

LANDSTAR SYSTEM INC
Form 10-Q
May 03, 2019
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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 March 30, 2019

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 (I.R.S. Employer
of incorporation or organization) 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):

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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 April 22, 2019 was 40,162,360.

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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 thirteen weeks ended March 30, 2019 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 28, 2019.

These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's 2018 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)

	March 30, 2019	December 29, 2018
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 264,625	\$ 199,736
Short-term investments	39,958	40,058
Trade accounts receivable, less allowance of \$7,144 and \$6,413	601,128	691,604
Other receivables, including advances to independent contractors, less allowance of \$6,907 and \$6,216	27,565	23,744
Other current assets	10,919	16,287
Total current assets	944,195	971,429
Operating property, less accumulated depreciation and amortization of \$256,707 and \$250,153	276,193	284,032
Goodwill	38,343	38,232
Other assets	92,208	86,871
Total assets	\$ 1,350,939	\$ 1,380,564
LIABILITIES AND EQUITY		
Current Liabilities		
Cash overdraft	\$ 41,519	\$ 55,339
Accounts payable	273,181	314,134
Current maturities of long-term debt	41,184	43,561
Insurance claims	40,270	40,176
Accrued compensation	9,647	29,489
Contractor escrow	25,383	25,202
Other current liabilities	42,060	27,917
Total current liabilities	473,244	535,818
Long-term debt, excluding current maturities	75,246	84,864
Insurance claims	29,776	30,429
Deferred income taxes and other noncurrent liabilities	44,413	40,320
Equity		
Landstar System, Inc. and subsidiary shareholders' equity Common stock, \$0.01 par value, authorized 160,000,000 shares, issued 68,047,041 and 67,870,962 shares	680	679

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Additional paid-in capital	223,551	226,852
Retained earnings	1,897,967	1,841,279
Cost of 27,884,681 and 27,755,001 shares of common stock in treasury	(1,389,612)	(1,376,111)
Accumulated other comprehensive loss	(4,326)	(5,875)
Total Landstar System, Inc. and subsidiary shareholders equity	728,260	686,824
Noncontrolling interest		2,309
Total equity	728,260	689,133
Total liabilities and equity	\$ 1,350,939	\$ 1,380,564

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)

	Thirteen Weeks Ended	
	March 30, 2019	March 31, 2018
Revenue	\$ 1,033,000	\$ 1,047,926
Investment income	1,138	861
Costs and expenses:		
Purchased transportation	791,755	810,297
Commissions to agents	85,671	82,125
Other operating costs, net of gains on asset sales/dispositions	8,239	7,604
Insurance and claims	14,993	17,360
Selling, general and administrative	41,268	45,251
Depreciation and amortization	11,316	10,997
Total costs and expenses	953,242	973,634
Operating income	80,896	75,153
Interest and debt expense	805	800
Income before income taxes	80,091	74,353
Income taxes	16,791	16,880
Net income	63,300	57,473
Less: Net loss attributable to noncontrolling interest	(17)	(44)
Net income attributable to Landstar System, Inc. and subsidiary	\$ 63,317	\$ 57,517
Earnings per common share attributable to Landstar System, Inc. and subsidiary	\$ 1.58	\$ 1.37
Diluted earnings per share attributable to Landstar System, Inc. and subsidiary	\$ 1.58	\$ 1.37
Average number of shares outstanding:		
Earnings per common share	40,161,000	42,038,000
Diluted earnings per share	40,166,000	42,098,000
Dividends per common share	\$ 0.165	\$ 0.150

See accompanying notes to consolidated financial statements.

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LANDSTAR SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(Unaudited)

	Thirteen Weeks Ended	
	March 30,	March 31,
	2019	2018
Net income attributable to Landstar System, Inc. and subsidiary	\$ 63,317	\$ 57,517
Other comprehensive income (loss):		
Unrealized holding gains (losses) on available-for-sale investments, net of tax expense (benefit) of \$272 and \$(191)	995	(730)
Foreign currency translation gains	554	341
Other comprehensive income (loss)	1,549	(389)
Comprehensive income attributable to Landstar System, Inc. and subsidiary	\$ 64,866	\$ 57,128

See accompanying notes to consolidated financial statements.

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LANDSTAR SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Thirteen Weeks Ended	
	March 30,	March 31,
	2019	2018
OPERATING ACTIVITIES		
Net income	\$ 63,300	\$ 57,473
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of operating property and intangible assets	11,316	10,997
Non-cash interest charges	63	63
Provisions for losses on trade and other accounts receivable	2,150	2,735
Gains on sales/disposals of operating property	(876)	(852)
Deferred income taxes, net	2,079	(757)
Stock-based compensation	1,938	3,710
Changes in operating assets and liabilities:		
Decrease in trade and other accounts receivable	84,505	2,901
Decrease in other assets	2,229	4,311
Decrease in accounts payable	(40,953)	(9,127)
Decrease in other liabilities	(3,776)	(191)
(Decrease) increase in insurance claims	(559)	739
NET CASH PROVIDED BY OPERATING ACTIVITIES	121,416	72,002
INVESTING ACTIVITIES		
Sales and maturities of investments	25,739	12,698
Purchases of investments	(26,707)	(13,399)
Purchases of operating property	(4,576)	(3,814)
Proceeds from sales of operating property	2,130	2,285
NET CASH USED BY INVESTING ACTIVITIES	(3,414)	(2,230)
FINANCING ACTIVITIES		
Decrease in cash overdraft	(13,820)	(5,922)
Dividends paid	(6,629)	(69,293)
Proceeds from exercises of stock options	319	979
Taxes paid in lieu of shares issued related to stock-based compensation plans	(7,923)	(2,704)
Purchases of common stock	(12,977)	(1,508)
Principal payments on finance lease obligations	(11,995)	(11,832)
Purchase of noncontrolling interest	(600)	
Payment of contingent consideration		(985)

NET CASH USED BY FINANCING ACTIVITIES	(53,625)	(91,265)
Effect of exchange rate changes on cash and cash equivalents	512	(318)
Increase (decrease) in cash and cash equivalents	64,889	(21,811)
Cash and cash equivalents at beginning of period	199,736	242,416
Cash and cash equivalents at end of period	\$ 264,625	\$ 220,605

See accompanying notes to consolidated financial statements.

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	Additional Paid-In			Earnings	Accumulated Other Comprehensive			Controlling Interests	Total
	Shares	Amount	Capital		Shares	Amount	Loss		
Balance December 30, 2017	67,740,380	\$ 677	\$ 209,599	\$ 1,611,158	25,749,493	\$ (1,167,600)	\$ (3,162)	\$ 3,205	\$ 653,877
Adoption of accounting standards				773					773
Net income (loss)				57,517				(44)	57,473
Dividends (\$0.15 per share)				(6,308)					(6,308)
Purchases of common stock					14,354	(1,508)			(1,508)
Issuance of stock related to stock-based compensation plans	95,784	1	(1,376)		4,822	(350)			(1,725)
Stock-based compensation			3,710						3,710
Other comprehensive (loss) income							(389)	377	(12)
Balance March 31, 2018	67,836,164	\$ 678	\$ 211,933	\$ 1,663,140	25,768,669	\$ (1,169,458)	\$ (3,551)	\$ 3,538	\$ 706,280

See accompanying notes to consolidated financial statements.

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LANDSTAR SYSTEM, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(1) Significant Accounting Policies***Revenue from Contracts with Customers – Disaggregation of Revenue***

During the thirteen weeks ended March 30, 2019, revenue generated by BCO Independent Contractors, Truck Brokerage Carriers and railroads represented approximately 43%, 49% 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 thirteen-week period ended March 30, 2019. Included in truck transportation revenue generated by BCO Independent Contractors and Truck Brokerage Carriers during the thirteen-week period ended March 30, 2019 was \$619,014,000 hauled via van equipment, \$310,721,000 hauled via unsided/platform equipment and \$23,376,000 of less-than-truckload. During the thirteen weeks ended March 31, 2018, revenue generated by BCO Independent Contractors, Truck Brokerage Carriers and railroads represented approximately 45%, 48% and 3%, respectively, of the Company's consolidated revenue. Collectively, revenue generated by air and ocean cargo carriers represented approximately 2% of the Company's consolidated revenue in the thirteen-week period ended March 31, 2018. Included in truck transportation revenue generated by BCO Independent Contractors and Truck Brokerage Carriers during the thirteen-week period ended March 31, 2018 was \$656,135,000 hauled via van equipment, \$299,369,000 hauled via unsided/platform equipment and \$23,584,000 of less-than-truckload.

(2) Share-based Payment Arrangements

As of March 30, 2019, 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):

**Thirteen Weeks
Ended**

	March 30, 2019	March 31, 2018
Total cost of the Plans during the period	\$ 1,938	\$ 3,710
Amount of related income tax benefit recognized during the period	(3,062)	(2,251)
Net cost of the Plans during the period	\$ (1,124)	\$ 1,459

Included in income tax benefits recognized in the thirteen-week periods ended March 30, 2019 and March 31, 2018 were excess tax benefits from stock-based awards of \$2,571,000 and \$1,298,000, respectively. Also included in income tax benefits recognized in the thirteen-week periods ended March 30, 2019 and March 31, 2018 were income tax benefits of \$16,000 and \$50,000, respectively, recognized on disqualifying dispositions of the Company's common stock by employees who obtained shares of common stock through exercises of incentive stock options.

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As of March 30, 2019, there were 72,742 shares of the Company's common stock reserved for issuance under the 2013 DSCP and 4,015,762 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 29, 2018	292,345	\$ 66.31
Granted	57,548	\$ 95.71
Shares earned in excess of target ⁽¹⁾	67,729	\$ 55.94
Vested shares, including shares earned in excess of target	(216,652)	\$ 54.29
Forfeited	(3,410)	\$ 79.99
Outstanding at March 30, 2019	197,560	\$ 84.26

⁽¹⁾ Represents shares earned in excess of target under the January 27, 2015 and January 29, 2016 RSU awards as actual results exceeded the target under both awards as a result of fiscal year 2018 results.

During the thirteen-week period ended March 30, 2019, the Company granted RSUs with a performance condition. RSUs with a performance condition granted on February 1, 2019 may vest on January 31 of 2022, 2023 and 2024 based on growth in operating income and pre-tax income per share from continuing operations attributable to Landstar System, Inc. and subsidiary as compared to the results from the 2018 fiscal year. Outstanding RSUs at both December 29, 2018 and March 30, 2019 include RSUs with a performance condition and RSUs with a market condition, as further described in the Company's 2018 Annual Report on Form 10-K.

The Company recognized approximately \$1,307,000 and \$3,153,000 of share-based compensation expense related to RSU awards in the thirteen-week periods ended March 30, 2019 and March 31, 2018, respectively. As of March 30, 2019, there was a maximum of \$27.5 million of total unrecognized compensation cost related to RSU awards granted under the Plans with an expected average remaining life of approximately 3.8 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 29, 2018	89,114	\$ 50.44		
Exercised	(16,400)	\$ 49.34		
Options outstanding at March 30, 2019	72,714	\$ 50.68	2.9	\$ 4,269
Options exercisable at March 30, 2019	72,714	\$ 50.68	2.9	\$ 4,269

The total intrinsic value of stock options exercised during the thirteen-week periods ended March 30, 2019 and March 31, 2018 was \$944,000 and \$2,463,000, respectively.

As of March 30, 2019, there was no unrecognized compensation cost related to stock options granted under the Plans.

Table of Contents**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 29, 2018	55,987	\$ 93.66
Granted	21,050	\$ 102.83
Vested	(13,772)	\$ 85.40
Non-vested at March 30, 2019	63,265	\$ 98.51

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

As of March 30, 2019, there was \$4,718,000 of total unrecognized compensation cost related to non-vested shares of restricted stock and Deferred Stock Units granted under the Plans. The unrecognized compensation cost related to these non-vested shares of restricted stock and Deferred Stock Units is expected to be recognized over a weighted average period of 2.5 years.

(3) Income Taxes

The provisions for income taxes for the 2019 and 2018 thirteen-week periods were based on estimated annual effective income tax rates of 24.2% and 24.5%, respectively, adjusted for discrete events, such as benefits resulting from stock-based awards. The effective income tax rate for the 2019 thirteen-week period was 21.0%, which approximated the statutory federal income tax rate. The provision for income taxes for the 2019 thirteen-week period was favorably impacted by \$2,571,000 of excess tax benefits from stock-based awards, which essentially offset the impact of state taxes and the meals and entertainment exclusion. The effective income tax rate for the 2018 thirteen-week period was 22.7%, which was higher than the statutory federal income tax rate of 21% primarily attributable to state taxes, the elimination of the performance-based compensation exception under Section 162(m) by the Tax Cuts and Jobs Act (the Tax Reform Act) and the meals and entertainment exclusion, partially offset by excess tax benefits realized on stock based awards.

(4) Earnings Per Share

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

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

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	Thirteen Weeks Ended	
	March 30, 2019	March 31, 2018
Average number of common shares outstanding	40,161	42,038
Incremental shares from assumed exercises of stock options	5	60
Average number of common shares and common share equivalents outstanding	40,166	42,098

For each of the thirteen-week periods ended March 30, 2019 and March 31, 2018, 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.

(5) Additional Cash Flow Information

During the 2019 thirteen-week period, Landstar received income tax refunds, net of income tax payments, of \$3,624,000 and paid interest of \$1,198,000. During the 2018 thirteen-week period, Landstar paid income taxes and interest of \$464,000 and \$976,000, respectively. Landstar did not acquire any operating property by entering into finance leases in either the 2019 or 2018 thirteen-week periods. 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.

(6) Segment Information

The following table summarizes information about the Company's reportable business segments as of and for the thirteen-week periods ended March 30, 2019 and March 31, 2018 (in thousands):

	Thirteen Weeks Ended					
	March 30, 2019			March 31, 2018		
	Transportation Logistics	Insurance	Total	Transportation Logistics	Insurance	Total
External revenue	\$ 1,018,961	\$ 14,039	\$ 1,033,000	\$ 1,035,640	\$ 12,286	\$ 1,047,926
Internal revenue		9,614	9,614		7,498	7,498
Investment income		1,138	1,138		861	861
Operating income	67,583	13,313	80,896	67,300	7,853	75,153
Expenditures on long-lived assets	4,576		4,576	3,814		3,814
Goodwill	38,343		38,343	39,363		39,363

In the thirteen-week periods ended March 30, 2019 and March 31, 2018, no single customer accounted for more than 10% of the Company's consolidated revenue.

(7) Other Comprehensive Income

The following table presents the components of and changes in accumulated other comprehensive income attributable to Landstar System, Inc. and subsidiary, net of related income taxes, as of and for the thirteen-week period ended March 30, 2019 (in thousands):

	Unrealized Holding (Losses) Gains on		
	Available-for-Sale Securities	Foreign Currency Translation	Total
Balance as of December 29, 2018	\$ (930)	\$ (4,945)	\$ (5,875)
Other comprehensive income	995	554	1,549
Balance as of March 30, 2019	\$ 65	\$ (4,391)	\$ (4,326)

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 thirteen-week period ended March 30, 2019.

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Investments include primarily investment-grade corporate bonds having maturities of up to five years (the bond portfolio) and money market investments. Investments in the bond portfolio are reported as available-for-sale and are carried at fair value. Investments maturing less than one year from the balance sheet date are included in short-term investments and investments maturing more than one year from the balance sheet date are included in other assets in the consolidated balance sheets. Management performs an analysis of the nature of the unrealized losses on available-for-sale investments to determine whether such losses are other-than-temporary. Unrealized losses, representing the excess of the purchase price of an investment over its fair value as of the end of a period, considered to be other-than-temporary, are to be included as a charge in the statement of income, while unrealized losses considered to be temporary are to be included as a component of equity. Investments whose values are based on quoted market prices in active markets are classified within Level 1. Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, are classified within Level 2. As Level 2 investments include positions that are not traded in active markets, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information. Any transfers between levels are recognized as of the beginning of any reporting period. Fair value of the bond portfolio was determined using Level 1 inputs related to money market investments and Level 2 inputs related to investment-grade corporate bonds, asset-backed securities and direct obligations of government agencies. Unrealized gains, net of unrealized losses, on the investments in the bond portfolio were \$83,000 at March 30, 2019, while unrealized losses, net of unrealized gains, on the investments in the bond portfolio were \$1,184,000 at December 29, 2018, respectively.

The amortized cost and fair values of available-for-sale investments are as follows at March 30, 2019 and December 29, 2018 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>March 30, 2019</u>				
Money market investments	\$ 12,719	\$	\$	\$ 12,719
Asset-backed securities	518		2	516
Corporate bonds and direct obligations of government agencies	100,994	428	343	101,079
Total	\$ 114,231	\$ 428	\$ 345	\$ 114,314
<u>December 29, 2018</u>				
Money market investments	\$ 11,714	\$	\$	\$ 11,714
Asset-backed securities	624		4	620
Corporate bonds and direct obligations of government agencies	101,021	33	1,213	99,841
Total	\$ 113,359	\$ 33	\$ 1,217	\$ 112,175

For those available-for-sale investments with unrealized losses at March 30, 2019 and December 29, 2018, 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
<u>March 30, 2019</u>						
Asset-backed securities	\$	\$	\$ 516	\$ 2	\$ 516	\$ 2
Corporate bonds and direct obligations of government agencies	13,900	31	48,181	312	62,081	343
Total	\$ 13,900	\$ 31	\$ 48,697	\$ 314	\$ 62,597	\$ 345
<u>December 29, 2018</u>						
Asset-backed securities	\$	\$	\$ 620	\$ 4	\$ 620	\$ 4
Corporate bonds and direct obligations of government agencies	45,960	354	42,803	859	88,763	1,213
Total	\$ 45,960	\$ 354	\$ 43,423	\$ 863	\$ 89,383	\$ 1,217

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The Company expects to recover the amortized cost basis of these securities as it does not intend to sell, and does not anticipate being required to sell, these securities before recovery of the cost basis. For these reasons, the Company does not consider the unrealized losses on these securities to be other-than-temporary at March 30, 2019.

(9) 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 orientation centers for 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 thirteen weeks ended March 30, 2019 were (in thousands):

Finance leases:	
Amortization of right-of-use assets	\$ 6,624
Interest on lease liability	1,018
Total finance lease cost	7,642
Operating leases:	
Lease cost	1,064
Variable lease cost	
Sublease income	(1,325)
Total operating lease (income)/cost	(261)
Total lease cost	\$ 7,381

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A summary of the lease classification on our consolidated balance sheet as of March 30, 2019 is as follows (in thousands):

Assets:		
Operating lease right-of-use assets	Other assets	\$ 589
Finance lease assets	Operating property, less accumulated depreciation and amortization	166,833
Total lease assets		\$ 167,422

The following table reconciles the undiscounted cash flows for the finance and operating leases at March 30, 2019 to the finance and operating lease liabilities recorded on the balance sheet (in thousands):

	Finance Leases	Operating Leases
2019 Remainder	\$ 34,217	\$ 215
2020	39,481	137
2021	25,066	119
2022	15,902	118
2023	8,875	41
Thereafter		
Total future minimum lease payments	123,541	\$ 630
Less amount representing interest (2.1% to 4.4%)	7,111	41
Present value of minimum lease payments	\$ 116,430	\$ 589
Current maturities of long-term debt	41,184	
Long-term debt, excluding current maturities	75,246	
Other current liabilities		248
Deferred income taxes and other noncurrent liabilities		341

The weighted average remaining lease term and the weighted average discount rate for finance and operating leases as of March 30, 2019 were:

	Finance Leases	Operating Leases
Weighted average remaining lease term (years)	3.3	3.3
Weighted average discount rate	3.2%	4.0%

(10) Commitments and Contingencies

Short-term investments include \$39,958,000 in current maturities of investments held by the Company's insurance segment at March 30, 2019. The non-current portion of the bond portfolio of \$74,356,000 is included in other assets. The short-term investments, together with \$29,314,000 of non-current investments, provide collateral for the \$62,345,000 of letters of credit issued to guarantee payment of insurance claims. As of March 30, 2019, Landstar also had \$34,369,000 of additional letters of credit outstanding under the Company's Credit Agreement.

Reference is made to the descriptions of certain pending legal proceedings in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2018. There have been no material developments with respect to any such pending legal proceedings during the thirteen-week period ended March 30, 2019.

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

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

Landstar provides for the estimated costs of self-insured claims primarily on an actuarial basis. The amount recorded for the estimated liability for claims incurred is based upon the facts and circumstances known on the applicable balance sheet date. The ultimate resolution of these claims may be for an amount greater or less than the amount estimated by management. The Company continually revises its existing claim estimates as new or revised information becomes available on the status of each claim. Historically, the Company has experienced both favorable and unfavorable development of prior years' claims estimates.

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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 thirteen-week periods ended March 30, 2019 and March 31, 2018 (in thousands, except per share amounts):

	Thirteen Weeks Ended	
	March 30, 2019	March 31, 2018
Operating income	\$ 1,407	\$ 2,558
Net income attributable to Landstar System, Inc. and subsidiary	1,067	1,931
Earnings per share attributable to Landstar System, Inc. and subsidiary	\$ 0.03	\$ 0.05
Diluted earnings per share attributable to Landstar System, Inc. and subsidiary	\$ 0.03	\$ 0.05

(12) Recent Accounting Pronouncements*Adoption of New Accounting Standards*

In February 2016, the FASB issued Accounting Standards Update 2016-02 *Leases* (ASU 2016-02), amended by ASU 2018-11, *Leases* (Topic 842): *Targeted Improvements*. ASU 2016-02 requires a company to recognize a right-of-use asset and lease liability for the obligation to make lease payments measured at the present value of the lease payments for all leases with terms greater than twelve months. The ASU requires adoption using a modified retrospective transition approach with either (1) periods prior to the adoption date being recast or (2) a cumulative-effect adjustment recognized to the opening balance of retained earnings on the adoption date with prior periods not recast. The Company adopted this standard on December 30, 2018 using the cumulative-effect adjustment approach. No cumulative-effect adjustment was recognized as the amount was not material. The Company recognized \$589,000 in right-of-use assets and corresponding lease obligations upon adoption of ASU 2016-02. See Note 9 for additional information regarding the impact of adopting ASU 2016-02 to Landstar's consolidated financial statements.

Accounting Standards Issued But Not Yet Adopted

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

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

The following discussion should be read in conjunction with the interim consolidated financial statements and notes thereto included herein, and with the Company's audited financial statements and notes thereto for the fiscal year ended December 29, 2018 and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 2018 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," "could," "will," "the negative thereof" and similar expressions are intended to identify forward-looking statements. Such statements are by nature subject to uncertainties and risks, including but not limited to: an increase in the frequency or severity of accidents or other claims; unfavorable development of existing accident claims; dependence on third party insurance companies; dependence on independent commission sales agents; dependence on third party capacity providers;

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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 2018 fiscal year, described in Item 1A Risk Factors, in this report or in Landstar's other Securities and Exchange Commission filings from time to time. These risks and uncertainties could cause actual results or events to differ materially from historical results or those anticipated. Investors should not place undue reliance on such forward-looking statements and the Company undertakes no obligation to publicly update or revise any forward-looking statements.

Introduction

Landstar System, Inc. and its subsidiary, Landstar System Holdings, Inc. (together, referred to herein as "Landstar" or the "Company"), is a worldwide asset-light provider of integrated transportation management solutions. The Company offers services to its customers across multiple transportation modes, with the ability to arrange for individual shipments of freight to enterprise-wide solutions to manage all of a customer's transportation needs. Landstar provides services principally throughout the United States and to a lesser extent in Canada and Mexico, and between the United States and Canada, Mexico and other countries around the world. The Company's services emphasize safety, information coordination and customer service and are delivered through a network of over 1,200 independent commission sales agents and 68,000 third party capacity providers, primarily truck capacity providers, linked together by a series of technological applications which are provided and coordinated by the Company. The nature of the Company's business is such that a significant portion of its operating costs varies directly with revenue.

Landstar markets its integrated transportation management solutions primarily through independent commission sales agents and exclusively utilizes third party capacity providers to transport customers' freight. Landstar's independent commission sales agents enter into contractual arrangements with the Company and are responsible for locating freight, making that freight available to Landstar's capacity providers and coordinating the transportation of the freight with customers and capacity providers. The Company's third party capacity providers consist of independent contractors who provide truck capacity to the Company under exclusive lease arrangements (the "BCO Independent Contractors"), unrelated trucking companies who provide truck capacity to the Company under non-exclusive contractual arrangements (the "Truck Brokerage Carriers"), air cargo carriers, ocean cargo carriers and railroads. Through this network of agents and capacity providers linked together by Landstar's information technology systems, Landstar operates an integrated transportation management solutions business primarily throughout North America with revenue of \$4.6 billion during the most recently completed fiscal year. The Company reports the results of two operating segments: the transportation logistics segment and the insurance segment.

The transportation logistics segment provides a wide range of integrated transportation management solutions. Transportation services offered by the Company include truckload and less-than-truckload transportation, rail intermodal, air cargo, ocean cargo, expedited ground and air delivery of time-critical freight, heavy-haul/specialized, U.S.-Canada and U.S.-Mexico cross-border, intra-Mexico, intra-Canada, project cargo and customs brokerage. Examples of the industries serviced by the transportation logistics segment include automotive products, building products, metals, chemicals, foodstuffs, heavy machinery, retail, electronics and military equipment. In addition, the transportation logistics segment provides transportation services to other transportation companies, including third party logistics and less-than-truckload service providers. Each of the independent commission sales agents has the opportunity to market all of the services provided by the transportation logistics segment. Billings for freight transportation services are typically charged to customers on a per shipment basis for the physical transportation of freight and are referred to as transportation revenue. During the thirteen weeks ended March 30, 2019, revenue

generated by BCO Independent Contractors, Truck Brokerage Carriers and railroads represented approximately 43%, 49% 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 thirteen-week period ended March 30, 2019.

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 thirteen-week period ended March 30, 2019.

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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 thirteen-week period ended March 30, 2019.

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 technology-based tools they may use to grow revenue and increase efficiencies at their businesses. During the 2018 fiscal year, 608 independent commission sales agents generated \$1 million or more of Landstar revenue and thus qualified as Million Dollar Agents. During the 2018 fiscal year, the average revenue generated by a Million Dollar Agent was \$7,150,000 and revenue generated by Million Dollar Agents in the aggregate represented 94% of consolidated revenue.

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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:

	Thirteen Weeks Ended	
	March 30, 2019	March 31, 2018
<u>Revenue generated through (in thousands):</u>		
Truck transportation		
<u>Truckload:</u>		
Van equipment	\$ 619,014	\$ 656,135
Unsided/platform equipment	310,721	299,369
Less-than-truckload	23,376	23,584
Total truck transportation	953,111	979,088
Rail intermodal	30,015	29,292
Ocean and air cargo carriers	30,669	23,477
Other (1)	19,205	16,069
	\$ 1,033,000	\$ 1,047,926
Revenue on loads hauled via BCO Independent Contractors included in total truck transportation		
	\$ 449,308	\$ 471,150
<u>Number of loads:</u>		
Truck transportation		
<u>Truckload:</u>		
Van equipment	341,821	336,919
Unsided/platform equipment	125,170	119,791
Less-than-truckload	35,309	33,420
Total truck transportation	502,300	490,130
Rail intermodal	12,460	13,280
Ocean and air cargo carriers	7,510	6,330
	522,270	509,740
Loads hauled via BCO Independent Contractors included in total truck transportation		
	234,850	233,180
<u>Revenue per load:</u>		
Truck transportation		
<u>Truckload:</u>		
Van equipment	\$ 1,811	\$ 1,947
Unsided/platform equipment	2,482	2,499

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Less-than-truckload	662	706
Total truck transportation	1,897	1,998
Rail intermodal	2,409	2,206
Ocean and air cargo carriers	4,084	3,709
Revenue per load on loads hauled via BCO		
Independent Contractors	\$ 1,913	\$ 2,021
<u>Revenue by capacity type (as a % of total revenue):</u>		
Truck capacity providers:		
BCO Independent Contractors	43%	45%
Truck Brokerage Carriers	49%	48%
Rail intermodal	3%	3%
Ocean and air cargo carriers	3%	2%
Other	2%	2%

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

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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:

	March 30, 2019	March 31, 2018
BCO Independent Contractors	9,911	9,243
Truck Brokerage Carriers:		
Approved and active ⁽¹⁾	40,404	34,659
Other approved	18,659	15,687
	59,063	50,346
Total available truck capacity providers	68,974	59,589
Trucks provided by BCO Independent Contractors	10,637	9,868

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

The Company incurs costs that are directly related to the transportation of freight that include purchased transportation and commissions to agents. The Company incurs indirect costs associated with the transportation of freight that include other operating costs and insurance and claims. In addition, the Company incurs selling, general and administrative costs essential to administering its business operations. Management continually monitors all components of the costs incurred by the Company and establishes annual cost budgets which, in general, are used to benchmark costs incurred on a monthly basis.

Purchased transportation represents the amount a BCO Independent Contractor or other third party capacity provider is paid to haul freight. The amount of purchased transportation paid to a BCO Independent Contractor is primarily based on a contractually agreed-upon percentage of revenue generated by loads hauled by the BCO Independent Contractor. Purchased transportation paid to a Truck Brokerage Carrier is based on either a negotiated rate for each load hauled or, to a lesser extent, a contractually agreed-upon fixed rate per load. Purchased transportation paid to railroads is based on either a negotiated rate for each load hauled or a contractually agreed-upon fixed rate per load. Purchased transportation paid to air cargo carriers is generally based on a negotiated rate for each load hauled and purchased transportation paid to ocean cargo carriers is generally based on contractually agreed-upon fixed rates. Purchased transportation as a percentage of revenue for truck brokerage, rail intermodal and ocean cargo services is normally higher than that of BCO Independent Contractor and air cargo services. Purchased transportation is the largest component of costs and expenses and, on a consolidated basis, increases or decreases as a percentage of consolidated revenue in proportion to changes in the percentage of consolidated revenue generated through BCO Independent Contractors and other third party capacity providers and external revenue from the insurance segment, consisting of reinsurance premiums. Purchased transportation as a percent of revenue also increases or decreases in relation to the availability of truck brokerage capacity and with changes in the price of fuel on revenue generated by Truck Brokerage Carriers. The Company passes 100% of fuel surcharges billed to customers for freight hauled by BCO Independent Contractors to its BCO Independent Contractors. These fuel surcharges are excluded from revenue and the cost of purchased transportation. Purchased transportation costs are recognized over the transit period as the performance obligation 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 by railroads, air cargo carriers, ocean cargo carriers and Truck Brokerage Carriers, other than those under retention contracts, is variable in nature as the Company's contracts with independent commission sales agents provide commissions to agents at a contractually agreed upon percentage of net revenue for these types of loads. Approximately 50% of the Company's consolidated revenue in the thirteen-week period ended March 30, 2019 was generated under contracts that have a fixed gross profit margin while 50% was under contracts that have a variable gross profit margin.

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

With respect to insurance and claims cost, potential liability associated with accidents in the trucking industry is severe and occurrences are unpredictable. For commercial trucking claims, Landstar retains liability up to \$5,000,000 per occurrence. In addition, for commercial trucking claims exceeding its \$5,000,000 per occurrence self-insured retention, the Company retains liability up to an additional \$700,000 in the aggregate on any claims incurred on or after May 1, 2016 through April 30, 2017, up to an additional \$500,000 in the aggregate on any claims incurred on or after May 1, 2017 through April 30, 2018 and up to an additional \$350,000 in the aggregate on any claims incurred on or after May 1, 2018 through April 30, 2019. The Company also retains liability of up to \$1,000,000 for each general liability claim, up to \$250,000 for each workers' compensation claim and up to \$250,000 for each cargo claim. 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 thirteen-week period ended March 30, 2019, employee compensation and benefits accounted for approximately sixty-seven 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:

	Thirteen Weeks Ended	
	March 30,	March 31,
	2019	2018
Revenue	100.0%	100.0%
Purchased transportation	76.6	77.3
Commissions to agents	8.3	7.8
Gross profit margin	15.1%	14.8%
Gross profit	100.0%	100.0%
Investment income	0.7	0.6
Indirect costs and expenses:		
Other operating costs, net of gains on asset sales/dispositions	5.3	4.9

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Insurance and claims	9.6	11.2
Selling, general and administrative	26.5	29.1
Depreciation and amortization	7.3	7.1
Total costs and expenses	48.7	52.2
Operating margin	52.0%	48.3%

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

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

THIRTEEN WEEKS ENDED MARCH 30, 2019 COMPARED TO THIRTEEN WEEKS ENDED MARCH 31, 2018

Revenue for the 2019 thirteen-week period was \$1,033,000,000, a decrease of \$14,926,000, or 1%, compared to the 2018 thirteen-week period. Transportation revenue decreased \$16,679,000, or 2%. The decrease in transportation revenue was attributable to decreased revenue per load of approximately 4%, partially offset by an increased number of loads hauled of approximately 2%. Reinsurance premiums were \$14,039,000 and \$12,286,000 for the 2019 and 2018 thirteen-week periods, respectively. The increase in revenue from reinsurance premiums was primarily attributable to the increase in the average number of trucks provided by BCO Independent Contractors in the 2019 thirteen-week period compared to the 2018 thirteen-week period.

Truck transportation revenue generated by BCO Independent Contractors and Truck Brokerage Carriers (together, the third party truck capacity providers) for the 2019 thirteen-week period was \$953,111,000, representing 92% of total revenue, a decrease of \$25,977,000, or 3%, compared to the 2018 thirteen-week period. Revenue per load on loads hauled by third party truck capacity providers decreased approximately 5% in the 2019 thirteen-week period compared to the 2018 thirteen-week period, while the number of loads hauled by third party truck capacity providers increased approximately 2% compared to the 2018 thirteen-week period. The decrease in revenue per load on loads hauled via truck was primarily due to a softer freight environment experienced during the 2019 thirteen-week period, which resulted in more readily available truck capacity as compared to the 2018 thirteen-week period. Revenue per load on loads hauled via van equipment decreased 7%, revenue per load on loads hauled via unsided/platform

equipment decreased 1% and revenue per load on less-than-truckload loadings decreased 6% as compared to the 2018 thirteen-week period. The increase in the number of loads hauled via truck compared to the 2018 thirteen-week period was due to an increase in demand for the Company's unsided/platform services and slightly higher demand for truckload services provided via van equipment. The number of loads hauled via unsided/platform and van equipment increased 4% and 1% during the 2019 thirteen-week period, respectively, as compared to the 2018 thirteen-week period. Fuel surcharges billed to customers on revenue generated by BCO Independent Contractors are excluded from revenue. Fuel surcharges on Truck Brokerage Carrier revenue identified separately in billings to customers and included as a component of Truck Brokerage Carrier revenue were \$20,987,000 and \$22,245,000 in the 2019 and 2018 thirteen-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 2019 thirteen-week period was \$60,684,000, or 6% of total revenue, an increase of \$7,915,000, or 15%, compared to the 2018 thirteen-week period. Revenue per load on revenue generated by multimode capacity providers increased approximately 13% in the 2019 thirteen-week period compared to the 2018 thirteen-week period, and the number of loads hauled by multimode capacity

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providers increased approximately 2% over the same period. The increase in revenue per load of 13% on loads hauled by multimode capacity providers was primarily attributable to increased revenue per load on ocean loads. The increase in the number of loads hauled by multimode capacity providers was primarily due to a 34% increase in air loadings, primarily attributable to increased air loadings for one specific customer. 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 76.6% and 77.3% of revenue in the 2019 and 2018 thirteen-week periods, respectively. The decrease in purchased transportation as a percentage of revenue was primarily due to a decreased rate of purchased transportation paid on Truck Brokerage Carrier revenue, partially offset by a decrease in the percentage of revenue contributed by BCO Independent Contractors, which typically has a lower rate of purchased transportation than revenue generated by Truck Brokerage Carriers. Commissions to agents were 8.3% and 7.8% of revenue in the 2019 and 2018 thirteen-week periods, respectively. The increase in commissions to agents as a percentage of revenue was primarily attributable to an increased net revenue margin on revenue generated by Truck Brokerage Carriers.

Investment income was \$1,138,000 and \$861,000 in the 2019 and 2018 thirteen-week periods, respectively. The increase in investment income was attributable to higher average rates of return on investments in the 2019 thirteen-week period.

Other operating costs increased \$635,000 in the 2019 thirteen-week period compared to the 2018 thirteen-week period and represented 5.3% of gross profit in the 2019 period compared to 4.9% of gross profit in the 2018 period. The increase in other operating costs compared to the prior year was primarily due to increased trailing equipment maintenance costs as a result of an increased number of Company-owned trailers, partially offset by a decreased provision for contractor bad debt. The increase in other operating costs as a percentage of gross profit was caused by the increase in other operating costs.

Insurance and claims decreased \$2,367,000 in the 2019 thirteen-week period compared to the 2018 thirteen-week period and represented 9.6% of gross profit in the 2019 period compared to 11.2% of gross profit in the 2018 period. The decrease in insurance and claims expense compared to prior year was primarily due to decreased net unfavorable development of prior years' claims and decreased severity of current year claims in the 2019 period. Net unfavorable development of prior years' claims was \$1,407,000 and \$2,558,000 in the 2019 and 2018 thirteen-week periods, respectively. The decrease in insurance and claims as a percent of gross profit was caused by the decrease in insurance and claims costs.

Selling, general and administrative costs decreased \$3,983,000 in the 2019 thirteen-week period compared to the 2018 thirteen-week period and represented 26.5% of gross profit in the 2019 period compared to 29.1% of gross profit in the 2018 period. The decrease in selling, general and administrative costs compared to prior year was attributable to a decreased provision for incentive compensation and decreased stock-based compensation expense, partially offset by increased wages and an increased provision for customer bad debt. Included in selling, general and administrative costs is incentive compensation expense of \$1,038,000 and \$4,131,000 for the 2019 and 2018 thirteen-week periods, respectively, and stock-based compensation expense of \$1,938,000 and \$3,710,000 for the 2019 and 2018 thirteen-week periods, respectively. The decrease in selling, general and administrative costs as a percent of gross profit was due primarily to the decrease in selling, general and administrative costs.

Depreciation and amortization increased \$319,000 in the 2019 thirteen-week period compared to the 2018 thirteen-week period and represented 7.3% of gross profit in the 2019 period compared to 7.1% of gross profit in the 2018 period. The increase in depreciation and amortization expenses was primarily due to an increased number of

Company-owned trailers. The increase in depreciation and amortization as a percentage of gross profit was primarily due to the increased depreciation costs.

Interest and debt expense in the 2019 thirteen-week period increased \$5,000 compared to the 2018 thirteen-week period.

The provisions for income taxes for the 2019 and 2018 thirteen-week periods were based on estimated annual effective income tax rates of 24.2% and 24.5%, respectively, adjusted for discrete events, such as benefits resulting from stock-based awards. The effective income tax rate for the 2019 thirteen-week period was 21.0%, which approximated the statutory federal income tax rate. The effective income tax rate for the 2018 thirteen-week period was 22.7%, which was higher than the statutory federal income tax rate of 21% primarily attributable to state taxes, the Tax Reform Act's elimination of the performance-based compensation exception under Section 162(m) and the meals and entertainment exclusion. The effective income tax rate in the 2019 thirteen-week period of 21.0% 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, which essentially offset the impact of state taxes and the meals and entertainment exclusion. The effective income tax rate in the 2018 thirteen-week period of 22.7% was lower than the 24.5% estimated annual effective income tax rate primarily due to excess tax benefits recognized on stock-based compensation arrangements in the 2018 thirteen-week period.

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The net loss attributable to noncontrolling interest of \$17,000 and \$44,000 in the 2019 and 2018 thirteen-week periods, respectively, represents the former noncontrolling investors' share of the net loss incurred by Landstar Metro and Landstar Servicios.

Net income attributable to the Company was \$63,317,000, or \$1.58 per common share (\$1.58 per diluted share), in the 2019 thirteen-week period. Net income attributable to the Company was \$57,517,000, or \$1.37 per common share (\$1.37 per diluted share), in the 2018 thirteen-week period.

CAPITAL RESOURCES AND LIQUIDITY

Working capital and the ratio of current assets to current liabilities were \$470,951,000 and 2.0 to 1, respectively, at March 30, 2019, compared with \$435,611,000 and 1.8 to 1, respectively, at December 29, 2018. 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 \$121,416,000 in the 2019 thirteen-week period compared with \$72,002,000 in the 2018 thirteen-week period. The increase in cash flow provided by operating activities was primarily attributable to the timing of collections of trade receivables.

The Company declared and paid \$0.165 per share, or \$6,629,000 in the aggregate, in cash dividends during the thirteen-week period ended March 30, 2019. The Company declared and paid \$0.15 per share, or \$6,308,000 in the aggregate, in cash dividends during the thirteen-week period ended March 31, 2018 and, during such period, also paid \$62,985,000 of dividends payable which were declared during fiscal year 2017 and included in current liabilities in the consolidated balance sheet at December 30, 2017. During the thirteen-week period ended March 30, 2019, the Company purchased 124,481 shares of its common stock at a total cost of \$12,977,000. During the thirteen-week period ended March 31, 2018, the Company purchased 14,354 shares of its common stock at a total cost of \$1,508,000. As of March 30, 2019, the Company may purchase in the aggregate up to 1,875,519 shares of its common stock under its authorized stock purchase programs. Long-term debt, including current maturities, was \$116,430,000 at March 30, 2019, \$11,995,000 lower than at December 29, 2018.

Equity was \$728,260,000, or 86% of total capitalization (defined as long-term debt including current maturities plus equity), at March 30, 2019, compared to \$689,133,000, or 84% of total capitalization, at December 29, 2018. The increase in equity was primarily a result of net income, partially offset by purchases of shares of the Company's common stock and dividends declared by the Company in the 2019 thirteen-week period.

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

The Credit Agreement contains a number of covenants that limit, among other things, the incurrence of additional indebtedness. The Company is required to, among other things, maintain a minimum Fixed Charge Coverage Ratio, as defined in the Credit Agreement, and maintain a Leverage Ratio, as defined in the Credit Agreement, below a specified maximum. The Credit Agreement provides for a restriction on cash dividends and other distributions to stockholders on the Company's capital stock to the extent there is a default under the Credit Agreement. In addition, the Credit Agreement under certain circumstances limits the amount of such cash dividends and other distributions to stockholders to the extent that, after giving effect to any payment made to effect such cash dividend or other distribution, the Leverage Ratio would exceed 2.5 to 1 on a pro forma basis as of the end of the Company's most

recently completed fiscal quarter. The Credit Agreement provides for an event of default in the event that, among other things, a person or group acquires 35% or more of the outstanding capital stock of the Company or obtains power to elect a majority of the Company's directors or the directors cease to consist of a majority of Continuing Directors, as defined in the Credit Agreement. None of these covenants are presently considered by management to be materially restrictive to the Company's operations, capital resources or liquidity. The Company is currently in compliance with all of the debt covenants under the Credit Agreement.

At March 30, 2019, the Company had no borrowings outstanding and \$34,369,000 of letters of credit outstanding under the Credit Agreement. At March 30, 2019, there was \$215,631,000 available for future borrowings under the Credit Agreement. In addition, the Company has \$62,345,000 in letters of credit outstanding as collateral for insurance claims that are secured by investments totaling \$69,272,000 at March 30, 2019. Investments, all of which are carried at fair value, include primarily investment-grade bonds having maturities of up to five years. Fair value of investments is based primarily on quoted market prices. See Notes to Consolidated Financial Statements included herein for further discussion on measurement of fair value of investments.

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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 2019 thirteen-week period, the Company purchased \$4,576,000 of operating property. Landstar anticipates acquiring either by purchase or lease financing during the remainder of fiscal year 2019 approximately \$66,000,000 in operating property, consisting primarily of new trailing equipment to replace older trailing equipment and information technology equipment.

On January 29, 2019, Landstar acquired all of the remaining equity interests in Landstar Metro and Landstar Servicios then held by the minority equityholders. Accordingly, as of such date, Landstar Metro and Landstar Servicios each became wholly owned subsidiaries of the Company. Cash consideration paid in the 2019 first quarter to purchase these remaining equity interests was \$600,000.

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 program and meet working capital needs.

LEGAL MATTERS

Reference is made to the descriptions of certain pending legal proceedings in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2018. There have been no material developments with respect to any such pending legal proceedings during the thirteen-week period ended March 30, 2019.

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 2019 and 2018 thirteen-week periods, insurance and claims costs included \$1,407,000 and \$2,558,000 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 reserve at March 30, 2019.

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.

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SEASONALITY

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

Depending upon the specific type of borrowing, borrowings under the Credit Agreement bear interest based on either (a) the prime rate, (b) the Federal Reserve Bank of New York rate plus 0.5% or (c) the London Interbank Offered Rate, plus 1.25%. As of March 30, 2019 and during the entire 2019 first quarter, the Company had no borrowings outstanding under the Credit Agreement.

Long-term investments, all of which are available-for-sale and are carried at fair value, include primarily investment-grade bonds having maturities of up to five years. Assuming that the long-term portion of investments remains at \$74,356,000, the balance at March 30, 2019, a hypothetical increase or decrease in interest rates of 100 basis points would not have a material impact on future earnings on an annualized basis. Short-term investments consist of short-term investment-grade instruments and the current maturities of investment-grade corporate bonds. Accordingly, any future interest rate risk on these short-term investments would not be material to the Company's operating results.

Assets and liabilities of the Company's Canadian and Mexican operations are translated from their functional currency to U.S. dollars using exchange rates in effect at the balance sheet date and revenue and expense accounts are translated at average monthly exchange rates during the period. Adjustments resulting from the translation process are included in accumulated other comprehensive income. Transactional gains and losses arising from receivable and payable balances, including intercompany balances, in the normal course of business that are denominated in a currency other than the functional currency of the operation are recorded in the statements of income when they occur. The assets held at the Company's Canadian and Mexican subsidiaries at March 30, 2019 were, as translated to U.S. dollars, approximately 4% of total consolidated assets. Accordingly, any translation gain or loss related to the Canadian and Mexican operations would not be material.

Item 4. Controls and Procedures

As of the end of the period covered by this quarterly report on Form 10-Q, an evaluation was carried out, under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended). Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of March 30, 2019 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 March 30, 2019 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.

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PART II

OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to the descriptions of certain pending legal proceedings in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2018. There have been no material developments with respect to any such pending legal proceedings during the thirteen-week period ended March 30, 2019.

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

Item 1A. Risk Factors

For a discussion identifying additional risk factors and other important factors that could cause actual results to differ materially from those anticipated, see the discussions under Part I, Item 1A, Risk Factors in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2018 and in Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes to Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

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

Purchases of Equity Securities by the Company

The following table provides information regarding the Company's purchase of its common stock during the period from December 30, 2018 to March 30, 2019, the Company's first fiscal quarter:

Fiscal Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares	
			Purchased as Part of Publicly Announced Programs	Maximum Number of Shares That May Yet Be Purchased Under the Programs
December 29, 2018				1,000,000
December 30, 2018 - January 26, 2019		\$		2,000,000
January 27, 2019 - February 23, 2019	100,000	104.09	100,000	1,900,000
February 24, 2019 - March 30, 2019	24,481	104.91	24,481	1,875,519

Total	124,481	\$ 104.25	124,481
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On December 11, 2017, the Landstar System, Inc. Board of Directors authorized the Company to purchase up to 1,963,875 shares of the Company's common stock from time to time in the open market and in privately negotiated transactions. On January 23, 2019, the Landstar System, Inc. Board of Directors authorized the Company to purchase up to 1,000,000 additional shares of the Company's Common Stock from time to time in the open market and in privately negotiated transactions. As of March 30, 2019, the Company had authorization to purchase in the aggregate up to 1,875,519 shares of its common stock under these programs. No specific expiration date has been assigned to either the December 11, 2017 or January 23, 2019 authorizations.

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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). The Credit Agreement provides for a restriction on cash dividends and other distributions to stockholders on the Company's capital stock in the event there is a default under the Credit Agreement. In addition, the Credit Agreement, under certain circumstances, limits the amount of such cash dividends and other distributions to stockholders to the extent that, after giving effect to any payment made to effect such cash dividend or other distribution, the Leverage Ratio, as defined in the Credit Agreement, would exceed 2.5 to 1 on a pro forma basis as of the end of the Company's most recently completed fiscal quarter.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

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EXHIBIT INDEX

Registrant's Commission File No.: 0-21238

Exhibit No.	Description
(31)	Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.1*	<u>Chief Executive Officer certification, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Chief Financial Officer certification, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
(32)	Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.1**	<u>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.</u>
32.2**	<u>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.</u>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Schema Document
101.CAL*	XBRL Calculation Linkbase Document
101.DEF*	XBRL Definition Linkbase Document
101.LAB*	XBRL Labels Linkbase Document
101.PRE*	XBRL Presentation Linkbase Document

* Filed herewith

** Furnished herewith

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SIGNATURES

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

LANDSTAR SYSTEM, INC.

Date: May 3, 2019

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

Date: May 3, 2019

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