

LANDSTAR SYSTEM INC  
Form 10-K  
February 21, 2013  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Fiscal Year Ended December 29, 2012

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-21238

**Landstar System, Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction of*  
  
*incorporation or organization)*  
**13410 Sutton Park Drive South**  
**Jacksonville, Florida**  
*(Address of principal executive offices)*

**06-1313069**  
*(I.R.S. Employer*  
  
*Identification No.)*  
**32224**  
*(Zip Code)*

**(904) 398-9400**

**(Registrant's telephone number, including area code)**

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

# Edgar Filing: LANDSTAR SYSTEM INC - Form 10-K

| <b>Title of Each Class</b>            | <b>Name of Exchange on Which Registered</b> |
|---------------------------------------|---|
| <b>Common Stock, \$0.01 Par Value</b> | <b>The NASDAQ Stock Market, Inc.</b>        |

**Securities Registered Pursuant to Section 12(g) of the Act:**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically 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  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the voting stock held by non-affiliates of the registrant was \$2,392,435,000 (based on the per share closing price on June 30, 2012, the last business day of the Company's second fiscal quarter, as reported on the NASDAQ Global Select Market). In making this calculation, the registrant has assumed, without admitting for any purpose, that all directors and executive officers of the registrant, and no other persons, are affiliates.

The number of shares of the registrant's common stock, par value \$0.01 per share (the "Common Stock"), outstanding as of the close of business on January 25, 2013 was 46,494,114.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following document are incorporated by reference in this Form 10-K as indicated herein:

| <b>Document</b>   | <b>Part of 10-K<br/>Into Which<br/>Incorporated</b> |
|---|---|
| Proxy Statement relating to Landstar System, Inc.'s Annual Meeting of Stockholders scheduled to be held on May 23, 2013 | Part III  |

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**LANDSTAR SYSTEM, INC.**  
**2012 ANNUAL REPORT ON FORM 10-K**

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**PART I**

**Item 1. Business**  
**General**

Landstar System, Inc. was incorporated in January 1991 under the laws of the State of Delaware. It acquired all of the capital stock of its predecessor, Landstar System Holdings, Inc. ( LSHI ) on March 28, 1991. Landstar System, Inc. has been a publicly held company since its initial public offering in March 1993. LSHI owns directly or indirectly all of the common stock of Landstar Ranger, Inc. ( Landstar Ranger ), Landstar Inway, Inc. ( Landstar Inway ), Landstar Ligon, Inc. ( Landstar Ligon ), Landstar Gemini, Inc. ( Landstar Gemini ), Landstar Transportation Logistics, Inc. ( Landstar Transportation Logistics ), Landstar Global Logistics, Inc. ( Landstar Global Logistics ), Landstar Express America, Inc. ( Landstar Express America ), Landstar Canada Holdings, Inc. ( LCHI ), Landstar Canada, Inc. ( Landstar Canada ), Landstar Contractor Financing, Inc. ( LCFI ), Risk Management Claim Services, Inc. ( RMCS ), Landstar Supply Chain Solutions, Inc. ( LSCS ), Landstar Supply Chain Solutions LLC ( LSCSLLC ) and Signature Insurance Company ( Signature ). Landstar Ranger, Landstar Inway, Landstar Ligon, Landstar Gemini, Landstar Transportation Logistics, Landstar Global Logistics, Landstar Express America, LSCS, LSCSLLC and Landstar Canada are collectively herein referred to as Landstar s Operating Subsidiaries. Landstar System, Inc., LSHI, LCFI, RMCS, LCHI, Signature and the Operating Subsidiaries are collectively referred to herein as Landstar or the Company, unless the context otherwise requires. The Company s principal executive offices are located at 13410 Sutton Park Drive South, Jacksonville, Florida 32224 and its telephone number is (904) 398-9400. The Company makes available free of charge through its website its annual report on Form 10-K, quarterly reports on Form 10-Q, proxy and current reports on Form 8-K as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission ( SEC ). The Company s website is www.landstar.com. The SEC maintains a website at <http://www.sec.gov> that contains the Company s current and periodic reports, proxy and information statements and other information filed electronically with the SEC.

**Description of Business**

Landstar 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.

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 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 ). Through this network of agents and capacity providers linked together by Landstar s information technology systems, Landstar operates a transportation services and supply chain solutions business primarily throughout North America with revenue of \$2.8 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.

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***Transportation Logistics 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 utilizing intellectual property that may be owned by the Company or licensed from third parties. Such solutions as offered by the Company may include integrated multi-modal solutions, outsourced logistics, supply chain engineering and warehousing. Industries serviced by the transportation logistics segment include automotive products, lumber and building products, metals, chemicals, foodstuffs, heavy machinery, retail, electronics, ammunition and explosives and military equipment. In addition, the transportation logistics segment provides transportation services to other transportation companies, including logistics and less-than-truckload service providers. Each of the Company's 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 solutions 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. See Notes to Consolidated Financial Statements for the amount of revenue from external customers, measure of profit and total assets attributable to the transportation logistics segment for the last three fiscal years.

***Truck Services.*** The transportation logistics segment's truck transportation services include a full array of truckload transportation for a wide range of commodities, much of which are transported over irregular or non-repetitive routes, and, to a lesser degree, less-than-truckload transportation services. The Company utilizes a broad assortment of equipment, including dry and specialty vans of various sizes, unsided trailers (including flatbeds, drop decks and light specialty trailers), temperature-controlled vans and containers. Available truck transportation services also include short-to-long haul movement of containers by truck and expedited ground and dedicated power-only truck capacity. During fiscal year 2012, revenue hauled by BCO Independent Contractors and Truck Brokerage Carriers was 49% and 43%, respectively, of total revenue. The Company's truck services contributed 92% of total revenue in each of fiscal year 2012, 2011 and 2010.

***Rail Intermodal Services.*** The transportation logistics segment has contracts with Class 1 domestic and Canadian railroads, certain short-line railroads and most major asset-based intermodal equipment providers, including agreements with stacktrain operators and container and trailing equipment companies. In addition, the transportation logistics segment has contracts with a vast network of local trucking companies that handle pick-up and delivery of rail freight. These contracts provide the transportation logistics segment the ability to transport freight via rail throughout the United States, Canada and Mexico. The transportation logistics segment's rail intermodal service capabilities include trailer on flat car, container on flat car, box car and railcar. The transportation logistics segment's rail intermodal services contributed 3% of total revenue in each of fiscal year 2012, 2011 and 2010.

***Air and Ocean Services.*** The transportation logistics segment has contracts with domestic and international airlines and ocean lines. These contracts give the transportation logistics segment the capability to provide domestic and international air services and international ocean services to its customers. The transportation logistics segment executes international freight transportation as an International Air Transport Association (IATA) certified Indirect Air Carrier (IAC) and Federal Maritime Commission (FMC) licensed non-vessel operating common carrier (NVOCC). The transportation logistics segment also provides international freight transportation solutions as a licensed freight forwarder. Through its network of independent commission sales agents and relationships within a global network of foreign freight forwarders, the transportation logistics segment provides efficient and cost effective door-to-door transportation to most points in the world for a vast

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array of cargo types such as over-sized break bulk, consolidations, full container loads and refrigerated. The transportation logistics segment's air and ocean services contributed 3% of total revenue in each of fiscal year 2012, 2011 and 2010.

*Supply Chain Services.* The transportation logistics segment offers customers technology-based supply chain solutions and other value-added services on a fee-for-service basis and these services are also often provided in conjunction with the Company's transportation service offerings. Service capabilities include logistics order management, shipment planning and optimization, rate management, transportation sourcing, in-transit visibility and shipment execution. The transportation logistics segment also offers warehousing solutions that provide customers with nationwide access to available warehouse capacity utilizing a network of independently owned and operated regional warehouse facilities without Landstar owning or leasing facilities or hiring employees to work at warehouses. The transportation logistics segment's transportation management fee services contributed 1% of total revenue in each of fiscal year 2012, 2011 and 2010.

### ***Insurance Segment***

The insurance segment is comprised of Signature, a wholly owned offshore insurance subsidiary, and RMCS. This segment provides risk and claims management services to certain of Landstar's Operating Subsidiaries. In addition, it reinsures certain risks of the Company's BCO Independent Contractors and provides certain property and casualty insurance directly to certain of Landstar's Operating Subsidiaries. Revenue at the insurance segment represents reinsurance premiums from third party insurance companies that provide insurance programs to BCO Independent Contractors where all or a portion of the risk of loss is borne by the Company. Revenue at the insurance segment represented approximately 1% of the Company's total revenue in each of fiscal year 2012, 2011 and 2010. See Notes to Consolidated Financial Statements for the amount of revenue from external customers, measure of profit and total assets attributable to the insurance segment for the last three fiscal years.

### **Factors Significant to the Company's Operations**

Management believes the following factors are particularly significant to the Company's operations:

#### ***Agent Network***

The Company's primary day-to-day contact with its customers is through its network of independent commission sales agents and, to a lesser extent, through employees of the Company. The typical Landstar independent commission sales agent maintains a relationship with a number of shippers and services these shippers utilizing the Company's network of information technology systems and the various modes of transportation made available through the Company's network of third party capacity providers. The Company provides assistance to the agents in developing additional relationships with shippers and enhancing agent and Company relationships with larger shippers through the Company's field employees, located throughout the United States and, to a lesser degree, in Canada. The Operating Subsidiaries emphasize programs to support the agents' operations and to provide guidance on establishing pricing parameters for freight hauled by the various modes of transportation available to the agents. It is important to note that the Operating Subsidiaries, and not the Company's agents, contract directly with customers and generally assume the related credit risk and potential liability for freight losses or damages when the Company is providing transportation services as a motor carrier.

Management believes the Company has more independent commission sales agents than any other non-asset based transportation and logistics services company. Landstar's vast network of independent commission sales agent locations provides the Company regular contact with shippers at the local level and the capability to be highly responsive to shippers' changing needs. The Company's large fleet of available capacity provides the agent network the resources needed to service both large and small shippers. Through its agent network, the Company offers smaller shippers a level of service comparable to that typically enjoyed only by larger

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customers. Examples include the ability to provide transportation services on short notice (often within hours of notification to time of pick-up), multiple pick-up and delivery points, electronic data interchange capability and access to specialized equipment. In addition, a number of the Company's agents specialize in certain types of freight and transportation services (such as oversized or heavy loads and/or rail, air and international freight transportation). Each independent commission sales agent has the opportunity to market all of the services provided by the transportation logistics segment.

The independent commission sales agents use a variety of proprietary and third party information technology applications, depending on the mode of transportation, provided by the Company to service the requirements of shippers. For truck services, the Company's independent commission sales agents use Landstar proprietary software which enables agents to enter available freight, dispatch capacity and process most administrative procedures and then communicate that information to Landstar and its capacity providers via the internet. The Company's web-based available truck information system provides a listing of available truck capacity to the Company's independent commission sales agents. For modes of transportation other than trucking, the independent commission sales agents utilize mostly third party information technology applications provided by the Company.

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

The Company reported 504 agents who generated at least \$1 million each in Landstar revenue in both 2012 and 2011 (the Million Dollar Agents). Landstar revenue from the Million Dollar Agents in the aggregate represented 90% and 91% of total Landstar revenue in 2012 and 2011, respectively. Historically, the Company has experienced very low turnover in the number of its Million Dollar Agents, as annual turnover in the number of Million Dollar Agents is typically less than 3%. Management believes that the majority of the Million Dollar Agents choose to represent the Company exclusively.

### ***Third Party Capacity***

The Company relies exclusively on independent third parties for its hauling capacity other than for trailing equipment owned or leased by the Company and utilized primarily by the BCO Independent Contractors. These third party transportation capacity providers consist of BCO Independent Contractors, Truck Brokerage Carriers, air and ocean cargo carriers and railroads. Landstar's use of capacity provided by third parties allows it to maintain a lower level of capital investment, resulting in lower fixed costs. During the most recently completed fiscal year, revenue hauled by BCO Independent Contractors, Truck Brokerage Carriers and railroads represented 49%, 43% and 3%, respectively, of the Company's total revenue. Collectively, transportation services revenue hauled by air and ocean cargo carriers represented 3% of the Company's total revenue during the most recently completed fiscal year. Transportation management fees represented 1% of the Company's total revenue in the most recently completed fiscal year. Historically, the gross profit margin (defined as gross profit, which is defined as revenue less the cost of purchased transportation and commissions to agents, divided by revenue) generated from freight hauled by BCO Independent Contractors has been greater than that from freight hauled by other third party capacity providers. However, the Company's insurance and claims costs and other operating costs are incurred primarily in support of BCO Independent Contractor capacity. In addition, as further described in the Corporate Services section that follows, the Company incurs significantly higher selling, general and administrative costs in support of BCO Independent Contractor capacity as compared to the other modes of transportation. Purchased transportation costs are recognized upon the completion of freight delivery.



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*BCO Independent Contractors.* Management believes the Company has the largest fleet of truckload BCO Independent Contractors in the United States. BCO Independent Contractors provide truck capacity to the Company under exclusive lease arrangements. Each BCO Independent Contractor operates under the motor carrier operating authority issued by the U.S. Department of Transportation ( DOT ) to Landstar's Operating Subsidiary to which such BCO Independent Contractor has leased his or her services and equipment. The Company's network of BCO Independent Contractors provides marketing, operating, safety, recruiting, retention and financial advantages to the Company.

The Company's BCO Independent Contractors are compensated based on a fixed percentage of the revenue generated from the freight they haul. This percentage generally ranges from 62% to 73% where the BCO Independent Contractor provides only a tractor and 72% to 75% where the BCO Independent Contractor provides both a tractor and trailing equipment. The BCO Independent Contractor must pay substantially all of the expenses of operating his/her equipment, including driver wages and benefits, fuel, physical damage insurance, maintenance, highway use taxes and debt service, if applicable. The Company passes 100% of fuel surcharges billed to customers for freight hauled by BCO Independent Contractors to its BCO Independent Contractors. During 2012, the Company billed customers \$295.2 million in fuel surcharges and passed 100% of such fuel surcharges to the BCO Independent Contractors. These fuel surcharges are excluded from revenue.

The Company maintains an internet site through which BCO Independent Contractors can view a comprehensive listing of the Company's available freight, allowing them to consider rate, size, origin and destination when planning trips. The Landstar Contractors Advantage Purchasing Program (LCAPP) leverages Landstar's purchasing power to provide discounts to eligible BCO Independent Contractors when they purchase equipment, fuel, tires and other items. In addition, LCFI provides a source of funds at competitive interest rates to the BCO Independent Contractors to purchase primarily trailing equipment and mobile communication equipment.

The number of trucks provided to the Company by BCO Independent Contractors was 8,523 at December 29, 2012, compared to 8,371 at December 31, 2011. At December 29, 2012, 97% of the trucks provided by BCO Independent Contractors were provided by BCO Independent Contractors who provided five or fewer trucks to the Company. The number of trucks provided by BCO Independent Contractors fluctuates daily as a result of truck recruiting and truck terminations. Trucks recruited and terminated were both lower in 2012 than in 2011, resulting in a net gain of 152 trucks during 2012. Landstar's BCO Independent Contractor truck turnover was approximately 24% in 2012 compared to 27% in 2011. Approximately 40% of 2012 turnover was attributable to BCO Independent Contractors who had been with the Company for less than one year. Management believes that factors that have historically favorably impacted turnover include the Company's extensive agent network, available freight, the Company's programs to reduce the operating costs of its BCO Independent Contractors and Landstar's reputation for quality, service, reliability and financial strength.

*Truck Brokerage Carriers.* At December 29, 2012, the Company maintained a database of over 31,000 approved Truck Brokerage Carriers who provide truck hauling capacity to the Company. Truck Brokerage Carriers provide truck capacity to the Company under non-exclusive contractual arrangements and each operates under their own DOT-issued motor carrier operating authority. Truck Brokerage Carriers are paid either a negotiated rate for each load they haul or a contractually agreed-upon amount per load. The Company recruits, approves, establishes contracts with, tracks safety ratings and service records of and generally maintains the relationships with these third party trucking companies. In addition to providing additional capacity to the Company, the use of Truck Brokerage Carriers enables the Company to pursue different types and quality of freight such as temperature-controlled, short-haul traffic and less-than-truckload and, in certain instances, lower-priced freight that generally would not be handled by the Company's BCO Independent Contractors.

The Company maintains an internet site through which Truck Brokerage Carriers can view a listing of the Company's freight that is available to be hauled by Truck Brokerage Carriers. The Landstar Savings Plus Program leverages Landstar's purchasing power to provide discounts to eligible Truck Brokerage Carriers when they purchase fuel and equipment and provides the Truck Brokerage Carriers with an electronic payment option.

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**Railroads and Air and Ocean Cargo Carriers.** The Company has contracts with Class 1 domestic and Canadian railroads, certain short-line railroads and domestic and international airlines and ocean lines. These relationships allow the Company to pursue the freight best serviced by these forms of transportation capacity. Railroads and air and ocean cargo carriers are generally paid a contractually fixed amount per load. The Company also contracts with other third party capacity providers, such as air charter service providers, when required by specific customer needs.

**Warehouse Capacity Owners.** The Company has contracts with Warehouse Capacity Owners throughout the United States. The services available to the Company's customers provided from the warehouse capacity network include storage, order fulfillment, repackaging, labeling, inventory consolidations, sub-assembly and temperature and climate options. In general, Warehouse Capacity Owners are paid a fixed percentage of the gross revenue for storage and services provided through their warehouse. Warehouse storage and services revenue is reported net of the amount earned by the Warehouse Capacity Owner. Historically, warehousing services have not been a significant contributor to revenue or earnings. However, management believes that this service offering and relationships with Warehouse Capacity Owners provide the Company with additional transportation services opportunities.

***Trailing Equipment***

The Company offers its customers a large and diverse fleet of trailing equipment. Specialized services offered by the Company include those provided by a large fleet of flatbed trailers and multi-axle trailers capable of hauling extremely heavy or oversized loads. Management believes the Company, along with its network of capacity providers, offers the largest fleet of heavy/specialized trailing equipment in the United States.

The following table illustrates the mix of the trailing equipment as of December 29, 2012, either provided by the BCO Independent Contractors or owned or leased by the Company and made available primarily to BCO Independent Contractors. In general, Truck Brokerage Carriers utilize their own trailing equipment when providing transportation services on behalf of Landstar. Truck Brokerage Carrier trailing equipment is not included in the following table:

| <b>Trailers by Type</b>   |               |
|---|---------------|
| Vans  | 9,564         |
| Unsidled, including flatbeds, step decks, drop decks and low boys | 3,338         |
| Temperature-controlled  | 65            |
| <b>Total</b>  | <b>12,967</b> |

At December 29, 2012, 8,495 of the trailers available to the BCO Independent Contractors were owned by the Company and 382 were leased. In addition, at December 29, 2012, 4,090 trailers were provided by the BCO Independent Contractors.

***Customers***

The Company's customer base is highly diversified and dispersed across many industries, commodities and geographic regions. The Company's top 100 customers accounted for approximately 44% of the Company's revenue during each of fiscal year 2012 and 2011. Management believes that the Company's overall size, technological applications, geographic coverage, access to equipment and diverse service capability offer the Company significant competitive marketing and operating advantages. These advantages allow the Company to meet the needs of even the largest shippers. Larger shippers often consider reducing the number of authorized carriers they use in favor of a small number of core carriers, such as the Company, whose size and diverse service capabilities enable these core carriers to satisfy most of the shippers' transportation needs. The Company's national account customers include the United States Department of Defense and many of the

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companies included in the Fortune 500. Large shippers are also using third party logistics providers ( 3PLs ) to outsource the management and coordination of their transportation needs. The Company's supply chain solutions services provide shippers the opportunity to outsource the management and coordination of their transportation needs and provide these shippers the opportunity to utilize the significant amount of capacity available from the Company. 3PLs and other transportation companies also utilize the Company's transportation capacity to satisfy their obligations to their shippers. There were 11 transportation service providers, including 3PLs, included in the Company's top 25 customers for the fiscal year ended December 29, 2012. Management believes the Company's network of agents and third party capacity providers allows it to efficiently attract and service smaller shippers which may not be as desirable to other large transportation providers (see above under Agent Network ). No customer accounted for more than 5% of the Company's 2012 revenue.

### ***Technology***

Management believes leadership in the development and application of information systems technology is an ongoing part of providing high quality service at competitive prices. The Company continues to focus on identifying, purchasing or developing and implementing software applications which are designed to improve its operational and administrative efficiency, assist its independent commission sales agents in sourcing capacity and pricing transportation services, assist customers in meeting their supply chain needs and assist its third party capacity providers in identifying desirable freight. Landstar focuses on providing transportation services and supply chain solutions which emphasize customer service and information coordination among its independent commission sales agents, customers and capacity providers. The Company offers customers technology-based supply chain solutions and other value-added services. These services provide the Company with the ability to offer customers complete enterprise solutions and compete in the freight management segment of the transportation industry. Landstar intends to continue to purchase or develop appropriate systems and technologies that offer integrated transportation and logistics solutions to meet the total needs of its customers.

The Company's information technology systems used in connection with its operations are located in Jacksonville, Florida and, to a lesser extent, in Rockford, Illinois and Southfield, Michigan. In addition, the Company utilizes several third party data centers throughout the U.S. Landstar relies, in the regular course of its business, on the proper operation of its information technology systems.

### ***Corporate Services***

The Company provides many administrative support services to its network of independent commission sales agents, third party capacity providers and customers. Management believes that the technological applications purchased or developed and maintained by the Company and its administrative support services provide operational and financial advantages to its independent commission sales agents, third party capacity providers and customers. These, in turn, enhance the operational and financial efficiency of all aspects of the network.

Administrative support services that provide operational and financial advantages to the network include customer contract administration, customer credit review and approvals, sales administration and pricing, customer billing, accounts receivable collections, third party capacity payment, safety and operator and equipment compliance management, insurance claims handling, coordination of vendor discount programs and third party capacity quality programs. The Company also provides marketing and advertising strategies.

Management also believes that significant advantages result from the collective expertise and corporate services provided by Landstar's corporate management. The primary functions provided by management include finance and treasury services, accounting, strategic initiatives, budgeting, taxes, legal, corporate communications and human resource management.

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### ***Competition***

Landstar competes primarily in the transportation and logistics services industry with truckload carriers, third party logistics companies, intermodal transportation and logistics service providers, railroads, less-than-truckload carriers and other non-asset based transportation and logistics service providers. The transportation and logistics services industry is extremely competitive and fragmented.

Management believes that competition for freight transported by the Company is based on service, efficiency and freight rates, which are influenced significantly by the economic environment, particularly the amount of available transportation capacity and freight demand. Management believes that Landstar's overall size and availability of a wide range of equipment, together with its geographically dispersed local independent agent network and wide range of service offerings, present the Company with significant competitive advantages over many transportation and logistics service providers.

### ***Self-Insured Claims***

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, railroads and air and ocean cargo carriers who transport freight on behalf of the Company is reduced by various factors including the extent to which such carriers maintain their own insurance coverage. A material increase in the frequency or severity of accidents, cargo claims or workers' compensation claims or the material unfavorable development of existing claims could have a material adverse effect on Landstar's cost of insurance and claims and its results of operations.

### ***Regulation***

Certain of the Operating Subsidiaries are considered motor carriers and/or brokers authorized to arrange for transportation services by motor carriers which are regulated by the Federal Motor Carrier Safety Administration (the FMCSA) and by various state agencies. The FMCSA has broad regulatory powers with respect to activities such as motor carrier operations, practices, periodic financial reporting and insurance. Subject to federal and state regulatory authorities or regulation, the Company's capacity providers may transport most types of freight to and from any point in the United States over any route selected.

Interstate motor carrier operations are subject to safety requirements prescribed by the FMCSA. Each driver, whether a BCO Independent Contractor or Truck Brokerage Carrier, is required to have a commercial driver's license and may be subject to mandatory drug and alcohol testing. The FMCSA's commercial driver's license and drug and alcohol testing requirements have not adversely affected the Company's ability to source the capacity necessary to meet its customers' transportation needs.

In addition, certain of the Operating Subsidiaries are licensed as ocean transportation intermediaries by the U.S. Federal Maritime Commission as non-vessel-operating common carriers and/or as ocean freight forwarders. The Company's air transportation activities in the United States are subject to regulation by the U.S. Department of Transportation as an indirect air carrier. One of the Operating Subsidiaries is licensed by the U.S. Department of Homeland Security through the Bureau of U.S. Customs and Border Protection (U.S. Customs) as a customs broker. The Company is also subject to regulations and requirements relating to safety and security promulgated by, among others, the U.S. Department of Homeland Security through U.S. Customs and the Transportation Security Administration, the Canada Border Services Agency and various state and local agencies and port authorities.

The transportation industry is subject to possible other regulatory and legislative changes (such as the possibility of more stringent environmental, climate change and/or safety/security regulations or limits on vehicle

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weight and size) that may affect the economics of the industry by requiring changes in operating practices or by changing the demand for motor carrier services or the cost of providing truckload or other transportation or logistics services.

In addition, because the U.S. government is one of the Company's customers, the Company must comply with and is affected by laws and regulations relating to doing business with the federal government.

### ***Seasonality***

Landstar's operations are subject to seasonal trends common to the trucking industry. Results of operations for the quarter ending in March are typically lower than the quarters ending in June, September and December.

### ***Employees***

As of December 29, 2012, the Company and its subsidiaries employed 1,369 individuals. Approximately 11 Landstar Ranger drivers (out of a Company total of 8,523 drivers for BCO Independent Contractors) are members of the International Brotherhood of Teamsters. The Company considers relations with its employees to be good.

### **Item 1A. Risk Factors**

***Increased severity or frequency of accidents and other claims.*** As noted above in Item 1, Business Factors Significant to the Company's Operations Self-Insured Claims, 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, railroads and air and ocean cargo carriers who transport freight on behalf of the Company is reduced by various factors including the extent to which such carriers maintain their own insurance coverage. A material increase in the frequency or severity of accidents, cargo claims or workers' compensation claims or the material unfavorable development of existing claims could have a material adverse effect on Landstar's cost of insurance and claims and its results of operations.

***Dependence on third party insurance companies.*** The Company is dependent on a limited number of third party insurance companies to provide insurance coverage in excess of its self-insured retention amounts. Historically, the Company has maintained insurance coverage for commercial trucking claims in excess of specific per occurrence limits, up to various maximum amounts, with a limited number of third party insurance companies. In an attempt to manage the cost of insurance and claims, the Company has historically increased or decreased the level of its financial exposure to commercial trucking claims on a per occurrence basis by increasing or decreasing its level of self-insured retention based on the estimated cost differential between proposed premiums from third party insurance companies and historical losses experienced by the Company at various levels of self-insured retention. To the extent that the third party insurance companies propose increases to their premiums for coverage of commercial trucking claims, the Company may pay such increased premiums or increase its financial exposure on an aggregate or per occurrence basis, including by increasing the amount of its self-insured retention. However, to the extent the third party insurance companies propose reduced premiums for coverage of commercial trucking claims, the Company may reduce its financial exposure on an aggregate or per occurrence basis, including by decreasing the amount of its self-insured retention. In addition, no assurance can be given that insurance coverage from third party insurers for claims in excess of its current \$5 million self-insured retention will continue to be available on commercially reasonable terms.

***Dependence on independent commission sales agents.*** As noted above in Item 1, Business Factors Significant to the Company's Operations Agent Network, the Company markets its services primarily

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through independent commission sales agents. During 2012, 504 agents generated revenue for Landstar of at least \$1 million each (the Million Dollar Agents ), or approximately 90% of Landstar's consolidated revenue. Landstar competes with motor carriers and other third parties for the services of these independent commission sales agents. Landstar has historically experienced very limited agent turnover in the number of its Million Dollar Agents. There can be no assurances, however, that Landstar will continue to experience very limited turnover of its Million Dollar Agents in the future. Landstar's contracts with its agents, including its Million Dollar Agents, are typically terminable without cause upon 10 to 30 days' notice by either party and generally contain significant but not unqualified non-compete provisions limiting the ability of a former agent to compete with Landstar for a specified period of time post-termination, and other restrictive covenants. The loss of some of the Company's Million Dollar Agents and/or a significant decrease in volume generated by other Million Dollar Agents could have a material adverse effect on Landstar, including its results of operations and revenue.

*Dependence on third party capacity providers.* As noted above in Item 1, Business Factors Significant to the Company's Operations Transportation Capacity, Landstar does not own trucks or other transportation equipment (other than trailing equipment) and relies on third party capacity providers, including BCO Independent Contractors, Truck Brokerage Carriers, railroads and air and ocean cargo carriers, to transport freight for its customers. The Company competes with motor carriers and other third parties for the services of BCO Independent Contractors and other third party capacity providers. The market for qualified truck owner-operators and other third party truck capacity providers is very competitive among motor carriers and no assurances can be given that the Company will be able to maintain or expand the number of BCO Independent Contractors or other third party truck capacity providers. A significant decrease in available capacity provided by either the Company's BCO Independent Contractors or other third party capacity providers could have a material adverse effect on Landstar, including its results of operations and revenue.

*Decreased demand for transportation services.* The transportation industry historically has experienced cyclical financial results as a result of slowdowns in economic activity, the business cycles of customers, price increases by capacity providers and other economic factors beyond Landstar's control. The Company's third party capacity providers other than BCO Independent Contractors can be expected to charge higher prices to cover increased operating expenses, such as any increases in the cost of fuel, and the Company's operating income may decline without a corresponding increase in price to the customer. If a slowdown in economic activity or a downturn in the Company's customers' business cycles cause a reduction in the volume of freight shipped by those customers, the Company's operating results could be materially adversely affected.

*Substantial industry competition.* As noted above in Item 1, Business Factors Significant to the Company's Operations Competition, Landstar competes primarily in the transportation and logistics services industry. This industry is extremely competitive and fragmented. Landstar competes primarily with truckload carriers, intermodal transportation service providers, railroads, less-than-truckload carriers, third party logistics companies and other non-asset based transportation and logistics service providers. Management believes that competition for the freight transported by the Company is based on service, efficiency and freight rates, which are influenced significantly by the economic environment, particularly the amount of available transportation capacity and freight demand. Historically, competition has created downward pressure on freight rates. In addition, many large shippers are using third party logistics providers ( 3PLs ) other than the Company to outsource the management and coordination of their transportation needs rather than directly arranging for transportation services with carriers. As noted above, there were 11 transportation service providers, including 3PLs, included in the Company's top 25 customers for the fiscal year ended December 29, 2012. Usage by large shippers of 3PLs often provides carriers, such as the Company, with a less direct relationship with the shipper and, as a result, may increase pressure on freight rates while making it more difficult for the Company to compete primarily based on service and efficiency. A decrease in freight rates could have a material adverse effect on Landstar, including its revenue and operating income.

*Status of independent contractors.* From time to time, various legislative or regulatory proposals are introduced at the federal or state levels to change the status of independent contractors' classification to

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employees for either employment tax purposes (withholding, social security, Medicare and unemployment taxes) or other benefits available to employees. Currently, most individuals are classified as employees or independent contractors for employment tax purposes based on 20 common-law factors rather than any definition found in the Internal Revenue Code or Internal Revenue Service regulations. In addition, under Section 530 of the Revenue Act of 1978, taxpayers that meet certain criteria may treat an individual as an independent contractor for employment tax purposes if they have been audited without being told to treat similarly situated workers as employees, if they have received a ruling from the Internal Revenue Service or a court decision affirming their treatment, or if they are following a long-standing recognized practice.

The Company classifies its BCO Independent Contractors and independent commission sales agents as independent contractors for all purposes, including employment tax and employee benefits. There can be no assurance that legislative, judicial, or regulatory (including tax) authorities will not introduce proposals or assert interpretations of existing rules and regulations that would change the employee/independent contractor classification of BCO Independent Contractors or independent commission sales agents doing business with the Company. Although management believes that there are no proposals currently pending that would significantly change the employee/independent contractor classification of BCO Independent Contractors or independent commission sales agents currently doing business with the Company, potential changes, if any, with respect to these BCO Independent Contractor and independent commission sales agent classifications could have a material adverse effect on Landstar's operating model. Moreover, the costs associated with any such potential changes could have a material adverse effect on the Company's results of operations and financial condition if Landstar were unable to pass through to its customers an increase in price corresponding to such increased costs.

*Regulatory and legislative changes.* As noted above in Item 1, Business Factors Significant to the Company's Operations Regulation, certain of the Operating Subsidiaries are motor carriers and/or property brokers authorized to arrange for transportation services by motor carriers which are regulated by the Federal Motor Carrier Safety Administration (FMCSA), an agency of the U.S. Department of Transportation, and by various state agencies. Certain of the Operating Subsidiaries are licensed as ocean transportation intermediaries by the U.S. Federal Maritime Commission as non-vessel-operating common carriers and/or as ocean freight forwarders. The Company's air transportation activities in the United States are subject to regulation by the U.S. Department of Transportation as an indirect air carrier. One of the Company's subsidiaries is licensed by the U.S. Department of Homeland Security through the Bureau of U.S. Customs and Border Protection ( U.S. Customs ) as a customs broker. The Company is also subject to regulations and requirements relating to safety and security promulgated by, among others, the U.S. Department of Homeland Security through U.S. Customs and the Transportation Security Administration, the Canada Border Services Agency and various state and local agencies and port authorities. The transportation industry is subject to possible regulatory and legislative changes (such as increasingly stringent environmental, climate change and/or safety/security regulations or limits on vehicle weight and size) that may affect the economics of the industry by requiring changes in operating practices or by changing the demand for common or contract carrier services or the cost of providing truckload or other transportation or logistics services.

In December 2010, the FMCSA initiated its Compliance Safety Accountability (CSA) motor carrier oversight program (formerly Comprehensive Safety Analysis 2010). The Company believes the intent is to improve regulatory oversight of motor carriers and commercial drivers using a safety measurement system methodology that is fundamentally different from the methodology that the FMCSA had historically relied upon. The FMCSA is attempting to implement changes to the hours of service regulations which govern the work hours of commercial drivers and is consistently proposing regulatory changes that affect the operation of commercial motor carriers across the United States. It is difficult to predict which and in what form CSA or any other regulations may be implemented, modified or enforced and what impact any such regulation may have on motor carrier operations or the aggregate number of trucks that provide hauling capacity to the Company. In addition, recent focus on climate change and related environmental matters has led to efforts by federal and local governmental agencies to support legislation and regulations to limit the amount of carbon emissions, including emissions created by diesel engines utilized in tractors operated by the Company's BCO Independent Contractors

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and Truck Brokerage Carriers. Moreover, federal and state governmental agencies, such as efforts by the California Air Resources Board, may also focus on regulation in relation to trailing equipment specifications in an effort to achieve, among other things, lower carbon emissions. Increased regulation on tractor or trailing equipment specifications, including emissions created by diesel engines, could create substantial costs on the Company and the Company's third party capacity providers and, in turn, increase the cost of purchased transportation to the Company. An increase in the costs to purchase, lease or maintain trailing equipment or in purchased transportation cost caused by new regulations without a corresponding increase in price to the customer could have a material adverse effect on Landstar, including its results of operations and financial condition.

*Disruptions or failures in the Company's computer systems.* As noted above in Item 1, Business Factors Significant to the Company's Operations Technology, the Company's information technology systems used in connection with its operations are located in Jacksonville, Florida and to a lesser extent in Rockford, Illinois and Southfield, Michigan. In addition, the Company utilizes several third party data centers throughout the U.S. Landstar relies in the regular course of its business on the proper operation of its information technology systems to link its extensive network of customers, agents and third party capacity providers, including its BCO Independent Contractors. Although the Company has redundant systems for its critical operations, any significant disruption or failure of its technology systems or those of third party data centers on which it relies could significantly disrupt the Company's operations and impose significant costs on the Company.

*Dependence on key vendors.* As described above under *Dependence on third party insurance companies* and *Disruptions or failures in the Company's computer systems*, the Company is dependent on certain vendors, including third party insurance companies, third party data center providers, third party information technology application providers and third party payment system providers. Any inability to negotiate satisfactory terms with one of these key vendors or any other significant disruption to or termination of a relationship with one of these key vendors could disrupt the Company's operations and impose significant costs on the Company.

*Potential changes in fuel taxes.* From time to time, various legislative proposals are introduced to increase federal, state, or local taxes, including taxes on motor fuels. The Company cannot predict whether, or in what form, any increase in such taxes applicable to the transportation services provided by the Company will be enacted and, if enacted, whether or not the Company's Truck Brokerage Carriers would attempt to pass the increase on to the Company or if the Company will be able to reflect this potential increased cost of capacity, if any, in prices to customers. Any such increase in fuel taxes, without a corresponding increase in price to the customer, could have a material adverse effect on Landstar, including its results of operations and financial condition. Moreover, competition from other transportation service companies including those that provide non-trucking modes of transportation and intermodal transportation would likely increase if state or federal taxes on fuel were to increase without a corresponding increase in taxes imposed upon other modes of transportation.

*Catastrophic loss of a Company facility.* The Company faces the risk of a catastrophic loss of the use of all or a portion of its facilities located in Jacksonville, Florida, Rockford, Illinois and Southfield, Michigan due to hurricanes, flooding, tornados, other weather conditions, natural disasters, terrorist attacks or otherwise. The Company's corporate headquarters and approximately two-thirds of the Company's employees are located in its Jacksonville, Florida facility. In particular, a significant hurricane that impacts the Jacksonville, Florida metropolitan area could significantly disrupt the Company's operations and impose significant costs on the Company.

Although the Company maintains insurance covering its facilities, including business interruption insurance, the Company's insurance may not be adequate to cover all losses that may be incurred in the event of a catastrophic loss of one of the Company's facilities. In addition, such insurance, including business interruption insurance, could in the future become more expensive and difficult to maintain and may not be available on commercially reasonable terms or at all.



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*Acquired businesses.* 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, now collectively known as LSCS and (ii) A3 Integration, LLC, now known as LSCSLLC. These two acquisitions are referred to herein collectively as the 2009 Acquisitions. LSCS's business is heavily dependent on the automotive industry which has been very volatile in the past few years. As of the time of its acquisition by the Company, LSCSLLC was a startup company with no customers under contract. LSCSLLC licenses its principal software technology from an unaffiliated third party. The Company's strategic initiatives of the 2009 Acquisitions are to increase freight transportation opportunities of the Company by identifying and engaging agents and customers to utilize LSCSLLC's supply chain solutions technology. The Company makes no assurance that the Company will be able to successfully achieve its strategic initiatives as it relates to the 2009 Acquisitions. The two acquired entities are considered one reporting unit as it relates to business valuation. As it relates to goodwill recorded upon the acquisition of these companies in July 2009, should the automotive industry experience a significant downturn and should the Company fail to add customers to the technology platform acquired with the start-up company, the Company could determine that its goodwill is impaired in the future. The Company will continue to monitor the economic environment and test for impairment of goodwill as necessary.

*Intellectual property.* The Company uses both internally developed and purchased technology in conducting its business. Whether internally developed or purchased, it is possible that the use of these technologies could be claimed to infringe upon or violate the intellectual property rights of third parties. In the event that a claim is made against the Company by a third party for the infringement of intellectual property rights, any settlement or adverse judgment against the Company either in the form of increased costs of licensing or a cease and desist order in using the technology could have an adverse effect on the Company's business and its results of operations.

*Doing business with the federal government.* The Company must comply with and is affected by laws and regulations relating to doing business with the federal government. In addition, U.S. government agencies, including various agency Inspectors General, routinely audit and investigate government contractors like the Company. Government contractors may also be subject to investigation by the U.S. Department of Justice as a result of or in connection with allegations made by third parties. In connection with an audit or investigation by a U.S. government agency or the U.S. Department of Justice, the Government may allege violations of specific laws and regulations by the Company or those doing business with the Company. The Government may also seek remedies against the Company, such as fines and penalties, the termination of our contracts, or suspension or prohibition from doing business with the U.S. Government, any of which could cause the Company to suffer serious reputational harm and other adverse consequences.

### **Item 1B. *Unresolved Staff Comments***

None.

### **Item 2. *Properties***

The Company owns or leases various properties in the U.S. for the Company's operations and administrative staff that support its independent commission sales agents, BCO Independent Contractors and other third party capacity providers. The transportation logistics segment's primary facilities are located in Jacksonville, Florida, Rockford, Illinois and Southfield, Michigan. In addition, the Company's corporate headquarters are located in Jacksonville, Florida. The Jacksonville, Florida and Rockford, Illinois facilities are owned by the Company, and the Southfield, Michigan facility is leased. Management believes that Landstar's owned and leased properties are adequate for its current needs and that leased properties can be retained or replaced at an acceptable cost.

**Table of Contents****Item 3. Legal Proceedings**

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) were 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 initial complaint in the Litigation was filed on November 1, 2002. The Plaintiffs alleged that certain aspects of the Company's motor carrier leases and related practices with its BCO Independent Contractors violated certain federal leasing regulations and sought injunctive relief, an unspecified amount of damages and attorneys' fees. Following a second trial in August 2012 in which all claims against the Defendants were denied, the Litigation was settled in December 2012. Under the terms of the settlement, the Plaintiffs dismissed their remaining claims in the Litigation, each party agreed to bear its own costs and fees in the Litigation, the parties exchanged releases, and OOIDA made a contribution to the BCO Benevolence Fund, Inc., a non-profit corporation founded by the Company to provide financial assistance to BCO Independent Contractors in hardship situations.

Also as further described in periodic and current reports previously filed by the Company with the SEC, in June 2011, Landstar System, Inc. received a Civil Investigative Demand (the CID) from the United States Attorney for the Western District of Kentucky (the U.S. Attorney) issued pursuant to a complaint (the Complaint) filed by a third party under the False Claims Act. The Company cooperated fully with the CID, which requested documents and answers to written interrogatories limited to freight hauled to or from Fort Campbell, Kentucky by certain subsidiaries of the Company and billed to the U.S. government. In November 2012, the Company was informed by the U.S. Attorney of the dismissal of the Complaint and the consent by the U.S. government to such dismissal. The Company believes this matter has been concluded.

On September 23, 2011, a jury sitting in a state court in Cobb County, Georgia, entered a damage award of approximately \$40.2 million (such amount, plus pre-judgment interest, post-judgment interest and a portion of plaintiffs' attorney fees in an amount not yet determined are collectively referred to herein as the Damage Award) against Landstar Ranger, Inc., Landstar System Holdings, Inc. and Landstar System, Inc. While a judgment has been entered by the court on the verdict, execution on that judgment is stayed and no judgment has been entered on the pre-judgment interest claims and attorney fee claims due to the pendency of certain post-trial motions. The Damage Award arises out of an accident that occurred in February 2007 involving a BCO Independent Contractor leased to Landstar Ranger, Inc. Under the terms of the commercial trucking insurance program that Landstar had in place in 2007, Landstar retained liability for up to \$5 million with respect to the accident giving rise to the Damage Award. Landstar has third party insurance and/or reinsurance policies in place that are expected to provide coverage for all amounts of the Damage Award in excess of such retention, including all related out-of-pocket expenses, such as the costs of an appeal bond, interest and attorney fees comprising the Damage Award that may be entered by the trial court or an appellate court in the future. The Company recorded a \$5 million charge representing its self-insured retention in respect of this accident in the consolidated financial results of the Company in the 2007 first quarter. Accordingly, that portion of the Damage Award has been previously recorded by the Company and therefore did not reduce consolidated operating income or net income for the Company's 2011 or 2012 fiscal years. Under the terms of the Company's insurance policies, the Company is the primary obligor of the amount of the Damage Award, and as such, the Company has reported a \$38.7 million receivable from the third party insurance providers in other receivables and a corresponding liability of the same amount in insurance claims in the consolidated balance sheets at December 29, 2012. The Company and its insurers have filed post-trial motions challenging the Damage Award and seeking a new trial and intend to appeal the Damage Award to the extent necessary following the resolution of those motions. No assurances can be given regarding the outcome of the pending motions or any such appeal, including as to the impact of the Damage Award on the premiums charged by the Company's third party insurers from time to time for commercial trucking insurance.

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The Company is involved in certain claims and pending litigation, including those described herein, 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 claims and pending litigation and that the ultimate outcome, after provisions therefor, will not have a material adverse effect on the financial condition of the Company, but could have a material effect on the results of operations in a given quarter or year.

**Item 4. *Mine Safety Disclosures***

Not applicable.

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**PART II**

**Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

The Common Stock of the Company is listed and traded on the NASDAQ Global Select Market under the symbol LSTR. The following table sets forth the high and low reported sale prices for the Common Stock on the NASDAQ Global Select Market and the per share value of dividends declared for the periods indicated.

| Fiscal Period | 2012 Market Price |     | 2011 Market Price |     | Dividends Declared |
|---------------|-------------------|-----|-------------------|-----|--------------------|
|               | High              | Low | High              | Low |                    |