LANDSTAR SYSTEM INC
Form 10-Q
October 29, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 25, 2010

OR

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

For the transition period from __________ to __________

Commission File Number: 0-21238

LANDSTAR SYSTEM, INC.

(Exact name of registrant as specified in its charter)

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

13410 Sutton Park Drive South, Jacksonville, Florida
(Address of principal executive offices)
32224
(Zip Code)
(904) 398-9400
(Registrant s telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files):

Yes þ No o

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

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

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

Yes o No þ

The number of shares of the registrant s common stock, par value $0.01 per share, outstanding as of the close of business on October 17, 2010 was 49,119,836.

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PART II - Other Information

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The interim consolidated financial statements contained herein reflect all adjustments (all of a normal, recurring nature) which, in the opinion of management, are necessary for a fair statement of the financial condition, results of operations, cash flows and changes in equity for the periods presented. They have been prepared in accordance with Rule 10-01 of Regulation S-X and do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. Operating results for the thirty nine weeks ended September 25, 2010 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 25, 2010.

These interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company s 2009 Annual Report on Form 10-K.

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

	September 25, 2010	December 26, 2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 55,075	$ 85,719
Short-term investments	24,243	24,325
Trade accounts receivable, less allowance of $5,973 and $5,547	320,188	278,854
Other receivables, including advances to independent contractors, less allowance of $5,042 and $5,797	22,778	18,149
Deferred income taxes and other current assets	19,303	19,565
Total current assets	441,587	426,612
Operating property, less accumulated depreciation and amortization of $136,105 and $124,810	137,101	116,656
Goodwill	57,470	57,470
Other assets	77,482	48,054
Total assets	$ 713,640	$ 648,792
LIABILITIES AND EQUITY		
Current liabilities		
Cash overdraft	$ 22,497	$ 28,919
Accounts payable	146,707	121,030
Current maturities of long-term debt	23,488	24,585
Insurance claims	33,004	41,627
Other current liabilities	53,392	42,474
Total current liabilities	279,088	258,635
Long-term debt, excluding current maturities	103,643	68,313
Insurance claims	33,111	30,680
Deferred income taxes	21,261	23,013
Equity		
Landstar System, Inc. and subsidiary shareholders equity		
Common stock, $0.01 par value, authorized 160,000,000 shares, issued 66,517,400 and 66,255,358 shares	665	663
Additional paid-in capital	167,909	161,261
Retained earnings	822,452	766,040
Cost of 17,397,564 and 16,022,111 shares of common stock in treasury	(715,093)	(660,446)
Accumulated other comprehensive income	1,181	498

Total Landstar System, Inc. and subsidiary shareholders equity	277,114	268,016
Noncontrolling interest	(577)	135
Total equity	276,537	268,151
Total liabilities and equity	$ 713,640	$ 648,792

See accompanying notes to consolidated financial statements.

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

	Thirty Nine Weeks Ended		**Thirteen Weeks Ende**	
	September 25, 2010	**September 26, 2009**	**September 25, 2010**	**Septembe 26, 2009**
venue	$ 1,812,635	$ 1,461,081	$ 622,826	$ 500,6
estment income	1,069	954	495	2
sts and expenses:				
chased transportation	1,381,955	1,090,219	474,665	372,3
mmissions to agents	134,695	117,735	47,316	39,4
ner operating costs	21,952	21,749	6,448	6,9
urance and claims	37,609	29,056	11,480	10,2
ling, general and administrative	114,886	99,690	41,070	33,0
preciation and amortization	18,444	17,414	6,456	6,2
al costs and expenses	1,709,541	1,375,863	587,435	468,2
erating income	104,163	86,172	35,886	32,6
erest and debt expense	2,699	3,093	1,035	9
ome before income taxes	101,464	83,079	34,851	31,7
ome taxes	38,761	31,466	13,315	11,8
income	62,703	51,613	21,536	19,8
s: Net loss attributable to noncontrolling interest	(712)	(214)	(266)	(2
income attributable to Landstar System, Inc. and subsidiary	$ 63,415	$ 51,827	$ 21,802	$ 20,0
nings per common share attributable to Landstar System, Inc. and subsidiary	$ 1.27	$ 1.01	$ 0.44	$ 0.
uted earnings per share attributable to Landstar System, Inc. and subsidiary	$ 1.27	$ 1.01	$ 0.44	$ 0.
erage number of shares outstanding:				
nings per common share	49,921,000	51,325,000	49,434,000	51,069,0
uted earnings per share	49,990,000	51,507,000	49,447,000	51,245,0
vidends paid per common share	$ 0.1400	$ 0.1250	$ 0.0500	$ 0.04

See accompanying notes to consolidated financial statements.

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

	Thirty Nine Weeks Ended	
	September 25, 2010	**September 26, 2009**
OPERATING ACTIVITIES		
Net income	$ 62,703	$ 51,613
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,444	17,414
Non-cash interest charges	164	164
Provisions for losses on trade and other accounts receivable	3,539	6,364
Losses (gains) on sales/disposals of operating property	570	(96)
Deferred income taxes, net	(1,592)	3,756
Stock-based compensation	3,567	3,747
Changes in operating assets and liabilities:		
Decrease (increase) in trade and other accounts receivable	(49,502)	62,862
Decrease in other assets	323	4,736
Increase (decrease) in accounts payable	25,677	(12,635)
Increase (decrease) in other liabilities	10,582	(9,609)
Decrease in insurance claims	(6,192)	(117)
NET CASH PROVIDED BY OPERATING ACTIVITIES	68,283	128,199
INVESTING ACTIVITIES		
Net change in other short-term investments	149	26,334
Sales and maturities of investments	31,145	10,032
Purchases of investments	(60,865)	(43,559)
Purchases of operating property	(25,474)	(2,276)
Proceeds from sales of operating property	948	654
Consideration paid for acquisitions		(14,888)
NET CASH USED BY INVESTING ACTIVITIES	(54,097)	(23,703)
FINANCING ACTIVITIES		
Decrease in cash overdraft	(6,422)	(10,846)
Dividends paid	(7,003)	(6,419)
Proceeds from exercises of stock options	1,527	1,116
Excess tax benefit on stock option exercises	1,556	325
Borrowings on revolving credit facility	40,000	15,000
Purchases of common stock	(54,647)	(31,660)

Capital contribution for noncontrolling interest		1,375
Principal payments on long-term debt and capital lease obligations	(19,912)	(103,674)
NET CASH USED BY FINANCING ACTIVITIES	(44,901)	(134,783)
Effect of exchange rate changes on cash and cash equivalents	71	373
Decrease in cash and cash equivalents	(30,644)	(29,914)
Cash and cash equivalents at beginning of period	85,719	98,904
Cash and cash equivalents at end of period	$ 55,075	$ 68,990

See accompanying notes to consolidated financial statements.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Thirty Nine Weeks Ended September 25, 2010
(Dollars in thousands)
(Unaudited)

	Landstar System, Inc. and Subsidiary Shareholders								
	Common Stock		Additional Paid-In	Retained	Treasury Stock at Cost		Accumulated Other Comprehensive	Non-controlling	
	Shares	**Amount**	**Capital**	**Earnings**	**Shares**	**Amount**	**Income**	**Interest**	**Total**
Balance December 26, 2009	66,255,358	$663	$161,261	$766,040	16,022,111	$(660,446)	$ 498	$ 135	$268,151
Net income (loss)				63,415				(712)	62,703
Dividends paid ($0.14 per share)				(7,003)					(7,003)
Purchases of common stock					1,375,453	(54,647)			(54,647)
Stock-based compensation			3,567						3,567
Exercises of stock options and issuance of non-vested stock, including excess tax benefit	262,042	2	3,081						3,083
Foreign currency translation							71		71
Unrealized gain on available-for-sale investments, net of income taxes							612		612
Balance September 25, 2010	66,517,400	$665	$167,909	$822,452	17,397,564	$(715,093)	$1,181	$(577)	$276,537

See accompanying notes to consolidated financial statements.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Organization Consolidation And Presentation Of Financial Statements Disclosure

The consolidated financial statements include the accounts of Landstar System, Inc. and its subsidiary, Landstar System Holdings, Inc., and reflect all adjustments (all of a normal, recurring nature) which are, in the opinion of management, necessary for a fair statement of the results for the periods presented. The preparation of the consolidated financial statements requires the use of management s estimates. Actual results could differ from those estimates. Landstar System, Inc. and its subsidiary are herein referred to as Landstar or the Company. Significant intercompany accounts have been eliminated in consolidation.

Landstar owns, through various subsidiaries, a controlling interest in A3i Acquisition LLC, which in turn owns 100% of A3 Integration, LLC (A3i Acquisition LLC, A3 Integration, LLC and its subsidiaries are collectively referred to herein as A3i), a supply chain systems integration and solutions company acquired in the Company s 2009 fiscal third quarter. Given Landstar s controlling interest in A3i Acquisition, the accounts of A3i have been consolidated herein and a noncontrolling interest has been recorded for the noncontrolling investor s interests in the net assets and operations of A3i.

(1) Share-based Payment Arrangements

As of September 25, 2010, the Company had an employee stock option plan, an employee stock option and stock incentive plan (the ESOSIP), one stock option plan for members of its Board of Directors and a stock compensation plan for members of its Board of Directors (the Directors Stock Compensation Plan) (all together, the Plans). No further grants can be made under the employee stock option plan as its term for granting stock options has expired. In addition, no further grants are to be made under the stock option plan for members of the Board of Directors. Amounts recognized in the financial statements with respect to these Plans are as follows (in thousands):

	Thirty Nine Weeks Ended		**Thirteen Weeks Ended**	
	September 25, 2010	**September 26, 2009**	**September 25, 2010**	**September 26, 2009**
Total cost of the Plans during the period	$ 3,567	$ 3,747	$ 1,199	$ 1,177
Amount of related income tax benefit recognized during the period	906	923	285	273
Net cost of the Plans during the period	$ 2,661	$ 2,824	$ 914	$ 904

The fair value of each option grant on its grant date was calculated using the Black-Scholes option pricing model with the following weighted average assumptions for grants made in the 2010 and 2009 thirty-nine-week periods:

	2010	**2009**
Expected volatility	37.0%	38.0%
Expected dividend yield	0.400%	0.400%
Risk-free interest rate	2.50%	1.50%
Expected lives (in years)	4.2	4.4

The Company utilizes 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 weighted average grant date fair value of stock options granted during the thirty-nine-week periods ended September 25, 2010 and September 26, 2009 was $12.00 and $11.75, respectively.

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

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (000s)
Options outstanding at December 26, 2009	2,557,802	$ 36.86		
Granted	225,250	$ 37.39		
Exercised	(405,954)	$ 21.28		
Forfeited	(56,867)	$ 43.06		
Options outstanding at September 25, 2010	2,320,231	$ 39.49	6.7	$
Options exercisable at September 25, 2010	954,181	$ 38.27	5.2	$ 38

As of September 25, 2010, there were 1,650,313 stock options outstanding that were out-of-the-money based on that day s per share closing market price of $38.31 as reported on the NASDAQ Global Select Market. The remaining 669,918 stock options outstanding as of September 25, 2010 that were in-the-money had an aggregate intrinsic value of $3,796,000. The total intrinsic value of stock options exercised during the thirty-nine-week periods ended September 25, 2010 and September 26, 2009 was $9,115,000 and $1,453,000, respectively.

As of September 25, 2010, there was $10,602,000 of total unrecognized compensation cost related to non-vested stock options granted under the Plans. The unrecognized compensation cost related to these non-vested options is expected to be recognized over a weighted average period of 2.9 years.

The fair value of each share of non-vested restricted stock issued under the Plans is based on the fair value of a share of the Company s common stock on the date of grant.

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

	Number of Shares	Grant Date Fair Value
Non-vested restricted stock outstanding at December 26, 2009	11,500	$34.82
Granted	18,354	$42.41
Non-vested restricted stock outstanding at September 25, 2010	29,854	$39.49

As of September 25, 2010, there was $944,000 of total unrecognized compensation cost related to non-vested shares of restricted stock granted under the Plans. The unrecognized compensation cost related to these non-vested shares of restricted stock is expected to be recognized over a weighted average period of 2.9 years.

As of September 25, 2010, there were 128,469 shares of the Company s common stock reserved for issuance under the Directors Stock Compensation Plan and 4,719,448 shares of the Company s common stock reserved for issuance under the Company s other plans.

(2) Income Taxes

The provisions for income taxes for the 2010 and 2009 thirty-nine-week periods were based on estimated full year combined effective income tax rates of approximately 38.2% and 37.9%, respectively, which were higher than the statutory federal income tax rate primarily as a result of state taxes, the meals and entertainment exclusion and non-deductible stock-based compensation.

(3) Earnings Per Share

Earnings per common share attributable to Landstar System, Inc. and subsidiary are based on the weighted average number of common shares outstanding. Diluted earnings per share attributable to Landstar System, Inc. and subsidiary are based on the weighted average number of common shares outstanding plus the incremental shares that would have been outstanding upon the assumed exercise of all dilutive stock options.

The following table provides a reconciliation of the average number of common shares outstanding used to calculate earnings per share attributable to Landstar System, Inc. and subsidiary to the average number of common shares and common share equivalents outstanding used to calculate diluted earnings per share attributable to Landstar System, Inc. and subsidiary (in thousands):

	Thirty Nine Weeks Ended		Thirteen Weeks Ended	
	September 25, 2010	September 26, 2009	September 25, 2010	September 26, 2009
Average number of common shares outstanding	49,921	51,325	49,434	51,069
Incremental shares from assumed exercises of stock options	69	182	13	176
Average number of common shares and common share equivalents outstanding	49,990	51,507	49,447	51,245

For the thirty-nine-week and thirteen-week periods ended September 25, 2010 there were 1,353,313 and 1,650,313, respectively, options outstanding to purchase shares of common stock excluded from the calculation of diluted earnings per share because they were antidilutive. For the thirty-nine-week and thirteen-week periods ended September 26, 2009 there were 2,000,747 and 1,897,747, respectively, options outstanding to purchase shares of common stock excluded from the calculation of diluted earnings per share because they were antidilutive.

(4) Additional Cash Flow Information

During the 2010 thirty-nine-week period, Landstar paid income taxes and interest of $36,568,000 and $2,847,000, respectively. During the 2009 thirty-nine-week period, Landstar paid income taxes and interest of $22,349,000 and $3,437,000, respectively. Landstar acquired operating property by entering into capital leases in the amount of $14,145,000 and $12,284,000 in the 2010 and 2009 thirty-nine-week periods, respectively. During the 2010 thirty-nine-week period, the Company purchased $25,474,000 of operating property, including $21,135,000 for the purchase of the Company s primary facility in Jacksonville, Florida.

(5) Segment Information

The following tables summarize information about Landstar s reportable business segments as of and for the thirty-nine-week and thirteen-week periods ended September 25, 2010 and September 26, 2009 (in thousands):

	Thirty Nine Weeks Ended					
	September 25, 2010			September 26, 2009		
	Transportation Logistics	Insurance	Total	Transportation Logistics	Insurance	Total
External revenue	$1,787,107	$25,528	$1,812,635	$1,433,812	$27,269	$1,461,081
Investment income		1,069	1,069		954	954
Internal revenue		21,463	21,463		21,350	21,350
Operating income	88,460	15,703	104,163	62,227	23,945	86,172
Expenditures on long-lived assets	25,474		25,474	2,276		2,276
Goodwill	57,470		57,470	57,297		57,297

	Thirteen Weeks Ended					
	September 25, 2010			September 26, 2009		
	Transportation Logistics	Insurance	Total	Transportation Logistics	Insurance	Total
External revenue	$614,273	$8,553	$622,826	$491,780	$8,890	$500,670
Investment income		495	495		279	279
Internal revenue		5,902	5,902		5,833	5,833
Operating income	31,108	4,778	35,886	25,731	6,947	32,678

Expenditures on long-lived assets	790	790	229	229

In the thirty-nine-week period ended September 25, 2010, one customer accounted for approximately 11 percent of the Company s revenue. In the thirteen-week period ended September 25, 2010, there were no customers who accounted for 10 percent or more of the Company s revenue. In the thirty-nine-week and thirteen-week periods ended September 26, 2009, there were no customers who accounted for 10 percent or more of the Company s revenue.

(6) Comprehensive Income

The following table includes the components of comprehensive income attributable to Landstar System, Inc. and subsidiary for the thirty-nine-week and thirteen-week periods ended September 25, 2010 and September 26, 2009 (in thousands):

	Thirty Nine Weeks Ended		Thirteen Weeks Ended	
	September 25, 2010	**September 26, 2009**	**September 25, 2010**	**September 26, 2009**
Net income attributable to Landstar System, Inc. and subsidiary	$ 63,415	$ 51,827	$ 21,802	$ 20,076
Unrealized holding gains on available-for-sale investments, net of income taxes	612	439	486	197
Foreign currency translation gains	71	373	14	350
Comprehensive income attributable to Landstar System, Inc. and subsidiary	$ 64,098	$ 52,639	$ 22,302	$ 20,623

The unrealized holding gain on available-for-sale investments during the 2010 thirty-nine-week period represents the mark-to-market adjustment of $948,000, net of related income taxes of $336,000. The unrealized holding gain on available-for-sale investments during the 2010 thirteen-week period represents the mark-to-market adjustment of $752,000, net of related income taxes of $266,000. The unrealized holding gain on available-for-sale investments during the 2009 thirty-nine-week period represents the mark-to-market adjustment of $680,000, net of related income taxes of $241,000. The unrealized holding gain on available-for-sale investments during the 2009 thirteen-week period represents the mark-to-market adjustment of $305,000, net of related income taxes of $108,000. The foreign currency translation gain represents the unrealized net gain on the translation of the financial statements of the Company s Canadian operations. Accumulated other comprehensive income as reported as a component of equity at September 25, 2010 of $1,181,000 represents the unrealized net gain on the translation of the financial statements of the Company s Canadian operations of $279,000 and the cumulative unrealized holding gains on available-for-sale investments, net of income taxes, of $902,000.

(7) Investments

Investments include investment-grade bonds and mortgage-backed securities having maturities of up to five years (the Bond Portfolio). Bonds in the Bond Portfolio are reported as available-for-sale and are carried at fair value. Bonds maturing less than one year from the balance sheet date are included in short-term investments and bonds maturing more than one year from the balance sheet date are included in other assets in the consolidated balance sheets. Management has performed an analysis of the nature of the unrealized losses on available-for-sale investments to determine whether such losses are other-than-temporary. Unrealized losses, representing the excess of the purchase price of an investment over its fair value as of the end of a period, considered to be other-than-temporary are to be included as a charge in the statement of income while unrealized losses considered to be temporary are to be included as a component of 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. Transfers between levels are recognized as of the beginning of the 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, mortgage-backed securities and direct obligations of U.S. government agencies.

The amortized cost and fair values of available-for-sale investments are as follows at September 25, 2010 and December 26, 2009 (in thousands):

September 25, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market investments	$ 788			$ 788
Mortgage-backed securities	3,489	$ 92	$ 13	3,568
Corporate bonds and direct obligations of U.S. government agencies	64,082	1,342	33	65,391
U.S. Treasury obligations	11,780	9		11,789
Total	$ 80,139	$ 1,443	$ 46	$ 81,536

December 26, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds and direct obligations of U.S. government agencies	$ 39,261	$ 668	$ 226	$ 39,703
U.S. Treasury obligations	11,489	6		11,495
Total	$ 50,750	$ 674	$ 226	$ 51,198

For those available-for-sale investments with unrealized losses at September 25, 2010 and December 26, 2009, 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
September 25, 2010						
Corporate bonds and direct obligations of U.S. government agencies	$ 348	$ 2	$ 7,423	$ 44	$ 7,771	$ 46
Mortgage-backed securities	234	13			234	13
Total	$ 582	$ 15	$ 7,423	$ 44	$ 8,005	$ 59
December 26, 2009						
Corporate bonds and direct obligations of U.S. government agencies	$ 1,989	$ 10	$ 1,192	$ 216	$ 3,181	$ 226

(8) Commitments and Contingencies

Short-term investments include $22,662,000 in current maturities of investment-grade bonds and money market investments and $1,581,000 of cash equivalents held by the Company s insurance segment at September 25, 2010. These short-term investments together with $25,265,000 of the non-current portion of investment-grade bonds included in other assets at September 25, 2010 provide collateral for the $44,715,000 of letters of credit issued to guarantee payment of insurance claims. As of September 25, 2010, Landstar also had $33,699,000 of letters of credit outstanding under the Company s credit agreement.

Under the terms of the purchase agreement by which the Company acquired National Logistics Management Co. (NLM) in July 2009, Landstar agreed to pay additional purchase price contingent upon the achievement by NLM of certain levels of earnings through 2014. Landstar recently agreed with the prior owner of NLM to buy-out the Company s contingent payment obligations for a total payment of $3,800,000. This one-time charge is included in selling, general and administrative costs in the thirty-nine-week and thirteen-week periods ended September 25, 2010.

As further described in periodic and current reports previously filed by the Company with the Securities and Exchange Commission (the SEC), the Company and certain of its subsidiaries (the Defendants) are defendants in a suit (the Litigation) brought in the United States District Court for the Middle District of Florida (the District Court) by the Owner-Operator Independent Drivers Association, Inc. (OOIDA) and four former BCO Independent Contractors (the Named Plaintiffs and, with OOIDA, the Plaintiffs) on behalf of all independent contractors who provide truck capacity to the Company and its subsidiaries under exclusive lease arrangements (the BCO Independent Contractors). The Plaintiffs allege that certain aspects of the Company s motor carrier leases and related practices with its BCO Independent Contractors violate certain federal leasing regulations and seek injunctive relief, an unspecified amount of damages and attorneys fees.

On March 29, 2007, the District Court denied the request by Plaintiffs for injunctive relief, entered a judgment in favor of the Defendants and issued written orders setting forth its rulings related to the decertification of the plaintiff class and other important elements of the Litigation relating to liability, injunctive relief and monetary relief. The Plaintiffs filed an appeal with the United States Court of Appeals for the Eleventh Circuit (the Appellate Court) of certain of the District Court s rulings in favor of the Defendants. The Defendants asked the Appellate Court to affirm such rulings and filed a cross-appeal with the Appellate Court with respect to certain other rulings of the District Court. On September 3, 2008, the Appellate Court issued its initial ruling. Each of the parties to the Litigation subsequently filed a petition with the Appellate Court seeking rehearing of the Appellate Court s ruling.

On October 4, 2010, the Appellate Court denied each of the motions for rehearing, withdrew its initial ruling and substituted a new ruling in its place. The new ruling by the Appellate Court confirmed the absence of any violations alleged by the Plaintiffs of the federal leasing regulations with respect to the written terms of all leases currently in use between the Defendants and BCO Independent Contractors. In particular, the new ruling, among other things, held that (i) the Defendants are not prohibited by the applicable federal leasing regulations from charging administrative or other fees to BCO Independent Contractors in connection with voluntary programs offered by the Defendants through which a BCO Independent Contractor may purchase discounted products and services for a charge that is deducted against the amounts payable to the BCO Independent Contractor (a Charge-back Deduction), (ii) in the case of a Charge-back Deduction expressed as a flat-fee in the lease, the applicable federal leasing regulations do not require Defendants to do more than disclose the flat-fee Charge-back Deduction in the lease and follow up with settlement statements that explain the final amount charged back, (iii) the Plaintiffs are not entitled to restitution or disgorgement with respect to violations by Defendants of the applicable federal leasing regulations but instead may recover only actual damages, if any, which they sustained as a result of any such violations and (iv) the claims of BCO Independent Contractors may not be handled on a class action basis for purposes of determining the amount of actual damages, if any, they sustained as a result of any violations.

However, the new ruling of the Appellate Court reversed the District Court s ruling that an old version of the lease formerly used by Defendants but not in use with any current BCO Independent Contractor complied with applicable disclosure requirements under the federal leasing regulations with respect to adjustments to amounts payable to BCO Independent Contractors on certain loads sourced from the U. S. Department of Defense. The Appellate Court then remanded the case to the District Court to permit the Plaintiffs to seek injunctive relief with respect to this violation of the federal leasing regulations and to hold an evidentiary hearing to give the Named Plaintiffs an opportunity to produce evidence of any damages they actually sustained as a result of such violation.

The Plaintiffs have filed a petition with the Appellate Court seeking rehearing en banc of the Appellate Court s October 4, 2010 ruling.

Although no assurances can be given with respect to the outcome of the Litigation, including any possible award of attorneys fees to the Plaintiffs, the Company believes that (i) no Plaintiff has sustained any actual damages as a result of any violations by the Defendants of the federal leasing regulations and (ii) injunctive relief, if any, that may be granted by the District Court on remand is unlikely to have a material adverse effect on the Company s financial condition or results of operations.

The Company is involved in certain other claims and pending litigation arising from the normal conduct of business. 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 other claims and pending litigation and that the ultimate outcome, after provisions in respect thereof, will not have a material adverse effect on the financial condition of the Company, but could have a material effect on the results of operations in a given quarter or year.

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

The following discussion should be read in conjunction with the attached interim consolidated financial statements and notes thereto, and with the Company s audited financial statements and notes thereto for the fiscal year ended December 26, 2009 and Management s Discussion and Analysis of Financial Condition and Results of Operations included in the 2009 Annual Report on Form 10-K.

FORWARD-LOOKING STATEMENTS

The following is a safe harbor statement under the Private Securities Litigation Reform Act of 1995. Statements contained in this document that are not based on historical facts are forward-looking statements. This Management s Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Form 10-Q contain forward-looking statements, such as statements which relate to Landstar s business objectives, plans, strategies and expectations. Terms such as anticipates, believes, estimates, expects, plans, predicts, may, should, negative thereof and similar expressions are intended to identify forward-looking statements. Such statements are by nature subject to uncertainties and risks, including but not limited to: an increase in the frequency or severity of accidents or other claims; unfavorable development of existing accident claims; dependence on third party insurance companies; dependence on independent commission sales agents; dependence on third party capacity providers; substantial industry competition; disruptions or failures in the Company s computer systems; changes in fuel taxes; status of independent contractors; a downturn in economic growth or growth in the transportation sector; acquired businesses; intellectual property; and other operational, financial or legal risks or uncertainties detailed in Landstar s Form 10-K for the 2009 fiscal year, described in Item 1A Risk Factors , this report or in Landstar s other Securities and Exchange Commission filings from time to time. These risks and uncertainties could cause actual results or events to differ materially from historical results or those anticipated. Investors should not place undue reliance on such forward-looking statements and the Company undertakes no obligation to publicly update or revise any forward-looking statements.

Introduction

Landstar System, Inc. and its subsidiary, Landstar System Holdings, Inc. (together, referred to herein as Landstar or the Company), is a non-asset based provider of freight transportation services and supply chain solutions. The Company offers services to its customers across multiple transportation modes, with the ability to arrange for individual shipments of freight to enterprise-wide solutions to manage all of a customer s transportation and logistics needs. Landstar provides services principally throughout the United States and to a lesser extent in Canada, and between the United States and Canada, Mexico and other countries around the world. The Company s services emphasize safety, information coordination and customer service and are delivered through a network of independent commission sales agents and third party capacity providers linked together by a series of technological applications which are provided and coordinated by the Company. Landstar markets its freight transportation services and supply chain solutions primarily through independent commission sales agents and exclusively utilizes third party capacity providers to transport and store customers freight. The nature of the Company s business is such that a significant portion of its operating costs varies directly with revenue.

In the Company s 2009 fiscal third quarter, the Company completed the acquisitions of (i) National Logistics Management Co. (together with a limited liability company and certain corporate subsidiaries and affiliates, NLM) and (ii) A3 Integration LLC (A3i) through A3i Acquisition LLC, an entity of which the Company owns 100% of the non-voting, preferred interests and 75% of the voting, common equity interests. A3i is a wholly-owned subsidiary of A3i Acquisition. These two acquisitions are referred to herein collectively as the Recent Acquisitions. NLM and A3i offer customers technology-based supply chain solutions and other value-added services on a fee-for-service basis. NLM and A3i are herein referred to as the Acquired Entities. The results of operations from NLM and A3i are presented as part of the Company s transportation logistics segment.

Landstar markets its freight transportation services and supply chain solutions primarily through independent commission sales agents who 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, railroads and independent warehouse capacity providers (Warehouse Capacity Owners). The Company has contracts with all of the Class 1 domestic and Canadian railroads and certain short-line railroads and contracts with domestic and international airlines and ocean lines. Through this network of agents and capacity providers linked together by Landstar s technological applications, Landstar operates a transportation services and supply chain solutions business primarily throughout North America with revenue of approximately $2.0 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 transportation services and supply chain solutions. Transportation services offered by the Company include truckload and less-than-truckload transportation, rail intermodal, air cargo, ocean cargo, expedited ground and air delivery of time-critical freight, heavy-haul/specialized, U.S.-Canada and U.S.-Mexico cross-border, project cargo and customs brokerage. Supply chain solutions are based on advanced technology solutions offered by the Company and include integrated multi-modal solutions, outsourced logistics, supply chain engineering and warehousing. Also, supply chain solutions can be delivered through a software-as-a-service model. Industries serviced by the transportation logistics segment include automotive products, paper, lumber and building products, metals, chemicals, foodstuffs, heavy machinery, retail, electronics, ammunition and explosives and military hardware. In addition, the transportation logistics segment provides transportation services to other transportation companies, including logistics and less-than-truckload service providers. Each of the independent commission sales agents has the opportunity to market all of the services provided by the transportation logistics segment. Freight transportation services are typically charged to customers on a per shipment basis for the physical transportation of freight. Supply chain solution customers are generally charged fees for the services provided. Revenue recognized by the transportation logistics segment when providing capacity to customers to haul their freight is referred to herein as transportation services revenue and revenue for freight management services recognized on a fee-for-service basis is referred to herein as transportation management fees. During the thirty nine weeks ended September 25, 2010, transportation services revenue hauled by BCO Independent Contractors, Truck Brokerage Carriers, rail intermodal, ocean cargo carriers and air cargo carriers represented 54%, 39%, 3%, 2%, and 1%, respectively, of the Company s transportation logistics segment revenue. Transportation management fees represented 1% of the Company s transportation logistics segment revenue in the thirty-nine-week period ended September 25, 2010.

The insurance segment is comprised of Signature Insurance Company, a wholly owned offshore insurance subsidiary, and Risk Management Claim Services, Inc. This segment provides risk and claims management services to certain of Landstar s operating subsidiaries. In addition, it reinsures certain risks of the Company s BCO Independent Contractors and provides certain property and casualty insurance directly to certain of Landstar s operating subsidiaries. Revenue, representing premiums on reinsurance programs provided to the Company s BCO Independent Contractors, at the insurance segment represented approximately 1% of the Company s total revenue for the thirty nine weeks ended September 25, 2010.

Changes in Financial Condition and Results of Operations

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

While customer demand, which is subject to overall economic conditions, ultimately drives increases or decreases in revenue, the Company primarily relies on its independent commission sales agents to establish customer relationships and generate revenue opportunities. Management s primary focus with respect to revenue growth is on revenue generated by independent commission sales agents who on an annual basis generate $1 million or more of Landstar revenue (Million Dollar Agents). Management believes future revenue growth is primarily dependent on its ability to increase both the revenue generated by Million Dollar Agents and the number of Million Dollar Agents through a combination of recruiting new agents and increasing the revenue opportunities generated by existing independent commission sales agents. During the 2009 fiscal year, 405 independent commission sales agents generated $1 million or more of Landstar s revenue and thus qualified as Million Dollar Agents. During the 2009 fiscal year, the average revenue generated by a Million Dollar Agent was $4,292,000 and revenue generated by Million Dollar Agents in the aggregate represented 87% of consolidated Landstar revenue. The Company had 1,341 and 1,403 agent locations at September 25, 2010 and September 26, 2009, respectively.

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

	Thirty Nine Weeks Ended		Thirteen Weeks Ended	
	September 25, 2010	**September 26, 2009**	**September 25, 2010**	**September 26, 2009**
Revenue generated through (in thousands):				
BCO Independent Contractors	$ 966,221	$ 840,391	$ 334,485	$ 289,726
Truck Brokerage Carriers	705,189	495,661	239,026	166,182
Rail intermodal	51,840	57,094	17,748	20,366
Ocean cargo carriers	34,045	25,459	13,210	7,941
Air cargo carriers	13,853	10,259	5,291	2,751
Other (1)	41,487	32,217	13,066	13,704
	$ 1,812,635	$ 1,461,081	$ 622,826	$ 500,670

Number of loads:

BCO Independent Contractors	624,270	561,840	203,500	196,840
Truck Brokerage Carriers	456,410	363,000	148,080	122,980
Rail intermodal	23,120	28,600	7,630	10,310
Ocean cargo carriers	4,930	3,920	1,820	1,330
Air cargo carriers	4,870	6,440	1,740	1,340
	1,113,600	963,800	362,770	332,800

	Thirty Nine Weeks Ended		Thirteen Weeks Ended	
	September 25, 2010	September 26, 2009	September 25, 2010	September 26, 2009
Revenue per load:				
BCO Independent Contractors	$ 1,548	$ 1,496	$ 1,644	$ 1,472
Truck Brokerage Carriers	1,545	1,365	1,614	1,351
Rail intermodal	2,242	1,996	2,326	1,975
Ocean cargo carriers	6,906	6,495	7,258	5,971
Air cargo carriers	2,845	1,593	3,041	2,053

(1) Includes premium revenue generated by the insurance segment and warehousing and transportation management fee revenue generated by the transportation logistics segment.

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

	September 25, 2010	September 26, 2009
BCO Independent Contractors	7,893	8,070
Truck Brokerage Carriers:		
Approved and active (1)	17,393	14,541
Other approved	9,490	10,576
	26,883	25,117
Total available truck capacity providers	34,776	33,187
Number of trucks provided by BCO Independent Contractors	8,481	8,655

(1)

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

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

Purchased transportation represents the amount a BCO Independent Contractor or other third party capacity provider is paid to haul freight. The amount of purchased transportation paid to a BCO Independent Contractor is primarily based on a contractually agreed-upon percentage of revenue generated by the haul. Purchased transportation paid to a Truck Brokerage Carrier is based on either a negotiated rate for each load hauled or a contractually agreed-upon rate. Purchased transportation paid to rail intermodal, air cargo or ocean cargo carriers is based on contractually agreed-upon fixed rates. Purchased transportation as a percentage of revenue for truck brokerage, rail intermodal and ocean cargo services is normally higher than that of BCO Independent Contractor and air cargo services. Purchased transportation is the largest component of costs and expenses and, on a consolidated basis, increases or decreases in proportion to the revenue generated through BCO Independent Contractors and other third party capacity providers, transportation management fees and revenue from the insurance segment. Purchased transportation as a percent of revenue also increases or decreases in relation to the general availability of truck brokerage capacity in the marketplace and the price of fuel on revenue hauled by Truck Brokerage Carriers. Purchased transportation costs are recognized upon the completion of freight delivery.

Commissions to agents are based on contractually agreed-upon percentages of revenue or gross profit, defined as revenue less the cost of purchased transportation, or gross profit less a contractually agreed upon percentage of revenue retained by Landstar. Commissions to agents as a percentage of consolidated revenue will vary directly with fluctuations in the percentage of consolidated revenue generated by the various modes of transportation, transportation management fees and the insurance segment and with changes in gross profit on services provided by Truck Brokerage Carriers, rail intermodal, air cargo and ocean cargo carriers. Commissions to agents are recognized upon the completion of freight delivery.

Revenue less the cost of purchased transportation and commissions to agents is referred to as net revenue. Net revenue divided by revenue is referred to as net revenue margin. In general, net revenue margin on revenue hauled by BCO Independent Contractors represents a fixed percentage of revenue due to the terms of the applicable contracts with the Company that provide for the payment of a fixed percentage of revenue to both the BCO Independent Contractors and independent commission sales agents. For revenue hauled by Truck Brokerage Carriers, net revenue margin is either fixed or variable as a percent of revenue, depending on the Company s contract with each individual independent commission sales agent. Under certain contracts with independent commission sales agents, the Company retains a fixed percentage of revenue and the agent retains the amount remaining less the cost of purchased transportation (the retention contracts). Net revenue margin on revenue hauled by rail intermodal, air cargo carriers, ocean cargo carriers and Truck Brokerage Carriers, other than under retention contracts, is variable in nature, as the Company s contracts with independent commission sales agents provide commissions to agents at a contractually agreed upon percentage of gross profit. Approximately 74% of the Company s revenue in the thirty-nine-week period ended September 25, 2010 had a fixed net revenue margin.

Maintenance costs for Company-provided trailing equipment, BCO Independent Contractor recruiting costs and bad debts from BCO Independent Contractors and independent commission sales agents are the largest components of other operating costs.

Potential liability associated with accidents in the trucking industry is severe and occurrences are unpredictable. For commercial trucking claims, Landstar retains liability up to $5,000,000 per occurrence. The Company also retains liability for each general liability claim up to $1,000,000, $250,000 for each workers compensation claim and up to $250,000 for each cargo claim. The Company s exposure to liability associated with accidents incurred by Truck Brokerage Carriers, rail intermodal capacity providers and air cargo and ocean cargo carriers who transport freight on behalf of the Company is reduced by various factors including the extent to which they maintain their own insurance coverage. A material increase in the frequency or severity of accidents, cargo claims or workers compensation claims or the unfavorable development of existing claims could be expected to materially adversely affect Landstar s results of operations.

Employee compensation and benefits account for over half of the Company s selling, general and administrative costs.

Depreciation and amortization primarily relate to depreciation of trailing equipment, amortization of intangible assets attributable to the Recent Acquisitions and management information services equipment.

The following table sets forth the percentage relationships of income and expense items to revenue for the periods indicated:

	Thirty Nine Weeks Ended		Thirteen Weeks Ended	
	September 25, 2010	**September 26, 2009**	**September 25, 2010**	**September 26, 2009**
Revenue	100.0%	100.0%	100.0%	100.0%
Investment income	0.1	0.1	0.1	0.1
Costs and expenses:				
Purchased transportation	76.3	74.6	76.2	74.4
Commissions to agents	7.4	8.1	7.6	7.9
Other operating costs	1.2	1.5	1.0	1.4
Insurance and claims	2.1	2.0	1.9	2.1
Selling, general and administrative	6.4	6.8	6.6	6.6
Depreciation and amortization	1.0	1.2	1.0	1.2
Total costs and expenses	94.4	94.2	94.3	93.6
Operating income	5.7	5.9	5.8	6.5
Interest and debt expense	0.1	0.2	0.2	0.2

Income before income taxes	5.6	5.7	5.6	6.3
Income taxes	2.1	2.2	2.1	2.3
Net income	3.5%	3.5%	3.5%	4.0%

THIRTY NINE WEEKS ENDED SEPTEMBER 25, 2010 COMPARED TO THIRTY NINE WEEKS ENDED SEPTEMBER 26, 2009

Revenue for the 2010 thirty-nine-week period was $1,812,635,000, an increase of $351,554,000, or 24.1%, compared to the 2009 thirty-nine-week period. Revenue increased $353,295,000, or 24.6%, at the transportation logistics segment. The increase in revenue at the transportation logistics segment was primarily attributable to a 16% increase in the number of loads hauled and a higher revenue per load of approximately 7%. The increase in the number of loads hauled was generally attributable to improved industrial production in the U.S.

during 2010 and the impact of market share gains from agents recruited during 2010 and 2009. The increase in revenue per load was generally attributable to increased demand and tightening capacity. Revenue hauled by BCO Independent Contractors, Truck Brokerage Carriers, air cargo carriers and ocean cargo carriers increased 15%, 42%, 35% and 34%, respectively, while revenue hauled by rail intermodal carriers decreased 9%. Included in the 2010 and 2009 thirty-nine-week periods was $15,592,000 and $4,764,000, respectively, of transportation management fees related to NLM. The number of loads in the 2010 period hauled by BCO Independent Contractors, Truck Brokerage Carriers and ocean cargo carriers increased 11%, 26% and 26%, respectively, compared to the 2009 period, while the number of loads hauled by rail intermodal carriers and air cargo carriers decreased 19% and 24%, respectively, over the same period. Revenue per load for loads hauled by BCO Independent Contractors, Truck Brokerage Carriers, rail intermodal carriers, air cargo carriers and ocean cargo carriers increased approximately 3%, 13%, 12%, 79% and 6%, respectively, compared to the 2009 period.

Investment income at the insurance segment was $1,069,000 and $954,000 in the 2010 and 2009 thirty-nine-week periods, respectively. The increase in investment income was primarily due to increased average investments held by the insurance segment in the 2010 period.

Purchased transportation was 76.3% and 74.6% of revenue in the 2010 and 2009 thirty-nine-week periods, respectively. The increase in purchased transportation as a percentage of revenue was primarily attributable to increased revenue hauled by Truck Brokerage Carriers, which tends to have a higher cost of purchased transportation, and increased rates of purchased transportation paid to Truck Brokerage Carriers. CommiEFF;padding:0in 0in 0in 0in;width:11.96%;">

Collateralized Mortgage Obligations 2.4%

DLJ Commercial Mortgage Corp.

7.340% due 10/10/2032

	1,500
	1,714
Federal Housing Administration	
7.430% due 06/01/2024	
	4,673
	4,694
Freddie Mac	
6.500% due 04/15/2018	
	300

	301
6.500% due 09/01/2028	
	976
	1,004
6.500% due 10/01/2028	
	475
	489
General Electric Capital Mortgage Services, Inc.	
6.000% due 04/25/2009	
	997
	996

9,198

Fannie Mae 150.7%

4.000% due 06/17/2018-

08/18/2018 (a)(g)

28,500

26,979

4.500% due 06/17/2018-

08/18/2018 (a)(g)	
	41,500
	40,516
5.000% due 03/18/2018-	
08/13/2033 (a)(g)	
	295,500
	290,844
5.500% due 11/13/2033 (b)	
	20,000
	19,822
6.000% due 05/01/2031	

	1,731
	1,748
6.500% due 12/01/2023- 06/01/2033 (a)	
	182,958
	188,242
7.000% due 08/01/2004- 08/01/2031 (a)	
	8,076

8,456

7.500% due 07/01/2026-

06/01/2031 (a)

5,325

5,653

582,260

Freddie Mac 26.7%

5.500% due 03/13/2033

	60,000
	59,484
6.000% due 04/01/2017- 08/13/2033 (a)	
	10,184
	10,512
6.500% due 08/01/2021- 08/01/2033 (a)	
	11,152

	11,483
7.000% due 10/01/2031	
	9,662
	10,102
7.500% due 06/01/2025-11/01/2030 (a)	
	10,404
	11,101
8.000% due 07/01/2024-	

08/01/2024 (a)

512

556

103,238

Government National Mortgage Association 24.5%

5.000% due 08/15/2033-

09/22/2033 (a)

	27,000
	25,874
5.500% due 03/20/2033	
	45,000
	44,768
6.500% due 06/15/2031	
	12,895
	13,344
7.000% due 02/15/2024- 06/15/2026 (a)	
	1,518
	1,597

7.500% due 02/15/2006- 02/15/2028 (a)	7,844
	8,330
8.000% due 06/15/2016- 05/15/2022 (a)	677
	738
8.500% due 10/15/2016-	

04/15/2023 (a)

46

49

94,700

Total Mortgage-Backed Securities

789,396

(Cost $805,761)

SOVEREIGN ISSUES 17.2%

Banque Centrale De Tunisia

7.375% due 04/25/2012

	2,000
	2,195
Petroliam Nasional Berhad (Petronas)	
7.625% due 10/15/2026	
	2,300
	2,459
Republic of Brazil	
11.500% due 03/12/2008	
	2,500
	2,581

10.125% due 05/15/2027	
	3,038
	2,430
12.250% due 03/06/2030	
	9,580
	8,885
11.000% due 08/17/2040	
	2,750
	2,338
Republic of Chile	
7.125% due 01/11/2012	
	2,000

	2,205
Republic of Ecuador	
12.000% due 11/15/2012	
	8,000
	6,392
6.000% due 08/15/2030 (c)	
	212
	125
Republic of Panama	

8.250% due 04/22/2008	
	2,000
	2,125
9.375% due 07/23/2012	
	3,325
	3,579
2.250% due 07/17/2016 (b)	
	1,919
	1,571
Republic of Peru	
9.125% due 02/21/2012	
	10,000

	10,375
Russian Federation	
11.000% due 07/24/2018	
	2,680
	3,519
12.750% due 06/24/2028 (c)	
	3,227
	4,881
5.000% due 03/31/2030 (c)	
	4,437
	3,966

See accompanying notes

	Principal Amount (000s)		Value (000s)
United Mexican States			
8.625% due 03/12/2008	$	395	$ 469
9.875% due 02/01/2010		2,715	3,353
9.875% due 02/01/2010		2,465	3,063
Total Sovereign Issues			66,511
(Cost $56,514)			
FOREIGN CURRENCY-DENOMINATED ISSUES (h)(i) 2.1%			
United Mexican States			
7.375% due 07/06/2006	EC	6,440	7,984
Total Foreign Currency-Denominated Issues			7,984
(Cost $6,155)			
PURCHASED CALL OPTIONS 0.0%			
Eurodollar September Futures (CME)			
Strike @ 99.750 Exp. 09/15/2003	$	97,000	1
Total Purchased Call Options			1
(Cost $1)			
PURCHASED PUT OPTIONS 0.3%			
Eurodollar December Futures (CME)			
Strike @ 97.500 Exp. 12/15/2003		144,000	2
Fannie Mae (OTC)			
5.000% due 10/15/2033 Strike @ 88.531 Exp. 10/08/2003		75,000	39
Government National Mortgage Association (OTC)			
5.000% due 12/18/2033 Strike @ 77.000 Exp. 12/11/2003		40,000	5
U.S. Treasury Note September Futures (CBOT)			
Strike @ 111.000 Exp. 08/23/2003		21,500	326
Strike @ 110.000 Exp. 08/23/2003		80,000	862
Total Purchased Put Options			1,234
(Cost $312)			
SHORT-TERM INSTRUMENTS 8.2%			
Commercial Paper 6.7%			

Fannie Mae				
1.030% due 10/22/2003		3,000		2,993
1.055% due 10/29/2003		500		499
1.065% due 10/29/2003		22,400		22,342
				25,834
Repurchase Agreement 0.3%				
State Street Bank				
0.800% due 08/01/2003	$	1,299	$	1,299
(Dated 07/31/2003. Collateralized by Federal Home Loan Bank 1.300% due 06/31/2004 valued at $1,328. Repurchase proceeds are $1,299.)				
U.S. Treasury Bills 1.2%				
1.038% due 08/07/2003-08/14/2003 (a)(d)		4,635		4,633
Total Short-Term Instruments				31,766
(Cost $31,765)				
Total Investments 239.2%			**$**	**924,375**
(Cost $928,850)				
Written Options (e) 0.4%				**1,702**
(Premiums $2,535)				
Other Assets and Liabilities (Net) (139.6%)				**(539,640)**
Net Assets 100.0%			**$**	**386,437**

Notes to Schedule of Investments

(amounts in thousands except number of contracts):

(a) Securities are grouped by coupon or range of coupons and represent a range of maturities.

(b) Variable rate security. The rate listed is as of July 31, 2003.

(c) Securities purchased under Rule 144A of the 1933 Securities Act and, unless registered under the Act or exempt from registration, may only be sold to qualified institutional investors.

(d) Securities with an aggregate market value of $1,385 have been segregated with the custodian to cover margin requirements for the following open futures contracts at July 31, 2003:

Type	# of Contracts		Unrealized Appreciation/ (Depreciation)
Eurodollar June Futures (06/2005) - Long	80	$	(201)
Eurodollar December Futures (12/2004) - Long	64		10
United Kingdom 90 Day LIBOR Futures (03/2004) - Long	9		(3)
United Kingdom 90 Day LIBOR Futures (06/2004) - Long	47		(25)
United Kingdom 90 Day LIBOR Purchased Put Options Strike @ 93.000 (06/2004) - Long	77		0
		$	(219)

See accompanying notes

(e) Premiums received on written options:

Type	# of Contracts	Premium	Value
Call - CBOT U.S. Treasury Note September Futures			
Strike @ 116.000 Exp. 08/23/2003	370	$ 80	$ 29
Call - CBOT U.S. Treasury Note September Futures			
Strike @ 114.000 Exp. 08/23/2003	400	291	106
		$ 371	$ 135

Type	Notional Amount	Premium	Value
Put - OTC 3 Month LIBOR Interest Rate Swap			
Strike @6.000 Exp. 10/07/2004	$ 34,600	$ 1,100	$ 1,403
Call - OTC 3 Month LIBOR Interest Rate Swap			
Strike @ 4.000 Exp. 10/07/2004	34,600	868	138
Call - OTC 3 Month LIBOR Interest Rate Swap			
Strike @ 3.000 Exp. 11/12/2003	12,900	110	14
Call - OTC 3 Month LIBOR Interest Rate Swap			
Strike @ 3.000 Exp. 11/12/2003	11,900	86	12
		$ 2,164	$ 1,567

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* The Fund will pay a floating rate based on a 3-month LIBOR.

** The Fund will receive a floating rate based on a 3-month LIBOR.

(f) Short sales open at July 31, 2003 were as follows:

Type	Coupon (%)	Maturity		Par		Value		Proceeds
U.S. Treasury Notes	5.000	02/15/2011	$	62,400	$	65,871	$	66,945
Fannie Mae	4.500	08/18/2018		30,000		29,213		29,843
Fannie Mae	5.000	08/13/2033		72,000		68,850		69,851
Fannie Mae	5.000	09/15/2033		3,000		2,858		2,941
					$	166,792	$	169,580

(g) Security, or portion thereof, subject to financing transaction.

See accompanying notes

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(h) Foreign forward currency contracts outstanding at July 31, 2003:

Type	Currency	Principal Amount Covered by Contract	Settlement Month		Unrealized Appreciation		Unrealized (Depreciation)		Net Unrealized Appreciation/ (Depreciation)
Sell	BP	240	09/2003	$	4	$	0	$	4
Sell	EC	7,591	08/2003		187		0		187
Buy	EC	380	08/2003		0		(7)		(7)
				$	191	$	(7)	$	184

(i) Principal amount denoted in indicated currency:

BP - British Pound

EC - Euro

See accompanying notes

Notes to Financial Statements

July 31, 2003 *(Unaudited)*

1. General Information

The PIMCO Strategic Global Government Fund, Inc. (the Fund) commenced operations on February 24, 1994. The Fund is registered under the Investment Company Act of 1940 (the Act), as amended, as a closed-end, non-diversified investment management company. Shares of the Fund are traded on the New York Stock Exchange. The stock exchange symbol of the Fund is RCS.

2. Significant Accounting Policies

The following is a summary of significant accounting policies, which are consistently followed by the Fund in the preparation of its financial statements and in conformity with accounting principles generally accepted in the United States of America. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Security Valuation. Portfolio securities and other financial instruments for which market quotations are readily available are stated at market value. Market value is determined on the basis of last reported sales prices, or if no sales are reported, as is the case for most securities traded over-the-counter, the mean between representative bid and asked quotations obtained from a quotation reporting system or from established market makers. Fixed income securities, including those to be purchased under firm commitment agreements, are normally valued on the basis of quotes obtained from brokers and dealers or pricing services. Net asset value per share is determined as of 4:00 p.m., Eastern Time, no less frequently than every Thursday of each week (except where such Thursday is not a business day, then the first business day immediately succeeding such Thursday). Short-term investments which mature in sixty days or less are valued at amortized cost, which approximates market value. Certain fixed income securities for which daily market quotations are not readily available may be valued, pursuant to guidelines established by the Board of Directors, with reference to fixed income securities whose prices are more readily obtainable and whose durations are comparable to the securities being valued. Subject to the foregoing, other securities for which market quotations are not readily available are valued at fair value as determined in good faith by the Board of Directors.

Securities Transactions and Investment Income. Securities transactions are recorded as of the trade date. Securities purchased or sold on a when-issued or delayed delivery basis may be settled a month or more after the trade date. Securities purchased on a when-issued basis are subject to market value fluctuations during this period. On the commitment date of such purchases, the Fund designates specific assets with a value at least equal to the commitment, to be utilized to settle the commitment. Realized gains and losses from securities sold are recorded on the identified cost basis. Dividend income is recorded on the ex-dividend date, except certain dividends from foreign securities where the ex-dividend date may have passed, are recorded as soon as the Fund is informed of the ex-dividend date. Interest income, adjusted for the accretion of discounts and amortization of premiums, is recorded on the accrual basis. Paydown gains and losses on mortgage- and asset-backed securities are recorded as adjustments to interest income in the Statement of Operations.

Borrowing Under Mortgage Dollar Rolls and Forward Commitments. The Fund enters into dollar rolls in which the Fund sells securities for delivery in the current month and simultaneously contracts to repurchase substantially similar (same type, same or similar interest rate and maturity) securities on a specified future date. The difference between the selling price and the future purchase price is an adjustment to interest income in the Statement of Operations. During the roll period, the Fund forgoes principal and interest paid on the securities. The Fund accounts for dollar rolls as financing transactions. Dollar rolls are intended to enhance the Fund s yield by earning a spread between the yield on the underlying mortgage securities and short-term interest rates. At July 31, 2003, there were $218,240,293 in dollar roll commitments.

Leverage. The Fund is authorized to borrow funds and utilize leverage subject to certain limitations under the Act. The Fund s ability to leverage creates an opportunity for increased net income, but at the same time poses special risks. The use of leverage increases the overall duration risk of the Fund, and creates an increased sensitivity of the Fund to rising short-term interest rates. The use of leverage, which is generally the economic equivalent of borrowing to purchase securities, thus creates risks of greater volatility of the net asset value and market value of Fund shares. If the income from the securities purchased with borrowed funds is not sufficient to cover the cost of borrowing, the net income of the Fund will be less than if borrowing has not been used, reducing the amount available for distribution to shareholders.

Delayed Delivery Transactions. The Fund may purchase or sell securities on a when-issued or delayed delivery basis. These transactions involve a commitment by the Fund to purchase or sell securities for a predetermined price or yield, with payment and delivery taking place beyond the customary settlement period. When delayed delivery purchases are outstanding, the Fund will set aside and maintain until the settlement date in a segregated account, liquid assets in an amount sufficient to meet the purchase price. When purchasing a security on a delayed delivery basis, the Fund assumes the rights and risks of ownership of the security, including the risk of price and yield fluctuations, and takes such fluctuations into account when determining its net asset value. The Fund may dispose of or renegotiate a delayed delivery transaction after it is entered into, and may sell when-issued securities before they are delivered, which may result in a capital gain or loss. When the Fund has sold a security on a delayed delivery basis, the Fund does not participate in future gains and losses with respect to the security.

Dividends and Distributions to Shareholders. The Fund intends to distribute all or a portion of its net investment income monthly. Distributions, if any, of net realized short- or long-term capital gains will be distributed no less frequently than once each year. Income and capital gain distributions are determined in accordance with income tax regulations which may differ from accounting principles generally accepted in the United States of America. These differences are primarily due to differing treatments for such items as wash sales, foreign currency transactions, net operating losses and capital loss carryforwards.

Federal Income Taxes. The Fund intends to qualify as a regulated investment company under the Internal Revenue Code of 1986, as amended, and distribute all of its taxable income and net realized gains, if applicable, to shareholders. Accordingly, no provision for Federal income taxes has been made.

Foreign Currency. The accounting records of the Fund are maintained in U.S. dollars. The market values of foreign securities, currency holdings and other assets and liabilities are translated into U.S. dollars based on the current exchange rates each business day. Fluctuations in the value of these assets and liabilities resulting from changes in exchange rates are recorded as unrealized foreign currency gains or losses. Realized gains or losses and unrealized appreciation (depreciation) on investment securities and income and expenses are translated on the respective dates of such transactions. The effect of changes in foreign currency exchange rates on investments in securities are not segregated in the Statement of Operations from the effects of changes in market prices of those securities, but are included with the net realized and unrealized gain or loss on investment securities. Investing in securities of foreign companies and foreign governments involves special risks and considerations not typically associated with investing in U.S. companies and securities of the U.S. Government. These risks include revaluation of currencies and the risk of expropriation. Moreover, the markets for securities of many foreign companies and foreign governments may be less liquid and the prices of such securities may be more volatile than those of comparable U.S. companies and the U.S. Government.

Forward Currency Transactions. The Fund may enter into forward currency contracts and forward cross-currency contracts in connection with settling planned purchases or sales of securities or to hedge the currency exposure associated with some or all of the Fund s portfolio securities. A forward currency contract is an agreement between two parties to buy and sell a currency at a set price on a future date. The market value of a forward currency contract fluctuates with changes in forward currency exchange rates. Forward currency contracts are marked to market daily and the change in value is recorded by the Fund as an unrealized gain or loss. Realized gains or losses equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed are recorded upon delivery or receipt of the currency or, if a forward currency contract is offset by entering into another forward currency contract with the same broker, upon settlement of the net gain or loss. These contracts may involve market risk in excess of the unrealized gain or loss reflected in the Fund s Statement of Assets and Liabilities. In addition, the Fund could be exposed to risk if the counterparties are unable to meet the terms of the contracts or if the value of the currency changes unfavorably to the U.S. dollar.

Futures Contracts. The Fund is authorized to enter into futures contracts. The Fund may use futures contracts to manage its exposure to the securities markets or to movements in interest rates and currency values. The primary risks associated with the use of futures contracts are imperfect correlation between the change in market value of the securities held by the Fund and the prices of futures contracts, the possibility of an illiquid market, and the inability of the counterparty to meet the terms of the contract. Futures contracts are valued based upon their quoted daily settlement prices. Upon entering into a futures contract, the Fund may be required to deposit with its custodian, in a segregated account in the name of the futures broker, an amount of cash or U.S. Government and Agency Obligations in accordance with the initial margin requirements of the broker or exchange. Futures contracts are marked to market daily and an appropriate payable or receivable for the change in value (variation margin) is recorded by the Fund. Gains or losses are recognized but not considered realized until the contracts expire or are closed. Futures contracts involve, to varying degrees, risk of loss in excess of the variation margin disclosed in the Statement of Assets and Liabilities.

Options Contracts. The Fund may write call and put options on futures, securities or currencies it owns or in which it may invest. Writing put options tends to increase the Fund s exposure to the underlying instrument. Writing call options tends to decrease the Fund s exposure to the underlying instrument. When the Fund writes a call or put option, an amount equal to the premium received is recorded as a liability and subsequently marked to market to reflect the current value of the option written. Payments received or made, if any, from writing options with premiums to be determined on a future date are reflected as such on the Statement of Assets and Liabilities. Premiums received from writing options which expire are treated as realized gains. Premiums received from writing options which are exercised or closed are added to the proceeds or offset against amounts paid on the underlying future, security or currency transaction to determine the realized gain or loss. The Fund as a writer of an option has no control over whether the underlying future, security or currency may be sold (call) or purchased (put) and as a result bears the market risk of an unfavorable change in the price of the future, security or currency underlying the written option. There is the risk the Fund may not be able to enter into a closing transaction because of an illiquid market.

The Fund may also purchase put and call options. Purchasing call options tends to increase the Fund s exposure to the underlying instrument. Purchasing put options tends to decrease the Fund s exposure to the underlying instrument. The Fund pays a premium which is included in the Fund s Statement of Assets and Liabilities as an investment and subsequently marked to market to reflect the current value of the option. Premiums paid for purchasing options which expire are treated as realized losses. The risk associated with purchasing put and call options is limited to the premium paid. Premiums paid for purchasing options which are exercised or closed are added to the amounts paid or offset against the proceeds on the underlying future, security or currency transaction to determine the realized gain or loss.

Repurchase Agreements. The Fund may engage in repurchase transactions. Under the terms of a typical repurchase agreement, the Fund takes possession of an underlying debt obligation subject to an obligation of the seller to repurchase, and the Fund to resell, the obligation at an agreed-upon price and time. The market value of the collateral must be equal at all times to the total amount of the repurchase obligations, including interest. Generally, in the event of counterparty default, the Fund has the right to use the collateral to offset losses incurred.

Short Sales. The Fund has entered into short sales transactions during the fiscal year. A short sale is a transaction in which a Fund sells securities it does not own in anticipation of a decline in the market price of the securities. The Fund is obligated to deliver securities at the market price at the time the short position is closed. Possible losses from short sales may be unlimited, whereas losses from purchases cannot exceed the total amount invested.

Swap Agreements. The Fund may invest in swap agreements. A swap is an agreement to exchange the return generated by one instrument for the return generated by another instrument. The Fund may enter into interest rate, total return, forward swap spread lock and credit default swap agreements to manage its exposure to interest rates and credit risk. Interest rate swap agreements involve the exchange by the Fund with another party of their respective commitments to pay or receive interest, e.g., an exchange of floating rate payments for fixed rate payments with respect to a notional amount of principal. Total return swap agreements involve commitments to pay interest in exchange for a market-linked return, both based on notional amounts. To the extent the total return of the security or index underlying the transaction exceeds or falls short of the offsetting interest rate obligation, the Fund will receive a payment from or make a payment to the counterparty. Forward spread lock swap agreements involve commitments to pay or receive a settlement amount calculated as the difference between the swap spread and a fixed spread, multiplied by the notional amount times the duration of the swap. The swap spread is the difference between the benchmark swap rate (market rate) and the specific Treasury rate. In a credit default swap, one party makes a stream of payments to another party in exchange for the right to receive a specified return in the event of a default by a third party, typically corporate issues or sovereign issues of an emerging country, on its obligation. The Fund may use credit default swaps to provide a measure of protection against defaults of sovereign issuers (i.e., to reduce risk where the Fund owns or has exposure to the sovereign issuer) or to take an active long or short position with respect to the likelihood of a particular issuer s default. Swaps are marked to market daily based upon quotations from market makers and vendors and the change in value, if any, is recorded as unrealized gain or loss in the Statement of Operations. Payment received or made at the beginning of the measurement period are reflected as such on the Statement of Assets and Liabilities. A liquidation payment received or made at the termination of the swap is recorded as realized gain or loss in the Statement of Operations. Net periodic payments are included as part of miscellaneous income on the Statement of Operations. Entering into these agreements involves, to varying degrees, elements of credit, market and documentation risk in excess of the amounts recognized on the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreements may default on its obligation to perform or disagree as to the meaning of contractual terms in the agreements, and that there may be unfavorable changes in interest rates.

3. Fees, Expenses, and Related Party Transactions

Investment Advisory Fee. Pacific Investment Management Company LLC (PIMCO) is a majority-owned subsidiary of Allianz Dresdner Asset Management of America L.P., formerly, PIMCO Advisors L.P. and serves as investment adviser (the Adviser) to the Fund, pursuant to an investment advisory contract. The Adviser receives a monthly fee from the Fund at an annual rate of 0.85% based on average weekly net assets of the Fund during the month.

Administration Fee. PIMCO serves as administrator (the Administrator), and provides administrative services to the Fund for which it receives from the Fund a monthly administrative fee at an annual rate of 0.05% based on average weekly net assets of the Fund during the month.

Expenses. The Fund is responsible for the following expenses: (i) salaries and other compensation of any of the Fund s executive officers and employees who are not officers, directors, stockholders or employees of PIMCO or its subsidiaries or affiliates; (ii) taxes and governmental fees; (iii) brokerage fees and commissions and other portfolio transaction expenses; (iv) the costs of borrowing money, including interest expenses; (v) fees and expenses of the Directors who are not interested persons of PIMCO or the Fund (each an Independent Director), and any counsel retained exclusively for their benefit; (vi) printing expenses; (vii) legal fees; (viii) audit fees; (ix) custodian fees; (x) extraordinary expenses, including costs of litigation and indemnification expenses.

Each Independent Director receives from the Fund an annual retainer of $10,000, plus $2,000 for each regular meeting of the Board of Directors, $1,500 for each special meeting of the Board, and $1,000 for each committee meeting, and $2,000 for each meeting attended telephonically, plus reimbursement of related expenses.

4. Purchases and Sales of Securities

Purchases and sales of securities (excluding short-term investments) for the period ended July 31, 2003, were as follows (amounts in thousands):

U.S Government/Agency		Non-U.S. Government/Agency	
Purchases	Sales	Purchases	Sales

$	4,348,770	$	3,974,367	$	18,456	$	1,028	

Portfolio Turnover. A change in the securities held by the Fund is known as portfolio turnover. PIMCO manages the Fund without regard to restrictions on portfolio turnover. The use of certain derivative instruments with relatively short maturities may tend to exaggerate the portfolio turnover rate for the Fund. Trading in fixed income securities does not generally involve the payment of brokerage commissions, but does involve indirect transaction costs. The use of futures contracts may involve the payment of commissions to futures commission merchants. High portfolio turnover (e.g., greater than 100%) involves correspondingly greater expenses to the Fund, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestments in other securities. The higher the rate of portfolio turnover of the Fund, the higher these transaction costs borne by the Fund generally will be. Such sales may result in realization of taxable capital gains (including short-term capital gains which are generally taxed to shareholders at ordinary income tax rates).

The portfolio turnover rate of the Fund is calculated by dividing (a) the lesser of purchases or sales of portfolio securities for the particular fiscal year by (b) the monthly average of the value of the portfolio securities owned by the Fund during the particular fiscal year. In calculating the rate of portfolio turnover, all securities, including options, whose maturities or expiration dates at the time of acquisition were one year or less are excluded from both (a) and (b). Proceeds from short sales and assets used to cover short positions are included in the amounts of securities sold and purchased, respectively, during the year. Portfolio turnover rates for the Fund are set forth in the Financial Highlights section of the Annual and Semi-Annual Reports.

5. Transactions in Written Call and Put Options

Transactions in written call and put options were as follows (amounts in thousands):

		Premium
Balance at 01/31/2003	$	2,284
Sales		408
Closing Buys		(80)
Expirations		(77)
Balance at 07/31/2003	$	2,535

6. Federal Income Tax Matters

At July 31, 2003, the aggregate cost of investments was the same for federal income tax and financial statement purposes. The net unrealized appreciation (depreciation) of investments securities for federal income tax purposes were follows (amounts in thousands):

Aggregate Gross Unrealized Appreciation		Aggregate Gross Unrealized (Depreciation)		Net Unrealized Appreciation/ (Depreciation)	
$	15,866	$	(20,341)	$	(4,475)

Privacy Policy

Our Commitment to You

We consider customer privacy to be a fundamental aspect of our relationship with clients. We are committed to maintaining the confidentiality, integrity, and security of our current, prospective and former clients personal information. We have developed policies designed to protect this confidentiality, while allowing client needs to be served.

Obtaining Personal Information

In the course of providing you with products and services, we may obtain non-public personal information about you. This information may come from sources such as account applications and other forms, from other written, electronic or verbal correspondence, from your transactions, from your brokerage or financial advisory firm, financial adviser or consultant, and/or from information captured on our internet web sites.

Respecting Your Privacy

We do not disclose any personal or account information provided by you or gathered by us to non-affiliated third parties, except as required or permitted by law. As is common in the industry, non-affiliated companies may from time to time be used to provide certain services, such as preparing and mailing prospectuses, reports, account statements and other information, conducting research on client satisfaction, and gathering shareholder proxies. We may also retain non-affiliated companies to market our products and enter in joint marketing agreements with other companies. These companies may have access to your personal and account information, but are permitted to use the information solely to provide the specific service or as otherwise permitted by law. We may also provide your personal and account information to your brokerage or financial advisory firm and/or to your financial adviser or consultant.

Sharing Information with Third Parties

We do reserve the right to disclose or report personal information to non-affiliated third parties in limited circumstances where we believe in good faith that disclosure is required under law, to cooperate with regulators or law enforcement authorities, to protect our rights or property, or upon reasonable request by any mutual fund in which you have chosen to invest. In addition, we may disclose information about you or your accounts to a non-affiliated third party at your request or if you consent in writing to the disclosure.

Sharing Information with Affiliates

We may share client information with our affiliates in connection with servicing your account or to provide you with information about products and services that we believe may be of interest to you. The information we share may include, for example, your participation in our mutual funds or other investment programs, your ownership of certain types of accounts (such as IRAs), or other data about your accounts. Our affiliates, in turn, are not permitted to share your information with non-affiliated entities, except as required or permitted by law.

Implementation of Procedures

We take seriously the obligation to safeguard your non-public personal information. We have implemented procedures designed to restrict access to your non-public personal information to our personnel who need to know that information to provide products or services to you. To guard your non-public personal information, physical, electronic, and procedural safeguards are in place.

This Privacy Policy applies to the following entities: Allianz Dresdner Asset Management of America L.P., Pacific Investment Management Company LLC, PIMCO Equity Advisors, Cadence Capital Management, NFJ Investment Group, Parametric Portfolio Associates, PIMCO Advisors Distributors LLC, PIMCO Funds: Multi-Manager Series, PIMCO Funds: Pacific Investment Management Series, PIMCO Specialty Markets, PIMCO Commercial Mortgage Securities Trust, Inc., and PIMCO Strategic Global Government Fund, Inc.

Dividend Reinvestment Plan

What is the Dividend Reinvestment Plan for the Fund?

The Dividend Reinvestment Plan (the Plan) offers shareholders of the Fund an efficient and simple way to reinvest dividends and capital gains distributions, if any, in additional shares of the Fund. Each month, the Fund will distribute to shareholders, substantially all of its net investment income. The Fund expects to distribute at least annually any net realized long-term or short-term capital gains. EquiServe Trust Co., N.A. acts as Plan Agent for shareholders in administering the Plan.

Who can participate in the Plan?

All shareholders of the Fund may participate in the Plan by following the instructions for enrollment provided later in this section.

What does the Plan offer?

The Plan offers shareholders simple and convenient means to reinvest dividends and capital gains distributions in additional shares of the Fund.

How is the reinvestment of income dividends and capital gains distributions accomplished?

If you are a participant in the Plan, your dividends and capital gains distributions will be reinvested automatically for you, thereby increasing your holding in the Fund. If the Fund declares a dividend or capital gains distribution that is payable either in cash or in shares of the Fund, you will automatically receive shares of the Fund. If the market price of shares is equal to or exceeds the net asset value per share on the Valuation Date (as defined below), Plan participants will be issued shares valued at the net asset value most recently determined or, if net asset value is less than 95% of the then current market price, then at 95% of the market price.

If the market price is less than the net asset value on the Valuation Date, the Plan Agent will buy shares in the open market, on the New York Stock Exchange (NYSE) or elsewhere, for the participants accounts. If, following the commencement of the purchase and before the Plan Agent has completed its purchases, the market price exceeds the net asset value, the average per share purchase price paid by the Plan Agent may exceed the net asset value, resulting in the acquisition of fewer shares than if the dividend or capital gains distribution had been paid in shares issued by the Fund at net asset value. Additionally, if the market price exceeds the net asset value before the Plan Agent has completed its purchases, the Plan Agent is permitted to cease purchasing shares and the Fund may issue the remaining shares at a price equal to the greater of net asset value or 95% of the then current market price. In a case where the Plan Agent has terminated open market purchases and the Fund has issued the remaining shares, the number of shares received by the participant will be based on the weighted average of prices paid for shares purchased in the open market and the price at which the Fund issues the remaining shares. The Plan Agent will apply all cash received to purchase shares as soon as practicable after the payment date of the dividend or capital gains distribution, but in no event later than 30 days after that date, except when necessary to comply with applicable provisions of the federal securities laws.

The Valuation Date is the dividend or capital gains distribution payment date or, if that date is not a NYSE trading day, the immediately preceding trading day. All reinvestments are in full and fractional shares, carried to three decimal places.

Is there a cost to participate?

There is no direct charge to participants for reinvesting dividends and capital gains distributions, since the Plan Agent s fees are paid by the Fund. There are no brokerage charges for shares issued directly by the Fund. Whenever shares are purchased on the NYSE or elsewhere in connection with the reinvestment of dividends or capital gains distributions, each participant will pay a pro rata portion of brokerage commissions. Brokerage charges for purchasing shares through the Plan are expected to be less than the usual brokerage charges for individual transactions, because the Plan Agent will purchase shares for all participants in blocks, resulting in lower commissions for each individual participant.

What are the tax implications for participants?

You will receive tax information annually for your personal records to help you prepare your federal income tax return. The automatic reinvestment of dividends and capital gains distributions does not affect the tax characterization of the dividends and capital gains. Other questions should be directed to your tax adviser.

How do participating shareholders benefit?

You will build holdings in the Fund easily and automatically at reduced costs.

You will receive a detailed account statement from the Plan Agent, showing total dividends and distributions, dates of investments, shares acquired and price per share, and total shares of record held by you and by the Plan Agent for you. The proxy you receive in connection with the Fund s shareholder meetings will include shares purchased for you by the Plan Agent according to the Plan.

As long as you participate in the Plan, shares acquired through the Plan will be held for you in safekeeping in non-certificated form by EquiServe Trust Co., N.A., the Plan Agent. This convenience provides added protection against loss, theft or inadvertent destruction of certificates.

Whom should I contact for additional information?

If you hold shares in your own name, please address all notices, correspondence, questions or other communications regarding the Plan to:

PIMCO Strategic Global Government Fund, Inc.
c/o EquiServe Trust Co., N.A.
P.O. Box 43011
Providence, RI 02940-3011
Telephone: 800-426-5523

If your shares are not held in your name, you should contact your brokerage firm, bank or other nominee for more information.

How do I enroll in the Plan?

If you hold shares of the Fund in your own name, you are already enrolled in this Plan. Your reinvestments will begin with the first dividend after you purchase your shares. If your shares are held in the name of a brokerage firm, bank, or other nominee, you should contact your nominee to see if it will participate in the Plan on your behalf. If your nominee is unable to participate in the Plan on your behalf, you may want to request that your shares be registered in your name so that you can participate in the Plan.

Once enrolled in the Plan, may I withdraw from it?

You may withdraw from the Plan without penalty at any time by providing written notice to EquiServe Trust Co., N.A.. Elections to withdraw from the Plan will be effective for distributions with a Record Date of at least ten days after such elections are received by the Plan Agent.

If you withdraw, you will receive, without charge, a share certificate issued in your name for all full shares accumulated in your account from dividend and capital gains distributions, plus a check for any fractional shares based on market price.

Experience under the Plan may indicate that changes are desirable. Accordingly, either the Fund or the Plan Agent may amend or terminate the Plan. Participants will receive written notice at least 30 days before the effective date of any amendment. In the case of termination, participants will receive written notice at least 30 days before the record date of any dividend or capital gains distribution by the Fund.

2003 Shareholder Meeting Results ***(Unaudited)***

The Fund s annual shareholders meeting was held on June 20, 2003. The result of votes taken among shareholders on the proposals presented at the meeting are listed below.

Proposal 1

To elect one Director to the Board of Directors of the Fund.

	# of Shares Voted	% of Shares Voted
Brent R. Harris		
For	33,281,610	98.6%
Withheld	475,686	1.4%
Total	33,757,296	100.0%

Carter W. Dunlap, Jr., Francis E. Lundy, James M. Whitaker and Gregory S. Young continued in office as Directors.

OTHER INFORMATION

Directors and Officers

Brent R. Harris, *Chairman, President and Director*

Carter W. Dunlap, Jr., *Director*

Francis E. Lundy, *Director*

James M. Whitaker, *Vice Chairman and Director*

Gregory S. Young, *Director*

Garlin G. Flynn, *Secretary*

John P. Hardaway, *Treasurer*

Investment Manager and Administrator

Pacific Investment Management Company LLC

840 Newport Center Drive

Newport Beach, California 92660

Transfer Agent

EquiServe Trust Company, N.A.

P.O. Box 43011

Providence, Rhode Island 02940

Custodian

State Street Bank & Trust Co.

801 Pennsylvania Avenue

Kansas City, Missouri 64105

Legal Counsel

Ropes & Gray LLP

One International Place

Boston, Massachusetts 02110

Independent Auditors

PricewaterhouseCoopers LLP

1055 Broadway

Kansas City, Missouri 64105

PIMCO STRATEGIC GLOBAL GOVERNMENT FUND, INC.

This report, including the financial statements herein, is provided to the shareholders of PIMCO Strategic Global Government Fund, Inc. for their information. This is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in this report.

ITEM 2. CODE OF ETHICS. Not applicable.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT. Not applicable.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES. Not applicable.

ITEM 5 AUDIT COMMITTEE OF LISTED REGISTRANTS. Not applicable.

ITEM 6. [RESERVED]

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES. Not applicable.

ITEM 8. [RESERVED]

ITEM 9. CONTROLS AND PROCEDURES.

(a) The Chief Executive Officer and Chief Financial Officer have concluded that, to the best of their knowledge the design and operation of the registrant s disclosure controls and procedures (as defined in rule 30a-3(c) under the Investment Company Act of 1940) are effective to provide reasonable assurance that material information required to be disclosed by the Investment Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Commission's rules and forms, based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this report.

(b) There has been no changes in PIMCO Strategic Global Government Fund's, Inc. internal control over financial reporting that occurred during the Fund's most recent fiscal half-year (the Fund's second fiscal half-year in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

ITEM 10. EXHIBITS.

(a) Not applicable.

(b) EX-99.CERT - Section 302 Certifications (filed herewith).
EX-99.906CERT - Section 906 Certification (filed herewith).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant)	PIMCO Strategic Global Government Fund, Inc.
By (Signature and Title)	/s/ Brent R. Harris Brent R. Harris President, as CEO
Date	September 26, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)	/s/ Brent R. Harris Brent R. Harris President, as CEO
Date	September 26, 2003
By (Signature and Title)	/s/ John P. Hardaway John P. Hardaway Treasurer, as CFO
Date	September 26, 2003