LANDSTAR SYSTEM INC
Form 10-Q
July 29, 2016
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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 25, 2016

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 18, 2016 was 42,107,783.

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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 25, 2016 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 31, 2016.

These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s 2015 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 25, 2016	December 26, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	$ 153,370	$ 114,520
Short-term investments	61,528	48,823
Trade accounts receivable, less allowance of $5,092 and $4,327	402,362	462,699
Other receivables, including advances to independent contractors, less allowance of $4,755 and $4,143	18,584	18,472
Other current assets	20,608	11,604
Total current assets	656,452	656,118
Operating property, less accumulated depreciation and amortization of $187,774 and $182,591	236,177	225,927
Goodwill	31,134	31,134
Other assets	60,994	78,339
Total assets	$ 984,757	$ 991,518
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Cash overdraft	$ 30,355	$ 35,609
Accounts payable	191,247	223,709
Current maturities of long-term debt	42,209	42,499
Insurance claims	26,135	19,757
Other current liabilities	44,642	47,963
Total current liabilities	334,588	369,537
Long-term debt, excluding current maturities	76,724	81,793
Insurance claims	23,042	21,477
Deferred income taxes and other noncurrent liabilities	53,148	52,474
Shareholders Equity		
	675	674

Common stock, $0.01 par value, authorized 160,000,000 shares, issued 67,504,785 and 67,391,616 shares		
Additional paid-in capital	197,503	195,841
Retained earnings	1,444,691	1,389,975
Cost of 25,397,002 and 24,972,079 shares of common stock in treasury	(1,143,360)	(1,116,765)
Accumulated other comprehensive loss	(2,254)	(3,488)
Total shareholders equity	497,255	466,237
Total liabilities and shareholders equity	$ 984,757	$ 991,518

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 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
Revenue	$ 1,486,867	$ 1,630,763	$ 775,223	$ 868,383
Investment income	743	693	363	339
Costs and expenses:				
Purchased transportation	1,129,743	1,254,730	589,415	667,577
Commissions to agents	123,931	129,816	64,839	70,032
Other operating costs, net of gains on asset sales/dispositions	13,992	15,670	6,585	7,981
Insurance and claims	30,307	27,108	16,094	12,312
Selling, general and administrative	71,519	74,986	36,905	37,738
Depreciation and amortization	17,093	14,068	8,655	7,049
Total costs and expenses	1,386,585	1,516,378	722,493	802,689
Operating income	101,025	115,078	53,093	66,033
Interest and debt expense	1,777	1,494	888	713
Income before income taxes	99,248	113,584	52,205	65,320
Income taxes	37,750	43,098	19,891	24,849
Net income	$ 61,498	$ 70,486	$ 32,314	$ 40,471
Earnings per common share	$ 1.45	$ 1.59	$ 0.77	$ 0.92
Diluted earnings per share	$ 1.45	$ 1.59	$ 0.76	$ 0.92
Average number of shares outstanding:				
Earnings per common share	42,315,000	44,240,000	42,235,000	43,892,000
Diluted earnings per share	42,424,000	44,397,000	42,357,000	44,033,000
Dividends per common share	$ 0.16	$ 0.14	$ 0.08	$ 0.07

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 25, 2016	**June 27, 2015**	**June 25, 2016**	**June 27, 2015**
Net income	$ 61,498	$ 70,486	$ 32,314	$ 40,471
Other comprehensive income (loss):				
Unrealized holding gains (losses) on available-for-sale investments, net of tax expense (benefit) of $217, $35, $117 and ($90)	397	64	215	(164)
Foreign currency translation gains (losses)	837	(698)	254	(418)
Other comprehensive income (loss)	1,234	(634)	469	(582)
Comprehensive income	$ 62,732	$ 69,852	$ 32,783	$ 39,889

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 25, 2016	June 27, 2015
OPERATING ACTIVITIES		
Net income	$ 61,498	$ 70,486
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of operating property	17,093	14,068
Non-cash interest charges	112	109
Provisions for losses on trade and other accounts receivable	2,951	3,344
Gains on sales/disposals of operating property	(1,761)	(178)
Deferred income taxes, net	6,043	1,859
Stock-based compensation	2,066	3,243
Changes in operating assets and liabilities:		
Decrease in trade and other accounts receivable	57,274	1,147
(Increase) decrease in other assets	(2,939)	1,596
Decrease in accounts payable	(36,238)	(3,270)
Decrease in other liabilities	(8,907)	(9,999)
Increase (decrease) in insurance claims	7,943	(388)
NET CASH PROVIDED BY OPERATING ACTIVITIES	105,135	82,017
INVESTING ACTIVITIES		
Sales and maturities of investments	23,454	16,656
Purchases of investments	(24,377)	(20,052)
Purchases of operating property	(8,955)	(3,050)
Proceeds from sales of operating property	4,791	1,281
NET CASH USED BY INVESTING ACTIVITIES	(5,087)	(5,165)
FINANCING ACTIVITIES		
Decrease in cash overdraft	(5,254)	(2,912)
Dividends paid	(6,782)	(50,980)
Proceeds from exercises of stock options	900	534
Taxes paid in lieu of shares issued related to stock-based compensation plans	(1,690)	(2,083)
Excess tax benefits from stock-based awards	277	516
Purchases of common stock	(26,485)	(84,635)

Principal payments on capital lease obligations	(23,001)	(18,112)
NET CASH USED BY FINANCING ACTIVITIES	(62,035)	(157,672)
Effect of exchange rate changes on cash and cash equivalents	837	(698)
Increase (decrease) in cash and cash equivalents	38,850	(81,518)
Cash and cash equivalents at beginning of period	114,520	163,944
Cash and cash equivalents at end of period	$ 153,370	$ 82,426

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 25, 2016

(Dollars in thousands)

(Unaudited)

	Common Stock		Additional Paid-In	Retained	Treasury Stock at Cost		Accumulated Other Comprehensive Income	
	Shares	Amount	Capital	Earnings	Shares	Amount	(Loss)	Total
Balance December 26, 2015	67,391,616	$ 674	$ 195,841	$ 1,389,975	24,972,079	$ (1,116,765)	$ (3,488)	$ 466,237
Net income				61,498				61,498
Dividends ($0.16 per share)				(6,782)				(6,782)
Purchases of common stock					423,281	(26,485)		(26,485)
Issuance of stock related to stock-based compensation plans, including excess tax effect	113,169	1	(404)		1,642	(110)		(513)
Stock-based compensation			2,066					2,066
Other comprehensive income							1,234	1,234
Balance June 25, 2016	67,504,785	$ 675	$ 197,503	$ 1,444,691	25,397,002	$ (1,143,360)	$ (2,254)	$ 497,255

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. Certain prior year amounts have been reclassified for consistency with the current year presentation. Significant intercompany accounts have been eliminated in consolidation.

(1) Share-based Payment Arrangements

As of June 25, 2016, the Company had two employee equity incentive plans, the 2002 employee stock option and stock incentive plan (the ESOSIP) and the 2011 equity incentive plan (the 2011 EIP). No further grants can be made under the ESOSIP. The Company also has a stock compensation plan for members of its Board of Directors, the Amended and Restated 2013 Directors Stock Compensation Plan (as amended and restated as of May 17, 2016, the 2013 DSCP). 6,000,000 shares of the Company s common stock were authorized for issuance under the 2011 EIP and 115,000 shares of the Company s common stock were authorized for issuance under the 2013 DSCP. The ESOSIP, 2011 EIP and 2013 DSCP are each referred to herein as a Plan, and, collectively, as the Plans. Amounts recognized in the financial statements with respect to these Plans are as follows (in thousands):

	Twenty Six Weeks Ended		Thirteen Weeks Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
Total cost of the Plans during the period	$ 2,066	$ 3,243	$ 966	$ 1,576
Amount of related income tax benefit recognized during the period	(836)	(1,270)	(365)	(569)
Net cost of the Plans during the period	$ 1,230	$ 1,973	$ 601	$ 1,007

Included in income tax benefits recognized in the twenty-six-week periods ended June 25, 2016 and June 27, 2015 were income tax benefits of $172,000 and $213,000, 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 25, 2016, there were 86,572 shares of the Company s common stock reserved for issuance under the 2013 DSCP and 5,173,077 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 26, 2015	444,157	$ 51.10
Granted	79,643	$ 51.58
Vested	(81,344)	$ 53.08
Forfeited	(51,533)	$ 53.47
Outstanding at June 25, 2016	390,923	$ 50.48

During the twenty-six-week period ended June 25, 2016, the Company granted RSUs with a performance condition. RSUs with a performance condition granted on January 29, 2016 may vest on January 31 of 2019, 2020 and 2021 based on growth in operating income and diluted earnings per share from continuing operations as compared to the results from the 2015 fiscal year. Outstanding RSUs at both December 26, 2015 and June 25, 2016 include RSUs with a performance condition and RSUs with a market condition, as further described below.

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RSUs with a performance condition vest over a 5 year period from the date of grant based on growth in operating income and diluted earnings per share as compared to a base year, being the year immediately preceding the year of grant. At the time of grant, the target number of common shares available for issuance under the January 29, 2016 and January 27, 2015 grants equals 100% of the number of RSUs granted and the maximum number of common shares available for issuance under the January 29, 2016 and January 27, 2015 grants equals 200% of the number of RSUs granted. In the event actual results exceed the target, the number of shares that will be granted will exceed 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 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 for all periods 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 an 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 target number of common shares available for issuance under the May 1, 2015 grant equals 100% of the number of RSUs granted and the maximum number of common shares available for issuance under the May 1, 2015 grant equals 150% of the number of RSUs granted. In the event actual results exceed the target TSR compound annual growth rate, the number of shares that will be granted will exceed 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 with a market condition, compensation expense is recognized ratably over the requisite service period under an award based on the fair market value of the award at the time of grant, regardless of whether the market condition is satisfied. Previously recognized compensation cost would be reversed, however, if the employee terminated employment prior to completing such requisite service period.

The Company recognized approximately $1,130,000 and $2,246,000 of share-based compensation expense related to RSU awards in the twenty-six-week periods ended June 25, 2016 and June 27, 2015, respectively. As of June 25, 2016, there was a maximum of $27.6 million of total unrecognized compensation cost related to RSU awards granted under the Plans with an expected average remaining life of approximately 3.1 years. With respect to RSU awards with a performance condition, the amount of future compensation expense to be recognized will be determined based on future operating results.

Stock Options

The following table summarizes information regarding the Company s outstanding stock options under the Plans:

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (000s)
Options outstanding at December 26, 2015	637,221	$ 47.24		
Exercised	(68,606)	$ 45.71		

Forfeited	(3,000)	$	52.98			
Options outstanding at June 25, 2016	565,615	$	47.40	4.7	$	10,992
Options exercisable at June 25, 2016	468,415	$	46.02	4.4	$	9,749

The total intrinsic value of stock options exercised during the twenty-six-week periods ended June 25, 2016 and June 27, 2015 was $1,236,000 and $1,417,000, respectively.

As of June 25, 2016, there was $852,000 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 1.1 years.

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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 26, 2015	18,060	$ 54.36
Granted	26,033	$ 58.53
Vested	(13,684)	$ 52.48
Outstanding at June 25, 2016	30,409	$ 58.77

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. Shares of non-vested restricted stock are generally subject to vesting in three equal annual installments or 100% on the first, third or fifth anniversary of the date of the grant.

As of June 25, 2016, there was $1,486,000 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 2.0 years.

(2) Income Taxes

The provisions for income taxes for both the 2016 and 2015 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 2016 and 2015 twenty-six-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-based compensation.

During the first fiscal quarter of 2016, the Company adopted Accounting Standards Update 2015-17 Balance Sheet Classification of Deferred Taxes (ASU 2015-17), which requires an entity to present deferred tax assets and deferred tax liabilities as noncurrent in a classified balance sheet. As of December 26, 2015, the Company reclassified $6,552,000 of current deferred tax assets to noncurrent to conform to the current year presentation and this amount is now included in deferred income taxes and other noncurrent liabilities on the consolidated balance sheets.

(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 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
Average number of common shares outstanding	42,315	44,240	42,235	43,892
Incremental shares from assumed exercises of stock options	109	157	122	141
Average number of common shares and common share equivalents outstanding	42,424	44,397	42,357	44,033

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For each of the twenty-six-week and thirteen-week periods ended June 25, 2016 and June 27, 2015, 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 or market condition for vesting had not been satisfied.

(4) Additional Cash Flow Information

During the 2016 twenty-six-week period, Landstar paid income taxes and interest of $33,771,000 and $1,922,000, respectively. During the 2015 twenty-six-week period, Landstar paid income taxes and interest of $32,013,000 and $1,521,000, respectively. Landstar acquired operating property by entering into capital leases in the amount of $17,642,000 in the 2016 twenty-six-week period. Landstar did not acquire any operating property by entering into capital leases in the 2015 twenty-six-week period. In addition, Landstar acquired $3,776,000 of operating property for which the Company accrued a corresponding liability in accounts payable as of June 25, 2016 related to the acquisition of land and improvements in Laredo, TX.

(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 25, 2016 and June 27, 2015 (in thousands):

	Twenty Six Weeks Ended					
	June 25, 2016			June 27, 2015		
	Transportation Logistics	Insurance	Total	Transportation Logistics	Insurance	Total
External revenue	$ 1,463,772	$ 23,095	$ 1,486,867	$ 1,609,225	$ 21,538	$ 1,630,763
Internal revenue		21,661	21,661		18,554	18,554
Investment income		743	743		693	693
Operating income	85,801	15,224	101,025	101,113	13,965	115,078
Expenditures on long-lived assets	8,955		8,955	3,050		3,050
Goodwill	31,134		31,134	31,134		31,134

	Thirteen Weeks Ended					
	June 25, 2016			June 27, 2015		
	Transportation Logistics	Insurance	Total	Transportation Logistics	Insurance	Total
External revenue	$ 763,672	$ 11,551	$ 775,223	$ 857,429	$ 10,954	$ 868,383
Internal revenue		14,430	14,430		12,158	12,158
Investment income		363	363		339	339
Operating income	46,176	6,917	53,093	57,383	8,650	66,033
Expenditures on long-lived assets	8,127		8,127	600		600

In the twenty-six and thirteen-week periods ended June 25, 2016 and June 27, 2015, 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 25, 2016 (in thousands):

	Unrealized Holding Gains (Losses) on Available-for-Sale Securities	Foreign Currency Translation	Total
Balance as of December 26, 2015	$ (94)	$ (3,394)	$ (3,488)
Other comprehensive income	397	837	1,234
Balance as of June 25, 2016	$ 303	$ (2,557)	$ (2,254)

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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 twenty-six-week period ended June 25, 2016.

(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 $469,000 at June 25, 2016, while unrealized losses, net of unrealized gains, on the investments in the bond portfolio were $145,000 at December 26, 2015.

The amortized cost and fair values of available-for-sale investments are as follows at June 25, 2016 and December 26, 2015 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 25, 2016				
Money market investments	$ 11,864	$	$	$ 11,864
Asset-backed securities	4,430	10	15	4,425
Corporate bonds and direct obligations of government agencies	73,608	520	64	74,064
U.S. Treasury obligations	19,031	18		19,049
Total	$ 108,933	$ 548	$ 79	$ 109,402
December 26, 2015				
Money market investments	$ 7,594	$	$	$ 7,594

Asset-backed securities	4,523	1	58	4,466
Corporate bonds and direct obligations of government agencies	76,839	190	270	76,759
U.S. Treasury obligations	19,273	5	13	19,265
Total	$ 108,229	$ 196	$ 341	$ 108,084

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For those available-for-sale investments with unrealized losses at June 25, 2016 and December 26, 2015, 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 25, 2016						
Asset-backed securities	$	$	$ 2,459	$ 15	$ 2,459	$ 15
Corporate bonds and direct obligations of government agencies	5,326	3	1,481	61	6,807	64
Total	$ 5,326	$ 3	$ 3,940	$ 76	$ 9,266	$ 79
December 26, 2015						
Asset-backed securities	$ 4,422	$ 58	$	$	$ 4,422	$ 58
Corporate bonds and direct obligations of government agencies	39,276	217	562	53	39,838	270
U.S. Treasury obligations	15,093	13			15,093	13
Total	$ 58,791	$ 288	$ 562	$ 53	$ 59,353	$ 341

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 25, 2016.

(8) Commitments and Contingencies

Short-term investments include $61,528,000 in current maturities of investments held by the Company s insurance segment at June 25, 2016. The non-current portion of the bond portfolio of $47,874,000 is included in other assets. The short-term investments, together with $6,372,000 of non-current investments, provide collateral for the $61,110,000 of letters of credit issued to guarantee payment of insurance claims. As of June 25, 2016, Landstar also had $35,600,000 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.

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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 twenty-six-week and thirteen-week periods ended June 25, 2016 and June 27, 2015 (in thousands, except per share amounts):

	Twenty Six Weeks Ended		**Thirteen Weeks Ended**	
	June 25, 2016	**June 27, 2015**	**June 25, 2016**	**June 27, 2015**
Operating income	$ 2,816	$ 5,474	$ 738	$ 833
Net income	1,740	3,383	456	515
Earnings per share	$ 0.04	$ 0.08	$ 0.01	$ 0.01
Diluted earnings per share	$ 0.04	$ 0.08	$ 0.01	$ 0.01

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 (FASB) 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.

In November 2015, the FASB issued ASU 2015-17 Balance Sheet Classification of Deferred Taxes. The Company adopted this guidance during the first fiscal quarter of 2016 and applied it retrospectively. Deferred tax assets in the prior period presented have been reclassified to conform to the current year presentation. See Note 2, Income Taxes, for further information.

In February 2016, the FASB issued Accounting Standards Update 2016-02 Leases (ASU 2016-02). ASU 2016-02 requires a company to recognize a right-of-use asset and lease liability for the obligation to make lease payments measured at the present value of the lease payments for all leases with terms greater than twelve months. Companies are required to use a modified retrospective transition approach to recognize leases at the beginning of the earliest period presented. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, and interim periods therein, and early adoption is permitted. ASU 2016-02 is not expected to have a material impact on the Company s financial statements.

In March 2016, the FASB issued Accounting Standards Update 2016-09 Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09), which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods therein. The Company is currently evaluating the impact of ASU 2016-09 on its financial statements.

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

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

The following discussion should be read in conjunction with the interim consolidated financial statements and notes thereto included herein, and with the Company s audited financial statements and notes thereto for the fiscal year ended December 26, 2015 and Management s Discussion and Analysis of Financial Condition and Results of Operations included in the 2015 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, should, could, v 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; cyber and other information security incidents; 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 2015 fiscal year, described in Item 1A Risk Factors , in this report or in Landstar s other Securities and Exchange Commission filings from time to time. These risks and uncertainties could cause actual results or events to differ materially from historical results or those anticipated. Investors should not place undue reliance on such forward-looking statements and the Company undertakes no obligation to publicly update or revise any forward-looking statements.

Introduction

Landstar System, Inc. and its subsidiary, Landstar System Holdings, Inc. (together, referred to herein as Landstar or the Company), is a worldwide asset-light provider of integrated transportation management solutions. The Company offers services to its customers across multiple transportation modes, with the ability to arrange for individual shipments of freight to enterprise-wide solutions to manage all of a customer s transportation needs. Landstar provides services principally throughout the United States and to a lesser extent in Canada, and 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 $3.3 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 third party logistics and less-than-truckload service providers. Each of the independent commission sales agents has the opportunity to market all of the services provided by the transportation logistics segment. Billings for freight transportation services are typically charged to customers on a per shipment basis for the physical transportation of freight and are referred to as transportation revenue. During the twenty-six weeks ended June 25, 2016, revenue hauled by BCO Independent Contractors, Truck Brokerage Carriers and railroads represented approximately 48%, 45% and 4%, 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 25, 2016.

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 2% of the Company s consolidated revenue for the twenty-six-week period ended June 25, 2016.

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 2015 fiscal year, 512 independent commission sales agents generated $1 million or more of Landstar revenue and thus qualified as Million Dollar Agents. During the 2015 fiscal year, the average revenue generated by a Million Dollar Agent was $5,998,000 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 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
Revenue generated through (in thousands):				
Truck transportation				
Truckload:				
Van equipment	$ 886,195	$ 946,598	$ 458,002	$ 496,910
Unsided/platform equipment	451,430	530,515	242,008	291,032
Less-than-truckload	35,927	40,956	18,450	21,258
Total truck transportation	1,373,552	1,518,069	718,460	809,200
Rail intermodal	52,337	49,522	26,229	26,341
Ocean and air cargo carriers	37,710	41,410	18,902	21,778
Other (1)	23,268	21,762	11,632	11,064
	$ 1,486,867	$ 1,630,763	$ 775,223	$ 868,383

Revenue on loads hauled via BCO Independent Contractors included in total truck transportation	$ 707,652	$ 752,030	$ 373,374	$ 401,705
Number of loads:				
Truck transportation				
Truckload:				
Van equipment	556,119	544,714	287,079	285,762
Unsided/platform equipment	219,034	229,452	116,292	127,286
Less-than-truckload	55,727	54,904	28,829	28,912
Total truck transportation	830,880	829,070	432,200	441,960
Rail intermodal	24,180	20,680	12,150	11,200
Ocean and air cargo carriers	9,780	8,620	5,220	4,490
	864,840	858,370	449,570	457,650
Loads hauled via BCO Independent Contractors included in total truck transportation	414,660	406,230	216,990	214,930

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Revenue per load:				
Truck transportation				
Truckload:				
Van equipment	$ 1,594	$ 1,738	$ 1,595	$ 1,739
Unsided/platform equipment	2,061	2,312	2,081	2,286
Less-than-truckload	645	746	640	735
Total truck transportation	1,653	1,831	1,662	1,831
Rail intermodal	2,164	2,395	2,159	2,352
Ocean and air cargo carriers	3,856	4,804	3,621	4,850
Revenue per load on loads hauled via BCO Independent Contractors	$ 1,707	$ 1,851	$ 1,721	$ 1,869
Revenue by capacity type (as a % of total revenue):				
Truck capacity providers:				
BCO Independent Contractors	48%	46%	48%	46%
Truck Brokerage Carriers	45%	47%	45%	47%
Rail intermodal	4%	3%	3%	3%
Ocean and air cargo carriers	3%	3%	2%	3%
Other	2%	1%	2%	1%

(1) Includes primarily reinsurance 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 the number of available truck capacity providers on the dates indicated:

	June 25, 2016	June 27, 2015
BCO Independent Contractors	8,856	8,726
Truck Brokerage Carriers:		
Approved and active [1]	30,137	28,387
Other approved	15,594	13,126
	45,731	41,513
Total available truck capacity providers	54,587	50,239
Trucks provided by BCO Independent Contractors	9,462	9,308

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

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

Purchased transportation represents the amount a BCO Independent Contractor or other third party capacity provider is paid to haul freight. The amount of purchased transportation paid to a BCO Independent Contractor is primarily based on a contractually agreed-upon percentage of revenue generated by loads hauled by the BCO Independent Contractor. Purchased transportation paid to a Truck Brokerage Carrier is based on either a negotiated rate for each load hauled or, to a lesser extent, a contractually agreed-upon fixed rate per load. Purchased transportation paid to railroads is based on either a negotiated rate for each load hauled or a contractually agreed-upon fixed rate. 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. The Company passes 100% of fuel surcharges billed to customers for freight hauled by BCO Independent Contractors to its BCO Independent Contractors. These fuel surcharges are excluded from revenue and the cost of purchased transportation. Purchased transportation costs are recognized upon the completion of freight delivery.

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 56% of the Company s consolidated revenue in the twenty-six-week period ended June 25, 2016 was generated under contracts that have a fixed gross profit margin while 44% 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, up to $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 25, 2016, employee compensation and benefits accounted for approximately sixty-five 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 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
Revenue	100.0%	100.0%	100.0%	100.0%
Purchased transportation	76.0	76.9	76.0	76.9
Commissions to agents	8.3	8.0	8.4	8.1
Gross profit margin	15.7%	15.1%	15.6%	15.1%
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	6.0	6.4	5.4	6.1
Insurance and claims	13.0	11.0	13.3	9.4
Selling, general and administrative	30.7	30.5	30.5	28.9
Depreciation and amortization	7.3	5.7	7.2	5.4
Total costs and expenses	57.0	53.5	56.4	49.8
Operating margin	43.3%	46.7%	43.9%	50.5%

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

Also, as previously mentioned, the Company reports two operating segments: the transportation logistics segment and the insurance segment. External revenue at the insurance segment, representing reinsurance premiums, has historically been relatively consistent 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 25, 2016 COMPARED TO TWENTY SIX WEEKS ENDED JUNE 27, 2015

Revenue for the 2016 twenty-six-week period was $1,486,867,000, a decrease of $143,896,000, or 9%, compared to the 2015 twenty-six-week period. Transportation revenue decreased $145,453,000, or 9%. The decrease in transportation revenue was attributable to decreased revenue per load of approximately 10%, partially offset by a 1% increase in the number of loads hauled. Reinsurance premiums were $23,095,000 and $21,538,000 for the 2016 and 2015 twenty-six-week periods, respectively. The increase in revenue from reinsurance premiums was primarily attributable to the net increase in the number of BCO Independent Contractors in the 2016 twenty-six-week period compared to the 2015 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 2016 twenty-six-week period was $1,373,552,000, or 92% of total revenue, a decrease of $144,517,000, or 10%, compared to the 2015 twenty-six-week period. Revenue per load on loads hauled by third party truck capacity providers decreased approximately 10% in the 2016 twenty-six-week period compared to the 2015 twenty-six-week period, while the number of loads hauled was approximately flat compared to the 2015 twenty-six-week period. 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, a somewhat softer freight environment as compared to the 2015 twenty-six-week period, which resulted in more readily available truck capacity, and a decrease in the number of loads hauled via heavy specialized equipment, which typically have a higher revenue per load, as a percentage of total truck loads. The number of loads hauled via van equipment increased 2%, while the number of loads hauled via unsided/platform equipment

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decreased 5% in the 2016 twenty-six-week period compared to the 2015 twenty-six-week period. Demand for van transportation services utilizing Company provided van trailers, primarily relating to drop and hook services, drove the growth in the number of loads hauled via van trailing equipment during the period. The decrease in the number of loads hauled via unsided/platform equipment was entirely attributable to the impact of approximately 13,000 loads hauled in the 2015 twenty-six-week period related to a significant project for a single account in the automotive industry. That project was completed at the end of 2015. Excluding the impact of the project loads hauled during the 2015 period, the number of loads hauled via unsided/platform equipment increased 1% during the 2016 twenty-six-week period. Fuel surcharges billed to customers on revenue hauled by BCO Independent Contractors are excluded from revenue. Fuel surcharges on Truck Brokerage Carrier revenue identified separately in billings to customers and included as a component of Truck Brokerage Carrier revenue were $23,707,000 and $45,031,000 in the 2016 and 2015 twenty-six-week periods, respectively. It should be noted that many customers of truck brokerage services require a single all-in rate that does not separately identify fuel surcharge. Accordingly, the overall impact of changes in fuel prices on revenue and revenue per load on loads hauled via truck may be greater than that indicated.

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 25, 2016, was $90,047,000, or 6% of total revenue, a decrease of $885,000, or 1%, compared to the 2015 twenty-six-week period. The number of loads hauled by multimode capacity providers in the 2016 twenty-six-week period increased approximately 16% compared to the 2015 twenty-six-week period, while revenue per load on revenue hauled by multimode capacity providers decreased approximately 15% over the same period. The increase in loads hauled by multimode capacity providers was primarily due to increased rail intermodal loads, mostly attributable to increased loadings at one specific agency, and a 13% increase in loads hauled by air and ocean cargo carriers. The decrease in revenue per load on loads hauled by multimode capacity providers was due to the increase in rail intermodal loads as a percentage of multimode loads, as rail intermodal loads generally generate a lower revenue per load compared to loads hauled by ocean or air cargo carriers, and decreased revenue per load for all multimode modes. 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 76.0% and 76.9% of revenue in the 2016 and 2015 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, primarily due to the impact of lower diesel fuel costs and more readily available capacity. Commissions to agents were 8.3% and 8.0% of revenue in the 2016 and 2015 twenty-six-week periods, respectively. The increase in commissions to agents as a percentage of revenue was primarily attributable to an increased net revenue margin on revenue hauled by Truck Brokerage Carriers.

Investment income was $743,000 and $693,000 in the 2016 and 2015 twenty-six-week periods, respectively.

Other operating costs decreased $1,678,000 in the 2016 twenty-six-week period compared to the 2015 twenty-six-week period and represented 6.0% of gross profit in the 2016 period compared to 6.4% of gross profit in the 2015 period. The decrease in other operating costs compared to the prior year was primarily due to increased gains on sales of used trailing equipment and decreased trailing equipment rental costs, partially offset by increased trailing equipment maintenance costs, as the Company increased its number of owned trailers in response to customer demand, and an increased provision for contractor bad debt. The decrease in other operating costs as a percentage of gross profit was caused by the decrease in other operating costs, partially offset by the effect of decreased gross profit.

Insurance and claims increased $3,199,000 in the 2016 twenty-six-week period compared to the 2015 twenty-six-week period and represented 13.0% of gross profit in the 2016 period compared to 11.0% of gross profit in the 2015 period. The increase in insurance and claims compared to prior year was due to increased severity of current year claims in the 2016 period, partially offset by decreased net unfavorable development of prior years claims in the 2016 period as unfavorable development of prior year claims was $2,816,000 and $5,474,000 in the 2016 and 2015 twenty-six-week periods, respectively. The increase in insurance and claims as a percent of gross profit was caused by the increase in insurance and claims costs related to the increased severity of current year claims in the 2016 period and the effect of decreased gross profit.

Selling, general and administrative costs decreased $3,467,000 in the 2016 twenty-six-week period compared to the 2015 twenty-six-week period and represented 30.7% of gross profit in the 2016 period compared to 30.5% of gross profit in the 2015 period. The decrease in selling, general and administrative costs compared to prior year was attributable to decreased stock compensation expense, a decreased provision for customer bad debt and a decreased provision for bonuses under the Company s incentive compensation plan in the 2016 period. The increase in selling, general and administrative costs as a percent of gross profit was due primarily to the effect of decreased gross profit, partially offset by the decrease in selling, general and administrative costs.

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Depreciation and amortization increased $3,025,000 in the 2016 twenty-six-week period compared to the 2015 twenty-six-week period and represented 7.3% of gross profit in the 2016 period compared to 5.7% of gross profit in the 2015 period. The increase in depreciation and amortization costs was due to depreciation on new trailing equipment as the Company increased its number of owned trailers in response to increased customer demand for the Company s drop and hook services using Company owned van trailers. The increase in depreciation and amortization as a percentage of gross profit was primarily due to the increased depreciation costs discussed above and the effect of decreased gross profit.

Interest and debt expense in the 2016 twenty-six-week period was $283,000 higher than the 2015 twenty-six-week period. The increase in interest and debt expense was solely attributable to increased interest on capital lease obligations as the Company increased its number of owned trailers in response to customer demand.

The provisions for income taxes for both the 2016 and 2015 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 2016 and 2015 twenty-six-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 2016 and 2015 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 $61,498,000, or $1.45 per common share ($1.45 per diluted share), in the 2016 twenty-six-week 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.

THIRTEEN WEEKS ENDED JUNE 25, 2016 COMPARED TO THIRTEEN WEEKS ENDED JUNE 27, 2015

Revenue for the 2016 thirteen-week period was $775,223,000, a decrease of $93,160,000, or 11%, compared to the 2015 thirteen-week period. Transportation revenue decreased $93,757,000, or 11%. The decrease in transportation revenue was primarily attributable to decreased revenue per load of approximately 9% and a 2% decrease in the number of loads hauled. Reinsurance premiums were $11,551,000 and $10,954,000 for the 2016 and 2015 thirteen-week periods, respectively. The increase in revenue from reinsurance premiums was primarily attributable to the net increase in the number of BCO Independent Contractors in the 2016 thirteen-week period compared to the 2015 thirteen-week period.

Truck transportation revenue hauled by third party truck capacity providers for the 2016 thirteen-week period was $718,460,000, or 93% of total revenue, a decrease of $90,740,000, or 11%, compared to the 2015 thirteen-week period. Revenue per load on loads hauled by third party truck capacity providers decreased approximately 9% in the 2016 thirteen-week period compared to the 2015 thirteen-week period and the number of loads hauled decreased approximately 2% compared to the 2015 thirteen-week period. 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 somewhat softer freight environment as compared to the 2015 thirteen-week period, which resulted in more readily available truck capacity. The decrease in the number of loads hauled via truck of 2% was entirely attributable to a 9% decrease in the number of loads hauled via unsided/platform equipment. The decrease in the number of loads hauled via unsided/platform equipment of 9% was due to the impact of approximately 13,000 loads hauled in the 2015 thirteen-week period related to a significant project for a single account in the automotive industry. Excluding the impact of the project loads hauled during the 2015 period, the number of loads hauled via truck increased 1% during the 2016 thirteen-week period, primarily driven by increased demand for drop and hook services, particularly those utilizing the Company s van trailers. Fuel surcharges on Truck Brokerage Carrier revenue identified separately in billings to customers and included as a component of Truck Brokerage Carrier revenue were $11,719,000 and $22,048,000 in the 2016 and 2015 thirteen-week periods, respectively.

Transportation revenue hauled by multimode capacity providers for the thirteen-week period ended June 25, 2016, was $45,131,000, or 6% of total revenue, a decrease of $2,988,000, or 6%, compared to the 2015 thirteen-week period. The number of loads hauled by