

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2002.

☐ TRANSACTION REPORT PURSUANT SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from.....to.....

Commission file number: 1-15597

LANDSTAR, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of Incorporation or
organization)

86-0914051
(I.R.S. Employer Identification No.)

15825 N. 71st Street, Suite 205
Scottsdale, Arizona 85254
(480) 596-8400

(Address and telephone number of registrant's principal executive offices and
principal place of business)

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

Yes ☒

No ☐

State the number of shares outstanding of each of the Issuer's classes of common equity, as of the latest practicable date. 64,270,824 shares of common, \$.001 par value as of July 31, 2002.

LANDSTAR, INC.
FORM 10-QSB QUARTERLY REPORT

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LANDSTAR, INC.
PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS

	(unaudited) <u>June 30, 2002</u>	<u>December 31, 2001</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 13,801	\$ 1,608
Accounts receivable, net of allowances of \$329,905 at June 30, 2002	1,397,465	15,921
Receivable from related parties	266	-
Inventories	1,981,324	-
Prepaid and other assets	<u>139,863</u>	<u>129,667</u>
Total current assets	3,532,719	147,196
Property and equipment, net of accumulated depreciation	14,706,877	854,908
Other Assets:		
Deposit on future acquisition	-	1,000,000
Excess of cost over fair market value of net assets acquired	5,000,000	-
Technology rights, net of accumulated amortization of \$335,913 and \$299,598 at June 30, 2002 and December 31, 2001, respectively	<u>549,091</u>	<u>585,406</u>
Total other assets	<u>5,549,091</u>	<u>1,585,406</u>
Total assets	<u>\$ 23,788,687</u>	<u>\$ 2,587,510</u>
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current Liabilities:		
Note payable to individual	\$ -	\$ 225,807
Accounts payable and accrued expenses	6,063,941	1,017,783
Short-term line of credit	626,843	-
Current maturities of long-term debt	8,118,559	-
Advances from shareholder	4,641,611	2,986,329
Advances from related parties	<u>43,215</u>	<u>59,537</u>
Total current liabilities	19,494,169	4,289,456
Long-term debt, less current maturities	<u>10,348,228</u>	<u>-</u>
Total liabilities	29,842,397	4,289,456
Commitments and contingencies		
Shareholders' Deficit:		
Preferred stock, \$.01 par value; authorized 150,000,000 shares; 15,000,000 shares to be issued	150,000	-
Common stock, \$.001 par value; authorized, 500,000,000 shares; issued 63,570,824 and 58,505,284 at June 30, 2002 and December 31, 2001, respectively	63,570	58,505
Treasury stock, 101,000 shares as of June 30, 2002	(15,000)	-
Additional paid-in capital	10,474,466	7,939,031
Common stock subscriptions (600,000 shares at December 31, 2001)	-	150,000
Accumulated deficit	(16,750,622)	(9,872,790)
Accumulated other comprehensive income	<u>23,876</u>	<u>23,308</u>
Total shareholders' deficit	<u>(6,053,710)</u>	<u>(1,701,946)</u>
Total liabilities and shareholders' deficit	<u>\$ 23,788,687</u>	<u>\$ 2,587,510</u>

See notes to condensed consolidated financial statements

LANDSTAR, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Sales	\$2,377,703	\$ -	\$2,984,975	\$ -
Management fees	<u>-</u>	<u>330,000</u>	<u>220,000</u>	<u>660,000</u>
Total revenue	2,377,703	330,000	3,204,975	660,000
Cost of goods sold	<u>2,931,440</u>	<u>-</u>	<u>3,424,743</u>	<u>-</u>
Gross profit (loss)	(553,737)	330,000	(219,768)	660,000
Operating expenses:				
Research and development	149,819	32,229	222,796	83,442
Selling	36,325	-	62,943	-
General and administrative	<u>1,333,747</u>	<u>1,267,582</u>	<u>2,788,077</u>	<u>2,535,098</u>
Total operating expenses	<u>1,519,891</u>	<u>1,299,811</u>	<u>3,073,816</u>	<u>2,618,540</u>
Operating loss	(2,073,628)	(969,811)	(3,293,584)	(1,958,540)
Other income (expense):				
Interest income	449	47	808	95
Interest expense	(315,246)	(148)	(410,359)	(655)
Impairment of goodwill	(3,170,757)	-	(3,170,757)	-
Other expense	<u>-</u>	<u>-</u>	<u>(3,940)</u>	<u>-</u>
Total other income (expense)	<u>(3,485,554)</u>	<u>(101)</u>	<u>(3,584,248)</u>	<u>(560)</u>
Net loss	(5,559,182)	(969,912)	(6,877,832)	(1,959,100)
Translation adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,186</u>
Comprehensive loss	<u>\$(5,559,182)</u>	<u>\$(969,912)</u>	<u>\$(6,877,832)</u>	<u>\$(1,957,914)</u>
Net loss per share, basic and diluted	<u>\$(0.09)</u>	<u>\$(0.02)</u>	<u>\$(0.11)</u>	<u>\$(0.04)</u>
Weighted average common shares outstanding, basic and diluted	<u>63,570,824</u>	<u>46,352,984</u>	<u>61,650,324</u>	<u>45,336,438</u>

See notes to condensed consolidated financial statements.

LANDSTAR, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the six months ended June 30,	
	<u>2002</u>	<u>2001</u>
Net loss	\$(6,877,832)	\$ (1,959,100)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	439,422	71,629
Loss on disposition of fixed assets	246,517	-
Shares issued for wages	-	175,000
Write-off of business acquired for note payable	-	263,307
Write-off of goodwill due to impairment	3,170,757	-
Common shares issued for services	328,000	50,000
Other	(17,001)	7,607
Change in operating assets, net of business acquired:		
Trade receivables	(157,538)	(32,903)
Receivable from related party	(266)	-
Inventories	172,179	-
Prepaid expenses and other current assets	217,774	(279,418)
Accounts payable and accrued expenses	<u>(1,149,725)</u>	<u>(237,804)</u>
Net cash used in operating activities	(3,627,713)	(1,941,682)
Cash flows from investing activities:		
Capital expenditures	<u>(67,702)</u>	<u>(118,371)</u>
Net cash used in investing activities	(67,702)	(118,371)
Cash flows from financing activities:		
Net proceeds from revolving line of credit	272,420	-
Payments on long-term debt	(367,031)	(12,500)
Advances from shareholder, net of payments applied to managed company	3,844,540	1,773,901
Purchase of treasury shares	(15,000)	-
Proceeds from issuance of common stock and subscriptions	-	525,325
Net payments to related parties	<u>(27,321)</u>	<u>(245,293)</u>
Net cash provided by financing activities	<u>3,707,608</u>	<u>2,041,433</u>
Net increase in cash and cash equivalents	12,193	(18,620)
Cash and cash equivalents, beginning of period	<u>1,608</u>	<u>29,542</u>
Cash and cash equivalents, end of period	<u>\$ 13,801</u>	<u>\$ 10,922</u>

See notes to condensed consolidated financial statements.

LANDSTAR, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2001.

The unaudited condensed consolidated financial statements included herein reflect all adjustments (which include only normal recurring adjustments), which are, in the opinion of management, necessary to state fairly the results for the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of the operating results to be expected for any subsequent interim period or for the year ending December 31, 2002.

1. CERTAIN SIGNIFICANT ACCOUNTING POLICIES

The only revenues the Company had through December 31, 2001 were the management fees earned through a management agreement with PolyTek Rubber & Recycling, Inc. (PolyTek) during the 2001 year. Prior to 2001, the Company was considered a development stage entity and had no revenues. Effective February 28, 2002 the Company acquired all outstanding shares of stock of PolyTek. This acquisition is discussed in detail in Note 3. PolyTek is included in "the Company", effective at the time of its acquisition. The following accounting policies are additional policies that have been adopted along with the acquisition of PolyTek. Other accounting policies are described in the Company's Annual Report referred to in Note 1 above.

Property and Equipment

Property and equipment is recorded at cost, less accumulated depreciation. During the second quarter, property, plant and equipment were increased a net amount of \$2,484,089 based on an independent appraisal of the assets. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

The depreciation periods for the PolyTek assets are as follows:

Land Improvements	15 years
Buildings and Improvements	40 years
Machinery and Equipment	10 years
Transportation Equipment	5 years
Office Furniture and Equipment	5 to 10 years

Inventories and Recognition of Tire Collection Fees

Finished goods inventories are stated at the lower of cost (first-in, first-out method) or market. Work in process and finished goods inventories include materials, labor and allocated overhead.

The primary raw material used in the production of crumb rubber is used tires. PolyTek does not generally purchase this raw material, but instead collects tires under contracts with various counties in its area of operation. The Company receives tire collection fees under third party contracts, which are recorded as revenue upon the processing of tires into the plant.

Intangible Assets

Intangible assets of PolyTek are comprised of goodwill, which is the excess of the acquisition price over the value assigned to identifiable assets. During the second quarter, \$2,484,089 of goodwill was reclassified to fixed assets based on appraised values of the PolyTek assets acquired.

Liquidity and Capital Resources

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the regular course of business. At June 30, 2002, the Company has a working capital deficit of approximately \$16 million. In February 2002, the Company acquired PolyTek (see Note 3); however in the most recent year ended December 31, 2001, PolyTek incurred a net loss of approximately \$8.6 million. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern.

3. ACQUISITION OF POLYTEK RUBBER & RECYCLING, INC.

Effective February 28, 2002, the Company entered into an agreement to purchase all of the issued and outstanding shares of common and preferred stock of this company. The Company used the purchase method of accounting for this transaction. Operations of PolyTek Rubber & Recycling, Inc. have been consolidated with the Company as of March 1, 2002. The Company exchanged 10,000,000 shares of its common stock for the outstanding common stock of PolyTek. The Company will also exchange 15,000,000 shares of its preferred stock in exchange for (a) the issued and outstanding preferred shares of PolyTek, (b) \$3.7 million of PolyTek debt to the sole shareholder as of January 8, 2001 and (c) \$2,000,000 advanced to the Company in the first quarter of 2001. The consideration of common stock given in the merger is valued at \$1,000,000 based on the current stock sales value of the Company's common stock at the time of the acquisition. The preferred stock has been assigned a value of \$2,000,000 based on the value of the liability released. The preferred shares are Class C Acquisition Preferred Shares (CCAP Shares). They are not convertible to common shares, but do rank senior to the common shares as to distribution of assets upon voluntary or involuntary liquidation or dissolution. The CCAP Shares will have one vote per share in the approval of any sale or transfer of all or substantially all of the assets of the Queen Creek, Bristow and Chambersburg crumb rubber facilities.

The assets purchased included accounts receivable of \$1,224,000, inventory of \$2,154,000, other current assets of \$228,000 and net fixed assets of \$14,430,000. In conjunction with the agreement, the Company assumed accounts payable and accrued liabilities of \$6,550,000 and long-term debt of \$18,656,000. Approximately \$10.6 million of goodwill was initially recorded as a result of this transaction. During the second quarter, this figure was adjusted based on the independent valuation of the fixed assets acquired. The goodwill balance after this reclassification was approximately \$8.1 million. Also in the second quarter, because of continuing losses in the PolyTek divisions and the amount of time and money needed to turn profitable, management determined that the goodwill would not be recoverable and therefore took an impairment charge-off of approximately \$3,200,000. During the third quarter, the remaining \$5,000,000 of goodwill will be eliminated due to the voluntary reduction of loans payable owed to the former shareholder of PolyTek assumed by Landstar in the acquisition.

PolyTek Rubber & Recycling, Inc., an Arizona corporation, was established in July 1996. PolyTek and its subsidiaries operate in the rubber recycling industry and derive their revenue principally from the sale of crumb rubber produced in their manufacturing facilities in Arizona, Pennsylvania and Oklahoma to customers on 30 day terms. LandStar, Inc. wanted to secure a supply of crumb rubber that could be used in the continuing development and marketing of the de-vulcanized products. PolyTek offered that supply and has plants in strategic locations in the United States. PolyTek offers an excellent opportunity to turn profitable if adequate funding is obtained to upgrade the plants, and management of the Company feel they can do that and use the basic structure to grow the crumb rubber business in other parts of the country. There is an almost endless supply of tires to be used as the raw materials and the Company is paid to take those tires.

4. PROFORMA INFORMATION

The financial statements included in this report reflect only the activity of Landstar, Inc. prior to the PolyTek acquisition on February 28, 2002. The following presents proforma consolidated net revenue, net loss and per share information as if PolyTek had been owned since January 1, 2001.

	Periods ended June 30		
	Three months ended <u>2001</u>	Six months ended <u>2002</u>	Six months ended <u>2001</u>
Net revenues	\$3,490,399	\$4,181,079	\$7,136,652
Net loss	(2,725,457)	(8,089,583)	(5,014,967)
Net loss per share, basic and diluted	\$(0.06)	\$(0.13)	\$(.11)

5. INVENTORIES

Inventories at June 30, 2002 were composed of \$14,518 of raw materials, \$678,767 of work-in-process and \$1,288,037 of finished goods.

6. PROPERTY AND EQUIPMENT

The cost of property and equipment and the related accumulated depreciation at June 30, 2002 are as follows:

Land	\$ 698,000
Land Improvements	866,882
Building Improvements	4,174,333
Office and Building Improvements	30,108
Tire Collection Equipment	401,254
Factory Equipment	8,959,142
Office Furniture and Fixtures	406,488
Vehicles and Trailers	45,119
Construction in Progress	787,305
Appraised value in excess of book value	<u>2,484,089</u>
	18,852,720
Less: accumulated depreciation	<u>(4,145,843)</u>
	<u>\$14,706,877</u>

Depreciation and amortization expenses included in the Statements of Operations for the three months ended June 30, 2002 and 2001 were \$34,603 and \$42,064, respectively in general and administrative expenses and \$248,683 and \$0, respectively in cost of goods sold. The amounts included in the six months ended June 30, 2002 and 2001 were \$331,637 and \$0, respectively in cost of goods sold and \$71,570 and \$71,629, respectively in general and administrative expenses.

7. LONG-TERM DEBT

The Company's long-term debt consists of the following at June 30, 2002:

The Oklahoma Acquisition Note (a)	\$981,797
The Oklahoma Acquisition Capital Lease (b)	520,016
The Tennessee Note (c)	445,469
The Oklahoma Installment Lease (d)	683,717
The Pennsylvania Acquisition Note (e)	1,196,081
The Arizona Acquisition Note (f)	3,909,098

Shareholder Notes (g)	10,600,000
Note payable to financial institution from the Oklahoma Subsidiary; guaranteed by the Company, interest at 9.89%, due in monthly installments of \$1,788, including interest, through December 2006, collateralized by substantially all assets except land and building.	86,036
Capital lease payable, interest at approximately 13%, due in quarterly installments of \$2,613, including interest, through September 2003, collateralized by the associated equipment	11,219
Capital lease payable, interest at 10.67%, due in quarterly installments of \$7,499, including interest, through 2003, collateralized by the associated equipment.	33,354
	<u>18,466,787</u>
Less current maturities	<u>(8,118,559)</u>
	<u>\$10,348,228</u>

The future maturities of the Company's long-term debt are as follows:

<u>Years Ending December 31,</u>	
2002	\$ 1,921,291
2003	4,694,355
2004	2,629,278
2005	6,516,496
2006	728,125
Thereafter	<u>1,977,242</u>
	<u>\$18,466,787</u>

- (a) The Oklahoma Acquisition Note was assumed in connection with the purchase of the Oklahoma manufacturing facility. The note is collateralized by substantially all of the assets of the PolyTek Oklahoma Subsidiary. The note bears interest at prime plus 1.5% and is due in monthly installments of \$17,936, including interest, with the balance due in December 2006.
- (b) The Oklahoma Acquisition Capital Lease was also assumed in connection with the purchase of the Oklahoma manufacturing facility. The lease bears interest at 6.7% and is due in monthly installments of \$4,513, including interest, with the balance due in December 2017. The lease is collateralized by the land and building associated with the manufacturing facility.
- (c) The Tennessee Note bears interest at prime less 1.0% and is due in monthly installments of \$4,513, including interest, commencing in July 2000. The note matures June 2009. The note is collateralized by certain equipment.

The Tennessee Note contains restrictive covenants, including requirements for the Company to meet certain financial ratios. The Company is in violation, as they no longer maintain assets in Tennessee. As a result of the violation of these covenants, this obligation has been classified as a current liability.

- (d) On May 23, 2000, the Oklahoma Subsidiary entered into an installment lease with the holders of the Oklahoma Acquisition Note, consisting of a series of non-revolving draws under a collateralized credit agreement, for the purpose of financing the purchase and installation of operating machinery. The draws bear interest at prime plus 2% and are due in monthly payments of principal and interest through September 2005. The draws are unconditionally guaranteed by the Company and are collateralized by the associated machinery acquired. Additionally, the obligation is cross-collateralized with the Oklahoma Acquisition Note.

- (e) In connection with the acquisition of the Pennsylvania Subsidiary, PolyTek issued a note payable to NRI Pennsylvania representing \$2,500,000 deferred consideration (the "NRI Note"). The NRI Note is collateralized by a mortgage on certain real property as defined in the purchase agreement. The NRI Note is due in annual principal and interest installments of \$833,333 through May 1, 2003. Because the NRI Note contains no stated interest rate, the original stated principal of \$2,500,000 was discounted to approximately \$2,072,000 using a 10% imputed interest rate.
- (f) In connection with the acquisition of the Arizona operations in 1997, PolyTek issued a note payable and a security agreement for fixtures and equipment (the "Arizona Note"). The Arizona Note is collateralized by a Deed of Trust on certain property in Maricopa County, Arizona. The Arizona Note is due in annual principal installments \$1,325,000 through February 28, 2003. Interest is payable in quarterly installments with a base rate at LIBOR plus one percent per annum. Because the agreement includes the waiving of certain interest payments, the original stated principal of \$6,300,000 was discounted to \$5,823,890 using a 6.68% imputed interest rate.
- (g) PolyTek executed six individual notes on November 14, 2001 with the former owner of PolyTek. The notes in aggregate total \$10,600,000. The notes were issued for the advances made by the former owner during 2001. The notes call for installments on February 28, 2003 and 2004 of \$2,250,000 each, with a balloon payment due on February 28, 2005. Interest is calculated at six percent per annum and is payable quarterly. The notes are collateralized by the property, plant and equipment of the three plants. These notes will be reduced by \$5,000,000 in the third quarter due to the voluntary dismissal of the debt by the former owner of the PolyTek companies.

8. LINES OF CREDIT

On June 25, 2001, PolyTek entered into an accounts receivable factoring agreement with a financial institution. The agreement was initially for one month but was subsequently extended for two years. The financial institution purchases customer accounts receivables, at its option, for the Arizona, Pennsylvania and Oklahoma subsidiaries. The purchase is on a non-recourse basis except they do not bear the loss for customer disputes, discounts, credits, returns or other adjustments. The financial institution initially advances 70% of the amount of the invoice and the remainder, less fees, is advanced once the invoice is paid by the customer. The interest rate varies depending upon the age of the receivable at the time of payment. The agreement is collateralized by substantially all of the assets of the subsidiaries involved. There were no financial covenants related to this agreement.

The Company is reporting the factoring arrangement as a secured borrowing in accordance with FAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", since the factoring agreement allows the Company to repurchase receivables under certain circumstances.

As of June 30, 2002 the balance due the financial institution was \$626,843, collateralized by the factored receivables of \$1,163,910. During the months of March through June 2002, the Company paid various types of fees and interest under the factoring agreement that totaled \$277,796.

9. CONTINGENCIES AND COMMITMENTS

The Company leases office space from an entity affiliated with an officer and director of the Company for \$4,727 per month. The term of the lease is through December 2004. The Company also rents space for the pilot plant in Dayton, Ohio. This is a month-to-month rental.

The total approximate minimum rental commitments under non-cancelable leases at June 30, 2002 are as follows:

<u>Years Ending December 31,</u>	
2002	\$ 86,665
2003	167,814
2004	167,814
2005	100,103
2006	<u>226</u>
Total	<u>\$522,622</u>

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Quarterly Report contains forward-looking statements. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those reflected in such forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors That May Affect Future Results and Market Price of Stock". Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. The Company undertakes no obligation to revise or publicly release the results of any revision to those forward-looking statements. Readers should carefully review the risk factors described in other documents the Company files from time to time with the SEC, including its Annual Report on Form 10-KSB for the fiscal year ended December 31, 2001 and the Quarterly Reports on Form 10-QSB filed by the Company in fiscal year 2002.

RESULTS OF OPERATIONS

Six months ended June 30, 2002:

Unlike prior years when the Company was classified as a development stage company, starting January 8, 2001 the Company commenced the management of PolyTek Rubber & Recycling, Inc. and was paid \$110,000 per month in management fees. The first six months of 2001 reflects \$660,000 in management fees. With the purchase of PolyTek as of February 28, 2002, the results for the PolyTek facilities are included in the results of operations for the Company starting March 2002. Therefore, the Statements of Operations presents PolyTek only for the period of March through June in the 2002 results.

Sales generated by the Company were not enough to cover the expenses incurred by the Company in the first six months of 2002. Crumb rubber sales and tire collection fees from the three plants for the four-month period were \$2,984,975. Crumb rubber sales are lower this year compared to last year due to customers testing the market and at times locating alternative suppliers. Tire collection fees are reduced partially because the Company made the decision to reduce tire intake and work at reducing the stockpile at the Arizona facility. The Arizona plant is machined to produce crumb for the asphalt rubber industry, which traditionally has the highest volume in the May to October time frame. The Oklahoma plant normally relies on the sports surfacing and playground markets, which again have the largest part of their business when the weather is warmest, May through September.

Research and development expenses for the six months were \$222,796, which is double the same period in the prior year. The increase was not unexpected. This expense increased as the Company has returned to the retesting and marketing of the de-vulcanized rubber products after an absence in working and promoting this product. In 2001, the Company had placed the de-vulcanization work on a slower mode as efforts were being directed towards the crumb rubber business, which included the management of PolyTek. In 2002, the Company is re-emphasizing the devulcanization process and products.

The selling expenses for the six months in 2002 relate to the sales force employed by the PolyTek companies and the asphalt rubber division.

General and administrative expenses for the six months were approximately \$2.75 million compared to \$2.5 million for the same period of 2001. \$866,000 of these expenses related to the PolyTek companies and the remaining \$1.89 million is for traditional LandStar entities. Therefore, the LandStar expenses decreased by approximately \$620,000 in the first six months of 2002 compared to the same period of 2001. \$250,000 of the decrease is attributable to the write-off in 2001 of the acquisition of Rubber Recovery, Ltd. Travel expenses decreased \$350,000, professional fees and consulting decreased \$283,000 and wages and benefits decreased \$124,000 in the first six months of 2002 compared to the same time period of 2001. These cost reductions were partially offset by \$326,400 of expenses relating to the value assigned to the final installment of share issuance given to the officers and directors as part of their employment and directorship agreements in the first quarter of 2002. There are no other known grants to be given. The non-employee directors receive a share award each year for their involvement on the Board of Directors. Awards are valued as of the date of grant and that value is an expense to the Company. There was no comparable expense in the first six months of 2001. This is also a non-cash expense. If an adjustment is made for this expense item, like expenses for LandStar corporate actually decreased by \$946,000 in a comparison of six-month periods.

The Company has not secured funding for the asphalt rubber division. The funds would be used to build and acquire the required mixing and application machinery needed to operate a complete asphalt rubber company. Their wages and expenses in the six months were \$242,257 with no offsetting revenue.

Company management reduced goodwill value due to the continuing losses at the PolyTek companies and the amount of time and money needed to turn two of the plants profitable. The impairment recorded in the second quarter was \$3,170,757. During the third quarter, goodwill will be further reduced by \$5,000,000 due to the voluntary reduction of the debt, by the former owner of PolyTek that was acquired in the acquisition of the PolyTek companies.

The Company has made improvements in its spending for the six months. Even with the improvements in cost and spending controls, the expense level cannot continue unless another revenue stream is brought on that can absorb some of the corporate overhead. If not, the expenses will need to be reduced further. Management is trying also to remove the seasonality of the crumb rubber business by looking at non-seasonal industries to sell into and to expand the volume already sold into those markets.

The translation adjustment relates to the currency change with the Canadian subsidiary.

Three months ended June 30, 2002:

The statements for the three months ending June 30, 2002 have the PolyTek entities consolidated while the same period in 2001 does not.

The only revenue in 2001 was the management fee earned by LandStar for the management of the PolyTek operations. In 2002 the revenue for the three months relates to the sale of crumb rubber and the tire collection fees at the three operating plants.

Cost of goods sold for the three months is the cost related to the production of the crumbing business and the tire collection costs at the three plants. Again, there were no comparable costs in 2001.

Research and development costs for the quarter were \$149,819 compared to \$32,229 for the same period of 2001. This is due to management's decision at the end of the first quarter 2002 to revitalize the work concerning devulcanization. In 2001, the devulcanization process was not given as much attention due to management's responsibilities to the management of the crumb rubber plants.

Selling expenses for the three months relate to the sales efforts at the PolyTek entities and also the asphalt rubber division. PolyTek was not consolidated in 2001.

General and administrative expenses for the second quarter of 2002 increased \$66,165 from the same period of 2001. The 2002 figure includes \$675,777 relating to the PolyTek companies while the 2001 period had no expenses relating to PolyTek. Therefore, the LandStar related general and administrative expenses decreased from \$1,267,582 in the second quarter 2001 to \$657,970 in the same period of 2002, or a total decrease of approximately \$610,000. Travel decreased \$116,000, wages and benefits decreased \$224,000 and consulting and professional fees decreased in excess of \$100,000. Management continues to reduce costs wherever possible.

Interest expenses increased from \$148 in 2001 to \$315,246 in the second quarter of 2002. LandStar, Inc. had no debt and the acquisition of PolyTek brought with it the debt on the facilities plus the debt since added relating to funds received from the former owner of PolyTek.

Company management reduced goodwill value due to the continuing losses at the PolyTek companies and the amount of time and money needed to turn two of the plants profitable. The impairment recorded in the second quarter was \$3,170,757. During the third quarter, goodwill will be further reduced by \$5,000,000 due to the voluntary reduction of the debt, by the former owner of PolyTek that was acquired in the acquisition of the PolyTek companies.

LIQUIDITY AND FINANCIAL RESOURCES

The primary source of liquidity for the Company continues to be advances from a shareholder of the Company and former owner of PolyTek. Funds were mainly utilized for working capital. During the first six months of 2002, this person injected approximately fifty percent of the financial sources of the Company. The remaining fifty percent came from the financing of the receivables.

Management has had a difficult time securing traditional funding for the expansion of the business as well as the ongoing operation due to the results of LandStar and PolyTek and also because of the general condition of the financing market. Financing is more difficult to come by with the failures of the dot com companies and the September 11 occurrences. The current market conditions are also a deterrent. Financial companies are assessing where they stand with certain portfolios and are not as active.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards No. 141, *Business Combinations* ("SFAS 141"), and No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for under the purchase method. For all business combinations for which the date of acquisition is after June 30, 2001, SFAS 141 also establishes specific criteria for the recognition of intangible assets separately from goodwill and requires unallocated negative goodwill to be written off immediately as an extraordinary gain, rather than deferred and amortized. SFAS 142 changes the accounting for goodwill and other intangible assets after an acquisition. The most significant changes made by SFAS 142 are: 1) goodwill and intangible assets with indefinite lives will no longer be amortized; 2) goodwill and intangible assets with indefinite lives must be tested for impairment at least annually; and 3) the amortization period for intangible assets with finite lives will no longer be limited to forty years. The Company believes that the adoption of these statements may have a material effect on its financial position and results of operations, beginning in 2002.

In June 2001, the FASB also approved for issuance Statements of Financial Accounting Standards No. SFAS 143 ("SFAS 143"), *Asset Retirement Obligations*. SFAS 143 establishes accounting requirements for retirement obligations associated with tangible long-lived assets, including 1) the timing of the liability recognition, 2) initial measurement of the liability, 3) allocation of asset retirement cost to expense, 4) subsequent measurement of the liability and 5) financial statement disclosures. SFAS 143 requires that an asset retirement cost should be capitalized as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. The Company will adopt the statement effective no later than January 1, 2003, as required. The transition adjustment resulting from the adoption of SFAS 143 will be reported as a cumulative effect of a change in accounting principle. At this time, the Company does not

believe that the adoption of this statement will have a material effect on its financial position, results of operations, or cash flows.

In October 2001, the FASB also approved Statements of Financial Accounting Standards No. 144 ("SFAS 144"), *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS 144 replaces SFAS 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*. The new accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30, *Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business*, for the disposal of segments of a business. SFAS 143 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of SFAS 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. At this time, the Company does not believe the adoption will have a material effect on its financial position, results of operations, or cash flows.

SUBSEQUENT EVENTS

On September 5, 2002 the Company signed an investment agreement providing for the investment of \$3,300,000 into the Company. \$1,240,000 of this amount was funded prior to the date of the agreement based on certain assurances. Security for the investment is the three production facilities in the event of default. The Investor will be issued 10,000,000 shares of the Company's common stock

The Company will also convert, in the third quarter, approximately \$5,000,000 of advances from one shareholder into 10,000,000 shares of the Company's common stock. The Company will also exchange the 15,000,000 preferred shares into an equal number of common shares of the Company's stock.

ITEM 3. CONTROLS AND PROCEDURES

Based upon their review performed within 90 days of the filing date of this document, the Chief Executive Officer and the Chief Financial Officer have concluded that the company's disclosure controls and procedures are effective. There have been no significant changes in these controls within the reporting period.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company, as well as PolyTek Rubber and Recycling, Inc., PolyTek Southwest, Inc., PolyTek Oklahoma, Inc. and Polytek Michigan, Inc., was sued by Specialty Loaders, Inc. Specialty Loaders is a trucking company that did hauling for PolyTek and their case contends they are entitled to recover the sum of \$723,962. The Company has settled this lawsuit subsequent to the end of this quarter with no cash payment required: product and excess machinery are being transferred as well as our agreement to receive tires from Specialty for a one year period. These tires will be processed into product that the Company will ultimately sale. The Company estimates the final settlement to be valued at \$476,843. The Company believes that this is a fair and appropriate conclusion to the disagreement between the parties and more closely reflects the value of the services provided by Specialty.

PolyTek has filed a claim against Agencies International, Inc. Agencies International was paid \$314,627 in insurance premiums between August 1999 and September 2000 to bind insurance coverage with the Highlands Insurance Group. Coverage was never bound and PolyTek has filed claim for return of the premiums. Management believes PolyTek has a reasonable chance of prevailing on the merits of the case.

The Company has other ongoing lawsuits, the results of which are not expected to have a material adverse effect on the operations of the Company.

ITEM 2. CHANGES IN SECURITIES

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6(a). EXHIBITS

Not applicable

ITEM 6(b). REPORTS ON FORM 8-K

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunder duly authorized.

Date: September 9, 2002

s/n/s D. Elroy Fimrite

D. Elroy Fimrite - Chairman of the Board,
President and Chief Executive Officer

s/n/s Michael F. Jones

Michael F. Jones - Vice President and
Chief Financial Officer

CERTIFICATIONS

I, D. Elroy Fimrite, the Chief Executive Officer, President and Chairman of the Board of LandStar, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of LandStar, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have;
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of the date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions);
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

September 9, 2002

s/n/s D. Elroy Fimrite
Chief Executive Officer, President and
Chairman of the Board

CERTIFICATIONS

I, Michael F. Jones, the Vice President and Chief Financial Officer of LandStar, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of LandStar, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have;
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of the date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions);
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

September 9, 2002

s/n/s Michael F. Jones
Vice President and Chief Financial Officer