

**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 25, 2010**

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:**

**Title of Each Class**

**Name of Exchange on Which Registered**

Common Stock, \$0.01 Par Value

The NASDAQ Stock Market, Inc.

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

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

*(Do not check if a 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 \$2,003,998,000 (based on the per share closing price on June 26, 2010, 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 28, 2011 was 47,866,941.

**DOCUMENTS INCORPORATED BY REFERENCE**

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

| Document  | Part of 10-K into Which Incorporated |
|---|--------------------------------------|
| Proxy Statement relating to Landstar System, Inc.'s Annual Meeting of Stockholders scheduled to be held on May 26, 2011 | Part III                             |

**LANDSTAR SYSTEM, INC.**  
**2010 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”), National Logistics Management Co. (“NLM”) and Signature Insurance Company (“Signature”). As of the end of the 2010 fiscal year, LSCS owned 100% of the non-voting, preferred interests and 75% of the voting, common equity interests in A3i Acquisition, LLC (“A3i Acquisition”). LSCS purchased the remaining 25% of the voting, common equity interests in A3i Acquisition, LLC in January 2011. A3 Integration, LLC (“A3i”) is a wholly-owned subsidiary of A3i Acquisition. Landstar Ranger, Landstar Inway, Landstar Ligon, Landstar Gemini, Landstar Transportation Logistics, Landstar Global Logistics, Landstar Express America, NLM, A3i and Landstar Canada are collectively herein referred to as Landstar’s “Operating Subsidiaries.” Landstar System, Inc., LSHI, LCFI, RMCS, LCHI, LSCS, A3i Acquisition, 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](http://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.

In the Company’s 2009 fiscal third quarter, the Company completed the acquisitions of (i) NLM (together with a limited liability company and certain corporate subsidiaries and affiliates) and (ii) A3i through A3i Acquisition, an entity in which the Company owns 100% of the non-voting, preferred interests and, from the date of acquisition to January 2011, 75% of the voting, common equity interests. A3i is a wholly-owned subsidiary of A3i Acquisition. LSCS purchased the remaining 25% of the voting, common equity interests in A3i Acquisition, LLC in January 2011. These two acquisitions are referred to herein collectively as the “Recent Acquisitions.” NLM is a non-asset based third-party logistics provider which utilizes proprietary technology to manage transportation services for shippers and provides software-as-a-service technology to customers to perform their own transportation execution management. A3i operates as a software-as-a-service business which utilizes proprietary technology from a third party as well as its own internally developed technology to offer supply chain systems integration and solutions to large and small shippers, including transportation order management, shipment planning and optimization, rate management, transportation sourcing, in-transit visibility and shipment execution.

#### Description of Business

Landstar is a non-asset based provider of freight transportation services and supply chain solutions. The Company offers shippers services across multiple transportation modes, with the ability to arrange for individual shipments of freight to enterprise-wide solutions to manage all of a shipper’s transportation and logistics needs. The Company provides services to shippers principally throughout the United States and Canada, between the United States, Canada and Mexico, and, to a lesser extent, in other countries around the world. These business 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 information technology systems which are provided and coordinated by the Company.

Landstar markets its freight transportation services and supply chain solutions primarily through independent commission sales agents. Landstar's independent commission sales agents enter into contractual arrangements with the Company and are primarily responsible for locating freight, making that freight available to Landstar's third party capacity providers and coordinating the transportation of the freight with customers and third party 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 its network of employees, 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 \$2.4 billion during the most recently completed fiscal year. The Company reports the results of two operating segments: the transportation logistics segment and the insurance segment.

### ***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 offered by the Company and include integrated multi-modal solutions, outsourced logistics, supply chain engineering and warehousing. Also, supply chain solutions can be delivered through a software-as-a-service model. Industries serviced by the transportation logistics segment include automotive products, paper, lumber and building products, metals, chemicals, foodstuffs, heavy machinery, retail, electronics, ammunition and explosives and military hardware. In addition, the transportation logistics segment provides transportation services to other transportation companies, including logistics and less-than-truckload service providers. Each of the independent commission sales agents has the opportunity to market all of the services provided by the transportation logistics segment. Freight transportation services are typically charged to customers on a per shipment basis for the physical transportation of freight. Supply chain solution customers are generally charged fees for the services provided. Revenue recognized by the transportation logistics segment when providing capacity to customers to haul their freight is referred to herein as "transportation services revenue" and revenue for freight management services recognized on a fee-for-service basis is referred to herein as "transportation management fees." See "Notes to Consolidated Financial Statements" for revenues from external customers, measure of profit or loss and total assets attributable to the Transportation Logistics Segment for the last three fiscal years.

*Truck Services.* The transportation logistics segment's truckload 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. The Company utilizes a broad assortment of specialized 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 truckload services also include short-to-long haul movement of containers by truck and expedited ground and dedicated power-only truck capacity. During fiscal year 2010, revenue hauled by BCO Independent Contractors and Truck Brokerage Carriers was 54% and 39%, respectively, of total transportation logistics segment revenue. The Company's truck services contributed 92% of total revenue in fiscal year 2010.

*Rail Intermodal Services.* The transportation logistics segment has contracts with all of the Class 1 domestic and Canadian railroads, certain short-line railroads and all 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 fiscal year 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 international ocean and air services to its customers. The transportation logistics segment executes international freight transportation as an 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 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 fiscal year 2010.

*Advanced Technology Solutions.* The transportation logistics segment offers customers technology-based supply chain solutions and other value-added services on a fee-for-service basis. Service capabilities include logistics order management, shipment planning and optimization, rate management, transportation sourcing, in-transit visibility and shipment execution. Supply chain solutions offered by the Company can be managed by the Company through its transportation services offerings or can be utilized by shippers as a software-as-a-service offering, in which the shipper manages its carriers and executes its own shipments utilizing the Company's technology. The transportation logistics segment's transportation management fee services contributed 1% of total revenue in fiscal year 2010.

*Warehousing Services.* The transportation logistics segment's warehouse offering provides customers with nationwide access to available warehouse capacity utilizing a network of independently owned and operated regional warehouse facilities linked by a single warehouse information technology application without Landstar owning or leasing facilities or hiring employees to work at warehouses.

### ***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, representing premiums on reinsurance programs provided to the Company's BCO Independent Contractors, at the insurance segment represented approximately 1% of total revenue in fiscal year 2010. See "Notes to Consolidated Financial Statements" for revenues from external customers, measure of profit or loss 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 not typically 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 Operating Subsidiaries contract directly with customers and generally assume the credit risk and liability for freight losses or damages.

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, as further described below, 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 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). 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 other modes, 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, transportation management fees and the insurance segment and with changes in net revenue on services provided by Truck Brokerage Carriers, rail intermodal carriers, air cargo carriers and ocean cargo carriers. Commissions to agents are recognized upon the completion of freight delivery.

The Company reported 468 and 405 agents who generated at least \$1 million each in Landstar revenue during 2010 and 2009, respectively. The Landstar revenue from the 468 and 405 agents who generated at least \$1.0 million each in Landstar revenue represented 89% and 87% of total Landstar revenue in 2010 and 2009, respectively. During 2010, one agent generated approximately \$216,000,000, or 9%, of Landstar's total revenue, but contributed less than 1% of Landstar's gross profit, defined as revenue less the cost of purchased transportation and commissions to agents. Historically, the Company has experienced very low turnover among its agents who annually generate Landstar revenue of \$1 million or more. Management believes that the majority of the agents who annually generate Landstar revenue of \$1 million or more choose to represent the Company exclusively.

### ***Transportation Capacity***

The Company relies exclusively on independent third parties for its hauling capacity other than for a portion of the Company's available 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 rail intermodal, air and ocean cargo carriers represented 54%, 39%, 3%, 1% and 2%, respectively, of the Company's transportation logistics segment revenue. Transportation management fees represented 1% of the transportation logistics segment revenue in the most recently

completed fiscal year. Historically, the gross profit margin (defined as gross profit 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 the 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 the BCO Independent Contractor capacity as compared to the other modes of transportation. Purchased transportation costs are recognized upon the completion of freight delivery.

*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 73% to 75% where the BCO Independent Contractor provides both a tractor and a trailer. 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 2010, the Company billed customers \$194.0 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 8,452 at December 25, 2010, compared to 8,519 at December 26, 2009. At December 25, 2010, 96% of the trucks provided by BCO Independent Contractors were provided by BCO Independent Contractors who provided 5 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 were lower in 2010 than in 2009, and trucks terminated were also lower in 2010 compared to 2009, resulting in a net loss of 67 trucks during 2010. Landstar's truck turnover was approximately 31% in 2010 compared to 41% in 2009. Approximately 40% of this 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 and reliability.

*Truck Brokerage Carriers.* At December 25, 2010, the Company maintained a database of over 27,000 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, qualifies, 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

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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.

*Third Party Rail Intermodal, Air and Ocean.* The Company has contracts with all of the Class 1 domestic and Canadian railroads and certain short-line railroads and contracts with domestic and international airlines and ocean lines. 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***

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 offers the largest motor carrier fleet of heavy/specialized trailing equipment in the United States.

The following table illustrates the diversity of the trailing equipment as of December 25, 2010, 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  | 9,576         |
| Flatbeds, including step decks, drop decks and low boys | 3,437         |
| Temperature-controlled                                  | 71            |
| Total   | <u>13,084</u> |

At December 25, 2010, 8,487 of the trailers available to the BCO Independent Contractors were owned by the Company and 282 were rented by the Company under short-term rental arrangements. In addition, at December 25, 2010, 4,315 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 49% and 51%,



respectively, of the Company's revenue during fiscal 2010 and 2009. 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 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. 3PL's and other transportation companies also utilize the Company's transportation capacity to satisfy their obligations to their shippers. There were nine transportation service providers, including 3PLs, included in the Company's top 25 customers for the fiscal year ended December 25, 2010. 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 10% of the Company's 2010 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. In 2009, the Company completed two separate acquisitions of companies that each offer customers technology based supply chain solutions and other value added services. The services provided by these acquired companies along with Landstar's existing capabilities 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 the 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 and human resource management.

### ***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, rail intermodal capacity providers and air cargo and ocean cargo carriers who transport freight on behalf of the Company is reduced by various factors including the extent to which they maintain their own insurance coverage. A material increase in the frequency or severity of accidents, cargo claims or workers' compensation claims or the unfavorable development of existing claims could be expected to materially adversely affect Landstar's results of operations.

For the fiscal year ended and as of December 25, 2010, the Company maintains insurance for liabilities attributable to commercial trucking accidents with third party insurance companies for each and every occurrence in an amount in excess of the Company's \$5,000,000 self insured retention. Historically, the Company has relied on a limited number of third party insurance companies to provide insurance coverage for commercial trucking claims in excess of specific per occurrence limits, up to various maximum amounts. The premiums proposed by the third party insurance companies providing coverage for commercial trucking liability insurance up to the Company's self-insured retention amounts have typically exceeded the Company's cost of claims. 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 the third-party insurance companies and actuarial estimates of the cost of commercial trucking claims at various levels of self-insured retention.

### ***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. 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 the Bureau of U.S. Customs and Border Protection 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 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.

### ***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 25, 2010, the Company and its subsidiaries employed 1,353 individuals. Approximately 14 Landstar Ranger drivers (out of a Company total of 8,452 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, rail intermodal carriers, air cargo carriers and ocean cargo carriers who transport freight on behalf of the Company is reduced by various factors including the extent to which they maintain their own insurance coverage. A material increase in the frequency or severity of accidents, cargo claims or workers' compensation claims or the unfavorable development of existing claims could be expected to materially adversely affect Landstar's results of operations.

*Dependence on third party insurance companies.* As noted above in Item 1, "Business — Factors Significant to the Company's Operations — Self-Insured Claims," 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. The premiums proposed by the third party insurance companies providing coverage for commercial trucking liability insurance up to the Company's self-insured retention amounts have typically exceeded the Company's cost of claims. 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 the third-party insurance companies and actuarial estimates of the cost of commercial trucking claims at various levels of self-insured retention. No assurance

can be given that the Company's cost of commercial trucking claims that may be incurred up to its self-insured retention amount will not exceed the aggregate cost of the premiums that would have been charged by third party insurance companies had such insurance companies provided coverage in lieu of all or a portion of the Company's self-insured retention. Moreover, no assurance can be given that should the Company seek to decrease the level of its financial exposure to commercial trucking claims by decreasing the level of its self-insured retention and correspondingly increase the amount of coverage from third party insurers, that such coverage would not become more expensive in the future and/or otherwise 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 through independent commission sales agents. During 2010, 468 agents generated revenue for Landstar of at least \$1 million each, or approximately 89% of Landstar's consolidated revenue. Although the Company 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 among its larger-volume agents. However, Landstar's contracts with its agents are typically terminable upon 10 to 30 days' notice by either party and generally restrict the ability of a former agent to compete with Landstar for a specific period of time following any such termination. The loss of some of the Company's key agents could have a material adverse effect on Landstar, including its results of operations and revenue. Further, during 2010, one agent generated approximately \$216,000,000, or 9%, of Landstar's total revenue, but contributed less than 1% of Landstar's gross profit. The Company anticipates that there will be a significant decrease in the revenue generated by this agency in 2011, which could have a significant effect on the revenue of the Company in 2011, and in particular the revenue of the Company in any or all of the first three quarters of the fiscal year. Additionally, a significant decrease in volume generated by other large Landstar agents could also 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. 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 and the Company's operating income may decline if it is unable to pass through to its customers the full amount of such higher transportation costs. 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. The transportation and logistics services 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. 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.

*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 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.

*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 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 all of 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 currently 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, the costs associated

with 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, including its results of operations and financial condition if Landstar were unable to pass through to its customers the full amount of such higher transportation 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. 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 the Bureau of U.S. Customs and Border Protection 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. In particular, the Company believes CSA could have a significant effect on the number of approved Truck Brokerage Carriers who provide truck hauling capacity to the Company. However, the Company does not anticipate that CSA will have a significant effect on the aggregate number of trucks made available to the Company by its approved Truck Brokerage Carriers. The FMCSA has also proposed changes to the hours of service regulations which govern the work hours of commercial drivers and introduced other proposed regulatory changes that would generally affect the operations of commercial motor carriers and truck operators across the United States. For example, the FMCSA has recently proposed regulations that would require licensed motor carriers to operate with electronic on board recorders (EOBRs) in their vehicles. It is difficult to predict which and in what form any of these proposed regulations may be implemented. In addition, recent focus on climate change and related environmental matters has led to efforts by federal and local governmental agencies to support legislation to limit the amount of carbon emissions, including emissions created by diesel engines utilized in tractors operated by the Company’s BCO Independent Contractors and Truck Brokerage Carriers. Increased regulation on emissions created by diesel engines could create substantial costs on the Company’s third-party capacity providers and, in turn, increase the cost of purchased transportation to the Company. An increase 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.

*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.

*Acquired businesses.* On July 2, 2009, the Company completed the Recent Acquisitions. See “Business — General.” NLM’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, A3i was a startup company with no customers under contract. A3i licenses its principal software technology from an unaffiliated third party. The Company’s strategic initiatives of the Recent Acquisitions are to increase freight transportation opportunities by diversifying NLM into industries other than the domestic automotive industry and to identify and engage customers to utilize A3i’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 Recent Acquisitions. If the Company fails to do so, or if the Company does so but at a greater cost than anticipated, or if NLM and A3i experience earnings growth significantly below those anticipated, the Company’s financial results may be adversely affected.

*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.

**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.

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

On March 29, 2007, the District Court denied the request by Plaintiffs for injunctive relief, entered a judgment in favor of the Defendants and issued written orders setting forth its rulings related to the decertification of the plaintiff class and other important elements of the Litigation relating to liability, injunctive relief and monetary relief. The Plaintiffs filed an appeal with the United States Court of Appeals for the Eleventh Circuit (the “Appellate Court”) of certain of the District Court’s rulings in favor of the

Defendants. The Defendants asked the Appellate Court to affirm such rulings and filed a cross-appeal with the Appellate Court with respect to certain other rulings of the District Court. On September 3, 2008, the Appellate Court issued its initial ruling. Each of the parties to the Litigation subsequently filed a petition with the Appellate Court seeking rehearing of the Appellate Court's ruling.

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

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

On December 8, 2010, the Appellate Court denied the Plaintiffs' petition seeking rehearing *en banc* of the Appellate Court's October 4, 2010 ruling. The Defendants anticipate that the Plaintiffs will petition the United States Supreme Court to seek to further appeal all or a portion of the Appellate Court's October 4, 2010 ruling; however, there can be no assurance as to the outcome of any such petition.

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

The Company is involved in certain other claims and pending litigation arising from the normal conduct of business. Based on knowledge of the facts and, in certain cases, opinions of outside counsel, management believes that adequate provisions have been made for probable losses with respect to the resolution of all such other claims and pending litigation and that the ultimate outcome, after provisions 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. Submission of Matters to a Vote of Security Holders**

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 2010.



**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  | 2010 Market Price |          | 2009 Market Price |          | Dividends Declared |          |
|----------------|-------------------|----------|-------------------|----------|--------------------|----------|
|                | High              | Low      | High              | Low      | 2010               | 2009     |
| First Quarter  | \$ 42.40          | \$ 34.86 | \$ 40.16          | \$ 27.21 | \$ 0.045           | \$ 0.040 |
| Second Quarter | 46.23             | 38.69    | 41.65             | 32.35    | 0.045              | 0.040    |
| Third Quarter  | 41.95             | 35.10    | 38.91             | 33.22    | 0.050              | 0.045    |
| Fourth Quarter | 40.93             | 35.85    | 40.00             | 34.44    | 0.050              | 0.045    |

The reported last sale price per share of the Common Stock as reported on the NASDAQ Global Select Market on January 28, 2011 was \$40.80 per share. As of such date, Landstar had 47,866,941 shares of Common Stock outstanding. As of January 28, 2011, the Company had 71 stockholders of record of its Common Stock. However, the Company estimates that it has a significantly greater number of stockholders because a substantial number of the Company’s shares are held by brokers or dealers for their customers in street name.

It is the intention of the Board of Directors to pay a quarterly dividend going forward.

**Purchases of Equity Securities by the Company**

The following table provides information regarding the Company’s purchases of its Common Stock during the period from September 25, 2010 to December 25, 2010, the Company’s fourth fiscal quarter:

| Fiscal Period                  | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Programs | Maximum Number of Shares that May Yet be Purchased Under the Programs |
|--------------------------------|----------------------------------|------------------------------|---|---|
| September 25, 2010             |                                  |                              |   | 2,000,000   |
| Sept. 26, 2010 — Oct. 23, 2010 | 494,396                          | \$ 37.40                     | 494,396   | 1,505,604   |
| Oct. 24, 2010 — Nov. 20, 2010  | 782,942                          | 37.80                        | 782,942   | 722,662   |
| Nov. 21, 2010 — Dec. 25, 2010  | —                                | —                            | —   | 722,662   |
| <b>Total</b>                   | <b>1,277,338</b>                 | <b>\$ 37.65</b>              | <b>1,277,338</b>  |   |

On August 23, 2010, Landstar System, Inc. announced that it had been authorized by its Board of Directors to purchase up to 2,000,000 shares of its common stock from time to time in the open market and in privately negotiated transactions. As of December 25, 2010, the Company may purchase 722,662 shares of its common stock under this authorization. No specific expiration date has been assigned to the August 23, 2010 authorization.

During 2010, Landstar paid dividends as follows:

| Dividend Amount per Share | Declaration Date | Record Date      | Payment Date      |
|---------------------------|------------------|------------------|-------------------|
| \$0.045                   | January 26, 2010 | February 5, 2010 | February 26, 2010 |
| \$0.045                   | April 13, 2010   | May 6, 2010      | May 28, 2010      |
| \$0.050                   | July 13, 2010    | August 9, 2010   | August 27, 2010   |
| \$0.050                   | October 13, 2010 | November 1, 2010 | November 26, 2010 |

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On February 1, 2011, the Company announced the declaration of a quarterly dividend of \$0.05 per share payable on March 11, 2011 to shareholders of record as of February 14, 2011.

On June 27, 2008 Landstar entered into a credit agreement with a syndicate of banks and JPMorgan Chase Bank, N.A., as administrative agent (the "Credit Agreement"). The Credit Agreement provides for a restriction on cash dividends and other distributions to stockholders on the Company's capital stock to the extent there is a default under the Credit Agreement. In addition, the Credit Agreement, under certain circumstances, limits the amount of such cash dividends and other distributions to stockholders in the event that after giving effect to any payment made to effect such cash dividend or other distribution, the Leverage Ratio would exceed 2.5 to 1 on a pro forma basis as of the end of the Company's most recently completed fiscal quarter.

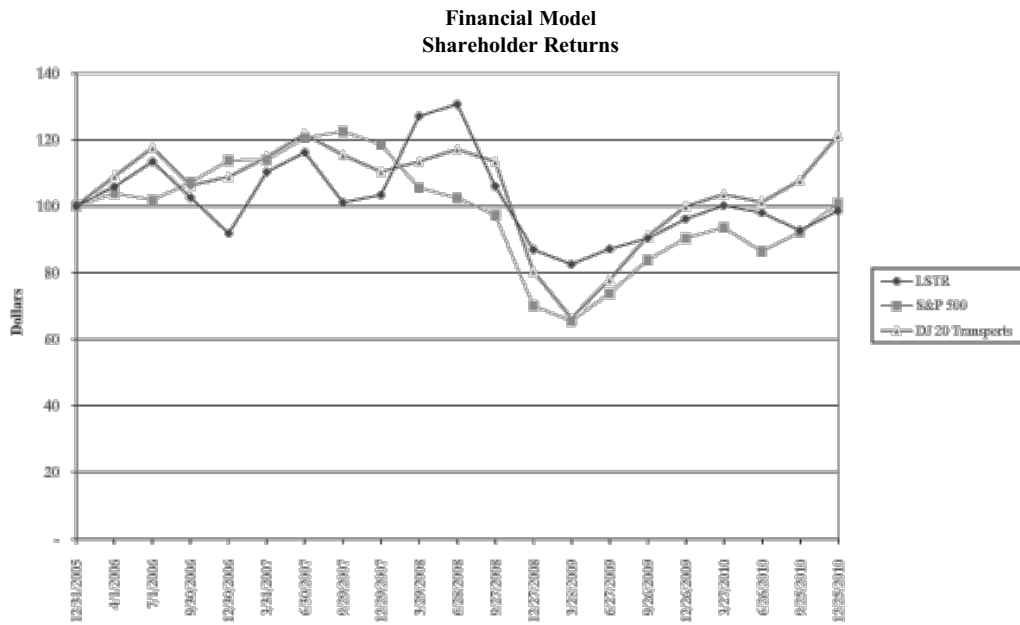
The Company maintains one stock option plan, one stock compensation plan and one employee stock option and stock incentive plan (the "ESOSIP"). The following table presents information related to securities authorized for issuance under these plans at December 25, 2010:

| <u>Plan Category</u>          | <u>Number of Securities<br/>to be Issued Upon<br/>Exercise of<br/>Outstanding Options</u> | <u>Weighted-average<br/>Exercise Price of<br/>Outstanding Options</u> | <u>Number of Securities<br/>Remaining Available for<br/>Future Issuance Under<br/>Equity Compensation<br/>Plans</u> |
|-------------------------------|---|---|---|
| Equity Compensation Plans     |   |   |   |
| Approved by Security Holders  | 2,295,831   | \$ 39.73  | 2,533,686   |
| Equity Compensation Plans Not |   |   |   |
| Approved by Security Holders  | 0   | 0   | 0   |

Under the ESOSIP, the issuance of a non-vested share of Landstar common stock counts as the issuance of two securities against the number of securities available for future issuance. Included in the number of securities remaining available for future issuance under equity compensation plans was 128,469 shares of Common Stock reserved for issuance under the 2003 Directors' Stock Compensation Plan.

**Financial Model Shareholder Returns**

The following graph illustrates the return that would have been realized assuming reinvestment of dividends by an investor who invested \$100 in each of the Company's Common Stock, the Standard and Poor's 500 Stock Index and the Dow Jones Transportation Stock Index for the period commencing December 31, 2005 through December 25, 2010.



**Item 6. Selected Financial Data**

**LANDSTAR SYSTEM, INC. AND SUBSIDIARY  
SELECTED CONSOLIDATED FINANCIAL DATA  
(Dollars in thousands, except per share amounts)**

| <b>Income Statement Data:</b>   | Fiscal Years             |                          |                          |                          |                          |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|   | 2010                     | 2009                     | 2008                     | 2007                     | 2006                     |
| Revenue   | \$ 2,400,170             | \$ 2,008,796             | \$ 2,643,069             | \$ 2,487,277             | \$ 2,513,756             |
| Investment income   | 1,558                    | 1,268                    | 3,339                    | 5,347                    | 4,250                    |
| Costs and expenses:   |                          |                          |                          |                          |                          |
| Purchased transportation  | 1,824,308                | 1,503,520                | 2,033,384                | 1,884,207                | 1,890,755                |
| Commissions to agents   | 181,405                  | 160,571                  | 203,058                  | 200,630                  | 199,775                  |
| Other operating costs   | 28,826                   | 29,173                   | 28,033                   | 28,997                   | 45,700                   |
| Insurance and claims  | 49,334                   | 45,918                   | 36,374                   | 49,832                   | 39,522                   |
| Selling, general and administrative   | 153,080                  | 133,612                  | 137,758                  | 125,177                  | 134,239                  |
| Depreciation and amortization   | 24,804                   | 23,528                   | 20,960                   | 19,088                   | 16,796                   |
| Total costs and expenses  | 2,261,757                | 1,896,322                | 2,459,567                | 2,307,931                | 2,326,787                |
| Operating income  | 139,971                  | 113,742                  | 186,841                  | 184,693                  | 191,219                  |
| Interest and debt expense   | 3,623                    | 4,030                    | 7,351                    | 6,685                    | 6,821                    |
| Income before income taxes  | 136,348                  | 109,712                  | 179,490                  | 178,008                  | 184,398                  |
| Income taxes  | 49,766                   | 39,762                   | 68,560                   | 68,355                   | 71,313                   |
| Net income  | 86,582                   | 69,950                   | 110,930                  | 109,653                  | 113,085                  |
| Less: Net loss attributable to noncontrolling interest                          | (932)                    | (445)                    | —                        | —                        | —                        |
| Net income attributable to Landstar System, Inc. and subsidiary                 | \$ 87,514                | \$ 70,395                | \$ 110,930               | \$ 109,653               | \$ 113,085               |
| Earnings per common share attributable to Landstar System, Inc. and subsidiary  | \$ 1.77                  | \$ 1.38                  | \$ 2.11                  | \$ 2.01                  | \$ 1.95                  |
| Diluted earnings per share attributable to Landstar System, Inc. and subsidiary | \$ 1.77                  | \$ 1.37                  | \$ 2.10                  | \$ 1.99                  | \$ 1.93                  |
| Dividends paid per common share   | \$ 0.190                 | \$ 0.170                 | \$ 0.155                 | \$ 0.135                 | \$ 0.110                 |
| <b>Balance Sheet Data:</b>  | <b>Dec. 25,<br/>2010</b> | <b>Dec. 26,<br/>2009</b> | <b>Dec. 27,<br/>2008</b> | <b>Dec. 29,<br/>2007</b> | <b>Dec. 30,<br/>2006</b> |
| Total assets  | \$ 683,882               | \$ 648,792               | \$ 663,530               | \$ 629,001               | \$ 646,651               |
| Long-term debt, including current maturities                                    | 121,611                  | 92,898                   | 136,445                  | 164,753                  | 129,321                  |
| Equity  | 250,967                  | 268,151                  | 253,136                  | 180,786                  | 230,274                  |

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Forward-Looking Statements**

The following is a "safe harbor" statement under the Private Securities Litigation Reform Act of 1995. Statements contained in this document that are not based on historical facts are "forward-looking statements." This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Form 10-K contain forward-looking statements, such as statements which relate to Landstar's business objectives, plans, strategies and expectations. Terms such as "anticipates," "believes," "estimates," "expects," "plans," "predicts," "may," "should," "could," "will," the negative thereof and similar expressions

are intended to identify forward-looking statements. Such statements are by nature subject to uncertainties and risks, including but not limited to: an increase in the frequency or severity of accidents or other claims; unfavorable development of existing accident claims; dependence on third party insurance companies; dependence on independent commission sales agents; dependence on third party capacity providers; substantial industry competition; disruptions or failures in the Company's computer systems; changes in fuel taxes; status of independent contractors; a downturn in economic growth or growth in the transportation sector; acquired businesses; intellectual property; and other operational, financial or legal risks or uncertainties detailed in this and Landstar's other SEC filings from time to time and described in Item 1A of this Form 10-K under the heading "Risk Factors." These risks and uncertainties could cause actual results or events to differ materially from historical results or those anticipated. Investors should not place undue reliance on such forward-looking statements and the Company undertakes no obligation to publicly update or revise any forward-looking statements.

## **Introduction**

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

In the Company's 2009 fiscal third quarter, the Company completed the acquisitions of (i) National Logistics Management Co. (together with a limited liability company and certain corporate subsidiaries and affiliates, "NLM") and (ii) A3 Integration LLC ("A3i") through A3i Acquisition LLC, an entity which the Company owns 100% of the non-voting, preferred interests and, from the time of acquisition through January 27, 2011, 75% of the voting, common equity interests. A3i is a wholly-owned subsidiary of A3i Acquisition. In January 2011, the Company purchased the remaining 25% of the voting, common equity interests in A3i Acquisition, LLC. These two acquisitions are referred to herein collectively as the "Recent Acquisitions." NLM and A3i offer customers technology-based supply chain solutions and other value-added services on a fee-for-service basis. NLM and A3i are herein referred to as the "Acquired Entities." The results of operations from NLM and A3i are presented as part of the Company's transportation logistics segment.

Landstar markets its freight transportation services and supply chain solutions primarily through independent commission sales agents who enter into contractual arrangements with the Company and are responsible for locating freight, making that freight available to Landstar's capacity providers and coordinating the transportation of the freight with customers and capacity providers. The Company's third party capacity providers consist of independent contractors who provide truck capacity to the Company under exclusive lease arrangements (the "BCO Independent Contractors"), unrelated trucking companies who provide truck capacity to the Company under non-exclusive contractual arrangements (the "Truck Brokerage Carriers"), air cargo carriers, ocean cargo carriers, railroads and independent warehouse capacity providers ("Warehouse Capacity Owners"). The Company has contracts with all of the Class 1 domestic and Canadian railroads and certain short-line railroads and contracts with domestic and international airlines and ocean lines. Through this network of agents and capacity providers linked together by Landstar's information technology systems, Landstar operates a transportation services and supply chain solutions business primarily throughout North America with revenue of \$2.4 billion during the most recently completed fiscal year. The Company reports the results of two operating segments: the transportation logistics segment and the insurance segment.

The transportation logistics segment provides a wide range of transportation services and supply chain solutions. Transportation services offered by the Company include truckload and less-than-truckload transportation, rail intermodal, air cargo, ocean cargo, expedited ground and air delivery of time-critical freight, heavy-haul/specialized, U.S.-Canada and U.S.-Mexico cross-border, project cargo and customs brokerage. Supply chain solutions are based on advanced technology solutions offered by the Company and include integrated multi-modal solutions, outsourced logistics, supply chain engineering and warehousing. Also, supply chain solutions can be delivered through a software-as-a-service model. Industries serviced by the transportation logistics segment include automotive products, paper, lumber and building products, metals, chemicals, foodstuffs, heavy machinery, retail, electronics, ammunition and explosives and military hardware. In addition, the transportation logistics segment provides transportation services to other transportation companies, including logistics and less-than-truckload service providers. Each of the independent commission sales agents has the opportunity to market all of the services provided by the transportation logistics segment. Freight transportation services are typically charged to customers on a per shipment basis for the physical transportation of freight. Supply chain solution customers are generally charged fees for the services provided. Revenue recognized by the transportation logistics segment when providing capacity to customers to haul their freight is referred to herein as “transportation services revenue” and revenue for freight management services recognized on a fee-for-service basis is referred to herein as “transportation management fees.” During 2010, transportation services revenue hauled by BCO Independent Contractors, Truck Brokerage Carriers and rail intermodal, air cargo and ocean cargo carriers represented 54%, 39%, 3%, 1%, and 2%, respectively, of the Company’s transportation logistics segment revenue. Transportation management fees represented 1% of the Company’s transportation logistics segment revenue in 2010.

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

### **Changes in Financial Condition and Results of Operations**

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

While customer demand, which is subject to overall economic conditions, ultimately drives increases or decreases in revenue, the Company primarily relies on its independent commission sales agents to establish customer relationships and generate revenue opportunities. Management’s primary focus with respect to revenue growth is on revenue generated by independent commission sales agents who on an annual basis generate \$1 million or more of Landstar revenue (“Million Dollar Agents”). Management believes future revenue growth is primarily dependent on its ability to increase both the revenue generated by Million Dollar Agents and the number of Million Dollar Agents through a combination of recruiting new agents and increasing the revenue opportunities generated by existing independent commission sales agents. The following

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table shows the number of Million Dollar Agents, the average revenue generated by these agents and the percent of consolidated revenue generated by these agents during the past three fiscal years:

|  | Fiscal Year  |              |              |
|--|--------------|--------------|--------------|
|  | 2010         | 2009         | 2008         |
| Number of Million Dollar Agents                                    | 468          | 405          | 484          |
| Average revenue generated per Million Dollar Agent                 | \$ 4,576,000 | \$ 4,292,000 | \$ 4,907,000 |
| Percent of consolidated revenue generated by Million Dollar Agents | 89%          | 87%          | 90%          |

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

|   | Fiscal Year         |                     |                     |
|---|---------------------|---------------------|---------------------|
|   | 2010                | 2009                | 2008                |
| Revenue generated through (in thousands): |                     |                     |                     |
| BCO Independent Contractors               | \$ 1,289,395        | \$ 1,140,004        | \$ 1,388,353        |
| Truck Brokerage Carriers                  | 919,605             | 694,467             | 996,269             |
| Rail intermodal                           | 70,299              | 76,346              | 136,367             |
| Ocean cargo carriers                      | 46,064              | 33,835              | 42,153              |
| Air cargo carriers                        | 20,104              | 17,621              | 14,891              |
| Other(1)                                  | 54,703              | 46,523              | 65,036              |
|   | <u>\$ 2,400,170</u> | <u>\$ 2,008,796</u> | <u>\$ 2,643,069</u> |
| Number of loads:                          |                     |                     |                     |
| BCO Independent Contractors               | 821,330             | 761,940             | 820,680             |
| Truck Brokerage Carriers                  | 591,810             | 501,980             | 571,600             |
| Rail intermodal                           | 31,070              | 37,890              | 58,510              |
| Ocean cargo carriers                      | 6,830               | 5,370               | 5,380               |
| Air cargo carriers                        | 6,880               | 7,780               | 8,260               |
|   | <u>1,457,920</u>    | <u>1,314,960</u>    | <u>1,464,430</u>    |
| Revenue per load:                         |                     |                     |                     |
| BCO Independent Contractors               | \$ 1,570            | \$ 1,496            | \$ 1,692            |
| Truck Brokerage Carriers                  | 1,554               | 1,383               | 1,743               |
| Rail intermodal                           | 2,263               | 2,015               | 2,331               |
| Ocean cargo carriers                      | 6,744               | 6,301               | 7,835               |
| Air cargo carriers                        | 2,922               | 2,265               | 1,803               |

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

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Also critical to the Company's success is its ability to secure capacity, particularly truck capacity, at rates that allow the Company to profitably transport customers' freight. The following table summarizes available truck capacity providers as of the end of the three most recent fiscal years:

|  | <u>Dec. 25,<br/>2010</u> | <u>Dec. 26,<br/>2009</u> | <u>Dec. 27,<br/>2008</u> |
|--|--------------------------|--------------------------|--------------------------|
| BCO Independent Contractors                              | 7,865                    | 7,926                    | 8,455                    |
| Truck Brokerage Carriers:                                |                          |                          |                          |
| Approved and active(1)                                   | 18,049                   | 14,887                   | 16,135                   |
| Other approved   | 9,938                    | 9,886                    | 10,036                   |
|  | <u>27,987</u>            | <u>24,773</u>            | <u>26,171</u>            |
| Total available truck capacity providers                 | <u>35,852</u>            | <u>32,699</u>            | <u>34,626</u>            |
| Number of trucks provided by BCO Independent Contractors | <u>8,452</u>             | <u>8,519</u>             | <u>9,039</u>             |

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

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

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

Commissions to agents are based on contractually agreed-upon percentages of revenue or 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, transportation management fees and revenue from the insurance segment and with changes in net revenue on services provided by Truck Brokerage Carriers and rail intermodal, air cargo and ocean cargo carriers. Commissions to agents are recognized upon the completion of freight delivery.

The Company's gross profit equals revenue less the cost of purchased transportation and commissions to agents. Gross profit divided by revenue is referred to as gross profit margin. In general, gross profit margin on revenue hauled by BCO Independent Contractors represents a fixed percentage of revenue due to the nature of the contracts that pay a fixed percentage of revenue to both the BCO Independent Contractors and independent commission sales agents. For revenue hauled by Truck Brokerage Carriers, gross profit margin is either fixed or variable as a percent of revenue, depending on the contract with each individual independent commission



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sales agent. Under certain contracts with independent commission sales agents, the Company retains a fixed percentage of revenue and the agent retains the amount remaining less the cost of purchased transportation (the "retention contracts"). Gross profit margin on revenue hauled by rail, air cargo carriers, ocean cargo carriers and Truck Brokerage Carriers, other than those under retention contracts, are variable in nature as the Company's contracts with independent commission sales agents provide commissions to agents at a contractually agreed upon percentage of net revenue. Approximately 73% of the Company's revenue in 2010 had a fixed gross profit margin. The Company's operating margin is defined as operating income divided by gross profit.

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

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

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

Depreciation and amortization primarily relate to depreciation of trailing equipment, amortization of intangible assets attributed to the acquisitions in 2009 and depreciation of management information services equipment.

The following table sets forth the percentage relationship of purchased transportation and commissions to agents, both being direct costs, to revenue and indirect costs as a percentage of gross profit for the period indicated:

|                                     | Fiscal Year |        |        |
|-------------------------------------|-------------|--------|--------|
|                                     | 2010        | 2009   | 2008   |
| Revenue                             | 100.0%      | 100.0% | 100.0% |
| Purchased transportation            | 76.0        | 74.8   | 76.9   |
| Commissions to agents               | 7.6         | 8.0    | 7.7    |
| Gross profit margin                 | 16.4%       | 17.2%  | 15.4%  |
| Gross profit                        | 100.0%      | 100.0% | 100.0% |
| Investment income                   | 0.4         | 0.4    | 0.8    |
| Costs and expenses:                 |             |        |        |
| Other operating costs               | 7.3         | 8.5    | 6.9    |
| Insurance and claims                | 12.5        | 13.3   | 8.9    |
| Selling, general and administrative | 38.8        | 38.8   | 33.9   |
| Depreciation and amortization       | 6.3         | 6.8    | 5.2    |
| Total costs and expenses            | 64.9        | 67.4   | 54.9   |
| Operating margin                    | 35.5%       | 33.0%  | 45.9%  |

### *Fiscal Year Ended December 25, 2010 Compared to Fiscal Year Ended December 26, 2009*

Revenue for 2010 was \$2,400,170,000, an increase of \$391,374,000, or 19.5%, compared to 2009. Revenue increased \$393,169,000, or 19.9%, at the transportation logistics segment. Included in 2010 and 2009

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was \$20,058,000 and \$10,337,000, respectively, of transportation management fees. The increase in revenue at the transportation logistics segment was primarily attributable to an 11% increase in the number of loads hauled and a higher revenue per load of approximately 8%. The increase in the number of loads hauled was generally attributable to improved industrial production in the U.S. during 2010 and the impact of market share gains from agents recruited during 2010 and 2009. The increase in revenue per load was generally attributable to increased demand and tightening capacity. Revenue hauled by BCO Independent Contractors, Truck Brokerage Carriers, air cargo carriers and ocean cargo carriers increased 13%, 32%, 14%, and 36%, respectively, while revenue hauled by rail intermodal carriers decreased 8%. The number of loads in 2010 hauled by BCO Independent Contractors, Truck Brokerage Carriers and ocean cargo carriers increased 8%, 18% and 27%, respectively, compared to 2009, while the number of loads hauled by rail intermodal carriers and air cargo carriers decreased 18% and 12%, respectively, over the same period. The decrease in the number of loads hauled by rail intermodal carriers and air cargo carriers was primarily attributable to the loss of a small number of large volume agents in 2009 and 2010 whose businesses were concentrated in these modes. Revenue per load for loads hauled by BCO Independent Contractors, Truck Brokerage Carriers, rail intermodal carriers, air cargo carriers and ocean cargo carriers increased approximately 5%, 12%, 12%, 29% and 7%, respectively, compared to 2009. Fuel surcharges on Truck Brokerage Carrier revenue identified separately in billings to customers and included as a component of Truck Brokerage Carrier revenue were \$79,898,000 and \$48,095,000 in 2010 and 2009, respectively. Fuel surcharges billed to customers on revenue hauled by BCO Independent Contractors are excluded from revenue and paid in entirety to the BCO Independent Contractors.

Purchased transportation was 76.0% and 74.8% of revenue in 2010 and 2009, respectively. The increase in purchased transportation as a percentage of revenue was primarily attributable to increased revenue hauled by Truck Brokerage Carriers, which tends to have a higher cost of purchased transportation, and increased rates of purchased transportation paid to Truck Brokerage Carriers due to increased freight demand and reduced industry wide truck capacity. Commissions to agents were 7.6% of revenue in 2010 and 8.0% of revenue in 2009. The decrease in commissions to agents as a percentage of revenue was primarily attributable to the increased rate of purchased transportation on revenue hauled by Truck Brokerage Carriers.

Investment income at the insurance segment was \$1,558,000 and \$1,268,000 in 2010 and 2009, respectively. The increase in investment income was primarily due to an increased rate of return on investments held by the insurance segment in 2010.

Other operating costs were 7.3% and 8.5% of gross profit in 2010 and 2009, respectively. The decrease in other operating costs as a percentage of gross profit was primarily attributable to the effect of increased gross profit in 2010. Insurance and claims were 12.5% of gross profit in 2010 and 13.3% of gross profit in 2009. The decrease in insurance and claims as a percentage of gross profit was primarily due to the effect of increased gross profit, partially offset by favorable development of prior year claims reported in 2009. Selling, general and administrative costs were 38.8% of gross profit in both 2010 and 2009. Included in selling, general and administrative costs in 2010 was a provision for bonuses under the Company's incentive compensation plans of \$15,093,000, whereas no such provision was included in 2009. In addition, included in selling, general, and administrative costs were \$19,185,000 in 2010 and \$7,138,000 in 2009 of costs attributable to the Acquired Entities. As noted above, the results of the Acquired Entities were included in the Company results for the full 2010 fiscal year as compared to approximately half of the 2009 fiscal year. Depreciation and amortization was 6.3% of gross profit in 2010 compared with 6.8% of gross profit in 2009. The decrease in depreciation and amortization as a percentage of gross profit was primarily due to the effect of increased gross profit, partially offset by amortization of identifiable intangible assets attributed to the Acquired Entities.

Interest and debt expense in 2010 was \$407,000 lower than 2009. The decrease in interest and debt expense was primarily attributable to lower average capital lease obligations during 2010, partially offset by increased average borrowings on the Company's revolving credit facility.

The provisions for income taxes for 2010 and 2009 were based on estimated full year combined effective income tax rates of approximately 36.5% and 36.2% respectively, which were higher than the statutory federal income tax rate primarily as a result of state taxes, the meals and entertainment exclusion and non-deductible

stock compensation expense, partly offset by a recognition of benefits relating to several uncertain tax positions in both years.

The net loss attributable to noncontrolling interest of \$932,000 and \$445,000 in 2010 and 2009, respectively, represents the noncontrolling investor's 25 percent share of the net losses incurred by A3i.

Net income attributable to the Company was \$87,514,000, or \$1.77 per common share (\$1.77 per diluted share), in 2010. Net income attributable to the Company was \$70,395,000, or \$1.38 per common share (\$1.37 per diluted share), in 2009.

***Fiscal Year Ended December 26, 2009 Compared to Fiscal Year Ended December 27, 2008***

Revenue for 2009 was \$2,008,796,000, a decrease of \$634,273,000, or 24.0%, compared to 2008. Revenue decreased \$633,353,000, or 24.3%, at the transportation logistics segment. The overall decrease in revenue was primarily due to the significant downturn in the economy. Revenue hauled by BCO Independent Contractors, Truck Brokerage Carriers, rail intermodal carriers and ocean cargo carriers in 2009 decreased 18%, 30%, 44% and 20%, respectively, compared to 2008 while revenue hauled by air cargo carriers increased 18%. The number of loads in 2009 hauled by BCO Independent Contractors, Truck Brokerage Carriers, rail intermodal carriers and air cargo carriers decreased 7%, 12%, 35% and 6%, respectively, compared to 2008, while the number of loads hauled by ocean cargo carriers was flat. Revenue per load in 2009 for loads hauled by BCO Independent Contractors, Truck Brokerage Carriers, rail intermodal carriers and ocean cargo carriers decreased approximately 12%, 21%, 14% and 20%, respectively, compared to 2008, while revenue per load for loads hauled by air cargo carriers increased 26%. The decrease in the number of loads and revenue per load hauled by BCO Independent Contractors, Truck Brokerage Carriers, rail intermodal carriers and ocean cargo carriers was primarily attributable to lower demand due to the overall weak economic conditions which caused increased pressure on price. In addition, the decrease in revenue per load on Truck Brokerage Carrier revenue was partly attributable to decreased fuel surcharges identified separately in billings to customers in 2009 compared to 2008. Fuel surcharges on Truck Brokerage Carrier revenue identified separately in billings to customers and included as a component of Truck Brokerage Carrier revenue were \$48,095,000 and \$134,230,000 in 2009 and 2008, respectively. Fuel surcharges billed to customers on revenue hauled by BCO Independent Contractors are excluded from revenue and paid in entirety to the BCO Independent Contractors.

Purchased transportation was 74.8% and 76.9% of revenue in 2009 and 2008, respectively. The decrease in purchased transportation as a percentage of revenue was primarily attributable to decreased rates of purchased transportation paid to Truck Brokerage Carriers, due to lower fuel cost and excess truck capacity industry wide, and an increase in the percentage of revenue hauled by BCO Independent Contractors, which tends to have a lower cost of purchased transportation. Commissions to agents were 8.0% of revenue in 2009 and 7.7% of revenue in 2008. The increase in commissions to agents as a percentage of revenue was primarily attributable to the decreased rate of purchased transportation on revenue hauled by Truck Brokerage Carriers.

Investment income at the insurance segment was \$1,268,000 and \$3,339,000 in 2009 and 2008, respectively. The decrease in investment income was primarily due to a decreased rate of return, attributable to a general decrease in interest rates, on investments held by the insurance segment in 2009.

Other operating costs were 8.5% and 6.9% of gross profit in 2009 and 2008, respectively. The increase in other operating costs as a percentage of gross profit was primarily attributable to the effect of decreased gross profit, \$1,702,000 of other operating costs from the Acquired Entities, increased trailing equipment maintenance costs and an increased provision for contractor bad debt, partially offset by decreased trailing equipment rental costs. Insurance and claims were 13.3% of gross profit in 2009 and 8.9% of gross profit in 2008. The increase in insurance and claims as a percentage of gross profit was primarily due to an increase in the severity of commercial trucking claims incurred in 2009 and decreased favorable development of prior year claims reported in 2009. Selling, general and administrative costs were 38.8% of gross profit in 2009 and 33.9% of gross profit in 2008. The increase in selling, general and administrative costs as a percentage of gross profit was primarily attributable to the effect of decreased gross profit, \$2,005,000 of one-time acquisition related costs and \$7,138,000 of selling, general and administrative costs from the Acquired Entities in 2009, partially offset by a decreased provision for bonuses under the Company's incentive compensation

programs in 2009. Depreciation and amortization was 6.8% of gross profit in 2009 compared with 5.2% in 2008. The increase in depreciation and amortization as a percentage of gross profit was primarily due to the effect of decreased gross profit, depreciation on Company-owned trailing equipment and amortization of identifiable intangible assets attributed to the Acquired Entities.

Interest and debt expense in 2009 was \$3,321,000 lower than 2008. The decrease in interest and debt expense was primarily attributable to lower average borrowings on the Company's revolving credit facility, a lower average rate on borrowings under the Company's revolving credit facility and lower average capital lease obligations during 2009.

The provisions for income taxes for 2009 and 2008 were based on estimated full year combined effective income tax rates of approximately 36.2% and 38.2%, respectively, which were higher than the statutory federal income tax rate primarily as a result of state taxes, the meals and entertainment exclusion and non-deductible stock compensation expense. The decrease in the effective income tax rate was primarily attributable to recognition of benefits relating to several uncertain tax positions for which the applicable statute of limitations passed in 2009.

The net loss attributable to noncontrolling interest of \$445,000 represents the noncontrolling investor's 25 percent share of the net loss incurred by A3i during the 2009 period.

Net income attributable to the Company was \$70,395,000, or \$1.38 per common share (\$1.37 per diluted share), in 2009. Net income attributable to the Company was \$110,930,000, or \$2.11 per common share (\$2.10 per diluted share), in 2008.

### **Capital Resources and Liquidity**

Working capital and the ratio of current assets to current liabilities were \$142,571,000 and 1.5 to 1, respectively, at December 25, 2010, compared with \$167,977,000 and 1.6 to 1, respectively, at December 26, 2009. Landstar has historically operated with current ratios within the range of 1.5 to 1 to 2.0 to 1. Cash provided by operating activities was \$108,758,000 and \$144,964,000 in 2010 and 2009, respectively. The decrease in cash flow provided by operating activities was primarily attributable to the timing of collections of trade receivables.

The Company paid \$0.19 per share, or \$9,422,000, in cash dividends during 2010. It is the intention of the Board of Directors to continue to pay a quarterly dividend. During 2010, the Company purchased 2,652,791 shares of its common stock at a total cost of \$102,736,000. As of December 25, 2010, the Company may purchase an additional 722,662 shares of its common stock under its authorized stock purchase program. The Company has used cash provided by operating activities and borrowings on the Company's revolving credit facilities to fund the purchases. Since January 1997, the Company has purchased over \$974,000,000 of its common stock under programs authorized by the Board of Directors of the Company in open market and private block transactions.

Equity was \$250,967,000, or 67% of total capitalization (defined as total debt plus equity), at December 25, 2010, compared with \$268,151,000, or 74% of total capitalization, at December 26, 2009. The decrease in equity was primarily a result of the purchase of shares of the Company's common stock, partially offset by net income and the effect of the exercises of stock options during the period. Long-term debt, including current maturities, was \$121,611,000 at December 25, 2010, compared to \$92,898,000 at December 26, 2009.

On June 27, 2008, Landstar entered into a credit agreement with a syndicate of banks and JPMorgan Chase Bank, N.A., as administrative agent (the "Credit Agreement"). The Credit Agreement, which expires on June 27, 2013, provides \$225,000,000 of borrowing capacity in the form of a revolving credit facility, \$75,000,000 of which may be utilized in the form of letter of credit guarantees.

The Credit Agreement contains a number of covenants that limit, among other things, the incurrence of additional indebtedness. The Company is required to, among other things, maintain a minimum Fixed Charge Coverage Ratio, as defined in the Credit Agreement, and maintain a Leverage Ratio, as defined in the Credit

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Agreement, below a specified maximum. The Credit Agreement provides for a restriction on cash dividends and other distributions to stockholders on the Company's capital stock to the extent there is a default under the Credit Agreement. In addition, the Credit Agreement under certain circumstances limits the amount of such cash dividends and other distributions to stockholders in the event that after giving effect to any payment made to effect such cash dividend or other distribution, the Leverage Ratio would exceed 2.5 to 1 on a pro forma basis as of the end of the Company's most recently completed fiscal quarter. The Credit Agreement provides for an event of default in the event, among other things, that a person or group acquires 25% or more of the outstanding capital stock of the Company or obtains power to elect a majority of the Company's directors. None of these covenants are presently considered by management to be materially restrictive to the Company's operations, capital resources or liquidity. The Company is currently in compliance with all of the debt covenants under the Credit Agreement.

At December 25, 2010, the Company had \$80,000,000 in borrowings outstanding and \$33,699,000 of letters of credit outstanding under the Credit Agreement. At December 25, 2010, there was \$111,301,000 available for future borrowings under the Credit Agreement. In addition, the Company has \$44,715,000 in letters of credit outstanding, as collateral for insurance claims, that are secured by investments and cash equivalents totaling \$49,683,000. Investments, all of which are carried at fair value, consist of investment-grade bonds and mortgage-backed securities having maturities of up to five years. Fair value of investments is based primarily on quoted market prices.

Historically, the Company has generated sufficient operating cash flow to meet its debt service requirements, fund continued growth, both internal and through acquisitions, complete or execute share purchases of its common stock under authorized share purchase programs, pay dividends and meet working capital needs. As a non-asset based provider of transportation services and supply chain solutions, the Company's annual capital requirements for operating property are generally for trailing equipment and management information services equipment. In addition, a significant portion of the trailing equipment used by the Company is provided by third party capacity providers, thereby reducing the Company's capital requirements. During 2010, 2009 and 2008, the Company purchased \$27,505,000, \$2,715,000 and \$8,289,000, respectively, of operating property and acquired \$14,986,000, \$12,284,000 and \$4,802,000, respectively, of trailing equipment by entering into capital leases. The Company purchased its primary facility in Jacksonville, Florida in 2010 for \$21,135,000. Landstar anticipates acquiring approximately \$44,000,000 in operating property, primarily new trailing equipment to replace older trailing equipment, and information technology equipment during fiscal year 2011 either by purchase or lease financing. The Company does not currently anticipate any other significant capital requirements in 2011.

Management believes that cash flow from operations combined with the Company's borrowing capacity under the Credit Agreement will be adequate to meet Landstar's debt service requirement, fund continued growth, both internal and through acquisitions, pay dividends, complete the authorized share purchase program and meet working capital needs.

### *Contractual Obligations and Commitments*

At December 25, 2010, the Company's obligations and commitments to make future payments under contracts, such as debt and lease agreements, were as follows (in thousands):

| Contractual Obligation      | Payments Due by Period |                     |                   |                 |                      |
|-----------------------------|------------------------|---------------------|-------------------|-----------------|----------------------|
|                             | Total                  | Less Than<br>1 Year | 1-3<br>Years      | 4-5<br>Years    | More Than<br>5 Years |
| Long-term debt obligations  | \$ 80,000              |                     | \$ 80,000         |                 |                      |
| Capital lease obligations   | 43,970                 | \$ 23,570           | 15,492            | \$ 4,908        |                      |
| Operating lease obligations | 8,868                  | 2,554               | 3,425             | 1,453           | \$ 1,436             |
| Purchase obligations        | 36,392                 | 34,763              | 1,629             | —               | —                    |
|                             | <u>\$ 169,230</u>      | <u>\$ 60,887</u>    | <u>\$ 100,546</u> | <u>\$ 6,361</u> | <u>\$ 1,436</u>      |

Long-term debt obligations represent borrowings under the Credit Agreement and do not include interest. Capital lease obligations above include \$2,359,000 of imputed interest. At December 25, 2010, the Company has gross unrecognized tax benefits of \$9,209,000. This amount is excluded from the table above as the Company cannot reasonably estimate the period of cash settlement with the respective taxing authorities. At December 25, 2010, the Company has insurance claims liabilities of \$71,683,000. This amount is excluded from the table above as the Company cannot reasonably estimate the period of cash settlement on these liabilities. The short term portion of the insurance claims liability is reported on the consolidated balance sheets primarily on an actuarially determined basis. Included in purchase obligations in the table above is \$32,042,000 of obligations related to trailing equipment to replace older trailing equipment.

### ***Off-Balance Sheet Arrangements***

As of December 25, 2010, the Company had no off-balance sheet arrangements, other than operating leases as disclosed in the table of Contractual Obligations and Commitments above, that have or are reasonably likely to have a current or future material effect on the Company's financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

### ***Legal Matters***

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

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

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

Independent Contractors may not be handled on a class action basis for purposes of determining the amount of actual damages, if any, they sustained as a result of any violations.

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

On December 8, 2010, the Appellate Court denied the Plaintiffs' petition seeking rehearing *en banc* of the Appellate Court's October 4, 2010 ruling. The Defendants anticipate that the Plaintiffs will petition the United States Supreme Court to seek to further appeal all or a portion of the Appellate Court's October 4, 2010 ruling; however, there can be no assurance as to the outcome of any such petition.

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

The Company is involved in certain other claims and pending litigation arising from the normal conduct of business. Based on knowledge of the facts and, in certain cases, opinions of outside counsel, management believes that adequate provisions have been made for probable losses with respect to the resolution of all such other claims and pending litigation and that the ultimate outcome, after provisions 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.

### **Critical Accounting Policies and Estimates**

The allowance for doubtful accounts for both trade and other receivables represents management's estimate of the amount of outstanding receivables that will not be collected. Historically, management's estimates for uncollectible receivables have been materially correct. Although management believes the amount of the allowance for both trade and other receivables at December 25, 2010 is appropriate, a prolonged period of low or no economic growth may adversely affect the collection of these receivables. Conversely, a more robust economic environment may result in the realization of some portion of the estimated uncollectible receivables.

Landstar provides for the estimated costs of self-insured claims primarily on an actuarial basis. The amount recorded for the estimated liability for claims incurred is based upon the facts and circumstances known on the applicable balance sheet date. The ultimate resolution of these claims may be for an amount greater or less than the amount estimated by management. The Company continually revises its existing claim estimates as new or revised information becomes available on the status of each claim. Historically, the Company has experienced both favorable and unfavorable development of prior year claims estimates. During fiscal years 2010, 2009 and 2008, insurance and claims costs included \$1,582,000, \$4,113,000 and \$9,968,000, respectively, of favorable adjustments to prior years' claims estimates. It is reasonably likely that the ultimate outcome of settling all outstanding claims will be more or less than the estimated claims reserve at December 25, 2010.

The Company utilizes certain income tax planning strategies to reduce its overall cost of income taxes. Upon audit, it is possible that certain strategies might be disallowed resulting in an increased liability for income taxes. Certain of these tax planning strategies result in a level of uncertainty as to whether the related tax positions taken by the Company will result in a recognizable benefit. The Company has provided for its estimated exposure attributable to such tax positions due to the corresponding level of uncertainty with respect

to the amount of income tax benefit that may ultimately be realized. Management believes that the provision for liabilities resulting from the uncertainty in such income tax positions is appropriate. To date, the Company has not experienced an examination by governmental revenue authorities that would lead management to believe that the Company's past provisions for exposures related to the uncertainty of such income tax positions are not reasonably appropriate.

The Company tests for impairment of goodwill at least annually, typically in the fourth quarter, based on a two-step impairment test. The first step compares the fair value of each reporting unit with its carrying amount, including goodwill. Fair value of each reporting unit is estimated using a discounted cash flow model and market approach. The model includes a number of significant assumptions and estimates including future cash flows and discount rates. If the carrying amount exceeds fair value under the first step of the impairment test, then the second step is performed to measure the amount of any impairment loss. Only the first step of the impairment test was required in 2010 as the estimated fair value of the reporting units significantly exceeded carrying value.

Significant variances from management's estimates for the amount of uncollectible receivables, the ultimate resolution of self-insured claims, the provision for uncertainty in income tax positions and impairment of goodwill can all be expected to positively or negatively affect Landstar's earnings in a given quarter or year. However, management believes that the ultimate resolution of these items, given a range of reasonably likely outcomes, will not significantly affect the long-term financial condition of Landstar or its ability to fund its continuing operations.

#### **Effects of Inflation**

Management does not believe inflation has had a material impact on the results of operations or financial condition of Landstar in the past five years. However, inflation in excess of historical trends might have an adverse effect on the Company's results of operations.

#### **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 June, September and December.

#### **Item 7a. *Quantitative and Qualitative Disclosures about Market Risk***

The Company is exposed to changes in interest rates as a result of its financing activities, primarily its borrowings on the revolving credit facility, and investing activities with respect to investments held by the insurance segment.

On June 27, 2008, Landstar entered into a credit agreement with a syndicate of banks and JPMorgan Chase Bank, N.A., as administrative agent (the "Credit Agreement"). The Credit Agreement, which expires on June 27, 2013, provides \$225,000,000 of borrowing capacity in the form of a revolving credit facility, \$75,000,000 of which may be utilized in the form of letter of credit guarantees.

Borrowings under the Credit Agreement bear interest at rates equal to, at the option of the Company, either (i) the greater of (a) the prime rate as publicly announced from time to time by JPMorgan Chase Bank, N.A. and (b) the federal funds effective rate plus .5%, or, (ii) the rate at the time offered to JPMorgan Chase Bank, N.A. in the Eurodollar market for amounts and periods comparable to the relevant loan plus, in either case, a margin that is determined based on the level of the Company's Leverage Ratio, as defined in the Credit Agreement. As of December 25, 2010 and December 26, 2009, the weighted average interest rate on borrowings outstanding was 1.14% and 1.12%, respectively. During the fourth quarter of 2010 and 2009, the average outstanding balance under the Credit Agreement was approximately \$87,062,000 and \$33,120,000, respectively. Based on the borrowing rates in the Credit Agreement and the repayment terms, the fair value of the outstanding borrowings as of December 25, 2010 was estimated to approximate carrying value. The balance outstanding under the Credit Agreement was \$80,000,000 and \$40,000,000 at December 25, 2010 and



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December 26, 2009, respectively. Assuming that debt levels on the Credit Agreement remain at \$80,000,000, the balance at December 25, 2010, a hypothetical increase of 100 basis points in current rates provided for under the Credit Agreement is estimated to result in an increase in interest expense of \$800,000 on an annualized basis.

Long-term investments, all of which are available-for-sale, consist of investment-grade bonds and mortgage-backed securities having maturities of up to five years. The balance of the long-term portion of investments in bonds and mortgage-backed securities was \$54,401,000 and \$28,603,000 at December 25, 2010 and December 26, 2009, respectively. Assuming that the long-term portion of investments in bonds and mortgage-backed securities remains at \$54,401,000, the balance at December 25, 2010, a hypothetical increase or decrease in interest rates of 100 basis points would not have a material impact on results of operations on an annualized basis. Short-term investments consist of short-term investment-grade instruments and the current maturities of investment-grade bonds and mortgage-backed securities. Accordingly, any future interest rate risk on these short-term investments would not be material.

Assets and liabilities of the Company's Canadian operation are translated from their functional currency to U.S. dollars using exchange rates in effect at the balance sheet date and revenue and expense accounts are translated at average monthly exchange rates during the period. Adjustments resulting from the translation process are included in accumulated other comprehensive income. Transactional gains and losses arising from receivable and payable balances, including intercompany balances, in the normal course of business that are denominated in a currency other than the functional currency of the operation are recorded in the statements of income when they occur. The net assets held at Landstar's Canadian subsidiary at December 25, 2010 was, as translated to U.S. dollars, less than 1% of total consolidated net assets. Accordingly, any translation gain or loss related to the Canadian operation would not be material.

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

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

|   | Dec. 25,<br>2010  | Dec. 26,<br>2009  |
|---|-------------------|-------------------|
| <b>ASSETS</b>   |                   |                   |
| Current Assets  |                   |                   |
| Cash and cash equivalents   | \$ 44,706         | \$ 85,719         |
| Short-term investments  | 23,266            | 24,325            |
| Trade accounts receivable, less allowance of \$5,324 and \$5,547  | 307,350           | 278,854           |
| Other receivables, including advances to independent contractors, less allowance of \$5,511 and \$5,797 | 23,943            | 18,149            |
| Deferred income taxes and other current assets  | 21,652            | 19,565            |
| Total current assets  | <u>420,917</u>    | <u>426,612</u>    |
| Operating property, less accumulated depreciation and amortization of \$137,830 and \$124,810           | 132,649           | 116,656           |
| Goodwill  | 57,470            | 57,470            |
| Other assets  | 72,846            | 48,054            |
| Total assets  | <u>\$ 683,882</u> | <u>\$ 648,792</u> |
| <b>LIABILITIES AND EQUITY</b>   |                   |                   |
| Current Liabilities   |                   |                   |
| Cash overdraft  | \$ 24,877         | \$ 28,919         |
| Accounts payable  | 137,297           | 121,030           |
| Current maturities of long-term debt  | 22,172            | 24,585            |
| Insurance claims  | 40,215            | 41,627            |
| Other current liabilities   | 53,785            | 42,474            |
| Total current liabilities   | <u>278,346</u>    | <u>258,635</u>    |
| Long-term debt, excluding current maturities  | 99,439            | 68,313            |
| Insurance claims  | 31,468            | 30,680            |
| Deferred income taxes   | 23,662            | 23,013            |
| Equity  |                   |                   |
| Landstar System, Inc. and subsidiary shareholders' equity:  |                   |                   |
| Common stock, \$0.01 par value, authorized 160,000,000 shares, issued 66,535,169 and 66,255,358 shares  | 665               | 663               |
| Additional paid-in capital  | 169,268           | 161,261           |
| Retained earnings   | 844,132           | 766,040           |
| Cost of 18,674,902 and 16,022,111 shares of common stock in treasury                                    | (763,182)         | (660,446)         |
| Accumulated other comprehensive income  | 881               | 498               |
| Total Landstar System, Inc. and subsidiary shareholders' equity   | <u>251,764</u>    | <u>268,016</u>    |
| Noncontrolling interest   | (797)             | 135               |
| Total equity  | <u>250,967</u>    | <u>268,151</u>    |
| Total liabilities and equity  | <u>\$ 683,882</u> | <u>\$ 648,792</u> |

See accompanying notes to consolidated financial statements.

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

|   | Fiscal Years Ended |                   |                   |
|---|--------------------|-------------------|-------------------|
|   | Dec. 25,<br>2010   | Dec. 26,<br>2009  | Dec. 27,<br>2008  |
| Revenue   | \$ 2,400,170       | \$ 2,008,796      | \$ 2,643,069      |
| Investment income   | 1,558              | 1,268             | 3,339             |
| Costs and expenses:   |                    |                   |                   |
| Purchased transportation  | 1,824,308          | 1,503,520         | 2,033,384         |
| Commissions to agents   | 181,405            | 160,571           | 203,058           |
| Other operating costs   | 28,826             | 29,173            | 28,033            |
| Insurance and claims  | 49,334             | 45,918            | 36,374            |
| Selling, general and administrative   | 153,080            | 133,612           | 137,758           |
| Depreciation and amortization   | 24,804             | 23,528            | 20,960            |
| Total costs and expenses  | <u>2,261,757</u>   | <u>1,896,322</u>  | <u>2,459,567</u>  |
| Operating income  | 139,971            | 113,742           | 186,841           |
| Interest and debt expense   | 3,623              | 4,030             | 7,351             |
| Income before income taxes  | 136,348            | 109,712           | 179,490           |
| Income taxes  | 49,766             | 39,762            | 68,560            |
| Net income  | <u>86,582</u>      | <u>69,950</u>     | <u>110,930</u>    |
| Less: Net loss attributable to noncontrolling interest                          | (932)              | (445)             | —                 |
| Net income attributable to Landstar System, Inc. and subsidiary                 | <u>\$ 87,514</u>   | <u>\$ 70,395</u>  | <u>\$ 110,930</u> |
| Earnings per common share attributable to Landstar System, Inc. and subsidiary  | <u>\$ 1.77</u>     | <u>\$ 1.38</u>    | <u>\$ 2.11</u>    |
| Diluted earnings per share attributable to Landstar System, Inc. and subsidiary | <u>\$ 1.77</u>     | <u>\$ 1.37</u>    | <u>\$ 2.10</u>    |
| Average number of shares outstanding:   |                    |                   |                   |
| Earnings per common share   | 49,523,000         | 51,095,000        | 52,503,000        |
| Diluted earnings per share  | <u>49,580,000</u>  | <u>51,280,000</u> | <u>52,854,000</u> |
| Dividends paid per common share   | <u>\$ 0.190</u>    | <u>\$ 0.170</u>   | <u>\$ 0.155</u>   |

See accompanying notes to consolidated financial statements.

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

|   | Fiscal Years Ended |                  |                  |
|---|--------------------|------------------|------------------|
|   | Dec. 25,<br>2010   | Dec. 26,<br>2009 | Dec. 27,<br>2008 |
| <b>OPERATING ACTIVITIES</b>   |                    |                  |                  |
| Net income  | \$ 86,582          | \$ 69,950        | \$ 110,930       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                    |                  |                  |
| Depreciation and amortization of operating property and intangible assets         | 24,804             | 23,528           | 20,960           |
| Non-cash interest charges   | 219                | 218              | 196              |
| Provisions for losses on trade and other accounts receivable                      | 3,916              | 7,986            | 6,937            |
| Losses (gains) on sales and disposals of operating property, net                  | 1,058              | (55)             | 176              |
| Deferred income taxes, net  | 525                | 2,419            | 3,873            |
| Stock-based compensation  | 4,769              | 4,968            | 7,270            |
| Changes in operating assets and liabilities:                                      |                    |                  |                  |
| Decrease (increase) in trade and other accounts receivable                        | (38,206)           | 32,780           | (10,657)         |
| Decrease (increase) in other assets   | (1,752)            | 8,068            | 28               |
| Increase (decrease) in accounts payable   | 16,267             | (1,634)          | (11,240)         |
| Increase (decrease) in other liabilities  | 11,200             | (13,748)         | (4,813)          |
| Increase (decrease) in insurance claims   | (624)              | 10,484           | (3,971)          |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                  | <b>108,758</b>     | <b>144,964</b>   | <b>119,689</b>   |
| <b>INVESTING ACTIVITIES</b>   |                    |                  |                  |
| Net change in other short-term investments  | 1,730              | 28,024           | (7,887)          |
| Sales and maturities of investments   | 39,187             | 15,932           | 13,801           |
| Purchases of investments  | (65,818)           | (49,965)         | (6,921)          |
| Purchases of operating property   | (27,505)           | (2,715)          | (8,289)          |
| Proceeds from sales of operating property   | 1,686              | 841              | 146              |
| Consideration paid for acquisitions   | —                  | (14,888)         | —                |
| <b>NET CASH USED BY INVESTING ACTIVITIES</b>                                      | <b>(50,720)</b>    | <b>(22,771)</b>  | <b>(9,150)</b>   |
| <b>FINANCING ACTIVITIES</b>   |                    |                  |                  |
| Increase (decrease) in cash overdraft   | (4,042)            | (3,146)          | 6,296            |
| Dividends paid  | (9,422)            | (8,686)          | (8,136)          |
| Proceeds from exercises of stock options  | 1,660              | 1,128            | 12,249           |
| Excess tax benefit on stock option exercises                                      | 1,580              | 773              | 2,231            |
| Borrowings on revolving credit facility   | 40,000             | 40,000           | 87,000           |
| Purchases of common stock   | (102,736)          | (55,757)         | (51,576)         |
| Capital contribution from noncontrolling interest                                 | —                  | 580              | —                |
| Principal payments on long-term debt and capital lease obligations                | (26,273)           | (110,817)        | (120,110)        |
| <b>NET CASH USED BY FINANCING ACTIVITIES</b>                                      | <b>(99,233)</b>    | <b>(135,925)</b> | <b>(72,046)</b>  |
| Effect of exchange rate changes on cash and cash equivalents                      | 182                | 547              | (339)            |
| Increase (decrease) in cash and cash equivalents                                  | (41,013)           | (13,185)         | 38,154           |
| Cash and cash equivalents at beginning of period                                  | 85,719             | 98,904           | 60,750           |
| Cash and cash equivalents at end of period  | <b>\$ 44,706</b>   | <b>\$ 85,719</b> | <b>\$ 98,904</b> |

See accompanying notes to consolidated financial statements.

**LANDSTAR SYSTEM, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**For the Fiscal Years Ended December 25, 2010,**  
**December 26, 2009 and December 27, 2008**  
**(Dollars in thousands)**

|   | Landstar System, Inc. and Subsidiary Shareholders |        |                                  |                      |                           |              |  |                                 |            |
|---|---|--------|----------------------------------|----------------------|---------------------------|--------------|--|---------------------------------|------------|
|   | Common Stock                                      |        | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Treasury<br>Stock at Cost |              | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Non-<br>Controlling<br>Interest | Total      |
|   | Shares  | Amount |                                  |                      | Shares                    | Amount       |  |                                 |            |
| Balance December 29, 2007   | 65,630,383  | \$ 656 | \$ 132,788                       | \$ 601,537           | 13,121,109                | \$ (554,252) | \$ 57  | \$ 0                            | \$ 180,786 |
| Net income  |   |        |                                  | 110,930              |                           |              |  |                                 | 110,930    |
| Dividends paid (\$0.155 per share)  |   |        |                                  | (8,136)              |                           |              |  |                                 | (8,136)    |
| Purchases of common stock   |   |        |                                  |                      | 1,303,778                 | (51,576)     |  |                                 | (51,576)   |
| Exercises of stock options, including excess tax benefit                                  | 467,164   | 5      | 14,475                           |                      |                           |              |  |                                 | 14,480     |
| Director compensation paid in common stock  | 12,000  |        |                                  | 634                  |                           |              |  |                                 | 634        |
| Stock-based compensation  |   |        | 6,636                            |                      |                           |              |  |                                 | 6,636      |
| Foreign currency translation  |   |        |                                  |                      |                           |              | (339)  |                                 | (339)      |
| Unrealized loss on available-for-sale investments, net of income taxes                    |   |        |                                  |                      |                           |              | (279)  |                                 | (279)      |
| Balance December 27, 2008   | 66,109,547  | \$ 661 | \$ 154,533                       | \$ 704,331           | 14,424,887                | \$ (605,828) | \$ (561)   | \$ 0                            | \$ 253,136 |
| Net income (loss)   |   |        |                                  | 70,395               |                           |              |  | (445)                           | 69,950     |
| Dividends paid (\$0.170 per share)  |   |        |                                  | (8,686)              |                           |              |  |                                 | (8,686)    |
| Purchases of common stock   |   |        |                                  |                      | 1,624,547                 | (55,757)     |  |                                 | (55,757)   |
| Exercises of stock options and issuance of non-vested stock, including excess tax benefit | 145,811   | 2      | 1,899                            |                      |                           |              |  |                                 | 1,901      |
| Capital contribution from noncontrolling interest   |   |        |                                  |                      |                           |              |  | 580                             | 580        |
| Consideration for acquisition paid in common stock  |   |        | (139)                            |                      | (27,323)                  | 1,139        |  |                                 | 1,000      |
| Stock-based compensation  |   |        | 4,968                            |                      |                           |              |  |                                 | 4,968      |
| Foreign currency translation  |   |        |                                  |                      |                           |              | 547  |                                 | 547        |
| Unrealized gain on available-for-sale investments, net of income taxes                    |   |        |                                  |                      |                           |              | 512  |                                 | 512        |
| Balance December 26, 2009   | 66,255,358  | \$ 663 | \$ 161,261                       | \$ 766,040           | 16,022,111                | \$ (660,446) | \$ 498   | \$ 135                          | \$ 268,151 |
| Net income (loss)   |   |        |                                  | 87,514               |                           |              |  | (932)                           | 86,582     |
| Dividends paid (\$0.190 per share)  |   |        |                                  | (9,422)              |                           |              |  |                                 | (9,422)    |
| Purchases of common stock   |   |        |                                  |                      | 2,652,791                 | (102,736)    |  |                                 | (102,736)  |
| Exercises of stock options and issuance of nonvested stock, including excess tax benefit  | 279,811   | 2      | 3,238                            |                      |                           |              |  |                                 | 3,240      |
| Stock-based compensation  |   |        | 4,769                            |                      |                           |              |  |                                 | 4,769      |
| Foreign currency translation  |   |        |                                  |                      |                           |              | 182  |                                 | 182        |
| Unrealized gain on available-for-sale investments, net of income taxes                    |   |        |                                  |                      |                           |              | 201  |                                 | 201        |
| Balance December 25, 2010   | 66,535,169  | \$ 665 | \$ 169,268                       | \$ 844,132           | 18,674,902                | \$ (763,182) | \$ 881   | \$ (797)                        | \$ 250,967 |

See accompanying notes to consolidated financial statements.

**LANDSTAR SYSTEM, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Significant Accounting Policies**

***Consolidation***

The consolidated financial statements include the accounts of Landstar System, Inc. and its subsidiary Landstar System Holdings, Inc. (“LSHI”). Landstar System, Inc. and its subsidiary are herein referred to as “Landstar” or the “Company.” Landstar owns, through various subsidiaries, a controlling interest in A3i Acquisition LLC, which in turn owns 100% of A3 Integration, LLC (A3i Acquisition LLC, A3 Integration, LLC and its subsidiaries are collectively referred to herein as “A3i”), a supply chain transportation integration company acquired in the Company’s 2009 fiscal third quarter. Given Landstar’s controlling interest in A3i Acquisition, the accounts of A3i have been consolidated herein and a noncontrolling interest has been recorded for the noncontrolling investor’s interests in the net assets and operations of A3i. Significant inter-company accounts have been eliminated in consolidation. A subsidiary of LSHI purchased the noncontrolling interest in A3i Acquisition, LLC in January 2011.

***Estimates***

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

***Fiscal Year***

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

***Revenue Recognition***

When providing the physical transportation of freight, the Company is the primary obligor with respect to freight delivery and assumes the related credit risk. Accordingly, transportation services revenue billed to customers for the physical transportation of freight and the related direct freight expenses are recognized on a gross basis upon completion of freight delivery. In general, when providing transportation management services under a fee-for-service basis, the Company does not assume credit risk for billings related to the physical transportation of freight. Accordingly, transportation management fee revenue is recognized net of freight expenses upon completion of freight delivery. Insurance premiums of the insurance segment are recognized over the period earned, which is usually on a monthly basis. Fuel surcharges billed to customers for freight hauled by independent contractors who provide truck capacity to the Company under exclusive lease arrangements (the “BCO Independent Contractors”) are excluded from revenue and paid in entirety to the BCO Independent Contractors.

***Insurance Claim Costs***

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

***Tires***

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

**LANDSTAR SYSTEM, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

***Cash and Cash Equivalents***

Included in cash and cash equivalents are all investments, except those provided for collateral, with an original maturity of 3 months or less.

***Trade and Other Receivables***

The allowance for doubtful accounts for both trade and other receivables represents management's estimate of the amount of outstanding receivables that will not be collected. Estimates are used to determine the allowance for doubtful accounts for both trade and other receivables and are generally based on specific identification, historical collection results, current economic trends and changes in payment terms.

***Operating Property***

Operating property is recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets. Trailing equipment is being depreciated over 7 years. Hardware and software included in management information services equipment is generally being depreciated over 3 to 7 years.

***Goodwill and Other Intangible Assets***

Goodwill represents the excess of the purchase price paid over the fair value of the net assets of acquired businesses. The Company has two reporting units within the transportation logistics segment that report goodwill. The Company tests for impairment of goodwill at least annually, typically in the fourth quarter, based on a two-step impairment test. The first step compares the fair value of each reporting unit with its carrying amount, including goodwill. Fair value of each reporting unit is estimated using a discounted cash flow model and market approach. The model includes a number of significant assumptions and estimates including future cash flows and discount rates. If the carrying amount exceeds fair value under the first step of the impairment test, then the second step is performed to measure the amount of any impairment loss. Only the first step of the impairment test was required in 2010 as the estimated fair value of the reporting units significantly exceeded carrying value. Other intangible assets, which consist primarily of non-contractual customer relationships, developed technology, trademarks and non-compete agreements, are included in other assets on the consolidated balance sheets and are amortized over their estimated useful lives, which range from five to ten years.

***Income Taxes***

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

***Earnings Per Share***

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

The following table provides a reconciliation of the average number of common shares outstanding used to calculate earnings per common share attributable to Landstar System, Inc. and subsidiary to the average

**LANDSTAR SYSTEM, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

number of common shares and common share equivalents outstanding used to calculate diluted earnings per share attributable to Landstar System, Inc. and subsidiary (in thousands):

|  | Fiscal Year   |               |               |
|--|---------------|---------------|---------------|
|  | 2010          | 2009          | 2008          |
| Average number of common shares outstanding                              | 49,523        | 51,095        | 52,503        |
| Incremental shares from assumed exercises of stock options               | 57            | 185           | 351           |
| Average number of common shares and common share equivalents outstanding | <u>49,580</u> | <u>51,280</u> | <u>52,854</u> |

For the fiscal years ended December 25, 2010, December 26, 2009 and December 27, 2008, there were 1,349,313, 1,895,742 and 90,000 options outstanding, respectively, to purchase shares of common stock excluded from the calculation of diluted earnings per share attributable to Landstar System, Inc. and subsidiary because they were antidilutive.

***Share-Based Payments***

The Company estimates the fair value of stock option awards on the date of grant using the Black-Scholes pricing model and recognizes compensation cost for stock option awards expected to vest on a straight-line basis over the requisite service period for the entire award. Forfeitures are estimated at grant date based on historical experience and anticipated employee turnover. The fair value of each share of non-vested restricted stock is based on the fair value of such share on the date of grant and compensation costs for non-vested restricted stock is recognized on a straight-line basis over the requisite service period for the award.

***Foreign Currency Translation***

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

**(2) Comprehensive Income**

The following table includes the components of comprehensive income for the fiscal years ended December 25, 2010, December 26, 2009 and December 27, 2008 (in thousands):

|  | Fiscal Year      |                  |                   |
|--|------------------|------------------|-------------------|
|  | 2010             | 2009             | 2008              |
| Net income attributable to Landstar System, Inc. and subsidiary                          | \$ 87,514        | \$ 70,395        | \$ 110,930        |
| Unrealized holding gains (losses) on available-for-sale investments, net of income taxes | 201              | 512              | (279)             |
| Foreign currency translation gains (losses)  | 182              | 547              | (339)             |
| Comprehensive income attributable to Landstar System, Inc. and subsidiary                | <u>\$ 87,897</u> | <u>\$ 71,454</u> | <u>\$ 110,312</u> |

The unrealized holding gain on available-for-sale investments during 2010 represents the mark-to-market adjustment of \$312,000 net of related income taxes of \$111,000. The unrealized holding gain on available-for-sale investments during 2009 represents the mark-to-market adjustment of \$791,000 net of related



**LANDSTAR SYSTEM, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

income taxes of \$279,000. The unrealized holding loss on available-for-sale investments during 2008 represents the mark-to-market adjustment of \$431,000 net of related income taxes of \$152,000. The foreign currency translation gain during 2010 and 2009 represents the unrealized net gain on the translation of the financial statements of the Company's Canadian operations. The foreign currency translation loss during 2008 represents the unrealized net loss on the translation of the financial statements of the Company's Canadian operations. Accumulated other comprehensive income as reported as a component of equity at December 25, 2010 of \$881,000 represents the unrealized net gain on the translation of the financial statements of the Company's Canadian operations of \$390,000 and the cumulative unrealized holding gains on available-for-sale investments, net of income taxes, of \$491,000.

**(3) Investments**

Investments include investment-grade bonds and mortgage-backed securities having maturities of up to five years (the "bond portfolio"). Investments in the bond portfolio are reported as available-for-sale and are carried at fair value. Investments maturing less than one year from the balance sheet date are included in short-term investments and investments maturing more than one year from the balance sheet date are included in other assets in the consolidated balance sheets. Management has performed an analysis of the nature of the unrealized losses on available-for-sale investments to determine whether such losses are other-than-temporary. Unrealized losses, representing the excess of the purchase price of an investment over its fair value as of the end of a period, considered to be other-than-temporary are to be included as a charge in the statement of income while unrealized losses considered to be temporary are to be included as a component of equity. Investments whose values are based on quoted market prices in active markets are classified within Level 1. Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, are classified within Level 2. As Level 2 investments include positions that are not traded in active markets, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information. Transfers between levels are recognized as of the beginning of the period. Fair value of the bond portfolio was determined using Level 1 inputs related to U.S. Treasury obligations and money market investments and Level 2 inputs related to investment-grade corporate bonds, mortgage-backed securities and direct obligations of U.S. government agencies. Unrealized gains on the investments in the bond portfolio were \$760,000 and \$448,000 at December 25, 2010 and December 26, 2009, respectively.

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

|  | <u>Amortized<br/>Cost</u> | <u>Gross<br/>Unrealized<br/>Gains</u> | <u>Gross<br/>Unrealized<br/>Losses</u> | <u>Fair<br/>Market<br/>Value</u> |
|--|---------------------------|---------------------------------------|--|----------------------------------|
| <b><u>December 25, 2010</u></b>                                    |                           |                                       |  |                                  |
| Money market investments   | \$ 535                    | \$ —                                  | \$ —                                   | \$ 535                           |
| Mortgage-backed securities   | 3,458                     | 64                                    | 8                                      | 3,514                            |
| Corporate bonds and direct obligations of U.S. government agencies | 60,330                    | 872                                   | 151                                    | 61,051                           |
| U.S. Treasury obligations  | 12,584                    | 6                                     | 23                                     | 12,567                           |
| Total  | <u>\$ 76,907</u>          | <u>\$ 942</u>                         | <u>\$ 182</u>                          | <u>\$ 77,667</u>                 |
| <b><u>December 26, 2009</u></b>                                    |                           |                                       |  |                                  |
| Corporate bonds and direct obligations of U.S. government agencies | \$ 39,261                 | \$ 668                                | \$ 226                                 | \$ 39,703                        |
| U.S. Treasury obligations  | 11,489                    | 6                                     | —                                      | 11,495                           |
| Total  | <u>\$ 50,750</u>          | <u>\$ 674</u>                         | <u>\$ 226</u>                          | <u>\$ 51,198</u>                 |

**LANDSTAR SYSTEM, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

For those available-for-sale investments with unrealized losses at December 25, 2010 and December 26, 2009, the following table summarizes the duration of the unrealized loss (in thousands):

|   | Less Than 12 Months |                 | 12 Months or Longer |                 | Total             |                 |
|---|---------------------|-----------------|---------------------|-----------------|-------------------|-----------------|
|   | Fair Market Value   | Unrealized Loss | Fair Market Value   | Unrealized Loss | Fair Market Value | Unrealized Loss |
| <b>December 25, 2010</b>                  |                     |                 |                     |                 |                   |                 |
| Corporate bonds and direct obligations of |                     |                 |                     |                 |                   |                 |
| U.S. government agencies                  | \$ 11,615           | \$ 151          | \$ —                | \$ —            | \$ 11,615         | \$ 151          |
| U.S. Treasury obligations                 | 774                 | 23              |                     |                 | 774               | 23              |
| Mortgage-backed securities                | 225                 | 8               | —                   | —               | 225               | 8               |
| <b>Total</b>                              | <b>\$ 12,614</b>    | <b>\$ 182</b>   | <b>\$ —</b>         | <b>\$ —</b>     | <b>\$ 12,614</b>  | <b>\$ 182</b>   |
| <b>December 26, 2009</b>                  |                     |                 |                     |                 |                   |                 |
| Corporate bonds and direct obligations of |                     |                 |                     |                 |                   |                 |
| U.S. government agencies                  | \$ 1,989            | \$ 10           | \$ 1,192            | \$ 216          | \$ 3,181          | \$ 226          |

Short-term investments include \$23,266,000 in current maturities of investment-grade bonds and mortgage-backed securities held by the Company's insurance segment at December 25, 2010. These short-term investments together with \$26,417,000 of the non-current portion of investment-grade bonds and mortgage-backed securities at December 25, 2010, provide collateral for the \$44,715,000 of letters of credit issued to guarantee payment of insurance claims.

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

**(4) Income Taxes**

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

|                     | Fiscal Year      |                  |                  |
|---------------------|------------------|------------------|------------------|
|                     | 2010             | 2009             | 2008             |
| <b>Current:</b>     |                  |                  |                  |
| Federal             | \$ 46,164        | \$ 35,878        | \$ 57,249        |
| State               | 2,199            | 656              | 6,267            |
| Canadian            | 878              | 809              | 1,171            |
|                     | <b>\$ 49,241</b> | <b>\$ 37,343</b> | <b>\$ 64,687</b> |
| <b>Deferred:</b>    |                  |                  |                  |
| Federal             | \$ 801           | \$ 2,035         | \$ 3,438         |
| State               | (276)            | 384              | 435              |
|                     | <b>525</b>       | <b>2,419</b>     | <b>3,873</b>     |
| <b>Income taxes</b> | <b>\$49,766</b>  | <b>\$39,762</b>  | <b>\$68,560</b>  |

**LANDSTAR SYSTEM, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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

|                                   | <u>Dec. 25,<br/>2010</u> | <u>Dec. 26,<br/>2009</u> |
|-----------------------------------|--------------------------|--------------------------|
| <b>Deferred tax assets:</b>       |                          |                          |
| Receivable valuations             | \$ 5,014                 | \$ 4,787                 |
| Share-based payments              | 5,797                    | 5,426                    |
| Self-insured claims               | 5,861                    | 5,288                    |
| Other                             | 6,137                    | 5,938                    |
|                                   | <u>\$ 22,809</u>         | <u>\$ 21,439</u>         |
| <b>Deferred tax liabilities:</b>  |                          |                          |
| Operating property                | \$ 29,084                | \$ 27,433                |
| Other                             | 8,284                    | 8,040                    |
|                                   | <u>\$ 37,368</u>         | <u>\$ 35,473</u>         |
| <b>Net deferred tax liability</b> | <u><b>\$14,559</b></u>   | <u><b>\$ 14,034</b></u>  |

The following table summarizes the differences between income taxes calculated at the federal income tax rate of 35% on income before income taxes and the provisions for income taxes (in thousands):

|   | <u>Fiscal Year</u> |                 |                 |
|---|--------------------|-----------------|-----------------|
|   | <u>2010</u>        | <u>2009</u>     | <u>2008</u>     |
| Income taxes at federal income tax rate               | \$ 47,722          | \$ 38,399       | \$ 62,822       |
| State income taxes, net of federal income tax benefit | 695                | 676             | 4,356           |
| Meals and entertainment exclusion                     | 691                | 870             | 493             |
| Share-based payments                                  | 550                | 636             | 515             |
| Other, net  | 108                | (819)           | 374             |
| Income taxes  | <u>\$49,766</u>    | <u>\$39,762</u> | <u>\$68,560</u> |

As of December 25, 2010 and December 26, 2009, the Company had \$6,415,000 and \$8,761,000, respectively, of net unrecognized tax benefits representing the provision for the uncertainty of certain tax positions plus a component of interest and penalties. Estimated interest and penalties on the provision for the uncertainty of certain tax positions is included in income tax expense. At December 25, 2010 and December 26, 2009 there was \$2,797,000 and \$3,852,000, respectively, accrued for estimated interest and penalties related to the uncertainty of certain tax positions. The Company does not currently anticipate any significant increase or decrease to the unrecognized tax benefit during 2011.

The Company files a consolidated U.S. federal income tax return. The Company or its subsidiaries file state tax returns in the majority of the U.S. state tax jurisdictions. With few exceptions, the Company and its subsidiaries are no longer subject to U.S. federal or state income tax examinations by tax authorities for 2006 and prior years. The Company's wholly owned Canadian subsidiary, Landstar Canada, Inc., is subject to Canadian income and other taxes.

**LANDSTAR SYSTEM, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The following table summarizes the rollforward of the total amounts of gross unrecognized tax benefits for fiscal years 2010 and 2009 (in thousands):

|   | Fiscal Year     |                  |
|---|-----------------|------------------|
|   | 2010            | 2009             |
| Gross unrecognized tax benefits — beginning of the year | \$ 11,966       | \$ 16,110        |
| Gross increases related to current year tax positions   | 210             | 635              |
| Gross increases related to prior year tax positions     | 412             | 2,570            |
| Gross decreases related to prior year tax positions     | (2,822)         | (3,420)          |
| Settlements   | —               | (381)            |
| Lapse of statute of limitations                         | (557)           | (3,548)          |
| Gross unrecognized tax benefits — end of the year       | <u>\$ 9,209</u> | <u>\$ 11,966</u> |

Landstar paid income taxes of \$51,542,000 in 2010, \$32,913,000 in 2009 and \$63,712,000 in 2008.

**(5) Operating Property**

Operating property is summarized as follows (in thousands):

|  | Dec. 25,<br>2010  | Dec. 26,<br>2009  |
|--|-------------------|-------------------|
| Land   | \$ 7,982          | \$ 1,921          |
| Leasehold improvements                         | 10,038            | 9,749             |
| Buildings and improvements                     | 23,520            | 8,218             |
| Trailing equipment                             | 188,176           | 183,247           |
| Other equipment                                | 40,763            | 38,331            |
|  | <u>270,479</u>    | <u>241,466</u>    |
| Less accumulated depreciation and amortization | 137,830           | 124,810           |
|  | <u>\$ 132,649</u> | <u>\$ 116,656</u> |

Included above is \$114,017,000 in 2010 and \$127,684,000 in 2009 of operating property under capital leases, \$70,154,000 and \$81,722,000, respectively, net of accumulated amortization. Landstar acquired operating property by entering into capital leases in the amount of \$14,986,000 in 2010, \$12,284,000 in 2009 and \$4,802,000 in 2008.

**(6) Retirement Plan**

Landstar sponsors an Internal Revenue Code section 401(k) defined contribution plan for the benefit of full-time employees who have completed one year of service. Eligible employees make voluntary contributions up to 75% of their base salary, subject to certain limitations. Landstar contributes an amount equal to 100% of the first 3% and 50% of the next 2% of such contributions, subject to certain limitations.

The expense for the Company-sponsored defined contribution plan included in selling, general and administrative expense was \$1,663,000 in 2010, \$1,598,000 in 2009 and \$1,571,000 in 2008.

**LANDSTAR SYSTEM, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**(7) Debt**

Long-term debt is summarized as follows (in thousands):

|                           | <u>Dec. 25,</u><br><u>2010</u> | <u>Dec. 26,</u><br><u>2009</u> |
|---------------------------|--------------------------------|--------------------------------|
| Capital leases            | \$ 41,611                      | \$ 52,898                      |
| Revolving credit facility | 80,000                         | 40,000                         |
|                           | <u>121,611</u>                 | <u>92,898</u>                  |
| Less current maturities   | <u>22,172</u>                  | <u>24,585</u>                  |
| Total long-term debt      | <u>\$ 99,439</u>               | <u>\$ 68,313</u>               |

On June 27, 2008, Landstar entered into a credit agreement with a syndicate of banks and JPMorgan Chase Bank, N.A., as administrative agent (the "Credit Agreement"). The Credit Agreement, which expires on June 27, 2013, provides \$225,000,000 of borrowing capacity in the form of a revolving credit facility, \$75,000,000 of which may be utilized in the form of letter of credit guarantees. Borrowings under the Credit Agreement are unsecured, however, all but two of the Company's subsidiaries guarantee the obligations under the Credit Agreement. All amounts outstanding under the Credit Agreement are payable on June 27, 2013, the expiration of the Credit Agreement.

Borrowings under the Credit Agreement bear interest at rates equal to, at the option of the Company, either (i) the greater of (a) the prime rate as publicly announced from time to time by JPMorgan Chase Bank, N.A. and (b) the federal funds effective rate plus 0.5%, or, (ii) the rate at the time offered to JPMorgan Chase Bank, N.A. in the Eurodollar market for amounts and periods comparable to the relevant loan plus, in either case, a margin that is determined based on the level of the Company's Leverage Ratio, as defined in the Credit Agreement. The unused portion of the revolving credit facility under the Credit Agreement carries a commitment fee determined based on the level of the Leverage Ratio, as therein defined. The commitment fee for the unused portion of the revolving credit facility under the Credit Agreement ranges from .175% to .350%, based on achieving certain levels of the Leverage Ratio. As of December 25, 2010, the weighted average interest rate on borrowings outstanding was 1.14%.

The Credit Agreement contains a number of covenants that limit, among other things, the incurrence of additional indebtedness. The Company is required to, among other things, maintain a minimum Fixed Charge Coverage Ratio, as defined in the Credit Agreement, and maintain a Leverage Ratio below a specified maximum. The Credit Agreement provides for a restriction on cash dividends and other distributions to stockholders on the Company's capital stock to the extent there is a default under the Credit Agreement. In addition, the Credit Agreement under certain circumstances limits the amount of such cash dividends and other distributions to stockholders in the event that after giving effect to any payment made to effect such cash dividend or other distribution, the Leverage Ratio would exceed 2.5 to 1 on a pro forma basis as of the end of the Company's most recently completed fiscal quarter. The Credit Agreement provides for an event of default in the event, among other things, that a person or group acquires 25% or more of the outstanding capital stock of the Company or obtains power to elect a majority of the Company's directors. None of these covenants are presently considered by management to be materially restrictive to the Company's operations, capital resources or liquidity. The Company is currently in compliance with all of the debt covenants under the Credit Agreement.

Interest on borrowings under the Credit Agreement is based on interest rates that vary with changes in the rate offered to JPMorgan Chase Bank, N.A. in the Eurodollar market for amounts and periods comparable to the relevant loan and, therefore, borrowings under the Company's revolving credit facility approximate fair value. Interest on the Company's capital lease obligations is based on interest rates that approximate currently

**LANDSTAR SYSTEM, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

available interest rates and, therefore, indebtedness under the Company's capital lease obligations approximates fair value.

Landstar paid interest of \$3,785,000 in 2010, \$4,398,000 in 2009 and \$7,904,000 in 2008.

**(8) Leases**

The future minimum lease payments under all noncancelable leases at December 25, 2010, principally for trailing equipment, are shown in the following table (in thousands):

|  | <u>Capital<br/>Leases</u> | <u>Operating<br/>Leases</u> |
|--|---------------------------|-----------------------------|
| 2011   | \$ 23,570                 | \$ 2,554                    |
| 2012   | 11,173                    | 2,165                       |
| 2013   | 4,319                     | 1,260                       |
| 2014   | 3,595                     | 822                         |
| 2015   | 1,313                     | 631                         |
| Thereafter                                       | —                         | 1,436                       |
|  | <u>43,970</u>             | <u>\$ 8,868</u>             |
| Less amount representing interest (3.0% to 5.9%) | 2,359                     |                             |
| Present value of minimum lease payments          | <u>\$41,611</u>           |                             |

Total rent expense, net of sublease income, was \$356,000 in 2010, \$2,664,000 in 2009 and \$5,744,000 in 2008.

**(9) Share-Based Payment Arrangements**

***Employee Equity Plans***

The Company's Board of Directors amended and restated the Company's 2002 Employee Stock Option Plan. As amended and restated, the 2002 Employee Stock Option Plan is now called the Amended and Restated 2002 Employee Stock Option and Stock Incentive Plan (the "ESOSIP"). The ESOSIP was approved by vote of the Company's shareholders at the Annual Meeting of Stockholders on April 30, 2009. The amendment and restatement of the ESOSIP, among other things, provides the Compensation Committee of the Company's Board of Directors the power to grant equity and equity-based awards in addition to stock options, including restricted stock, stock appreciation rights, performance shares and other stock-based awards. It also extended the term of the ESOSIP to 10 years after the date it was amended and restated by the Company's Board of Directors for all awards, except for incentive stock options which may not be granted after the tenth anniversary of the date the 2002 Employee Stock Option Plan was originally adopted by the Board.

In revising the ESOSIP, the Company did not increase the number of shares available for grant under the 2002 Employee Stock Option Plan. As originally adopted, 800,000 shares were authorized for issuance. Through the adjustment provisions of the 2002 Employee Stock Option Plan, to reflect stock splits with respect to the Company's common stock, the number of shares authorized for issuance had been adjusted to be 6,400,000 shares. Awards of restricted stock, performance shares or other stock-based awards now authorized under the ESOSIP will be made from the existing pool of shares available under the 2002 Employee Stock Option Plan. Moreover, to the extent that the awards of restricted stock, performance shares or other stock-based awards provide the recipient with the "full value" of the shares, and the settlement of an existing obligation is not otherwise payable in cash, each share granted will count as two shares against the share limit in the ESOSIP. Certain provisions in the

**LANDSTAR SYSTEM, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

agreements for awards of stock options allow for the automatic vesting of outstanding stock options if there is a change in control of the Company.

As of December 25, 2010, the Company had an employee stock option plan, initially approved in 1993 and subsequently amended (the “1993 ESOP”) and the ESOSIP (together referred to as the “Plans”). No further grants can be made under the 1993 ESOP as its term for granting stock options has expired. Amounts recognized in the financial statements with respect to these Plans are as follows (in thousands):

|   | Fiscal Years   |                 |                 |
|---|----------------|-----------------|-----------------|
|   | 2010           | 2009            | 2008            |
| Total cost of the Plans during the period                         | \$4,769        | \$4,968         | \$6,636         |
| Amount of related income tax benefit recognized during the period | 1,194          | 1,163           | 1,973           |
| Net cost of the Plans during the period                           | <u>\$3,575</u> | <u>\$ 3,805</u> | <u>\$ 4,663</u> |

Options granted under the Plans generally become exercisable in either three or five equal annual installments commencing on the first anniversary of the date of grant or 100% four and one-half years from the date of grant or 100% on the third or fifth anniversary from the date of grant, subject to acceleration in certain circumstances. All options granted under the Plans expire on the tenth anniversary of the date of grant. Under the Plans, the exercise price of each option equals the fair market value of the Company’s common stock on the date of grant.

The fair value of each option grant on its grant date was calculated using the Black-Scholes option pricing model with the following weighted average assumptions for grants made in 2010, 2009 and 2008:

|                           | 2010   | 2009   | 2008   |
|---------------------------|--------|--------|--------|
| Expected volatility       | 37.0%  | 38.0%  | 33.0%  |
| Expected dividend yield   | 0.400% | 0.400% | 0.375% |
| Risk-free interest rate   | 2.50%  | 1.50%  | 3.00%  |
| Expected lives (in years) | 4.2    | 4.4    | 4.1    |

The Company utilizes historical data, including exercise patterns and employee departure behavior, in estimating the term options will be outstanding. Expected volatility was based on historical volatility and other factors, such as expected changes in volatility arising from planned changes to the Company’s business, if any. The risk-free interest rate was based on the yield of zero coupon U.S. Treasury bonds for terms that approximated the terms of the options granted. The weighted average grant date fair value of stock options granted during 2010, 2009 and 2008 was \$12.03, \$12.30 and \$12.60, respectively.

The total intrinsic value of stock options exercised during 2010, 2009 and 2008 was \$9,657,000, \$3,816,000 and \$11,587,000, respectively. At December 25, 2010, the total intrinsic value of options outstanding was \$2,342,000. As of December 25, 2010, there were 1,349,313 stock options outstanding that were out-of-the-money based on that day’s per share closing market price of \$40.75 as reported on the NASDAQ Global Select Market. The remaining 946,518 stock options outstanding as of December 25, 2010 that were in-the-money had an aggregate intrinsic value of \$5,261,000. At December 25, 2010, the total intrinsic value of options outstanding and exercisable was \$1,775,000.

As of December 25, 2010, there was \$9,551,000 of total unrecognized compensation cost related to non-vested stock options granted under the Plans. The unrecognized compensation cost related to these non-vested options is expected to be recognized over a weighted average period of 2.7 years.

**LANDSTAR SYSTEM, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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

|                              | Options Outstanding |   | Options Exercisable |   |
|------------------------------|---------------------|---|---------------------|---|
|                              | Shares              | Weighted Average<br>Exercise Price<br>per Share | Shares              | Weighted Average<br>Exercise Price<br>per Share |
| Options at December 29, 2007 | 2,199,308           | \$ 31.11  | 747,626             | \$ 24.73  |
| Granted                      | 777,500             | \$ 42.30  |                     |   |
| Exercised                    | (467,164)           | \$ 26.22  |                     |   |
| Forfeited                    | (4,000)             | \$ 44.63  |                     |   |
| Options at December 27, 2008 | 2,505,644           | \$ 35.47  | 822,211             | \$ 30.75  |
| Granted                      | 367,000             | \$ 38.20  |                     |   |
| Exercised                    | (207,342)           | \$ 19.31  |                     |   |
| Forfeited                    | (107,500)           | \$ 42.77  |                     |   |
| Options at December 26, 2009 | 2,557,802           | \$ 36.86  | 1,225,802           | \$ 32.43  |
| Granted                      | 230,250             | \$ 37.41  |                     |   |
| Exercised                    | (424,354)           | \$ 20.73  |                     |   |
| Forfeited                    | (67,867)            | \$ 42.64  |                     |   |
| Options at December 25, 2010 | <u>2,295,831</u>    | \$ 39.73  | 936,081             | \$ 38.85  |

The following tables summarize stock options outstanding and exercisable at December 25, 2010:

| Range of Exercise Prices Per Share | Options Outstanding   |   |   |
|------------------------------------|-----------------------|---|---|
|                                    | Number<br>Outstanding | Weighted Average<br>Remaining Contractual<br>Life (Years) | Weighted Average<br>Exercise Price<br>per Share |
| \$ 8.56 - \$10.00                  | 6,400                 | 0.5   | \$ 8.56   |
| \$10.01 - \$15.00                  | 31,600                | 2.0   | \$ 14.62  |
| \$15.01 - \$25.00                  | 55,019                | 3.1   | \$ 19.58  |
| \$25.01 - \$35.00                  | 116,401               | 4.2   | \$ 32.57  |
| \$35.01 - \$40.00                  | 737,098               | 7.7   | \$ 37.88  |
| \$40.01 - \$45.00                  | 1,265,313             | 6.3   | \$ 42.58  |
| \$45.01 - \$48.15                  | 84,000                | 7.0   | \$ 47.95  |
|                                    | <u>2,295,831</u>      | 6.5   | \$ 39.73  |



**LANDSTAR SYSTEM, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

| Range of Exercise Prices Per Share | Options Exercisable |   |   |
|------------------------------------|---------------------|---|---|
|                                    | Number Exercisable  | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price per Share |
| \$ 8.56 - \$10.00                  | 6,400               | 0.5   | \$ 8.56                                   |
| \$10.01 - \$15.00                  | 31,600              | 2.0   | \$ 14.62                                  |
| \$15.01 - \$25.00                  | 55,019              | 3.1   | \$ 19.58                                  |
| \$25.01 - \$35.00                  | 116,401             | 4.2   | \$ 32.57                                  |
| \$35.01 - \$40.00                  | 119,748             | 4.7   | \$ 37.11                                  |
| \$40.01 - \$45.00                  | 574,513             | 5.6   | \$ 43.49                                  |
| \$45.01 - \$48.15                  | 32,400              | 7.1   | \$ 48.05                                  |
|                                    | <u>936,081</u>      | 5.1   | \$ 38.85                                  |

As noted above, the ESOSIP provides the Compensation Committee of the Board of Directors with the authority to issue shares of common stock of the Company, subject to certain vesting and other restrictions on transfer (“restricted stock”). Shares of restricted stock generally are granted under the ESOSIP subject to vesting in three year annual installments or 100% on the third or fifth anniversary of the date of grant and the shares of restricted stock remain subject to forfeiture unless the grantee remains continuously employed with the Company or a subsidiary thereof through the applicable vesting date. The fair value of each share of non-vested restricted stock issued under the Plans is based on the fair value of a share of the Company’s common stock on the date of grant.

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

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

As of December 25, 2010, there was \$860,000 of total unrecognized compensation cost related to non-vested shares of restricted stock granted under the Plans. The unrecognized compensation cost related to these non-vested shares of restricted stock is expected to be recognized over a weighted average period of 2.7 years.

As of December 25, 2010, there were 4,701,048 shares of the Company’s common stock reserved for issuance under the Plans.

***Directors’ Stock Compensation Plan***

Effective upon the completion of the 2010 Annual Meeting of Stockholders, upon election or re-election to the Board of Directors for a three year term, outside members of the Board of Directors may receive a grant of such number of restricted shares of the Company’s common stock equal to the quotient of \$225,000 divided by the fair market value of a share of common stock on the date immediately following the date of such Director’s re-election or election to the Board. In 2010, 9,954 restricted shares were granted to outside Directors upon their re-election to the Board. The restricted shares vest in three equal annual installments on the first three annual anniversary dates of the date of grant. During 2010, \$98,000 of compensation cost was recorded for the grant of these restricted shares.

Prior to 2010, under the Directors’ Stock Compensation Plan, outside members of the Board of Directors who were elected or re-elected to the Board received 6,000 shares of common stock of the Company, subject

**LANDSTAR SYSTEM, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

to certain restrictions including restrictions on transfer. The Company issued 12,000 shares of the Company's common stock to members of the Board of Directors upon such members' re-election at the 2008 annual stockholders' meetings. During 2008, the Company reported \$634,000 in compensation expense representing the fair market value of these share awards. There were no such shares issued in 2009. As of December 25, 2010, there were 128,469 shares of the Company's common stock reserved for issuance upon the grant of common stock under the Directors' Stock Compensation Plan.

**(10) Equity**

On January 28, 2009, Landstar System, Inc. announced that it had been authorized by its Board of Directors to purchase up to an additional 1,569,377 shares of its common stock from time to time in the open market and in privately negotiated transactions. During its 2010 third fiscal quarter, the Company completed the purchase of shares authorized for purchase under this program. On August 23, 2010, Landstar System, Inc. announced that it had been authorized by its Board of Directors to purchase up to 2,000,000 shares of its common stock from time to time in the open market and in privately negotiated transactions. As of December 25, 2010, Landstar may purchase 722,662 shares of its common stock under this authorization. No specific expiration date has been assigned to the August 23, 2010 authorization. During 2010, Landstar purchased a total 2,652,791 shares of its common stock at a total cost of \$102,736,000 pursuant to its previously announced stock purchase programs.

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

**(11) Commitments and Contingencies**

At December 25, 2010, in addition to the \$44,715,000 letters of credit secured by investments, Landstar had \$33,699,000 of letters of credit outstanding under the Company's Credit Agreement.

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

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

On October 4, 2010, the Appellate Court denied each of the motions for rehearing, withdrew its initial ruling and substituted a new ruling in its place. The new ruling by the Appellate Court confirmed the absence of any violations alleged by the Plaintiffs of the federal leasing regulations with respect to the written terms of all leases currently in use between the Defendants and BCO Independent Contractors. In particular, the new

**LANDSTAR SYSTEM, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

ruling, among other things, held that (i) the Defendants are not prohibited by the applicable federal leasing regulations from charging administrative or other fees to BCO Independent Contractors in connection with voluntary programs offered by the Defendants through which a BCO Independent Contractor may purchase discounted products and services for a charge that is deducted against the amounts payable to the BCO Independent Contractor (a “Charge-back Deduction”), (ii) in the case of a Charge-back Deduction expressed as a flat-fee in the lease, the applicable federal leasing regulations do not require Defendants to do more than disclose the flat-fee Charge-back Deduction in the lease and follow up with settlement statements that explain the final amount charged back, (iii) the Plaintiffs are not entitled to restitution or disgorgement with respect to violations by Defendants of the applicable federal leasing regulations but instead may recover only actual damages, if any, which they sustained as a result of any such violations and (iv) the claims of BCO Independent Contractors may not be handled on a class action basis for purposes of determining the amount of actual damages, if any, they sustained as a result of any violations.

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

On December 8, 2010, the Appellate Court denied the Plaintiffs’ petition seeking rehearing *en banc* of the Appellate Court’s October 4, 2010 ruling. The Defendants anticipate that the Plaintiffs will petition the United States Supreme Court to seek to further appeal all or a portion of the Appellate Court’s October 4, 2010 ruling; however, there can be no assurance as to the outcome of any such petition.

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

The Company is involved in certain other claims and pending litigation arising from the normal conduct of business. Based on knowledge of the facts and, in certain cases, opinions of outside counsel, management believes that adequate provisions have been made for probable losses with respect to the resolution of all such other claims and pending litigation and that the ultimate outcome, after provisions 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.

**(12) Segment Information**

Landstar markets its freight transportation services and supply chain solutions primarily through independent commission sales agents who enter into contractual arrangements with the Company and are responsible for locating freight, making that freight available to Landstar’s capacity providers and coordinating the transportation of the freight with customers and capacity providers. The Company’s third party capacity providers consist of independent contractors who provide truck capacity to the Company under exclusive lease arrangements (the “BCO Independent Contractors”), unrelated trucking companies who provide truck capacity to the Company under non-exclusive contractual arrangements (the “Truck Brokerage Carriers”), air cargo carriers, ocean cargo carriers, railroads and independent warehouse capacity providers (“Warehouse Capacity Owners”). The Company has contracts with all of the Class 1 domestic and Canadian railroads and certain short-line railroads and contracts with domestic and international airlines and ocean lines. Through this

**LANDSTAR SYSTEM, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

network of agents and capacity providers linked together by Landstar's technological applications, Landstar operates a transportation services and supply chain solutions business primarily throughout North America with revenue of \$2.4 billion during the most recently completed fiscal year. The Company reports the results of two operating segments: the transportation logistics segment and the insurance segment.

The transportation logistics segment provides a wide range of transportation services and supply chain solutions. Transportation services offered by the Company include truckload and less-than-truckload transportation, rail intermodal, air cargo, ocean cargo, expedited ground and air delivery of time-critical freight, heavy-haul/specialized, U.S.-Canada and U.S.-Mexico cross-border, project cargo and customs brokerage. Supply chain solutions are based on advanced technology solutions offered by the Company and include integrated multi-modal solutions, outsourced logistics, supply chain engineering and warehousing. Also, supply chain solutions can be delivered through a software-as-a-service model. Industries serviced by the transportation logistics segment include automotive products, paper, lumber and building products, metals, chemicals, foodstuffs, heavy machinery, retail, electronics, ammunition and explosives and military hardware. In addition, the transportation logistics segment provides transportation services to other transportation companies, including logistics and less-than-truckload service providers. Each of the independent commission sales agents has the opportunity to market all of the services provided by the transportation logistics segment. Freight transportation services are typically charged to customers on a per shipment basis for the physical transportation of freight. Supply chain solution customers are generally charged fees for the services provided. Revenue recognized by the transportation logistics segment when providing capacity to customers to haul their freight is referred to herein as "transportation services revenue" and revenue for freight management services recognized on a fee-for-service basis is referred to herein as "transportation management fees."

The insurance segment provides risk and claims management services to certain of Landstar's Operating Subsidiaries. In addition, it reinsures certain risks of the Company's BCO Independent Contractors and provides certain property and casualty insurance directly to certain of Landstar's Operating Subsidiaries. Internal revenue for premiums billed by the insurance segment to the transportation logistics segment is calculated each fiscal period based primarily on an actuarial calculation of historical loss experience and is believed to approximate the cost that would have been incurred by the transportation logistics segment had similar insurance been obtained from an unrelated third party.

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

No single customer accounted for more than 10% of consolidated revenue in 2010, 2009 or 2008. Substantially all of the Company's revenue is generated in North America, primarily through customers located in the United States.

**LANDSTAR SYSTEM, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The following tables summarize information about the Company's reportable business segments as of and for the fiscal years ending December 25, 2010, December 26, 2009 and December 27, 2008 (in thousands):

|                                   | <u>Transportation<br/>Logistics</u> | <u>Insurance</u> | <u>Total</u> |
|-----------------------------------|-------------------------------------|------------------|--------------|
| <b>2010</b>                       |                                     |                  |              |
| External revenue                  | \$ 2,366,032                        | \$ 34,138        | \$ 2,400,170 |
| Internal revenue                  |                                     | 27,535           | 27,535       |
| Investment income                 |                                     | 1,558            | 1,558        |
| Interest and debt expense         | 3,623                               |                  | 3,623        |
| Depreciation and amortization     | 24,804                              |                  | 24,804       |
| Operating income                  | 116,512                             | 23,459           | 139,971      |
| Expenditures on long-lived assets | 27,505                              |                  | 27,505       |
| Goodwill                          | 57,470                              |                  | 57,470       |
| Capital lease additions           | 14,986                              |                  | 14,986       |
| Total assets                      | 576,334                             | 107,548          | 683,882      |
| <b>2009</b>                       |                                     |                  |              |
| External revenue                  | \$ 1,972,863                        | \$ 35,933        | \$ 2,008,796 |
| Internal revenue                  |                                     | 27,179           | 27,179       |
| Investment income                 |                                     | 1,268            | 1,268        |
| Interest and debt expense         | 4,030                               |                  | 4,030        |
| Depreciation and amortization     | 23,528                              |                  | 23,528       |
| Operating income                  | 88,176                              | 25,566           | 113,742      |
| Expenditures on long-lived assets | 2,715                               |                  | 2,715        |
| Goodwill                          | 57,470                              |                  | 57,470       |
| Capital lease additions           | 12,284                              |                  | 12,284       |
| Total assets                      | 524,584                             | 124,208          | 648,792      |
| <b>2008</b>                       |                                     |                  |              |
| External revenue                  | \$ 2,606,216                        | \$ 36,853        | \$ 2,643,069 |
| Internal revenue                  |                                     | 27,565           | 27,565       |
| Investment income                 |                                     | 3,339            | 3,339        |
| Interest and debt expense         | 7,351                               |                  | 7,351        |
| Depreciation and amortization     | 20,960                              |                  | 20,960       |
| Operating income                  | 148,385                             | 38,456           | 186,841      |
| Expenditures on long-lived assets | 8,289                               |                  | 8,289        |
| Goodwill                          | 31,134                              |                  | 31,134       |
| Capital lease additions           | 4,802                               |                  | 4,802        |
| Total assets                      | 530,163                             | 133,367          | 663,530      |

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders  
Landstar System, Inc.:

We have audited the accompanying consolidated balance sheets of Landstar System, Inc. and subsidiary (the Company) as of December 25, 2010 and December 26, 2009, and the related consolidated statements of income, changes in equity and cash flows for the fiscal years ended December 25, 2010, December 26, 2009 and December 27, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Landstar System, Inc. and subsidiary as of December 25, 2010 and December 26, 2009, and the results of their operations and their cash flows for the fiscal years ended December 25, 2010, December 26, 2009 and December 27, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Landstar System, Inc.'s internal control over financial reporting as of December 25, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 22, 2011, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

February 22, 2011  
Jacksonville, Florida  
Certified Public Accountants

**LANDSTAR SYSTEM, INC. AND SUBSIDIARY**  
**QUARTERLY FINANCIAL DATA**  
(Dollars in thousands, except per share amounts)  
(Unaudited)

|  | Fourth<br>Quarter<br>2010 | Third<br>Quarter<br>2010 | Second<br>Quarter<br>2010 | First<br>Quarter<br>2010 |
|--|---------------------------|--------------------------|---------------------------|--------------------------|
| Revenue  | \$587,535                 | \$622,826                | \$641,721                 | \$548,088                |
| Operating income   | \$ 35,808                 | \$ 35,886                | \$ 39,982                 | \$ 28,295                |
| Income before income taxes   | \$ 34,884                 | \$ 34,851                | \$ 39,172                 | \$ 27,441                |
| Income taxes   | 11,005                    | 13,315                   | 14,962                    | 10,484                   |
| Net income   | \$ 23,879                 | \$ 21,536                | \$ 24,210                 | \$ 16,957                |
| Less: Net loss attributable to noncontrolling interest                             | (220)                     | (266)                    | (227)                     | (219)                    |
| Net income attributable to Landstar System, Inc. and subsidiary                    | \$ 24,099                 | \$ 21,802                | \$ 24,437                 | \$ 17,176                |
| Earnings per common share attributable to Landstar System, Inc. and subsidiary(1)  | \$ 0.50                   | \$ 0.44                  | \$ 0.49                   | \$ 0.34                  |
| Diluted earnings per share attributable to Landstar System, Inc. and subsidiary(1) | \$ 0.50                   | \$ 0.44                  | \$ 0.49                   | \$ 0.34                  |
| Dividends paid per common share  | \$ 0.0500                 | \$ 0.0500                | \$ 0.0450                 | \$ 0.0450                |
|  | Fourth<br>Quarter<br>2009 | Third<br>Quarter<br>2009 | Second<br>Quarter<br>2009 | First<br>Quarter<br>2009 |
| Revenue  | \$547,715                 | \$500,670                | \$491,164                 | \$469,247                |
| Operating income   | \$ 27,570                 | \$ 32,678                | \$ 29,776                 | \$ 23,718                |
| Income before income taxes   | \$ 26,633                 | \$ 31,721                | \$ 28,803                 | \$ 22,555                |
| Income taxes   | 8,296                     | 11,859                   | 10,946                    | 8,661                    |
| Net income   | \$ 18,337                 | \$ 19,862                | \$ 17,857                 | \$ 13,894                |
| Less: Net loss attributable to noncontrolling interest                             | (231)                     | (214)                    | —                         | —                        |
| Net income attributable to Landstar System, Inc. and subsidiary                    | \$ 18,568                 | \$ 20,076                | \$ 17,857                 | \$ 13,894                |
| Earnings per common share attributable to Landstar System, Inc. and subsidiary(1)  | \$ 0.37                   | \$ 0.39                  | \$ 0.35                   | \$ 0.27                  |
| Diluted earnings per share attributable to Landstar System, Inc. and subsidiary(1) | \$ 0.37                   | \$ 0.39                  | \$ 0.35                   | \$ 0.27                  |
| Dividends paid per common share  | \$ 0.0450                 | \$ 0.0450                | \$ 0.0400                 | \$ 0.0400                |

(1) Due to the changes in the number of average common shares and common stock equivalents outstanding during the year, the sum of earnings per share amounts for each quarter do not necessarily sum in the aggregate to the earnings per share amounts for the full year.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders  
Landstar System, Inc.:

Under date of February 22, 2011, we reported on the consolidated balance sheets of Landstar System, Inc. and subsidiary (the Company) as of December 25, 2010 and December 26, 2009, and the related consolidated statements of income, changes in equity and cash flows for the fiscal years ended December 25, 2010, December 26, 2009 and December 27, 2008, which are included in the 2010 annual report to shareholders. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedules as listed in Item 15(a) (2). These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits.

In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

February 22, 2011  
Jacksonville, Florida  
Certified Public Accountants



**LANDSTAR SYSTEM, INC.****SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
PARENT COMPANY ONLY BALANCE SHEET INFORMATION  
(Dollars in thousands, except per share amounts)**

|   | <u>Dec. 25,<br/>2010</u> | <u>Dec. 26,<br/>2009</u> |
|---|--------------------------|--------------------------|
| <b>ASSETS</b>   |                          |                          |
| Investment in Landstar System Holdings, Inc., net of advances                                   | \$ 250,967               | \$ 268,151               |
| Total assets  | <u>\$ 250,967</u>        | <u>\$ 268,151</u>        |
| <b>LIABILITIES AND EQUITY</b>   |                          |                          |
| Equity  |                          |                          |
| Landstar System, Inc. and subsidiary shareholders' equity:                                      |                          |                          |
| Common stock, \$0.01 par value, authorized 160,000,000 shares, issued 66,535,169 and 66,255,358 | \$ 665                   | \$ 663                   |
| Additional paid-in capital  | 169,268                  | 161,261                  |
| Retained earnings   | 844,132                  | 766,040                  |
| Cost of 18,674,902 and 16,022,111 shares of common stock in treasury                            | (763,182)                | (660,446)                |
| Accumulated other comprehensive income  | 881                      | 498                      |
| Total Landstar System, Inc. and subsidiary shareholders' equity                                 | 251,764                  | 268,016                  |
| Noncontrolling interest   | (797)                    | 135                      |
| Total liabilities and equity  | <u>\$ 250,967</u>        | <u>\$ 268,151</u>        |

See Report of Independent Registered Public Accounting Firm.

**LANDSTAR SYSTEM, INC.****SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
PARENT COMPANY ONLY STATEMENT OF INCOME INFORMATION  
(Dollars in thousands, except per share amounts)**

|   | Fiscal Years Ended |                   |                   |
|---|--------------------|-------------------|-------------------|
|   | Dec. 25,<br>2010   | Dec. 26,<br>2009  | Dec. 27,<br>2008  |
| Equity in undistributed earnings of Landstar System Holdings, Inc.              | \$ 87,395          | \$ 70,341         | \$ 110,331        |
| Income taxes  | (119)              | (54)              | (599)             |
| Net income attributable to Landstar System, Inc. and subsidiary                 | <u>\$ 87,514</u>   | <u>\$ 70,395</u>  | <u>\$ 110,930</u> |
| Earnings per common share attributable to Landstar System, Inc. and subsidiary  | <u>\$ 1.77</u>     | <u>\$ 1.38</u>    | <u>\$ 2.11</u>    |
| Diluted earnings per share attributable to Landstar System, Inc. and subsidiary | <u>\$ 1.77</u>     | <u>\$ 1.37</u>    | <u>\$ 2.10</u>    |
| Dividends paid per common share   | <u>\$ 0.190</u>    | <u>\$ 0.170</u>   | <u>\$ 0.155</u>   |
| Average number of shares outstanding:   |                    |                   |                   |
| Earnings per common share   | <u>49,523,000</u>  | <u>51,095,000</u> | <u>52,503,000</u> |
| Diluted earnings per share  | <u>49,580,000</u>  | <u>51,280,000</u> | <u>52,854,000</u> |

See Report of Independent Registered Public Accounting Firm.

## LANDSTAR SYSTEM, INC.

SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
PARENT COMPANY ONLY STATEMENT OF CASH FLOWS INFORMATION  
(Dollars in thousands)

|   | Fiscal Years Ended |                  |                  |
|---|--------------------|------------------|------------------|
|   | Dec. 25,<br>2010   | Dec. 26,<br>2009 | Dec. 27,<br>2008 |
| Operating Activities  |                    |                  |                  |
| Net income  | \$ 87,514          | \$ 70,395        | \$ 110,930       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                    |                  |                  |
| Equity in undistributed earnings of Landstar System Holdings, Inc.                | (87,395)           | (70,341)         | (110,331)        |
| Net Cash Provided By Operating Activities   | 119                | 54               | 599              |
| Investing Activities  |                    |                  |                  |
| Additional investments in and advances from Landstar System Holdings, Inc., net   | 108,617            | 61,941           | 44,972           |
| Net Cash Provided By Investing Activities   | 108,617            | 61,941           | 44,972           |
| Financing Activities  |                    |                  |                  |
| Excess tax benefit on stock option exercises                                      | 1,580              | 773              | 2,231            |
| Proceeds from exercises of stock options  | 1,660              | 1,128            | 12,249           |
| Dividends paid  | (9,422)            | (8,686)          | (8,136)          |
| Purchases of common stock   | (102,736)          | (55,757)         | (51,576)         |
| Net Cash Used By Financing Activities   | (108,918)          | (62,542)         | (45,232)         |
| Effect of exchange rate changes on cash and cash equivalents                      | 182                | 547              | (339)            |
| Change in cash and cash equivalents   | 0                  | 0                | 0                |
| Cash and cash equivalents at beginning of period                                  | 0                  | 0                | 0                |
| Cash and cash equivalents at end of period  | \$ 0               | \$ 0             | \$ 0             |

See Report of Independent Registered Public Accounting Firm.

**LANDSTAR SYSTEM, INC. AND SUBSIDIARY**  
**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS**  
**For the Fiscal Year Ended December 25, 2010**  
**(Dollars in thousands)**

| <u>COL A</u>                                | <u>COL B</u>                         | <u>COL C</u>                        |   | <u>COL D</u>                  | <u>COL E</u>                   |
|---|--------------------------------------|-------------------------------------|---|-------------------------------|--------------------------------|
|   |                                      | <u>Additions</u>                    |   |                               |                                |
| Description                                 | Balance at<br>Beginning of<br>Period | Charged to<br>Costs and<br>Expenses | Charged to<br>Other<br>Accounts<br>Describe | Deductions<br>Describe<br>(A) | Balance at<br>End of<br>Period |
| Allowance for doubtful accounts:            |                                      |                                     |   |                               |                                |
| Deducted from trade receivables             | \$ 5,547                             | \$ 1,395                            |   | \$ (1,618)                    | \$ 5,324                       |
| Deducted from other receivables             | 6,727                                | 2,516                               |   | (1,744)                       | 7,499                          |
| Deducted from other non-current receivables | 319                                  | 5                                   |   | (12)                          | 312                            |
|   | <u>\$ 12,593</u>                     | <u>\$ 3,916</u>                     |   | <u>\$ (3,374)</u>             | <u>\$ 13,135</u>               |

(A) Write-offs, net of recoveries.

See Report of Independent Registered Public Accounting Firm.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS  
 For the Fiscal Year Ended December 26, 2009  
 (Dollars in thousands)

| COL A                                       | COL B                                | COL C                               |  | COL D                         | COL E                          |
|---|--------------------------------------|-------------------------------------|--|-------------------------------|--------------------------------|
| Description                                 | Balance at<br>Beginning of<br>Period | Charged to<br>Costs and<br>Expenses | Additions<br>Charged to<br>Other<br>Accounts<br>Describe | Deductions<br>Describe<br>(A) | Balance at<br>End of<br>Period |
| Allowance for doubtful accounts:            |                                      |                                     |  |                               |                                |
| Deducted from trade receivables             | \$ 6,230                             | \$ 3,801                            |  | \$ (4,484)                    | \$ 5,547                       |
| Deducted from other receivables             | 4,866                                | 4,182                               |  | (2,321)                       | 6,727                          |
| Deducted from other non-current receivables | 316                                  | 3                                   |  |                               | 319                            |
|   | <u>\$ 11,412</u>                     | <u>\$ 7,986</u>                     |  | <u>\$ (6,805)</u>             | <u>\$ 12,593</u>               |

(A) Write-offs, net of recoveries.

See Report of Independent Registered Public Accounting Firm.

LANDSTAR SYSTEM, INC. AND SUBSIDIARY

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS  
 For the Fiscal Year Ended December 27, 2008  
 (Dollars in thousands)

| COL A                                       | COL B                                | COL C                               |  | COL D                         | COL E                          |
|---|--------------------------------------|-------------------------------------|--|-------------------------------|--------------------------------|
| Description                                 | Balance at<br>Beginning of<br>Period | Charged to<br>Costs and<br>Expenses | Additions<br>Charged to<br>Other<br>Accounts<br>Describe | Deductions<br>Describe<br>(A) | Balance at<br>End of<br>Period |
| Allowance for doubtful accounts:            |                                      |                                     |  |                               |                                |
| Deducted from trade receivables             | \$ 4,469                             | \$ 4,641                            |  | \$ (2,880)                    | \$ 6,230                       |
| Deducted from other receivables             | 4,792                                | 2,290                               |  | (2,216)                       | 4,866                          |
| Deducted from other non-current receivables | 310                                  | 6                                   |  |                               | 316                            |
|   | <u>\$ 9,571</u>                      | <u>\$ 6,937</u>                     |  | <u>\$ (5,096)</u>             | <u>\$ 11,412</u>               |

(A) Write-offs, net of recoveries

See Report of Independent Registered Public Accounting Firm.

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

None.

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

**Disclosure Controls and Procedures**

As of the end of the period covered by this Annual Report on Form 10-K, an evaluation was carried out, under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended). Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of December 25, 2010 to provide reasonable assurance that information required to be disclosed by the Company in reports that it filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

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

**Internal Control Over Financial Reporting**

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

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

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

Management, with the participation of the Company's principal executive and principal financial officers, assessed the effectiveness of the Company's internal control over financial reporting as of December 25, 2010. This assessment was performed using the criteria established under the Internal Control-Integrated Framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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

Based on the assessment performed using the criteria established by COSO, management has concluded that the Company maintained effective internal control over financial reporting as of December 25, 2010.

KPMG LLP, the independent registered public accounting firm that audited the financial statements included in this Annual Report on Form 10-K for the fiscal year ended December 25, 2010, has issued an audit report on the effectiveness of the Company's internal control over financial reporting. Such report appears immediately below.

*(b) Attestation Report of the Registered Public Accounting Firm*

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders  
Landstar System, Inc:

We have audited Landstar System, Inc.'s internal control over financial reporting as of December 25, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Landstar System, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Landstar System, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 25, 2010, based on criteria established in Internal Control — Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Landstar System, Inc. and subsidiary as of December 25, 2010 and December 26, 2009, and the related consolidated statements of income, changes in



equity, and cash flows for the fiscal years ended December 25, 2010, December 26, 2009 and December 27, 2008, and our report dated February 22, 2011, expressed an unqualified opinion on those consolidated financial statements.

/S/ KPMG LLP

February 22, 2011  
Jacksonville, Florida  
Certified Public Accountants

***(c) Changes in Internal Control Over Financial Reporting***

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

**Item 9B. Other Information**

Effective February 21, 2011, the Board of Directors of the Company adopted Amended and Restated Bylaws (the "Amended and Restated Bylaws") of the Company, superseding and replacing the Company's existing bylaws (the "Previous Bylaws"). The changes to the Previous Bylaws effected by the Amended and Restated Bylaws are summarized below:

- Sections 1.07 and 1.08 were amended to clarify that (i) broker non-votes are considered present for purposes of establishing a quorum for the transaction of business at a meeting of stockholders and (ii) abstentions and broker non-votes are not counted as votes cast in calculating whether or not a majority or plurality of votes were cast in connection with a matter voted upon by stockholders.
- Section 1.08 was amended to provide that (i) a majority of votes cast is necessary for the election of a director in an uncontested election and (ii) a plurality of votes cast is necessary for the election of a director in a contested election.
- Section 2.02 was amended to permit one or more directors to be nominated and elected to a Class of the Board of Directors having a term that expires in fewer than three years from the date of the annual meeting at which such director or directors are elected, if necessary in furtherance of the requirement in the bylaws that the Classes of the Board be as equal in size as possible.
- Sections 2.12 and 2.13 were amended to correct certain inconsistencies with provisions of the certificate of incorporation.
- A new Section 8.09 was added that provides that the Court of Chancery of Delaware shall be the exclusive forum for any (i) derivative actions, (ii) breach of fiduciary duty claims, (iii) claims arising under the Delaware General Corporation Law or the corporation's certificate of incorporation or bylaws, or (iv) actions asserting a claim governed by the internal affairs doctrine.

The foregoing summary of the changes to the Previous Bylaws effected by the Amended and Restated Bylaws is not intended to be complete and is qualified in its entirety by reference to the Amended and Restated Bylaws, attached as Exhibit 3.2 to this Form 10-K.

**PART III**

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

The information required by this Item concerning the Directors (and nominees for Directors) and Executive Officers of the Company is set forth under the captions "Election of Directors," "Directors of the Company," "Information Regarding Board of Directors and Committees," and "Executive Officers of the Company" and "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in the Company's

definitive Proxy Statement for its annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, and is incorporated herein by reference. The information required by this Item concerning the Company's Audit Committee and the Audit Committee's Financial Expert is set forth under the caption "Information Regarding Board of Directors and Committees" and "Report of the Audit Committee" in the Company's definitive Proxy Statement for its annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, and is incorporated herein by reference.

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

**Item 11. *Executive Compensation***

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

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

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

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

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

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

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

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

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

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

|   | <b>Page</b> |
|---|-------------|
| <a href="#">Consolidated Balance Sheets</a>                             | 34          |
| <a href="#">Consolidated Statements of Income</a>                       | 35          |
| <a href="#">Consolidated Statements of Cash Flows</a>                   | 36          |
| <a href="#">Consolidated Statement of Changes in Equity</a>             | 37          |
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#### (2) Financial Statement Schedules

The report of the Company's independent registered public accounting firm with respect to the financial statement schedules listed below appears on page 56 of this Annual Report on Form 10-K.

| <b>Schedule Number</b> | <b>Description</b>  | <b>Page</b> |
|------------------------|---|-------------|
| <a href="#">I</a>      | <a href="#">Condensed Financial Information of Registrant Parent Company Only Balance Sheet Information</a>           | 57          |
| <a href="#">I</a>      | <a href="#">Condensed Financial Information of Registrant Parent Company Only Statement of Income Information</a>     | 58          |
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| <a href="#">II</a>     | <a href="#">Valuation and Qualifying Accounts For the Fiscal Year Ended December 25, 2010</a>                         | 60          |
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| <a href="#">II</a>     | <a href="#">Valuation and Qualifying Accounts For the Fiscal Year Ended December 27, 2008</a>                         | 62          |

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

#### (3) Exhibits

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| (3)                | <b>Articles of Incorporation and By-Laws:</b>   |
| 3.1                | Restated Certificate of Incorporation of the Company dated March 6, 2006, including Certificate of Designation of Junior Participating Preferred Stock dated February 10, 1993. (Incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (Commission File No. 0-21238)) |
| 3.2*               | The Company's Bylaws, as amended and restated on February 21, 2011.   |
| (4)                | <b>Instruments defining the rights of security holders, including indentures:</b>   |
| 4.1                | Specimen of Common Stock Certificate. (Incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-1 (Registration No. 33-57174))   |
| 4.2                | Credit Agreement, dated as of June 27, 2008, among LSHI, Landstar, the lenders named therein and JPMorgan Chase Bank, N.A., as administrative agent (including exhibits and schedules thereto). (Incorporated by reference to Exhibit 99.1 to the Registrant's Form 8-K filed on July 3, 2008 (Commission File No. 0-21238))                        |
| (10)               | <b>Material contracts:</b>  |
| 10.1+              | Landstar System, Inc. Executive Incentive Compensation Plan (Incorporated by reference to Exhibit A to the Registrant's Definitive Proxy Statement filed on April 2, 2007 (Commission File No. 0-21238))  |

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| Exhibit<br>No. | Description   |
|----------------|---|
| 10.2+          | Amendment to the Landstar System, Inc. Executive Incentive Compensation Plan, effective as of December 3, 2008 (Incorporated by reference to Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 27, 2008 (Commission File No. 0-21238))                         |
| 10.3+          | Landstar System, Inc. Supplemental Executive Retirement Plan, as amended and restated as of January 1, 2010 (Incorporated by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 26, 2009 (Commission File No. 0-21238))                            |
| 10.4+          | Landstar System, Inc. 1993 Stock Option Plan, as amended as of December 31, 2008 (Incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed on January 7, 2009 (Commission File No. 0-21238))  |
| 10.5+          | Amended and Restated Landstar System, Inc. 2002 Employee Stock Option and Stock Incentive Plan (Incorporated by reference to Exhibit A to the Registrant's Definitive Proxy Statement filed on March 23, 2009 (Commission File No. 0-21238))  |
| 10.6+          | Directors Stock Compensation Plan, as amended and restated as of February 22, 2010 (Incorporated by reference to Exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 26, 2009 (Commission File No. 0-21238))   |
| 10.7+          | Form of Indemnification Agreement between the Company and each of the directors and executive officers of the Company. (Incorporated by reference to Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 27, 2003 (Commission No. 0-21238))                      |
| 10.8+          | Form of Key Executive Employment Protection Agreement between Landstar System, Inc. and each of the Executive Officers of the Company (Incorporated by reference to Exhibit 10.13 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 30, 2006 (Commission File No. 0-21238)) |
| 10.9+          | Form of Amendment to Key Executive Employment Protection Agreement between Landstar System, Inc. and each of the Executive Officers of the Company  |
| 10.10+         | Letter Agreement, dated July 2, 2002 from Jeffrey C. Crowe to Henry H. Gerkens. (Incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 28, 2002 (Commission File No. 0-21238))   |
| 10.11+         | Letter Agreement, dated December 31, 2008, between Landstar System, Inc. and Henry H. Gerkens (Incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed on December 31, 2008 (Commission File No. 0-21238))   |
| 10.12+         | Consulting Services Agreement, dated as of December 18, 2009, between Landstar System, Inc. and Jeffrey C. Crowe (Incorporated by reference to Exhibit 10.13 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 26, 2009 (Commission File No. 0-21238))                      |
| 10.13+*        | Employment Separation Agreement, Waiver and Release, dated January 26, 2011, between Landstar System, Inc. and James M. Handoush  |
| (21)           | <b>Subsidiaries of the Registrant:</b>  |
| 21.1*          | List of Subsidiary Corporations of the Registrant   |
| (23)           | <b>Consents of experts and counsel:</b>   |
| 23.1*          | Consent of KPMG LLP as Independent Registered Public Accounting Firm  |
| (24)           | <b>Power of attorney:</b>   |
| 24.1*          | Powers of Attorney  |
| (31)           | <b>Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002:</b>  |
| 31.1*          | Chief Executive Officer certification, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 31.2*          | Chief Financial Officer certification, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| (32)           | <b>Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002:</b>  |
| 32.1**         | Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 32.2**         | Chief Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 101.INS**      | XBRL Instance Document  |
| 101.SCH**      | XBRL Schema Document  |

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| <b>Exhibit<br/>No.</b> | <b>Description</b>                  |
|------------------------|-------------------------------------|
| 101.CAL**              | XBRL Calculation Linkbase Document  |
| 101.LAB**              | XBRL Labels Linkbase Document       |
| 101.PRE**              | XBRL Presentation Linkbase Document |
| 101.DEF**              | XBRL Definition Linkbase Document   |

+ management contract or compensatory plan or arrangement

\* Filed herewith.

\*\* Furnished herewith.

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



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LANDSTAR SYSTEM, INC.  
AMENDED & RESTATED BYLAWS  
As Adopted on February 21, 2011

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LANDSTAR SYSTEM, INC.  
AMENDED & RESTATED BYLAWS

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LANDSTAR SYSTEM, INC.  
AMENDED & RESTATED BYLAWS

Article I

MEETINGS OF STOCKHOLDERS

Section 1.01 Annual Meetings. An annual meeting of the stockholders of the corporation for the election of directors and for the transaction of such other business as properly may come before such meeting shall be held each year either within or without the State of Delaware on such date and at such place and time as are designated by resolution of the corporation's board of directors (the "Board").

Section 1.02 Special Meetings. A special meeting of the stockholders for any purpose may be called at any time by the Chairman or the President (or, in the event of his or her absence or disability, by any Vice President designated by the President) or by the Secretary pursuant to a resolution of the Board, to be held either within or without the State of Delaware on such date and at such time and place as are designated by such officer or in such resolution. The stockholders of the corporation do not have the power to call a special meeting.

Section 1.03 Participation in Meetings by Remote Communication. The Board, acting in its sole discretion, may establish guidelines and procedures in accordance with applicable provisions of the General Corporation Law of the State of Delaware as amended from time to time (the "DGCL") and any other applicable law for the participation by stockholders and proxyholders in a meeting of stockholders by means of remote communications, and may determine that any meeting of stockholders will not be held at any place but will be held solely by means of remote communication. Stockholders and proxyholders complying with such procedures and guidelines and otherwise entitled to vote at a meeting of stockholders shall be deemed present in person and entitled to vote at a meeting of stockholders, whether such meeting is to be held at a designated place or solely by means of remote communication.

Section 1.04 Notice of Meetings; Waiver of Notice.

(a) The Secretary or any Assistant Secretary shall cause notice of each meeting of stockholders to be given in writing in a manner permitted by the DGCL not less than 10 days nor more than 60 days prior to the meeting to each stockholder of record entitled to vote at such meeting, subject to such exclusions as are then permitted by the DGCL. The notice shall specify (i) the place, if any, date and time of such meeting, (ii) the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, (iii) in

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the case of a special meeting, the purpose or purposes for which such meeting is called, and ( iv ) such other information as may be required by law or as may be deemed appropriate by the President, the Vice President calling the meeting, or the Board. If the stockholder list referred to in Section 1.06 of these bylaws is made accessible on an electronic network, the notice of meeting must indicate how the stockholder list can be accessed. If the meeting of stockholders is to be held solely by means of electronic communications, the notice of meeting must provide the information required to access such stockholder list during the meeting.

(b) A written waiver of notice of meeting signed by a stockholder or a waiver by electronic transmission by a stockholder, whether given before or after the meeting time stated in such notice, is deemed equivalent to notice. Attendance of a stockholder at a meeting is a waiver of notice of such meeting, except when the stockholder attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business at the meeting on the ground that the meeting is not lawfully called or convened.

#### Section 1.05 Proxies.

(a) Each stockholder entitled to vote at a meeting of stockholders or to express consent to or dissent from corporate action in writing without a meeting may authorize another person or persons to act for such stockholder by proxy.

(b) A stockholder may authorize a valid proxy by executing a written instrument signed by such stockholder, or by causing his or her signature to be affixed to such writing by any reasonable means, including but not limited to by facsimile signature, or by transmitting or authorizing an electronic transmission (as defined in Section 8.08 of these bylaws) setting forth an authorization to act as proxy to the person designated as the holder of the proxy, a proxy solicitation firm or a like authorized agent. Proxies by electronic transmission must either set forth, or be submitted with, information from which it can be determined that the electronic transmission was authorized by the stockholder. Any copy, facsimile telecommunication or other reliable reproduction of a writing or transmission created pursuant to this section may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used if such copy, facsimile telecommunication or other reproduction is a complete reproduction of the entire original writing or transmission.

(c) No proxy may be voted or acted upon after the expiration of three years from the date of such proxy, unless such proxy provides for a longer period. Every proxy is revocable at the pleasure of the stockholder executing it unless the proxy states that it is irrevocable and applicable law makes it irrevocable. A stockholder may revoke any proxy that is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or by filing another duly executed proxy bearing a later date with the Secretary.

Section 1.06 Voting Lists. The officer of the corporation who has charge of the stock ledger of the corporation shall prepare, at least 10 days before every meeting of the stockholders (and before any adjournment thereof for which a new record date has been set), a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of each stockholder. This list shall be open to the examination of any stockholder prior to and during the meeting for any purpose germane to the meeting as required by the DGCL or other applicable law. The stock ledger shall be the only evidence as to who are the stockholders entitled by this section to examine the list required by this section or to vote in person or by proxy at any meeting of stockholders.

Section 1.07 Quorum. Except as otherwise required by law or by the certificate of incorporation, the presence in person or by proxy of the holders of record of a majority of the shares entitled to vote at a meeting of stockholders shall constitute a quorum for the transaction of business at such meeting. Shares held by brokers that such brokers are prohibited by law, regulation or rule of any stock exchange from voting (pursuant to their discretionary authority on behalf of beneficial owners of such shares who have not submitted a proxy with respect to such shares) on some or all of the matters before the stockholders, but which shares would otherwise be entitled to vote at the meeting (“Broker Non-Votes”) shall be counted as present for the purpose of determining the presence or absence of a quorum. A quorum, once established, is not broken by the withdrawal of enough votes to leave less than a quorum.

Section 1.08 Voting. Every holder of record of shares entitled to vote at a meeting of stockholders is entitled to one vote for each share outstanding in his or her name on the books of the corporation (x) at the close of business on the record date for such meeting, or (y) if no record date has been fixed, at the close of business on the day next preceding the day on which notice of the meeting is given, or if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. At all meetings of stockholders for the election of directors at which a quorum is present, each director shall be elected by the vote of the majority of the votes cast with respect to that director’s election, provided that if, as of the tenth (10th) day preceding the date the corporation first mails its notice of meeting for such meeting to the stockholders of the corporation, the number of nominees for election as director exceeds the number of directors to be elected, the directors shall be elected by a plurality of the votes cast. All other matters at any meeting at which a quorum is present shall be decided by the affirmative vote of a majority of votes cast, unless otherwise expressly provided by express provision of law or the certificate of incorporation. The stockholders do not have the right to cumulate their votes for the election of directors. For the avoidance of doubt, abstentions and Broker Non-Votes will not be counted as votes cast.

Section 1.09 Adjournment. Any meeting of stockholders may be adjourned from time to time, by the chairperson of the meeting or by the vote of a majority of the

shares of stock present in person or represented by proxy at the meeting, to reconvene at the same or some other place, and notice need not be given of any such adjourned meeting if the place, if any, and date and time thereof (and the means of remote communication, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting) are announced at the meeting at which the adjournment is taken, unless the adjournment is for more than 30 days or a new record date is fixed for the adjourned meeting after the adjournment, in which case notice of the adjourned meeting in accordance with Section 1.04 of these bylaws shall be given to each stockholder of record entitled to vote at the meeting. At the adjourned meeting, the corporation may transact any business that might have been transacted at the original meeting.

Section 1.10 Organization; Procedure.

(a) The President shall preside over each meeting of stockholders. If the President is absent or disabled, the presiding officer shall be selected by the Board or, failing action by the Board, by a majority of the stockholders present in person or represented by proxy. The Secretary, or in the event of his or her absence or disability, an appointee of the presiding officer, shall act as secretary of the meeting. The Board may make such rules or regulations for the conduct of meetings of stockholders as it shall deem necessary, appropriate or convenient. Subject to any such rules and regulations, the presiding officer of any meeting shall have the right and authority to prescribe rules, regulations and procedures for such meeting and to take all such actions as in the judgment of the presiding officer are appropriate for the proper conduct of such meeting.

(b) Preceding any meeting of the stockholders, the Board may, and when required by law shall, appoint one or more persons to act as inspectors of elections, and may designate one or more alternate inspectors. If no inspector or alternate so appointed by the Board is able to act, or if no inspector or alternate has been appointed and the appointment of an inspector is required by law, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of the duties of an inspector, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall discharge their duties in accordance with the requirements of applicable law.

Section 1.11 No Stockholder Action by Written Consent. Any action required or permitted to be taken by the stockholders of the corporation must be effected at a duly called annual or special meeting of the stockholders of the corporation, and the ability of the stockholders to consent in writing to the taking of any action is specifically denied.

Section 1.12 Stockholder Meetings — Nominations and Other Proposals.

(a) Annual Meetings.

(i) Nominations of persons for election to the Board and proposals of business to be considered by the stockholders at an annual meeting of stockholders may be made only ( x ) as specified in the corporation's notice of meeting (or any notice supplemental thereto), ( y ) by or at the direction of the Board, or a committee appointed by the Board for such purpose, or ( z ) by any stockholder of the corporation who or which ( 1 ) is entitled to vote at the meeting, ( 2 ) complies in a timely manner with all notice procedures set forth in this Section 1.12, and ( 3 ) is a stockholder of record when the required notice is delivered and at the date of the meeting. A stockholder proposal must constitute a proper matter for corporate action under the DGCL.

(ii) Notice in writing of a stockholder nomination or stockholder proposal must be delivered to the attention of the Secretary at the principal place of business of the corporation not less than 90 days nor more than 120 days prior to the first anniversary of the date of the corporation's proxy statement for the preceding year's annual meeting or, if there was no proxy statement issued for the prior year, by the close of business on the 10th day following the day on which public announcement of the date of the current year's annual meeting is first made. If the number of directors to be elected to the Board at an annual meeting is increased, and if the corporation does not make a public announcement naming all of the nominees for director or specifying the size of the increased Board at least 70 days prior to the first anniversary of the date of the corporation's proxy statement for the preceding year's annual meeting (or, if there was no proxy statement issued for the prior year, does not make such public announcement concurrently with or prior to the day on which public announcement of the date of the current year's annual meeting is first made), then any stockholder nomination in respect of the increased number of positions shall be considered timely if delivered not later than the close of business on the 10th day following the day on which a public announcement naming all nominees or specifying the size of the increased Board is first made by the corporation.

(iii) Notice of a stockholder nomination shall include, as to each person whom the stockholder proposes to nominate for election or reelection as a director, all information relating to such person required to be disclosed in solicitations of proxies for election of directors or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 14A-11 thereunder, including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected. Notice of a stockholder proposal shall include a brief description of the business desired to be brought before the meeting, the text of the proposal (including the text of any resolutions proposed for consideration and if such business includes proposed amendments to the certificate of incorporation and/or bylaws of the corporation, the text of the proposed

amendments), the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made.

(iv) Notice of a stockholder nomination or proposal shall also set forth, as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made ( w ) the name and address of such stockholder, as they appear on the corporation's books and records, and of such beneficial owner, ( x ) the class or series and number of shares of capital stock of the corporation which are owned beneficially and of record by such stockholder and such beneficial owner, ( y ) a representation that the stockholder is a holder of record of stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination, and ( z ) a representation as to whether the stockholder or the beneficial owner, if any, intends or is part of a group which intends ( 1 ) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the corporation's outstanding capital stock required to elect the nominee or to approve or adopt the proposal and/or ( 2 ) otherwise to solicit proxies from stockholders in support of such nomination or proposal. The foregoing notice requirements shall be deemed satisfied by a stockholder if the stockholder has notified the corporation of his or her intention to present a proposal at an annual meeting in compliance with Rule 14a-8 (or any successor thereof) promulgated under the Exchange Act and such stockholder's proposal has been included in a proxy statement that has been prepared by the corporation to solicit proxies for such annual meeting.

(b) Special Meetings.

(i) Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the corporation's notice of meeting pursuant to Section 1.04 of these bylaws. Nominations of persons for election to the Board at a special meeting of stockholders may be made only ( x ) as specified in the corporation's notice of meeting (or any supplement thereto), ( y ) by or at the direction of the Board, or a committee appointed by the Board for such purpose, if the corporation's notice of meeting indicated that the purposes of meeting included the election of directors and specified the number of directors to be elected, or ( z ) subject to the provisions of these bylaws, by any stockholder of the corporation. A stockholder may nominate persons for election to the board (a "stockholder nomination") at a special meeting only if the stockholder ( 1 ) is entitled to vote at the meeting, ( 2 ) complies in a timely manner with the notice procedures set forth in paragraph (ii) of this Section 1.12(b), and ( 3 ) is a stockholder of record when the required notice is delivered and at the date of the meeting.



(ii) Notice in writing of a stockholder nomination must be delivered to the attention of the Secretary at the principal place of business of the corporation not later than the later of the 60th day prior to the date of the meeting and the close of business on the 10th day following the last to occur of the public announcement by the corporation of the date of such meeting and the public announcement by the corporation of the nominees proposed by the Board to be elected at such meeting, and must comply with the provisions of Sections 1.12(a)(iii) and (iv) of these bylaws.

(c) General.

(i) Except as otherwise provided by law, the certificate of incorporation or these bylaws, the presiding officer of a meeting of stockholders shall have the power and duty ( x ) to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Section 1.12, and ( y ) if any proposed nomination or business is not in compliance with this Section 1.12, to declare that such defective nomination shall be disregarded or that such proposed business shall not be transacted.

(ii) The corporation may require any proposed stockholder nominee for director to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as a director of the corporation. If the stockholder (or a qualified representative of the stockholder) making a nomination or proposal under this Section 1.12 does not appear at a meeting of stockholders to present such nomination or proposal, the nomination shall be disregarded and/or the proposed business shall not be transacted, as the case may be, notwithstanding that proxies in favor thereof may have been received by the corporation.

(iii) For purposes of this Section 1.12, “public announcement” shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(iv) Notwithstanding the foregoing provisions of this Section 1.12, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 1.12. Nothing in this Section 1.12 shall be deemed to affect any rights of ( x ) stockholders to request inclusion of proposals in the corporation’s proxy statement pursuant to Rule 14a-8 under the Exchange Act or ( y ) the holders of any series of preferred stock to elect directors pursuant to any applicable

provisions of the certificate of incorporation or of the relevant preferred stock certificate or designation.

(v) The announcement of an adjournment or postponement of an annual or special meeting does not commence a new time period (and does not extend any time period) for the giving of notice of a stockholder nomination or a stockholder proposal.

## Article II

### BOARD OF DIRECTORS

Section 2.01 General Powers. Except as may otherwise be provided by law or by the certificate of incorporation, the affairs and business of the corporation shall be managed by or under the direction of the Board. The directors shall act only as a Board, and the individual directors shall have no power as such.

#### Section 2.02 Number and Term of Office; Election of Directors.

(a) The Board shall be divided into three classes, designated Classes I, II and III, which shall be as nearly equal in number as possible. Directors of Class I shall hold office for a term expiring at the annual meeting of stockholders to be held in 2012, directors of Class II shall hold office for a term expiring at the annual meeting of stockholders to be held in 2013 and directors of Class III shall hold office for a term expiring at the annual meeting of stockholders to be held in 2011. Except as otherwise provided in Sections 2.12 and 2.13 of these bylaws, at each annual meeting of stockholders following such initial classification and election, the respective successors of each class shall be elected for three year terms. Notwithstanding the foregoing, from time to time, in furtherance of the first sentence of this section, the Board may nominate one or more persons for election, and the stockholders may elect such nominee, to a Class of directors having a term that expires less than three years after the annual meeting at which such person(s) is nominated to be elected as a director.

(b) The number of directors shall be fixed from time to time by resolution of the Board. In case of any increase in the number of directors in advance of an annual meeting of stockholders, each additional director shall be elected by the directors then in office, although less than a quorum, to hold office until the next election of the class for which such director shall have been chosen (as provided in the last sentence of this subsection (b)), or until his successor shall have been duly chosen. No decrease in the number of directors shall shorten the term of any incumbent director. Any newly created or eliminated directorships resulting from an increase or decrease shall be apportioned by the Board among the three classes of directors so as to maintain such classes as nearly equal as possible.

Section 2.03 Regular Meetings. Regular meetings of the Board shall be held on such dates, and at such times and places, as are determined from time to time by resolution of the Board.

Section 2.04 Special Meetings. Special meetings of the Board shall be held whenever called by the Chairman or the President or, in the event of his or her absence or disability, by any Vice President designated by the President, or by a majority of the directors then in office, at such place, date and time as may be specified in the respective notices or waivers of notice of such meetings. Any business may be conducted at a special meeting.

Section 2.05 Notice of Meetings; Waiver of Notice.

(a) Notices of special meetings shall be given to each director, and notice of each resolution or other action affecting the date, time or place of one or more regular meetings shall be given to each director not present at the meeting adopting such resolution or other action, subject to Section 2.08 of these bylaws. Notices shall be given personally, or by telephone confirmed by facsimile or email dispatched promptly thereafter, or by facsimile or email confirmed by a writing delivered by a recognized overnight courier service, directed to each director at the address from time to time designated by such director to the Secretary. Each such notice and confirmation must be given (received in the case of personal service, or delivery of written confirmation) at least 24 hours prior to the time of a special meeting, and at least five days prior to the initial regular meeting affected by such resolution or other action, as the case may be.

(b) A written waiver of notice of meeting signed by a director or a waiver by electronic transmission by a director, whether given before or after the meeting time stated in such notice, is deemed equivalent to notice. Attendance of a director at a meeting is a waiver of notice of such meeting, except when the director attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business at the meeting on the ground that the meeting is not lawfully called or convened.

Section 2.06 Quorum; Voting. At all meetings of the Board, the presence of a majority of the total authorized number of directors shall constitute a quorum for the transaction of business. Except as otherwise required by law, the certificate of incorporation or these bylaws, the vote of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board.

Section 2.07 Action by Telephonic Communications. Members of the Board may participate in a meeting of the Board by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this provision shall constitute presence in person at such meeting.

Section 2.08 Adjournment. A majority of the directors present may adjourn any meeting of the Board to another date, time or place, whether or not a quorum is present. No notice need be given of any adjourned meeting unless (a) the date, time and place of the adjourned meeting are not announced at the time of adjournment, in which case notice conforming to the requirements of Section 2.05 of these bylaws applicable to special meetings shall be given to each director, or (b) the meeting is adjourned for more than 24 hours, in which case the notice referred to in clause (a) shall be given to those directors not present at the announcement of the date, time and place of the adjourned meeting.

Section 2.09 Action Without a Meeting. Any action required or permitted to be taken at any meeting of the Board may be taken without a meeting if all members of the Board consent thereto in writing or by electronic transmission, and such writing or writings or electronic transmissions are filed with the minutes of proceedings of the Board. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

Section 2.10 Regulations. To the extent consistent with applicable law, the certificate of incorporation and these bylaws, the Board may adopt such rules and regulations for the conduct of meetings of the Board and for the management of the affairs and business of the corporation as the Board may deem appropriate. The Board may elect from among its members a chairperson and one or more vice-chairpersons to preside over meetings and to perform such other duties as may be designated by the Board.

Section 2.11 Resignations of Directors. Any director may resign at any time by submitting an electronic transmission or by delivering a written notice of resignation, signed by such director, to the President or the Secretary. Such resignation shall take effect upon delivery unless the resignation specifies a later effective date or an effective date determined upon the happening of a specified event. A resignation conditioned upon the director's failure to obtain a specified vote for re-election as director is irrevocable.

Section 2.12 Removal of Directors. Subject to the rights of the holders of any class or series of preferred stock, if any, to elect additional directors pursuant to the certificate of incorporation, any director may be removed at any time, but only for cause, upon the affirmative vote of the holders of a majority of the outstanding shares of stock of the corporation entitled to vote generally for the election of directors, acting at a stockholder meeting.

Section 2.13 Vacancies and Newly Created Directorships.

(a) Subject to the rights of the holders of any class or series of preferred stock, if any, to elect additional directors pursuant to the certificate of incorporation, any vacancy in the Board caused by any removal of one or more directors pursuant to Section

2.12 of these bylaws may be filled at the stockholder meeting at which such removal is effected by the stockholders entitled to vote for the election of the director so removed. If the stockholders do not so fill such vacancy, it may be filled in the manner provided in Section 2.13(b) of these bylaws.

(b) Subject to the rights of the holders of any class or series of preferred stock, if any, to elect additional directors pursuant to the certificate of incorporation, and except as provided in Section 2.13(a) of these bylaws, if any vacancies shall occur in the Board, by reason of death, resignation, removal or otherwise, or if the authorized number of directors shall be increased, the directors then in office shall continue to act. Any such vacancies or newly created directorships may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director. If a director resigns effective at a future date, he or she may participate in the election of replacement directors provided for in the preceding sentence, with the election to take effect at the effective date of such resignation. A director elected to fill a vacancy or a newly created directorship shall hold office until his or her successor has been elected and qualified.

Section 2.14 Compensation. The Board may by resolution determine the compensation of directors for their services and the expenses in the performance of such services for which a director is entitled to reimbursement.

Section 2.15 Reliance on Accounts and Reports, etc. A director, as such or as a member of any committee designated by the Board, shall in the performance of his or her duties be fully protected in relying in good faith upon the records of the corporation and upon information, opinions, reports or statements presented to the corporation by any of the corporation's officers or employees, or committees designated by the Board, or by any other person as to the matters the member reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the corporation.

### Article III

#### COMMITTEES

Section 3.01 Designation of Committees. The Board shall designate such committees as may be required by applicable laws, regulations or stock exchange rules, and may designate such additional committees as it deems necessary or appropriate. Each committee shall consist of such number of directors, with such qualifications, as may be required by applicable laws, regulations or stock exchange rules, or as from time to time may be fixed by a majority of the total number of directors which the corporation would have if there were no vacancies on the Board (the "whole Board"), and shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the corporation to the extent delegated to such committee by resolution of a majority of the whole Board, which delegation shall include all such

powers and authority as may be required by applicable laws, regulations or stock exchange rules. No committee shall have any power or authority as to ( a) approving or adopting, or recommending to the stockholders, any action or matter (other than the election or removal of directors) expressly required by the DGCL to be submitted to stockholders for approval, or ( b) adopting, amending or repealing any of these bylaws or ( c) as may otherwise be excluded by law or by the certificate of incorporation, and no committee may delegate any of its power or authority to a subcommittee unless so authorized by a majority of the whole Board.

Section 3.02 Members and Alternate Members. The members of each committee and any alternate members shall be selected by a majority of the whole Board, and shall serve at the pleasure of the Board or, if a majority of the whole Board shall so determine, for a stated term. An alternate member may replace any absent or disqualified member at any meeting of the committee. An alternate member shall be given all notices of committee meetings and may attend any meeting of the committee, but may count towards a quorum and vote only if a member for whom such person is an alternate is absent or disqualified. Each member (and each alternate member) of any committee shall hold office only until the end of such term, if any, as may have been fixed for such person by a majority of the whole Board, the time he or she shall cease to be a director, or his or her earlier death, resignation or removal.

Section 3.03 Committee Procedures. A quorum for each committee shall be a majority of its members, unless the committee has only one or two members, in which case a quorum shall be one member, or unless a greater quorum is established by a majority of the whole Board. The vote of a majority of the committee members present at a meeting at which a quorum is present shall be the act of the committee. Each committee shall keep regular minutes of its meetings and report to the Board when required. A majority of the whole Board shall adopt a charter for each committee for which a charter is required by applicable laws, regulations or stock exchange rules, may adopt a charter for any other committee, and may adopt other rules and regulations for the government of any committee not inconsistent with the provisions of these bylaws or any such charter, and each committee may adopt its own rules and regulations of government, to the extent not inconsistent with these bylaws or any charter or other rules and regulations adopted by a majority of the whole Board.

Section 3.04 Meetings and Actions of Committees. Except to the extent that the same may be inconsistent with the terms of any committee charter required by applicable laws, regulations or stock exchange rules, meetings and actions of each committee shall be governed by, and held and taken in accordance with, the provisions of the following sections of these bylaws, with such bylaws being deemed to refer to the committee and its members in lieu of the Board and its members:

- (a) Section 2.03 (to the extent relating to place and time of regular meetings);
- (b) Section 2.04 (relating to special meetings);
- (c) Section 2.05 (relating to notice and waiver of notice);
- (d) Sections 2.07 and 2.09 (relating to telephonic communication and action without a meeting); and
- (e) Section 2.08 (relating to adjournment and notice of adjournment).

Special meetings of committees may also be called by resolution of the Board.

Section 3.05 Resignations and Removals. Any member (and any alternate member) of any committee may resign from such position at any time by delivering a written notice of resignation, signed by such member, to the President or the Secretary. Unless otherwise specified therein, such resignation shall take effect upon delivery. Any member (and any alternate member) of any committee may be removed from such position at any time, either for or without cause, by resolution adopted by a majority of the whole Board.

Section 3.06 Vacancies. If a vacancy occurs in any committee for any reason the remaining members (and any alternate members) may continue to act if a quorum is present. A committee vacancy may only be filled by a majority of the whole Board.

#### Article IV

#### OFFICERS

Section 4.01 Officers. The corporation shall have such officers as are from time to time determined by resolution of the Board, including a President, who shall be the chief executive officer of the Company and who may be designated "Chief Executive Officer," one or more Vice Presidents, a Treasurer and a Secretary, and such other officers as may be appointed pursuant to Section 4.02(b) of these bylaws. The Board shall from time to time designate a Vice President to perform the duties and exercise the powers of the President in the event of the President's absence or disability. Any number of offices may be held by the same person. An officer of the corporation may be, but need not be, a director of the corporation, and the chairperson of the Board may but need not be the President of the corporation.

Section 4.02 Appointment of Officers.

(a) The Board shall elect the officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 4.02(b) of these bylaws.

(b) The Board from time to time may by resolution also empower the President (and one or more Vice Presidents) to appoint and remove subordinate officers and to prescribe their respective rights, terms of office, authorities and duties to the extent not prescribed by the Board.

(c) An officer shall have such authority and shall exercise such powers and perform such duties ( a ) as may be required by law, ( b ) to the extent not inconsistent with law, as are specified in these bylaws, ( c ) to the extent not inconsistent with law or these bylaws, as may be specified by resolution of the Board and ( d ) to the extent not inconsistent with any of the foregoing, as may be specified by the appointing officer with respect to a subordinate officer appointed pursuant to delegated authority under Section 4.02(b). Any action by an appointing officer may be superceded by action by the Board.

(d) Unless otherwise determined by the Board, the officers of the corporation need not be elected for a specified term but shall serve at the pleasure of the board or the appointing officer or for such terms as may be agreed in the individual case by each officer and the corporation. Each officer, whether elected by the Board or appointed by an officer in accordance with Section 4.02(b) of these bylaws, shall hold office until his or her successor has been elected or appointed and has qualified, or until his or her earlier death, resignation or removal. A failure to elect officers shall not dissolve or otherwise affect the corporation.

Section 4.03 Removal and Resignation of Officers. Any officer may be removed, either with or without cause, by an affirmative vote of the majority of the Board at any regular or special meeting of the Board or, except in the case of an officer appointed by the Board, by any officer upon whom such power of removal may be conferred by the Board. Any officer may resign at any time by giving written notice to the corporation, either in writing signed by such officer or by electronic transmission. Unless otherwise specified therein, such resignation shall take effect upon delivery. Unless otherwise specified in the notice of resignation, the acceptance of the resignation shall not be necessary to make it effective. The removal or resignation of an officer does not affect the rights of the corporation or such officer under his or her contract of employment, if any.

Section 4.04 Vacancies in Office. Any vacancy occurring in any office of the corporation by death, resignation, removal or otherwise, may be filled by the Board or, if the vacant office was held by an officer appointed by another officer, by the appointing officer.

Section 4.05 Compensation. The salaries and all other compensation of the officers and other agents of the corporation shall be fixed by the Board or in the manner established by the Board.



Section 4.06 Security. The Board may require any officer, agent or employee of the corporation to provide security for the faithful performance of his or her duties, in such amount and of such character as may be determined from time to time by the Board.

Article V

CAPITAL STOCK

Section 5.01 Certificates of Stock, Uncertificated Shares. The shares of the corporation shall be represented by certificates, except to the extent that the Board has provided by resolution that some or all of any or all classes or series of the stock of the corporation shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Every holder of stock in the corporation represented by certificates shall be entitled to have, and the Board may in its sole discretion permit a holder of uncertificated shares to receive upon request, a certificate, signed by the appropriate officers of the corporation, representing the number of shares registered in certificate form. Such certificate shall be in such form as the Board may determine, to the extent consistent with applicable law, the certificate of incorporation and these bylaws.

Section 5.02 Signatures; Facsimile. All signatures on the certificates referred to in Section 5.01 of these bylaws may be in facsimile form, to the extent permitted by law. If any officer, transfer agent or registrar who has signed, or whose facsimile signature has been placed upon, a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

Section 5.03 Lost, Stolen or Destroyed Certificates. A new certificate (or uncertificated shares, if authorized as contemplated by Section 5.01) may be issued in place of any certificate theretofore issued by the corporation alleged to have been lost, stolen or destroyed only upon delivery to the corporation of an affidavit of the owner or owners (or their legal representatives) of such certificate, setting forth such allegation, and a bond or other undertaking as may be satisfactory to a financial officer of the corporation designated by the Board to indemnify the corporation against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of any such new certificate or uncertificated shares.

Section 5.04 Transfer of Stock.

(a) Transfers of certificated shares shall be made on the books of the corporation upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares, duly endorsed or accompanied by appropriate evidence of succession, assignment or authority to transfer and otherwise in compliance with

applicable law. Transfers of uncertificated shares shall be made on the books of the corporation as provided by applicable law. Within a reasonable time after the transfer of uncertificated shares, the corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to Sections 151, 156, 202(a) or 218(a) of the DGCL. Subject to applicable law, the provisions of the certificate of incorporation and these bylaws, the Board may prescribe such additional rules and regulations as it may deem appropriate relating to the issue, transfer and registration of shares of the corporation.

(b) The corporation may enter into agreements with stockholders to restrict the transfer of stock of the corporation in any manner not prohibited by the DGCL.

Section 5.05 Registered Stockholders. Prior to due surrender of a certificate for registration of transfer, or due delivery of instructions for the registration of transfer of uncertificated shares, the corporation may treat the registered owner as the person exclusively entitled to receive dividends and other distributions, to vote, to receive notice and otherwise to exercise all the rights and powers of the owner of the shares represented by such certificate, and the corporation shall not be bound to recognize any equitable or legal claim to or interest in such shares on the part of any other person, whether or not the corporation shall have notice of such claim or interests. If a transfer of shares is made for collateral security, and not absolutely, this fact shall be so expressed in the entry of the transfer if, when the certificates are presented to the corporation for transfer or uncertificated shares are requested to be transferred, both the transferor and transferee request the corporation to do so.

Section 5.06 Transfer Agent and Registrar. The Board may appoint one or more transfer agents and one or more registrars, and may require all certificates representing shares to bear the signature of any such transfer agents or registrars.

## Article VI

### INDEMNIFICATION

#### Section 6.01 Indemnification.

(a) In General. The corporation shall indemnify, to the full extent permitted by the DGCL and other applicable law, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (each, a "proceeding") by reason of the fact that ( x ) such person is or was serving or has agreed to serve as a director or officer of the corporation or ( y ) such person, while serving as a director or officer of the corporation, is or was serving or has agreed to serve at the request of the corporation as a director, officer, employee, manager or agent of another corporation, partnership, joint venture, trust or other enterprise or ( z ) such person is or was serving or has agreed to

serve at the request of the corporation as a director, officer or manager of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action alleged to have been taken or omitted by such person in such capacity, and who satisfies the applicable standard of conduct set forth in the DGCL or other applicable law:

(i) in a proceeding other than a proceeding by or in the right of the corporation, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person or on such person's behalf in connection with such proceeding and any appeal therefrom, or

(ii) in a proceeding by or in the right of the corporation to procure a judgment in its favor, against expenses (including attorneys' fees) actually and reasonably incurred by such person or on such person's behalf in connection with the defense or settlement of such proceeding and any appeal therefrom.

(b) Indemnification in Respect of Successful Defense. To the extent that a present or former director or officer of the corporation has been successful on the merits or otherwise in defense of any proceeding referred to in Section 6.01(a) or in defense of any claim, issue or matter therein, such person shall be indemnified by the corporation against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

(c) Indemnification in Respect of Proceedings Instituted by Indemnitee. Section 6.01(a) does not require the corporation to indemnify a present or former director or officer of the corporation in respect of a proceeding (or part thereof) instituted by such person on his or her own behalf, unless such proceeding (or part thereof) has been authorized by the Board or the indemnification requested is pursuant to the last sentence of Section 6.03 of these bylaws.

Section 6.02 Advance of Expenses. The corporation shall advance all expenses (including reasonable attorneys' fees) incurred by a present or former director or officer in defending any proceeding prior to the final disposition of such proceeding upon written request of such person and delivery of an undertaking (which may be unsecured) by such person to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the corporation. The corporation may authorize any counsel for the corporation to represent (subject to applicable conflict of interest considerations) such present or former director or officer in any proceeding, whether or not the corporation is a party to such proceeding.

Section 6.03 Procedure for Indemnification. Any indemnification under Section 6.01 of these bylaws or any advance of expenses under Section 6.02 of these bylaws shall be made only against a written request therefor (together with supporting documentation) submitted by or on behalf of the person seeking indemnification or advance.

Indemnification may be sought by a person under Section 6.01 of these bylaws in respect of a proceeding only to the extent that both the liabilities for which indemnification is sought and all portions of the proceeding relevant to the determination of whether the person has satisfied any appropriate standard of conduct have become final. A person seeking indemnification or advance of expenses may seek to enforce such person's rights to indemnification or advance of expenses (as the case may be) in the Delaware Court of Chancery to the extent all or any portion of a requested indemnification has not been granted within 60 days of, or to the extent all or any portion of a requested advance of expenses has not been granted within 20 days of, the submission of such request. All expenses (including reasonable attorneys' fees) incurred by such person in connection with successfully establishing such person's right to indemnification or advancement of expenses under this Article, in whole or in part, shall also be indemnified by the corporation.

Section 6.04 Burden of Proof.

(a) In any proceeding brought to enforce the right of a person to receive indemnification to which such person is entitled under Section 6.01 of these bylaws, the corporation has the burden of demonstrating that the standard of conduct applicable under the DGCL or other applicable law was not met. A prior determination by the corporation (including its Board or any committee thereof, its independent legal counsel, or its stockholders) that the claimant has not met such applicable standard of conduct does not itself constitute evidence that the claimant has not met the applicable standard of conduct.

(b) In any proceeding brought to enforce a claim for advances to which a person is entitled under Section 6.02 of these bylaws, the person seeking an advance need only show that he or she has satisfied the requirements expressly set forth in Section 6.02 of these bylaws.

Section 6.05 Contract Right; Non-Exclusivity; Survival.

(a) The rights to indemnification and advancement of expenses provided by this Article shall be deemed to be separate contract rights between the corporation and each director and officer who serves in any such capacity at any time while these provisions as well as the relevant provisions of the DGCL are in effect, and no repeal or modification of any of these provisions or any relevant provisions of the DGCL shall adversely affect any right or obligation of such director or officer existing at the time of such repeal or modification with respect to any state of facts then or previously existing or any proceeding previously or thereafter brought or threatened based in whole or in part upon any such state of facts. Such "contract rights" may not be modified retroactively as to any present or former director or officer without the consent of such director or officer.

(b) The rights to indemnification and advancement of expenses provided by this Article shall not be deemed exclusive of any other indemnification or advancement

of expenses to which a present or former director or officer of the corporation seeking indemnification or advancement of expenses may be entitled by any agreement, vote of stockholders or disinterested directors, or otherwise.

(c) The rights to indemnification and advancement of expenses provided by this Article to any present or former director or officer of the corporation shall inure to the benefit of the heirs, executors and administrators of such person.

Section 6.06 Insurance. The corporation may purchase and maintain insurance on behalf of any person who is or was or has agreed to become a director or officer of the corporation, or is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person or on such person's behalf in any such capacity, or arising out of such person's status as such, whether or not the corporation would have the power to indemnify such person against such liability under the provisions of this Article.

Section 6.07 Employees and Agents. The Board, or any officer authorized by the Board generally or in the specific case to make indemnification decisions, may cause the corporation to indemnify any present or former employee or agent of the corporation in such manner and for such liabilities as the Board may determine, up to the fullest extent permitted by the DGCL and other applicable law.

Section 6.08 Interpretation; Severability. Terms defined in Sections 145(h) or (i) of the DGCL have the meanings set forth in such sections when used in this Article. If this Article or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the corporation shall nevertheless indemnify each director or officer of the corporation as to costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, including an action by or in the right of the corporation, to the fullest extent permitted by any applicable portion of this Article that shall not have been invalidated and to the fullest extent permitted by applicable law.

## Article VII

### OFFICES

Section 7.01 Registered Office. The registered office of the corporation in the State of Delaware shall be located at the location provided in the corporation's certificate of incorporation.

Section 7.02 Other Offices. The corporation may maintain offices or places of business at such other locations within or without the State of Delaware as the Board may from time to time determine or as the business of the corporation may require.

Article VIII

GENERAL PROVISIONS

Section 8.01 Dividends.

(a) Subject to any applicable provisions of law and the certificate of incorporation, dividends upon the shares of the corporation may be declared by the Board at any regular or special meeting of the Board and any such dividend may be paid in cash, property, or shares of the corporation's stock.

(b) A member of the Board, or a member of any committee designated by the Board shall be fully protected in relying in good faith upon the records of the corporation and upon such information, opinions, reports or statements presented to the corporation by any of its officers or employees, or committees of the Board, or by any other person as to matters the director reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the corporation, as to the value and amount of the assets, liabilities and/or net profits of the corporation, or any other facts pertinent to the existence and amount of surplus or other funds from which dividends might properly be declared and paid.

Section 8.02 Reserves. There may be set apart out of any funds of the corporation available for dividends such sum or sums as the Board from time to time may determine proper as a reserve or reserves for meeting contingencies, equalizing dividends, repairing or maintaining any property of the corporation or for such other purpose or purposes as the Board may determine conducive to the interest of the corporation, and the Board may similarly modify or abolish any such reserve.

Section 8.03 Execution of Instruments. Except as otherwise required by law or the certificate of incorporation, the Board or any officer of the corporation authorized by the Board may authorize any other officer or agent of the corporation to enter into any contract or execute and deliver any instrument in the name and on behalf of the corporation. Any such authorization must be in writing or by electronic transmission and may be general or limited to specific contracts or instruments.

Section 8.04 Voting as Stockholder. Unless otherwise determined by resolution of the Board, the President or any Vice President shall have full power and authority on behalf of the corporation to attend any meeting of stockholders of any corporation in which the corporation may hold stock, and to act, vote (or execute proxies to vote) and exercise in person or by proxy all other rights, powers and privileges incident to the

ownership of such stock at any such meeting, or through action without a meeting. The Board may by resolution from time to time confer such power and authority (in general or confined to specific instances) upon any other person or persons.

Section 8.05 Fiscal Year. The fiscal year of the corporation shall be the 52 or 53 week period ending the last Saturday in each December or such other annual period as shall be fixed from time to time by the Board.

Section 8.06 Seal. The seal of the corporation shall be circular in form and shall contain the name of the corporation, the year of its incorporation and the words "Corporate Seal" and "Delaware". The form of such seal shall be subject to alteration by the Board. The seal may be used by causing it or a facsimile thereof to be impressed, affixed or reproduced, or may be used in any other lawful manner.

Section 8.07 Books and Records: Inspection. Except to the extent otherwise required by law, the books and records of the corporation shall be kept at such place or places within or without the State of Delaware as may be determined from time to time by the Board.

Section 8.08 Electronic Transmission. "Electronic transmission", as used in these bylaws, means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

Section 8.09 Exclusive Forum. Unless the corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of the Corporation to the Corporation or the Corporation's stockholders, (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law or the Corporation's certificate of incorporation or by-laws, or (iv) any other action asserting a claim governed by the internal affairs doctrine.

#### Article IX

#### AMENDMENT OF BYLAWS

Section 9.01 Amendment. In furtherance and not in limitation of the powers conferred upon it by law, the Board is expressly authorized to adopt, repeal, alter or amend the bylaws of the corporation by the vote of a majority of the entire Board. In addition to any requirements of law and any provision of the Amended and Restated Certificate of Incorporation, the stockholders of the corporation may adopt, repeal, alter

or amend any provision of the Bylaws upon the affirmative vote of the holders of 75% or more of the combined voting power of the then outstanding stock of the corporation entitled to vote generally in the election of directors.

Article X

CONSTRUCTION

Section 10.01 Construction. In the event of any conflict between the provisions of these bylaws as in effect from time to time and the provisions of the certificate of incorporation of the corporation as in effect from time to time, the provisions of such certificate of incorporation shall be controlling.



**EMPLOYMENT SEPARATION AGREEMENT, WAIVER AND RELEASE**

THIS EMPLOYMENT SEPARATION AGREEMENT, WAIVER AND RELEASE (hereinafter "Agreement") is made and entered into by and between LANDSTAR SYSTEM, INC. (hereinafter referred to as "Company") which term shall include its subsidiaries and affiliates, and their directors, officers, attorneys, representatives, employees, agents, successors and assigns, and JAMES M. HANDOUSH, and his heirs, assigns, executors and administrators (collectively referred to as "Employee").

WHEREAS, Company and Employee desire to amicably end their employment relationship and to fully and finally settle all existing or potential claims, whether known or unknown, that Employee has, had or may have had against Company at any time on or prior to the effective date of this Agreement;

NOW, THEREFORE, the parties hereby agree as follows:

1. Obligations of Company. In consideration of Employee's agreement to the terms herein, Company shall provide to Employee the following, which Company is not otherwise legally obligated to provide:

- (a) Company will pay Employee one (1) year's pay as wages in lieu of notice in the gross amount of TWO HUNDRED AND TWENTY THOUSAND and 00/100 dollars (\$220,000.00), less standard payroll deductions. This sum shall be payable for the time period of February 1, 2011-January 31, 2012 by payroll checks made payable to Employee in four (4) equal quarterly installments of FIFTY-FIVE THOUSAND and 00/100 dollars (\$55,000.00), with the first quarterly installment to be mailed to Employee within ten (10) business days of the expiration of the revocation period specified in paragraph 9 of this Agreement; and the remaining quarterly installments to be mailed to Employee on or before the following dates: July 31, 2011, October 31, 2011, and January 31, 2012. Provided, however, that it is agreed that if Employee requests and is granted written approval as provided in paragraph 3. below to become involved with a competing business and Employee's services commence with such business on or before January 31, 2012, the payments under this paragraph 1.(a) will be proportionally reduced so that no payment will be made for the time period of involvement with such competing business prior to January 31, 2012.
  - (b) On February 1, 2011, Company will deliver a check to Employee in the gross amount of \$224,259 less standard payroll deductions. Such amount represents Employee's 2010 4<sup>th</sup> quarter and year end discretionary bonus payment (calculated based upon a total bonus amount of \$270,249 less \$45,990 already paid to Employee). On
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February 1, 2011, Company will also deliver to Employee a check representing Employee's final paycheck for work performed through January 31, 2011.

- (c) Company will pay Employee the gross sum of SEVENTEEN THOUSAND SEVEN HUNDRED AND SIXTY NINE and 15/100 dollars (\$17,769.15), less standard payroll deductions, in lieu of 20 days of accrued and unused vacation and one floating holiday. This sum shall be payable by payroll check made payable to Employee and mailed to Employee within ten (10) business days of the expiration of the revocation period specified in paragraph 9 of this Agreement.
- (d) Company agrees not to contest any claim by Employee for unemployment compensation benefits.
- (e) Should Employee timely elect to continue group health insurance coverage pursuant to his rights under COBRA, Company will pay Employee's premium for this COBRA continuation coverage for a period of 12 months following Employee's termination or until Employee becomes covered under another group health insurance plan offered by a subsequent employer, whichever occurs first.
- (f) Money held under the Landstar System, Inc. 401(k) Savings Plan will be administered in accordance with the terms of that Plan.
- (g) Money held under the Landstar System, Inc. Supplemental Executive Retirement Plan will be administered in accordance with the terms of that Plan.
- (h) Stock options and restricted stock, in each case as vested as of February 1, 2011, will be administered under the terms of the Amended and Restated Landstar System, Inc. 2002 Employee Stock Option and Stock Incentive Plan.

2. Obligations of Employee. In consideration of the foregoing special separation arrangements provided by Company, Employee agrees as follows:

- (a) Employee acknowledges he has been separated from his employment with Company effective February 1, 2011.
  - (b) Employee waives, and releases Company from, any claims, demands, damages, lawsuits, obligations, promises, administrative actions, charges, and causes of action, both known and unknown, in law or in equity, of any kind whatsoever, including, but not limited to, all matters relating to or arising out of Employee's employment with Company, compensation by Company, or separation from employment by
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Company. This Waiver and Release covers any causes of action or claims under Title VII of the Civil Rights Act of 1964, as amended; the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended; the Age Discrimination in Employment Act of 1967 ("ADEA"), as amended; the Civil Rights Act of 1866, as amended; the Americans with Disabilities Act of 1990; the Family and Medical Leave Act of 1993; Executive Orders 11246 and 11478; the National Labor Relations Act, as amended; the Fair Labor Standards Act of 1938, as amended; the Equal Pay Act of 1963, as amended; the Consolidated Omnibus Budget Reconciliation Act of 1984 ("COBRA"), as amended; the Sarbanes-Oxley Act of 2002; the Florida Civil Rights Act of 1992, as amended; Fla. Stat. §§ 448.101-448.104; Fla. Stat. § 440.205; and any other state, federal or local law, ordinance or constitutional provision, and any claims or causes of action founded in tort (including negligence or intentional torts), contract (oral, written, or implied), or any other common law or equitable basis of action.

- (c) Employee shall not disclose, either directly or indirectly, any information whatsoever regarding any of the terms or the existence of this Agreement or of any other claim Employee has, had, or may have had against Company, to any person or organization, including, but not limited to, members of the press and media, present and former employees of Company, past, current or prospective clients, customers or agents of Company, companies which do business with Company, or other members of the public. The only exceptions to Employee's promise of confidentiality herein is that Employee may reveal such terms of this Agreement as are necessary to comply with a request made by the Internal Revenue Service, as otherwise compelled by a court or agency of competent jurisdiction, or as necessary to comply with requests from Employee's accountants or attorneys for legitimate business purposes. Each breach by Employee of this promise of confidentiality shall be a material breach of this Agreement, for which the parties agree that Company would suffer irreparable damage to its reputation.
  - (d) Employee agrees to refrain from expressing (or causing others to express) to any third party, any derogatory or negative opinions, comments, or statements concerning Company, including to friends, employees, clients, customers, agents, contractor, suppliers, vendors or members of the press or media.
  - (e) Nothing in this Agreement shall preclude Employee from filing a charge or complaint of discrimination or retaliation with Equal Employment Opportunity Commission ("EEOC") or any other federal, state or local governmental agency or department, nor shall anything in this Agreement be construed to preclude or impose any condition
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precedent, any penalty or any other limitation adversely affecting Employee's right to challenge the validity of his waiver of claims under the Age Discrimination in Employment Act. Employee, however, represents that, while he is not legally barred from doing so, he has not filed and does not intend to file any complaints or charges of discrimination or retaliation with EEOC or any federal, state or local agency and he understands that the Company has relied on his representation in this paragraph in agreeing to perform the payment obligations in paragraph 1 of this Agreement. Employee further agrees that, with respect to the claims he is waiving in this Agreement, Employee is waiving his right to recover monetary damages, reinstatement or any other damages or relief based on any complaint or charge of discrimination or retaliation filed by Employee or by any person or entity on his behalf, including, but not limited to, EEOC or any other federal, state or local governmental agency or department. Employee further acknowledges that he is not aware of any factual or legal basis to support any such claims.

- (f) Employee agrees, for a two year period following his termination of Employment with Company, to cooperate with the Company and its attorneys, including, but not limited to, making himself available at reasonable times to meet with the Company and/or its attorneys, for the purpose of assisting the Company and/or its attorneys in conducting Company's business and in addressing matters, including, but not limited to matters in litigation and matters that may become the subject of litigation, that arose during Employee's employment with Company or in any way concern Employee's performance of duties on behalf of Company during Employee's employment with Company.
- (g) Employee agrees to comply with the Restrictive Covenants set forth in paragraphs 3 of this Agreement.

### 3. Restrictive Covenants.

- (a) Employee acknowledges that, in his position as Vice President and Co-Chief Operating Officer of Company and in earlier positions Employee held with Company, Employee had access to and knowledge of detailed confidential and proprietary information of and concerning Company, including, but not limited to, Company's business and its strategic plans, knowledge of customers, customer lists, customer needs, agents, agent needs, agent lists, computer programs, pricing, organization, rail and vendor contracts, business processes, business methods, business transactions and negotiations, other business operations, actual or potential claims by or against Company, and actual, anticipated or threatened litigation concerning Company ("collectively referred to as "Confidential
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Business Information”). Employee agrees that Employee’s unauthorized use or disclosure of the Company’s Confidential Business Information would cause irreparable harm to the Company.

- (b) Employee recognizes that all of the documents and other tangible items which contain any of Company’s Confidential Information are Company’s property exclusively, including any items which Employee may have developed or contributed to developing while working for Company.
  - (c) Employee recognizes that all files, records, computer programs, memoranda, materials, information, manuals, keys, credit cards, passwords, technical notes and equipment Company has provided to Employee are also the property of Company exclusively. All items described in this and the preceding paragraphs are hereafter collectively referred to as “Company’s Property.”
  - (d) Employee shall immediately:
    - (i) Refrain from taking any of Company’s Property or allowing any of Company’s Property to be taken from Company’s premises;
    - (ii) Refrain from reproducing in any manner or allowing to be reproduced any of Company’s Property or any information contained therein;
    - (iii) Refrain from removing any such reproduction from Company’s premises; and
    - (iv) Return to Company any original or reproduction of Company’s Property in his possession.
  - (e) Unless Employee receives Company’s advance written consent as described in paragraph 3(k) of this Agreement, for the remainder of Employee’s employment with Company and for a period of one (1) year following Employee’s February 1, 2011 termination from employment with Company, Employee shall not, anywhere within the United States of America or Canada, either directly or indirectly, either on his own behalf or on behalf of another individual or business, engage in the following activities, or assist others in such activities:
    - (i) Hiring, recruiting, or attempting to recruit, for any business which competes with Company, or otherwise becoming associated in such a business with, any person working for or employed by Company or working for or employed by
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Company at any time during the twelve (12) months before Employee's termination of his employment with Company;

- (ii) Hiring, contracting with, recruiting, or attempting to recruit, for any business which competes with Company, or otherwise becoming associated in such a business with, any agent or other independent contractor performing services for Company at any time during the twelve (12) months before Employee's termination of his employment with Company;
  - (iii) Soliciting any business from any of Company's current or prospective customers or agents. For purposes of this Agreement, a prospective customer or agent is defined as any individual or entity Company has actively solicited, planned to solicit, or provided services to, during the twelve (12) months before Employee's termination of his employment with Company; and
  - (iv) Entering into, engaging in, being employed by, being connected to, consulting for, or possessing or acquiring any direct or indirect ownership interest in any business which competes with any business conducted by Company or any business planned to be conducted by Company at the time of Employee's termination from Company.
- (f) At no time during the remainder of Employee's employment with Company or at any time following the termination of Employee's employment with Company shall Employee disclose to any third party any of Company's Confidential Information without Company's express written authorization as provided in paragraph 3(k) of this Agreement, or unless compelled to do so by a court or agency of competent jurisdiction provided, upon being served with any order or subpoena compelling such disclosure, Employee shall promptly notify Company's President to allow Company to determine whether to seek an order quashing or vacating any such order or subpoena.
- (g) The parties to this Agreement recognize that irreparable harm would result from any breach by Employee of the covenants of this Agreement and that monetary damages alone would not provide adequate relief for any such breach. Accordingly, in addition to any other remedy which may be available to Company, if Employee breaches a restrictive covenant in this Agreement, the parties acknowledge that injunctive relief in favor of Company is proper.
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- (h) If Employee breaches a covenant containing a specified term, the term shall be extended by the period of time between Employee's termination of his relationship with Company and the date a court of competent jurisdiction enters an injunction restraining further breach of the covenant.
  - (i) If Company determines that Employee has breached any Restrictive Covenant in this Agreement, Employee shall make himself available for service of process within the State of Florida.
  - (j) If a court of competent jurisdiction determines that any of the restrictions in this Agreement are overbroad, Employee shall agree to modification of the affected restriction(s) to permit enforcement to the maximum extent allowed by law.
  - (k) A consent which purports to waive or modify any of Employee's obligations under this Agreement or any other modification of this Agreement shall be ineffective unless it is set forth in writing and signed by Company's Chief Executive Officer. With respect to the restrictions contained in subparagraph 3.(e) above, it is agreed that Employee may request permission to work with, or directly or indirectly assist, a business that provides services in the transportation, logistics and/or supply chain sector(s). Company, in turn, agrees to reasonably consider any such request by Employee for a written consent and agrees not to impose any unreasonable conditions upon any such consent. However, it is specifically recognized and agreed that it will not be unreasonable for Company to withhold consent with respect to any such request that would enable Employee to work with or directly or indirectly assist a business that utilizes, or is considering utilizing, a network of sales agents that competes with or is in any way similar in structure to the network of sales agents under contract to Company.
  - (l) The parties acknowledge that the restrictive covenants in this paragraph are essential independent elements of this Agreement and that, but for Employee agreeing to comply with them, Company would not have entered into this Agreement with Employee. Accordingly, the Restrictive Covenants set forth in this Agreement shall be construed as agreements independent of any other provision in any other agreement by, between, among, or affecting Company and Employee, and the existence of any claim or cause of action of Employee against Company, whether predicated on this Agreement or otherwise, shall not constitute or operate as a defense to Company's enforcement of any of the Restrictive Covenants contained in this Agreement.
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- (m) It is expressly agreed that the Restrictive Covenants in this paragraph shall survive the February 1, 2011 termination of Employee's employment with Company.
- (n) If any provision of this Agreement is declared invalid or unenforceable by a court of competent jurisdiction, the remaining provisions shall remain in full force and effect and shall be construed to effectuate the purpose and intent of this Agreement.

4. Non-Admission. Neither this Agreement, nor anything contained herein, is to be construed as an admission by Company or Employee of any liability, wrongdoing, or unlawful conduct whatsoever and the parties hereto specifically deny same.

5. Entire Agreement. This Agreement contains the entire understanding and agreement between the parties and shall not be modified or superseded except upon express written consent of the parties to this Agreement. Employee represents and acknowledges that, in executing this Agreement, he does not rely and has not relied upon any representation or statement made by Company or its agents, representatives, or attorneys which is not set forth in this Agreement. Except for the Indemnification Agreement, dated August 2, 2005, by and between the Company and the Employee, this Agreement supersedes and renders null and void any prior agreements, written or oral, express or implied between Company and Employee, including, without limitation, the Arbitration Agreement, dated February 27, 2007, by and between the Company and Employee.

6. Agreement Not to be Used as Evidence. This Agreement shall not be admissible as evidence in any proceeding, except in any action in which a party to this Agreement seeks to enforce this Agreement or alleges this Agreement has been breached.

7. Attorneys' Fees. Employee or Company shall be entitled to an award of costs and attorneys' fees, including any costs and attorneys' fees on appeal, as prevailing party in any action to enforce the terms of this Agreement (including seeking injunctive relief or rescission), or to defend a claim, lawsuit or other type of action which has been waived herein.

8. Opportunity to Consider and Confer. Company has advised Employee of Employee's right to consult with an attorney prior to executing this Agreement, and Employee acknowledges that he has been given a period of 21 days within which to consider this Agreement. Employee and Company acknowledge that each has had the opportunity to read, study, consider, and deliberate upon this Agreement, have been given the opportunity to consult with an attorney or an otherwise competent representative, and both parties fully understand and are in complete agreement with all of the terms of this Agreement. Accordingly, this Agreement having been mutually negotiated by the parties, no term of this Agreement shall be construed against either party.

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9. Revocation Period/Effective Date. After signing this Agreement, Employee has a period of seven (7) calendar days after the date of signing the Agreement during which he may revoke this Agreement. Provided Employee does not exercise this revocation option within this seven (7) day revocation period, this Agreement shall become effective upon the expiration of the seven (7) day revocation period.

10. Arbitration. Any dispute between the parties, except an action for injunctive or other equitable relief (including, without limitation, any action arising under paragraph 3 of this Agreement), which cannot be resolved by agreement of the parties, shall be fully and finally resolved by binding arbitration before a single arbitrator appointed by, and proceeding under, the rules of the American Arbitration Association. The parties agree that no class or consolidated arbitration will be allowed under this Agreement. In the event any class action arbitration is deemed to be arbitrable under this Agreement, then, in that event, the parties agree that this arbitration clause shall be disregarded in its entirety and the parties shall litigate their disputes subject to the jurisdiction and venue provisions set forth in paragraph 11 of this Agreement. A demand for arbitration shall be filed with the American Arbitration Association and served upon the other party no later than one (1) year after the dispute arises or the claim accrues, whichever is sooner. The failure to file said demand within the one (1) year period shall be deemed a full waiver and release of the claim. Any arbitration proceeding shall be kept confidential by Employee and Company, and the parties agree that information regarding any arbitration proceeding shall not be disclosed to third parties without the prior written consent of the other party. Employee and Company agree to be fully and finally bound by the arbitration award, and that judgment may be entered on the award in any court having jurisdiction thereof.

11. Applicable Law, Jurisdiction And Venue. The laws of the State of Florida shall govern the construction of this Agreement and performance of Company and Employee under this Agreement without regard to the conflict of laws or choice of law rules of such state. Any arbitration demanded by either party concerning this Agreement shall be conducted in the City of Jacksonville, Duval County, Florida. Company and Employee hereby expressly consent to the exclusive jurisdiction and venue of the state and federal courts situated in the county of Duval, City of Jacksonville, State of Florida, for any injunctive relief hereunder and for any litigation arising under this Agreement that is not subject to arbitration pursuant to the provisions of paragraph 10 of this Agreement.

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IN WITNESS WHEREOF, and intending to be legally bound, LANDSTAR SYSTEM, INC., by its authorized representative, and JAMES M. HANDOUSH, execute this Employment Separation Agreement, Waiver and Release, consisting of ten (10) pages (including this signature page) and including eleven (11) enumerated paragraphs, by signing below voluntarily and with full knowledge of the significance of all of its provisions.

**PLEASE READ CAREFULLY. THIS EMPLOYMENT SEPARATION AGREEMENT, WAIVER AND RELEASE INCLUDES A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS.**

Executed at Jacksonville, Duval County, Florida, this 25th day of January, 2011.

/s/ [illegible]  
Witness as to James M. Handoush

/s/ James M. Handoush  
JAMES M. HANDOUSH

Executed at Jacksonville, Duval County, Florida, this 26th day of January, 2011.

/s/ Joan Norve  
Witness as to Landstar System, Inc.

LANDSTAR SYSTEM, INC.

By: /s/ Michael K. Kneller  
Michael K. Kneller

Its: Vice President, General Counsel  
and Secretary

## LIST OF SUBSIDIARY CORPORATIONS OF LANDSTAR SYSTEM, INC.

| Name  | Jurisdiction of     | % of Voting |
|---|---------------------|-------------|
| Subsidiary of Landstar System, Inc.:                  |                     |             |
| Landstar System Holdings, Inc.                        | Delaware            | 100         |
| Subsidiaries of Landstar System Holdings, Inc.:       |                     |             |
| Landstar Inway, Inc.                                  | Delaware            | 100         |
| Landstar Global Logistics, Inc.                       | Delaware            | 100         |
| Landstar Ligon, Inc.                                  | Delaware            | 100         |
| Landstar Ranger, Inc.                                 | Delaware            | 100         |
| Risk Management Claim Services, Inc.                  | Kentucky            | 100         |
| Also d/b/a RMCS, Inc. in Alabama and California       |                     |             |
| Landstar Transportation Logistics, Inc.               | Delaware            | 100         |
| Also d/b/a Landstar Carrier Services, Inc.            |                     |             |
| Landstar Contractor Financing, Inc.                   | Delaware            | 100         |
| Signature Insurance Company                           | Cayman Islands, BWI | 100         |
| Landstar Canada Holdings, Inc.                        | Delaware            | 100         |
| Signature Technology Services, Inc.                   | Delaware            | 100         |
| Landstar Supply Chain Solutions, Inc.                 | Delaware            | 100         |
| Subsidiaries of Landstar Supply Chain Solutions, Inc. |                     |             |
| National Logistics Management Co.                     | Michigan            |             |
| A3I Acquisition LLC                                   | Delaware            | 75          |
| Subsidiary of A3I Acquisition LLC                     |                     |             |
| A3 Integration, LLC                                   | Delaware            | 100         |
| Subsidiary of Landstar Canada Holdings, Inc.          |                     |             |
| Landstar Canada, Inc.                                 | Ontario, Canada     | 100         |
| Also d/b/a Enterprise Landstar Canada in Quebec       |                     |             |
| Also d/b/a Landstar Canada Forwarding                 |                     |             |
| Subsidiary of Landstar Global Logistics, Inc.         |                     |             |
| Landstar Express America, Inc.                        | North Carolina      | 100         |
| Subsidiary of Landstar Ranger, Inc.                   |                     |             |
| Landstar Gemini, Inc.                                 | Delaware            | 100         |
| Also d/b/a Landstar Less Than Truck Load              |                     |             |
| Also d/b/a Landstar LTL                               |                     |             |

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
Landstar System, Inc.:

We consent to incorporation by reference in the registration statements (No. 33-76340 and No. 33-94304) on Form S-8 of Landstar System, Inc. of our reports dated February 22, 2011, with respect to the consolidated balance sheets of Landstar System, Inc. and subsidiary as of December 25, 2010 and December 26, 2009, and the related consolidated statements of income, changes in equity, and cash flows for the fiscal years ended December 25, 2010, December 26, 2009 and December 27, 2008, and all related financial statement schedules, and the effectiveness of internal control over financial reporting as of December 25, 2010, which reports appear in the December 25, 2010 annual report on Form 10-K of Landstar System, Inc.

/s/ KPMG LLP

February 22, 2011  
Jacksonville, Florida  
Certified Public Accountants

POWER OF ATTORNEY

Landstar System, Inc.  
Annual Report on Form 10-K  
for fiscal year ended 12/25/10

KNOW ALL MEN BY THESE PRESENTS, that the undersigned does hereby make, constitute and appoint James B. Gattoni and Michael K. Kneller, and each of them, with full power in each to act without the other, his true and lawful attorney-in-fact and agent, in his name, place and stead to execute on his behalf, as an officer and/or director of Landstar System, Inc. (the "Company"), the Annual Report on Form 10-K of the Company for the fiscal year ended December 25, 2010, and file the same with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission (the "SEC") pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Act"), and any and all other instruments which either of said attorneys-in-fact and agents deems necessary or advisable to enable the Company to comply with the Act, the rules, regulations and requirements of the SEC in respect thereof, giving and granting to each of said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing whatsoever necessary or appropriate to be done in and about the premises as fully to all intents as he might or could do if personally present at the doing thereof, with full power of substitution and resubstitution, hereby ratifying and confirming all that his said attorneys-in-fact and agents or substitutes may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand on the date indicated below.

/s/ David G. Bannister  
David G. Bannister

DATED: February 11, 2011

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POWER OF ATTORNEY

Landstar System, Inc.  
Annual Report on Form 10-K  
for fiscal year ended 12/25/10

KNOW ALL MEN BY THESE PRESENTS, that the undersigned does hereby make, constitute and appoint James B. Gattoni and Michael K. Kneller, and each of them, with full power in each to act without the other, his true and lawful attorney-in-fact and agent, in his name, place and stead to execute on his behalf, as an officer and/or director of Landstar System, Inc. (the "Company"), the Annual Report on Form 10-K of the Company for the fiscal year ended December 25, 2010, and file the same with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission (the "SEC") pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Act"), and any and all other instruments which either of said attorneys-in-fact and agents deems necessary or advisable to enable the Company to comply with the Act, the rules, regulations and requirements of the SEC in respect thereof, giving and granting to each of said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing whatsoever necessary or appropriate to be done in and about the premises as fully to all intents as he might or could do if personally present at the doing thereof, with full power of substitution and resubstitution, hereby ratifying and confirming all that his said attorneys-in-fact and agents or substitutes may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand on the date indicated below.

/s/ William S. Elston  
William S. Elston

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DATED: February 11, 2011

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POWER OF ATTORNEY

Landstar System, Inc.  
Annual Report on Form 10-K  
for fiscal year ended 12/25/10

KNOW ALL MEN BY THESE PRESENTS, that the undersigned does hereby make, constitute and appoint James B. Gattoni and Michael K. Kneller, and each of them, with full power in each to act without the other, his true and lawful attorney-in-fact and agent, in his name, place and stead to execute on his behalf, as an officer and/or director of Landstar System, Inc. (the "Company"), the Annual Report on Form 10-K of the Company for the fiscal year ended December 25, 2010, and file the same with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission (the "SEC") pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Act"), and any and all other instruments which either of said attorneys-in-fact and agents deems necessary or advisable to enable the Company to comply with the Act, the rules, regulations and requirements of the SEC in respect thereof, giving and granting to each of said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing whatsoever necessary or appropriate to be done in and about the premises as fully to all intents as he might or could do if personally present at the doing thereof, with full power of substitution and resubstitution, hereby ratifying and confirming all that his said attorneys-in-fact and agents or substitutes may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand on the date indicated below.

/s/ Diana M. Murphy  
Diana M. Murphy

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DATED: February 11, 2011

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POWER OF ATTORNEY

Landstar System, Inc.  
Annual Report on Form 10-K  
for fiscal year ended 12/25/10

KNOW ALL MEN BY THESE PRESENTS, that the undersigned does hereby make, constitute and appoint James B. Gattoni and Michael K. Kneller, and each of them, with full power in each to act without the other, his true and lawful attorney-in-fact and agent, in his name, place and stead to execute on his behalf, as an officer and/or director of Landstar System, Inc. (the "Company"), the Annual Report on Form 10-K of the Company for the fiscal year ended December 25, 2010, and file the same with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission (the "SEC") pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Act"), and any and all other instruments which either of said attorneys-in-fact and agents deems necessary or advisable to enable the Company to comply with the Act, the rules, regulations and requirements of the SEC in respect thereof, giving and granting to each of said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing whatsoever necessary or appropriate to be done in and about the premises as fully to all intents as he might or could do if personally present at the doing thereof, with full power of substitution and resubstitution, hereby ratifying and confirming all that his said attorneys-in-fact and agents or substitutes may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand on the date indicated below.

/s/ Jeffrey C. Crowe  
Jeffrey C. Crowe

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DATED: February 11, 2011

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POWER OF ATTORNEY

Landstar System, Inc.  
Annual Report on Form 10-K  
for fiscal year ended 12/25/10

KNOW ALL MEN BY THESE PRESENTS, that the undersigned does hereby make, constitute and appoint James B. Gattoni and Michael K. Kneller, and each of them, with full power in each to act without the other, his true and lawful attorney-in-fact and agent, in his name, place and stead to execute on his behalf, as an officer and/or director of Landstar System, Inc. (the "Company"), the Annual Report on Form 10-K of the Company for the fiscal year ended December 25, 2010, and file the same with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission (the "SEC") pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Act"), and any and all other instruments which either of said attorneys-in-fact and agents deems necessary or advisable to enable the Company to comply with the Act, the rules, regulations and requirements of the SEC in respect thereof, giving and granting to each of said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing whatsoever necessary or appropriate to be done in and about the premises as fully to all intents as he might or could do if personally present at the doing thereof, with full power of substitution and resubstitution, hereby ratifying and confirming all that his said attorneys-in-fact and agents or substitutes may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand on the date indicated below.

/s/ Michael A. Henning  
Michael A. Henning

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DATED: February 11, 2011

## SECTION 302 CERTIFICATION

I, Henry H. Gerkens, certify that:

1. I have reviewed this annual report on Form 10-K of Landstar System, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Henry H. Gerkens

Henry H. Gerkens  
Chairman of the Board, President and Chief  
Executive Officer

Date: February 22, 2011

## SECTION 302 CERTIFICATION

I, James B. Gattoni, certify that:

1. I have reviewed this annual report on Form 10-K of Landstar System, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ James B. Gattoni

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James B. Gattoni  
Vice President and  
Chief Financial Officer

Date: February 22, 2011

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Landstar System, Inc. (the "Company") on Form 10-K for the period ending December 25, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Henry H. Gerkens, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Henry H. Gerkens

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Henry H. Gerkens  
Chairman of the Board, President and Chief Executive  
Officer

February 22, 2011

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Landstar System, Inc. (the "Company") on Form 10-K for the period ending December 25, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James B. Gattoni, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ James B. Gattoni  
James B. Gattoni  
Vice President and  
Chief Financial Officer

February 22, 2011

