Item 8. ***Financial Statements and Supplementary Data***

LANDSTAR SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share amounts)

	Dec. 31, 2022	Dec. 25, 2021
ASSETS		
Current Assets		
Cash and cash equivalents	$ 339,581	$ 215,522
Short-term investments	53,955	35,778
Trade accounts receivable, less allowance of $12,121 and $7,074	967,793	1,154,314
Other receivables, including advances to independent contractors, less allowance of $10,579 and $8,125	56,235	101,124
Other current assets	21,826	16,162
Total current assets	1,439,390	1,522,900
Operating property, less accumulated depreciation and amortization of $393,274 and $344,099	314,990	317,386
Goodwill	41,220	40,768
Other assets	136,279	164,411
Total assets	$ 1,931,879	$ 2,045,465
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Cash overdraft	$ 92,953	$ 116,478
Accounts payable	527,372	604,130
Current maturities of long-term debt	36,175	36,561
Insurance claims	50,836	46,896
Dividends payable	71,854	75,387
Other current liabilities	98,945	130,531
Total current liabilities	878,135	1,009,983
Long-term debt, excluding current maturities	67,225	75,243
Insurance claims	58,268	49,509
Deferred income taxes and other noncurrent liabilities	41,030	48,720
Shareholders' Equity		
Common stock, $0.01 par value, authorized 160,000,000 shares, issued 68,382,310 and 68,232,975 shares	684	682
Additional paid-in capital	258,487	255,148
Retained earnings	2,635,960	2,317,184
Cost of 32,455,300 and 30,539,235 shares of common stock in treasury	(1,992,886)	(1,705,601)
Accumulated other comprehensive loss	(15,024)	(5,403)
Total shareholders' equity	887,221	862,010
Total liabilities and shareholders' equity	$ 1,931,879	$ 2,045,465

See accompanying notes to consolidated financial statements.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share amounts)

	Fiscal Years Ended		
	December 31, 2022	December 25, 2021	December 26, 2020
Revenue	$ 7,436,562	$ 6,537,568	$ 4,132,981
Investment income	3,162	2,857	3,399
Costs and expenses:			
Purchased transportation	5,804,017	5,114,667	3,192,850
Commissions to agents	614,865	507,209	340,780
Other operating costs, net of gains on asset sales/dispositions	45,192	36,531	30,463
Insurance and claims	125,835	105,463	87,773
Selling, general and administrative	221,279	221,278	167,633
Depreciation and amortization	57,453	49,609	45,855
Impairment of intangible and other assets	—	—	2,582
Commission program termination costs	—	—	15,494
Total costs and expenses	6,868,641	6,034,757	3,883,430
Operating income	571,083	505,668	252,950
Interest and debt expense	3,620	3,976	3,953
Income before income taxes	567,463	501,692	248,997
Income taxes	136,549	120,168	56,891
Net income	$ 430,914	$ 381,524	$ 192,106
Diluted earnings per share	$ 11.76	$ 9.98	$ 4.98
Average diluted shares outstanding	36,633,000	38,235,000	38,602,000
Dividends per common share	$ 3.10	$ 2.92	$ 2.79

See accompanying notes to consolidated financial statements.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	Fiscal Years Ended		
	Dec. 31, 2022	Dec. 25, 2021	Dec. 26, 2020
Net income	$430,914	$381,524	$192,106
Other comprehensive (loss) income:			
Unrealized holding (losses) gains on available-for-sale investments, net of tax (benefit) expense of ($2,345), ($739) and $463	(8,562)	(2,695)	1,688
Foreign currency translation losses	(1,059)	(709)	(1,475)
Other comprehensive (loss) income	(9,621)	(3,404)	213
Comprehensive income	$421,293	$378,120	$192,319

See accompanying notes to consolidated financial statements.

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LANDSTAR SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Fiscal Years Ended		
	Dec. 31, 2022	Dec. 25, 2021	Dec. 26, 2020
OPERATING ACTIVITIES			
Net income	$ 430,914	$ 381,524	$ 192,106
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	57,453	49,609	45,855
Non-cash interest charges	355	447	334
Provisions for losses on trade and other accounts receivable	12,220	5,722	9,415
Gains on sales/disposals of operating property	(2,944)	(1,830)	(2,576)
Impairment of intangible and other assets	—	—	2,582
Deferred income taxes, net	(5,360)	(3,790)	1,130
Stock-based compensation	12,399	27,537	4,639
Changes in operating assets and liabilities:			
Decrease (increase) in trade and other accounts receivable	219,190	(362,234)	(285,169)
(Increase) decrease in other assets	(5,938)	4,444	(4,719)
(Decrease) increase in accounts payable	(76,758)	224,125	108,090
(Decrease) increase in other liabilities	(31,571)	43,422	28,496
Increase (decrease) in insurance claims	12,699	(92,236)	110,534
NET CASH PROVIDED BY OPERATING ACTIVITIES	622,659	276,740	210,717
INVESTING ACTIVITIES			
Net change in other short-term investments	—	—	131
Sales and maturities of investments	41,198	31,938	22,632
Purchases of investments	(40,202)	(84,992)	(25,550)
Purchases of operating property	(26,005)	(23,261)	(30,626)
Proceeds from sales of operating property	5,236	2,971	7,760
Consideration paid for acquisition	—	—	(2,766)
Purchase of non-marketable securities	(4,999)	—	—
NET CASH USED BY INVESTING ACTIVITIES	(24,772)	(73,344)	(28,419)
FINANCING ACTIVITIES			
(Decrease) increase in cash overdraft	(23,525)	41,730	20,870
Dividends paid	(115,671)	(111,961)	(109,504)
Payment for debt issue costs	(1,080)	—	(1,132)
Proceeds from exercises of stock options	68	160	725
Taxes paid in lieu of shares issued related to stock-based compensation plans	(10,428)	(2,342)	(3,326)
Purchases of common stock	(285,983)	(122,722)	(115,962)
Principal payments on finance lease obligations	(39,063)	(37,644)	(43,703)
Payment of deferred consideration	—	(168)	—
NET CASH USED BY FINANCING ACTIVITIES	(475,682)	(232,947)	(252,032)
Effect of exchange rate changes on cash and cash equivalents	(2,195)	(232)	(427)
Increase (decrease) in cash, cash equivalents and restricted cash	120,010	(29,783)	(70,161)
Cash, cash equivalents and restricted cash at beginning of period	219,571	249,354	319,515
Cash, cash equivalents and restricted cash at end of period	$ 339,581	$ 219,571	$ 249,354

See accompanying notes to consolidated financial statements.

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LANDSTAR SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Fiscal Years Ended December 31, 2022,
December 25, 2021 and December 26, 2020
(In thousands, except share and per share amounts)

	Common Stock		Additional Paid-In	Retained	Treasury Stock at Cost		Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings	Shares	Amount	(Loss) Income	Total
Balance December 28, 2019	68,083,419	$ 681	$226,123	$1,962,161	28,609,926	$(1,465,284)	$ (2,212)	$721,469
Adoption of accounting standards (Note 17)				(702)				(702)
Net income				192,106				192,106
Dividends ($2.79 per share)				(107,327)				(107,327)
Purchases of common stock					1,178,970	(115,962)		(115,962)
Issuance of stock related to stock-based compensation plans	100,283	1	(1,887)		8,743	(715)		(2,601)
Stock-based compensation			4,639					4,639
Other comprehensive income							213	213
Balance December 26, 2020	68,183,702	$ 682	$ 228,875	$ 2,046,238	29,797,639	$ (1,581,961)	$ (1,999)	$ 691,835
Net income				381,524				381,524
Dividends ($2.92 per share)				(110,578)				(110,578)
Purchases of common stock					733,854	(122,722)		(122,722)
Issuance of stock related to stock-based compensation plans	49,273	—	(1,264)		7,742	(918)		(2,182)
Stock-based compensation			27,537					27,537
Other comprehensive loss							(3,404)	(3,404)
Balance December 25, 2021	68,232,975	$ 682	$ 255,148	$ 2,317,184	30,539,235	$ (1,705,601)	$ (5,403)	$ 862,010
Net income				430,914				430,914
Dividends ($3.10 per share)				(112,138)				(112,138)
Purchases of common stock					1,900,826	(285,983)		(285,983)
Issuance of stock related to stock-based compensation plans	149,335	2	(9,060)		15,239	(1,302)		(10,360)
Stock-based compensation			12,399					12,399
Other comprehensive loss							(9,621)	(9,621)
Balance December 31, 2022	68,382,310	$ 684	$ 258,487	$ 2,635,960	32,455,300	$ (1,992,886)	$ (15,024)	$ 887,221

See accompanying notes to consolidated financial statements.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of Landstar System, Inc. and its subsidiary, Landstar System Holdings, Inc. (“LSHI”). Landstar System, Inc. and its subsidiary are herein referred to as “Landstar” or the “Company.” Significant intercompany accounts have been eliminated in consolidation.

Estimates

The preparation of the consolidated financial statements requires the use of management’s estimates. Actual results could differ from those estimates.

Fiscal Year

Landstar’s fiscal year is the 52 or 53 week period ending the last Saturday in December.

Revenue Recognition

The nature of the Company’s freight transportation services and its performance obligations to customers, regardless of the mode of transportation used to perform such services, relate to the safe and on-time pick-up and delivery of a customer’s freight on a shipment-by-shipment basis. Landstar customers are typically invoiced on a shipment-by-shipment basis at a pre-defined rate, payable thirty to sixty (30-60) days after the customer’s receipt of such invoice. Payment terms to customers do not contain a significant financing component and the amount owed by the customer does not contain variable terms, embedded or otherwise. We have determined that revenue recognition over the freight transit period provides a faithful depiction of the transfer of services to the customer as our obligation for which we are primarily responsible for fulfilling is performed over the transit period. Accordingly, transportation revenue billed to a customer for the physical transportation of freight and related direct freight expenses are recognized on a gross basis over the freight transit period as the performance obligation to the customer is satisfied. The Company determines the transit period for a given shipment based upon the pick-up date and the delivery date, which may be estimated if delivery has not occurred as of the reporting date. Determining the transit period and how much of it has been completed as of a given reporting date may therefore require management to make judgments that affect the timing of revenue recognized. With respect to shipments with a pick-up date in one reporting period and a delivery date in another, the Company recognizes such transportation revenue based on relative transit time in each reporting period. A days in transit output method is used to measure the progress of the performance of the Company’s freight transportation services as of the reporting date and a portion of the total revenue that will be billed to the customer once a load is delivered is recognized in each reporting period based on the percentage of total transit time that has been completed at the end of the applicable reporting period. Reinsurance premiums of the insurance segment are recognized over the period earned, which is usually on a monthly basis. Fuel surcharges billed to customers for freight hauled by independent contractors who provide truck capacity to the Company under exclusive lease arrangements (the “BCO Independent Contractors”) are excluded from revenue and paid in entirety to the BCO Independent Contractors.

Revenue from Contracts with Customers – Disaggregation of Revenue

The following table summarizes (i) the percentage of consolidated revenue generated by mode of transportation and (ii) the total amount of truck transportation revenue hauled by BCO Independent Contractors and Truck Brokerage Carriers generated by equipment type during the fiscal years ended December 31, 2022, December 25, 2021 and December 26, 2020 (dollars in thousands):

	Fiscal Years Ended		
Mode	December 31, 2022	December 25, 2021	December 26, 2020
Truck – BCO Independent Contractors	35%	40%	45%
Truck – Truck Brokerage Carriers	54%	51%	47%
Rail intermodal	2%	2%	3%
Ocean and air cargo carriers	8%	5%	3%
Truck Equipment Type			
Van equipment	$ 3,892,085	$ 3,525,830	$ 2,192,254
Unsided/platform equipment	$ 1,760,357	$ 1,549,037	$ 1,119,272
Less-than-truckload	$ 142,438	$ 117,505	$ 97,546
Other truck transportation (1)	$ 835,959	$ 770,846	$ 406,709

(1) Includes power-only, expedited, straight truck, cargo van, and miscellaneous other truck transportation revenue generated by the transportation logistics segment. Power-only refers to shipments where the Company furnishes a power unit and an operator but not trailing equipment, which is typically provided by the shipper or consignee.

Insurance Claim Costs

Landstar provides, primarily on an actuarially determined basis, for the estimated costs of cargo, property, casualty, general liability and workers' compensation claims both reported and for claims incurred but not reported.

For periods prior to May 1, 2019, Landstar retains liability for commercial trucking claims up to $5 million per occurrence and maintains various third party insurance arrangements for liabilities in excess of its $5 million self-insured retention. Effective May 1, 2019, the Company entered into a new three year commercial auto liability insurance arrangement for losses incurred between $5 million and $10 million (the "Initial Excess Policy") with a third party insurance company. The Company subsequently extended the Initial Excess Policy for one additional policy year, from May 1, 2022 through April 30, 2023. For commercial trucking claims incurred on or after May 1, 2022 through April 30, 2023, the extended Initial Excess Policy provides for a limit for a single loss of $5 million, with a remaining aggregate limit of $10 million for the policy period ending April 30, 2023, and an option to increase such aggregate limit for a pre-established amount of additional premium. If aggregate losses under the Initial Excess Policy exceed the aggregate limit for the period ending April 30, 2023, and the Company did not elect to increase such aggregate limit for a pre-established amount of additional premium, the Company would retain liability of up to $10 million per occurrence, inclusive of its $5 million self-insured retention for commercial trucking claims during the remainder of the policy period ending April 30, 2023.

The Company also maintains third party insurance arrangements providing excess coverage for commercial trucking liabilities in excess of $10 million. These third party arrangements provide coverage on a per occurrence or aggregated basis. In recent years, the Company has increased the level of its financial exposure to commercial trucking claims in excess of $10 million, including through the use of additional self-insurance, deductibles, aggregate loss limits, quota shares and other arrangements with third party insurance companies, based on the availability of coverage within certain excess insurance coverage layers and estimated cost differentials between proposed premiums from third party insurance companies and historical and actuarially projected losses experienced by the Company at various levels of excess insurance coverage.

Further, the Company retains liability of up to $1,000,000 for each general liability claim, up to $250,000 for each workers' compensation claim and up to $250,000 for each cargo claim. In addition, under reinsurance arrangements by Signature of certain risks of the Company's BCO Independent Contractors, the Company retains liability of up to $500,000, $1,000,000 or $2,000,000 with respect to certain occupational accident claims and up to $750,000 with respect to certain workers' compensation claims.

Tires

Tires purchased as part of trailing equipment are capitalized as part of the cost of the equipment. Replacement tires are charged to expense when placed in service.

Cash, Cash Equivalents and Restricted Cash

Included in cash and cash equivalents are all investments, except those provided for collateral, with an original maturity of 3 months or less. At December 25, 2021, the Company had $4,049,000 of restricted cash held by the Company's insurance segment included in the short-term investments balance of $35,778,000, providing collateral, along with certain other investments, for the letters of credit issued to guarantee payment of insurance claims.

Financial Instruments

The Company's financial instruments include cash equivalents, short and long-term investments, trade and other accounts receivable, accounts payable, other accrued liabilities, and long-term debt plus current maturities ("Debt"). The carrying value of cash equivalents, trade and other accounts receivable, accounts payable, current insurance claims and other accrued liabilities approximates fair value as the assets and liabilities are short term in nature. Short and long-term investments are carried at fair value as further described in Note 4 in the Company's consolidated financial statements. The Company's Debt includes borrowings under the Company's revolving credit facility, to the extent there are any, plus borrowings relating to finance lease obligations used to finance trailing equipment. The interest rates on borrowings under the revolving credit facility are typically tied to short-term interest rates that adjust monthly and, as such, carrying value approximates fair value. Interest rates on borrowings under finance leases approximate the interest rates that would currently be available to the Company under similar terms and, as such, carrying value approximates fair value.

Trade and Other Receivables

The allowance for doubtful accounts for both trade and other receivables represents management's estimate of the amount of outstanding receivables that will not be collected. Estimates are used to determine the allowance for doubtful accounts for both trade and other receivables and are generally based on specific identification, historical collection results, current economic trends and changes in payment trends. Following is a summary of the activity in the allowance for doubtful accounts for fiscal years ending December 31, 2022, December 25, 2021 and December 26, 2020 (in thousands):

	Balance at Beginning of Period	Charged to Costs and Expenses	Write-offs, Net of Recoveries	Balance at End of Period
For the Fiscal Year Ended December 31, 2022				
Trade receivables	$ 7,074	$ 7,354	$ (2,307)	$ 12,121
Other receivables	9,511	4,863	(2,629)	11,745
Other non-current receivables	200	3	—	203
	$ 16,785	$ 12,220	$ (4,936)	$ 24,069
For the Fiscal Year Ended December 25, 2021				
Trade receivables	$ 8,670	$ 1,735	$ (3,331)	$ 7,074
Other receivables	8,399	4,050	(2,938)	9,511
Other non-current receivables	264	(63)	(1)	200
	$ 17,333	$ 5,722	$ (6,270)	$ 16,785
For the Fiscal Year Ended December 26, 2020				
Trade receivables	$ 7,284	$ 6,121	$ (4,735)	$ 8,670
Other receivables	8,806	3,291	(3,698)	8,399
Other non-current receivables	260	3	1	264
	$ 16,350	$ 9,415	$ (8,432)	$ 17,333

Operating Property

Operating property is recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets. Buildings and improvements are being depreciated over 30 years. Trailing equipment is being depreciated over 7 to 10 years. Information technology hardware and software is generally being depreciated over 3 to 7 years.

Goodwill

Goodwill represents the excess of the purchase price paid over the fair value of the net assets of acquired businesses. The Company has two reporting units within the transportation logistics segment that report goodwill. The Company reviews its goodwill balance annually for impairment for each reporting unit, unless circumstances dictate more frequent assessments, and in accordance with ASU 2011-08, *Testing Goodwill for Impairment*. ASU 2011-08 permits an initial assessment, commonly referred to as "step zero", of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount and also provides a basis for determining whether it is necessary to perform the quantitative analysis required by ASC Topic 350. In the fourth fiscal quarter of 2022, the Company performed the qualitative assessment of goodwill and determined it was more likely than not that the fair value of each of its reporting units would be greater than its carrying amount. Therefore, the Company determined it was not necessary to perform the quantitative goodwill impairment test. Furthermore, there has been no historical impairment of the Company's goodwill.

Income Taxes

Income tax expense is equal to the current year's liability for income taxes and a provision for deferred income taxes. Deferred tax assets and liabilities are recorded for the future tax effects attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Share-Based Payments

The Company's share-based payment arrangements include restricted stock units ("RSU"), non-vested restricted stock, Deferred Stock Units and stock options. The fair value of an RSU with a performance condition 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. With respect to RSU awards with a performance condition, the Company reports compensation expense ratably over the life of the award based on an estimated number of units that will vest over the life of the award, multiplied by the fair value of an RSU. The fair value of an RSU with a market condition is 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 RSU awards with a market condition, the Company recognizes compensation expense 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 estimates the fair value of stock option awards on the date of grant using the Black-Scholes pricing model and recognizes compensation cost for stock option awards expected to vest on a straight-line basis over the requisite service period for the entire award. Forfeitures are estimated at grant date based on historical experience and anticipated employee turnover. The fair values of each share of non-vested restricted stock issued and Deferred Stock Unit granted are based on the fair value of a share of the Company's Common Stock on the date of grant and compensation costs for non-vested restricted stock and Deferred Stock Units are recognized on a straight-line basis over the requisite service period for the award.

Earnings Per Share

Earnings per common share are based on the weighted average number of shares outstanding, including outstanding non-vested restricted stock and outstanding Deferred Stock Units. Diluted earnings per share are based on the weighted average number of common shares and Deferred Stock Units outstanding plus the incremental shares that would have been outstanding upon the assumed exercise of all dilutive stock options. During the fiscal years ended December 31, 2022, December 25, 2021 and December 26, 2020, in reference to the determination of diluted earnings per share, the future compensation cost attributable to outstanding shares of non-vested restricted stock exceeded the impact of incremental shares that would have been outstanding upon the assumed exercise of all dilutive stock options.

For the fiscal years ended December 31, 2022, December 25, 2021 and December 26, 2020, 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.

Dividends Payable

On December 6, 2022, the Company announced that its Board of Directors declared a special cash dividend of $2.00 per share payable on January 20, 2023 to stockholders of record of its Common Stock as of January 6, 2023. Dividends payable of $71,854,000 related to this special dividend were included in current liabilities in the consolidated balance sheet at December 31, 2022.

On December 7, 2021, the Company announced that its Board of Directors declared a special cash dividend of $2.00 per share payable on January 21, 2022, to stockholders of record of its Common Stock as of January 7, 2022. Dividends payable of $75,387,000 related to this special dividend were included in current liabilities in the consolidated balance sheet at December 25, 2021.

Foreign Currency Translation

Assets and liabilities of the Company's Canadian and Mexican operations are translated from their functional currency to U.S. dollars using exchange rates in effect at the balance sheet date and revenue and expense accounts are translated at average monthly exchange rates during the period. Adjustments resulting from the translation process are included in accumulated other comprehensive income. Transactional gains and losses arising from receivable and payable balances, including intercompany balances, in the normal course of business that are denominated in a currency other than the functional currency of the operation are recorded in the statements of income when they occur.

(2) Acquired Business

On May 6, 2020, the Company formed a new subsidiary that was subsequently renamed Landstar Blue, LLC ("Landstar Blue"). Landstar Blue arranges truckload brokerage services with a focus on the contract services market. Landstar Blue also helps the Company to develop and test digital technologies and processes for the benefit of all Landstar independent commission sales agents. On June 15, 2020, Landstar Blue completed the acquisition of an independent agent of the Company whose business focused on truckload brokerage services. Cash consideration paid for the acquisition was approximately $2,766,000. In addition, the Company assumed approximately $200,000 in liabilities consisting of additional contingent purchase price, of which $168,000 was remitted during the Company's 2021 second fiscal quarter. The resulting goodwill arising from the acquisition was approximately $2,871,000. With respect to this goodwill, 100% is expected to be deductible by the Company for U.S. income tax purposes. Pro forma financial information for prior periods is not presented as the Company does not believe the acquisition to be material to the Company's consolidated results. The results of operations for Landstar Blue are presented as part of the Company's transportation logistics segment. Transaction costs for the acquisition were insignificant.

(3) Other Comprehensive Income

The following table presents the components of and changes in accumulated other comprehensive income (loss), net of related income taxes, as of and for the fiscal years ended December 31, 2022, December 25, 2021 and December 26, 2020 (in thousands):

	Unrealized Holding Gains (Losses) on Available-for-Sale Securities	Foreign Currency Translation	Total
Balance as of December 28, 2019	$ 1,120	$ (3,332)	$ (2,212)
Other comprehensive income (loss)	1,688	(1,475)	213
Balance as of December 26, 2020	2,808	(4,807)	(1,999)
Other comprehensive loss	(2,695)	(709)	(3,404)
Balance as of December 25, 2021	113	$ (5,516)	$ (5,403)
Other comprehensive loss	(8,562)	(1,059)	(9,621)
Balance as of December 31, 2022	$ (8,449)	$ (6,575)	$ (15,024)

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 fiscal years ended December 31, 2022, December 25, 2021 and December 26, 2020.

(4) Investments

Investments include primarily investment-grade corporate bonds and asset-backed securities having maturities of up to five years (the "bond portfolio") and money market investments. Investments in the bond portfolio are reported as available-for-sale and are carried at fair value. Investments maturing less than one year from the balance sheet date are included in short-term investments and investments maturing more than one year from the balance sheet date are included in other assets in the consolidated balance sheets. Management performs an analysis of the nature of the unrealized losses on available-for-sale investments to determine whether an allowance for credit loss is necessary. 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 a result of credit-related factors, are to be included as a charge in the statement of income, while unrealized losses considered to be a result of non-credit-related factors 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 losses, net of unrealized gains, on the investments in the bond portfolio were $10,763,000 at December 31, 2022, while unrealized gains, net of unrealized losses, on the investments in the bond portfolio were $144,000 at December 25, 2021.

The amortized cost and fair values of available-for-sale investments are as follows at December 31, 2022 and December 25, 2021 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2022				
Money market investments	$ 21,910	$ —	$ —	$ 21,910
Asset-backed securities	18,905	—	2,889	16,016
Corporate bonds and direct obligations of government agencies	126,134	1	7,775	118,360
U.S. Treasury obligations	2,344	—	100	2,244
Total	$ 169,293	$ 1	$ 10,764	$ 158,530
December 25, 2021				
Money market investments	$ 8,750	$ —	$ —	$ 8,750
Asset-backed securities	22,441	—	346	22,095
Corporate bonds and direct obligations of government agencies	137,916	1,406	966	138,356
U.S. Treasury obligations	2,342	50	—	2,392
Total	$ 171,449	$ 1,456	$ 1,312	$ 171,593

For those available-for-sale investments with unrealized losses at December 31, 2022 and December 25, 2021, 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
December 31, 2022						
Asset-backed securities	$ —	$ —	$ 16,016	$ 2,889	$ 16,016	$ 2,889
Corporate bonds and direct obligations of government agencies	54,031	1,516	62,390	6,259	116,421	7,775
U.S. Treasury obligations	2,244	100	—	—	2,244	100
Total	$ 56,275	$ 1,616	$ 78,406	$ 9,148	$ 134,681	$ 10,764
December 25, 2021						
Asset-backed securities	$ 22,095	$ 346	$ —	$ —	$ 22,095	$ 346
Corporate bonds and direct obligations of government agencies	72,526	966	—	—	72,526	966
Total	$ 94,621	$ 1,312	$ —	$ —	$ 94,621	$ 1,312

The Company believes unrealized losses on investments were primarily caused by rising interest rates rather than changes in credit quality. The Company expects to recover, through collection of all of the contractual cash flows of each security, 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, no losses have been recognized in the Company's consolidated statements of income.

Short-term investments include $53,955,000 in current maturities of investments held by the Company's insurance segment at December 31, 2022. The non-current portion of the bond portfolio of $104,575,000 is included in other assets. The short-term investments, together with $31,119,000 of non-current investments, provide collateral for the $76,567,000 of letters of credit issued to guarantee payment of insurance claims.

Investment income represents the earnings on the insurance segment's assets. Investment income earned from the assets of the insurance segment are included as a component of operating income as the investment of these assets is critical to providing collateral, liquidity and earnings with respect to the operation of the Company's insurance programs.

(5) Income Taxes

The provisions for income taxes consisted of the following (in thousands):

	Fiscal Years		
	2022	2021	2020
Current:			
Federal	$ 116,642	$ 104,640	$ 47,955
State	23,309	18,462	7,249
Foreign	1,958	856	557
Total current	$ 141,909	$ 123,958	$ 55,761
Deferred:			
Federal	$ (3,945)	$ (3,278)	$ 1,523
State	(1,415)	(512)	(393)
Total deferred	$ (5,360)	$ (3,790)	$ 1,130
Income taxes	$ 136,549	$ 120,168	$ 56,891

Temporary differences and carryforwards which gave rise to deferred tax assets and liabilities consisted of the following (in thousands):

	Dec. 31, 2022	Dec. 25, 2021
Deferred tax assets:		
Receivable valuations	$ 5,838	$ 4,112
Share-based payments	5,021	7,000
Self-insured claims	3,205	3,696
Other	11,381	10,354
Total deferred tax assets	$ 25,445	$ 25,162
Deferred tax liabilities:		
Operating property	$ 49,092	$ 57,903
Goodwill	3,892	3,958
Other	3,895	2,409
Total deferred tax liabilities	$ 56,879	$ 64,270
Net deferred tax liability	$ 31,434	$ 39,108

The following table summarizes the differences between income taxes calculated at the federal income tax rate of 21% on income before income taxes and the provisions for income taxes (in thousands):

	Fiscal Years		
	2022	2021	2020
Income taxes at federal income tax rate	$119,167	$105,355	$ 52,289
State income taxes, net of federal income tax benefit	16,596	14,260	5,375
Non-deductible executive compensation	3,552	2,946	96
Meals and entertainment exclusion	200	—	326
Share-based payments	(2,958)	(1,070)	(977)
Research and development credits	(1,526)	(2,069)	(717)
Other, net	1,518	746	499
Income taxes	$136,549	$120,168	$ 56,891

The Company files a consolidated U.S. federal income tax return. The Company or its subsidiaries file state tax returns in the majority of the U.S. state tax jurisdictions. With few exceptions, the Company and its subsidiaries are no longer subject to U.S. federal or state income tax examinations by tax authorities for 2018 and prior years. The Company's wholly-owned Canadian subsidiary, Landstar Canada, Inc., is subject to Canadian income and other taxes. The Company's wholly-owned Mexican subsidiaries, Landstar Holdings, S. de R.L.C.V. and Landstar Metro, S.A.P.I. de C.V., are subject to Mexican income and other taxes. The Company's Canadian and Mexican subsidiaries also may each be subject to U.S. income and other taxes.

As of December 31, 2022 and December 25, 2021, the Company had $3,046,000 and $2,344,000, respectively, of net unrecognized tax benefits representing the provision for the uncertainty of certain tax positions plus a component of interest and penalties. Estimated interest and penalties on the provision for the uncertainty of certain tax positions is included in income tax expense. At December 31, 2022 and December 25, 2021, there was $845,000 and $658,000, respectively, accrued for estimated interest and penalties related to the uncertainty of certain tax positions. The Company does not currently anticipate any significant increase or decrease to the unrecognized tax benefit during fiscal year 2023.

The following table summarizes the rollforward of the total amounts of gross unrecognized tax benefits for fiscal years 2022 and 2021 (in thousands):

	Fiscal Years	
	2022	2021
Gross unrecognized tax benefits – beginning of the year	$ 2,845	$ 2,585
Gross increases related to current year tax positions	789	782
Gross increases related to prior year tax positions	792	315
Gross decreases related to prior year tax positions	(83)	(17)
Lapse of statute of limitations	(617)	(820)
Gross unrecognized tax benefits – end of the year	$ 3,726	$ 2,845

Landstar paid income taxes of $158,715,000 in fiscal year 2022, $104,844,000 in fiscal year 2021 and $47,589,000 in fiscal year 2020.

(6) Operating Property

Operating property is summarized as follows (in thousands):

	Dec. 31, 2022	Dec. 25, 2021
Land	$ 16,328	$ 16,328
Buildings and improvements	69,160	65,034
Trailing equipment	502,322	479,300
Information technology hardware and software	110,626	91,115
Other equipment	9,828	9,708
Total operating property, gross	708,264	661,485
Less accumulated depreciation and amortization	393,274	344,099
Total operating property, net	$ 314,990	$ 317,386

Included above is $185,609,000 in fiscal year 2022 and $189,053,000 in fiscal year 2021 of operating property under finance leases, $137,087,000 and $143,227,000, respectively, net of accumulated depreciation and amortization. Landstar acquired operating property by entering into finance leases in the amount of $30,659,000 in fiscal year 2022, $48,674,000 in fiscal year 2021 and $31,633,000 in fiscal year 2020.

(7) Retirement Plan

Landstar sponsors an Internal Revenue Code section 401(k) defined contribution plan for the benefit of U.S. domiciled full-time employees who have completed three months of service. The Company reduced the employee service requirement to three months of service as of January 1, 2022. Eligible employees make voluntary contributions up to 75% of their base salary, subject to certain limitations. Landstar contributes an amount equal to 100% of the first 3% and 50% of the next 2% of such contributions, subject to certain limitations.

The expense for the Company-sponsored defined contribution plan included in selling, general and administrative expense was $2,716,000 in fiscal year 2022, $2,374,000 in fiscal year 2021 and $2,417,000 in fiscal year 2020.

(8) Debt

Other than the finance lease obligations as presented on the consolidated balance sheets, the Company had no outstanding debt as of December 31, 2022 and December 25, 2021.

On August 18, 2020, Landstar entered into an amended and restated credit agreement with a syndicate of banks and JPMorgan Chase Bank, N.A., as administrative agent (the “First Amended and Restated Credit Agreement”).

As previously disclosed in a Form 8-K filed with the SEC on July 8, 2022, Landstar entered into a second amended and restated credit agreement, dated July 1, 2022, with a bank syndicate led by JPMorgan Chase Bank, N.A., as administrative agent (the “Second Amended and Restated Credit Agreement”) that superseded and replaced the First Amended and Restated Credit Agreement. The Second Amended and Restated Credit Agreement, which matures July 1, 2027, provides for borrowing capacity in the form of a revolving credit facility of $300,000,000, $45,000,000 of which may be utilized in the form of letters of credit. The Second Amended and Restated Credit Agreement also includes an “accordion” feature providing for a possible increase of up to an aggregate amount of borrowing capacity of $600,000,000.

The Second Amended and Restated Credit Agreement, which superseded and replaced the First Amended and Restated Credit Agreement, is referred to herein as the “Credit Agreement.” As of December 31, 2022 and December 25, 2021, the Company had no borrowings outstanding under the Credit Agreement.

The revolving credit loans under the Credit Agreement, at the option of Landstar, bear interest at (i) a forward-looking term rate based on the secured overnight financing rate plus 0.10% and an applicable margin ranging from 1.25% to 2.00%, or (ii) an alternate base rate plus an applicable margin ranging from 0.25% to 1.00%, in each case with the applicable margin determined based upon the Company’s Leverage Ratio, as defined in the Credit Agreement, at the end of the most recent applicable fiscal quarter for which financial statements have been delivered. The revolving credit facility bears a commitment fee, payable quarterly in arrears, of 0.20% to 0.30%, based on the Company’s Leverage Ratio at the end of the most recent applicable fiscal quarter for which financial statements have been delivered.

The Credit Agreement contains a number of covenants that limit, among other things, the incurrence of additional indebtedness. The Company is required to, among other things, maintain a minimum fixed charge coverage ratio, as described in the Credit Agreement, and maintain a Leverage Ratio, as defined in the Credit Agreement, below a specified maximum. The Credit Agreement provides for a restriction on cash dividends and other distributions to stockholders on the Company's capital stock to the extent there is a default under the Credit Agreement. In addition, the Credit Agreement under certain circumstances limits the amount of such cash dividends and other distributions to stockholders to the extent that, after giving effect to any payment made to effect such cash dividend or other distribution, the Leverage Ratio would exceed 2.5 to 1 on a pro forma basis as of the end of the Company's most recently completed fiscal quarter. The Credit Agreement provides for an event of default in the event that, among other things, a person or group acquires 35% or more of the outstanding capital stock of the Company or obtains power to elect a majority of the Company's directors or the directors cease to consist of a majority of Continuing Directors, as defined in the Credit Agreement. None of these covenants are presently considered by management to be materially restrictive to the Company's operations, capital resources or liquidity. The Company is currently in compliance with all of the debt covenants under the Credit Agreement.

The interest rates on borrowings under the revolving credit facility are typically tied to short-term interest rates and, as such, carrying value approximates fair value. Interest rates on borrowings under finance leases approximate the interest rates that would currently be available to the Company under similar terms and, as such, carrying value approximates fair value.

Landstar paid interest of $4,151,000 in fiscal year 2022, $3,715,000 in fiscal year 2021 and $3,915,000 in fiscal year 2020.

(9) Leases

Landstar's noncancelable leases are primarily comprised of finance leases for the acquisition of new trailing equipment. Each finance lease for the acquisition of trailing equipment is a five year lease with a $1 purchase option for the applicable equipment at lease expiration. Substantially all of Landstar's operating lease right-of-use assets and operating lease liabilities represent leases for facilities maintained in support of the Company's network of BCO Independent Contractors and office space used to conduct Landstar's business. These leases do not have significant rent escalation holidays, concessions, leasehold improvement incentives or other build-out clauses. Further, the leases do not contain contingent rent provisions. Landstar also rents certain trailing equipment to supplement the Company-owned trailer fleet under "month-to-month" lease terms, which are not required to be recorded on the balance sheet due to the less than twelve month lease term exemption. Sublease income is primarily comprised of weekly trailing equipment rentals to BCO Independent Contractors.

Most of Landstar's operating leases include one or more options to renew. The exercise of lease renewal options is typically at Landstar's sole discretion, and, as such, the majority of renewals to extend the lease terms are not included in the right-of-use assets and lease liabilities as they are not reasonably certain of exercise. Landstar regularly evaluates the renewal options, and when they are reasonably certain of exercise, Landstar includes the renewal period in the lease term.

As most of Landstar's operating leases do not provide an implicit rate, Landstar utilized its incremental borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments. Landstar has a centrally managed treasury function; therefore, based on the applicable lease terms and the current economic environment, the Company applies a portfolio approach for determining the incremental borrowing rate.

The components of lease cost for finance leases and operating leases as of December 31, 2022 were (in thousands):

Finance leases:	
Amortization of right-of-use assets	$ 22,071
Interest on lease liability	2,908
Total finance lease cost	24,979
Operating leases:	
Lease cost	3,495
Variable lease cost	—
Sublease income	(5,616)
Total net operating lease income	(2,121)
Total net lease cost	$ 22,858

Total net operating lease income, net of rent expense under operating leases, was $1,632,000 and $1,620,000 in fiscal years 2021 and 2020, respectively.

A summary of the lease classification on the Company’s consolidated balance sheet as of December 31, 2022 is as follows (in thousands):

Assets:

Operating lease right-of-use assets	Other assets	$ 2,044
Finance lease assets	Operating property, less accumulated depreciation and amortization	137,087
Total lease assets		$139,131

Liabilities:

The following table reconciles the undiscounted cash flows for the finance and operating leases to the finance and operating lease liabilities recorded on the balance sheet at December 31, 2022 (in thousands):

	Finance Leases	Operating Leases
2023	$ 39,032	$ 801
2024	29,795	680
2025	23,126	419
2026	15,807	127
2027	4,312	127
Thereafter	—	49
Total future minimum lease payments	112,072	2,203
Less amount representing interest (1.6% to 5.6%)	8,672	159
Present value of minimum lease payments	$ 103,400	$ 2,044
Current maturities of long-term debt	36,175	
Long-term debt, excluding current maturities	67,225	
Other current liabilities		782
Deferred income taxes and other noncurrent liabilities		1,262

The weighted average remaining lease term and the weighted average discount rate for finance and operating leases as of December 31, 2022 were:

	Finance Leases	Operating Leases
Weighted average remaining lease term (years)	3.5	3.3
Weighted average discount rate	3.0%	4.5%

(10) Share-Based Payment Arrangements

As of December 31, 2022, the Company has an employee equity incentive plan, the 2011 equity incentive plan (the "2011 EIP"). The Company also has a stock compensation plan for members of its Board of Directors, the 2022 Directors Stock Compensation Plan (the "2022 DSCP"), which replaced the Amended and Restated 2013 Directors Stock Compensation Plan (as amended and restated, the "2013 DSCP"). At the Company's 2022 Annual Meeting of Stockholders held on May 11, 2022, the Company's stockholders approved the 2022 DSCP. The provisions of the 2022 DSCP are substantially similar to the provisions of the 2013 DSCP. 6,000,000 shares of the Company's Common Stock were authorized for issuance under the 2011 EIP and 200,000 shares of the Company's common stock were authorized for issuance under the 2022 DSCP. No further grants can be made under the 2013 DSCP, including from the 56,502 shares of the Company's common stock previously reserved for issuance, but not issued, under the 2013 DSCP. The 2011 EIP, 2013 DSCP and 2022 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):

	Fiscal Years		
	2022	2021	2020
Total cost of the Plans during the period	$12,399	$27,537	$ 4,639
Amount of related income tax benefit recognized during the period	(5,199)	(7,063)	(2,114)
Net cost of the Plans during the period	$ 7,200	$20,474	$ 2,525

Included in income tax benefits recognized in the fiscal years ended December 31, 2022, December 25, 2021 and December 26, 2020 were excess tax benefits from stock-based awards of $2,948,000, $1,057,000 and $941,000, respectively.

As of December 31, 2022, there were 193,217 shares of the Company's Common Stock reserved for issuance under the 2022 DSCP and 3,242,308 shares of the Company's Common Stock reserved for issuance under the 2011 EIP.

Restricted Stock Units

The following table summarizes information regarding the Company's outstanding restricted stock unit ("RSU") awards with either a performance condition or a market condition under the Plans:

	Number of RSUs	Weighted Average Grant Date Fair Value
Outstanding at December 28, 2019	198,875	$ 84.37
Granted	59,967	$ 102.58
Shares earned in excess of target (1)	11,648	$ 77.00
Vested shares, including shares earned in excess of target	(76,290)	$ 73.44
Forfeited	(10,987)	$ 100.55
Outstanding at December 26, 2020	183,213	$ 93.44
Granted	46,342	$ 128.64
Shares earned in excess of target (2)	7,132	$ 31.97
Vested shares, including shares earned in excess of target	(24,600)	$ 59.85
Forfeited	(2,688)	$ 107.76
Outstanding at December 25, 2021	209,399	$ 102.90
Granted	50,019	$ 139.44
Shares earned in excess of target (3)	91,497	$ 92.58
Vested shares, including shares earned in excess of target	(177,146)	$ 95.48
Forfeited	(21,989)	$ 113.85
Outstanding at December 31, 2022	151,780	$ 115.80

(1) Represents additional shares earned under the February 2, 2017 RSU awards as fiscal year 2019 financial results exceeded target performance level.

(2) Represents shares earned in excess of target under the May 1, 2015 RSU award as total shareholder return exceeded the target under the award.

(3) Represents additional shares earned under each of the February 2, 2017, February 2, 2018 and February 1, 2019 RSU awards, as fiscal year 2021 financial results exceeded target performance level under each such award.

During fiscal years 2020, 2021 and 2022, the Company granted RSUs with a performance condition.

RSUs with a performance condition granted on January 28, 2022 may vest on January 31 of 2025, 2026 and 2027 based on growth in operating income and pre-tax income per diluted share from continuing operations as compared to the results from the 2021 fiscal year. RSUs with a performance condition granted on January 29, 2021 may vest on January 31 of 2024, 2025 and 2026 based on growth in operating income and pre-tax income per diluted share from continuing operations as compared to the results from the 2020 fiscal year, adjusted to reflect the add back of non-cash impairment charges recorded in the Company's 2020 fiscal year related to certain assets, primarily customer contract and related customer relationship intangible assets, held by the Company's Mexican subsidiaries. RSUs with a performance condition granted on January 31, 2020 may vest on January 31 of 2023, 2024 and 2025 based on growth in operating income and pre-tax income per diluted share from continuing operations as compared to the results from the 2019 fiscal year. At the time of grant, the target number of common shares available for issuance under the January 28, 2022, January 29, 2021 and January 31, 2020 grants equals 100% of the number of RSUs granted, and the maximum number of common shares available for issuance under the January 28, 2022, January 29, 2021 and January 31, 2020 grants equals 200% of the number of RSUs credited to the recipient. In the event actual results exceed the target, the number of shares that will be granted will exceed 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 at the time of grant.

The Company recognized approximately $9,100,000, $24,197,000 and $1,602,000 of share-based compensation expense related to RSU awards in fiscal years 2022, 2021 and 2020, respectively. As of December 31, 2022, there was a maximum of $17.7 million of total unrecognized compensation cost related to RSU awards granted under the Plans with an expected average remaining life of approximately 3.5 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.

Non-vested Restricted Stock and Deferred Stock Units

The 2011 EIP provides the Compensation Committee of the Board of Directors with the authority to issue shares of Common Stock of the Company, subject to certain vesting and other restrictions on transfer ("restricted stock").

The following table summarizes information regarding the Company's outstanding shares of non-vested restricted stock and Deferred Stock Units (defined below) under the Plans:

	Number of Shares and Deferred Stock Units	Weighted Average Grant Date Fair Value
Non-vested at December 28, 2019	64,808	$ 98.24
Granted	26,604	$ 111.88
Vested	(28,621)	$ 98.83
Forfeited	(2,351)	$ 106.34
Non-vested at December 26, 2020	60,440	$ 103.65
Granted	26,351	$ 150.20
Vested	(29,055)	$ 104.35
Forfeited	(1,300)	$ 97.81
Non-vested at December 25, 2021	56,436	$ 125.16
Granted	25,354	$ 152.54
Vested	(27,074)	$ 122.68
Forfeited	(6,921)	$ 144.45
Non-vested at December 31, 2022	47,795	$ 138.30

The fair value of each share of non-vested restricted stock issued and Deferred Stock Unit granted under the Plans is based on the fair value of a share of the Company's Common Stock on the date of grant. Shares of non-vested restricted stock are generally subject to vesting in three equal annual installments either on the first, second and third anniversary of the date of grant or the third, fourth and fifth anniversary of the date of the grant, or 100% on the first or fifth anniversary of the date of the grant. For restricted stock awards granted under the 2022 DSCP plan, each recipient may elect to defer receipt of shares and instead receive restricted stock units ("Deferred Stock Units"), which represent contingent rights to receive shares of the Company's Common Stock on the date of recipient separation from service from the Board of Directors, or, if earlier, upon a change in control event of the Company. Deferred Stock Units become vested 100% on the first anniversary of the date of the grant. Deferred Stock Units do not represent actual ownership in shares of the Company's Common Stock and the recipient does not have voting rights or other incidents of ownership until the shares are issued. However, Deferred Stock Units do contain the right to receive dividend equivalent payments prior to settlement into shares.

As of December 31, 2022, there was $3,449,000 of total unrecognized compensation cost related to non-vested shares of restricted stock and Deferred Stock Units granted under the Plans. The unrecognized compensation cost related to these non-vested shares of restricted stock and Deferred Stock Units is expected to be recognized over a weighted average period of 1.8 years.

Stock Options

The Company did not grant any stock options during its 2020, 2021 or 2022 fiscal years. Options outstanding under the Plans generally become exercisable in either five equal annual installments commencing on the first anniversary of the date of grant or 100% on the fifth anniversary from the date of grant, subject to acceleration in certain circumstances. All options granted under the Plans expire on the tenth anniversary of the date of grant. Under the Plans, the exercise price of each option equals the fair market value of the Company's Common Stock on the date of grant.

The fair value of each option grant on its grant date was calculated using the Black-Scholes option pricing model. The Company utilized historical data, including exercise patterns and employee departure behavior, in estimating the term that options will be outstanding. Expected volatility was based on historical volatility and other factors, such as expected changes in volatility arising from planned changes to the Company's business, if any. The risk-free interest rate was based on the yield of zero coupon U.S. Treasury bonds for terms that approximated the terms of the options granted.

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

	Options Outstanding		Options Exercisable	
	Number of Options	Weighted Average Exercise Price per Share	Number of Options	Weighted Average Exercise Price per Share
Options at December 28, 2019	44,467	$ 51.24	44,467	$ 51.24
Exercised	(26,817)	$ 49.31		
Options at December 26, 2020	17,650	$ 54.16	17,650	$ 54.16
Exercised	(9,080)	$ 52.97		
Options at December 25, 2021	8,570	$ 55.42	8,570	$ 55.42
Exercised	(6,670)	$ 55.14		
Options at December 31, 2022	1,900	$ 56.40	1,900	$ 56.40

All 1,900 stock options outstanding and exercisable at December 31, 2022 had an exercise price per share of $56.40 and weighted average remaining contractual life of 0.1 years. All 1,900 were exercised as of January 31, 2023, following which the Company had no remaining issued and outstanding vested or unvested stock options

At December 31, 2022, the total intrinsic value of options outstanding and exercisable was $202,000. The total intrinsic value of stock options exercised during fiscal years 2022, 2021 and 2020 was $704,000, $965,000 and $1,846,000, respectively.

As of December 31, 2022, there was no unrecognized compensation cost related to non-vested stock options granted under the Plans.

Directors' Stock Compensation Plan

Directors of the Company who are not employees of the Company (each an "Eligible Director") are entitled under the 2022 DSCP to receive a grant of such number of restricted shares of the Company's Common Stock or Deferred Stock Units equal to the quotient of $150,000 divided by the fair market value of a share of Common Stock on the date immediately following the date of each annual meeting of the stockholders of the Company (an "Annual Meeting"). Each eligible Director was previously entitled under the 2013 DSCP to receive a grant of such number of restricted shares of the Company's Common Stock or Deferred Stock Units equal to the quotient of $110,000 divided by the fair market value of a share of Common Stock on the date immediately following the date of each Annual Meeting. In fiscal year 2022, 7,063 restricted shares were granted to Eligible Directors. In fiscal year 2021, 3,804 restricted shares were granted to Eligible Directors. In fiscal year 2020, 4,890 restricted shares and 978 Deferred Stock Units were granted to Eligible Directors. Restricted shares and Deferred Stock Units granted in 2020, 2021 and 2022 vest on the date of the next Annual Meeting. During fiscal years 2022, 2021 and 2020, $964,000, $669,000 and $660,000, respectively, of compensation cost was recorded for the grant of these restricted shares and Deferred Stock Units.

(11) Equity

On December 7, 2021, the Landstar System, Inc. Board of Directors authorized the Company to purchase up to 1,912,824 shares of the Company's Common Stock from time to time in the open market and in privately negotiated transactions. On December 6, 2022, the Landstar System, Inc. Board of Directors authorized the Company to purchase up to 1,900,826 additional shares of the Company's Common Stock from time to time in the open market and in privately negotiated transactions. As of December 31, 2022, the Company had authorization to purchase in the aggregate up to 3,000,000 shares of its Common Stock under these programs. No specific expiration date has been assigned to the December 7, 2021 or December 6, 2022 authorizations. During fiscal year 2022, Landstar purchased a total of 1,900,826 shares of its Common Stock at a total cost of $285,983,000 pursuant to its previously announced stock purchase program.

The Company has 2,000,000 shares of preferred stock authorized and unissued.

(12) Commitments and Contingencies

At December 31, 2022, in addition to the $76,567,000 letters of credit secured by investments, Landstar had $33,493,000 of 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.

(13) Segment Information

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 ecosystem of digital technologies, Landstar operates an integrated transportation management solutions business primarily throughout North America with revenue of $7.4 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, less-than-truckload and other truck transportation, rail intermodal, air cargo, ocean cargo, expedited ground and air delivery of time-critical freight, heavy-haul/specialized, U.S.-Canada and U.S.-Mexico cross-border, intra-Mexico, intra-Canada, project cargo and customs brokerage. Examples of the industries serviced by the transportation logistics segment include automotive parts and assemblies, consumer durables, building products, metals, chemicals, foodstuffs, heavy machinery, retail, electronics and military equipment. In addition, the transportation logistics segment provides transportation services to other transportation companies, including third party logistics and less-than-truckload service providers. The independent commission sales agents market 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. The results of operations from Landstar Blue and Landstar Metro are presented as part of the Company's transportation logistics segment.

The insurance segment is comprised of Signature Insurance Company ("Signature"), a wholly owned offshore insurance subsidiary, and Risk Management Claim Services, Inc. The insurance segment provides risk and claims management services to certain of Landstar's operating subsidiaries. In addition, it reinsures certain risks of the Company's BCO Independent Contractors and provides certain property and casualty insurance directly to certain of Landstar's operating subsidiaries. Revenue at the insurance segment represents reinsurance premiums from third party insurance companies that provide insurance programs to BCO Independent Contractors where all or a portion of the risk is ultimately borne by Signature. Internal revenue for premiums billed by the insurance segment to the transportation logistics segment is calculated each fiscal period based primarily on an actuarial calculation of historical loss experience and is believed to approximate the cost that would have been incurred by the transportation logistics segment had similar insurance been obtained from an unrelated third party.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates a segment's performance based on operating income.

No single customer accounted for more than 10% of the Company's consolidated revenue in fiscal years 2022, 2021 and 2020. Substantially all of the Company's revenue is generated in North America, primarily through customers located in the United States.

The following tables summarize information about the Company's reportable business segments as of and for the fiscal years ending December 31, 2022, December 25, 2021 and December 26, 2020 (in thousands):

	Transportation Logistics	Insurance	Total
2022			
External revenue	$ 7,358,008	$ 78,554	$7,436,562
Internal revenue		79,229	79,229
Investment income		3,162	3,162
Interest and debt expense	3,620		3,620
Depreciation and amortization	57,453		57,453
Operating income	524,500	46,583	571,083
Expenditures on long-lived assets	26,005		26,005
Goodwill	41,220		41,220
Finance lease additions	30,659		30,659
Total assets	1,704,557	227,322	1,931,879
2021			
External revenue	$ 6,465,711	$ 71,857	$6,537,568
Internal revenue		62,558	62,558
Investment income		2,857	2,857
Interest and debt expense	3,976		3,976
Depreciation and amortization	49,609		49,609
Operating income	464,282	41,386	505,668
Expenditures on long-lived assets	23,261		23,261
Goodwill	40,768		40,768
Finance lease additions	48,674		48,674
Total assets	1,736,854	308,611	2,045,465
2020			
External revenue	$ 4,076,519	$ 56,462	$4,132,981
Internal revenue		54,003	54,003
Investment income		3,399	3,399
Interest and debt expense	3,953		3,953
Depreciation and amortization	45,855		45,855
Operating income	221,210	31,740	252,950
Expenditures on long-lived assets	30,626		30,626
Goodwill	40,949		40,949
Finance lease additions	31,633		31,633
Total assets	1,301,991	351,808	1,653,799

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

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

The following table summarizes the adverse 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 set forth in the consolidated statements of income for the fiscal years ended December 31, 2022, December 25, 2021 and December 26, 2020 (in thousands, except per share amounts):

	Fiscal Years Ended		
	December 31, 2022	December 25, 2021	December 26, 2020
Operating income	$ 11,331	$ 9,708	$ 9,196
Net income	$ 8,570	$ 7,359	$ 6,989
Diluted earnings per share	$ 0.23	$ 0.19	$ 0.18

The unfavorable development of prior years' claims in the fiscal year ended December 31, 2022 was primarily attributable to several specific claims. The unfavorable development of prior years' claims in the fiscal year ended December 25, 2021 was primarily attributable to five claims. The unfavorable development of prior years' claims in the fiscal year ended December 26, 2020 was attributable to several specific claims as well as actuarially determined adjustments to prior year commercial trucking loss estimates.

(15) Impairment of Intangible and Other Assets

During the 2020 second fiscal quarter, the Company recorded a non-cash impairment charge of $2,582,000 in respect of certain assets, primarily customer contract and related customer relationship intangible assets, acquired on September 20, 2017, along with substantially all of the other assets of the asset-light transportation logistics business of Fletes Avella, S.A. de C.V. ("Fletes Avella"). During the 2020 second fiscal quarter negative macroeconomic trends in Mexico during the first half of 2020, including issues in the international oil and gas sector, caused significant disruptions in the Mexican economy. Accordingly, management performed impairment tests of the carrying values of certain assets that primarily relate to intra-Mexico business acquired as a part of the Fletes Avella acquisition. The impairment tests resulted in an impairment charge of $2,582,000, as the negative macroeconomic trends in Mexico caused updated financial projections as of the end of the 2020 second quarter relating to these intangible assets to be substantially below those originally anticipated at the acquisition date. There was no corresponding goodwill impairment charge recorded as the fair value of the Company's Mexico and cross-border reporting unit continues to significantly exceed its carrying value as of December 31, 2022.

(16) Equity investment

On April 1, 2022, Landstar Investment Holdco, LLC, a newly formed Delaware LLC and wholly owned subsidiary of Landstar System Holdings, Inc., purchased Class A units of Cavnue, LLC, for approximately $4,999,000 in cash consideration. Cavnue, LLC is a privately held company focused on combining technology and road infrastructure to unlock the full potential of connected and autonomous vehicles.

This non-controlling investment in units of Cavnue, LLC, is considered an investment in non-marketable equity securities without a readily determinable market value. The carrying value of our non-marketable equity securities going forward will be adjusted to fair value upon observable transactions for identical or similar investments of the same issuer or impairment (referred to as the measurement alternative).

(17) Recent Accounting Pronouncements

Adoption of New Accounting Standards

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. The Company adopted ASU 2016-13 on December 29, 2019, under the modified retrospective transition method resulting in a $702,000 cumulative adjustment to retained earnings.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Landstar System, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Landstar System, Inc. and subsidiary (the Company) as of December 31, 2022 and December 25, 2021, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the fiscal years in the three-year period ended December 31, 2022, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and December 25, 2021, and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 24, 2023 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Self-insurance claims liability

As discussed in Note 1 to the consolidated financial statements, the liability for insurance claims includes the actuarially determined estimated costs of cargo, property, casualty, general liability, and workers' compensation claims, both reported and for claims incurred but not reported, up to the Company's retained amount per claim, which is referred to as the self-insurance claims liability. The Company's estimated costs of insurance claims include assumptions regarding the frequency and severity of claims and are based upon the facts and circumstances known as of the applicable balance sheet date. The Company's liability for insurance claims as of December 31, 2022 was $109,104,000, which includes the self-insurance claims liability.

We identified the evaluation of the self-insurance claims liability as a critical audit matter. Specialized skills were needed to evaluate the Company’s estimate of the self-insurance claims liability. This evaluation included assumptions related to the potential for the development in future periods of claims both reported and incurred but not reported as of the balance sheet date and the impact of those developments on the estimated liability associated with such claims. In addition, a higher degree of subjective auditor judgment was required to evaluate the Company’s estimate of the self-insurance claims liability due to the inherent uncertainty in the frequency and severity of claims.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company’s self-insurance claims process, including a control related to the development of the assumptions used to estimate the self-insurance claims liability. We involved actuarial professionals with specialized skills and knowledge, who assisted in assessing the actuarial model used by the Company, including the external actuarial report obtained by the Company, to estimate the self-insurance claims liability for consistency with generally accepted actuarial standards. The actuarial professionals also developed an estimate of the range of the self-insurance claims liability using the Company’s historical claims data. We compared the estimated range of the self-insurance claims liability to the amount recorded by the Company. We tested a sample of the claims data used in the actuarial model by comparing the data to underlying claims details. For certain claims, we obtained letters received directly from the Company’s external legal counsel to evaluate the liability recorded. Additionally, we assessed the development of the self-insurance claims liability in the current year compared to recent historical trends and considered the implications on the current year assumptions. We also assessed facts and circumstances received by the Company after the balance sheet date, but before the consolidated financial statements were issued, and the impact, if any, of such facts and circumstances on the self-insurance claims liability.

/s/ KPMG LLP

We have served as the Company’s auditor since 1988.

Jacksonville, Florida
February 24, 2023

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, an evaluation was carried out, under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended). Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of December 31, 2022 to provide reasonable assurance that information required to be disclosed by the Company in reports that it filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

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

Internal Control Over Financial Reporting

(a) Management's Report on Internal Control over Financial Reporting

Management of Landstar System, Inc. (the "Company") is responsible for establishing and maintaining effective internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act, as amended.

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's financial statements.

Management, with the participation of the Company's principal executive officer and principal financial officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2022. This assessment was performed using the criteria established under the Internal Control-Integrated Framework (2013) established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations, including the possibility of human error or circumvention or overriding of internal control. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and reporting and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on the assessment performed using the criteria established by COSO, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2022.

KPMG LLP (PCAOB ID: 185), the independent registered public accounting firm that audited the financial statements included in this Annual Report on Form 10-K for the fiscal year ended December 31, 2022, has issued an audit report on the effectiveness of the Company's internal control over financial reporting. Such report appears immediately below.

(b) Attestation Report of the Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Landstar System, Inc.:
Opinion on Internal Control Over Financial Reporting

We have audited Landstar System, Inc. and subsidiary's (the Company) internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2022 and December 25, 2021, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the fiscal years in the three-year period ended December 31, 2022, and the related notes (collectively, the consolidated financial statements), and our report dated February 24, 2023 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/KPMG LLP

Jacksonville, Florida
February 24, 2023

(c) Changes in Internal Control Over Financial Reporting

There were no significant changes in the Company's internal control over financial reporting during the Company's fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. ***Other Information***

On February 23, 2023, the Landstar Board of Directors adopted amendments to the Company's Amended and Restated Bylaws (the "Bylaws"), effective as of such date. Changes to the Bylaws include revisions that (1) conform provisions concerning the list of stockholders to recent amendments to Section 219(a) of the Delaware General Corporation Law and (2) make various other additional amendments and conforming changes that do not materially affect the substance of the Bylaws.

The foregoing is only a summary of the changes made to the Bylaws, does not purport to be complete and is qualified in its entirety by reference to the full text of the Bylaws, which is filed as Exhibit 3.2 to this Annual Report on Form 10-K and is incorporated herein by reference.

Item 9C. ***Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.***

Not applicable.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

The information required by this Item concerning the Directors (and nominees for Directors) and Executive Officers of the Company will be set forth under the captions "Election of Directors," "Directors of the Company," "Information Regarding Board of Directors and Committees," and "Executive Officers of the Company" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement for its annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, and is incorporated herein by reference. The information required by this Item concerning the Company's Audit Committee and the Audit Committee's Financial Expert will be set forth under the caption "Information Regarding Board of Directors and Committees" and "Report of the Audit Committee" in the Company's definitive Proxy Statement for its annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, and is incorporated herein by reference.

The Company has adopted a Code of Ethics and Business Conduct that applies to each of its directors and employees, including its principal executive officer, principal financial officer, controller and all other employees performing similar functions. The Code of Ethics and Business Conduct is available on the Company's website at *www.landstar.com* under "Investor Relations — Corporate Governance." The Company intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding amendments to, or waivers from, a provision or provisions of the Code of Ethics and Business Conduct by posting such information on its website at the web address indicated above.

Item 11. ***Executive Compensation***

The information required by this Item will be set forth under the captions "Compensation Committee Interlocks and Insider Participation," "Compensation of Directors," "Compensation of Named Executive Officers," "Compensation Discussion and Analysis," "Summary Compensation Table," "Pay Versus Performance Table," "Grants of Plan-Based Awards," "Stock Vested," "Outstanding Equity Awards at Fiscal Year End," "Nonqualified Deferred Compensation," "Compensation Committee Reports" and "Key Executive Employment Protection Agreements" in the Company's definitive Proxy Statement for its annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, and is incorporated herein by reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this Item pursuant to Item 201(d) of Regulation S-K is set forth under the caption "Market for Registrants Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" in Part II, Item 5 of this report, and is incorporated herein by reference.

The information required by this Item pursuant to Item 403 of Regulation S-K will be set forth under the caption "Security Ownership by Management and Others" in the Company's definitive Proxy Statement for its annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, and is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

None, other than information required to be disclosed under this item in regard to Director Independence, which will be set forth under the caption "Independent Directors" in the Company's definitive Proxy Statement for its annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A and is incorporated herein by reference.

Item 14. ***Principal Accounting Fees and Services***

The information required by this item will be set forth under the caption "Report of the Audit Committee" and "Ratification of Appointment of Independent Registered Public Accounting Firm" in the Company's definitive Proxy Statement for its annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, and is incorporated herein by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a)(1) *Financial Statements and Supplementary Data*

(2) *Financial Statement Schedules*

Financial statement schedules have been omitted because the required information is included in the consolidated financial statements or the notes thereto, or is not applicable or required.

(3) *Exhibits*

Exhibit No.	Description
(3)	**Articles of Incorporation and By-Laws:**
3.1	Restated Certificate of Incorporation of the Company dated March 6, 2006, including Certificate of Designation of Junior Participating Preferred Stock dated February 10, 1993. (Incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (Commission File No. 0-21238))
3.2*	The Company's Amended and Restated Bylaws, as further amended as of February 23, 2023.
(4)	**Instruments defining the rights of security holders, including indentures:**
4.1 P	Specimen of Common Stock Certificate. (Incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-1 (Registration No. 33-57174))
4.2	Description of Securities (Incorporated by reference to Exhibit 4.4 to the Registrant's Annual Report on Form 10-K for fiscal year ended December 28, 2019 (Commission File No. 0-21238))
(10)	**Material contracts:**
10.1+	Second Amended and Restated Credit Agreement, dated as of July 1, 2022, among Landstar System Holdings, Inc., the Company, the lenders named therein, and JPMorgan Chase Bank, N.A. as Administrative Agent (including exhibits and schedules thereto). (Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on July 8, 2022 (Commission File No. 0-21238))
10.2+	Landstar System, Inc. Supplemental Executive Retirement Plan, as amended and restated as of January 1, 2015 (Incorporated by reference to Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 27, 2014 (Commission File No. 0-21238))
10.3+	First Amendment, dated as of November 1, 2018, to the Landstar System, Inc. Supplemental Executive Retirement Plan (as amended and restated as of January 1, 2015) (Incorporated by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 29, 2018 (Commission File No. 0-21238))

10.4+	Landstar System, Inc. 2011 Equity Incentive Plan, as amended through March 12, 2020, (Incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement filed on April 6, 2020 (Commission File No. 0-21238))
10.5+	Landstar System, Inc. 2022 Directors Stock Compensation Plan (Incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement filed on March 29, 2022 (Commission File No. 0-21238))
10.6+	Form of Indemnification Agreement between the Company and each of the directors and Executive Officers of the Company (Incorporated by reference to Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 27, 2003 (Commission File No. 0-21238))
10.7+	Form of Key Executive Employment Protection Agreement between Landstar System, Inc. and each of the Executive Officers of the Company, in the form as amended as of December 26, 2015, (Incorporated by reference to Exhibit 10.12 to the Registrant's Annual Report on Form 10-K for fiscal year ended December 26, 2015 (Commission File No. 0-21238))
10.8+	Total Shareholder Return Performance Related Stock Award Agreement, between Landstar System, Inc. and James B. Gattoni, dated April 24, 2018 (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on April 25, 2018 (Commission File No. 0-21238))
10.9+	Letter Agreement, dated May 20, 2021, between Landstar System, Inc. and Fred L. Pensotti (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 10-Q filed on July 30, 2021 (Commission File No. 0-21238))
10.10+	Letter Agreement, dated July 1, 2022, between Landstar System, Inc. and Fred L. Pensotti (Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 10-Q filed on October 28, 2022 (Commission File No. 0-21238))
(21)	**Subsidiaries of the Registrant:**
21.1*	List of Subsidiaries of the Registrant
(23)	**Consents of experts and counsel:**
23.1*	Consent of KPMG LLP as Independent Registered Public Accounting Firm
(24)	**Power of attorney:**
24.1*	Powers of Attorney
(31)	**Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002:**
31.1*	Chief Executive Officer certification, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Chief Financial Officer certification, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(32)	**Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002:**
32.1**	Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Chief Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101 *	The following materials from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022, formatted in Inline eXtensible Business Reporting Language (iXBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Changes in Shareholders' Equity, (vi) Notes to Consolidated Financial Statements, and (vii) Financial Statement Schedule.
104 *	Cover Page Interactive Date File (formatted as Inline XBRL and contained in Exhibit 101).

\+ management contract or compensatory plan or arrangement
* Filed herewith.
** Furnished herewith.

THE COMPANY WILL FURNISH, WITHOUT CHARGE, TO ANY SHAREHOLDER OF THE COMPANY WHO SO REQUESTS IN WRITING, A COPY OF ANY EXHIBITS, AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. ANY SUCH REQUEST SHOULD BE DIRECTED TO LANDSTAR SYSTEM, INC., ATTENTION: INVESTOR RELATIONS, 13410 SUTTON PARK DRIVE SOUTH, JACKSONVILLE, FLORIDA 32224.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 24, 2023

LANDSTAR SYSTEM, INC.

By: /s/ JAMES B. GATTONI
James B. Gattoni
President and
Chief Executive Officer

By: /s/ JAMES P. TODD
James P. Todd
Vice President, Chief Financial Officer and Assistant Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ JAMES B. GATTONI James B. Gattoni	President and Chief Executive Officer; Principal Executive Officer; Director	February 24, 2023
/s/ JAMES P. TODD James P. Todd	Vice President and Chief Financial Officer and Assistant Secretary; Principal Financial Officer and Principal Accounting Officer	February 24, 2023
* Homaira Akbari	Director	February 24, 2023
* David G. Bannister	Director	February 24, 2023
* James L. Liang	Director	February 24, 2023
* Diana M. Murphy	Chairman of the Board	February 24, 2023
* Anthony J. Orlando	Director	February 24, 2023
* George P. Scanlon	Director	February 24, 2023
* Teresa L. White	Director	February 24, 2023

By: /s/ MICHAEL K. KNELLER
Michael K. Kneller
*Attorney In Fact**