

LANDSTAR SYSTEM INC
Form 10-K
February 19, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 26, 2015

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:

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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 [x]

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 [x]

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 [x]

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 [x]

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

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

Large accelerated filer [] Accelerated filer [] Non-accelerated filer [x] 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 [x]

The aggregate market value of the voting stock held by non-affiliates of the registrant was \$2,905,285,000 (based on the per share closing price on June 26, 2015, 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 22, 2016 was 42,419,537.

DOCUMENTS INCORPORATED BY REFERENCE

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

Table with 2 columns: Document, Part of 10-K, Into Which Incorporated. Row 1: Proxy Statement relating to Landstar System, Inc.'s Annual Meeting of Stockholders scheduled to be held on May 17, 2016, Part of 10-K, Part III

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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) and Signature Insurance Company (Signature). Landstar Ranger, Landstar Inway, Landstar Ligon, Landstar Gemini, Landstar Transportation Logistics, Landstar Global Logistics, Landstar Express America and Landstar Canada are collectively herein referred to as Landstar s Operating Subsidiaries. Landstar System, Inc., LSHI, LCFI, RMCS, LCHI, Signature and the Operating Subsidiaries are collectively referred to herein as Landstar or the Company, unless the context otherwise requires. The Company s principal executive offices are located at 13410 Sutton Park Drive South, Jacksonville, Florida 32224 and its telephone number is (904) 398-9400. The Company makes available free of charge through its website its annual report on Form 10-K, quarterly reports on Form 10-Q, proxy and current reports on Form 8-K as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission (SEC). The Company s website is www.landstar.com. You may read and copy any materials that we file with the SEC at the SEC s Public Reference Room at 100 E. Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reading Room by calling the SEC at 1-800-SEC-0330. 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.

On December 28, 2013, the Company completed the sale of Landstar Supply Chain Solutions, Inc., a Delaware corporation, including its wholly owned subsidiary, Landstar Supply Chain Solutions LLC (collectively, LSCS), to XPO Logistics, Inc. (XPO). The gain on the sale of LSCS and the operating results of LSCS for fiscal year 2013 and prior periods have been reclassified in the consolidated financial statements to discontinued operations.

Description of Business

Landstar is a worldwide asset-light provider of integrated transportation management 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 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. The nature of the Company s business is such that a significant portion of its operating costs varies directly with revenue.

Landstar markets its integrated transportation management solutions primarily through independent commission sales agents and exclusively utilizes third party capacity providers to transport customers freight. Landstar s independent commission sales agents 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

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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 and railroads. Through this network of agents and capacity providers linked together by Landstar's information technology systems, Landstar operates an integrated transportation management solutions business primarily throughout North America with revenue of \$3.3 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 integrated transportation management 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. Industries serviced by the transportation logistics segment include automotive products, building products, metals, chemicals, foodstuffs, heavy machinery, retail, electronics, ammunition and explosives and military equipment. In addition, the transportation logistics segment provides transportation services to other transportation companies, including third party 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. Billings for freight transportation services are typically charged to customers on a per shipment basis for the physical transportation of freight and are referred to as transportation revenue. See Notes to Consolidated Financial Statements for the amount of revenue from external customers, measure of profit and total assets attributable to the transportation logistics segment for the last three fiscal years.

Truck Services. The transportation logistics segment's truck transportation services include a full array of truckload transportation for a wide range of commodities and, to a lesser degree, less-than-truckload transportation services. A significant portion of the Company's truckload services are delivered in the spot market over irregular or non-repetitive routes, while approximately 30% of the Company's fiscal year 2015 truck transportation revenue was provided on more routine, regular routes utilizing Landstar provided trailing equipment. The Company utilizes a broad assortment of equipment, including dry and specialty vans of various sizes, unsided/platform trailers (including flatbeds, drop decks and light specialty trailers), temperature-controlled vans and containers. Available truck transportation services also include short-to-long haul movement of containers by truck and expedited ground and dedicated power-only truck capacity. During fiscal year 2015, revenue hauled by BCO Independent Contractors and Truck Brokerage Carriers was 46% and 47%, respectively, of consolidated revenue. Also, during fiscal year 2015, truck transportation revenue hauled via van equipment and unsided/platform trailing equipment was 61% and 36%, respectively, of truck transportation revenue and less-than-truckload revenue was 3% of truck transportation revenue. The Company's truck services contributed 93% of consolidated revenue in fiscal year 2015, 94% of consolidated revenue in fiscal year 2014 and 93% of consolidated revenue in fiscal year 2013.

Rail Intermodal Services. The transportation logistics segment has contracts with Class 1 domestic and Canadian railroads, certain short-line railroads and most major asset-based intermodal equipment providers, including agreements with stacktrain operators and container and trailing equipment companies. In addition, the transportation logistics segment has contracts with a vast network of local trucking companies that handle pick-up and delivery of rail freight. These contracts provide the transportation logistics segment the ability to transport freight via rail throughout the United States, Canada and Mexico. The transportation logistics segment's rail intermodal service capabilities include trailer on flat car, container on flat car, box car and railcar. The transportation logistics segment's rail intermodal services contributed 3% of consolidated revenue in each of fiscal years 2015, 2014 and 2013.

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Air and Ocean Services. The transportation logistics segment provides domestic and international air services and ocean services to its customers. The Company executes international freight transportation as an International Air Transport Association (IATA) certified Indirect Air Carrier (IAC), a Federal Maritime Commission (FMC) licensed non-vessel operating common carrier (NVOCC) and as a licensed freight forwarder. Through its network of independent commission sales agents, relationships within a global network of foreign freight forwarders and contracts with a number of airlines and ocean lines, 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 freight. The transportation logistics segment's air and ocean services contributed 3% of consolidated revenue in fiscal year 2015, 2% of consolidated revenue in fiscal year 2014 and 3% of consolidated revenue in fiscal year 2013.

Insurance Segment

The insurance segment is comprised of Signature, a wholly owned offshore insurance subsidiary, and RMCS. This segment provides risk and claims management services to certain of Landstar's Operating Subsidiaries. In addition, it reinsures certain risks of the Company's BCO Independent Contractors and provides certain property and casualty insurance directly to certain of Landstar's Operating Subsidiaries. Revenue at the insurance segment represents reinsurance premiums from third party insurance companies that provide insurance programs to BCO Independent Contractors where all or a portion of the risk of loss is ultimately borne by Signature. Revenue at the insurance segment represented approximately 1% of the Company's consolidated revenue in each of fiscal years 2015, 2014 and 2013. See Notes to Consolidated Financial Statements for the amount of revenue from external customers, measure of profit and total assets attributable to the insurance segment for the last three fiscal years.

Factors Significant to the Company's Operations

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

Agent Network

The Company's primary day-to-day contact with its customers is through its network of independent commission sales agents and, to a lesser extent, through employees of the Company. The typical Landstar independent commission sales agent maintains a relationship with a number of shippers and services these shippers utilizing the Company's 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 Canada. The Operating Subsidiaries provide programs to support the agents' operations and provide guidance on establishing pricing parameters for freight hauled by the various modes of transportation available to the agents. It is important to note that the Operating Subsidiaries, and not the Company's agents, contract directly with customers and generally assume the related credit risk and potential liability for freight losses or damages when the Company is providing transportation services as a motor carrier.

Management believes the Company has more independent commission sales agents than any other asset-light integrated transportation management solutions company in the United States. Landstar's vast network of independent commission sales agent locations provides the Company regular contact with shippers at the local level and the capability to be highly responsive to shippers' changing needs. The Company's large fleet of available capacity provides the agent network the resources needed to service both large and small shippers. Through its agent network, the Company offers smaller shippers a level of service comparable to that typically enjoyed only by larger customers. Examples include the ability to provide transportation services on short notice, multiple pick-up and delivery points, electronic data interchange capability and access to specialized equipment. In addition, a number of the Company's agents specialize in certain types of freight and transportation services (such as oversized or heavy loads and/or rail, air and international freight transportation). Each independent commission sales agent has the opportunity to market all of the services provided by the transportation logistics segment.

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The independent commission sales agents use a variety of proprietary and third party information technology applications provided by the Company to service the requirements of shippers. For truckload services, the Company's independent commission sales agents use Landstar proprietary software which enables agents to enter available freight, dispatch capacity and process most administrative procedures and then communicate that information to Landstar and its capacity providers via the internet. The Company's web-based available truck information system provides a listing of available truck capacity to the Company's independent commission sales agents. For modes of transportation other than truckload, the independent commission sales agents utilize both proprietary and 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 and reinsurance premiums and with changes in net revenue margin, defined as net revenue divided by revenue, on services provided by Truck Brokerage Carriers, railroads, air cargo carriers and ocean cargo carriers. Commissions to agents are recognized upon the completion of freight delivery.

The Company had 512 and 525 agents who each generated at least \$1 million in Landstar revenue during fiscal years 2015 and 2014, respectively, (the Million Dollar Agents). Landstar revenue from the Million Dollar Agents in the aggregate represented 92% of consolidated revenue in both fiscal years 2015 and 2014. Annually, the Company has experienced very few terminations of its Million Dollar Agents, whether such terminations are initiated by the agent or the Company. Annual terminations of Million Dollar Agents are typically 3% or less of the total number of Million Dollar Agents. Management believes that the majority of the Million Dollar Agents choose to represent the Company exclusively.

Third Party Capacity

The Company relies exclusively on independent third parties for its hauling capacity other than for trailing equipment owned or leased by the Company and utilized primarily by the BCO Independent Contractors. These third party transportation capacity providers consist of BCO Independent Contractors, Truck Brokerage Carriers, air and ocean cargo carriers and railroads. Landstar's use of capacity provided by third parties allows it to maintain a lower level of capital investment, resulting in lower fixed costs. During fiscal year 2015, revenue hauled by BCO Independent Contractors, Truck Brokerage Carriers and railroads represented approximately 46%, 47% and 3%, respectively, of the Company's consolidated revenue. Historically, annual revenue hauled by BCO Independent Contractors has exceeded annual revenue hauled by Truck Brokerage Carriers. In fiscal year 2015, for the first time in the Company's history, revenue hauled by Truck Brokerage Carriers exceeded revenue hauled by BCO Independent Contractors. Collectively, revenue hauled by air and ocean cargo carriers represented approximately 3% of the Company's consolidated revenue during fiscal year 2015. Historically, the gross profit margin (defined as gross profit, which is defined as revenue less the cost of purchased transportation and commissions to agents, divided by revenue) generated from freight hauled by BCO Independent Contractors has been greater than that from freight hauled by other third party capacity providers. However, the Company's insurance and claims costs and other operating costs are incurred primarily in support of BCO Independent Contractor capacity. In addition, as further described in the Corporate Services section that follows, the Company incurs significantly higher selling, general and administrative costs in support of BCO Independent Contractor capacity as compared to the other modes of transportation. Purchased transportation costs are recognized upon the completion of freight delivery.

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 provides services and has leased his or her equipment.

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The Company's network of BCO Independent Contractors provides marketing, operating, safety, recruiting and retention advantages to the Company.

The Company's BCO Independent Contractors are compensated primarily based on a contractually agreed-upon percentage of revenue generated by loads they haul. This percentage generally ranges from 62% to 73% where the BCO Independent Contractor provides only a tractor and 72% to 77% where the BCO Independent Contractor provides both a tractor and trailing equipment. The BCO Independent Contractor must pay substantially all of the expenses of operating his/her equipment, including driver wages and benefits, fuel, physical damage insurance, maintenance, highway use taxes and debt service, if applicable. The Company passes 100% of fuel surcharges billed to customers for freight hauled by BCO Independent Contractors to its BCO Independent Contractors. During fiscal year 2015, the Company billed customers \$174.7 million in fuel surcharges and passed 100% of such fuel surcharges to the BCO Independent Contractors. These fuel surcharges are excluded from revenue and the cost of purchased transportation.

The Company maintains internet-based applications for mobile and desktop devices 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.

The number of trucks provided to the Company by BCO Independent Contractors was 9,500 at December 26, 2015, compared to 8,932 at December 27, 2014. At December 26, 2015, 98% of the trucks provided by BCO Independent Contractors were provided by BCO Independent Contractors who provided five or fewer trucks to the Company. The number of trucks provided by BCO Independent Contractors fluctuates daily as a result of truck recruiting and truck terminations. More trucks were recruited in fiscal year 2015 than in fiscal year 2014 but trucks terminated were higher in fiscal year 2015 than in fiscal year 2014, resulting in an overall net gain of 568 trucks during fiscal year 2015. Landstar's BCO Independent Contractor truck turnover was approximately 25% in fiscal year 2015 compared to 22% in fiscal year 2014. Approximately 42% of 2015 turnover was attributable to BCO Independent Contractors who had been with the Company for less than one year. Management believes that factors that have historically favorably impacted turnover include the Company's extensive agent network, available freight, the Company's programs to reduce the operating costs of its BCO Independent Contractors and Landstar's reputation for quality, service, reliability and financial strength.

Truck Brokerage Carriers. At December 26, 2015, the Company maintained a database of over 44,000 approved Truck Brokerage Carriers who provide truck capacity to the Company. Truck Brokerage Carriers provide truck capacity to the Company under non-exclusive contractual arrangements and each operates under its own DOT-issued motor carrier operating authority. Truck Brokerage Carriers are paid either a negotiated rate for each load hauled or, to a lesser extent, a contractually agreed-upon fixed rate per load. The Company recruits, approves, establishes contracts with and tracks safety ratings and service records of 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 them to be hauled. 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.

Railroads and Air and Ocean Cargo Carriers. The Company has contracts with Class 1 domestic and Canadian railroads, certain short-line railroads and domestic and international airlines and ocean lines. These

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relationships allow the Company to pursue the freight best serviced by these forms of transportation capacity. Railroads are paid either a negotiated rate for each load hauled or a contractually agreed-upon fixed rate per load. Air cargo carriers are generally paid a negotiated rate for each load hauled. Ocean cargo carriers are generally paid contractually agreed-upon fixed rates per load. The Company also contracts with other third party capacity providers, such as air charter service providers, when required by specific customer needs.

Trailing Equipment

The Company offers its customers a large and diverse fleet of trailing equipment. The following table illustrates the mix of the trailing equipment as of December 26, 2015, 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	11,423
Unsided/platform, including flatbeds, step decks, drop decks and low boys	3,220
Temperature-controlled	118
Total	14,761

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

At December 26, 2015, 10,363 of the trailers available to the BCO Independent Contractors were owned by the Company and 360 were leased. In addition, at December 26, 2015, 4,038 trailers were provided by the BCO Independent Contractors. Approximately 30% of Landstar's truck transportation revenue was hauled on Landstar provided trailing equipment during fiscal year 2015.

Customers

The Company's customer base is highly diversified and dispersed across many industries, commodities and geographic regions. The Company's top 100 customers accounted for approximately 44% and 42%, respectively, of consolidated revenue during fiscal years 2015 and 2014. 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. 3PLs and other transportation companies also utilize the Company's available transportation capacity to satisfy their obligations to their shippers. There were ten transportation service providers, including 3PLs, included in the Company's top 25 customers for the fiscal year 2015. 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 4% of the Company's 2015 revenue.

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Technology

Management believes leadership in the development and application of information technology systems is an ongoing part of providing high quality service. Landstar focuses on providing integrated transportation management solutions which emphasize customer service and information coordination among its independent commission sales agents, customers and capacity providers. 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 efficiently sourcing capacity and pricing transportation services, assist customers in meeting their transportation needs and assist its third party capacity providers in identifying desirable freight. Landstar intends to continue to improve its systems and technologies to meet the total needs of its agents, customers and third party capacity providers.

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. In addition, the Company utilizes several third party data centers throughout the U.S. Landstar relies, in the regular course of its business, on the proper operation of its information technology systems.

Corporate Services

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

Administrative support services that provide operational and financial advantages to the network include customer contract administration, customer credit review and approvals, sales administration and pricing, customer billing, accounts receivable collections, third party capacity settlement, safety and operator and equipment compliance management, insurance claims handling, coordination of vendor discount programs and third party capacity quality programs. Marketing and advertising strategies are also provided by the Company. The Company's practices of accepting customer credit risk and paying its agents and carriers promptly provides a significant competitive advantage to the Company in comparison to less capitalized competitors.

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 asset-light 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

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Company also retains liability of up to \$1,000,000 for each general liability claim, up to \$250,000 for each workers' compensation claim and up to \$250,000 for each cargo claim. The Company's exposure to liability associated with accidents incurred by Truck Brokerage Carriers, railroads and air and ocean cargo carriers who transport freight on behalf of the Company is reduced by various factors including the extent to which such carriers maintain their own insurance coverage. A material increase in the frequency or severity of accidents, cargo claims or workers' compensation claims or the material unfavorable development of existing claims could have a material adverse effect on Landstar's cost of insurance and claims and its results of operations.

Regulation

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

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

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

The transportation industry is subject to possible other regulatory and legislative changes (such as the possibility of more stringent environmental, climate change and/or safety/security regulations, limits on vehicle weight and size and a mandate to implement electronic logging devices) that may affect the economics of the industry by requiring changes in operating practices or by changing the demand for motor carrier services or the cost of providing truckload or other transportation or logistics services.

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

Seasonality

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

Employees

As of December 26, 2015, the Company and its subsidiaries employed 1,223 individuals. Approximately six Landstar Ranger drivers (out of a Company total of 9,500 drivers for BCO Independent Contractors) are members of the International Brotherhood of Teamsters. The Company considers relations with its employees to be good.

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Item 1A. Risk Factors

Increased severity or frequency of accidents and other claims or a material unfavorable development of existing 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 of up to \$1,000,000 for each general liability claim, up to \$250,000 for each workers compensation claim and up to \$250,000 for each cargo claim. The Company's exposure to liability associated with accidents incurred by Truck Brokerage Carriers, railroads and air and ocean cargo carriers who transport freight on behalf of the Company is reduced by various factors including the extent to which such carriers maintain their own insurance coverage. A material increase in the frequency or severity of accidents, cargo claims or workers compensation claims or the material unfavorable development of existing claims could have a material adverse effect on Landstar's cost of insurance and claims and its results of operations.

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

Dependence on independent commission sales agents. As noted above in Item 1, **Business Factors Significant to the Company's Operations Agent Network**, the Company markets its services primarily through independent commission sales agents. During fiscal year 2015, 512 agents generated revenue for Landstar of at least \$1 million each (the **Million Dollar Agents**), or in the aggregate approximately 92% of Landstar's consolidated revenue. Landstar competes with motor carriers and other third parties for the services of these independent commission sales agents. Landstar has historically experienced very limited agent turnover in the number of its Million Dollar Agents. There can be no assurances, however, that Landstar will continue to experience very limited turnover of its Million Dollar Agents in the future. Landstar's contracts with its agents, including its Million Dollar Agents, are typically terminable without cause upon 10 to 30 days' notice by either party and generally contain significant but not unqualified non-compete provisions limiting the ability of a former agent to compete with Landstar for a specified period of time post-termination, and other restrictive covenants. The loss of some of the Company's Million Dollar Agents and/or a significant decrease in revenue generated by Million Dollar Agents could have a material adverse effect on Landstar, including its results of operations and revenue.

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

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BCO Independent Contractors and other third party capacity providers. The market for qualified truck owner-operators and other third party truck capacity providers is very competitive among motor carriers and no assurances can be given that the Company will be able to maintain or expand the number of BCO Independent Contractors or other third party truck capacity providers. Additionally, the Company's third party capacity providers other than BCO Independent Contractors can be expected, under certain circumstances, to charge higher prices to cover increased operating expenses, such as any increases in the cost of fuel, and the Company's operating income may decline without a corresponding increase in price to the customer. A significant decrease in available capacity provided by either the Company's BCO Independent Contractors or other third party capacity providers, or increased rates charged by other third party capacity providers that cannot be passed through to customers, 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, and other economic factors beyond Landstar's control. If a slowdown in economic activity or a downturn in the Company's customers' business cycles cause a reduction in the volume of freight shipped by those customers, the Company's operating results could be materially adversely affected.

Substantial industry competition. As noted above in Item 1, *Business Factors Significant to the Company's Operations* Competition, Landstar competes primarily in the transportation and logistics services industry. This industry is extremely competitive and fragmented. Landstar competes primarily with truckload carriers, intermodal transportation service providers, railroads, less-than-truckload carriers, third party logistics companies and other asset-light transportation and logistics service providers. Management believes that competition for the freight transported by the Company is based on service, efficiency and freight rates, which are influenced significantly by the economic environment, particularly the amount of available transportation capacity and freight demand. Historically, competition has created downward pressure on freight rates. In addition, many large shippers are using third party logistics providers (3PLs) other than the Company to outsource the management and coordination of their transportation needs rather than directly arranging for transportation services with carriers. As noted above, there were ten transportation service providers, including 3PLs, included in the Company's top 25 customers for the fiscal year ended December 26, 2015. Usage by large shippers of 3PLs often provides carriers, such as the Company, with a less direct relationship with the shipper and, as a result, may increase pressure on freight rates while making it more difficult for the Company to compete primarily based on service and efficiency. A decrease in freight rates could have a material adverse effect on Landstar, including its revenue and operating income.

Status of independent contractors. In recent years, the topic of the classification of individuals as employees or independent contractors has gained increased attention among federal and state regulators as well as the plaintiffs' bar. Various legislative or regulatory proposals have been introduced at the federal and state levels that may affect the classification status of individuals as independent contractors or employees for either employment tax purposes (withholding, social security, Medicare and unemployment taxes) or other benefits available to employees (most notably, workers' compensation benefits). Recently, certain states (most prominently, California) have seen significant increased activity by tax and other regulators and numerous class action lawsuits filed against transportation companies that engage independent contractors.

There are many different tests and standards that may apply to the determination of whether a relationship is that of an independent contractor or one of employment. For example, different standards may be applied by the Internal Revenue Service, the U.S. Department of Labor, the National Labor Relations Board, state unemployment agencies, state departments of labor, state taxing authorities, the Equal Employment Opportunity Commission, state discrimination or disability benefit administrators and state workers compensation boards, among others. For federal tax purposes, most individuals are classified as employees or independent contractors based on a multi-factor common-law analysis 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, a taxpayer that

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meets certain criteria may treat an individual as an independent contractor for employment tax purposes if the taxpayer has been audited without being told to treat similarly situated workers as employees, if the taxpayer has received a ruling from the Internal Revenue Service or a court decision affirming the taxpayer's treatment of the individual as an independent contractor, or if the taxpayer is following a long-standing recognized practice.

The Company classifies its BCO Independent Contractors and independent commission sales agents as independent contractors for all purposes, including employment tax and employee benefits. There can be no assurance that legislative, judicial, administrative or regulatory (including tax) authorities will not introduce proposals or assert interpretations of existing rules and regulations that would change the employee/independent contractor classification of BCO Independent Contractors or independent commission sales agents doing business with the Company. Although management believes that there are no proposals currently pending that would significantly change the employee/independent contractor classification of BCO Independent Contractors or independent commission sales agents currently doing business with the Company, potential changes, if any, with respect to these BCO Independent Contractor and independent commission sales agent classifications could have a material adverse effect on Landstar's operating model. Further, the costs associated with any such potential changes could have a material adverse effect on the Company's results of operations and financial condition if Landstar were unable to pass through to its customers an increase in price corresponding to such increased costs. Moreover, class action litigation in this area against other transportation companies has resulted in significant damage awards and/or monetary settlements for workers who have been allegedly misclassified as independent contractors and the legal and other related expenses associated with litigating these cases can be substantial.

Regulatory and legislative changes. As noted above in Item 1, *Business Factors Significant to the Company's Operations Regulation*, certain of the Operating Subsidiaries are motor carriers and/or property brokers authorized to arrange for transportation services by motor carriers which are regulated by the Federal Motor Carrier Safety Administration (FMCSA), an agency of the U.S. Department of Transportation, and by various state agencies. Certain of the Operating Subsidiaries are licensed as ocean transportation intermediaries by the U.S. Federal Maritime Commission as non-vessel-operating common carriers and/or as ocean freight forwarders. The Company's air transportation activities in the United States are subject to regulation by the U.S. Department of Transportation as an indirect air carrier. One of the Company's subsidiaries is licensed by the U.S. Department of Homeland Security through the Bureau of U.S. Customs and Border Protection (U.S. Customs) as a customs broker. The Company is also subject to regulations and requirements relating to safety and security promulgated by, among others, the U.S. Department of Homeland Security through U.S. Customs and the Transportation Security Administration, the Canada Border Services Agency and various state and local agencies and port authorities. The transportation industry is subject to possible regulatory and legislative changes (such as increasingly stringent environmental, climate change and/or safety/security regulations or limits on vehicle weight and size and a mandate to implement electronic logging devices) 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 particular, the FMCSA is consistently proposing regulatory changes that affect the operation of commercial motor carriers across the United States. The FMCSA has established the Compliance Safety Accountability (CSA) motor carrier oversight program. The Company believes the intent of this program 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 has historically relied upon. Under CSA, the FMCSA monitors seven Behavior Analysis and Safety Improvement Categories, or BASICS, under which a motor carrier may be evaluated. Since the introduction of CSA in December 2010, the FMCSA has considered and implemented changes to the methodologies used to determine carrier scores within a BASIC as well as to the BASICS, themselves. The FMCSA has also established threshold scores for each BASIC. In the event a motor carrier has one or more BASIC scores that exceeds the applicable threshold, the motor carrier has an increased risk of roadside inspection and/or compliance review by FMCSA. BASIC scores in excess of applicable thresholds may also adversely affect a motor carrier's overall safety rating and/or its relationships with

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customers. On December 4, 2015, President Obama signed into law the Fixing America's Surface Transportation Act, or the FAST Act. Among other items, the FAST Act requires the FMCSA to engage the National Research Council to conduct a study of CSA and the Safety Measurement System (SMS) utilized by the CSA program. As a result of the FAST Act, the FMCSA announced that the BASIC scores have been removed from public view and are expected to remain hidden from public view while changes to CSA are considered. In addition, the hours of service regulations which govern the work hours of commercial drivers remain under review by FMCSA and FMCSA has a number of other proposals that are in process, including a rule which would mandate the use of electronic logging devices in certain over-the-road commercial motor vehicles. It is difficult to predict which and in what form CSA or any other FMCSA regulations may be implemented, modified or enforced and what impact any such regulation may have on motor carrier operations or the aggregate number of trucks that provide hauling capacity to the Company.

In addition, recent focus on climate change and related environmental matters has led to efforts by federal, state and local governmental agencies to support legislation and regulations to limit the amount of carbon emissions, including emissions created by diesel engines utilized in tractors operated by the Company's BCO Independent Contractors and Truck Brokerage Carriers. Moreover, federal, state and local governmental agencies may also focus on regulation in relation to trailing equipment specifications in an effort to achieve, among other things, lower carbon emissions. For example, the California Air Resources Board (CARB) has implemented regulations that restrict the ability of certain tractors and trailers from operating in California. The Company currently is in a multi-year process of replacing its entire fleet of van trailing equipment to maintain CARB-compliant trailer operations. Further, CARB has established regulations that impose emission standards on nearly all diesel-fueled trucks with gross vehicle weight ratings in excess of 14,000 lbs. that operate in California. No assurances can be given with respect to the extent BCO Independent Contractors will choose to become CARB-compliant by purchasing a new or used CARB-compliant tractor, replacing the engine in their existing tractor with a CARB-compliant engine or performing an exhaust retrofit of their existing tractor by installing a particulate matter filter. Accordingly, many of the Company's BCO Independent Contractors may choose not to haul loads that would require travel within California, which could affect the ability of the Company to service customer freight needs for freight originating from, delivering to or traveling through California. Moreover, increased regulation on tractor or trailing equipment specifications, including emissions created by diesel engines, could create substantial costs on the Company and the Company's third party capacity providers and, in turn, increase the cost of purchased transportation to the Company. An increase in the costs to purchase, lease or maintain tractor or trailing equipment or in purchased transportation cost caused by new regulations without a corresponding increase in price to the customer could adversely affect Landstar, including its results of operations and financial condition.

Disruptions or failures in the Company's computer systems; cyber incidents. 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. 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. Moreover, it is critical that the data processed by the Company's information technology systems remain confidential, as it often includes confidential, proprietary and/or competitively sensitive information regarding our customers, agents and third party capacity providers, employee records and key financial and operational results and statistics. Cyber incidents that impact the security, availability, reliability, speed, accuracy or other proper functioning of these systems, including outages, computer viruses, break-ins and similar disruptions, could have a significant impact on our operations. Accordingly, cyber security and the continued development and enhancement of the controls and processes designed to protect our systems, computers, software, data and networks from attack, damage or

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unauthorized access remain a priority for us. Although we believe that we have robust information security procedures and other safeguards in place, as cyber threats continue to evolve, we may be required to expend additional resources to continue to enhance our information security measures and/or to investigate and remediate any information security vulnerabilities. A significant cyber incident, including system failure, security breach, disruption by malware, or other damage, could interrupt or delay our operations, damage our reputation, cause a loss of customers, agents or third party capacity providers, expose us to a risk of loss or litigation, and/or cause us to incur significant time and expense to remedy such an event, any of which could have a material adverse impact on our results of operations and financial position.

Dependence on key vendors. As described above under *Dependence on third party insurance companies* and *Disruptions or failures in the Company's computer systems; cyber incidents*, 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 disbursement providers. Any inability to negotiate satisfactory terms with one of these key vendors or any other significant disruption to or termination of a relationship with one of these key vendors could disrupt the Company's operations and impose significant costs on the Company.

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

Catastrophic loss of a Company facility. The Company faces the risk of a catastrophic loss of the use of all or a portion of its facilities located in Jacksonville, Florida and Rockford, Illinois 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 or similar catastrophic event that impacts the Jacksonville, Florida metropolitan area could significantly disrupt the Company's operations and impose significant costs on the Company.

The Company cannot predict the effect on its business of threatened or real terrorist attacks. It is possible that such threats could result in the catastrophic loss or disruption in use of facilities, roadways, railroads, borders or ports where the Company operates. Also, anti-terrorism security measures could slow freight movements and negatively affect consumer confidence, the overall economy and the transportation industry. Such events could adversely affect Landstar, including its results of operations and financial condition.

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.

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

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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.

Unclaimed property. The Company is subject to federal and state laws relating to abandoned and unclaimed property. States routinely audit the records of companies to assess compliance with such laws. The Company is currently undergoing a multi-state unclaimed property audit, the timing and outcome of which cannot be predicted. The Company may incur significant professional fees in connection with the audit. If the Company is found to be in noncompliance with applicable unclaimed property laws or the manner in which such laws are interpreted or applied, states may determine that they are entitled to the remittance by the Company of significant amounts of unclaimed or abandoned property and further may seek to impose other significant costs on the Company, including penalties and interest.

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 and Rockford, Illinois. In addition, the Company's corporate headquarters are located in Jacksonville, Florida. The Jacksonville, Florida and Rockford, Illinois facilities are owned by the Company. 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*

The Company is involved in certain claims and pending litigation arising from the normal conduct of business. Many of these claims are covered in whole or in part by insurance. Based on knowledge of the facts and, in certain cases, opinions of outside counsel, management believes that adequate provisions have been made for probable losses with respect to the resolution of all such claims and pending litigation and that the ultimate outcome, after provisions therefor, will not have a material adverse effect on the financial condition of the Company, but could have a material effect on the results of operations in a given quarter or year.

Item 4. *Mine Safety Disclosures*

Not applicable.

Table of Contents**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	2015 Market Price		2014 Market Price		Dividends Declared		
	High	Low	High	Low	2015	2014	2013
First Quarter	\$ 74.88	\$ 63.11	\$ 61.92	\$ 56.00	\$ 0.070	\$ 0.060	\$
Second Quarter	69.12						