LANDSTAR SYSTEM INC
Form 10-Q
July 31, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 27, 2015

OR

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

For the transition period from __________ to __________

Commission File Number: 0-21238

LANDSTAR SYSTEM, INC.

(Exact name of registrant as specified in its charter)

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

13410 Sutton Park Drive South, Jacksonville, Florida

(Address of principal executive offices)

32224

(Zip Code)

(904) 398-9400

(Registrant s telephone number, including area code)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): Yes x No ¨

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of shares of the registrant s common stock, par value $0.01 per share, outstanding as of the close of business on July 20, 2015 was 43,575,617.

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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 shareholders equity for the periods presented. They have been prepared in accordance with Rule 10-01 of Regulation S-X and do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. Operating results for the twenty six weeks ended June 27, 2015 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 26, 2015.

These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s 2014 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)

	June 27, 2015	December 27, 2014
ASSETS		
Current Assets		
Cash and cash equivalents	$ 82,426	$ 163,944
Short-term investments	48,864	37,007
Trade accounts receivable, less allowance of $4,441 and $4,338	481,605	492,642
Other receivables, including advances to independent contractors, less allowance of $4,304 and $4,189	21,678	15,132
Deferred income taxes and other current assets	22,307	23,603
Total current assets	656,880	732,328
Operating property, less accumulated depreciation and amortization of $169,110 and $160,681	190,082	202,203
Goodwill	31,134	31,134
Other assets	68,848	78,547
Total assets	$ 946,944	$ 1,044,212
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Cash overdraft	$ 31,717	$ 34,629
Accounts payable	216,807	220,077
Current maturities of long-term debt	34,189	35,064
Insurance claims	22,123	24,233
Dividends payable		44,794
Other current liabilities	41,617	51,654
Total current liabilities	346,453	410,451
Long-term debt, excluding current maturities	59,020	76,257
Insurance claims	23,491	21,769
Deferred income taxes and other noncurrent liabilities	48,478	47,474
Shareholders Equity		
	674	673

Common stock, $0.01 par value, authorized 160,000,000 shares, issued 67,357,102 and 67,268,817 shares		
Additional paid-in capital	191,221	189,012
Retained earnings	1,319,674	1,255,374
Cost of 23,781,485 and 22,474,331 shares of common stock in treasury	(1,040,248)	(955,613)
Accumulated other comprehensive loss	(1,819)	(1,185)
Total shareholders equity	469,502	488,261
Total liabilities and shareholders equity	$ 946,944	$ 1,044,212

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)

	Twenty Six Weeks Ended		Thirteen Weeks Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Revenue	$ 1,630,763	$ 1,502,640	$ 868,383	$ 814,443
Investment income	693	695	339	332
Costs and expenses:				
Purchased transportation	1,254,730	1,158,964	667,577	628,933
Commissions to agents	129,816	116,565	70,032	63,861
Other operating costs, net of gains on asset sales/dispositions	15,670	12,829	7,981	6,243
Insurance and claims	27,108	25,706	12,312	13,849
Selling, general and administrative	74,986	72,352	37,738	36,752
Depreciation and amortization	14,068	13,333	7,049	6,565
Total costs and expenses	1,516,378	1,399,749	802,689	756,203
Operating income	115,078	103,586	66,033	58,572
Interest and debt expense	1,494	1,486	713	718
Income before income taxes	113,584	102,100	65,320	57,854
Income taxes	43,098	38,537	24,849	21,929
Net income	$ 70,486	$ 63,563	$ 40,471	$ 35,925
Earnings per common share	$ 1.59	$ 1.41	$ 0.92	$ 0.80
Diluted earnings per share	$ 1.59	$ 1.40	$ 0.92	$ 0.80
Average number of shares outstanding:				
Earnings per common share	44,240,000	45,171,000	43,892,000	44,935,000
Diluted earnings per share	44,397,000	45,362,000	44,033,000	45,128,000
Dividends per common share	$ 0.14	$ 0.12	$ 0.07	$ 0.06

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)

	Twenty Six Weeks Ended		Thirteen Weeks Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Net income	$ 70,486	$ 63,563	$ 40,471	$ 35,925
Other comprehensive income (loss):				
Unrealized holding gains (losses) on available-for-sale investments, net of tax expense (benefit) of $35, $125, ($90) and $65	64	229	(164)	119
Foreign currency translation (losses) gains	(698)	(257)	(418)	175
Other comprehensive (loss) income	(634)	(28)	(582)	294
Comprehensive income	$ 69,852	$ 63,535	$ 39,889	$ 36,219

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)

	Twenty Six Weeks Ended June 27, 2015	Twenty Six Weeks Ended June 28, 2014
OPERATING ACTIVITIES		
Net income	$ 70,486	$ 63,563
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of operating property	14,068	13,333
Non-cash interest charges	109	109
Provisions for losses on trade and other accounts receivable	3,344	2,650
Gains on sales/disposals of operating property	(178)	(736)
Deferred income taxes, net	1,859	1,304
Stock-based compensation	3,243	2,799
Changes in operating assets and liabilities:		
Decrease (increase) in trade and other accounts receivable	1,147	(64,709)
Decrease (increase) in other assets	1,596	(15,592)
(Decrease) increase in accounts payable	(3,270)	37,539
Decrease in other liabilities	(9,999)	(11,939)
Decrease in insurance claims	(388)	(14,721)
NET CASH PROVIDED BY OPERATING ACTIVITIES	82,017	13,600
INVESTING ACTIVITIES		
Net change in other short-term investments		(3,225)
Sales and maturities of investments	16,656	20,830
Purchases of investments	(20,052)	(21,807)
Purchases of operating property	(3,050)	(1,354)
Proceeds from sales of operating property	1,281	2,410
NET CASH USED BY INVESTING ACTIVITIES	(5,165)	(3,146)
FINANCING ACTIVITIES		
Decrease in cash overdraft	(2,912)	(578)
Dividends paid	(50,980)	(21,341)
Proceeds from exercises of stock options	534	2,111
Taxes paid in lieu of shares issued related to stock-based compensation plans	(2,083)	(1,724)
Excess tax benefits from stock-based awards	516	669
Purchases of common stock	(84,635)	(56,393)
Principal payments on long-term debt and capital lease obligations	(18,112)	(20,110)

NET CASH USED BY FINANCING ACTIVITIES	(157,672)	(97,366)
Effect of exchange rate changes on cash and cash equivalents	(698)	(257)
Decrease in cash and cash equivalents	(81,518)	(87,169)
Cash and cash equivalents at beginning of period	163,944	180,302
Cash and cash equivalents at end of period	$ 82,426	$ 93,133

See accompanying notes to consolidated financial statements.

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LANDSTAR SYSTEM, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

Twenty Six Weeks Ended June 27, 2015

(Dollars in thousands)

(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock at Cost Shares	Treasury Stock at Cost Amount	Accumulated Other Comprehensive Loss	Total
Balance December 27, 2014	67,268,817	$ 673	$ 189,012	$ 1,255,374	22,474,331	$ (955,613)	$ (1,185)	$ 488,261
Net income				70,486				70,486
Dividends ($0.14 per share)				(6,186)				(6,186)
Purchases of common stock					1,307,154	(84,635)		(84,635)
Issuance of stock related to stock-based compensation plans, including excess tax effect	88,285	1	(1,034)					(1,033)
Stock-based compensation			3,243					3,243
Other comprehensive loss							(634)	(634)
Balance June 27, 2015	67,357,102	$ 674	$ 191,221	$ 1,319,674	23,781,485	$ (1,040,248)	$ (1,819)	$ 469,502

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) Share-based Payment Arrangements

As of June 27, 2015, 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 2013 Directors Stock Compensation Plan (the 2013 DSCP). 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):

	Twenty Six Weeks Ended		Thirteen Weeks Ended	
	June 27, 2015	**June 28, 2014**	**June 27, 2015**	**June 28, 2014**
Total cost of the Plans during the period	$ 3,243	$ 2,799	$ 1,576	$ 1,635
Amount of related income tax benefit recognized during the period	(1,270)	(1,277)	(569)	(663)
Net cost of the Plans during the period	$ 1,973	$ 1,522	$ 1,007	$ 972

Included in income tax benefits recognized in the twenty-six-week periods ended June 27, 2015 and June 28, 2014 were income tax benefits of $213,000 and $464,000, 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.

As of June 27, 2015, there were 94,334 shares of the Company s common stock reserved for issuance under the 2013 DSCP and 5,555,519 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 under the Plans:

	Number of RSUs	Weighted Average Grant Date Fair Value
Outstanding at December 27, 2014	425,630	$ 50.72
Granted	111,669	$ 53.31
Vested	(91,382)	$ 51.98
Outstanding at June 27, 2015	445,917	$ 51.11

During the twenty-six-week period ended June 27, 2015, the Company issued RSUs with a performance condition and RSUs with a market condition, as further described below.

RSUs with a performance condition vest over a 3 to 5 year period generally based on varying metrics of growth in operating income and diluted earnings per share either from a base year, being the year immediately preceding the year of grant, or year-over-prior-year growth. At the time of grant, the maximum number of common shares available for issuance under the January 27, 2015 grant equals 200% of the number of RSUs granted. The maximum number of common shares available for issuance under grants made prior to 2015 equals 100% of the number of RSUs granted. The fair value of an RSU with a performance condition was determined based on the

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market value of the Company s common stock on the date of grant, discounted for lack of marketability for a minimum post-vesting holding requirement. The discount rate due to lack of marketability used for RSU award grants with a performance condition during both twenty-six-week periods ended June 27, 2015 and June 28, 2014 was 7%. With respect to RSU awards with a performance condition, the Company reports compensation expense over the life of the award based on an estimated number of units that will vest over the life of the award, multiplied by the fair value of a RSU.

On May 1, 2015, the Company granted 20,000 RSUs that vest based on a market condition. These RSUs may vest on April 30 of 2019, 2020 and 2021 based on the Company s total shareholder return (TSR) compound annual growth rate over the vesting periods, adjusted to reflect dividends (if any) paid during such periods and capital adjustments as may be necessary. The maximum number of common shares available for issuance under the May 1, 2015 grant equals 150% of the number of RSUs granted. The fair value of this RSU award was determined at the time of grant based on the expected achievement of the market condition at the end of each vesting period. With respect to these RSU awards, the Company reports compensation expense ratably over the life of the award based on an estimated number of units that will vest over the life of the award, multiplied by the fair value of the RSU. Previously recognized compensation cost would be reversed only if the employee terminated employment prior to completing the requisite service period.

The Company recognized approximately $2,246,000 and $1,588,000 of share-based compensation expense related to RSU awards in the twenty-six-week periods ended June 27, 2015 and June 28, 2014, respectively. As of June 27, 2015, there was a maximum of $26,174,000 of total unrecognized compensation cost related to RSU awards granted under the Plans with an expected average remaining life of approximately 3.2 years. With respect to RSU awards, 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 27, 2014	773,839	$ 46.92		
Exercised	(65,600)	$ 45.59		
Forfeited	(1,000)	$ 52.60		
Options outstanding at June 27, 2015	707,239	$ 47.04	5.3	$ 14,225
Options exercisable at June 27, 2015	478,339	$ 45.06	4.7	$ 10,565

The total intrinsic value of stock options exercised during the twenty-six-week periods ended June 27, 2015 and June 28, 2014 was $1,417,000 and $6,386,000, respectively.

As of June 27, 2015, there was $2,145,000 of total unrecognized compensation cost related to non-vested stock options granted under the Plans. The unrecognized compensation cost related to these non-vested options is expected to be recognized over a weighted average period of 1.8 years.

Non-vested Restricted Stock

The following table summarizes information regarding the Company s outstanding non-vested restricted stock under the Plans:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at December 27, 2014	23,353	$ 54.90
Granted	1,197	$ 62.46
Vested	(6,490)	$ 57.79
Outstanding at June 27, 2015	18,060	$ 54.36

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The fair value of each share of non-vested restricted stock issued under the Plans is based on the fair value of a share of the Company s common stock on the date of grant and shares of non-vested restricted stock are generally subject to vesting in three equal annual installments or 100% on the fifth anniversary of the date of the grant.

As of June 27, 2015, there was $661,000 of total unrecognized compensation cost related to non-vested shares of restricted stock granted under the Plans. The unrecognized compensation cost related to these non-vested shares of restricted stock is expected to be recognized over a weighted average period of 1.4 years.

(2) Income Taxes

The provisions for income taxes for both the 2015 and 2014 twenty-six-week periods were based on estimated annual effective income tax rates of 38.2%, adjusted for discrete events, such as benefits resulting from disqualifying dispositions of the Company s common stock by employees who obtained the stock through exercises of incentive stock options. The effective income tax rates for the 2015 and 2014 twenty-six-week periods were 37.9% and 37.7%, respectively, which were higher than the statutory federal income tax rate primarily as a result of state taxes, the meals and entertainment exclusion and non-deductible stock-based compensation.

(3) Earnings Per Share

Earnings per common share are based on the weighted average number of shares outstanding, including outstanding non-vested restricted stock. Diluted earnings per share are based on the weighted average number of common shares outstanding plus the incremental shares that would have been outstanding upon the assumed exercise of all dilutive stock options.

The following table provides a reconciliation of the average number of common shares outstanding used to calculate earnings per common share to the average number of common shares and common share equivalents outstanding used to calculate diluted earnings per share (in thousands):

	Twenty Six Weeks Ended		Thirteen Weeks Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Average number of common shares outstanding	44,240	45,171	43,892	44,935
Incremental shares from assumed exercises of stock options	157	191	141	193
Average number of common shares and common share equivalents outstanding	44,397	45,362	44,033	45,128

For each of the twenty-six-week and thirteen-week periods ended June 27, 2015 and June 28, 2014, no options outstanding to purchase shares of common stock were antidilutive. Outstanding RSUs were excluded from the calculation of diluted earnings per share for all periods because the performance metric requirements for vesting had not been satisfied.

(4) Additional Cash Flow Information

During the 2015 twenty-six-week period, Landstar paid income taxes and interest of $32,013,000 and $1,521,000, respectively. During the 2014 twenty-six-week period, Landstar paid income taxes and interest of $56,425,000 and $1,530,000, respectively. Landstar did not acquire any operating property by entering into capital leases in the 2015 twenty-six-week period. Landstar acquired operating property by entering into capital leases in the amount of $11,410,000 in the 2014 twenty-six-week period.

(5) Segment Information

The following table summarizes information about the Company s reportable business segments as of and for the twenty-six-week and thirteen-week periods ended June 27, 2015 and June 28, 2014 (in thousands):

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	Twenty Six Weeks Ended					
	June 27, 2015			June 28, 2014		
	Transportation Logistics	Insurance	Total	Transportation Logistics	Insurance	Total
External revenue	$ 1,609,225	$ 21,538	$ 1,630,763	$ 1,483,673	$ 18,967	$ 1,502,640
Investment income		693	693		695	695
Internal revenue		18,554	18,554		16,582	16,582
Operating income	101,113	13,965	115,078	92,202	11,384	103,586
Expenditures on long-lived assets	3,050		3,050	1,354		1,354
Goodwill	31,134		31,134	31,134		31,134

	Thirteen Weeks Ended					
	June 27, 2015			June 28, 2014		
	Transportation Logistics	Insurance	Total	Transportation Logistics	Insurance	Total
External revenue	$ 857,429	$ 10,954	$ 868,383	$ 804,820	$ 9,623	$ 814,443
Investment income		339	339		332	332
Internal revenue		12,158	12,158		10,790	10,790
Operating income	57,383	8,650	66,033	53,218	5,354	58,572
Expenditures on long-lived assets	600		600	622		622

In the twenty-six and thirteen-week periods ended June 27, 2015 and June 28, 2014, no single customer accounted for more than 10% of the Company s consolidated revenue.

(6) Other Comprehensive Income

The following table presents the components of and changes in accumulated other comprehensive income, net of related income taxes, as of and for the twenty-six-week period ended June 27, 2015 (in thousands):

	Unrealized Holding Gain on Available-for-Sale Securities	Foreign Currency Translation	Total
Balance as of December 27, 2014	$ 105	$ (1,290)	$ (1,185)
Other comprehensive income (loss)	64	(698)	(634)
Balance as of June 27, 2015	$ 169	$ (1,988)	$ (1,819)

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 twenty-six-week period ended June 27, 2015.

(7) Investments

Investments include primarily investment-grade corporate bonds and U.S. Treasury obligations having maturities of up to five years (the bond portfolio). 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 shareholders equity. Investments whose values are based on quoted market prices in active markets are classified within Level 1. Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, are classified within Level 2. As Level 2 investments include positions that are not traded in active markets, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information. Any transfers between levels are recognized as of the beginning of any reporting period. Fair value of the bond portfolio was determined using Level 1 inputs related to U.S. Treasury obligations and money market investments and Level 2 inputs related to investment-grade corporate bonds, asset-backed securities and direct obligations of government agencies. Unrealized gains, net of unrealized losses, on the investments in the bond portfolio were $262,000 and $163,000 at June 27, 2015 and December 27, 2014, respectively.

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The amortized cost and fair values of available-for-sale investments are as follows at June 27, 2015 and December 27, 2014 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 27, 2015				
Money market investments	$ 5,486	$	$	$ 5,486
Asset-backed securities	5,039		29	5,010
Corporate bonds and direct obligations of government agencies	76,231	393	113	76,511
U.S. Treasury obligations	19,628	13	2	19,639
Total	$ 106,384	$ 406	$ 144	$ 106,646
December 27, 2014				
Money market investments	$ 1,729	$	$	$ 1,729
Asset-backed securities	5,106	1	50	5,057
Corporate bonds and direct obligations of government agencies	76,964	491	284	77,171
U.S. Treasury obligations	19,507	14	9	19,512
Total	$ 103,306	$ 506	$ 343	$ 103,469

For those available-for-sale investments with unrealized losses at June 27, 2015 and December 27, 2014, 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
June 27, 2015						
Asset-backed securities	$ 5,010	$ 29	$	$	$ 5,010	$ 29
Corporate bonds and direct obligations of government agencies	21,786	102	3,503	11	25,289	113
U.S. Treasury obligations	1,266	2			1,266	2
Total	$ 28,062	$ 133	$ 3,503	$ 11	$ 31,565	$ 144
December 27, 2014						

Asset-backed securities	$ 2,006	$ 13	$ 2,447	$ 37	$ 4,453	$ 50
Corporate bonds and direct obligations of government agencies	19,354	135	11,373	149	30,727	284
U.S. Treasury obligations	6,992	1	760	8	7,752	9
Total	$ 28,352	$ 149	$ 14,580	$ 194	$ 42,932	$ 343

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 June 27, 2015.

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(8) Commitments and Contingencies

Short-term investments include $48,864,000 in current maturities of investments held by the Company s insurance segment at June 27, 2015. The non-current portion of the bond portfolio of $57,782,000 is included in other assets. The short-term investments, together with $19,425,000 of non-current investments, provide collateral for the $61,460,000 of letters of credit issued to guarantee payment of insurance claims. As of June 27, 2015, Landstar also had $32,763,000 of additional letters of credit outstanding under the Company s Credit Agreement.

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

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

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

The following table summarizes the effect of the increase in the cost of insurance claims resulting from unfavorable development of prior year self-insured claims estimates on operating income, net income and earnings per share amounts in the consolidated statements of income for the twenty-six-week and thirteen-week periods ended June 27, 2015 and June 28, 2014 (in thousands, except per share amounts):

	Twenty Six Weeks Ended		Thirteen Weeks Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Operating income	$ 5,474	$ 6,747	$ 833	$ 4,856
Net income	3,383	4,170	515	3,001
Earnings per share	$ 0.08	$ 0.09	$ 0.01	$ 0.07
Diluted earnings per share	$ 0.08	$ 0.09	$ 0.01	$ 0.07

The unfavorable development of prior years claims in the twenty-six-week period ended June 27, 2015 primarily related to the impact of the March 13, 2015 verdict further described in reports previously filed by the Company with the Securities and Exchange Commission.

(10) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09 - Revenue from Contracts with Customers (ASU 2014-09). ASU 2014-09 is a comprehensive revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. In adopting ASU 2014-09, companies may use either a full retrospective or a modified retrospective approach. On July 9, 2015, the FASB approved deferring the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date. The FASB also approved permitting early adoption of the standard, but not before the original effective date of December 15, 2016. ASU 2014-09 is not expected to have a material impact on the Company s 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 27, 2014 and Management s Discussion and Analysis of Financial Condition and Results of Operations included in the 2014 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; decreased demand for transportation services; substantial industry competition; disruptions or failures in the Company s computer systems; dependence on key vendors; changes in fuel taxes; status of independent contractors; regulatory and legislative changes; 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 2014 fiscal year, described in Item 1A Risk Factors , 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 an 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 between the United States and Canada, Mexico and other countries around the world. The Company s services emphasize safety, information coordination and customer service and are delivered through a network of independent commission sales agents and third party capacity providers linked together by a series of technological applications which are provided and coordinated by the Company. The nature of the Company s business is such that a significant portion of its operating costs varies directly with revenue.

Landstar markets its integrated transportation management solutions primarily through independent commission sales agents and exclusively utilizes third party capacity providers to transport customers freight. Landstar s independent commission sales agents enter into contractual arrangements with the Company and are responsible for locating freight, making that freight available to Landstar s capacity providers and coordinating the transportation of the freight with customers and capacity providers. The Company s third party capacity providers consist of independent contractors who provide truck capacity to the Company under exclusive lease arrangements (the BCO Independent Contractors), unrelated trucking companies who provide truck capacity to the Company under non-exclusive contractual arrangements (the Truck Brokerage Carriers), air cargo carriers, ocean cargo carriers and railroads. Through this network of agents and capacity providers linked together by Landstar s information technology systems, Landstar operates an integrated transportation management solutions business primarily throughout North America with revenue of $3.2 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, project cargo and customs brokerage. Industries serviced by the transportation logistics segment include automotive products, building products, metals, chemicals, foodstuffs, heavy machinery, retail, electronics, ammunition and explosives and military equipment. In addition, the transportation logistics segment provides transportation services to other transportation companies, including 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 twenty-six weeks ended June 27, 2015, revenue hauled by BCO Independent Contractors, Truck Brokerage Carriers and railroads represented approximately 46%, 47% and 3%, respectively, of the Company s consolidated revenue. Collectively, revenue hauled by air and ocean cargo carriers represented approximately 3% of the Company s consolidated revenue in the twenty-six-week period ended June 27, 2015.

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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. This 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 twenty-six-week period ended June 27, 2015.

Changes in Financial Condition and Results of Operations

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

While customer demand, which is subject to overall economic conditions, ultimately drives increases or decreases in revenue, the Company primarily relies on its independent commission sales agents to establish customer relationships and generate revenue opportunities. Management s emphasis with respect to revenue growth is on revenue generated by independent commission sales agents who on an annual basis generate $1 million or more of Landstar revenue (Million Dollar Agents). Management believes future revenue growth is primarily dependent on its ability to increase both the revenue generated by Million Dollar Agents and the number of Million Dollar Agents through a combination of recruiting new agents and increasing the revenue opportunities generated by existing independent commission sales agents. During the 2014 fiscal year, 525 independent commission sales agents generated $1 million or more of Landstar revenue and thus qualified as Million Dollar Agents. During the 2014 fiscal year, the average revenue generated by a Million Dollar Agent was $5,609,000 and revenue generated by Million Dollar Agents in the aggregate represented 92% of consolidated revenue.

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

	Twenty Six Weeks Ended		**Thirteen Weeks Ended**	
	June 27, 2015	**June 28, 2014**	**June 27, 2015**	**June 28, 2014**
Revenue generated through (in thousands):				
Truck transportation				
Truckload:				
Van equipment	$ 946,598	$ 856,010	$ 496,910	$ 458,749
Unsided/platform equipment	530,515	516,496	291,032	285,477
Less-than-truckload	40,956	37,337	21,258	20,452

Total truck transportation	1,518,069	1,409,843	809,200	764,678
Rail intermodal	49,522	37,021	26,341	20,526
Ocean and air cargo carriers	41,410	36,437	21,778	19,421
Other [(1)]	21,762	19,339	11,064	9,818
	$ 1,630,763	$ 1,502,640	$ 868,383	$ 814,443
Revenue on loads hauled via BCO Independent Contractors included in total truck transportation	$ 752,030	$ 740,689	$ 401,705	$ 397,037
Number of loads:				
Truck transportation				
Truckload:				
Van equipment	544,714	506,921	285,762	264,185
Unsided/platform equipment	229,452	217,794	127,286	115,901
Less-than-truckload	54,904	43,825	28,912	24,134
Total truck transportation	829,070	768,540	441,960	404,220
Rail intermodal	20,680	14,280	11,200	7,870
Ocean and air cargo carriers	8,620	8,010	4,490	4,120
	858,370	790,830	457,650	416,210
Loads hauled via BCO Independent Contractors included in total truck transportation	406,230	411,370	214,930	212,500

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Revenue per load:				
Truck transportation				
Truckload:				
Van equipment	$ 1,738	$ 1,689	$ 1,739	$ 1,736
Unsided/platform equipment	2,312	2,371	2,286	2,463
Less-than-truckload	746	852	735	847
Total truck transportation	1,831	1,834	1,831	1,892
Rail intermodal	2,395	2,593	2,352	2,608
Ocean and air cargo carriers	4,804	4,549	4,850	4,714
Revenue per load on loads hauled via BCO Independent Contractors	$ 1,851	$ 1,801	$ 1,869	$ 1,868
Revenue by capacity type (as a % of total revenue):				
Truck capacity providers:				
BCO Independent Contractors	46%	49%	46%	49%
Truck Brokerage Carriers	47%	45%	47%	45%
Rail intermodal	3%	3%	3%	3%
Ocean and air cargo carriers	3%	2%	3%	2%
Other	1%	1%	1%	1%

(1) Includes primarily premium revenue generated by the insurance segment.

Also critical to the Company s success is its ability to secure capacity, particularly truck capacity, at rates that allow the Company to profitably transport customers freight. The following table summarizes available truck capacity providers:

	June 27, 2015	June 28, 2014
BCO Independent Contractors	8,726	8,074
Truck Brokerage Carriers:		
Approved and active [(1)]	28,387	23,807
Other approved	13,126	11,743
	41,513	35,550
Total available truck capacity providers	50,239	43,624
Trucks provided by BCO Independent Contractors	9,308	8,591

(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 delivered loads the BCO Independent Contractor hauled. 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. 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 hauled by Truck Brokerage Carriers. Purchased transportation costs are recognized upon the completion of freight delivery.

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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 upon the completion of freight delivery.

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 hauled 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 hauled 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 hauled by railroads, air cargo carriers, ocean cargo carriers and Truck Brokerage Carriers, other than those under retention contracts, is variable in nature as the Company s contracts with independent commission sales agents provide commissions to agents at a contractually agreed upon percentage of net revenue for these type of loads. Approximately 55% of the Company s consolidated revenue in the twenty-six-week period ended June 27, 2015 was generated under contracts that have a fixed gross profit margin while 45% was under contracts that have a variable gross profit margin.

Maintenance costs for Company-provided trailing equipment and BCO Independent Contractor recruiting 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. The Company also retains liability of up to $1,000,000 for each general liability claim, $250,000 for each workers compensation claim and up to $250,000 for each cargo claim. The Company s exposure to liability associated with accidents incurred by Truck Brokerage Carriers, railroads and air and ocean cargo carriers who transport freight on behalf of the Company is reduced by various factors including the extent to which such carriers maintain their own insurance coverage. A material increase in the frequency or severity of accidents, cargo claims or workers compensation claims or the material unfavorable development of existing claims could have a material adverse effect on Landstar s cost of insurance and claims and its results of operations.

During the twenty-six-week period ended June 27, 2015, employee compensation and benefits accounted for over sixty 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:

	Twenty Six Weeks Ended		**Thirteen Weeks Ended**	
	June 27, 2015	**June 28, 2014**	**June 27, 2015**	**June 28, 2014**
Revenue	100.0%	100.0%	100.0%	100.0%
Purchased transportation	76.9	77.1	76.9	77.2
Commissions to agents	8.0	7.8	8.1	7.8
Gross profit margin	15.1%	15.1%	15.1%	14.9%

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Gross profit	100.0%	100.0%	100.0%	100.0%
Investment income	0.3	0.3	0.3	0.3
Indirect costs and expenses:				
Other operating costs, net of gains on asset sales/dispositions	6.4	5.6	6.1	5.1
Insurance and claims	11.0	11.3	9.4	11.4
Selling, general and administrative	30.5	31.9	28.9	30.2
Depreciation and amortization	5.7	5.9	5.4	5.4
Total costs and expenses	53.5	54.7	49.8	52.1
Operating margin	46.7%	45.6%	50.5%	48.1%

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 on a year-over-year basis at less than 2% 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.

TWENTY SIX WEEKS ENDED JUNE 27, 2015 COMPARED TO TWENTY SIX WEEKS ENDED JUNE 28, 2014

Revenue for the 2015 twenty-six-week period was $1,630,763,000, an increase of $128,123,000, or 9%, compared to the 2014 twenty-six-week period. Transportation revenue increased $125,552,000, or 8%. The increase in transportation revenue was primarily attributable to a 9% increase in the number of loads hauled, while revenue per load was flat compared to the 2014 twenty-six-week period. Reinsurance premiums from third party insurance companies that provide insurance programs to BCO Independent Contractors where all or a portion of the risk of loss is ultimately borne by Signature, were $21,538,000 and $18,967,000 for the 2015 and 2014 twenty-six-week periods, respectively. The increase in revenue from reinsurance premiums was primarily attributable to the increase in the number of BCO Independent Contractors in the 2015 twenty-six-week period compared to the 2014 twenty-six-week period.

Truck transportation revenue hauled by BCO Independent Contractors and Truck Brokerage Carriers (together, the third party truck capacity providers) for the 2015 twenty-six-week period was $1,518,069,000, or 93% of total revenue, an increase of $108,226,000, or 8%, compared to the 2014 twenty-six-week period. The number of loads hauled by third party truck capacity providers in the 2015 twenty-six-week period increased approximately 8% compared to the 2014 twenty-six-week period, while revenue per load was relatively flat compared to the 2014 twenty-six-week period. The increase in the number of loads hauled via truck was due to a broad-based increase in demand for truck transportation services, particularly truck transportation services provided on van trailing equipment and less-than-truckload (LTL) loads, and increased market share from new agents. Revenue per load on loads hauled via truck was flat as the impact of increased demand and a stable, yet somewhat tight, capacity market was offset by the impact of lower diesel fuel costs on revenue per load on loads hauled by Truck Brokerage Carriers. The number of loads hauled via van equipment increased 7% and revenue per load on loads hauled via van equipment increased 3% compared to the 2014 twenty-six-week period. Demand for Landstar s van transportation services was broad-based across many customers and geographic regions. The number of loads hauled via unsided/platform equipment increased 5% while revenue per load on loads hauled via unsided/platform equipment decreased 3% compared to the 2014 twenty-six-week period. The increase in the number of loads hauled via unsided/platform equipment was the result of a significant award from a customer during the 2015 period along with underlying demand consistent with the 2014 period. The decrease in unsided/platform revenue per load of 3% was primarily due to a decrease in the percentage of unsided/platform revenue contributed by heavy specialized equipment, which tends to have a higher revenue per load. The increase in the number of LTL loads of 25% compared to the 2014 twenty-six-week period was primarily due to increased loadings at one specific customer and increased market share as more of the Company s independent commission agents participate in this service offering. The decrease in LTL revenue per load of 12% compared to the 2014 twenty-six-week period was primarily due to increased loadings at one specific customer, which had a comparatively low revenue per load. Fuel surcharges on Truck Brokerage Carrier revenue identified separately in billings to customers and included as a component of Truck Brokerage Carrier revenue were $45,031,000 and $56,942,000 in the 2015 and 2014 periods, respectively. Fuel surcharges billed to customers on revenue hauled by BCO Independent Contractors are excluded from revenue.

Transportation revenue hauled by rail intermodal, air cargo and ocean cargo carriers (collectively, the multimode capacity providers) for the twenty-six-week period ended June 27, 2015, was $90,932,000, or 6% of total revenue, an increase of $17,474,000, or 24%, compared to the 2014 twenty-six-week period. The number of loads hauled by multimode capacity providers in the 2015 twenty-six-week period increased approximately 31% compared to the 2014 twenty-six-week period, while revenue per load on revenue hauled by multimode capacity providers decreased approximately 6% over the same period. The increase in loads hauled by multimode capacity providers was primarily due to increased rail intermodal loads. The decrease in revenue per load on revenue hauled by multimode capacity providers was primarily due to a decreased revenue per load on rail intermodal loads and an increase in intermodal loads as a percentage of multimode loads, as intermodal loads generally generate a lower revenue per load compared to loads hauled by ocean or air cargo carriers. Also, revenue per load on revenue hauled 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 76.9% and 77.1% of revenue in the 2015 and 2014 twenty-six-week periods, respectively. The decrease in purchased transportation as a percentage of revenue was primarily due to a decreased rate of purchased transportation paid to Truck Brokerage Carriers, partially offset by an increase in the percentage of revenue contributed by Truck Brokerage Carriers, which typically has a higher rate of purchased transportation than revenue hauled by BCO Independent Contractors. Commissions to agents were 8.0% and 7.8% of revenue in the 2015 and 2014 periods, respectively. The increase in commissions to agents as a percentage of revenue was primarily attributable to an increased net revenue margin on revenue hauled by Truck Brokerage Carriers.

Investment income was $693,000 and $695,000 in the 2015 and 2014 twenty-six-week periods, respectively.

Other operating costs increased $2,841,000 in the 2015 twenty-six-week period compared to the 2014 twenty-six-week period and represented 6.4% of gross profit in the 2015 period compared to 5.6% of gross profit in the 2014 period. The increase in other operating costs compared to the prior year was primarily due to increased trailing equipment maintenance and rental costs as the Company increased its number of owned and leased trailers in response to customer demand. The increase in other operating costs as a percentage of gross profit was primarily caused by the increase in trailing equipment costs, partially offset by the effect of increased gross profit.

Insurance and claims increased $1,402,000 in the 2015 twenty-six-week period compared to the 2014 twenty-six-week period and represented 11.0% of gross profit in the 2015 period compared to 11.3% of gross profit in the 2014 period. The increase in insurance and claims compared to prior year was due to increased severity of current year claims in the 2015 period, partially offset by decreased net unfavorable development of prior years claims in the 2015 period. The decrease in insurance and claims as a percent of gross profit was primarily caused by the effect of increased gross profit.

Selling, general and administrative costs increased $2,634,000 in the 2015 twenty-six-week period compared to the 2014 twenty-six-week period and represented 30.5% of gross profit in the 2015 period compared to 31.9% of gross profit in the 2014 period. The increase in selling, general and administrative costs compared to prior year was primarily due to an increased provision for customer bad debt, primarily related to one customer, and increased employee wages, benefits and stock-based compensation expense, partially offset by a decreased provision for bonuses under the Company s incentive compensation plan in the 2015 period. The decrease in selling, general and administrative costs as a percent of gross profit, however, was primarily due to the effect of increased gross profit, which more than offset the effect of the increase in selling, general and administrative costs.

Depreciation and amortization increased $735,000 in the 2015 twenty-six-week period compared to the 2014 twenty-six-week period and represented 5.7% of gross profit in the 2015 period compared to 5.9% of gross profit in the 2014 period. The increase in depreciation and amortization costs were primarily due to depreciation on new trailing equipment that replaced older, fully depreciated trailing equipment. The decrease in depreciation and amortization as a percentage of gross profit was primarily due to the effect of increased gross profit.

Interest and debt expense in the 2015 twenty-six-week period was $8,000 higher than the 2014 twenty-six-week period.

The provisions for income taxes for both the 2015 and 2014 twenty-six-week periods were based on estimated annual effective income tax rates of approximately 38.2%, adjusted for discrete events, such as benefits resulting from disqualifying dispositions of the Company s common stock by employees who obtained the stock through exercises of incentive stock options. The effective income tax rates for the 2015 and 2014 twenty-six-week periods were 37.9% and 37.7%, respectively, which were higher than the statutory federal income tax rate primarily as a result of state taxes, the meals and entertainment exclusion and non-deductible stock compensation expense. The effective income tax rates in the 2015 and 2014 twenty-six-week periods were less than the 38.2% estimated annual effective income tax rate primarily due to disqualifying dispositions of the Company s common stock by employees who obtained the stock through exercises of incentive stock options in each period.

Net income was $70,486,000, or $1.59 per common share ($1.59 per diluted share), in the 2015 twenty-six-week period. Net income was $63,563,000, or $1.41 per common share ($1.40 per diluted share), in the 2014 twenty-six-week period.

THIRTEEN WEEKS ENDED JUNE 27, 2015 COMPARED TO THIRTEEN WEEKS ENDED JUNE 28, 2014

Revenue for the 2015 thirteen-week period was $868,383,000, an increase of $53,940,000, or 7%, compared to the 2014 thirteen-week period. Transportation revenue increased $52,609,000, or 7%. The increase in transportation revenue was primarily attributable to an increase in the number of loads hauled of 10%, partially offset by decreased revenue per load of approximately 3%. Reinsurance premiums were $10,954,000 and $9,623,000 for the 2015 and 2014 thirteen-week periods, respectively. The increase in revenue from reinsurance premiums was primarily attributable to the increase in the number of BCO Independent Contractors in the 2015 thirteen-week period compared to the 2014 thirteen-week period.

Truck transportation revenue hauled by third party truck capacity providers for the thirteen-week period ended June 27, 2015, was $809,200,000, or 93% of total revenue, an increase of $44,522,000, or 6%, compared to the 2014 thirteen-week period. The number of loads hauled by third party truck capacity providers in the 2015 thirteen-week period increased 9% compared to the 2014 thirteen-week period, while revenue per load decreased 3% compared to the 2014 thirteen-week period. The increase in the number of loads hauled via third party truck capacity providers was due to a broad-based increase in demand for truck transportation services and increased market share from new agents. The decrease in revenue per load on loads hauled via truck was primarily attributable to the impact of lower diesel fuel costs on loads hauled via Truck Brokerage Carriers and a decrease in the number of loads hauled via heavy specialized equipment as a percentage of total truck loads, which typically have a higher revenue per load. The number of loads hauled via van equipment increased 8%, while revenue per load on loads hauled via van equipment was approximately flat compared to the 2014 thirteen-week period. Demand for Landstar s van transportation services was broad based, across many customers and geographic regions. The number of loads hauled via unsided/platform equipment increased 10%, while revenue per load on loads hauled via unsided/platform equipment decreased 7% compared to the 2014 thirteen-week period. The increase in the number of loads hauled via unsided/platform equipment was the result of a significant award from a customer during the 2015 second quarter along with underlying demand consistent with the 2014 second quarter. The decrease in revenue per load on loads hauled via unsided/platform equipment was primarily due to a decrease in the percentage of unsided/platform revenue contributed by heavy specialized equipment, which tends to have a higher revenue per load. The increase in the number of LTL loads of 20% compared to the 2014 thirteen-week period was primarily due to increased loadings at one specific customer and increased market share as more independent commission agents participate in this service offering. The decrease in LTL revenue per load of 13% compared to the 2014 thirteen-week period was primarily due to increased loadings at one specific customer, which had a comparatively low revenue per load. Fuel surcharges on Truck Brokerage Carrier revenue identified separately in billings to customers and included as a component of Truck Brokerage Carrier revenue were $22,048,000 and $29,902,000 in the 2015 and 2014 periods, respectively.

Transportation revenue hauled by multimode capacity providers for the thirteen-week period ended June 27, 2015, was $48,119,000, or 6% of total revenue, an increase of $8,172,000, or 20%, compared to the 2014 thirteen-week period. The number of loads hauled by multimode capacity providers in the 2015 thirteen-week period increased approximately 31% compared to the 2014 thirteen-week period, while revenue per load on revenue hauled by multimode capacity providers decreased approximately 8% over the same period. The increase in the number of loads hauled by multimode capacity providers was primarily due to increased rail intermodal loads. The decrease in revenue per load on revenue hauled by multimode capacity providers was primarily due to a decreased revenue per load on rail intermodal loads and an increase in intermodal loads as a percentage of multimode loads, as intermodal loads generally generate a lower revenue per load amount compared to loads hauled by ocean or air cargo carriers.

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Purchased transportation was 76.9% and 77.2% of revenue in the 2015 and 2014 thirteen-week periods, respectively. The decrease in purchased transportation as a percentage of revenue in the 2015 thirteen-week period compared to the 2014 thirteen-week period was primarily due to a decreased rate of purchased transportation paid to Truck Brokerage Carriers, partially offset by an increase in the percentage of revenue contributed by Truck Brokerage Carriers, which typically has a higher rate of purchased transportation than revenue hauled by BCO Independent Contractors. Commissions to agents were 8.1% and 7.8% of revenue in the 2015 and 2014 periods, respectively. The increase in commissions to agents as a percentage of revenue was primarily attributable to an increased net revenue margin on revenue hauled by Truck Brokerage Carriers.

Investment income was $339,000 and $332,000 in the 2015 and 2014 thirteen-week periods, respectively.

Other operating costs increased $1,738,000 in the 2015 thirteen-week period compared to the 2014 thirteen-week period and represented 6.1% of gross profit in the 2015 period compared to 5.1% of gross profit in the 2014 period. The increase in other operating costs compared to the prior year was primarily due to increased trailing equipment maintenance and rental costs, as the Company has increased its number of owned and leased trailers in response to customer demand, and decreased gains on sale of used trailing equipment. The increase in other operating costs as a percentage of gross profit was caused by the increase in trailing equipment costs, partially offset by the effect of increased gross profit.

Insurance and claims decreased $1,537,000 in the 2015 thirteen-week period compared to the 2014 thirteen-week period and represented 9.4% of gross profit in the 2015 period compared to 11.4% of gross profit in the 2014 period. The decrease in insurance and claims compared to prior year was due to decreased net unfavorable development of prior years claims in the 2015 period as unfavorable development of prior year claims was $833,000 and $4,856,000 in the 2015 and 2014 thirteen-week periods, respectively, partially offset by increased severity in the 2015 period. The decrease in insurance and claims as a percent of gross profit was primarily caused by decreased net unfavorable development of prior year claims and the effect of increased gross profit.

Selling, general and administrative costs increased $986,000 in the 2015 thirteen-week period compared to the 2014 thirteen-week period and represented 28.9% of gross profit in the 2015 period compared to 30.2% of gross profit in the 2014 period. The increase in selling, general and administrative costs compared to prior year was primarily due to an increased provision for customer bad debt, primarily related to one customer, and increased employee wages and benefits expense, partially offset by a decreased provision for bonuses under the Company s incentive compensation plan in the 2015 period. The decrease in selling, general and administrative costs as a percent of gross profit, however, was primarily due to the effect of increased gross profit, which more than offset the effect of the increase in selling, general and administrative costs.

Depreciation and amortization increased $484,000 in the 2015 thirteen-week period compared to the 2014 thirteen-week period and represented 5.4% of gross profit in both the 2015 and 2014 periods. The increase in depreciation and amortization costs was primarily due to depreciation on new trailing equipment that replaced older, fully depreciated trailing equipment.

Interest and debt expense in the 2015 thirteen-week period was $5,000 lower than the 2014 thirteen-week period.

The provisions for income taxes for both the 2015 and 2014 thirteen-week periods were based on estimated annual effective income tax rates of approximately 38.2%, adjusted for discrete events, such as benefits resulting from disqualifying dispositions of the Company s common stock by employees who obtained the stock through exercises of incentive stock options. The effective income tax rates for the 2015 and 2014 thirteen-week periods were 38.0% and 37.9%, respectively, which were higher than the statutory federal income tax rate primarily as a result of state taxes, the meals and entertainment exclusion and non-deductible stock compensation expense. The effective income tax rates in the 2015 and 2014 thirteen-week periods were less than the 38.2% estimated annual effective income tax rate primarily due to disqualifying dispositions of the Company s common stock by employees who obtained the stock through exercises of incentive stock options in each year.

Net income was $40,471,000, or $0.92 per common share ($0.92 per diluted share), in the 2015 thirteen-week period. Net income was $35,925,000, or $0.80 per common share ($0.80 per diluted share), in the 2014 thirteen-week period.

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CAPITAL RESOURCES AND LIQUIDITY

Working capital and the ratio of current assets to current liabilities were $310,427,000 and 1.9 to 1, respectively, at June 27, 2015, compared with $321,877,000 and 1.8 to 1, respectively, at December 27, 2014. 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 $82,017,000 in the 2015 twenty-six-week period compared with $13,600,000 in the 2014 twenty-six-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 $0.14 per share, or $6,186,000 in the aggregate, in cash dividends during the twenty-six-week period ended June 27, 2015 and, during such period, also paid $44,794,000 of dividends payable which were declared during fiscal year 2014 and included in current liabilities in the consolidated balance sheet at December 27, 2014. The Company declared and paid $0.12 per share, or $5,420,000 in the aggregate, in cash dividends during the twenty-six-week period ended June 28, 2014 and, during such period, also paid $15,921,000 of dividends payable which were declared during fiscal year 2013 and included in current liabilities in the consolidated balance sheet at December 28, 2013. During the twenty-six-week period ended June 27, 2015, the Company purchased 1,307,154 shares of its common stock at a total cost of $84,635,000. As of June 27, 2015, the Company may purchase up to an additional 3,000,000 shares of its common stock under its authorized stock purchase programs. Long-term debt, including current maturities, was $93,209,000 at June 27, 2015, $18,112,000 lower than at December 27, 2014.

Shareholders equity was $469,502,000, or 83% of total capitalization (defined as long-term debt including current maturities plus equity), at June 27, 2015, compared to $488,261,000, or 81% of total capitalization, at December 27, 2014. The decrease in equity was primarily a result of the purchases of shares of the Company s common stock and dividends declared by the Company in the 2015 twenty-six-week period, partially offset by net income.

On June 29, 2012, 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 29, 2017, provides $225,000,000 of borrowing capacity in the form of a revolving credit facility, $75,000,000 of which may be utilized in the form of letter of credit guarantees.

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 25% or more of the outstanding capital stock of the Company or obtains power to elect a majority of the Company s directors. 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 June 27, 2015, the Company had no borrowings outstanding and $32,763,000 of letters of credit outstanding under the Credit Agreement. At June 27, 2015, there was $192,237,000 available for future borrowings under the Credit Agreement. In addition, the Company has $61,460,000 in letters of credit outstanding as collateral for insurance claims that are secured by investments totaling $68,289,000 at June 27, 2015. Investments, all of which are carried at fair value, include primarily investment-grade bonds and U.S. Treasury obligations having maturities of up to five years. Fair value of investments is based primarily on quoted market prices. See Notes to Consolidated Financial Statements included herein for further discussion on measurement of fair value of investments.

Historically, the Company has generated sufficient operating cash flow to meet its debt service requirements, fund continued growth, both internal 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 2015 twenty-six-week period, the Company purchased $3,050,000 of operating property. Landstar anticipates acquiring approximately $70,000,000 in operating property, primarily new trailing equipment to replace older trailing equipment and information technology equipment, during the remainder of fiscal year 2015 either by purchase or lease financing. In addition, the Company has entered an agreement to purchase a parcel of land in Laredo, Texas for approximately $4,900,000 and intends to build a freight staging and transload facility on the land.

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The allowance for doubtful accounts for both trade and other receivables represents management s estimate of the amount of outstanding receivables that will not be collected. Historically, management s estimates for uncollectible receivables have been materially correct. Although management believes the amount of the allowance for both trade and other receivables at June 27, 2015 is appropriate, a prolonged period of low or no economic growth may adversely affect the collection of these receivables. In addition, liquidity concerns and/or unanticipated bankruptcy proceedings at any of the Company s larger customers in which the Company is carrying a significant receivable could result in an increase in the provision for uncollectible receivables and have a significant impact on the Company s results of operations in a given quarter or year. However, it is not expected that an uncollectible accounts receivable resulting from an individual customer would have a significant impact on the Company s financial condition. Conversely, a more robust economic environment or the recovery of a previously provided for uncollectible receivable from an individual customer may result in the realization of some portion of the estimated uncollectible receivables.

Landstar provides for the estimated costs of self-insured claims primarily on an actuarial basis. The amount recorded for the estimated liability for claims incurred is based upon the facts and circumstances known on the applicable balance sheet date. The ultimate resolution of these claims may be for an amount greater or less than the amount estimated by management. The Company continually revises its existing claim estimates as new or revised information becomes available on the status of each claim. Historically, the Company has experienced both favorable and unfavorable development of prior years claims estimates. During the 2015 and 2014 twenty-six-week periods, insurance and claims costs included $5,474,000 and $6,747,000 of net unfavorable adjustments to prior years claims estimates, respectively. The unfavorable development of prior years claims in the 2015 fiscal period primarily related to a single claim for which the Company incurred a pre-tax charge of $4,500,000. It is reasonably likely that the ultimate outcome of settling all outstanding claims will be more or less than the estimated claims reserve at June 27, 2015.

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

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

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EFFECTS OF INFLATION

Management does not believe inflation has had a material impact on the results of operations or financial condition of Landstar in the past five years. However, inflation in excess of historic trends might have an adverse effect on the Company s results of operations in the future.

SEASONALITY

Landstar s operations are subject to seasonal trends common to the trucking industry. Results of operations 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 29, 2012, 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 29, 2017, provides $225,000,000 of borrowing capacity in the form of a revolving credit facility, $75,000,000 of which may be utilized in the form of letter of credit guarantees.

Depending upon the specific type of borrowing, borrowings under the Credit Agreement bear interest based on either (a) the prime rate, (b) the federal funds effective rate, (c) the rate at the time offered to JPMorgan Chase Bank, N.A. in the Eurodollar market or (d) the London Interbank Offered Rate, plus a margin that is determined based on the level of the Company s Leverage Ratio, as defined in the Credit Agreement. As of June 27, 2015 and during all of the second quarter of 2015, the Company had no borrowings outstanding under the Credit Agreement. The Credit Agreement maturity date is June 29, 2017.

Long-term investments, all of which are available-for-sale and are carried at fair value, include primarily investment-grade bonds and U.S. Treasury obligations having maturities of up to five years. Assuming that the long-term portion of investments remains at $57,782,000, the balance at June 27, 2015, a hypothetical increase or decrease in interest rates of 100 basis points would not have a material impact on future earnings on an annualized basis. Short-term investments consist of short-term investment-grade instruments and the current maturities of investment-grade corporate bonds and U.S. Treasury obligations. Accordingly, any future interest rate risk on these short-term investments would not be material to the Company s operating results.

Assets and liabilities of the Company s Canadian 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 subsidiary at June 27, 2015 were, as translated to U.S. dollars, less than 1% of total consolidated assets. Accordingly, any translation gain or loss related to the Canadian operation 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 June 27, 2015 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 June 27, 2015 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

For a discussion identifying additional risk factors and other important factors that could cause actual results to differ materially from those anticipated, see the discussions under Part I, Item 1A, Risk Factors in the Company s Annual Report on Form 10-K for the fiscal year ended December 27, 2014, 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 March 29, 2015 to June 27, 2015, the Company s second 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
March 28, 2015				1,363,313
March 29, 2015 April 25, 2015		$		1,363,313

April 26, 2015	May 23, 2015	842,685	63.29	842,685	3,000,000
May 24, 2015	June 27, 2015				3,000,000
Total		842,685	$ 63.29	842,685	

On May 19, 2015, the Landstar System, Inc. Board of Directors authorized the Company to increase the number of shares of the Company s common stock that the Company is authorized to purchase from time to time in the open market and in privately negotiated transactions under a previously announced purchase program to 3,000,000 shares. As of June 27, 2015, the Company has authorization to purchase 3,000,000 shares of its common stock under this program. No specific expiration date has been assigned to the May 19, 2015 authorization.

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Dividends

During the twenty-six-week period ended June 27, 2015, Landstar paid dividends as follows:

Dividend Amount per Share	Declaration Date	Record Date	Payment Date
$ 1.00	December 3, 2014	January 12, 2015	January 26, 2015
$ 0.07	January 27, 2015	February 16, 2015	March 13, 2015
$ 0.07	April 22, 2015	May 7, 2015	May 29, 2015

Dividends payable of $1.00 per share, or $44,794,000 in the aggregate, was included in current liabilities in the consolidated balance sheet at December 27, 2014.

On June 29, 2012, 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*	Chief Executive Officer certification, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Chief Financial Officer certification, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(32)	Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.1**	Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Chief Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Schema Document
101.CAL*	XBRL Calculation Linkbase Document
101.LAB*	XBRL Labels Linkbase Document
101.PRE*	XBRL Presentation Linkbase Document
101.DEF*	XBRL Definition 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: July 31, 2015	/s/ James B. Gattoni James B. Gattoni President and Chief Executive Officer
Date: July 31, 2015	/s/ L. Kevin Stout L. Kevin Stout Vice President and Chief Financial Officer