LANDSTAR SYSTEM INC
Form 10-K
February 23, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

(Mark One)

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the Fiscal Year Ended December 26, 2009**
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from to**

Commission File Number: 0-21238

Landstar System, Inc.
(Exact name of registrant as specified in its charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**06-1313069** *(I.R.S. Employer Identification No.)*
13410 Sutton Park Drive South **Jacksonville, Florida** *(Address of principal executive offices)*	**32224** *(Zip Code)*

(904) 398-9400

(Registrant s telephone number, including area code)

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 þ No o

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 o No þ

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): Yes o No o

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. þ

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was $1,833,883,000 (based on the per share closing price on June 27, 2009, 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 29, 2010 was 50,248,214.

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 April 29, 2010	Part III

LANDSTAR SYSTEM, INC.

2009 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). LSCS owns 100% of the non-voting, preferred interests and 75% of the voting, common equity interests in A3i Acquisition, LLC (A3i Acquisition). 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. 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 75% of the voting, common equity interests. A3i is a wholly-owned subsidiary of A3i Acquisition. These two acquisitions are referred to herein collectively as the Recent Acquisitions. NLM 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, global 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 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. 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). 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 its network of employees, agents and capacity providers linked together by Landstar s technological applications, Landstar operates a transportation services and supply chain solutions business primarily throughout North America with revenue of approximately $2.0 billion during the most recently completed fiscal year. The Company reports the results of two operating segments: the transportation logistics segment and the insurance segment.

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.

Truck Services. The transportation logistics segment s truckload services include a full array of truckload transportation for a wide range of general 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 2009, revenue hauled by BCO Independent Contractors and Truck Brokerage Carriers was 58% and 35%, respectively, of total transportation logistics segment revenue. The Company s truck services contributed 91% of total revenue in fiscal year 2009.

Rail Intermodal Services. The transportation logistics segment has contracts with all of the Class 1 domestic and Canadian railroads and 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 services include trailer on flat car, container on flat car, box car and railcar service capabilities. The transportation logistics segment s rail intermodal services contributed 4% of total revenue in fiscal year 2009.

Air and Ocean Services. The transportation logistics segment provides international ocean and air services to its customers utilizing international airlines and ocean lines. 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 cargo. The transportation logistics segment s air and ocean services contributed 3% of total revenue in fiscal year 2009.

Advanced Technology Solutions. In the Company s 2009 fiscal third quarter, the Company completed the Recent Acquisitions. NLM and A3i are supply chain transportation integration companies offering customers technology-based supply chain solutions and other value added services on a fee-for-service basis. The services provided by NLM and A3i, along with the Company s existing capabilities, offer shippers supply chain solutions, including logistics order management, shipment planning and optimization, rate management, transportation sourcing, global 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 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 Company s supply chain solution services are capable of handling world-wide transportation and logistics services in multiple currencies.

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.

Other Services. During the fiscal year ended December 27, 2008, revenue for passenger bus capacity provided for evacuation assistance related to the storms that impacted the Gulf Coast in September 2008 (Bus Revenue) represented 1% of the Company s transportation logistics segment revenue in 2008.

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 2% of the Company s total 2009 revenue.

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 technological applications 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. Nevertheless, 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 network of over 1,350 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 from 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.

Commissions to agents are generally between 5% and 10% of the revenue generated and are based on contractually agreed-upon percentages of transportation services revenue or gross profit, defined as revenue less the cost of purchased transportation or gross profit less a contractually agreed upon percentage of revenue retained by Landstar. Commissions to agents as a percentage of consolidated revenue will vary directly with fluctuations in the percentage of consolidated revenue generated by the various modes of transportation, transportation management fees and the insurance segment and with changes in gross profit on services provided by Truck Brokerage Carriers, rail intermodal carriers, air cargo carriers and ocean cargo carriers. Commissions to agents are recognized upon the completion of freight delivery.

The independent commission sales agents use a variety of proprietary and third party technological 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 technological applications provided by the Company.

The Company reported 405 and 484 agents who generated at least $1 million each in revenue during 2009 and 2008, respectively. The significant decrease in the number of million dollar agents experienced during 2009 was primarily attributable to the significant downturn in the domestic economy that began in the later part of 2008 and continued throughout 2009. The decrease in million dollar agents was primarily due to 93 agents who achieved $1 million each in revenue in 2008, but, due to the soft freight environment, produced less than $1 million each in revenue in 2009. Turnover, representing the percentage of the 484 million dollar agents who terminated during 2009, was approximately 3 percent. Historically, Landstar has experienced very low turnover among its agents who annually generate revenue of $1 million or more. Management believes that the majority of the agents who annually generate revenue of $1 million or more choose to represent Landstar 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 exclusively 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, rail intermodal, air and ocean carriers represented 58%, 35%, 4%, 1% and 2%, respectively, of the Company s transportation logistics segment revenue. Historically, with the exception of air revenue, the net margin (defined as revenue less the cost of purchased transportation and commissions to agents divided by revenue) generated from freight hauled by BCO Independent Contractors has been greater than 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 2009, the Company billed customers $128.4 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 the BCO Independent Contractors was 8,519 at December 26, 2009, compared to 9,039 at December 27, 2008. At December 26, 2009, 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 higher in 2009 than in 2008, and trucks terminated were also higher in 2009 compared to 2008, resulting in a net loss of 520 trucks during 2009. Landstar s truck turnover was approximately 41% in 2009 compared to 32% in 2008. Approximately half 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, the Company s programs to reduce the operating costs of its BCO Independent Contractors and Landstar s reputation for quality, service and reliability. Management believes that a reduction in the amount of freight made available from the Company to the BCO Independent Contractors may cause an increase in the BCO Independent Contractor truck turnover ratio, as experienced in 2009.

Truck Brokerage Carriers. At December 26, 2009, the Company maintained a database of over 24,000 qualified 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 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, Air, Ocean and Other Transportation Capacity. 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 or passenger bus companies, 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 are reported net of the amount earned by the Warehouse Capacity Owner. Warehousing services were not a significant contributor to revenue or earnings in 2009, 2008 and 2007.

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 26, 2009, 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:

Trailers by Type	
Vans	9,551
Flatbeds, including step decks, drop decks and low boys	3,661
Temperature-controlled	90

Total	13,302

At December 26, 2009, 8,505 of the trailers available to the BCO Independent Contractors were owned by the Company, 32 were leased by the Company with monthly rental payments equal to a fixed percentage of revenue hauled by the trailer, and 254 trailers were rented by the Company under short-term rental arrangements. In addition, at December 26, 2009, 4,511 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 51% and 52%, respectively, of the Company s revenue during fiscal 2009 and 2008. 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 26, 2009. 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 2009 revenue.

Technology

Management believes leadership in the development and application of 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. 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. In 2009, the Company completed the Recent Acquisitions that offer customers technology-based supply chain solutions and other value added services on a fee-for-service basis. The services provided by NLM and A3i along with the Company 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.

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 Detroit, 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, and 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 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 or workers compensation claims or the unfavorable development of existing claims could have a material adverse effect on Landstar s results of operations.

Insurance Coverage Above Self-Insured Retention

For the fiscal year ended and as of December 26, 2009, 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 $200,000,000 per occurrence above 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 over the Company s self insured retention amounts have varied dramatically. In an attempt to manage the significant fluctuations in the cost of these premiums required by the third party insurance companies, 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.

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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 is 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 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 26, 2009, the Company and its subsidiaries employed 1,374 individuals. Approximately 14 Landstar Ranger drivers (out of a Company total of 8,519 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 or workers compensation claims or the unfavorable development of existing claims could have a material adverse effect on 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 Insurance Coverage Above Self-Insured Retention, 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 above the Company s self-insured retention amounts have varied dramatically. In an attempt to manage the significant fluctuations in the cost of these premiums required by the third party insurance companies, 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.

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, and currently has a network of over 1,350 agent locations. During 2009, 405 agents generated revenue for Landstar of at least $1 million each, or approximately 87% 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 or a significant decrease in volume generated by Landstar s larger agents could have a material adverse effect on Landstar, including its results of operations and revenue.

Dependence on third party capacity providers. As noted above in Item 1, Business Factors Significant to the Company s Operations Transportation Capacity, Landstar does not own trucks or other transportation equipment (other than trailing equipment) and relies on third party capacity providers, including BCO Independent Contractors, Truck Brokerage Carriers, railroads and air and ocean cargo carriers, to transport freight for its customers. The Company competes with motor carriers and other third parties for the services of BCO Independent Contractors and other third party capacity providers. 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 provide 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 Detroit, 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 could significantly 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 benefit purposes. 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

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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. The FMCSA has stated its intent to implement Comprehensive Safety Analysis 2010 beginning in July of 2010. We believe the intent is to improve regulatory oversight of motor carriers and commercial drivers using a Safety Measurement System methodology that may be fundamentally different from the methodology that the FMCSA currently relies upon. 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.

Any such regulatory or legislative changes could have a material adverse effect on Landstar, including its results of operations and financial condition.

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.

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 Detroit, Michigan due to hurricanes, flooding, tornados or other weather conditions or natural disasters, terrorist attack 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. It licenses its principal software technology from an unaffiliated third party. The Company s strategic initiatives of the Recent Acquisitions were 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.

The Company periodically considers acquisitions that it believes are strategically important based on the potential that any such acquisition candidates would further strengthen the Company s service offerings, information technology platform and customer base and would generate additional revenue and earnings growth.

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.