LANDSTAR SYSTEM INC
Form 10-Q
May 01, 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 March 28, 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 April 20, 2015 was 44,410,842.

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PART I Financial Information

PART II Other Information

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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 thirteen weeks ended March 28, 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)

	March 28, 2015	December 27, 2014
ASSETS		
Current Assets		
Cash and cash equivalents	$ 114,887	$ 163,944
Short-term investments	37,174	37,007
Trade accounts receivable, less allowance of $4,248 and $4,338	447,696	492,642
Other receivables, including advances to independent contractors, less allowance of $4,235 and $4,189	29,437	15,132
Deferred income taxes and other current assets	11,475	23,603
Total current assets	640,669	732,328
Operating property, less accumulated depreciation and amortization of $165,007 and $160,681	197,085	202,203
Goodwill	31,134	31,134
Other assets	78,758	78,547
Total assets	$ 947,646	$ 1,044,212
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Cash overdraft	$ 28,410	$ 34,629
Accounts payable	196,215	220,077
Current maturities of long-term debt	34,432	35,064
Insurance claims	24,791	24,233
Dividends payable		44,794
Other current liabilities	42,126	51,654
Total current liabilities	325,974	410,451
Long-term debt, excluding current maturities	67,671	76,257
Insurance claims	22,532	21,769
Deferred income taxes and other noncurrent liabilities	47,144	47,474
Shareholders Equity		
	673	673

Common stock, $0.01 par value, authorized 160,000,000 shares, issued 67,349,642 and 67,268,817 shares		
Additional paid-in capital	189,525	189,012
Retained earnings	1,282,277	1,255,374
Cost of 22,938,800 and 22,474,331 shares of common stock in treasury	(986,913)	(955,613)
Accumulated other comprehensive loss	(1,237)	(1,185)
Total shareholders equity	484,325	488,261
Total liabilities and shareholders equity	$ 947,646	$ 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)

	Thirteen Weeks Ended March 28, 2015	Thirteen Weeks Ended March 29, 2014
Revenue	$ 762,380	$ 688,197
Investment income	354	363
Costs and expenses:		
Purchased transportation	587,153	530,031
Commissions to agents	59,784	52,704
Other operating costs, net of gains on asset sales/dispositions	7,689	6,586
Insurance and claims	14,796	11,857
Selling, general and administrative	37,248	35,600
Depreciation and amortization	7,019	6,768
Total costs and expenses	713,689	643,546
Operating income	49,045	45,014
Interest and debt expense	781	768
Income before income taxes	48,264	44,246
Income taxes	18,249	16,608
Net income	$ 30,015	$ 27,638
Earnings per common share	$ 0.67	$ 0.61
Diluted earnings per share	$ 0.67	$ 0.61
Average number of shares outstanding:		
Earnings per common share	44,588,000	45,407,000
Diluted earnings per share	44,760,000	45,596,000
Dividends per common share	$ 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)

	Thirteen Weeks Ended	
	March 28, 2015	**March 29, 2014**
Net income	$ 30,015	$ 27,638
Other comprehensive income (loss):		
Unrealized holding gains on available-for-sale investments, net of tax expense of $125 and $60	228	110
Foreign currency translation losses	(280)	(432)
Other comprehensive loss	(52)	(322)
Comprehensive income	$ 29,963	$ 27,316

See accompanying notes to consolidated financial statements.

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LANDSTAR SYSTEM, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Thirteen Weeks Ended	
	March 28, 2015	**March 29, 2014**
OPERATING ACTIVITIES		
Net income	$ 30,015	$ 27,638
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of operating property	7,019	6,768
Non-cash interest charges	55	54
Provisions for losses on trade and other accounts receivable	702	729
Gains on sales/disposals of operating property	(107)	(59)
Deferred income taxes, net	885	(2,088)
Stock-based compensation	1,667	1,164
Changes in operating assets and liabilities:		
Decrease (increase) in trade and other accounts receivable	29,939	(41,625)
Decrease (increase) in other assets	11,216	(1,560)
(Decrease) increase in accounts payable	(23,862)	13,289
(Decrease) increase in other liabilities	(9,580)	8,108
Increase in insurance claims	1,321	1,251
NET CASH PROVIDED BY OPERATING ACTIVITIES	49,270	13,669
INVESTING ACTIVITIES		
Net change in other short-term investments		(3,249)
Sales and maturities of investments	10,651	14,558
Purchases of investments	(11,107)	(15,058)
Purchases of operating property	(2,450)	(732)
Proceeds from sales of operating property	656	276
NET CASH USED BY INVESTING ACTIVITIES	(2,250)	(4,205)
FINANCING ACTIVITIES		
Decrease in cash overdraft	(6,219)	(6,601)
Dividends paid	(47,906)	(18,641)
Proceeds from exercises of stock options	429	1,133
Taxes paid in lieu of shares issued related to stock-based compensation plans	(2,069)	(1,650)
Excess tax benefits from stock-based awards	486	505
Purchases of common stock	(31,300)	(37,052)

Principal payments on long-term debt and capital lease obligations	(9,218)	(12,862)
NET CASH USED BY FINANCING ACTIVITIES	(95,797)	(75,168)
Effect of exchange rate changes on cash and cash equivalents	(280)	(432)
Decrease in cash and cash equivalents	(49,057)	(66,136)
Cash and cash equivalents at beginning of period	163,944	180,302
Cash and cash equivalents at end of period	$ 114,887	$ 114,166

See accompanying notes to consolidated financial statements.

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LANDSTAR SYSTEM, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

Thirteen Weeks Ended March 28, 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				30,015				30,015
Dividends ($0.07 per share)				(3,112)				(3,112)
Purchases of common stock					464,469	(31,300)		(31,300)
Issuance of stock related to stock-based compensation plans, including excess tax effect	80,825		(1,154)					(1,154)
Stock-based compensation			1,667					1,667
Other comprehensive loss							(52)	(52)
Balance March 28, 2015	67,349,642	$ 673	$ 189,525	$ 1,282,277	22,938,800	$ (986,913)	$ (1,237)	$ 484,325

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 March 28, 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):

	Thirteen Weeks Ended	
	March 28, 2015	**March 29, 2014**
Total cost of the Plans during the period	$ 1,667	$ 1,164
Amount of related income tax benefit recognized during the period	(701)	(614)
Net cost of the Plans during the period	$ 966	$ 550

Included in income tax benefits recognized in the thirteen-week periods ended March 28, 2015 and March 29, 2014 were income tax benefits of $160,000 and $295,000, 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 March 28, 2015, there were 95,531 shares of the Company s common stock reserved for issuance under the 2013 DSCP and 5,602,419 shares of the Company s common stock reserved for issuance in the aggregate under the ESOSIP and 2011 EIP.

Restricted Stock Units

The fair value of a restricted stock unit (RSU) is determined based on the 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 during both thirteen-week periods ended March 28, 2015 and March 29, 2014 was 7%.

The following table summarizes information regarding the Company s outstanding RSU awards under the Plans:

	Number of RSUs	**Weighted Average Grant Date Fair Value**
Outstanding at December 27, 2014	425,630	$ 50.72
Granted	91,562	$ 57.97
Vested	(91,382)	$ 51.98
Outstanding at March 28, 2015	425,810	$ 52.01

Restricted stock units vest over a 3 to 5 year period 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 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.

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With respect to all RSU awards, the Company reports compensation expense over the life of the award based on an estimated number of shares that will vest over the life of the award, multiplied by the fair value of a RSU. The Company recognized approximately $1,158,000 and $641,000 of share-based compensation expense related to RSU awards in the thirteen-week periods ended March 28, 2015 and March 29, 2014, respectively. As of March 28, 2015, there was a maximum of $26,600,000 of total unrecognized compensation cost related to RSU awards granted under the Plans with an expected average remaining life of approximately 3.4 years. 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	(48,700)	$ 45.52		
Forfeited	(1,000)	$ 52.60		
Options outstanding at March 28, 2015	724,139	$ 47.01	5.5	$ 13,572
Options exercisable at March 28, 2015	495,239	$ 45.09	4.9	$ 10,232

The total intrinsic value of stock options exercised during the thirteen-week periods ended March 28, 2015 and March 29, 2014 was $1,108,000 and $5,130,000, respectively.

As of March 28, 2015, there was $2,509,000 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 2.0 years.

Non-vested Restricted Stock

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 subject to vesting in three equal annual installments or 100% on the fifth anniversary of the date of the grant.

As of December 27, 2014, there were 23,353 shares of non-vested restricted stock outstanding with a weighted average grant date fair value of $54.90 per share. None of these shares vested or forfeited and no additional restricted stock shares were granted during the thirteen-week period ended March 28, 2015.

As of March 28, 2015, there was $710,000 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 1.7 years.

(2) Income Taxes

The provisions for income taxes for both the 2015 and 2014 thirteen-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 thirteen-week periods were 37.8% and 37.5%, 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.

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(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):

	Thirteen Weeks Ended	
	March 28, 2015	March 29, 2014
Average number of common shares outstanding	44,588	45,407
Incremental shares from assumed exercises of stock options	172	189
Average number of common shares and common share equivalents outstanding	44,760	45,596

For the thirteen-week periods ended March 28, 2015 and March 29, 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 thirteen-week period, Landstar paid income taxes and interest of $669,000 and $794,000, respectively. During the 2014 thirteen-week period, Landstar paid income taxes and interest of $19,792,000 and $784,000, respectively. Landstar did not acquire any operating property by entering into capital leases in the 2015 thirteen-week period. Landstar acquired operating property by entering into capital leases in the amount of $641,000 in the 2014 thirteen-week period.

(5) Segment Information

The following table summarizes information about the Company s reportable business segments as of and for the thirteen-week periods ended March 28, 2015 and March 29, 2014 (in thousands):

	Thirteen Weeks Ended					
	March 28, 2015			March 29, 2014		
	Transportation Logistics	Insurance	Total	Transportation Logistics	Insurance	Total

External revenue	$ 751,796	$ 10,584	$ 762,380	$ 678,853	$ 9,344	$ 688,197
Investment income		354	354		363	363
Internal revenue		6,396	6,396		5,792	5,792
Operating income	43,730	5,315	49,045	38,984	6,030	45,014
Expenditures on long-lived assets	2,450		2,450	732		732
Goodwill	31,134		31,134	31,134		31,134

In the thirteen-week periods ended March 28, 2015 and March 29, 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 thirteen-week period ended March 28, 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)	228	(280)	(52)
Balance as of March 28, 2015	$ 333	$ (1,570)	$ (1,237)

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Amounts reclassified from accumulated other comprehensive income to investment income due to the realization of previously unrealized gains and losses in the accompanying consolidated statements of income were not significant for the thirteen-week period ended March 28, 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 $516,000 and $163,000 at March 28, 2015 and December 27, 2014, respectively.

The amortized cost and fair values of available-for-sale investments are as follows at March 28, 2015 and December 27, 2014 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 28, 2015				
Money market investments	$ 1,060	$	$	$ 1,060
Asset-backed securities	5,078	2	22	5,058
Corporate bonds and direct obligations of government agencies	77,823	614	87	78,350
U.S. Treasury obligations	19,651	13	4	19,660
Total	$ 103,612	$ 629	$ 113	$ 104,128
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 March 28, 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
March 28, 2015						
Asset-backed securities	$ 895	$ 6	$ 2,468	$ 16	$ 3,363	$ 22
Corporate bonds and direct obligations of government agencies	2,561	59	6,707	28	9,268	87
U.S. Treasury obligations	4,903	3	766	1	5,669	4
Total	$ 8,359	68	$ 9,941	$ 45	$ 18,300	$ 113
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

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The Company expects to recover the amortized cost basis of these securities as it does not intend to sell, and does not anticipate being required to sell, these securities before recovery of the cost basis. For these reasons, the Company does not consider the unrealized losses on these securities to be other-than-temporary at March 28, 2015.

(8) Commitments and Contingencies

Short-term investments include $37,174,000 in current maturities of investments held by the Company s insurance segment at March 28, 2015. The non-current portion of the bond portfolio of $66,954,000 is included in other assets. The short-term investments, together with $27,059,000 of non-current investments, provide collateral for the $57,810,000 of letters of credit issued to guarantee payment of insurance claims. As of March 28, 2015, Landstar also had $33,033,000 of additional letters of credit outstanding under the Company s Credit Agreement.

On March 13, 2015, a jury in state court in Maricopa County, Arizona, rendered a verdict (the Verdict) of $19,250,000 against Landstar Ranger, Inc. in the matter of Bruno v. Landstar Ranger, Inc., in connection with a tragic vehicular accident that occurred on July 19, 2011, on US-93 north of Kingman, Arizona. The accident involved a tractor-trailer leased to Landstar Ranger, Inc., by a truck owner-operator. The truck had pulled off the highway due to mechanical issues and parked in a designated pull-off area. A pick-up truck driven by the decedent lost control while driving on the highway following a tire tread delamination while the decedent may have been engaged with his cell phone. The pick-up truck hit the right rear portion of the trailer of the tractor-trailer approximately 20 to 25 feet from the fog line of the highway. The accident occurred at approximately 2 p.m. on a clear, dry day. The decedent s wife, one of his daughters and two friends of the family were in the car at the time of the accident. As a result of the accident, the decedent s wife, his daughter and one of the friends sustained non-life threatening injuries. In connection with the Verdict, the jury determined that Landstar Ranger, Inc. was responsible for 100% of the liability associated with the accident.

During the trial and prior to the Verdict, the parties entered into an agreement that, among other things, limited the Company s financial exposure from the possibility of an adverse verdict to $4,500,000 and all parties waived all appellate rights following the trial. As a result of the Verdict and the agreement with the plaintiffs, the Verdict resulted in a pre-tax charge of $4,500,000, or approximately $0.06 per share, to the Company s financial results from operations for the 2015 first quarter.

The Company is involved in certain claims and pending litigation, including those described herein, 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.

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The following table summarizes the effect of the increase in the cost of insurance claims resulting from unfavorable development of prior year self-insured claims estimates on operating income, net income and earnings per share amounts in the consolidated statements of income for the thirteen-week periods ended March 28, 2015 and March 29, 2014 (in thousands, except per share amounts):

	Thirteen Weeks Ended	
	March 28, 2015	March 29, 2014
Operating income	$ 4,641	$ 1,891
Net income	2,868	1,169
Earnings per share	$ 0.06	$ 0.03
Diluted earnings per share	$ 0.06	$ 0.03

The unfavorable development of prior years claims in the 2015 fiscal period primarily related to impact of the Verdict described in Footnote (8) Commitments and Contingencies.

(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 April 1, 2015, the FASB proposed deferring the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date. The FASB also proposed 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 attached interim consolidated financial statements and notes thereto, and with the Company s audited financial statements and notes thereto for the fiscal year ended December 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.

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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 thirteen weeks ended March 28, 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 thirteen-week period ended March 28, 2015.

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 thirteen-week period ended March 28, 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.

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

	Thirteen Weeks Ended	
	March 28, 2015	**March 29, 2014**
Revenue generated through (in thousands):		
Truck transportation		
Truckload:		
Van equipment	$ 449,688	$ 397,261
Unsided/platform equipment	239,483	231,019
Less-than-truckload	19,698	16,885
Total truck transportation	708,869	645,165
Rail intermodal	23,181	16,495
Ocean and air cargo carriers	19,632	17,016
Other (1)	10,698	9,521
	$ 762,380	$ 688,197
Revenue on loads hauled via BCO Independent Contractors included in total truck transportation	$ 350,325	$ 343,652
Number of loads:		
Truck transportation		
Truckload:		
Van equipment	258,952	242,736
Unsided/platform equipment	102,166	101,893
Less-than-truckload	25,992	19,691
Total truck transportation	387,110	364,320
Rail intermodal	9,480	6,410
Ocean and air cargo carriers	4,130	3,890
	400,720	374,620
Loads hauled via BCO Independent Contractors included in total truck transportation	191,300	198,870
Revenue per load:		
Truck transportation		
Truckload:		

Van equipment	$ 1,737	$ 1,637
Unsided/platform equipment	2,344	2,267
Less-than-truckload	758	857
Total truck transportation	1,831	1,771
Rail intermodal	2,445	2,573
Ocean and air cargo carriers	4,754	4,374
Revenue per load on loads hauled via BCO Independent Contractors	$ 1,831	$ 1,728
Revenue by capacity type (as a % of total revenue):		
Truck capacity providers:		
BCO Independent Contractors	46%	50%
Truck Brokerage Carriers	47%	44%
Rail intermodal	3%	2%
Ocean and air cargo carriers	3%	2%
Other	1%	1%

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

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

	March 28, 2015	March 29, 2014
BCO Independent Contractors	8,478	7,922
Truck Brokerage Carriers:		
Approved and active [1]	27,304	21,588
Other approved	13,016	11,291
	40,320	32,879
Total available truck capacity providers	48,798	40,801
Trucks provided by BCO Independent Contractors	9,046	8,424