

LANDSTAR SYSTEM INC  
Form 10-Q  
May 03, 2019  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended March 30, 2019**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 0-21238**

**LANDSTAR SYSTEM, INC.**

(Exact name of registrant as specified in its charter)

**Delaware** **06-1313069**  
(State or other jurisdiction (I.R.S. Employer  
of incorporation or organization) Identification No.)  
**13410 Sutton Park Drive South, Jacksonville, Florida**

(Address of principal executive offices)

**32224**

(Zip Code)

**(904) 398-9400**

(Registrant's telephone number, including area code)

**N/A**

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files): Yes No

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

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes      No

The number of shares of the registrant's common stock, par value \$0.01 per share, outstanding as of the close of business on April 22, 2019 was 40,162,360.

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**PART I - FINANCIAL INFORMATION**

Item 1. Financial Statements

The interim consolidated financial statements contained herein reflect all adjustments (all of a normal, recurring nature) which, in the opinion of management, are necessary for a fair statement of the financial condition, results of operations, cash flows and changes in equity for the periods presented. They have been prepared in accordance with Rule 10-01 of Regulation S-X and do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. Operating results for the thirteen weeks ended March 30, 2019 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 28, 2019.

These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's 2018 Annual Report on Form 10-K.

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## LANDSTAR SYSTEM, INC. AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

(Unaudited)

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

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

See accompanying notes to consolidated financial statements.

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## LANDSTAR SYSTEM, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share amounts)

(Unaudited)

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

See accompanying notes to consolidated financial statements.



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

(Dollars in thousands)

(Unaudited)

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

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands)

(Unaudited)

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

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

See accompanying notes to consolidated financial statements.

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LANDSTAR SYSTEM, INC. AND SUBSIDIARY  
 CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Thirteen Weeks Ended March 30, 2019 and March 31, 2018

(Dollars in thousands)

(Unaudited)

**Landstar System, Inc. and Subsidiary Shareholders**

	Common Stock Shares	Additional Paid-In Capital	Retained Earnings	Treasury Stock at Shares	Cos Amount	Accumulated Non- Other Comprehensive (Loss) Income	Noncontrolling Interests	Total	
Balance December 29, 2018	67,870,962	\$ 679	\$ 226,852	\$ 1,841,279	27,755,001	\$ (1,376,111)	\$ (5,875)	\$ 2,309	\$ 689,133
Net income (loss)			63,317				(17)	63,300	
Dividends (\$0.165 per share)			(6,629)					(6,629)	
Purchases of common stock				124,481	(12,977)			(12,977)	
Purchase of noncontrolling interests		1,842							