UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)
[ X ] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 23, 2000

or

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

For the transition period from ________________ to ____________________

Commission File Number: 0-21238

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

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

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

32224
(Zip Code)

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

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

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

Yes ( X ) No ( )

The number of shares of the registrant's Common Stock, par value $.01 per share, outstanding as of the close of business on October 27, 2000 was 8,393,533.

PART I

FINANCIAL INFORMATION

Index

Item 1

Item 1. Financial Statements

The interim consolidated financial statements contained herein reflect all adjustments (all of a normal, recurring nature) which, in the opinion of management, are necessary for a fair statement of the financial condition, results of operations, cash flows and changes in shareholders' equity for the periods presented. They have been prepared in accordance with Rule 10-01 of Regulation S-X and do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. Operating results for the thirty nine weeks ended September 23, 2000 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 30, 2000.

These interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 1999 Annual Report on Form 10-K.



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

| | Sept 23, 2000 | Dec 25, 1999 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash | $ 28,803 | $ 23,721 |
| Short-term investments | 1,560 | 1,000 |
| Trade accounts receivable, less allowance of $3,363 and $4,002 | 198,705 | 207,024 |
| Other receivables, including advances to independent contractors, less allowance of $5,132 and $5,033 | 12,138 | 14,318 |
| Prepaid expenses and other current assets | 7,244 | 6,190 |
| Total current assets | 248,450 | 252,253 |

| | | |
|---|---|---|
| Operating property, less accumulated depreciation and amortization of $37,625 and $34,283 | 77,899 | 63,797 |
| Goodwill, less accumulated amortization of $8,688 and $7,777 | 32,822 | 33,733 |
| Deferred income taxes and other assets | 13,680 | 15,658 |
| Total assets | $ 372,851 | $ 365,441 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Cash overdraft | $ 25,487 | $ 19,471 |
| Accounts payable | 60,490 | 67,322 |
| Current maturities of long-term debt | 9,661 | 6,769 |
| Insurance claims | 25,203 | 27,207 |
| Other current liabilities | 38,172 | 49,895 |
| Total current liabilities | 159,013 | 170,664 |
| Long-term debt, excluding current maturities | 96,906 | 60,529 |
| Insurance claims | 25,337 | 27,364 |
| Shareholders' equity: | | |
| Common stock, $.01 par value, authorized 20,000,000 shares, issued 13,135,374 and 13,063,974 shares | 131 | 131 |
| Additional paid-in capital | 68,097 | 65,833 |
| Retained earnings | 199,466 | 170,174 |
| Cost of 4,741,841 and 3,909,041 shares of common stock in treasury | (172,727) | (127,560) |
| Notes receivable arising from exercise of stock options | (3,372) | (1,694) |
| Total shareholders' equity | 91,595 | 106,884 |
| Total liabilities and shareholders' equity | $ 372,851 | $ 365,441 |

See accompanying notes to consolidated financial statements.



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

| | Thirty Nine Weeks Ended | | Thirteen Weeks Ended | |
|---|---|---|---|---|
| | Sept 23, 2000 | Sept 25, 1999 | Sept 23, 2000 | Sept 25, 1999 |
| Revenue | $1,037,917 | $1,007,959 | $ 352,356 | $ 351,460 |
| Investment income | 3,154 | 1,751 | 1,200 | 633 |
| Costs and expenses: | | | | |
| Purchased transportation | 764,698 | 742,442 | 259,590 | 259,165 |
| Commissions to agents | 82,440 | 80,587 | 28,502 | 28,439 |
| Other operating costs | 22,413 | 21,627 | 7,168 | 7,858 |
| Insurance and claims | 25,317 | 29,030 | 6,231 | 7,067 |
| Selling, general and administrative | 76,739 | 73,304 | 25,035 | 24,573 |
| Depreciation and amortization | 9,534 | 8,806 | 3,344 | 3,375 |
| Non-recurring costs | 5,270 | | 2,230 | |
| Total costs and expenses | 986,411 | 955,796 | 332,100 | 330,477 |
| Operating income | 54,660 | 53,914 | 21,456 | 21,616 |
| Interest and debt expense | 6,243 | 2,981 | 2,420 | 1,321 |
| Income before income taxes | 48,417 | 50,933 | 19,036 | 20,295 |
| Income taxes | 19,125 | 20,629 | 7,520 | 8,221 |
| Net income | $ 29,292 | $ 30,304 | $ 11,516 | $ 12,074 |
| Earnings per common share | $ 3.29 | $ 2.99 | $ 1.33 | $ 1.21 |
| Diluted earnings per share | $ 3.21 | $ 2.95 | $ 1.30 | $ 1.20 |

| | | | | |
|---|---|---|---|---|
| Average number of shares outstanding: | | | | |
| Earnings per common share | 8,909,000 | 10,149,000 | 8,677,000 | 9,954,000 |
| Diluted earnings per share | 9,120,000 | 10,270,000 | 8,883,000 | 10,076,000 |

See accompanying notes to consolidated financial statements.



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

| | Thirty Nine Weeks Ended | |
|---|---|---|
| | Sept 23, 2000 | Sept 25, 1999 |
| OPERATING ACTIVITIES | | |
| Net income | $ 29,292 | $ 30,304 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization of operating property | 8,623 | 7,893 |
| Amortization of goodwill | 911 | 913 |
| Non-cash interest charges | 243 | 243 |
| Provisions for losses on trade and other accounts receivable | 2,145 | 1,122 |
| Losses (gains) on sales of operating property | (191) | 179 |
| Deferred income taxes, net | 1,154 | 2,003 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in trade and other accounts receivable | 8,354 | (14,349) |
| Increase in prepaid expenses and other assets | (473) | (11,052) |
| Increase (decrease) in accounts payable | (6,832) | 16,470 |
| Increase (decrease) in other liabilities | (10,261) | 96 |
| Decrease in insurance claims | (4,031) | (329) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 28,934 | 33,493 |
| INVESTING ACTIVITIES | | |
| Maturities of short-term investments | 1,000 | |
| Purchases of short-term investments | (1,560) | |
| Purchases of operating property | (6,220) | (2,369) |
| Proceeds from sales of operating property | 1,396 | 1,303 |
| NET CASH USED BY INVESTING ACTIVITIES | (5,384) | (1,066) |
| FINANCING ACTIVITIES | | |
| Increase in cash overdraft | 6,016 | 1,219 |
| Borrowings on revolving credit facility | 27,500 | |
| Proceeds from exercise of stock options and related income tax benefit | 142 | 293 |
| Purchases of common stock | (46,185) | (25,853) |
| Principal payments on capital lease obligations | (5,941) | (4,699) |
| NET CASH USED BY FINANCING ACTIVITIES | (18,468) | (29,040) |

| | | |
|---|---|---|
| Increase in cash | 5,082 | 3,387 |
| Cash at beginning of period | 23,721 | 26,681 |
| Cash at end of period | $ 28,803 | $ 30,068 |

See accompanying notes to consolidated financial statements.



LANDSTAR SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES
IN SHAREHOLDERS' EQUITY
Thirty Nine Weeks Ended September 23, 2000
(Dollars in thousands)
(Unaudited)

| | Common Stock | | Additional Paid-In | Retained | Treasury Stock at Cost | | Notes Receivable Arising from Exercise of | |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Earnings | Shares | Amount | Stock Options | Total |
| Balance December 25, 1999 | 13,063,974 | $ 131 | $ 65,833 | $ 170,174 | 3,909,041 | $(127,560) | $ (1,694) | $ 106,884 |
| Net income | | | | 29,292 | | | | 29,292 |
| Purchases of common stock | | | | | 864,000 | (46,185) | | (46,185) |
| Exercise of stock options and related income tax benefit | 71,400 | | 1,820 | | | | (1,678) | 142 |
| Incentive compensation paid in common stock | | | 444 | | (31,200) | 1,018 | | 1,462 |
| Balance September 23, 2000 | 13,135,374 | $ 131 | $ 68,097 | $ 199,466 | 4,741,841 | $(172,727) | $ (3,372) | $ 91,595 |

See accompanying notes to consolidated financial statements.



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

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

(1) Non-recurring Costs

Approximately 100 Landstar Ranger, Inc. ("Landstar Ranger") drivers are represented by the International Brotherhood of Teamsters (the "Teamsters"). The vast majority of these unionized drivers participate in the Teamsters' Central States Southeast and Southwest Areas Pension Fund (the "Fund"). Under a prior collective bargaining agreement, Landstar Ranger was required to make contributions to various Teamster pension funds for 205 drivers regardless of the actual number of unionized drivers. Effective April 1, 2000, a new collective bargaining agreement required Landstar Ranger to make pension contributions for only the actual number of unionized drivers. As a result of the elimination of the requirement to make contributions for more than the actual number of unionized drivers, the Trustees of the Fund have terminated participation in the Fund by Landstar Ranger effective October 1, 2000. The Trustees of the Fund regard this action as a withdrawal by Landstar Ranger. To date, Landstar Ranger has not received a formal demand for payment of withdrawal liability from the Fund, nevertheless management believes that the Fund will issue such a demand and, as such, recorded a charge in the amount of $2,230,000 for its estimated withdrawal liability from the Fund. After deducting income tax benefits of $880,000, this charge reduced net income by $1,350,000, or $0.15 per share ($0.15 per diluted share) in the 2000 thirty-nine-week period and $0.16 per share ($0.15 per diluted share) in the 2000 thirteen-week period.

On March 28, 2000, the Company announced a plan to restructure the operations of Landstar Ligon, Inc. and to relocate its headquarters from Madisonville, Kentucky to Jacksonville, Florida in June of 2000. As a result of this restructuring and relocation, a one-time charge in the amount of $3,040,000 was recorded during the second quarter of 2000 representing approximately $1,370,000 of employee and office relocation costs, $1,000,000 of severance costs and $670,000 of other costs. The restructuring and relocation were substantially complete as of September 23, 2000. After deducting income tax benefits of $1,225,000, this one-time restructuring charge reduced net income by $1,815,000, or $0.20 per share ($0.20 per diluted share), in the 2000 thirty-nine-week period.



(2) Income Taxes

The provisions for income taxes for the 2000 and 1999 thirty-nine-week periods were based on estimated full year combined effective income tax rates of approximately 39.5% and 40.5%, respectively, which is higher than the statutory federal income tax rate primarily as a result of state income taxes, amortization of certain goodwill and the meals and entertainment exclusion.

(3) Earnings Per Share

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

(4) Additional Cash Flow Information

During the 2000 period, Landstar paid income taxes and interest of $21,332,000 and $6,653,000, respectively and acquired operating property by entering into capital leases in the amount of $17,710,000. During the 1999 period, Landstar paid income taxes and interest of $24,126,000 and $3,095,000, respectively, and acquired operating property by entering into capital leases in the amount of $11,735,000.



(5) Segment Information

The following tables summarize information about Landstar's reportable business segments for the thirty nine and thirteen weeks ended September 23, 2000 and September 25, 1999 (in thousands):

Thirty Nine Weeks Ended September 23, 2000

| | Carrier | Multimodal | Insurance | Other | Total |
|---|---|---|---|---|---|
| External revenue | $ 816,079 | $ 203,541 | $ 18,297 | | $1,037,917 |
| Investment income | | | 3,154 | | 3,154 |
| Internal revenue | 26,913 | 604 | 16,860 | | 44,377 |
| Operating income | 61,519 (1) | 6,056 | 17,263 | $(30,178) | 54,660 (1) |

Thirty Nine Weeks Ended September 25, 1999

| | Carrier | Multimodal | Insurance | Other | Total |
|---|---|---|---|---|---|
| External revenue | $ 811,216 | $ 177,578 | $ 19,165 | | $1,007,959 |
| Investment income | | | 1,751 | | 1,751 |
| Internal revenue | 25,102 | 112 | 20,327 | | 45,541 |
| Operating income | 60,862 | 5,552 | 15,982 | $(28,482) | 53,914 |

Thirteen Weeks Ended September 23, 2000

| | Carrier | Multimodal | Insurance | Other | Total |
|---|---|---|---|---|---|
| External revenue | $ 277,570 | $ 68,694 | $ 6,092 | | $ 352,356 |
| Investment income | | | 1,200 | | 1,200 |
| Internal revenue | 8,405 | 363 | 5,294 | | 14,062 |
| Operating income | 22,549 (2) | 2,073 | 7,136 | $(10,302) | 21,456 (2) |

Thirteen Weeks Ended September 25, 1999

| | Carrier | Multimodal | Insurance | Other | Total |
|---|---|---|---|---|---|
| External revenue | $ 281,087 | $ 63,934 | $ 6,439 | | $ 351,460 |
| Investment income | | | 633 | | 633 |
| Internal revenue | 9,353 | 33 | 5,156 | | 14,542 |
| Operating income | 21,915 | 2,057 | 7,363 | $ (9,719) | 21,616 |

(1) Includes pre-tax non-recurring costs of $5,270.
(2) Includes pre-tax non-recurring costs of $2,230.

/TABLE>

(6) Commitments and Contingencies

At September 23, 2000, Landstar had commitments for letters of credit outstanding in the amount of $20,144,000, primarily as collateral for insurance claims. The commitments for letters of credit outstanding included $10,080,000 under the Second Amended and Restated Credit Agreement and $10,064,000 secured by assets deposited with a financial institution.

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

I

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

The following discussion should be read in conjunction with the attached interim consolidated financial statements and notes thereto, and with the Company's audited financial statements and notes thereto for the fiscal year ended December 25, 1999 and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 1999 Annual Report to Shareholders.

RESULTS OF OPERATIONS

Landstar System, Inc. and its subsidiary, Landstar System Holdings, Inc. ("Landstar" or the "Company"), provide transportation services to a variety of market niches throughout the United States and to a lesser extent in Canada and between the United States and Canada and Mexico through its operating subsidiaries. The Company has three reportable business segments. These are the carrier, multimodal and insurance segments.

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

The multimodal segment is comprised of Landstar Logistics, Inc. and Landstar Express America, Inc. Transportation services provided by the multimodal segment include the arrangement of intermodal moves, contract logistics, truck brokerage and emergency and expedited ground and air freight. The multimodal segment markets its services through independent commission sales agents and



utilizes capacity provided by independent contractors, including railroads and air cargo carriers. The nature of the multimodal segment's business is such that a significant portion of its operating costs also varies directly with revenue.

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

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

Trailer rent and maintenance costs are the largest components of other operating costs.

Potential liability associated with accidents in the trucking industry is severe and occurrences are unpredictable. A material increase in the frequency or severity of accidents or workers' compensation claims or the unfavorable development of existing claims can be expected to adversely affect Landstar's operating income.

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

Depreciation and amortization primarily relates to depreciation of trailers and management information services equipment.



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

| | Thirty Nine Weeks Ended | | Thirteen Weeks Ended | |
|---|---|---|---|---|
| | Sept. 23, 2000 | Sept. 25, 1999 | Sept. 23, 2000 | Sept. 25, 1999 |

| | | | | |
|---|---|---|---|---|
| Revenue | 100.0% | 100.0% | 100.0% | 100.0% |
| Investment income | 0.3 | 0.2 | 0.3 | 0.2 |
| Costs and expenses: | | | | |
| Purchased transportation | 73.7 | 73.6 | 73.7 | 73.7 |
| Commissions to agents | 7.9 | 8.0 | 8.1 | 8.1 |
| Other operating costs | 2.2 | 2.1 | 2.0 | 2.2 |
| Insurance and claims | 2.4 | 2.9 | 1.8 | 2.0 |
| Selling, general and administrative | 7.4 | 7.3 | 7.1 | 7.0 |
| Depreciation and amortization | 0.9 | 0.9 | 0.9 | 1.0 |
| Non-recurring costs | 0.5 | | 0.6 | |
| Total costs and expenses | 95.0 | 94.8 | 94.2 | 94.0 |
| Operating income | 5.3 | 5.4 | 6.1 | 6.2 |
| Interest and debt expense | 0.6 | 0.3 | 0.7 | 0.4 |
| Income before income taxes | 4.7 | 5.1 | 5.4 | 5.8 |
| Income taxes | 1.9 | 2.1 | 2.1 | 2.4 |
| Net income | 2.8% | 3.0% | 3.3% | 3.4% |

THIRTY NINE WEEKS ENDED SEPTEMBER 23, 2000 COMPARED TO THIRTY NINE WEEKS ENDED SEPTEMBER 25, 1999

Revenue for the 2000 thirty-nine-week period was $1,037,917,000, an increase of $29,958,000, or 3.0%, over the 1999 thirty-nine-week period. The increase was attributable to increased revenue of $4,863,000 and $25,963,000 at the carrier and multimodal segments, respectively, partially offset by decreased revenue at the insurance segment of $868,000. Overall, revenue per revenue mile (price) increased approximately 4%, which reflected improved freight quality, while revenue miles (volume) decreased approximately 1%. Investment income at the insurance segment was $3,154,000 and $1,751,000 in the 2000 and 1999 periods, respectively.

Purchased transportation was 73.7% of revenue in 2000 compared with 73.6% in 1999. The increase in purchased transportation as a percentage of revenue was primarily due to increased revenue contributed by the multimodal segment which tends to have a higher cost of transportation and decreased premium revenue at the insurance segment. In addition, purchased transportation costs at the multimodal segment were generally higher due to increased fuel costs incurred by its capacity providers. Commissions to agents were 7.9% of revenue in 2000 compared with 8.0% in 1999. The decrease in commissions to agents as a



percentage of revenue was attributable to the increased purchased transportation costs incurred at the multimodal segment which negatively impacted gross profit and resulted in lower agent commissions. Other operating costs were 2.2% of revenue in 2000 compared with 2.1% in 1999. The increase in other operating costs as a percentage of revenue was primarily due to higher net trailer costs. Insurance and claims were 2.4% of revenue in 2000 compared with 2.9% in 1999. The decrease in insurance and claims as a percentage of revenue was primarily attributable to increased revenue at the multimodal segment which has a lower claims risk profile, lower frequency and severity and favorable development of prior year claims in 2000. Selling, general and administrative costs were 7.4% of revenue in 2000 compared with 7.3% of revenue in 1999. The increase in selling, general and administrative costs as a percentage of revenue was primarily due to an increased provision for customer bad debts, increased management information services costs and increased wages and benefits, partially offset by a lower provision for bonuses under the management incentive compensation plan. Depreciation and amortization was 0.9% of revenue in 2000 and 1999.

Approximately 100 Landstar Ranger, Inc. ("Landstar Ranger") drivers are represented by the International Brotherhood of Teamsters (the "Teamsters"). The vast majority of these unionized drivers participate in the Teamsters' Central States Southeast and Southwest Areas Pension Fund (the "Fund"). Under a prior collective bargaining agreement, Landstar Ranger was required to make contributions to various Teamster pension funds for 205 drivers regardless of the actual number of unionized drivers. Effective April 1, 2000, a new collective bargaining agreement required Landstar Ranger to make pension contributions for only the actual number of unionized drivers. As a result of the elimination of the requirement to make contributions for more than the actual number of unionized drivers, the Trustees of the Fund have terminated participation in the Fund by Landstar Ranger effective October 1, 2000. The Trustees of the Fund regard this action as a withdrawal by Landstar Ranger. To date, Landstar Ranger has not received a formal demand for payment of withdrawal liability from the Fund, nevertheless management believes that the Fund will issue such a demand and, as such, recorded a charge in the amount of $2,230,000 for its estimated withdrawal liability from the Fund. Management estimates the elimination of the requirement to make contributions for more than the actual number of union drivers will result in annual savings of approximately $800,000.



On March 28, 2000, the Company announced a plan to restructure the operations of Landstar Ligon and to relocate its headquarters from Madisonville, Kentucky to Jacksonville, Florida in June of 2000. As a result of the restructuring and relocation, a one-time charge in the amount of $3,040,000 was recorded during the second quarter of 2000 representing approximately $1,370,000 of employee and office relocation costs, $1,000,000 of severance costs and $670,000 of other costs. This restructuring and relocation were substantially complete as of September 23, 2000. Management anticipates future savings of selling, general and administrative costs as a result of this restructuring to approximate $1,000,000 per annum.

Interest and debt expense was 0.6% and 0.3% of revenue in 2000 and 1999, respectively. This increase was primarily attributable to the effect of higher average borrowings on the senior credit facility, which were used to finance a portion of the Company's stock repurchase program, increased capital lease obligations for trailing equipment and higher interest rates.

The provisions for income taxes for the 2000 and 1999 thirty-nine-week periods were based on estimated full year combined effective income tax rates of approximately 39.5% and 40.5%, respectively, which is higher than the statutory federal income tax rate primarily as a result of state income taxes, amortization of certain goodwill and the meals and entertainment exclusion.

Net income was $29,292,000, or $3.29 per common share ($3.21 per diluted share), in the 2000 period compared with $30,304,000, or $2.99 per common share ($2.95 per diluted share), in the 1999 period. After deducting income tax benefits of $2,105,000, the non-recurring costs reduced net income by $3,165,000 in the 2000 period. Excluding non-recurring costs, net income would have been $32,457,000, or $3.64 per common share ($3.56 diluted earnings per share) in the 2000 period.



THIRTEEN WEEKS ENDED SEPTEMBER 23, 2000 COMPARED TO THIRTEEN WEEKS ENDED SEPTEMBER 25, 1999

Revenue for the 2000 thirteen-week period was $352,356,000, an increase of $896,000, or 0.3%, over the 1999 thirteen-week period. The increase was attributable to increased revenue of $4,760,000 at the multimodal segment, partially offset by decreased revenue at the carrier and insurance segments of $3,517,000 and $347,000, respectively. Overall, revenue per revenue mile increased approximately 3%, which reflected improved freight quality, while revenue miles were approximately 3% lower than 1999. Investment income at the insurance segment was $1,200,000 and $633,000 in the 2000 and 1999 periods, respectively.

Purchased transportation was 73.7% of revenue in 2000 and 1999. Commissions to agents were 8.1% of revenue in 2000 and 1999.Other operating costs were 2.0% of revenue in 2000 compared with 2.2% in 1999. The decrease in other operating costs as a percentage of revenue was primarily due to a decreased provision for contractor bad debt, partially offset by higher net trailer costs. Insurance and claims were 1.8% of revenue in 2000 compared with 2.0% in 1999. The decrease in insurance and claims as a percentage of revenue was primarily attributable to increased revenue at the multimodal segment which has a lower claims risk profile, lower frequency and severity of accidents and favorable development of prior year claims in 2000. Selling, general and administrative costs were 7.1% of revenue in 2000 compared with 7.0% of revenue in 1999. This increase was primarily due to an increased provision for customer bad debts and increased wages and benefits, partially offset by a decreased provision for bonuses under the management incentive compensation plan. Depreciation and amortization was 0.9% of revenue in 2000 compared with 1.0% in 1999. The decrease in depreciation and amortization as a percentage of revenue was primarily attributable to the relocation of Landstar Ligon, Inc. from their owned facility in Madisonville, Kentucky to Jacksonville, Florida in the second quarter of 2000.

Interest and debt expense was 0.7% and 0.4% of revenue in 2000 and 1999, respectively. This increase was primarily attributable to the effect of higher average borrowings on the senior credit facility, which were used to finance the Company's stock repurchase program, increased capital lease obligations for trailing equipment and higher interest rates.

The provisions for income taxes for the 2000 and 1999 thirteen-week periods were based on estimated full year combined effective income tax rates of approximately 39.5% and 40.5%, respectively, which is higher than the statutory federal income tax rate primarily as a result of state income taxes, amortization of certain goodwill and the meals and entertainment exclusion.

Net income was $11,516,000, or $1.33 per common share ($1.30 per diluted share), in the 2000 period compared with $12,074,000, or $1.21 per common share ($1.20 per diluted share), in the 1999 period. Excluding the non-recurring costs related to the estimated withdrawal liability, net income would have been $12,866,000, or $1.48 per common share ($1.45 diluted earnings per share) in the 2000 period.



CAPITAL RESOURCES AND LIQUIDITY

Shareholders' equity decreased to $91,595,000 at September 23, 2000 compared with $106,884,000 at December 25, 1999, as a result of the repurchase of 864,000 shares of the Company's common stock at an aggregate cost of $46,185,000, partially offset by net income for the period. The Company has completed its previously authorized share repurchase program. Shareholders' equity was 46% and 61% of total capitalization at September 23, 2000 and December 25, 1999, respectively.

Working capital and the ratio of current assets to current liabilities were $89,437,000 and 1.56 to 1, respectively, at September 23, 2000, compared with $81,589,000 and 1.48 to 1, respectively, at December 25, 1999. Landstar has historically operated with current ratios approximating 1.5 to 1. Cash provided by operating activities was $28,934,000 in the 2000 period compared with $33,493,000 in the 1999 period. The decrease in cash flow provided by operating activities was primarily attributable to timing of payments partially

offset by the timing of the collection of accounts receivable.
During the 2000 period, Landstar purchased $6,220,000 of operating property and acquired $17,710,000 of revenue equipment by entering into capital leases. Management anticipates acquiring approximately $2,000,000 of operating property during the remainder of fiscal year 2000 either by purchase or lease financing.

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

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Investments and Hedging Activities." This Statement, effective for fiscal years beginning after June 15, 2000, establishes standards for reporting and display of derivative investments and for hedging activities. Management believes that upon adoption of this Statement, Landstar's financial statements will not be affected, considering the nature of the transactions the Company routinely enters into.

INFLATION

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



FORWARD-LOOKING STATEMENTS

The Company has included various statements in Management's Discussion and Analysis of Financial Condition and Results of Operations, such as statements that related to Landstar's business objectives, plans, strategies and expectations. The words "believe," "anticipate," "should" and similar expressions identify forward-looking statements. While made in good faith and with a reasonable basis based on information currently available to Landstar's management, there is no assurance that such opinions, beliefs or expectations will be achieved or accomplished. Various factors could cause actual results and events to vary significantly from those expressed in any forward-looking statement. Such types of statements are intended to be forward-looking statements for purposes of the Private Securities Litigation Reform Act of 1995. The Company is under no obligation to update any forward-looking statement to the extent it becomes aware that it will not be achieved for any reason.

SEASONALITY

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company maintains a credit agreement with a syndicate of banks and The Chase Manhattan Bank, as the administrative agent, (the "Second Amended and Restated Credit Agreement") that provides $200,000,000 of borrowing capacity, consisting of $150,000,000 revolving credit and $50,000,000 revolving credit to finance acquisitions. Borrowings under the Second Amended and Restated Credit Agreement bear interest at rates equal to, at the option of Landstar, either (i) the greatest of (a) the prime rate as publicly announced from time to time by The Chase Manhattan Bank, (b) the three month CD rate adjusted for statutory reserves and FDIC assessment costs plus 1% and (c) the federal funds effective rate plus 1/2%, or, (ii) the rate at the time offered to The Chase Manhattan Bank in the Eurodollar market for amounts and periods comparable to the relevant loan plus a margin that is determined based on the level of the Company's Leverage Ratio, as defined in the Second Amended and Restated Credit Agreement. There have been no significant changes that would affect the information provided in Item 7a of the 1999 Annual Report on Form 10-K regarding quantitative and qualitative disclosures about market risk.



PART II

OTHER INFORMATION

Item 1. Legal Proceedings

On August 5, 1997, suit was filed entitled Rene Alberto Rivas vs. Landstar System, Inc., Landstar Gemini, Inc., Landstar Ranger, Inc., Risk Management Claim Services, Inc., Insurance Management Corporation, and Does 1 through 500, inclusive, in federal district court in Los Angeles. The suit claimed Rivas represents a class of all drivers who, according to the suit, should be classified as employees and were therefore allegedly aggrieved by the practice of Landstar Gemini, Inc. requiring such drivers, as independent contractors, to provide either a worker's compensation certificate or to participate in an occupational accident insurance program. Rivas also claimed violations of federal leasing regulations for allegedly improperly disclosing the program. Rivas also claimed violations of Racketeer Influence and Corrupt Organizations ("RICO") Act and the California Business and Professions Act. He sought on behalf of himself and the class damages of $15 million trebled by virtue of trebling provisions in the RICO Act plus punitive damages. On March 24, 1998, the court granted defendant's motion to dismiss the RICO claim. This matter was settled in the third quarter for a non-material amount and plaintiff has agreed to dismiss all claims with prejudice.

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

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.



Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

(b) Form 8-K

None.



EXHIBIT INDEX

Registrant's Commission File No.: 0-21238

| Exhibit No. | Description |
|---|---|
| (11) | Statement re: Computation of Per Share Earnings: |
| 11.1 * | Landstar System, Inc. and Subsidiary Calculation of Earnings Per Common Share for the Thirty Nine and Thirteen Weeks Ended September 23, 2000 and September 25, 1999 |
| 11.2 * | Landstar System, Inc. and Subsidiary Calculation of Diluted Earnings Per Share for the Thirty Nine and Thirteen Weeks Ended September 23, 2000 and September 25, 1999 |
| (27) | Financial Data Schedules: |
| 27.1 * | 2000 Financial Data Schedule |

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* Filed herewith



SIGNATURES

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

LANDSTAR SYSTEM, INC.

Date: November 6, 2000

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

Date: November 6, 2000

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

EXHIBIT 11.1

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

| | Thirty Nine Weeks Ended | | Thirteen Weeks Ended | |
|---|---|---|---|---|
| | Sept 23, 2000 | Sept 25, 1999 | Sept 23, 2000 | Sept 25, 1999 |
| Earnings available for earnings per share: | | | | |
| Net income | $ 29,292 | $ 30,304 | $ 11,516 | $ 12,074 |
| Average number of common shares outstanding | 8,909 | 10,149 | 8,677 | 9,954 |
| Earnings per common share | $ 3.29 | $ 2.99 | $ 1.33 | $ 1.21 |

EXHIBIT 11.2

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

| | Thirty Nine Weeks Ended | | Thirteen Weeks Ended | |
|---|---|---|---|---|
| | Sept 23, 2000 | Sept 25, 1999 | Sept 23, 2000 | Sept 25, 1999 |
| Net income | $ 29,292 | $ 30,304 | $ 11,516 | $ 12,074 |
| Average number of common shares outstanding | 8,909 | 10,149 | 8,677 | 9,954 |
| Plus: Incremental shares from assumed exercise of stock options | 211 | 121 | 206 | 122 |
| Average number of common shares and common share equivalents outstanding | 9,120 | 10,270 | 8,883 | 10,076 |
| Diluted earnings per share | $ 3.21 | $ 2.95 | $ 1.30 | $ 1.20 |

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This schedule contains summary financial information extracted from the
Consolidated Balance Sheets at September 23, 2000 (Unaudited) and the
Consolidated Statements of Income for the thirty nine weeks ended
September 23, 2000 (Unaudited) and is qualified in its entirety by reference
to such financial statements.
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