to the 2019 thirteen-week period and represented 13.6% of gross profit in the 2020 period compared to 15.7% of gross profit in the 2019 period. The decrease in insurance and claims expense compared to the prior year was primarily due to decreased net unfavorable development of prior years' claims and decreased severity of current year claims in the 2020 period, partially offset by increased insurance premiums incurred for commercial trucking liability coverage following the Company's May 1, 2020 insurance renewal. During the 2020 and 2019 thirteen-week periods, insurance and claims costs included $1,123,000 and $6,597,000 of net unfavorable adjustments to prior years' claims estimates, respectively. The decrease in insurance and claims as a percent of gross profit was caused by the decrease in insurance and claims costs and the effect of increased gross profit.

Selling, general and administrative costs increased $699,000 in the 2020 thirteen-week period compared to the 2019 thirteen-week period and represented 24.1% of gross profit in the 2020 period compared to 25.0% of gross profit in the 2019 period. The increase in selling, general and administrative costs compared to prior year was attributable to an increased provision for incentive compensation, increased information technology costs and increased stock-based compensation expense, partially offset by a decreased provision for customer bad debt and decreased travel and entertainment costs related to the impact of the COVID-19 pandemic. Included in selling, general and administrative costs was incentive compensation expense/(benefit) of $2,133,000 and ($323,000) for the 2020 and 2019 thirteen-week periods, respectively, and stock-based compensation expense of $1,490,000 and $1,102,000 for the 2020 and 2019 thirteen-week periods, respectively. The decrease in selling, general and administrative costs as a percent of gross profit was due to the effect of increased gross profit, partially offset by the increase in selling, general and administrative costs.

Depreciation and amortization increased $545,000 in the 2020 thirteen-week period compared to the 2019 thirteen-week period and represented 7.0% of gross profit in each of the 2020 and 2019 periods. The increase in depreciation and amortization expenses was primarily due to increased depreciation on information technology assets, partially offset by a decrease in trailing equipment depreciation.

Interest and debt expense in the 2020 thirteen-week period increased $244,000 compared to the 2019 thirteen-week period. The increase in interest and debt expense was primarily attributable to decreased interest income earned on cash balances held by the transportation logistics segment.

The provisions for income taxes for the 2020 and 2019 thirteen-week periods were each based on an estimated annual effective income tax rate of 24.2%, adjusted for discrete events, such as benefits resulting from stock-based awards. The effective income tax rate for the 2020 thirteen-week period was 23.9%, which was higher than the statutory federal income tax rate of 21% primarily attributable to state taxes and the meals and entertainment exclusion, partially offset by excess tax benefits realized on stock-based awards. The effective income tax rate for the 2019 thirteen-week period was 23.8%, which was higher than the statutory federal income tax rate of 21% primarily attributable to state taxes and the meals and entertainment exclusion, partially offset by excess tax benefits realized on stock-based awards. The effective income tax rate in the 2020 thirteen-week period of 23.9% was lower than the 24.2% estimated annual effective income tax rate primarily due to excess tax benefits recognized on stock-based compensation arrangements in the 2020 thirteen-week period. The effective income tax rate in the 2019 thirteen-week period of 23.8% was lower than the 24.2% estimated annual effective income tax rate primarily due to excess tax benefits recognized on stock-based compensation arrangements in the 2019 thirteen-week period.

Net income was $61,886,000, or $1.61 per common share ($1.61 per diluted share), in the 2020 thirteen-week period. Net income attributable to the Company was $53,255,000 or $1.35 per common share ($1.35 per diluted share), in the 2019 thirteen-week period.

CAPITAL RESOURCES AND LIQUIDITY

Working capital and the ratio of current assets to current liabilities were $420,519,000 and 1.8 to 1, respectively, at September 26, 2020, compared with $444,984,000 and 1.8 to 1, respectively, at December 28, 2019. 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 $185,548,000 in the 2020 thirty-nine-week period compared with $260,714,000 in the 2019 thirty-nine-week period. The decrease in cash flow provided by operating activities was primarily attributable to the timing of collections of receivables and decreased net income, partially offset by the timing of payments of accounts payable.

The Company declared and paid $0.58 per share, or $22,495,000 in the aggregate, in cash dividends during the thirty-nine-week period ended September 26, 2020 and, during such period, also paid $78,947,000 of dividends payable which were declared during fiscal year 2019 and included in current liabilities in the consolidated balance sheet at December 28, 2019. The Company declared and paid $0.515 per share, or $20,589,000 in the aggregate, in cash dividends during the thirty-nine-week period ended September 28, 2019. During the thirty-nine-week period ended September 26, 2020, the Company purchased 1,178,970 shares of its common stock at a total cost of $115,962,000. During the thirty-nine-week period ended September 28, 2019, the Company purchased 849,068 shares of its common stock at a total cost of $88,578,000. As of September 26, 2020, the Company may purchase in the aggregate up to 1,821,030 shares of its common stock under its authorized stock purchase program. Long-term debt, including current maturities, was $87,293,000 at September 26, 2020, $25,551,000 lower than at December 28, 2019.

Shareholders' equity was $705,634,000, or 89% of total capitalization (defined as long-term debt including current maturities plus equity), at September 26, 2020, compared to $721,469,000, or 86% of total capitalization, at December 28, 2019. The decrease in equity was primarily the result of purchases of shares of the Company's common stock and dividends declared by the Company in the 2020 thirty-nine-week period, partially offset by net income.

On June 2, 2016, Landstar entered into a credit agreement with a syndicate of banks and JPMorgan Chase Bank, N.A., as administrative agent, which was amended and restated on August 18, 2020 to extend the maturity date to August 2023 and amend certain other terms (as so amended and restated, the "Credit Agreement"). The Credit Agreement provides $250,000,000 of borrowing capacity in the form of a revolving credit facility, $35,000,000 of which may be utilized in the form of letters of credit. The Credit Agreement includes an "accordion" feature providing for a possible increase up to an aggregate borrowing capacity of $400,000,000.

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 26, 2020, the Company had no borrowings outstanding and $33,618,000 of letters of credit outstanding under the Credit Agreement. At September 26, 2020, there was $216,382,000 available for future borrowings under the Credit Agreement. In addition, the Company has $59,434,000 in letters of credit outstanding as collateral for insurance claims that are secured by investments totaling

$66,037,000 at September 26, 2020. Investments, all of which are carried at fair value, include primarily investment-grade bonds and U.S. Treasury obligations 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 2020 thirty-nine-week period, the Company purchased $25,426,000 of operating property. In addition, during the 2020 thirty-nine-week period Landstar acquired $1,068,000 of operating property for which the Company accrued a corresponding liability in accounts payable as of September 26, 2020. In addition, on June 15, 2020, Landstar Blue completed the acquisition of an independent agent of the Company. Cash consideration paid for the acquisition was approximately $2,766,000. Landstar anticipates acquiring either by purchase or lease financing during the remainder of fiscal year 2020 approximately $44,000,000 in operating property, consisting primarily of new trailing equipment to replace older trailing equipment and information technology equipment.

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

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 2020 and 2019 thirty-nine-week periods, insurance and claims costs included $6,162,000 and $9,497,000 of net unfavorable adjustments to prior years’ claims estimates, respectively. It is reasonably likely that the ultimate outcome of settling all outstanding claims will be more or less than the estimated claims liability at September 26, 2020.

Significant variances from management’s estimates for the ultimate resolution of self-insured claims could 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, which was amended and restated on August 18, 2020 to extend the maturity date to August 2023 and amend certain other terms. The Credit Agreement provides $250,000,000 of borrowing capacity in the form of a revolving credit facility, $35,000,000 of which may be utilized in the form of letters of credit. The Credit Agreement includes an "accordion" feature providing for a possible increase up to an aggregate borrowing capacity of $400,000,000.

The revolving credit loans under the Credit Agreement, at the option of Landstar, bear interest at (i) the Eurocurrency rate plus an applicable margin ranging from 1.25% to 2.00%, or (ii) an alternate base rate plus an applicable margin ranging from 0.25% to 1.00%, in each case with the applicable margin determined based upon the Company's Leverage Ratio, as defined in the Credit Agreement, at the end of the most recent applicable fiscal quarter for which financial statements have been delivered. The revolving credit facility bears a commitment fee, payable in arrears, of 0.25% to 0.35%, based on the Company's Leverage Ratio at the end of the most recent applicable fiscal quarter for which financial statements have been delivered. As of September 26, 2020 and during the entire 2020 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 and U.S. Treasury obligations having maturities of up to five years. Assuming that the long-term portion of investments remains at $82,734,000, the balance at September 26, 2020, 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 and U.S. Treasury obligations. 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 26, 2020 were collectively, as translated to U.S. dollars, approximately 3% of total consolidated assets. Accordingly, translation gains or losses of 25% or less 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 26, 2020 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 26, 2020 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

Except as set forth below, there have been no material changes to the Risk Factors described in Part I "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2019 as filed with the SEC.

The coronavirus ("COVID-19") pandemic has had a significant adverse impact on our business. COVID-19 was first identified in Wuhan, China in December 2019. The COVID-19 outbreak was subsequently declared a pandemic by the World Health Organization on March 11, 2020. The COVID-19 pandemic has caused significant disruptions in the global economy, which significantly intensified in the United States in late March and continued into the summer months. The situation with respect to the COVID-19 pandemic continues to evolve and its effects, both short and long-term, remain unknown. Economic disruptions and other effects on the global or domestic economies caused by the COVID-19 pandemic could have a material adverse impact on the demand for our services and our ability to obtain financing on favorable terms or at all.

In connection with the impact of the COVID-19 pandemic, the Company experienced a significant decline in truckload volumes during the second quarter of 2020 compared to the corresponding period of 2019 followed by a similarly significant yet more gradual sequential increase in demand during the third quarter of 2020. This significant, rapid decrease in demand followed by the similarly significant yet more gradual increase was unprecedented in the history of the Company. The extent to which the COVID-19 pandemic impacts the Company's results in future quarters will depend on future developments that are highly uncertain and cannot be predicted, including the duration of the pandemic, the actions taken by federal, state and local governments in response to the pandemic and the length of time necessary for the economy to transition back to more normal operating conditions. These and other factors could have a material adverse impact on our business, financial position, results of operations and cash flows.

Moreover, the COVID-19 virus continues to spread in areas where we provide services. The Landstar network includes over 1,200 independent agent locations throughout North America where such independent agents provide shipment coordination and dispatch services, freight tracking, trailer management and numerous other operational functions. Similarly, the Landstar network includes tens of thousands of truck capacity providers who operate throughout North America without any Landstar truck terminals. Management believes the decentralized nature of our model should insulate Landstar's freight operations in an environment where social distancing can disrupt centralized business structures. A significant disruption to our independent agent network and/or a significant decrease in available truck capacity providers due to illness or government restrictions related to the COVID-19 pandemic could have a material adverse effect on our ability to source capacity to service our customers and could have a significant impact on Landstar, including our results of operations, revenue and cash flows.

In addition, the COVID-19 pandemic has caused significant disruptions in the Mexican economy. During the Company's 2020 fiscal year, the value of the Mexican peso to the U.S. dollar significantly depreciated and may continue to depreciate further. No assurances can be given regarding the potential impact of the COVID-19 pandemic and other factors on the Mexican economy and the value of the Mexican peso relative to the U.S. dollar and could have a significant adverse impact on the financial condition and results of operations of our Mexican subsidiaries.

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 June 28, 2020 to September 26, 2020, the Company's third fiscal quarter.

On December 9, 2019, the Landstar System, Inc. Board of Directors authorized the Company to purchase up to 1,849,068 shares of the Company's common stock from time to time in the open market and in privately negotiated transactions. As of September 26, 2020, the Company had authorization to purchase in the aggregate up to 1,821,030 shares of its common stock under this program. No specific expiration date has been assigned to the December 9, 2019 authorization.

Dividends

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"). On August 18, 2020, Landstar amended and restated the Credit Agreement to extend the maturity date to August 2023 and amend certain other terms. 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.

EXHIBIT INDEX

Registrant's Commission File No.: 0-21238

Exhibit No.	Description
(10)	Material Contracts.
10.1+	Amended and Restated Credit Agreement, dated as of August 18, 2020, among Landstar System Holdings, Inc., the Company, the lenders named therein, and JPMorgan Chase Bank, N.A. as Administrative Agent (including exhibits and schedules thereto). (Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on August 24, 2020 (Commission File No. 0-21238))
(31)	Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.1*	Chief Executive Officer certification, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Chief Financial Officer certification, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(32)	Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.1**	Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Chief Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

+ Management contract or compensatory plan or arrangement
* Filed herewith
** Furnished herewith

Table of Contents

SIGNATURES

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

LANDSTAR SYSTEM, INC.

Date: October 30, 2020

/s/ James B. Gattoni
James B. Gattoni
President and
Chief Executive Officer

Date: October 30, 2020

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

EXHIBIT 31.1

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: October 30, 2020

/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: October 30, 2020

/s/ L. Kevin Stout

L. Kevin Stout
Vice President and 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

In connection with the Quarterly Report of Landstar System, Inc. (the "Company") on Form 10-Q for the period ending September 26, 2020, 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: October 30, 2020

/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 26, 2020, 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: October 30, 2020

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