

LANDSTAR SYSTEM INC  
Form DEF 14A  
April 09, 2019

## **SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Under Rule 14a-12

**LANDSTAR SYSTEM, INC.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

**LANDSTAR SYSTEM, INC.**

**13410 Sutton Park Drive South**

**Jacksonville, Florida 32224**

April 9, 2019

To the Stockholders of Landstar System, Inc.:

You are cordially invited to attend the Annual Meeting of Stockholders of Landstar System, Inc., on Tuesday, May 21, 2019, at 9:00 a.m., local time, to be held in the first floor conference room of the principal offices of Landstar System, Inc., at the address above. A notice of meeting, a proxy card, the 2018 Annual Report on Form 10-K and a Proxy Statement containing information about the matters to be acted upon are enclosed. It is important that your shares be represented at the meeting. Accordingly, please vote promptly by telephone, via the Internet or by signing, dating and returning the enclosed proxy card in the enclosed pre-addressed, postage-paid envelope even if you are planning to attend the meeting. Instructions for voting by telephone or via the Internet are included on the enclosed proxy card.

I look forward to the Annual Meeting of Stockholders and I hope you will attend the meeting or be represented by proxy.

**JAMES B. GATTONI**

*President and Chief Executive Officer*

**LANDSTAR SYSTEM, INC.**

**13410 Sutton Park Drive South**

**Jacksonville, Florida 32224**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held May 21, 2019**

Notice is hereby given that the 2019 Annual Meeting of Stockholders (the "2019 Annual Meeting") of Landstar System, Inc., a Delaware corporation (the "Company"), will be held in the first floor conference room of the principal offices of Landstar System, Inc., at the address above, on Tuesday, May 21, 2019, at 9:00 a.m., local time, for the following purposes:

- (1) To elect three Class II Directors whose terms will expire at the 2022 Annual Meeting of Stockholders;
- (2) To ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for fiscal year 2019;
- (3) To hold an advisory vote on executive compensation; and
- (4) To transact such other business as may properly come before the meeting or any adjournment thereof.

Only stockholders of record at the close of business on March 26, 2019 will be entitled to notice of, and to vote at, the meeting. A list of stockholders eligible to vote at the meeting will be available for inspection at the meeting and during business hours from May 7, 2019 to the date of the meeting at the address set forth above, the Company's corporate headquarters.

**Important Notice Regarding the Availability of Proxy Materials for the Stockholder meeting to be held on May 21, 2019:**

**The proxy statement and annual report to security holders are available at [www.landstar.com](http://www.landstar.com).**

All stockholders are cordially invited to attend the meeting in person. Whether you expect to attend the 2019 Annual Meeting or not, your proxy vote is very important. ***To assure your representation at the meeting, please sign and date the enclosed proxy card and return it promptly in the enclosed envelope, which requires no additional postage if mailed in the United States or Canada.***

By Order of the Board of Directors

MICHAEL K. KNELLER

*Vice President, General Counsel and Secretary*

Jacksonville, Florida

April 9, 2019

**IT IS IMPORTANT THAT THE ENCLOSED PROXY CARD BE COMPLETED  
AND RETURNED PROMPTLY**

**LANDSTAR SYSTEM, INC.**

**PROXY STATEMENT**

April 9, 2019

**INTRODUCTION**

This Proxy Statement (the **Proxy Statement**) is furnished to the stockholders of Landstar System, Inc., a Delaware corporation (the **Company** or **Landstar**), in connection with the solicitation of proxies on behalf of the Board of Directors of the Company (the **Board**) to be voted at the 2019 Annual Meeting of Stockholders to be held on Tuesday, May 21, 2019 at 9:00 a.m., local time (the **2019 Annual Meeting**). The 2018 Annual Report to Stockholders (which, notwithstanding anything herein to the contrary, does not form a part of the proxy solicitation material relating to this Proxy Statement), including the financial statements of the Company for fiscal year 2018, is enclosed herewith (the **2018 Annual Report**). The mailing address of the principal executive offices of the Company is 13410 Sutton Park Drive South, Jacksonville, Florida 32224. This Proxy Statement, accompanying form of proxy, Notice of 2019 Annual Meeting and 2018 Annual Report are being mailed to the stockholders of the Company on or about April 9, 2019.

**RECORD DATE**

The Board has fixed the close of business on March 26, 2019 as the record date for the 2019 Annual Meeting. Only stockholders of record on that date will be entitled to vote at the 2019 Annual Meeting in person or by proxy.

**PROXIES**

Shares cannot be voted at the 2019 Annual Meeting unless the owner thereof is present in person or by proxy. The proxies named on the enclosed proxy card were appointed by the Board to vote the shares of Common Stock of the Company, par value \$0.01 per share ( **Common Stock** ), represented by the proxy card. If a stockholder does not return a signed proxy card with respect to any of his or her shares, such shares cannot be voted by proxy. Stockholders are urged to mark the boxes on the proxy card to show how his or her shares are to be voted. All properly executed and unrevoked proxies in the accompanying form that are received in time for the 2019 Annual Meeting will be voted at the 2019 Annual Meeting or any adjournment thereof in accordance with any specification thereon, or if no specification is made, will be voted as follows: (i) **FOR** the election of the three Class II Directors nominated by the Board and named in this Proxy Statement; (ii) **FOR** the ratification of KPMG LLP as the independent registered public accounting firm for the Company; and (iii) **FOR** the proposal regarding an advisory vote on executive compensation. Each of these proposals is more fully described in this Proxy Statement. The proxy card also confers discretionary authority on the proxies to vote on any other matter not presently known to management that may properly come before the 2019 Annual Meeting.

Any proxy delivered pursuant to this solicitation is revocable at the option of the person(s) executing the same (i) upon receipt by the Company before such proxy is voted of a duly executed proxy bearing a later date, (ii) by written notice of the revocation of such proxy to the Secretary of the Company received before such proxy is voted or (iii) by such person(s) voting in person at the 2019 Annual Meeting.

The Board has selected Broadridge Investor Communication Solutions, Inc. as Inspector of Election (the **Inspector**) pursuant to Article I of the Company's Bylaws, as amended and restated (the **Bylaws**). The Inspector shall ascertain the number of shares of Common Stock outstanding, determine the number of shares



represented at the 2019 Annual Meeting by proxy or in person and count all votes. Each stockholder shall be entitled to one vote for each share of Common Stock held by such stockholder and such votes may be cast either in person or by proxy.

### **PROXY SOLICITATION**

The cost of the preparation of proxy materials and the solicitation of proxies will be paid by the Company. The Company has engaged Georgeson LLC as the proxy solicitor for the 2019 Annual Meeting for a fee of approximately \$7,500 plus reasonable expenses. In addition to the use of the mails, certain directors, officers or employees of the Company may solicit proxies by telephone or personal contact. Upon request, the Company will reimburse brokers, dealers, banks and trustees, or their nominees, for reasonable expenses incurred by them in forwarding proxy materials to the beneficial owners of shares.

### **STOCKHOLDER COMMUNICATIONS WITH THE BOARD OF DIRECTORS**

A description of the procedures as to how stockholders may send communications to the Board or individual Board members is included on the Company's website at [www.landstar.com](http://www.landstar.com) under Investor Relations/Corporate Governance.

### **VOTING SECURITIES**

Shares of Common Stock are the only class of voting securities of the Company which are outstanding. On March 26, 2019, 40,162,360 shares of Common Stock were outstanding. At the 2019 Annual Meeting, each stockholder of record at the close of business on March 26, 2019 will be entitled to one vote for each share of Common Stock owned by such stockholder on that date as to each matter properly presented to the 2019 Annual Meeting. The holders of a majority of the total number of the issued and outstanding shares of Common Stock on such date shall constitute a quorum for purposes of the 2019 Annual Meeting (a "Quorum").

### **PROPOSAL NUMBER ONE ELECTION OF DIRECTORS**

The Board is divided into three classes (Class I, Class II and Class III), with directors of the Board (collectively, "Directors") in each class serving staggered three-year terms. At each annual meeting of stockholders, the terms of the Directors in one of these three classes is scheduled to expire. At that annual meeting of stockholders, Directors are elected to a class to succeed the Directors whose terms are then expiring, with the terms of that class of Directors so elected to expire at the third annual meeting of stockholders thereafter. Pursuant to the Bylaws, in furtherance of dividing the Board into classes that are as nearly equal in number as possible, the Board may nominate one or more persons for election to the Board and the stockholders may elect such nominee to a class of Directors having a term that expires less than three years after the annual meeting of stockholders at which such nominee is elected.

There are currently seven members of the Board: three Class II Directors whose terms will expire at the 2019 Annual Meeting, two Class III Directors whose terms will expire at the 2020 Annual Meeting of Stockholders (the "2020 Annual Meeting") and two Class I Directors whose terms will expire at the 2021 Annual Meeting of Stockholders (the "2021 Annual Meeting"). The Board has nominated Dr. Homaira Akbari, Ms. Diana M. Murphy and Mr. Larry J. Thoele as Class II Directors for election at the 2019 Annual Meeting.

It is intended that the shares represented by the accompanying form of proxy will be voted at the 2019 Annual Meeting for the election of nominees Dr. Akbari, Ms. Murphy and Mr. Thoele as Class II Directors, each

for a term to expire at the 2022 Annual Meeting of Stockholders, unless the proxy specifies otherwise. Dr. Akbari, Ms. Murphy and Mr. Thoele have each indicated her or his willingness to serve as a member of the Board, if elected.

If, for any reason not presently known, Dr. Akbari, Ms. Murphy or Mr. Thoele is not available for election at the time of the 2019 Annual Meeting, the shares represented by the accompanying form of proxy may be voted for the election of one or more substitute nominee(s) designated by the Board or a committee thereof, unless the proxy withholds authority to vote for such substitute nominee(s).

Assuming the presence of a Quorum, to be elected, a nominee must receive the affirmative vote of a majority of the votes cast by the holders of Common Stock with respect to that director's election at the 2019 Annual Meeting. Abstentions from voting and broker non-votes will have no effect on the outcome of this proposal.

**THE BOARD RECOMMENDS A VOTE *FOR* THIS PROPOSAL**

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## DIRECTORS OF THE COMPANY

The following information describes the principal occupation or employment, other affiliations and business experience of each of the nominees named above for election as a Class II Director and the other persons whose terms as Directors will continue after the 2019 Annual Meeting.

| Name                                                                                    | Age | Business Experience                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
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| <b>CLASS II Directors whose terms expire at the 2022 Annual Meeting of Stockholders</b> |     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Homaira Akbari                                                                          | 58  | Dr. Akbari was appointed as a Director of the Company by the Board in January 2013, and, subsequently, was elected by the Company's stockholders at the 2013 Annual Meeting of Stockholders as a Class II Director. Dr. Akbari is currently the President and Chief Executive Officer of AKnowledge Partners, LLC, a global advisory firm providing high-impact consultative strategies and advice to Fortune 1000 companies and private equity firms in the sectors of The Internet of Things, security, big data and analytics. From 2007 to 2012, Dr. Akbari was the President and Chief Executive Officer of SkyBitz, Inc., a leading provider of remote asset tracking and security solutions specializing in real-time decision-making tools for companies with unpowered assets such as truck trailing equipment, intermodal containers and rail cars. Prior to her service with SkyBitz, Dr. Akbari held executive positions at Microsoft Corporation, Thales Group, TruePosition, Inc., a subsidiary of Liberty Media Corporation, and Cambridge Strategic Management Group (CSMG). Dr. Akbari holds a Ph.D. in particle physics from Tufts University and also presently serves as the Chair of the Johns Hopkins University Physics and Astronomy Advisory Council. Dr. Akbari also serves on the Board of Directors of Banco Santander, S.A., a company incorporated in Spain and listed on the BME Madrid, GEMALTO N.V., a company incorporated in the Netherlands and listed on the Euronext Amsterdam and Euronext Paris and Veolia S.A., a company incorporated in France and listed on the Euronext Paris. Dr. Akbari also serves on the Board of Directors of Omnitracs, LLC, a privately-held, global provider of technology solutions for the transportation and logistics industry. Dr. Akbari formerly served from 2014 to 2016 on the board of directors of Covisint Corporation, a company formerly listed on the NASDAQ. |

Dr. Akbari has extensive business experience, with an emphasis on the use of technology within the transportation and logistics sector. The Board believes Dr. Akbari's experience as leading AKnowledge Partners and as the former Chief Executive Officer of SkyBitz, a major technology

| Name            | Age | Business Experience                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
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| Diana M. Murphy | 62  | <p>vendor to the transportation sector, as well as to many industrial sectors served by the Company, provides important technological and business expertise to the Board. The Board also believes that Dr. Akbari's prior executive service in various capacities with a number of large multinational corporations provides the Board with additional expertise in international matters.</p> <p>Ms. Murphy was elected by the Board of Directors as non-executive Chairman of the Board on May 19, 2015. Ms. Murphy served as Lead Independent Director of the Board from May 2012 to May 2015. Ms. Murphy has been a Director of the Company since February 1998. Ms. Murphy is a Managing Director of Rocksolid Holdings, LLC, a private equity firm. She was the Managing Director of the Georgia Research Alliance Venture Fund from 2012 to 2015. From 1997 to 2007, she was a Managing Director at Chartwell Capital Management Company, a private equity firm. Prior to that time, Ms. Murphy spent over 15 years in various senior management positions in the publishing industry. Ms. Murphy also serves on the Board of Directors of CTS Corporation, a NYSE listed company, and Synovus Financial Corporation, a NYSE listed company. Ms. Murphy serves on the Board of Directors of several private companies and non-profit organizations and is the immediate past President of the United States Golf Association.</p> <p>Ms. Murphy has extensive experience in business management, having served as a Managing Director of several private equity firms, as a board member of numerous portfolio companies of these private equity firms and as an executive in the media and communications industry. The Board believes Ms. Murphy's work across a range of companies operating in different industry sectors, together with her strong background in strategic planning, marketing and management development, allows her to add important perspective and experience to the Board.</p> |

| Name            | Age | Business Experience                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
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| Larry J. Thoele | 68  | <p>Mr. Thoele was appointed as a Director of the Company by the Board in January 2013, and, subsequently, was elected by the Company's stockholders at the 2013 Annual Meeting of Stockholders as a Class II Director. Mr. Thoele served as an audit partner with KPMG LLP from 1982 to 2009. Mr. Thoele also served as Managing Partner of the Jacksonville office of KPMG from 1991 to 2007, partner in charge of the North Florida audit practice of KPMG from 1996 to 2007 and as a lead partner in KPMG's private equity practice from 2007 to 2009. Mr. Thoele also served as KPMG's audit engagement partner with the Company from 2002 to 2006.</p> <p>Mr. Thoele has extensive financial and audit experience, having served as an audit partner for KPMG for 27 years. During his career with KPMG, Mr. Thoele served as the engagement partner for a number of transportation and logistics companies in addition to the Company. Mr. Thoele also has extensive experience working with companies in sectors served by the Company, including oil and gas, manufacturing, food and beverage and retail. In addition to his breadth of experience and expertise in the accounting, auditing and risk management fields, the Board believes Mr. Thoele's service as the Company's audit engagement partner while with KPMG brings valuable in-depth knowledge of the Company's accounting policies, systems and internal controls to the Board.</p> |

| Name                                                                                     | Age | Business Experience                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|------------------------------------------------------------------------------------------|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>CLASS III Directors whose terms expire at the 2020 Annual Meeting of Stockholders</b> |     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| David G. Bannister                                                                       | 63  | <p>Mr. Bannister has been a Director of the Company since April 1991. Mr. Bannister is a private investor. From May 2005 to September 2014, Mr. Bannister held a number of positions with FTI Consulting, Inc. ( "FTI" ), a global business consulting firm listed on the NYSE. Effective April 1, 2011, Mr. Bannister was elected to the position of Chairman of the North American Region of FTI. In this capacity, Mr. Bannister had operating and profitability responsibility for FTI's client-service operations and business segments. Mr. Bannister served as Executive Vice President and Chief Financial Officer of FTI from March 2010 to April 2011, Executive Vice President Corporate Development and Chief Administrative Officer from December 2008 to March 2010, Executive Vice President Corporate Development from June 2006 to December 2008 and Senior Vice President Business Development from May 2005 to June 2006. From 1998 to 2003, Mr. Bannister was a General Partner of Grotech Capital Group, Inc., a private equity and venture capital firm. Prior to joining Grotech Capital Group, Inc. in May 1998, Mr. Bannister was a Managing Director at Deutsche Bank Alex Brown Incorporated.</p> |

Mr. Bannister has broad financial and strategic experience through a long career that has included work as (i) an investment banker focused on the transportation sector, (ii) a private equity and venture capital investor and (iii) as a senior executive with FTI. In his former capacity as a senior executive with FTI, Mr. Bannister was involved extensively with FTI's operational strategy and global expansion, with responsibility for all of FTI's business segments, budgeting and strategic growth initiatives. Earlier in his career, Mr. Bannister was a certified public accountant with Deloitte, Haskins and Sells and has extensive experience with financial reporting and auditing matters. The Board believes Mr. Bannister's experience, together with his over 25 years of service as a Director of the Company, allows him to bring a sophisticated, diverse and seasoned business perspective to the Board.

| Name              | Age | Business Experience                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-------------------|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| George P. Scanlon | 61  | <p>Mr. Scanlon is a private investor. From 2010 to 2013, Mr. Scanlon was the Chief Executive Officer of Fidelity National Financial, Inc. ( FNF ) after serving as Chief Operating Officer of FNF earlier in 2010. FNF, listed on the NYSE, is the nation's largest title insurance company through its title insurance underwriters and a leading provider of technology and transaction services to the real estate and mortgage industries. Mr. Scanlon also served as the Executive Vice President - Finance of Fidelity National Information Services from 2009 to 2010, and the Chief Financial Officer of Fidelity National Information Services, also listed on the NYSE, from 2008 to 2009. Prior to working at FNF, Mr. Scanlon served as the Chief Financial Officer at several companies, including BFC Financial Corporation (now BBX Capital Corporation) from 2007 to 2008, Levitt Corporation from 2004 to 2008 and DataCore Software Corporation from 2001 to 2004. Earlier in his career, Mr. Scanlon also worked approximately 18 years for Ryder System, Inc., a NYSE-listed transportation and supply chain management solutions company, in a number of financial, audit and strategic roles, and at Price Waterhouse (now PricewaterhouseCoopers International Limited) ( PwC ) as an accountant. Mr. Scanlon currently serves on the board of directors of WageWorks, Inc., a NYSE-listed company, and Cyndx Holdco, Inc., a privately held company.</p> |

Mr. Scanlon has broad business, financial and strategic expertise through a long career with both public and private companies in a number of industries. Mr. Scanlon's service as an executive at FNF, and particularly his service as the former Chief Executive Officer of FNF, brings valuable experience to the Board. FNF also owned minority or majority equity positions in a number of private portfolio companies on whose boards Mr. Scanlon served, including Comdata, Inc., a leading provider of fleet management and B2B payment solutions for the trucking industry and a key vendor to the Company. Mr. Scanlon also offers a very strong financial background, having served as the chief financial officer at a number of companies, as a financial executive at Ryder System, Inc., and as an accountant at PwC.

| Name                                                                                        | Age | Business Experience                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
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| <b>CLASS I Nominees to serve as Directors until the 2021 Annual Meeting of Stockholders</b> |     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| James B. Gattoni                                                                            | 57  | <p>Mr. Gattoni was appointed as a Director of the Company by the Board on January 29, 2015, and, subsequently, was elected by the Company's stockholders at the 2015 Annual Meeting as a Class I Director. Mr. Gattoni has been President and Chief Executive Officer of the Company since December 29, 2014, the first business day of the Company's 2015 fiscal year. Mr. Gattoni was President and Chief Financial Officer of the Company from January 2014 to December 28, 2014. Mr. Gattoni was Executive Vice President and Chief Financial Officer from January 2013 to January 2014. Mr. Gattoni was Vice President and Chief Financial Officer of the Company from April 2007 to January 2013. Mr. Gattoni was Vice President and Co-Chief Financial Officer of the Company from January 2007 to April 2007. He was Vice President and Corporate Controller of Landstar System Holdings, Inc. ( LSHI ) from July 2000 to January 2007. He was Corporate Controller of LSHI from November 1995 until July 2000. He is also an officer or director of each of the Company's subsidiaries and is a trustee of the Landstar Scholarship Fund.</p> |

Mr. Gattoni has significant financial, administrative and operational experience with the Company, having served as the Chief Financial Officer from 2007 through 2014 and as President of the Company since 2014. Mr. Gattoni has been instrumental in contributing to the growth of Landstar over his twenty-plus year career with the Company and, as Chief Executive Officer, is responsible for leading the overall strategic direction of the enterprise. Prior to joining the Company, Mr. Gattoni was a certified public accountant in audit with KPMG for approximately eight years.

| Name               | Age | Business Experience                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
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| Anthony J. Orlando | 59  | Mr. Orlando was appointed as a Director of the Company by the Board on May 19, 2015, and, subsequently, was elected by the Company's stockholders at the 2016 Annual Meeting as a Class I Director. Mr. Orlando is currently a private investor and business consultant. From October 2004 until March 2015, Mr. Orlando served as the President and Chief Executive Officer of Covanta Holding Corporation ( "Covanta" ), a leading provider of sustainable waste and energy solutions listed on the New York Stock Exchange ( "NYSE" ). Prior to serving as the President and Chief Executive Officer of Covanta, Mr. Orlando was the President and Chief Executive Officer of Covanta Energy from November 2003 to October 2004. From March 2003 to November 2003, Mr. Orlando served as Senior Vice President, Business and Financial Management of Covanta Energy. Mr. Orlando served in various other capacities with Covanta and its affiliates beginning in 1987. Mr. Orlando also serves on the board of directors of Contura Energy, Inc., a NYSE-listed company, and formerly served on the board of directors of Covanta from 2005 to 2017. |

Mr. Orlando has extensive business experience, having served in a number of different roles at Covanta with responsibility for, among other areas, strategic, operational and financial matters. The Board believes Mr. Orlando's service, in particular as Chief Executive Officer of Covanta, adds valuable expertise to the Board.

### INFORMATION REGARDING BOARD OF DIRECTORS AND COMMITTEES

The business of the Company is managed under the direction of the Board. The Board meets on a regularly scheduled basis four times a year to review significant developments affecting the Company and to act on matters requiring Board approval. It also holds special meetings and acts by written consent when matters require Board action between scheduled meetings. In addition, the Independent Directors (as defined below) of the Board meet regularly in executive session without any other members of management or the Board present.

#### Attendance at Annual Meetings

Each member of the Board is required to attend all meetings (whether special or annual) of the stockholders of the Company. In the case where a Director is unable to attend a special or annual stockholders' meeting, such absence shall be publicly disclosed in the subsequent Proxy Statement on Schedule 14A filed by the Company with the Securities and Exchange Commission (the "SEC") and an explanation for such absence shall be provided to the Company's Nominating and Corporate Governance Committee. Any consideration of additional Company action, as appropriate, with respect to such absence shall be solely within the discretion of the Nominating and Corporate Governance Committee of the Board. All current Board members attended the 2018 Annual Meeting.



### **Attendance at Board Meetings**

During the Company's 2018 fiscal year, the Board held four regular meetings, six telephonic meetings, and did not act by unanimous written consent. During the Company's 2018 fiscal year, each current Director who served on the Board in 2018 attended 75% or more of the total number of meetings of the Board and all committees of the Board on which such Director serves.

### **Independent Directors**

Each of Homaira Akbari, David G. Bannister, Diana M. Murphy, Anthony J. Orlando, George P. Scanlon and Larry J. Thoele is an independent director, as defined in Rule 5605(a)(2) of the Listing Rules of the NASDAQ Stock Market and Item 407(a) of Regulation S-K promulgated under the Securities Act and meets the requirements of Rule 5605(c)(2)(A) of such NASDAQ rules and Item 407(a) of Regulation S-K promulgated under the Securities Act (such Directors are, collectively, the Independent Directors). The Independent Directors held five meetings during fiscal year 2018, in each case in executive session without any other members of management or the Board present.

### **Structure and Committees of the Board**

The Board has established an Audit Committee, a Compensation Committee, a Nominating and Corporate Governance Committee, a Safety and Risk Committee and a Strategic Planning Committee to devote attention to specific subjects. The functions of these committees and the number of meetings held during 2018 are described below. The Board does not currently have an Executive Committee. The Independent Directors have elected a non-executive Chairman, whose role is further described below. In addition, the Board has established a Disclosure Committee comprised of members of management, including one employee member of the Board, to establish and maintain certain disclosure controls and procedures to ensure accurate and timely disclosure in the Company's periodic reports filed with the SEC.

Each of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee solely consist of the Independent Directors, with a different Independent Director serving as the Chairman for each such committee. In addition, Dr. Akbari serves as the Chairman of the Strategic Planning Committee and Mr. Orlando serves as the Chairman of the Safety and Risk Committee, each of which is comprised of all of the Directors on the Board. Historically, each of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee has typically invited Mr. Gattoni, the Director who does not serve on those committees, to attend all regular meetings of these three committees, excluding any meetings of the Compensation Committee to the extent pertaining to his executive compensation arrangements.

### ***Leadership Structure of the Board***

The leadership structure of the Board consists of: (i) a non-executive Chairman; (ii) an Independent Director serving as Chairman of the Audit Committee; (iii) an Independent Director serving as Chairman of the Compensation Committee; (iv) an Independent Director serving as Chairman of the Nominating and Corporate Governance Committee; (v) an Independent Director serving as Chairman of the Strategic Planning Committee; (vi) an Independent Director serving as the Chairman of the Safety and Risk Committee; and (vii) an employee Director who also serves as the Company's President and Chief Executive Officer. Each of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee consists solely of Independent Directors.

The Board believes this leadership structure is appropriate for the Company as the Company's Chief Executive Officer is responsible for leading the overall strategic direction of the enterprise; however, the Independent Directors, led by the non-executive Chairman of the Board, retain the decision making authority of the Board because the Independent Directors consist of a majority of the members of the Board. In addition, the



Independent Directors constitute the sole members of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee and a majority of members of the Strategic Planning Committee and the Safety and Risk Committee. The Board also believes that its leadership structure is supported by Independent Directors serving as the Chairman of each committee of the Board, as the Chairman of each committee of the Board has responsibility for setting the agenda for each meeting of that committee. Ms. Murphy, as non-executive Chairman, sets the agenda for the meetings of the Independent Directors. Further, the Company's internal audit function reports directly to the Audit Committee. Finally, there are no meetings of the Board or any committee of the Board at which each Independent Director is not an invited member, the Independent Directors meet regularly in executive session without any members of management present, including Mr. Gattoni, and the Independent Directors have significant input regarding the Board's agenda and information flow.

### ***Non-Executive Chairman***

On May 19, 2015, the Board elected Diana M. Murphy to serve as non-executive Chairman of the Board for such term as the Board may determine. In appointing Ms. Murphy as the non-executive Chairman of the Board following the Company's 2015 Annual Meeting, the Board considered Ms. Murphy's extensive experience with the Company having served on the Board since 1998, including her service as Independent Lead Director since 2012 and her service at various times as Chairman of the Nominating and Corporate Governance Committee, the Strategic Planning Committee and the Compensation Committee.

The duties and responsibilities of the non-executive Chairman include: (i) to preside as the chairman at all meetings of the Board; (ii) to preside as the chairman at all meetings of the Independent Directors; (iii) to serve as a liaison between the Independent Directors and Mr. Gattoni; (iv) to coordinate with Mr. Gattoni to prepare meeting agendas and related materials for meetings of the Board; (v) to coordinate with the other Independent Directors of the Board to develop the agenda with respect to all meetings of the Independent Directors; (vi) to have the authority to call meetings of the Board and meetings of the Independent Directors; (vii) to approve the annual schedule of meetings of the Board; (viii) to ensure that the Board has adequate resources, including full, timely information necessary to enable the members of the Board to perform their duties; and (ix) to communicate to management, as appropriate, the results of private discussions among the Independent Directors.

In addition to the aforementioned duties, the non-executive Chairman of the Board is also the Chairman of the Nominating and Corporate Governance Committee. In that capacity, Ms. Murphy leads the process by which potential new Independent Directors are identified and evaluated. The Board believes it is important to confer this responsibility on the non-executive Chairman in order to support a Board structure where the Independent Directors retain the decision making authority of the Board.

### ***Separation of the Roles of Chairman and Chief Executive Officer***

Ms. Murphy, the former Lead Independent Director of the Company, was appointed non-executive Chairman of the Board, effective May 19, 2015. Historically, the Company has experienced periods during which the roles of Chairman of the Board and Chief Executive Officer have been combined and periods during which these roles have been separated. The Board believes that an analysis of whether the roles of Chairman of the Board and Chief Executive Officer should be separated is based on the facts and circumstances applicable at the time of the analysis and that it may not be appropriate under all circumstances to separate the roles of Chairman of the Board and Chief Executive Officer.

### ***Classified Structure of the Board***

As described above, the Board is divided into three classes (Class I, Class II and Class III), with Directors in each class serving staggered three-year terms. The Board believes it is appropriate for the Board to retain its classified

structure for several reasons, including: (i) to promote the best interests of the Company and its

stockholders by providing continuity and stability with respect to leadership; (ii) to facilitate long-term planning and enhance the ability of the Board to implement long-term business strategies; (iii) to help attract and retain highly qualified directors; (iv) to enhance the Company's bargaining power on behalf of stockholders in the event of a hostile takeover attempt or other activist shareholder undertakings; and (v) to reduce vulnerability to a coercive takeover attempt and thereby make it more likely that a potential acquiror would initiate discussions with the existing Board since it cannot replace all Directors in a single election cycle.

### ***Audit Committee***

The members of the Audit Committee are Homaira Akbari, David G. Bannister, Diana M. Murphy, Anthony J. Orlando, George P. Scanlon and Larry J. Thoele (Chairman), each an Independent Director.

The Charter of the Audit Committee was amended and restated by the Board at the July 28, 2016 Board meeting. The Charter of the Audit Committee more fully describes the purposes, membership, duties and responsibilities of the Audit Committee described herein. A copy of the Charter of the Audit Committee is available on the Company's website at [www.landstar.com](http://www.landstar.com) under Investor Relations/Corporate Governance.

The Audit Committee (i) appoints the independent registered public accounting firm for the Company and monitors the performance of such firm, (ii) reviews the scope and results of the annual audits, (iii) evaluates with the independent registered public accounting firm the Company's annual audit of the consolidated financial statements and audit of internal control over financial reporting, (iv) monitors the performance of the Company's internal audit function, (v) reviews with management the annual and quarterly financial statements, (vi) reviews with management and the internal auditors the status of internal control over financial reporting, (vii) reviews and maintains procedures for the anonymous submission of complaints concerning accounting and auditing irregularities and (viii) reviews problem areas having a potential financial impact on the Company which may be brought to its attention by management, the internal auditors, the independent registered public accounting firm, the Board or through an anonymous submission of complaints. In addition, the Audit Committee preapproves all non-audit related services provided by the Company's independent registered public accounting firm, currently KPMG, and approves the independent registered public accounting firm's fees for services rendered to the Company. During the 2018 fiscal year, the Audit Committee held four meetings, seven telephonic meetings and did not act by written consent.

### ***Compensation Committee***

The members of the Compensation Committee are Homaira Akbari, David G. Bannister (Chairman), Diana M. Murphy, Anthony J. Orlando, George P. Scanlon and Larry J. Thoele, each an Independent Director.

The Compensation Committee functions include: (i) reviewing and making determinations with respect to matters having to do with the compensation of Executive Officers and Directors of the Company and (ii) administering certain plans relating to the compensation of officers and Directors. During the Company's 2018 fiscal year, the Compensation Committee held three regular meetings, two telephonic meetings and did not act by written consent.

The Charter of the Compensation Committee was amended and restated by the Board at the May 23, 2013 Board meeting. The Charter of the Compensation Committee more fully describes the purposes, membership, duties and responsibilities of the Compensation Committee described herein. A copy of the Charter of the Compensation Committee is available on the Company's website at [www.landstar.com](http://www.landstar.com) under Investor Relations/Corporate Governance.

The Compensation Committee has full and complete discretion to establish the compensation payable to the Company's Chief Executive Officer and the other Executive Officers and oversees the compensation payable to other employees of the Company. With regard to the Executive Officers other than the Chief Executive Officer,



the Compensation Committee considers the recommendations of the Chief Executive Officer. The Compensation Committee, following authorization by the Board, has delegated to the Company's Chief Executive Officer authority with respect to management annual salary decisions for employees making up to \$150,000 in annual salary. In addition, the Compensation Committee has delegated to the Company's Chief Executive Officer the authority with respect to the grant of restricted stock units and/or nonvested restricted stock up to an aggregate grant date fair value of \$150,000 per employee (other than Executive Officers) with vesting over a period of no less than three years from the date of the grant following consultation with the Chairman of the Compensation Committee. The Compensation Committee has otherwise not delegated to management any of its responsibilities with respect to the compensation of the Executive Officers of the Company, except with respect to the day-to-day operations of the Company's compensation plans.

The Compensation Committee has the authority to hire and negotiate the terms of compensation for its advisers, including compensation consultants. The Compensation Committee periodically reviews the Company's compensation programs.

#### ***Compensation Committee Interlocks and Insider Participation***

As noted above, the members of the Compensation Committee are Homaira Akbari, David G. Bannister, Diana M. Murphy, Anthony J. Orlando, George P. Scanlon and Larry J. Thoele. All members of the Compensation Committee are Independent Directors, and no member is or has been an employee of the Company. During the Company's 2018 fiscal year, no Executive Officer of the Company served as a member of the compensation committee (or its equivalent) or board of directors of another entity whose executive officer served on the Board or the Compensation Committee.

#### ***Nominating and Corporate Governance Committee***

The members of the Nominating and Corporate Governance Committee are Homaira Akbari, David G. Bannister, Diana M. Murphy (Chairman), Anthony J. Orlando, George P. Scanlon and Larry J. Thoele, each an Independent Director.

The Nominating and Corporate Governance Committee functions include identifying persons for future nomination for election to the Board. During the Company's 2018 fiscal year, the Nominating and Corporate Governance Committee held one meeting, one telephonic meeting and did not act by written consent. Stockholders who wish to submit names to the Nominating and Corporate Governance Committee for consideration for nomination to the Board should do so in writing addressed to the Nominating and Corporate Governance Committee, c/o Corporate Secretary, Landstar System, Inc., 13410 Sutton Park Drive South, Jacksonville, Florida 32224.

The Charter of the Nominating and Corporate Governance Committee was amended and restated by the Board at the May 23, 2013 Board meeting. The Charter more fully describes the purposes, membership, duties and responsibilities of the Nominating and Corporate Governance Committee described herein. A copy of the Charter of the Nominating and Corporate Governance Committee is available on the Company's website at [www.landstar.com](http://www.landstar.com) under Investor Relations/Corporate Governance. Following the recommendation of the Nominating and Corporate Governance Committee, the Board approved revised Corporate Governance Guidelines at its July 28, 2016 meeting. The Corporate Governance Guidelines set forth, among other things, guidelines with respect to Director qualification standards and Board membership criteria, limitations on the number of public company boards on which a Director may serve, attendance of Directors at Board meetings, Director compensation, Director education, evaluation of the Company's Chief Executive Officer and Board self-assessment. A copy of the Corporate Governance Guidelines is available on the Company's website at [www.landstar.com](http://www.landstar.com) under Investor Relations/Corporate Governance.

The Nominating and Corporate Governance Committee oversees an annual self-evaluation conducted by the Board in order to determine whether the Board and its committees are functioning effectively. The Nominating

and Corporate Governance Committee also oversees individual Director self-assessments in connection with the evaluation of each Director for purposes of making a recommendation to the Board as to the persons who should be nominated for election or re-election, as the case may be, at each upcoming annual meeting of stockholders.

The Nominating and Corporate Governance Committee considers candidates for the Board suggested by its members and other Board members, as well as management and stockholders. There are no differences in the manner in which the Nominating and Corporate Governance Committee evaluates nominees for the Board based on whether or not the nominee is recommended by one of its members, another Board member, management or a stockholder. The Nominating and Corporate Governance Committee evaluates prospective nominees against a number of minimum standards and qualifications, including business experience and financial literacy. The Nominating and Corporate Governance Committee also considers such other factors as it deems appropriate, including the current composition of the Board, the balance of management Directors and Independent Directors, the need for Audit Committee or other relevant expertise, the evaluations of other prospective nominees and other individual qualities and attributes that contribute to a broad spectrum of experience among members of the Board. The Nominating and Corporate Governance Committee then determines whether to interview the prospective nominees, and, if warranted, one or more of the members of the Nominating and Corporate Governance Committee, and others as appropriate, interview such prospective nominees whether in person or by telephone. After completing this evaluation and, if warranted, interview, the Nominating and Corporate Governance Committee makes a recommendation to the Board as to the persons who should be nominated by the Board. The Board then determines the nominees after considering the recommendation and report of the Nominating and Corporate Governance Committee.

#### ***Safety and Risk Committee***

The members of the Safety and Risk Committee are Homaira Akbari, David G. Bannister, James B. Gattoni, Diana M. Murphy, Anthony J. Orlando (Chairman), George P. Scanlon and Larry J. Thoele.

The Safety and Risk Committee functions include the review and oversight of the Company's safety performance, goals and strategies and the Company's enterprise-wide risk identification, policies and procedures. The Company has also established a management risk committee, consisting of those members of executive management of the Company with ultimate responsibility for the Company's enterprise risk management practices. The members of this committee include the President and Chief Executive Officer, the Vice President and Chief Financial Officer, the Vice President and Chief Commercial and Marketing Officer, the Vice President and Chief Safety and Operations Officer, the Vice President and Chief Information Officer, the Director of Internal Audit, the Vice President, General Counsel and Secretary, the Vice President, Transportation Administrative Services and the Vice President, Corporate Controller. The management risk committee meets on a quarterly basis to review the Company's enterprise-wide risk identification and monitoring practices, policies and procedures. Representatives from the management risk committee meet with the Safety and Risk Committee at least twice annually to review and discuss enterprise risk management within the Company.

During the Company's 2018 fiscal year, the Safety and Risk Committee held two meetings, no telephonic meetings and did not act by written consent.

#### ***Strategic Planning Committee***

The members of the Strategic Planning Committee are Homaira Akbari (Chairman), David G. Bannister, James B. Gattoni, Diana M. Murphy, Anthony J. Orlando, George P. Scanlon and Larry J. Thoele.

The Strategic Planning Committee functions include the review and consideration of the strategic objectives of the Company as well as the policies and procedures designed to achieve these strategic objectives. The Strategic Planning Committee solicits the views of the Company's senior management and assesses strategic directions for

implementation. During the Company's 2018 fiscal year, the Strategic Planning Committee held two meetings, no telephonic meetings and did not act by written consent.

## COMPENSATION OF DIRECTORS

For fiscal year 2018, each Independent Director was paid an annual fee of \$75,000 with no additional fees payable for attendance at or participation in Board or committee meetings or service as a chairman of a committee of the Board. Ms. Murphy, the non-executive Chairman of the Board, was paid an additional \$50,000 annual fee to serve in that capacity. Directors are not paid a retainer fee upon election or re-election to the Board. Directors are reimbursed for expenses incurred in connection with attending Board meetings and other company-related expenses such as attending director educational events.

In addition, a Director who was neither an officer nor an employee of the Company, received a grant under the Amended and Restated 2013 Directors Stock Compensation Plan, on the first business day immediately following the May 2018 Annual Meeting, of a number of restricted shares of Common Stock or a number of deferred stock units equal to the quotient of \$110,000 divided by the fair market value of a share of Common Stock on the date of such grant, rounded to the nearest whole number of shares. Each such grant of restricted stock or deferred stock units vests on the date of the next Annual Meeting. The unvested shares of restricted stock or deferred stock units are subject to forfeiture upon early departure of a Director from the Board for any reason prior to the Annual Meeting that immediately follows the Annual Meeting in respect of which such shares were granted.

Mr. Gattoni, who is not an Independent Director, did not receive any compensation for services as Director, for services on committees of the Board or for attendance at meetings, but he was reimbursed for expenses incurred in his capacity as a Director.

### *Compensation Paid to Directors*

The following table summarizes the compensation paid to Directors, other than Mr. Gattoni, during 2018.

#### Director Compensation

| Name               | Fees earned or paid in cash (\$) | Stock awards (\$ (1) | All Other Compensation (\$) | Total (\$) |
|--------------------|----------------------------------|----------------------|-----------------------------|------------|
| Homaira Akbari     | 75,000                           | 110,019              | 2,496                       | 187,515    |
| David G. Bannister | 75,000                           | 110,019              | 2,496                       | 187,515    |
| Diana M. Murphy    | 125,000                          | 110,019              | 2,496                       | 237,515    |
| Anthony J. Orlando | 75,000                           | 110,019              | 3,128                       | 188,147    |
| George P. Scanlon  | 75,000                           | 110,019              | 2,496                       | 187,515    |
| Larry J. Thoele    | 75,000                           | 110,019              | 2,496                       | 187,515    |

- (1) Dr. Akbari, Mr. Bannister, Ms. Murphy, Mr. Scanlon and Mr. Thoele were each granted 990 restricted shares and Mr. Orlando was granted 990 deferred stock units on May 23, 2018, the first business day immediately following the date of the Company's 2018 Annual Meeting. The fair market value of a share of Common Stock on May 23, 2018 was \$111.13. At December 29, 2018, Dr. Akbari, Mr. Bannister, Ms. Murphy, Mr. Scanlon and Mr. Thoele each had 990 restricted shares outstanding and Mr. Orlando had 2,305 deferred stock units outstanding. Dr. Akbari, Mr. Bannister, Ms. Murphy, Mr. Scanlon and Mr. Thoele were each paid dividends on unvested restricted stock of \$2,496 in 2018. Mr. Orlando was paid dividend equivalents on deferred stock units of \$3,128 in 2018. Dividends paid on shares of unvested restricted stock and dividend equivalents paid on deferred stock units are included in All Other Compensation in the table above.

### *Director Stock Ownership Guidelines*

The Compensation Committee of the Board has established stock ownership guidelines for Directors that recommend that each Director own a number of shares of the Company's Common Stock in an amount no less

than five times the annual cash fee payable to an outside Director within five years of such Director's initial election to the Board. At March 26, 2019, each current Director who has served five years on the Board was in compliance with the stock ownership guidelines.

***Hedging and Pledging of Common Stock by Directors***

The Board has established a policy that prohibits the hedging and pledging of the Common Stock by all Directors under any circumstances.

## REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board is responsible for providing independent, objective oversight of the Company's accounting functions and internal controls. The Audit Committee has the sole authority and responsibility to select, evaluate and, when appropriate, replace the Company's independent registered public accounting firm. The Audit Committee is comprised of all of the Independent Directors. The Audit Committee operates under a written charter approved by the Board.

Management is responsible for the Company's internal control over financial reporting. The independent registered public accounting firm is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and to issue a report thereon. The independent registered public accounting firm is also responsible for auditing the Company's internal control over financial reporting. The Audit Committee is responsible for monitoring these processes. The Audit Committee is not, however, professionally engaged in the practice of accounting or auditing and does not provide any expert or other special assurance as to such financial statements concerning compliance with laws, regulations or generally accepted accounting principles or as to the independent registered public accounting firm's independence. The Audit Committee relies, without independent verification, on the information provided to it and on presentations and statements of fact made by management, the internal auditors and the independent registered public accounting firm.

In connection with these responsibilities, as discussed elsewhere in this Proxy Statement, the Audit Committee held four meetings and six telephonic meetings during the Company's 2018 fiscal year. These meetings were designed, among other things, to facilitate and encourage communication among the Audit Committee, management, the internal auditors and the independent registered public accounting firm. The Audit Committee discussed with representatives of the independent registered public accounting firm the overall scope and plans for these audits. The Audit Committee also met with representatives of KPMG, with and without management and the internal auditors present, to discuss the Company's fiscal year 2018 financial statements and the Company's internal control over financial reporting. The Audit Committee also reviewed and discussed the December 29, 2018 audited financial statements with management and reviewed and discussed the status of the Company's internal control over financial reporting with management and the internal auditors. The Audit Committee also discussed with representatives of the independent registered public accounting firm the matters required to be discussed by Auditing Standard No. 1301,

Communications with Audit Committees, adopted by the Public Company Accounting Oversight Board, and also received written disclosures and the letter from KPMG required by the Public Company Accounting Oversight Board regarding KPMG's independence from the Company. The Audit Committee had discussions with representatives of the independent registered public accounting firm concerning the independence of the independent registered public accounting firm under the rules and regulations governing auditor independence promulgated under the Sarbanes-Oxley Act. The Audit Committee had discussions with management and the internal auditors concerning the process used to support certifications by the Company's Chief Executive Officer and Chief Financial Officer that are required by the Securities and Exchange Commission (SEC) and the Sarbanes-Oxley Act to accompany the Company's periodic filings with the SEC.

The Board has determined that Mr. Bannister, Mr. Orlando and Mr. Thoele, each an independent director under the NASDAQ and SEC audit committee structure and membership requirements, meet the SEC criteria of an audit committee financial expert under the standards established by Item 407(d) of Regulation S-K under the Securities Act. Mr. Bannister's background and experience includes serving as a Managing Director of Deutsche Bank Alex Brown Incorporated, a General Partner of Grotech Capital Group, and as a senior executive with FTI Consulting, Inc., a global business consulting firm listed on the New York Stock Exchange. In addition, Mr. Bannister was a certified public accountant employed as an audit manager at the firm of Deloitte, Haskins and Sells. Mr. Orlando's background and experience includes serving as the CEO of Covanta from 2004 to 2015, during which time he actively supervised the principal financial and accounting officer of Covanta and helped to oversee and assess the performance of public

accountants with respect to the preparation, auditing and evaluation

of Covanta's financial statements. Mr. Orlando also has a Masters in Business Administration (Finance) from Seton Hall University. Mr. Thoele's background and experience includes service as an audit partner with KPMG from 1982 to 2009. Mr. Thoele served as Managing Partner of the Jacksonville office of KPMG from 1991 to 2007, the partner in charge of the North Florida audit practice of KPMG from 1996 to 2007 and as a lead partner in KPMG's private equity practice from 2007 to 2009.

During 2018, the Audit Committee preapproved the continuation of all non-audit services to be rendered to the Company by the independent registered public accounting firm in 2018 (which services are disclosed elsewhere in this Proxy Statement) and concluded that these services, if any, complied with maintaining the independence of the registered public accounting firm.

Based upon the Audit Committee's discussions with management and the independent registered public accounting firm, and the Audit Committee's review of the representations of management and the independent registered public accounting firm, the Audit Committee recommended that the Board include the audited consolidated financial statements in the 2018 Annual Report, filed with the SEC on February 22, 2019. The Audit Committee has also selected KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending December 28, 2019 and has recommended to the Board that this selection be presented to the stockholders for ratification.

#### THE AUDIT COMMITTEE

Larry J. Thoele, Chairman

Homaira Akbari

David G. Bannister

Diana M. Murphy

Anthony J. Orlando

George P. Scanlon

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**EXECUTIVE OFFICERS OF THE COMPANY**

The following table sets forth the name, age, principal occupation and business experience during the last five years of each of the current executive officers (the Executive Officers) of the Company. The Executive Officers of the Company serve at the discretion of the Board and until their successors are duly elected and qualified. For information regarding ownership of Common Stock by the Executive Officers of the Company, see Security Ownership by Management and Others. There are no family relationships among any of the Directors and Executive Officers of the Company or any of its subsidiaries.

| <b>Name</b>         | <b>Age</b> | <b>Business Experience</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|---------------------|------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| James B. Gattoni    | 57         | See previous description under Directors of the Company.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| L. Kevin Stout      | 50         | Mr. Stout has been an Executive Officer of the Company since December 2014. He has been Vice President, Chief Financial Officer and Assistant Secretary since December 2014. Mr. Stout served as Vice President of Finance and Corporate Controller from January 2014 to December 2014. Mr. Stout served as Vice President, Corporate Controller from 2007 to 2014. Mr. Stout held various other positions with subsidiaries of the Company since 1997. He is also an officer or director of each of the Company's subsidiaries and is a trustee of the Landstar Scholarship Fund.                                                                                                                                                                                                                                                                                                            |
| Michael K. Kneller  | 44         | Mr. Kneller has been an Executive Officer of the Company since June 2005. He has been Vice President, General Counsel and Secretary of the Company since June 2005. Prior to joining the Company in 2005, Mr. Kneller was a corporate attorney at the law firm of Debevoise & Plimpton LLP. He is also an officer or director of each of the Company's subsidiaries and is a trustee of the Landstar Scholarship Fund.                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Patrick J. O'Malley | 60         | Mr. O'Malley has been an Executive Officer of the Company since January 2008. He has been Vice President and Chief Commercial and Marketing Officer of the Company since May 2011. Mr. O'Malley served as Vice President and Chief Operating Officer of the Company from January 2011 until May 2011. Mr. O'Malley served as Vice President and Co-Chief Operating Officer of the Company from August 2009 until January 2011. Mr. O'Malley has served as President of Landstar Global Logistics, Inc. and Landstar Transportation Logistics, Inc. since February 2011. Mr. O'Malley has served as President of Landstar Express America, Inc., Landstar Gemini, Inc. (Landstar Gemini), Landstar Inway, Inc. (Landstar Inway), Landstar Ligon, Inc. (Landstar Ligon) and Landstar Ranger, Inc. (Landstar Ranger) since January 2008. Mr. O'Malley was Executive Vice President of Operations |

for Landstar Gemini, Landstar Inway, Landstar Ligon and Landstar Ranger from January 2005 to December 2007. Mr. O Malley held various other positions with subsidiaries of the Company since 1988.

| Name             | Age | Business Experience                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|------------------|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Joseph J. Beacom | 54  | Mr. Beacom has been an Executive Officer of the Company since January 2006. He has been Vice President and Chief Safety and Operations Officer since May 2011. Mr. Beacom served as Vice President and Chief Safety, Security and Compliance Officer of the Company from January 2006 until May 2011. Mr. Beacom served as Vice President and Chief Safety, Security and Compliance Officer of LSHI from May 2005 to May 2011. Prior to May 2005, Mr. Beacom held various other positions with subsidiaries of the Company since 1993.                                                                                                                                                                                                                                                                                                                                  |
| Ricardo S. Coro  | 55  | Mr. Coro has been an Executive Officer of the Company since May 2017. He has been Vice President and Chief Information Officer of the Company since May 2017. Prior to joining the Company in 2017, Mr. Coro served from 2012 to 2017 as Senior Vice President and Chief Information Officer for Southeastern Grocers, LLC, parent company of BI-LO, Fresco y Más, Harveys and Winn-Dixie supermarkets. From 2005 to 2012, he served as Senior Vice President and Chief Information Officer of Advance Auto Parts, Inc., a leading retailer of automotive replacement parts and accessories. From 2002 to 2005, Mr. Coro served as Vice President of North American Information Technology at Office Depot, a leading retailer of office supplies. Earlier in his career, Mr. Coro served in various roles at other employers in the technology and engineering fields. |

## **Compensation Discussion and Analysis**

### **Overall Policy**

The Company's executive compensation philosophy is to attract and motivate executive talent best suited to develop and implement the Company's business strategy. These objectives are attained by tying a significant portion of each executive's compensation to the Company's success in meeting specified annual corporate financial performance goals and, through the grant of stock-based awards, aligning the interests of the Named Executives to the interests of our stockholders. The Company's philosophy is to recognize individual contributions while supporting a team approach in achieving overall business objectives and increasing shareholder value.

The key elements of the Company's executive compensation consist of base salary, annual performance-based incentive payments and stock-based awards. The Company's policies with respect to each of these elements, including the basis for the compensation awarded, are discussed below.

The Company's philosophy is to pay annual compensation generally in cash, with long-term incentive compensation paid in the form of stock-based awards. Base salary is intended to constitute a modest percentage of total compensation. The annual incentive compensation plan is designed to pay substantial compensation for superior performance. Stock-based awards have historically accounted for a significant portion of each Named Executive's total compensation. In 2018, the Company awarded both performance stock units and restricted stock to each of its Named Executives based on each individual's level of responsibility and performance and to help align management's future interests with that of the Company's stockholders. No stock options were granted to a Named Executive in 2018. The Company believes that its compensation practices align executive compensation with financial performance and, as such, executive compensation arrangements are generally aligned with the Company's variable cost business model.

The Compensation Committee of the Board is solely responsible for decisions with respect to the compensation of the Company's President and Chief Executive Officer, James B. Gattoni. The Compensation Committee is also responsible, taking into consideration recommendations of the President and Chief Executive Officer, for decisions with respect to the compensation awarded to the other individuals whose compensation is detailed below (such other officers, together with Mr. Gattoni, collectively herein referred to as the "Named Executives"), subject to review by the entire Board.

The Company provides its stockholders with the opportunity to cast an annual advisory vote on Named Executive compensation as described elsewhere in this Proxy Statement (commonly known as a "say-on-pay" proposal). At the Company's 2018 Annual Meeting, approximately 99% of the votes cast on the say-on-pay proposal at that meeting were voted in favor of the proposal. The Compensation Committee believes this affirms stockholders' support of the Company's approach to executive compensation. As noted above, the say-on-pay vote is advisory and therefore not binding on the Compensation Committee. However, the Compensation Committee values the opinion of the Company's stockholders and, to the extent there were any significant vote against the Named Executive compensation as disclosed in this Proxy Statement, would consider the stockholders' concerns and evaluate whether any actions are necessary to address those concerns.

### **Base Salaries**

Base salaries for Named Executives are initially determined by evaluating the responsibilities of the position held and the experience of the individual. Salary adjustments are determined by evaluating the performance of the Company and of each Named Executive, and also take into account the Named Executive's assumption of, or changes in, responsibilities, if any. The financial results of the operating functions which report into a Named Executive or for which a Named Executive otherwise has responsibility are also considered. The base salaries of the five Named Executives are detailed in the Summary Compensation Table that follows.



## **Performance Based Compensation**

The Company maintains performance based compensation programs that are designed to encourage the Company's Named Executives to achieve various financial goals linked to operating objectives both for the Company's upcoming fiscal year as well as for the longer term performance of the enterprise. The Company's performance based compensation programs includes the Company's annual incentive program and stock-based awards program, each of which are further described below.

### *Annual Incentive Compensation*

The Company's objective with respect to the Landstar System, Inc. Executive Incentive Compensation Plan, adopted by the Board and approved by the Company's stockholders effective January 1, 2017 (the "EICP"), is to encourage the Company's Named Executives to achieve various financial goals linked to operating objectives for the Company's upcoming fiscal year. These annual goals are developed as part of the Company's budgeting process and in general are aligned with the Company's long-term objectives with respect to earnings growth. For each annual fiscal period, the Compensation Committee reviews and approves, among other financial metrics, the budgeted amount for diluted earnings per share. In establishing budgeted amounts for diluted earnings per share for 2018, the Company considered 2017 operating results, the effect of the Tax Cuts and Jobs Act on 2018, historical operating trends and forecasted 2018 U.S. economic factors such as industrial production, estimated freight demand and capacity availability. Once the annual budgeted goal is approved by the Compensation Committee, the EICP is designed to incent management to meet and, when possible, to exceed their goals. An executive's incentive compensation payment continues to increase as actual results for the fiscal year exceed budgeted amounts. As further described below, actual payments under the EICP are calculated based upon how much actual results exceed budgeted diluted earnings per share, using a predetermined formula, up to the maximum annual payment per eligible participant as per the EICP as approved by the Company's stockholders, and subject to the discretion of the Compensation Committee. For the 2018 fiscal year, the maximum annual payment per eligible participant was \$3 million.

With respect to the 2018 fiscal year, each of the Named Executives had a threshold target under the EICP based on a specific budgeted diluted earnings per share amount approved in connection with the Company's annual operating budget. The Compensation Committee believes it is appropriate to establish the target under the EICP based on diluted earnings per share because (1) each of the Named Executives were in positions of broad responsibility over various components that affect the Company's diluted earnings per share amount, (2) the Compensation Committee believes that diluted earnings per share is the primary financial measure reflecting the performance of the Company's overall strategic direction and on that basis evaluates the performance of the Named Executives, (3) the Compensation Committee believes it is appropriate to compensate the Named Executives upon achievement of Company-wide, rather than function specific budgeted targets in order to focus executive management on Company-wide strategic and financial performance goals, (4) the Compensation Committee, at its discretion, has the ability to adjust calculated bonus amounts in the event of extraordinary or unusual items impacting diluted earnings per share and (5) the Company's performance-based equity programs use a number of other financial measures, including operating income, pre-tax income per diluted share and total shareholder return ("TSR"), to determine executive compensation under those programs, as further described below under *Stock-based Awards*.

The threshold amount of diluted earnings per share under the EICP refers to the amount of diluted earnings per share that would be required to give effect to a one-time incentive payment. Budgeted diluted earnings per share does not include the aggregate amount of a one-time incentive payment. Therefore, each Named Executive would have received no incentive payout if the Company's actual diluted earnings per share amount for the fiscal year was less than budgeted diluted earnings per share before giving effect to the funding of a one-time incentive payment. Each Named Executive would have received a one-time incentive payout if the Company's actual diluted earnings per share amount for the fiscal year equaled budgeted diluted earnings per share after giving effect to such one-time incentive payment.



A one-time incentive payment under the EICP equals the executive's EICP percentage multiplied by such executive's base salary. The EICP percentages for the Named Executives in 2018 were as follows: Mr. Gattoni, 100%, Mr. Stout, 65%, Mr. Kneller, 50%, Mr. O'Malley, 50% and Mr. Beacom, 50%.

If the Company's actual diluted earnings per share for the fiscal year were greater than the threshold amount of diluted earnings per share, the EICP payment for each Named Executive would be calculated by multiplying each such executive's base salary by such executive's EICP percentage multiplied by a multiplier that is equal to one plus a predetermined factor. The factor equaled 33 1/3 percent for each one percent by which actual diluted earnings per share exceeded threshold diluted earnings per share up to a multiplier of 3.0 for each executive. In other words, each executive would achieve a multiplier of 3.0 if actual diluted earnings per share exceeded threshold diluted earnings per share by six percent. For purposes of this Compensation, Discussion and Analysis and the *Grants of Plan-Based Awards* table below, we refer to the amount of diluted earnings per share required to achieve a multiplier of 3.0 as the target amount of diluted earnings per share.

In the event actual diluted earnings per share exceeded target diluted earnings per share, a bonus pool would accrue as if the multiplier continued to increase above 3.0 for each participant under the EICP. The bonus pool amount would be calculated by multiplying each such executive's base salary by such executive's EICP percentage multiplied by a multiplier that is also equal to one plus a predetermined factor. With respect to the calculation of the bonus pool, the factor equaled 16 2/3 percent, not 33 1/3 percent, for each one percent by which actual diluted earnings per share exceeded target diluted earnings per share. The bonus pool is allocable among EICP participants based on the discretion of the Compensation Committee. These calculations of individual amounts for each Named Executive may be adjusted upwards or downwards at the discretion of the Compensation Committee, subject to the \$3 million maximum.

The threshold amount of diluted earnings per share under the EICP with respect to the 2018 fiscal year was \$4.79, and the target amount of diluted earnings per share under the EICP with respect to the 2018 fiscal year was \$5.08. Diluted earnings per share for the 2018 fiscal year was \$6.18, which exceeded threshold diluted earnings per share by 29.0%, or \$1.39 per share, and which exceeded target diluted earnings per share by 21.6%, or \$1.10 per share.

Landstar's financial performance in fiscal year 2018 was the best in the Company's history. The Company's financial performance in 2018 was all the more impressive given that it significantly exceeded the Company's financial performance in fiscal year 2017, which was previously considered the best financial performance in the Company's history. Landstar set many annual financial and operational records in 2018, including revenue, gross profit, operating income, net income, diluted earnings per share and truck loads. Revenue in fiscal 2018 was approximately \$4.6 billion, an annual record, and increased almost \$1 billion over fiscal 2017. Gross profit in 2018 was \$667 million, also an annual record. Record revenue and gross profit in 2018 was provided on the strength of approximately 2,060,000 loads hauled via truck capacity, the highest number of loads hauled via truck in any year in Landstar history. Operating income in 2018 was an annual record of \$332 million and diluted earnings per share in 2018 was an annual record of \$6.18.

Landstar diluted earnings per share for the 2018 fiscal year increased 47% over diluted earnings per share for the 2017 fiscal year of \$4.21, which had previously set an all-time annual record for the Company.

As actual results for fiscal 2018 exceeded the target amount of diluted earnings per share, a bonus pool accrued as if the multiplier was not capped at 3.0 for each participant under the EICP. The Compensation Committee exercised its discretion to apportion the pool and determine the EICP payment for each Named Executive by multiplying each such Named Executive's base salary by such Named Executive's EICP percent multiplied by 6.59 (or, one plus (six multiplied by 33 1/3%) plus (21.6 multiplied by 16 2/3%)). On this basis, the payment that would have been generated under the EICP relating to Mr. Gattoni would have been in excess of the maximum annual payment per eligible participant of \$3,000,000. The amount of the bonus pool attributable to Mr. Gattoni that would have resulted

in a payment in excess of \$3,000,000 was substantially all used to fund additional bonus amounts for all eligible hourly employees of the Company.

Inclusive of fiscal year 2018, the Company has achieved the threshold amount of diluted earnings per share in four of the five preceding fiscal years and eight of the preceding ten fiscal years.

#### *Annual Incentive Compensation Clawback Rights*

The EICP provides that if the Company is required to restate its financial results due to material noncompliance with any financial reporting requirement under the securities laws, the Compensation Committee may, in its discretion after considering the costs and benefits of doing so, recover that portion of any bonus paid under the EICP to any current or former Named Executive during the three-year period preceding the date on which the Company files the restatement of such financial statement(s) with the Securities and Exchange Commission, which portion exceeds the amount or value that the Compensation Committee determines would have been payable or received in respect of such bonus had the revised financial statement(s) reflected in the restatement been applied to determine such bonus. Subject to applicable law, the Compensation Committee may seek such excess compensation by requiring the Named Executive to pay such amount to the Company by set-off, by reducing future compensation or by such other means or combination of means as the Committee determines to be appropriate.

#### *Stock-based Awards*

Under the Company's 2011 Landstar System, Inc. Equity Incentive Plan, stock-based awards may be granted to the Company's Named Executives and certain other key employees. No further grants of stock-based awards can be made under the Amended and Restated 2002 Employee Stock Option and Stock Incentive Plan (together with the 2011 Equity Incentive Plan, the Employee Equity Plans). The Compensation Committee determines the type and number of stock-based awards to be granted to a Named Executive based on such Named Executive's job responsibilities, the individual performance evaluation of such Named Executive and overall Company performance. Stock-based awards are typically granted to Named Executives once a year.

The Compensation Committee believes that stock options, restricted stock, restricted stock units (the RSUs) and other forms of stock-based awards that may be granted under the Employee Equity Plans are effective methods that may be used as part of the Company's long-term compensation program. The Company historically granted stock options and restricted stock under the Employee Equity Plans. Over the past five years, the Compensation Committee approved the grant of performance related stock awards in the form of RSUs to Named Executives on an annual basis (the Regular RSU Awards). In 2016, the Compensation Committee modified the structure of the Regular RSU Awards program and, in connection with those modifications, initiated a program to grant annual restricted stock awards to Named Executives (the Regular Restricted Stock Awards) along with the Regular RSU Awards.

#### *Stock-based Awards Stock Option Grants*

In prior years, Named Executives were granted stock options on an annual basis that vested 100% after a period that ranged from three to five years from the date of grant or in three or five equal annual installments commencing on the first anniversary of the date of grant. Stock options are granted with an exercise price equal to the fair market value of the Common Stock on the date of grant. In 2018, no stock option awards were made to Named Executives. As of December 29, 2018, no Named Executive held any stock options, whether vested or unvested.

#### *Stock-based Awards Regular RSU Awards*

On January 2, 2013, the Company granted in aggregate 68,000 RSUs to Named Executives. Under these Regular RSU Awards, Mr. Gattoni received 18,000 RSUs, Messrs. Beacom, Kneller and O'Malley each received 15,000 RSUs and Mr. Stout received 5,000 RSUs. The Compensation Committee awarded Mr. Gattoni a larger grant than Messrs. Beacom, Kneller and O'Malley in 2013 in reflection of the breadth of Mr. Gattoni's



responsibilities which at the time covered the Company's financial, administrative and information systems functions. Mr. Stout received a smaller grant than the other Named Executives as he was not an executive officer of the Company at the time of these grants. RSUs granted on January 2, 2013 that did not otherwise vest expired during the first quarter of 2018.

On January 2, 2014, the Company granted in aggregate 80,000 RSUs to Named Executives. Under these Regular RSU Awards, Mr. Gattoni received 30,000 RSUs, Messrs. Beacom, Kneller and O'Malley each received 15,000 RSUs and Mr. Stout received 5,000 RSUs. The Compensation Committee awarded Mr. Gattoni a larger grant on January 2, 2014 in connection with Mr. Gattoni's promotion to President and Chief Financial Officer of the Company, effective January 1, 2014. Mr. Stout received a smaller grant than the other Named Executives as he was not an executive officer of the Company at the time of this grant.

For the Regular RSU Awards granted in 2013 and 2014, each RSU represents the contractual right to receive one share of Common Stock (subject to adjustment as provided in the Employee Equity Plans) when the award becomes vested. The number of RSUs that vest under the 2013 and 2014 Regular RSU Awards is determined annually, for each year in the five-year period from the date of grant, by multiplying the number of RSUs granted by the sum of (a) the average of the percentage change (positive or negative) in operating income and diluted earnings per share in each of the five years immediately following the base year as compared to operating income and diluted earnings per share reported in the base year (base year being the fiscal year immediately preceding the year in which the RSUs were granted), plus (b) 5%, rounded to the nearest whole number, less (c) the number of RSUs under such grant that previously vested. The fair value of a Regular RSU Award is determined based on the market value of the Company's Common Stock on the date of grant, discounted for lack of marketability for a minimum post-vesting holding requirement.

On January 27, 2015, the Company granted an aggregate of 50,000 RSUs to Named Executives. Under these Regular RSU Awards, Mr. Gattoni received 15,000 RSUs, Mr. Stout received 12,500 RSUs and Messrs. Beacom, Kneller, and O'Malley each received 7,500 RSUs. The Compensation Committee awarded Mr. Gattoni a larger grant in recognition of Mr. Gattoni's broader responsibilities as President and Chief Executive Officer of the Company. Mr. Stout received a larger grant than Messrs. Beacom, Kneller, and O'Malley in recognition of his promotion to Chief Financial Officer of the Company. The number of RSUs that vest under the 2015 Regular RSU Awards is determined annually, for each year in the five-year period from the date of grant.

On January 29, 2016, the Company granted an aggregate of 40,560 RSUs to Named Executives. Under these Regular RSU Awards, Mr. Gattoni received 13,520 RSUs, and Messrs. Beacom, Kneller, O'Malley and Stout each received 6,760 RSUs. The Compensation Committee awarded Mr. Gattoni a larger grant in recognition of Mr. Gattoni's broader responsibilities as President and Chief Executive Officer of the Company. Unlike prior grants of Regular RSU Awards, the number of RSUs that vest under the 2016 Regular RSU Awards is determined on the third, fourth and fifth anniversary from the date of grant.

On February 2, 2017, the Company granted an aggregate of 27,169 RSUs to Named Executives. Under these Regular RSU Awards, Mr. Gattoni received 9,057, and Messrs. Beacom, Kneller, O'Malley and Stout each received 4,528 RSUs. The Compensation Committee awarded Mr. Gattoni a larger grant in recognition of Mr. Gattoni's broader responsibilities as President and Chief Executive Officer of the Company. Similar to the 2016 Regular RSU award grant, the number of RSUs that vest under the 2017 Regular RSU Award is determined on the third, fourth and fifth anniversary from the date of grant.

On February 2, 2018, the Company granted an aggregate of 26,281 RSUs to Named Executives. Under these Regular RSU Awards, Mr. Gattoni received 8,761, and Messrs. Beacom, Kneller, O'Malley and Stout each received 4,380 RSUs. The Compensation Committee awarded Mr. Gattoni a larger grant in recognition of Mr. Gattoni's broader responsibilities as President and Chief Executive Officer of the Company. Similar to the 2017 Regular RSU award

grant, the number of RSUs that vest under the 2018 Regular RSU Award is determined on the third, fourth and fifth anniversary from the date of grant.

For the Regular RSU Awards granted in 2015, 2016, 2017 and 2018, each RSU represents the contractual right to receive up to two shares of Common Stock (subject to adjustment as provided in the Employee Equity Plans) when the award becomes vested. For the 2015, 2016, 2017 and 2018 Regular RSU Awards, the number of RSUs that vest each year will be determined by (a) multiplying the number of RSUs credited to the Named Executive as of the applicable vesting date by (b) the Performance Multiple derived from the chart below, and (c) subtracting therefrom the number of RSUs that have previously vested; provided that, in no event, may the aggregate number of RSUs that become vested exceed 200% of the RSUs credited to the Named Executive under the applicable grant.

For purposes of the 2015, 2016, 2017 and 2018 Regular RSU Awards, the determination of the Performance Multiple is based on the achievement of the applicable Performance Hurdle. For purposes of the 2015, 2016 and 2017 Regular RSU Awards, the Performance Hurdle means the sum of (a) the average of the percentage change (positive or negative) in operating income and diluted earnings per share, in each case from continuing operations, from the most recently completed fiscal year as compared to the results from continuing operations for the base year, plus (b) 5%, and is as set forth in the chart below, with linear interpolation between Performance Hurdles. For purposes of the 2018 Regular RSU Awards, the Performance Hurdle means the sum of the average of the percentage change (positive or negative) in operating income and pre-tax income per diluted share, in each case from continuing operations, from the most recently completed fiscal year as compared to the results from continuing operations for the base year, and is as set forth in the chart below, with linear interpolation between Performance Hurdles:

| <b>Performance Hurdle</b> | <b>Performance Multiple</b> | <b>Performance Level</b> |
|---------------------------|-----------------------------|--------------------------|
| 0%                        | 0%                          |                          |
| 25%                       | 50%                         |                          |
| 50%                       | 100%                        | Target                   |
| 75%                       | 150%                        |                          |
| 100%                      | 200%                        | Maximum                  |

No dividends are paid on the Regular RSU Awards and Regular RSU Awards have no voting rights. However, dividend equivalents are credited to the Named Executive with respect to the 2015, 2016, 2017 and 2018 Regular RSU Awards each time that a dividend is paid on the Company's Common Stock. The aggregate amount of such dividend equivalents so credited in respect of each such dividend are equal to the dividend paid on a share of Common Stock multiplied by, respectively, the number of outstanding 2015, 2016, 2017 and 2018 Regular RSU Awards credited to the Named Executive on the dividend record date. The dividend equivalents are converted into additional 2015, 2016, 2017 and 2018 Regular RSU Awards credited to the Named Executive on the dividend payment date based upon the fair market value of a share of Common Stock on such date.

The Compensation Committee has designed the manner in which performance-based restricted stock unit awards are deemed to be earned to reflect the level of performance that the Committee expects to be achieved, with a targeted number of units earned if the targeted level of performance is attained, and a maximum number of units earned if the maximum level of performance is attained. Prior to 2015, each Regular RSU Award represented the contractual right to receive one share of Common Stock based on a straight-line average change in operating income and diluted earnings per share over the relevant performance period. For the 2015, 2016, 2017 and 2018 awards, an increasing percentage of the Regular RSU award is earned based on an increasing level of positive average change in operating income and diluted earnings per share or pre-tax income per diluted share, as applicable, for each year of the five year performance period, such that no portion of the award is earned if there is no positive change based on the applicable calculation, 100% of the number of units granted is earned if the targeted level of positive increase is achieved, and a maximum of 200% of the number of units is earned if a maximum level of positive increase is achieved, with interpolation between these levels of performance. The Compensation Committee believes the use of a target and maximum better sets expectations associated with these awards both internally to employee recipients as well as to

stockholders and other third parties to help them

understand the derivation of the value attributed by the Company to these awards at the time of grant. The Compensation Committee further believes that the revised manner in which these awards are deemed to be earned emphasizes to employee recipients and investors that the expectation at the time of grant is that the employee recipients would need to perform at a high level in order for the Company's performance to reach the targeted level of operating income and diluted earnings per share for the employees to earn the target number of units during the term of the award, and, moreover, that superior performance by the Company is required for the employee recipients to earn the maximum performance-based award.

In 2016, as noted above, the Compensation Committee also changed the vesting schedule upon which performance-based restricted stock unit awards are deemed to be earned. With respect to the 2016, 2017 and 2018 Regular RSU Awards, the number of RSUs that vest is determined on the third, fourth and fifth anniversary from the date of grant whereas vesting of 2014 and 2015 Regular RSU Grants are determined annually for each year in the five-year period from the date of grant. The Compensation Committee believes this change to the vesting schedule so that no awards are subject to vesting until three years from the date of grant is consistent with the long term performance goals these awards are intended to reward. Accordingly, the performance period of all Regular RSU Awards issued in 2016, 2017 and 2018 is no less than three, and up to five, years in duration.

In 2018, the Compensation Committee also changed the method to determine the Performance Hurdle (1) to reference the average of the percentage change (positive or negative) in operating income and pre-tax income per diluted share as opposed to the average of the percentage change (positive or negative) in operating income and diluted earnings per share and (2) to remove the 5% positive adjustment previously included in the Performance Hurdle. The change to reference pre-tax income per diluted share rather than diluted earnings per share was implemented in order to use a financial metric that will not be impacted by changes to applicable tax rates, and in particular, potential future changes to the federal corporate tax rate, during the performance period of the applicable RSU. The change to remove the 5% positive adjustment was made as part of an overall review of the Company's executive compensation program in light of other changes made to Named Executive salaries and grants under the Company's Regular Restricted Stock program referred to below.

#### *Stock-based Awards Regular Restricted Stock Awards*

In 2016, the Compensation Committee initiated Regular Restricted Stock Awards to each of the Named Executives. On January 29, 2016, 13,518 shares of restricted stock were issued in the aggregate to Named Executives that vest in three equal annual installments on January 31 of 2017, 2018 and 2019. Under these restricted stock awards, Mr. Gattoni received 4,506 shares, and Messrs. Beacom, Kneller, O Malley and Stout each received 2,253 shares. The Compensation Committee awarded Mr. Gattoni a larger grant in recognition of Mr. Gattoni's broader responsibilities as President and Chief Executive Officer of the Company.

On February 2, 2017, 9,055 shares of restricted stock were issued in aggregate to Named Executives that vest in three equal annual installments on January 31 of 2018, 2019 and 2020. Under these restricted stock awards, Mr. Gattoni received 3,019 shares, and Messrs. Beacom, Kneller, O Malley and Stout each received 1,509 shares. The Compensation Committee awarded Mr. Gattoni a larger grant in recognition of Mr. Gattoni's broader responsibilities as President and Chief Executive Officer of the Company.

On February 2, 2018, 13,140 shares of restricted stock were issued in aggregate to Named Executives that vest in three equal annual installments on January 31 of 2019, 2020 and 2021. Under these restricted stock awards, Mr. Gattoni received 4,380 shares, and Messrs. Beacom, Kneller, O Malley and Stout each received 2,190 shares. The Compensation Committee awarded Mr. Gattoni a larger grant in recognition of Mr. Gattoni's broader responsibilities as President and Chief Executive Officer of the Company.

The Compensation Committee believes that whereas the Regular RSU Awards are designed to incentivize the attainment of specific financial goals over a multi-year period (as well as rewarding for stock price appreciation), the Regular Restricted Stock Awards serve as a retention tool as they retain value during periods of

adverse market volatility while also rewarding for stock price appreciation over time. The Compensation Committee believes that these two equity vehicles when used in conjunction with each other will serve to reward long term financial performance and stock price appreciation while also providing a retention-based benefit for the Named Executive in the event of shorter term market and/or economic turbulence. In determining the amount of the 2016, 2017 and 2018 Regular RSU Awards and the Regular Restricted Stock Awards for each Named Executive, the Compensation Committee considered the full equity compensation component of each Named Executive's annual compensation and allocated such component between Regular RSU Awards and Regular Restricted Stock Awards such that each Named Executive was awarded two RSUs for each share of restricted stock.

The Compensation Committee has established post-vesting holding period requirements with respect to shares of Common Stock received upon vesting of Regular RSU Awards. Each Named Executive is subject to a one year post-vesting holding requirement with respect to the shares received upon settlement of Regular RSU Awards, net of any applicable withholding obligations in connection with such settlement.

*Stock-based Awards – Grants of TSR-based RSU Awards to the CEO*

On March 17, 2015, and in connection with his promotion to the position of Chief Executive Officer, the Company and James B. Gattoni entered into an agreement granting to Mr. Gattoni, as of May 1, 2015, a special performance-related stock award under the Company's 2011 Equity Incentive Plan in the form of 20,000 RSUs (the CEO Promotion Award). In general, the CEO Promotion Award RSUs will vest on April 30 of 2019, 2020, and 2021, with the number of RSUs that vest on each vesting date determined by multiplying one-third of the number of RSUs credited to Mr. Gattoni pursuant to the CEO Promotion Award by a payout percentage that is based on the Company's TSR compound annual growth rate (CAGR) over the vesting periods, adjusted to reflect dividends (if any) paid during such period, and as may be necessary to take into account capital adjustments.

On April 24, 2018, the Company and Mr. Gattoni entered into an agreement granting Mr. Gattoni 9,324 RSUs that vest based on a market condition (the 2018 TSR RSU Award). These RSUs may vest on June 30 of 2022, 2023 and 2024 based on the Company's TSR CAGR over the vesting periods, adjusted to reflect dividends (if any) paid during such periods and capital adjustments as may be necessary. The maximum number of common shares available for issuance under the 2018 TSR RSU Award equals 150% of the number of RSUs awarded. The fair value of this RSU award was determined at the time of grant based on the expected achievement of the market condition at the end of each vesting period.

With respect to both the CEO Promotion Award and the 2018 TSR RSU Award, the Company reports compensation expense ratably over the life of the award based on an estimated number of units that will vest over the life of the award, multiplied by the fair value of the RSU. Previously recognized compensation cost would be reversed only if the employee terminated employment prior to completing the requisite service period.

Under the terms of the CEO Promotion Award and the 2018 TSR RSU Award, TSR CAGR over the applicable vesting period is determined as of the beginning and end of each performance period using a sixty day measurement period, other than in the event of a change in control. The payout percentage as of each vesting date is as follows, with straight line interpolation between performance levels:

| Performance Level | If TSR CAGR is:  | Then the Payout Percentage is: |
|-------------------|------------------|--------------------------------|
| Maximum           | 12.0% or greater | 150%                           |
| Target            | 10.0%            | 100%                           |
| Threshold         | 8.0%             | 50%                            |
| <Threshold        | Less than 8.0%   | 0%                             |

To the extent these RSUs are not vested at the maximum level in the chart above as of the first or second vesting dates, such RSUs will again be eligible to vest at the next vesting date based on the payout percentage

achieved as of such next vesting date. In addition, if any dividends are paid by the Company during the vesting period, dividend equivalents will be credited to Mr. Gattoni under the applicable award as additional RSUs that are eligible to vest based on the payout percentage achieved as of the future vesting dates of the underlying RSUs to which such dividend equivalents relate. Any RSUs that vest will be settled in shares of Common Stock as soon as practicable after the applicable vesting date. With respect to the CEO Promotion Award, any units that do not become vested as of April 30, 2021 (or earlier upon Mr. Gattoni's termination of employment or a change in control of the Company) will be forfeited. With respect to the 2018 TSR RSU Award, any units that do not become vested as of June 30, 2024 (or earlier upon Mr. Gattoni's termination of employment or a change in control of the Company) will be forfeited.

Mr. Gattoni's right to receive shares underlying each of the CEO Promotion Award and the 2018 TSR RSU Award is generally conditioned upon his continued employment through the applicable vesting dates. In the event of his death or disability prior to a vesting date, a pro rata number of the units then credited to Mr. Gattoni pursuant to the applicable award (based on the number of days he remained employed during the vesting period) will vest based on the payout percentage achieved as of his termination of employment. Similarly, if there is a change in control of the Company prior to a vesting date, a pro rata number of the units then credited to Mr. Gattoni pursuant to the applicable award (based on the number of days during the vesting period prior to the change in control) will vest based on the payout percentage achieved as of the date of the change in control.

There are several reasons why the Compensation Committee believes the nature and terms of these grants of TSR-based RSU awards to Mr. Gattoni, on the one hand, as opposed to the Regular RSU Awards, including those to Mr. Gattoni, on the other, are appropriate. The TSR-based RSU awards are intended to tie the amount of future vesting directly to the Company's TSR over the vesting period, using the growth in TSR as an additional means to measure the performance of the Chief Executive Officer of the Company. The Regular RSU Awards are intended to be annual, recurring grants, subject to the discretion of the Compensation Committee, that the Compensation Committee believes will be the principal long-term performance based compensation vehicle through which the Named Executives will be granted additional equity in the Company, along with, to a lesser extent, grants of restricted stock. The Compensation Committee believes that growth in operating income and pre-tax income per diluted share are key financial measures reflecting the long-term growth of the enterprise. The Compensation Committee also believes that the Company would have to achieve superior financial performance in order for a Named Executive to vest at the maximum level with respect to a Regular RSU Award granted in 2018. For example, in order for a Named Executive to vest at the maximum level with respect to a Regular RSU Award granted in 2018, the Company would need to achieve in 2020, 2021 or 2022, an average of a 100% increase in operating income and pre-tax earnings per diluted share compared to those achieved in fiscal year 2017.

The Company believes that the granting of stock-based awards in the form of RSUs, stock options and restricted stock is designed to encourage the creation of long-term stockholder value as the number of RSUs that vest is dependent upon growth in the Company's operating income, pre-tax income per diluted share and diluted earnings per share and their value varies directly with the Company's stock price, no benefit can be realized from stock options unless the stock price exceeds the exercise price over the vesting period and the benefit realized from restricted stock varies directly with the Company's stock price. Further, the Compensation Committee believes that the Company's use of stock-based awards is key as a retention tool, as the continued employment of the Named Executives is an important factor relating to the Company's strategic execution and growth.

#### *Stock-based Awards    Clawback Rights*

The 2011 Equity Incentive Plan provides that any payment paid or award made to a participant under such plan is subject to recovery or "clawback" by the Company if the payment or award is based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria. The Compensation Committee has also provided for a "clawback right" as a condition of all RSUs granted in 2015, 2016, 2017 and 2018. If the Company were required to restate its financial results due to material noncompliance with any



financial reporting requirement under the securities laws, the Compensation Committee may, in its discretion after considering the costs and benefits of doing so, recover all or a portion of any shares delivered or payment made that is related to an RSU award during the three-year period preceding the date on which the Company files the restatement of such financial statement(s) with the Securities and Exchange Commission, to the extent the value of such shares or the amount of such payment exceeds the amount or value that the Committee determines would have been payable in respect of the award had the revised financial statement(s) reflected in the restatement been applied to determine such amount or value.

### **Equity Ownership Guidelines**

The Company believes that equity interests held by management help to align the interests of stockholders and management and maximizes stockholder returns over the long term. To that end, the Compensation Committee has established equity ownership guidelines for each Named Executive based on a multiple of the annual salary of such Named Executive. These guidelines recommend that the Chief Executive Officer of the Company beneficially own equity value in the Company's Common Stock of no less than seven times the annual salary of such Chief Executive Officer and that each of the other Named Executives of the Company beneficially own equity value in the Company's Common Stock of no less than four times the annual salary of such Named Executive, in each case to be achieved within five years of an individual's initial appointment as a Named Executive. For purposes of these equity ownership guidelines, equity value in the Company's Common Stock includes: (1) the value of shares of Common Stock beneficially owned by the Named Executive, plus (2) the value of outstanding restricted shares of Common Stock, either vested or unvested, beneficially owned by the Named Executive, plus (3) the intrinsic value of outstanding, exercisable stock options to purchase shares of Common Stock held by the Named Executive. On the basis of these criteria, each of the Named Executives is currently in compliance with these stock ownership guidelines. In the event a Named Executive is not in compliance with these stock ownership guidelines, the Named Executive is expected to hold no less than 50% of the after-tax number of shares of Common Stock received upon exercise of stock options and vesting of restricted stock units until compliance with these stock ownership guidelines is achieved.

### **Policy Regarding Hedging and Pledging of Company Stock**

The Board has established a policy that prohibits the hedging and pledging of the Common Stock by certain members of the Company's leadership, including all Named Executives, under any circumstances.

### **Deferred Compensation**

The Company maintains an Internal Revenue Service Code Section 401(k) Savings Plan (the "401(k) Plan") for all eligible employees. The Company maintains a Supplemental Executive Retirement Plan (the "SERP") for all officers, including the Named Executives, of the Company and its subsidiaries. The SERP is designed to provide officers with the option to receive the benefits that are offered under the Company's 401(k) Plan (tax deferred investment of a certain percentage of the executive's salary and/or bonus and a Company matching contribution on a certain portion of the executive's contribution) on the portion of the executive's salary that is not eligible to be included under the Company's 401(k) Plan, because it is above the various limitations established in the Internal Revenue Code. Except for the elimination of the maximum salary limitations, the benefits and the investment options of the SERP are the same as the 401(k) Plan. Messrs. Gattoni, Kneller, O'Malley and Beacom have elected to participate in the SERP.

### **Key Executive Employment Protection Agreements**

The Board has approved the execution of Key Executive Employment Protection Agreements for each of the Named Executives to assure that each of these officers will have a minimum level of personal financial security in the context of a change in control transaction to avoid undue distraction due to the risks of job security and to enable such officer to act in the best interests of stockholders without being influenced by such officer's



economic interests. Each agreement provides certain severance benefits in the event of a change in control of the Company. Generally, (i) if on or before the second anniversary of a change in control (x) the Company terminates the covered executive's employment for any reason other than for cause or disability or (y) the covered executive voluntarily terminates his employment for good reason or (ii) if the covered executive's employment is terminated by the Company for any reason other than death, disability or cause or by the covered executive for good reason after the execution of a definitive agreement with respect to a change in control transaction but prior to the consummation thereof, and the transaction contemplated by such definitive agreement is subsequently consummated, such executive will be entitled to severance benefits consisting of a lump sum cash amount equal to a multiple of the sum of (A) the executive's annual base salary and (B) the amount that would have been payable to the executive as an annual threshold incentive compensation bonus for the year in which the change in control occurs, determined by multiplying his annual base salary by his total participant's percentage participation established for such year under the EICP (or any successor plan thereto). The applicable multiples are: three times for Mr. Gattoni; two times for Messrs. Stout and Kneller and one time for Messrs. O'Malley and Beacom. Severance multiples for Named Executives were established based on their position and the potential impact to their continued employment in the event of a change in control and to remain competitive within our industry. Each agreement also provides the covered executive with a pro rata payout of the threshold annual bonus amount for the year of employment termination of such covered executive and for continuation of medical benefits for up to one year from the date of employment termination.

The Company believes that the terms of our Key Executive Employment Protection Agreements are consistent with market practice and assist us in retaining the services of our Named Executives.

#### **Other Benefits and Arrangements**

The Company provides the Named Executives with certain other benefits and arrangements that the Company believes are reasonable and consistent with its overall compensation program to enable the Company to continue to attract and maintain highly qualified individuals in key positions. The Company pays the premium associated with term life insurance policies for all its employees including each of the Named Executives. The dollar value paid by the Company on behalf of each of the Named Executives with respect to these policies is included in the Summary Compensation Table below. The Board has approved and the Company has entered into indemnification agreements with each of the Named Executives providing each such Named Executive with a contractual obligation from the Company to indemnify such individual in connection with such individual's service as an employee of the Company (and in the case of Mr. Gattoni, his service as a member of the Board) to the fullest extent permitted by applicable law. The Company retains discretion to provide Named Executives with the use of certain equipment in connection with their job responsibilities, including cell phone, and other computer and communications equipment and maintenance of connectivity for such equipment in the Named Executive's home.

#### **Compensation Consultants**

The Compensation Committee has the authority to hire and negotiate the terms of compensation for its advisers, including compensation consultants. During 2017, the Compensation Committee used the services of Compensation Strategies, Inc. to assist it in analyzing the Company's current executive compensation program, including the consideration of a potential peer group for purposes of benchmarking Named Executive compensation. During 2015, the Compensation Committee also engaged Compensation Strategies, Inc. to review the Company's compensation philosophy and the structure and design features of each component of the program, as well as Director compensation, the Company's stock ownership guidelines for its Directors and Named Executives, and in connection with the CEO Promotion Grant. The Compensation Committee determined that the work of the consultants did not raise any conflicts of interest taking into consideration the independence factors enumerated in Rule 10C-1(b) of the Securities Exchange Act of 1934, as amended. No member of the Compensation Committee or any Named Executive has any affiliation with the consultants. In 2017, the Company paid \$30,250 in fees and expense reimbursements to Compensation Strategies, Inc.



### **Tax Considerations**

The Tax Cuts and Jobs Act (the Tax Reform Act ) was signed into law on December 22, 2017. Prior to the Tax Reform Act, Section 162(m) of the Code generally disallowed a tax deduction for compensation over \$1 million paid to our Named Executive Officers who are considered covered employees under this rule. Performance-based compensation was exempt from this deduction limitation if specified requirements set forth in the Code and applicable Treasury Regulations were satisfied. The Company previously undertook to qualify substantial components of the performance-based incentive compensation available to Named Executives to be exempt from this deduction limitation. Outstanding performance-based equity awards under the Company's stockholder-approved employee equity plans, including stock options and performance-based RSUs, also met these requirements.

Beginning with fiscal year 2018, the Tax Reform Act eliminated the performance-based compensation exception to the deductibility limitation under Section 162(m), other than with respect to certain grandfathered performance-based awards granted prior to November 2, 2017. No assurance can be given that grandfathered compensation intended to satisfy the requirements for exemption from Section 162(m) will actually satisfy such requirements.

The Compensation Committee's philosophy strongly emphasizes performance-based compensation, which has historically minimized the consequences of the Section 162(m) limit on deductibility. The Company believes that tax deductibility of compensation is an important factor, but not the sole factor, to be considered in setting executive compensation policy, and in light of the changes to Section 162(m), it is expected that the Compensation Committee will authorize payments that are not deductible for federal income tax purposes when the committee believes that such payments are appropriate to attract, retain and incentivize executive talent.

## COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

### THE COMPENSATION COMMITTEE

David G. Bannister, Chairman

Homaira Akbari

Diana M. Murphy

Anthony J. Orlando

George P. Scanlon

Larry J. Thoele

**Compensation of Named Executives.** The following table summarizes the compensation paid to (i) the President and Chief Executive Officer, (ii) the Vice President and Chief Financial Officer and (iii) the Company's three most highly compensated Executive Officers other than the Chief Executive Officer and the Chief Financial Officer (such five individuals, collectively, the "Named Executives").

### Summary Compensation Table

| Name and Principal Position | Year | Salary<br>(1) (\$) | Stock<br>Awards<br>(2) (\$) | Change<br>in<br>Pension<br>Value<br>And<br>Non-Equity Nonqualified<br>Incentive Plan Compensation |                                                  |                                          | Total (\$) |
|-----------------------------|------|--------------------|-----------------------------|---------------------------------------------------------------------------------------------------|--------------------------------------------------|------------------------------------------|------------|
|                             |      |                    |                             | (3) (\$)                                                                                          | Deferred<br>Compensation<br>Earnings<br>(4) (\$) | All<br>Other<br>Compensation<br>(5) (\$) |            |
| James B. Gattoni            | 2018 | 500,000            | 1,929,789                   | 3,000,000                                                                                         |                                                  | 39,910                                   | 5,469,699  |
| President and Chief         | 2017 | 450,000            | 947,398                     | 3,000,000                                                                                         | 19,003                                           | 18,275                                   | 4,434,676  |
| Executive Officer           | 2016 | 450,000            | 947,406                     |                                                                                                   | 8,831                                            | 24,918                                   | 1,431,155  |
| L. Kevin Stout              | 2018 | 300,000            | 714,842                     | 1,285,000                                                                                         |                                                  | 20,121                                   | 2,319,963  |
| Vice President and Chief    | 2017 | 250,000            | 473,619                     | 1,438,000                                                                                         |                                                  | 13,556                                   | 2,175,175  |
| Financial Officer           | 2016 | 250,000            | 473,703                     |                                                                                                   |                                                  | 13,150                                   | 736,853    |
| Joseph J. Beacom            | 2018 | 300,000            | 714,842                     | 989,000                                                                                           |                                                  | 21,218                                   | 2,025,060  |

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|                                                           |      |         |         |           |        |        |           |
|-----------------------------------------------------------|------|---------|---------|-----------|--------|--------|-----------|
| Vice President and Chief Safety and Operations Officer    | 2017 | 275,000 | 473,619 | 1,217,000 | 14,635 | 14,496 | 1,994,750 |
|                                                           | 2016 | 275,000 | 473,703 |           | 7,057  | 15,974 | 771,734   |
| Michael K. Kneller                                        | 2018 | 300,000 | 714,842 | 989,000   |        | 19,421 | 2,023,263 |
| Vice President, General Counsel and Secretary             | 2017 | 275,000 | 473,619 | 1,217,000 | 4,467  | 13,345 | 1,983,431 |
|                                                           | 2016 | 275,000 | 473,703 |           | 7,507  | 12,509 | 768,719   |
| Patrick J. O Malley                                       | 2018 | 300,000 | 714,842 | 989,000   |        | 22,367 | 2,026,209 |
| Vice President and Chief Commercial and Marketing Officer | 2017 | 275,000 | 473,619 | 1,217,000 | 13,076 | 14,329 | 1,993,024 |
|                                                           | 2016 | 275,000 | 473,703 |           | 5,188  | 14,431 | 768,322   |

- (1) Amounts shown include any salary deferred at the election of the Named Executive under the Landstar 401(k) Savings Plan and/or the SERP.
- (2) Stock award amounts for 2018, 2017 and 2016 reflect the aggregate grant date fair value of RSUs and restricted stock computed in accordance with generally accepted accounting principles. Assumptions used in

calculating the fair market value of RSUs and restricted stock granted are disclosed in the footnotes to the Company's audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2018 filed with the SEC. Amounts shown are based upon the most probable outcome of the performance conditions for these stock awards. Assuming the highest level of performance is achieved, the maximum possible value of the stock awards granted to the named executive officers in 2018, using the grant date fair value, is: (i) \$3,859,689 for Mr. Gattoni; and (ii) \$1,179,739 for Messrs. Stout, Beacom, Kneller, and O'Malley. Assuming the highest level of performance is achieved, the maximum possible value of the stock awards granted to the named executive officers in 2017, using the grant date fair value, is: (i) \$1,644,824 for Mr. Gattoni; and (ii) \$822,293 for Messrs. Stout, Beacom, Kneller, and O'Malley. Assuming the highest level of performance is achieved, the maximum possible value of the RSUs granted to the named executive officers in 2016, using the grant date fair value, is: (i) \$1,644,863 for Mr. Gattoni; and (ii) \$822,432 for Messrs. Stout, Beacom, Kneller, and O'Malley.

- (3) These payments constitute payments under the EICP.
- (4) Represents aggregate earnings during each fiscal year on investments held on behalf of the Named Executives under the SERP. Amounts for 2018 exclude losses of \$35,079, \$26,332, \$4,141 and \$4,891 for Messrs. Beacom, Gattoni, Kneller and O'Malley, respectively.
- (5) Amounts include contributions made by the Company under the Landstar 401(k) Savings Plan on behalf of the Named Executives, contributions made by the Company under the SERP on behalf of the Named Executives, Health Savings Account (HSA) contributions made by the Company for those Named Executives electing to participate in the Company's high deductible medical plan, the dollar value of term life insurance premiums paid by the Company on behalf of the Named Executives and dividends paid on unvested restricted stock in the following amounts:

|                     | 401(k)    | SERP     | HSA      | Insurance<br>Premiums | Dividends Paid on<br>Unvested<br>Restricted<br>Stock | Total     |
|---------------------|-----------|----------|----------|-----------------------|------------------------------------------------------|-----------|
| <b>2018</b>         |           |          |          |                       |                                                      |           |
| James B. Gattoni    | \$ 10,600 | \$ 9,400 | \$ 1,000 | \$ 4,902              | \$ 14,008                                            | \$ 39,910 |
| L. Kevin Stout      | 10,600    |          | 1,000    | 1,518                 | 7,003                                                | 20,121    |
| Joseph J. Beacom    | 10,597    | 2,100    |          | 1,518                 | 7,003                                                | 21,218    |
| Michael K. Kneller  | 10,758    |          | 1,000    | 660                   | 7,003                                                | 19,421    |
| Patrick J. O'Malley | 11,008    |          |          | 4,356                 | 7,003                                                | 22,367    |
| <b>2017</b>         |           |          |          |                       |                                                      |           |
| James B. Gattoni    | \$ 10,600 |          | \$ 1,000 | \$ 4,386              | \$ 2,289                                             | \$ 18,275 |
| L. Kevin Stout      | 10,600    |          | 1,000    | 812                   | 1,144                                                | 13,556    |
| Joseph J. Beacom    | 10,722    | \$ 1,247 |          | 1,383                 | 1,144                                                | 14,496    |
| Michael K. Kneller  | 10,600    |          | 1,000    | 601                   | 1,144                                                | 13,345    |
| Patrick J. O'Malley | 10,600    |          |          | 2,585                 | 1,144                                                | 14,329    |
| <b>2016</b>         |           |          |          |                       |                                                      |           |
| James B. Gattoni    | \$ 10,600 | \$ 7,400 | \$ 1,000 | \$ 4,386              | \$ 1,532                                             | \$ 24,918 |
| L. Kevin Stout      | 10,572    |          | 1,000    | 812                   | 766                                                  | 13,150    |

|                     |        |       |       |       |        |
|---------------------|--------|-------|-------|-------|--------|
| Joseph J. Beacom    | 11,976 | 1,369 | 1,383 | 1,246 | 15,974 |
| Michael K. Kneller  | 10,142 | 1,000 | 601   | 766   | 12,509 |
| Patrick J. O Malley | 10,600 |       | 2,585 | 1,246 | 14,431 |

**Grants of Plan-Based Awards.** The following table illustrates the threshold, target and maximum amounts that could have been payable in respect of 2018 services under the EICP. The following table also sets forth the number of and information about stock-based awards granted in fiscal 2018 to each of the Named Executives of the Company.

## Grants of Plan-based Awards

| Name              | Grant Date          | Date of Compensation Committee Action | Estimated future payouts under non-equity incentive plan awards |             |              | Estimated future payouts under equity incentive plan awards |            |             | All other stock awards: Number of shares of stock or units | Grant date fair value of stock and option awards (\$) | Fair market value of grant date of stock (\$/Share) |
|-------------------|---------------------|---------------------------------------|-----------------------------------------------------------------|-------------|--------------|-------------------------------------------------------------|------------|-------------|------------------------------------------------------------|-------------------------------------------------------|-----------------------------------------------------|
|                   |                     |                                       | Threshold (\$)                                                  | Target (\$) | Maximum (\$) | Threshold (#)                                               | Target (#) | Maximum (#) |                                                            |                                                       |                                                     |
| James B. Cattoni  | February 2, 2018(1) | December 11, 2017                     |                                                                 |             |              |                                                             | 8,761      | 17,522      |                                                            | 929,900                                               | 114.13                                              |
|                   | February 2, 2018(2) | December 11, 2017                     |                                                                 |             |              |                                                             |            |             | 4,380                                                      | 499,889                                               | 114.13                                              |
|                   |                     |                                       | 500,000                                                         | 1,500,000   | 3,000,000    |                                                             |            |             |                                                            |                                                       |                                                     |
|                   | April 24, 2018(3)   | January 29, 2018                      |                                                                 |             |              |                                                             | 9,324      | 13,986      |                                                            | 500,000                                               | 107.20                                              |
| Kevin G. Gout     | February 2, 2018(1) | December 11, 2017                     |                                                                 |             |              |                                                             | 4,380      | 8,760       |                                                            | 464,897                                               | 114.13                                              |
|                   | February 2, 2018(2) | December 11, 2017                     |                                                                 |             |              |                                                             |            |             | 2,190                                                      | 249,945                                               | 114.13                                              |
|                   |                     |                                       | 195,000                                                         | 585,000     | 3,000,000    |                                                             |            |             |                                                            |                                                       |                                                     |
| Joseph J. Leacom  | February 2, 2018(1) | December 11, 2017                     |                                                                 |             |              |                                                             | 4,380      | 8,760       |                                                            | 464,897                                               | 114.13                                              |
|                   | February 2, 2018(2) | December 11, 2017                     |                                                                 |             |              |                                                             |            |             | 2,190                                                      | 249,945                                               | 114.13                                              |
|                   |                     |                                       | 150,000                                                         | 450,000     | 3,000,000    |                                                             |            |             |                                                            |                                                       |                                                     |
| Michael J. Meller | February 2, 2018(1) | December 11, 2017                     |                                                                 |             |              |                                                             | 4,380      | 8,760       |                                                            | 464,897                                               | 114.13                                              |
|                   | February 2, 2018(2) | December 11, 2017                     |                                                                 |             |              |                                                             |            |             | 2,190                                                      | 249,945                                               | 114.13                                              |
|                   |                     |                                       | 150,000                                                         | 450,000     | 3,000,000    |                                                             |            |             |                                                            |                                                       |                                                     |
| Patrick J. Malley | February 2, 2018(1) | December 11, 2017                     |                                                                 |             |              |                                                             | 4,380      | 8,760       |                                                            | 464,897                                               | 114.13                                              |
|                   | February 2, 2018(2) | December 11, 2017                     |                                                                 |             |              |                                                             |            |             | 2,190                                                      | 249,945                                               | 114.13                                              |
|                   |                     |                                       | 150,000                                                         | 450,000     | 3,000,000    |                                                             |            |             |                                                            |                                                       |                                                     |

- (1) RSUs have five-year contractual lives and will vest on January 31 of 2021, 2022 and 2023 based on the average of the percentage change in operating income and pre-tax income per diluted share as compared to the results from the 2017 fiscal year rounded to the nearest whole number, less the number of RSUs that have previously vested. All unvested RSUs expire on March 1, 2023. The estimated future payouts under this award assume: i) 200 percent of the award granted will vest at the maximum payout, ii) 100 percent of the award granted will vest at the target (representing the sum of the average of the percentage change (positive or negative) in operating income and pre-tax income per diluted share, in each case from continuing operations as compared to the 2017 fiscal year, equals 50%) and iii) no awards are assumed to vest at the threshold. Amounts shown are based on the most probable outcome of the performance conditions for these stock awards. The grant date fair market value per share of this award was \$114.13.

- (2) Shares of restricted stock vest over three years at a rate of 33 1/3% per year on each of January 31 of 2019, 2020 and 2021.
- (3) Represents RSUs with a market condition in the form of TSR CAGR over the vesting period, adjusted to reflect dividends (if any) paid during such period, and as may be necessary to take into account capital adjustments. In general, the award will vest on June 30 of 2022, 2023 and 2024, with the number of units that vest on each vesting date determined by multiplying one-third of the number of units credited to Mr. Gattoni pursuant to the award by a payout percentage that is based on the Company's TSR. If TSR CAGR is 12.0% or greater then the payout percentage is 150%. If TSR CAGR is between 10.0% and 12.0% then the payout percentage is 100%. If TSR CAGR is between 8.0% and 10.0% then the payout percentage is 50%. If TSR CAGR is less than 8.0% then the payout percentage is 0%, with straight line interpolation between the performance levels.

***Option Exercises and Stock Vested.*** The following table sets forth the number and value of all stock options exercised and all RSUs and restricted shares that vested during the 2018 fiscal year by each of the Named Executives.

### Option Exercises and Stock Vested

| Name                | Option Awards                                         |                                           | Stock Awards                                         |                                          |
|---------------------|-------------------------------------------------------|-------------------------------------------|------------------------------------------------------|------------------------------------------|
|                     | Number of<br>shares acquired<br>on<br>exercise<br>(#) | Value realized<br>on exercise<br>(1) (\$) | Number of<br>shares acquired<br>on<br>vesting<br>(#) | Value realized<br>on vesting<br>(2) (\$) |
| James B. Gattoni    |                                                       |                                           | 15,242                                               | 1,744,752                                |
| L. Kevin Stout      |                                                       |                                           | 6,583                                                | 753,556                                  |
| Joseph J. Beacom    | 1,923                                                 | 133,283                                   | 8,565                                                | 980,436                                  |
| Michael K. Kneller  | 43,650                                                | 3,226,936                                 | 8,565                                                | 980,436                                  |
| Patrick J. O Malley | 4,200                                                 | 265,482                                   | 8,565                                                | 980,436                                  |

- (1) The value realized represents the difference between the fair market value of the shares of Common Stock acquired on the date of exercise and the exercise price of the stock options. The fair market value was calculated based upon the average of the high and low sale prices per share of Common Stock as reported on NASDAQ on the respective stock option exercise dates.
- (2) The value realized represents the fair market value of the shares of Common Stock on the vesting date. The fair market value was calculated based upon the average of the high and low sale prices per share of Common Stock as reported on NASDAQ on the respective vesting dates.

**Outstanding Equity Awards at Fiscal Year End.** The following table sets forth the outstanding equity awards held by the Named Executives at December 29, 2018.

### Outstanding Equity Awards

| Name             | Stock Awards                                                                     |                                                                                      |                                                                                                                                       |                                                                                                                                                              |
|------------------|----------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                  | Number<br>of<br>Shares or Units<br>of Stock That<br>Have<br>Not<br>Vested<br>(#) | Market<br>Value of<br>Shares or<br>Units of<br>Stock That<br>Have Not<br>Vested (\$) | Equity<br>Incentive Plan<br>Awards:<br>Number of<br>Unearned<br>Shares,<br>Units<br>or Other<br>Rights That<br>Have Not<br>Vested (#) | Equity<br>Incentive<br>Plan Awards:<br>Market or<br>Payout<br>Value<br>of Unearned<br>Shares,<br>Units<br>or Other<br>Rights That<br>Have Not<br>Vested (\$) |
| James B. Gattoni | 7,895(1)                                                                         | 751,604                                                                              | 79,804(2)                                                                                                                             | 7,597,341                                                                                                                                                    |
| L. Kevin Stout   | 3,947(1)                                                                         | 375,754                                                                              | 23,534(2)                                                                                                                             | 2,240,437                                                                                                                                                    |
| Joseph J. Beacom | 3,947(1)                                                                         | 375,754                                                                              | 24,895(2)                                                                                                                             | 2,370,004                                                                                                                                                    |

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|                     |          |         |           |           |
|---------------------|----------|---------|-----------|-----------|
| Michael K. Kneller  | 3,947(1) | 375,754 | 24,895(2) | 2,370,004 |
| Patrick J. O Malley | 3,947(1) | 375,754 | 24,895(2) | 2,370,004 |

- (1) Shares of restricted stock vest over three years at a rate of 33 1/3% per year on each of January 31 of 2017, 2018 and 2019 for grants made in 2016; January 31 of 2018, 2019 and 2020 for grants made in 2017; and January 31 of 2019, 2020 and 2021 for grants made in 2018.
- (2) For information regarding the vesting of RSUs, see *Compensation Discussion and Analysis* *Performance Based Compensation* *Stock-based Awards*.

**Nonqualified Deferred Compensation.** The following table provides the contributions, earnings and balances under the SERP as of and for the fiscal year ended December 29, 2018 for the Named Executives:

### Nonqualified Deferred Compensation

| Name                | Executive Contributions in Last Fiscal Year (\$) | Registrant Contributions in Last Fiscal Year (\$) | Aggregate Earnings in Last Fiscal Year (\$) | Aggregate Withdrawals/ Distributions (\$) | Aggregate Balance at Last Fiscal Year End (\$) |
|---------------------|--------------------------------------------------|---------------------------------------------------|---------------------------------------------|-------------------------------------------|------------------------------------------------|
| James B. Gattoni    | 350,000                                          | 9,400                                             | (26,332)                                    |                                           | 444,308                                        |
| Joseph J. Beacom    | 638,500                                          | 2,100                                             | (35,079)                                    |                                           | 747,729                                        |
| Michael K. Kneller  |                                                  |                                                   | (4,141)                                     |                                           | 38,694                                         |
| Patrick J. O Malley |                                                  |                                                   | (4,891)                                     |                                           | 82,128                                         |

Eligible employees can elect to make deferred contributions to the SERP, based on a percentage of their base salary and/or bonus, subject to certain limitations. To the extent the employee has achieved the maximum allowable matching contribution under the Landstar System, Inc. 401(k) Savings Plan (the "401(k) Plan"), the Company will contribute an amount equal to 100% of the first 3% of salary contributions and 50% of the next 2% of such salary contributions, subject to certain limitations. Interest, earnings or appreciation (less losses and depreciation) with respect to investment balances included in the employee's SERP account balance are credited to the employee's investment balance. Distributions under the SERP of individual account balances credited on or after January 1, 2005, and earnings thereon, are made following termination of employment as to form of payment (i.e., lump sum or annual installments) and time of payment (i.e., within 30 days following the six-month anniversary of the employee's termination of employment or within 30 days of March 1 of the year following the year of termination from employment of the participant) elected by the participant for that year's contributions prior to the start of each year of participation, and otherwise in accordance with the terms of the SERP. Investments in the SERP include primarily mutual funds and are valued using quoted market prices. The table below shows the investment options available to an employee under the SERP and their annual rate of return for 2018 as reported by the administrator of the SERP.

| Name of Fund                              | Rate of Return | Name of Fund                       | Rate of Return |
|-------------------------------------------|----------------|------------------------------------|----------------|
| BlackRock Inflation Protected Bond A      | -1.86%         | T. Rowe Price Retirement 2025 TR-A | -5.62%         |
| MFS Growth R3                             | 2.40%          | T. Rowe Price Retirement 2030 TR-A | -6.28%         |
| Vanguard 500 Index Admiral                | -4.43%         | T. Rowe Price Retirement 2035 TR-A | -6.87%         |
| Dreyfus Small Cap Stock Index Fund        | -8.88%         | T. Rowe Price Retirement 2055 TR-A | -7.62%         |
| T. Rowe Price Retirement 2010 Fund        | -3.61%         | T. Rowe Price Retirement 2060 TR-A | -7.57%         |
| Prudential Guaranteed Income Fund Class 3 | 2.08%          | T. Rowe Price Retirement 2040 TR-A | -7.32%         |
| MFS Value R3                              | -10.09%        | Delaware Small Cap Value           | -18.08%        |
| T. Rowe Price Retirement 2015 TR-A        | -4.17%         | T. Rowe Price Mid-Cap Value Fund   | -10.61%        |

|                                       |        |                                          |         |
|---------------------------------------|--------|------------------------------------------|---------|
| T. Rowe Price Retirement 2020<br>TR-A | -4.94% | American Funds Euro Pacific<br>Growth R5 | -14.95% |
| T. Rowe Price Mid-Cap Growth<br>Fund  | -2.04% | T. Rowe Price International<br>Discovery | -17.47% |
| Invesco Small Cap Growth<br>Fund      | -8.69% | PGIM Total Return Bond Z                 | -0.73%  |

**Potential Payment Upon Termination or Change in Control**

The table below reflects the amount of compensation payable to each of the Named Executives in the event of a qualifying termination of employment in connection with a change in control or possible change in control

under the Key Executive Employment Protection Agreements, as further described in the Compensation Discussion and Analysis section of this Proxy Statement as of the end of the Company's 2018 fiscal year. In addition, in accordance with the provisions of the Company's stock-based award plans, all outstanding, non-vested restricted stock are subject to accelerated vesting upon a change in control of the Company. The intent of the potential acceleration of non-vested restricted stock in the event of a change in control is to enable the executive to vest in an award primarily intended as a retention tool that would otherwise have vested based solely on the passage of time and the executive's continued employment with the Company, which may not be possible or permitted by an acquirer following a change in control of the Company due to no fault of the executive. With respect to the January 27, 2015, January 29, 2016, February 2, 2017 and February 2, 2018 Regular RSU Awards to the Named Executives, unless the Compensation Committee determines otherwise, in the event a change in control occurs prior to March 1, 2020 with respect to the 2015 awards, prior to March 1, 2021 with respect to the 2016 awards, prior to March 1, 2022 with respect to the 2017 awards and prior to March 1, 2023 with respect to the 2018 awards, 20% of each such RSU award would vest to the extent such amount would not exceed the number of RSUs that are eligible to vest at the maximum level under the applicable award. The intent of the partial potential acceleration of Regular RSU awards in the event of a change in control is to compensate the executive for 20% of the target amount under each such award in lieu of potential vesting for the year of the change in control. With respect to the TSR-based RSU Awards to the CEO, if there is a change in control of the Company prior to a vesting date, a pro rata number of the RSUs then credited to Mr. Gattoni (based on the number of days during the vesting period prior to the change in control) will vest based on the payout percentage achieved as of the date of the change in control, which would reflect the price paid for a share of Landstar System, Inc. common stock upon the change in control.

| <b>Name</b>          | <b>Change in Control (1)<br/>(\$)</b> |
|----------------------|---------------------------------------|
| James B. Gattoni     | 7,096,838                             |
| L. Kevin Stout       | 2,119,712                             |
| Joseph J. Beacom     | 1,439,512                             |
| Michael K. Kneller   | 1,889,512                             |
| Patrick J. O. Malley | 1,439,512                             |

- (1) Change in Control amounts include severance benefits, pro rata threshold bonus and medical benefits under the Key Executive Employment Protection Agreements, as described further in the Compensation Discussion and Analysis, plus the intrinsic value of unvested restricted stock and a portion of RSUs outstanding based on the closing price of the Company's common stock of \$95.20 on December 28, 2018 and assuming accelerated vesting upon a change in control of the Company, effective as of that date. The value of medical benefits for each Named Executive equals the payments that may be waived by the Company on behalf of such Named Executive for the continuation of existing coverage for up to one year under the Company's medical benefit plans pursuant to such Named Executive's Key Executive Employment Protection Agreement.

### **CEO Pay Ratio**

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and Item 402(u) of Regulation S-K, Landstar is providing the following information regarding the relationship of compensation of employees of the Company and its affiliates and compensation of the Company's President and Chief Executive Officer. The pay ratio set forth below is a reasonable estimate calculated in a manner consistent with Item 402(u) of Regulation S-K.

Landstar identified its median employee by examining the 2018 total cash compensation for all individuals, excluding our CEO, who were employed by the Company on December 29, 2018, the last day of the Company's 2018 fiscal year.

All employees, whether employed on a full-time, part-time or temporary basis, were included in this calculation. The Company (i) did not make any assumptions, adjustments or estimates with respect to total cash compensation, (ii) did not annualize the compensation for any employees that were not

employed by Landstar or any of its affiliates for all of 2018, and (iii) did not make any cost of living adjustments to the compensation of any employees. The Company believes the use of total cash compensation for all employees is a consistently applied compensation measure as the Company does not widely distribute annual equity awards throughout its employee workforce. After identifying the median employee based on total cash compensation, the Company calculated annual total compensation for such employee using the same methodology used for the Named Executives as set forth in the 2018 Summary Compensation Table. As illustrated in the table below, Landstar's 2018 CEO to median employee pay ratio was 125:1.

### CEO to Median Employee Pay Ratio

|                                        | <b>President &amp;<br/>CEO</b> | <b>Median<br/>Employee</b> |
|----------------------------------------|--------------------------------|----------------------------|
| Base Salary                            | \$ 500,000                     | \$ 40,997                  |
| Stock Awards                           | 1,929,789                      |                            |
| Non-Equity Incentive Plan Compensation | 3,000,000                      | 1,000                      |
| Change in Pension Value                |                                |                            |
| All Other Compensation                 | 39,910                         | 1,702                      |
| Total                                  | \$ 5,469,699                   | \$ 43,699                  |

|                                             |               |          |          |
|---------------------------------------------|---------------|----------|----------|
| <b>CEO Pay to Median Employee Pay Ratio</b> | <b>125.20</b> | <b>:</b> | <b>1</b> |
|---------------------------------------------|---------------|----------|----------|

As noted above in *Compensation, Discussion and Analysis – Performance Based Compensation; Annual Incentive Compensation*, Landstar's financial performance in fiscal year 2018 was the best in the Company's history, with fiscal year 2017 being the second best financial performance in the Company's history. Landstar set many annual financial and operational records in 2018, many of which represented significant improvement over records set in 2017, including revenue, gross profit, operating income, net income, diluted earnings per share, truck loads and year end truck count provided by BCOs. To put this performance in further context, based on the same methodology and median employee as described above, Landstar's 2017 CEO to median employee pay ratio was 101:1 and Landstar's 2016 CEO to median employee pay ratio would have been 34:1.

### Item 402(s) Statement

The Compensation Committee has considered the potential risks arising from the Company's compensation policies and practices for all employees and does not believe the risks from those compensation policies and practices are reasonably likely to have a material adverse effect on the Company.

## SECURITY OWNERSHIP BY MANAGEMENT AND OTHERS

The following table sets forth certain information concerning the beneficial ownership of the Company's Common Stock as of March 22, 2019 by (i) each person who is known by the Company to own beneficially more than 5% of the outstanding shares of Common Stock, (ii) each Director, nominee for election as a Director and Executive Officer of the Company, and (iii) all Directors and Executive Officers as a group. Except as otherwise indicated, the business address of each stockholder listed on the table below is c/o Landstar System, Inc., 13410 Sutton Park Drive South, Jacksonville, Florida 32224.

| Name of Beneficial Owner                                                                      | Position(s)                                                        | Amount and | Ownership  |
|-----------------------------------------------------------------------------------------------|--------------------------------------------------------------------|------------|------------|
|                                                                                               |                                                                    | Nature of  | Percent of |
|                                                                                               |                                                                    | Beneficial | Class (1)  |
| <b>(i)</b>                                                                                    |                                                                    |            |            |
| BlackRock, Inc. (2)(3)                                                                        |                                                                    | 5,410,701  | 13.5%      |
| The Vanguard Group (2)(4)                                                                     |                                                                    | 3,748,014  | 9.3%       |
| Eaton Vance Management(2)(5)                                                                  |                                                                    | 2,586,951  | 6.4%       |
| T. Rowe Price Associates, Inc.(2)(6)                                                          |                                                                    | 2,216,121  | 5.5%       |
| <b>(ii)</b>                                                                                   |                                                                    |            |            |
| Homaira Akbari(7)                                                                             | Director and Nominee for Director                                  | 7,646      | *          |
| David G. Bannister(7)                                                                         | Director                                                           | 29,835     | *          |
| Diana M. Murphy(7)                                                                            | Chairman of the Board and<br>Nominee for Director                  | 37,921     | *          |
| Anthony J. Orlando(8)                                                                         | Director                                                           | 9,176      | *          |
| Larry J. Thoele(7)                                                                            | Director and Nominee for Director                                  | 12,646     | *          |
| George P. Scanlon(7)                                                                          | Director                                                           | 2,305      | *          |
| James B. Gattoni(9)                                                                           | President, Chief Executive Officer<br>and Director                 | 102,511    | *          |
| Michael K. Kneller(10)                                                                        | Vice President, General Counsel<br>and Secretary                   | 64,213     | *          |
| Joseph J. Beacom(10)                                                                          | Vice President and Chief Safety and<br>Operations Officer          | 50,924     | *          |
| L. Kevin Stout(10)                                                                            | Vice President, Chief Financial<br>Officer and Assistant Secretary | 47,204     | *          |
| Patrick J. O Malley(10)                                                                       | Vice President and Chief<br>Commercial and Marketing Officer       | 43,929     | *          |
| Ricardo S. Coro(11)                                                                           | Vice President and Chief<br>Information Officer                    | 7,484      | *          |
| <b>(iii)</b>                                                                                  |                                                                    |            |            |
| All Directors, Director Nominees and<br>Executive Officers as a group (12<br>persons)(12)(13) |                                                                    | 415,794    | 1.0%       |

\* Less than 1%

- (1) The percentages are based upon the number of outstanding shares of the Company as of March 22, 2019. With respect to the calculation of the percentages for beneficial owners who hold stock options exercisable within 60 days of March 22, 2019, the number of shares of Common Stock on which such percentage is based also includes the number of shares underlying such stock options.
- (2) In accordance with the rules of the SEC, the information set forth above is based on the most recent Schedule 13G (and amendments thereto) filed by this entity.
- (3) According to its Schedule 13G/A filed on January 31, 2019, BlackRock, Inc. ( BlackRock ) is a parent holding company or control person and is deemed to be the beneficial owner of 5,410,701 shares of Common Stock. BlackRock has sole voting power with respect to 4,786,957 of such shares, shared voting

power or shared dispositive power with respect to none of the shares, and sole dispositive power with respect to all 5,410,701 of such shares. The business address of BlackRock is 55 East 52<sup>nd</sup> Street, New York, NY 10055.

- (4) According to its Schedule 13G/A filed on February 12, 2019, the Vanguard Group, Inc. ( Vanguard ) is an investment adviser registered under Section 203 of the Investment Advisers Act of 1940 and is deemed to be the beneficial owner of 3,748,014 shares of Common Stock. Vanguard has sole voting power with respect to 22,535 of such shares, shared voting power with respect to 4,870 of such shares, sole dispositive power with respect to 3,724,439 of such shares and shared dispositive power with respect to 23,575 of such shares. In addition, Vanguard Fiduciary Trust Company, a wholly-owned subsidiary of Vanguard, is the beneficial owner of 18,705 shares as a result of serving as investment manager of collective trust accounts and Vanguard Investments Australia, Ltd., a wholly-owned subsidiary of Vanguard, is the beneficial owner of 8,700 shares as a result of its serving as investment manager of Australian investment offerings. The business address of Vanguard is 100 Vanguard Blvd., Malvern, PA 19355.
- (5) According to its Schedule 13G/A filed on February 14, 2019, Eaton Vance Management ( Eaton Vance ) is an investment adviser registered under Section 203 of the Investment Advisers Act of 1940 and is deemed to be the beneficial owner of 2,586,951 shares of Common Stock. Eaton Vance has sole voting power and sole dispositive power with respect to all 2,586,951 of such shares. The business address of Eaton Vance is 2 International Place, Boston, Massachusetts 02110.
- (6) According to its Schedule 13G/A filed on February 14, 2019, (i) T. Rowe Price Associates, Inc. ( Price Associates ) is an investment adviser registered under Section 203 of the Investment Advisers Act of 1940 and is deemed to be the beneficial owner of 2,216,121 shares of Common Stock. Price Associates has sole voting power with respect to 658,751 of such shares, no shared voting or dispositive power with respect to such shares, and sole dispositive power with respect to all 2,216,121 of such shares. The business address of each of Price Associates is 100 E. Pratt Street, Baltimore, Maryland 21202.
- (7) Includes 990 shares of restricted stock subject to vesting.
- (8) Includes 2,305 Deferred Stock Units, of which 990 remain subject to vesting.
- (9) Includes 8,789 shares of restricted stock subject to vesting.
- (10) Includes 4,394 shares of restricted stock subject to vesting.
- (11) Includes 6,305 shares of restricted stock subject to vesting.
- (12) Represents amount of shares that may be deemed to be beneficially owned either directly or indirectly by all Directors, Nominees for Director and Executive Officers as a group.

(13) Includes 37,620 shares of restricted stock and 990 Deferred Stock units subject to vesting.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's Executive Officers and Directors, and persons who own more than ten percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the SEC. Executive Officers, Directors and greater than ten percent stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on review of the copies of such forms furnished to the Company, or written representations that no Form 5 was required, the Company believes that during the fiscal year ended December 29, 2018, all reports required by Section 16(a) which are applicable to its Executive Officers, Directors and greater than ten percent beneficial owners were filed on a timely basis, except with respect to the following: on May 1, 2018, Mr. Coro elected to pay his tax withholding obligations attributable to a restricted stock award vesting in the form of 495 shares. The Form 4 reporting this transaction was filed on May 17, 2018.

## **PROPOSAL NUMBER TWO**

### **RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED**

#### **PUBLIC ACCOUNTING FIRM**

The firm of KPMG LLP served as the independent registered public accounting firm for the Company for the fiscal years ended December 29, 2018 and December 30, 2017. In addition to retaining KPMG LLP to audit the consolidated financial statements and internal control over financial reporting of the Company and its subsidiary, LSHI, the Company engaged KPMG LLP to render certain employee benefit plan audit services to the Company in fiscal years 2017 and 2018 and expects to continue to do so in fiscal 2019. The aggregate fees billed for professional services by KPMG LLP in fiscal years 2018 and 2017 for services consisted of the following:

**AUDIT FEES:** Fees for the audits of the consolidated financial statements and internal control over financial reporting, quarterly reviews and subsidiary audit were \$975,000 and \$1,021,500 for fiscal years 2018 and 2017, respectively.

**AUDIT RELATED FEES:** Fees for the audit of the Company's 401(k) plan were \$28,000 and \$27,500 for fiscal years 2018 and 2017, respectively.

**TAX FEES:** None.

**ALL OTHER FEES:** None

The Audit Committee has approved all of the fees above.

The Audit Committee has appointed KPMG LLP to continue in that capacity for the Company's fiscal year 2019, and has recommended to the Board that a resolution be presented to stockholders at the 2019 Annual Meeting to ratify that appointment. The Board has adopted such resolutions and hereby presents it to the Company's stockholders. A representative of KPMG LLP will be present at the 2019 Annual Meeting and will have an opportunity to make a statement and respond to questions from stockholders, as appropriate.

Assuming the presence of a Quorum, to be approved, this proposal must receive the affirmative vote of the holders of a majority of the Common Stock, present, in person or by proxy, at the 2019 Annual Meeting. Abstentions from voting and broker non-votes will have no effect on the outcome of this proposal.

### **THE BOARD RECOMMENDS A VOTE *FOR* THIS PROPOSAL**

## **PROPOSAL NUMBER THREE**

### **ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION**

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, and Section 14A of the Securities Exchange Act of 1934, enable the Company's stockholders to vote to approve, on an advisory (nonbinding) basis, the compensation of the Named Executives as disclosed in this Proxy Statement.

As described in detail under the heading *Compensation Discussion and Analysis*, the executive compensation programs are designed to attract, motivate, and retain the Named Executives, who are critical to the Company's success. Under these programs, the Named Executives are rewarded for the achievement of specific annual, long-term and corporate goals, and the realization of increased stockholder value. Please read the *Compensation Discussion and*

*Analysis* included in this Proxy Statement for additional details about the executive compensation programs, including information about the fiscal year 2018 compensation of the Named Executives.

The Compensation Committee continually reviews the compensation programs for the Named Executives to ensure they achieve the desired goals of aligning the Company's executive compensation structure with current market practices and the stockholders' interests. While the Compensation Committee determines the compensation of the Named Executives in the manner described in the *Compensation Discussion and Analysis*, the Company understands that the stockholders may be particularly interested in the connection between our Chief Executive Officer's compensation and the Company's performance, as well as the long-term trend of the Chief Executive Officer's total compensation relative to the stockholders' return. As set forth in the Summary Compensation Table included in this Proxy Statement, a significant portion of total compensation paid to the Company's Chief Executive Officer as well as the other Named Executives is designed to be performance based (as discussed in *Compensation Discussion and Analysis*).

As noted above in *Compensation, Discussion and Analysis - Performance Based Compensation; Annual Incentive Compensation*, Landstar's financial performance in fiscal year 2018 was the best in the Company's history. The Company's financial performance in 2018 was all the more impressive given that it significantly exceeded the Company's financial performance in fiscal year 2017, which was previously considered the best financial performance in the Company's history.

Landstar set many annual financial and operational records in 2018, including revenue, gross profit, operating income, net income, diluted earnings per share, truck loads and year end truck count provided by BCOs. Revenue in fiscal 2018 was approximately \$4.6 billion, an annual record, and represented an organic increase of just under \$1 billion in revenue. Gross profit in 2018 was \$667 million, also an annual record. Record revenue and gross profit in 2018 was provided on the strength of approximately 2,060,000 loads hauled via truck capacity, the highest number of loads hauled via truck in any year in Landstar history. Operating income in 2018 was an annual record of \$332 million. Landstar diluted earnings per share in 2018 was an annual record of \$6.18 and represented year-over-year growth of 47% over diluted earnings per share for the 2017 fiscal year of \$4.21.

Without a doubt, the financial performance of the Company over the preceding two year period was the strongest in the Company's history. To put this performance in perspective, revenue increased from \$3,167,634,000 for the 2016 fiscal year to \$4,615,144,000 for the 2018 fiscal year, an increase of 46%, while diluted earnings per share increased from \$3.25 for the 2016 fiscal year to \$6.18 for the 2018 fiscal year, an increase of 90%.

In determining compensation paid to the Named Executives for the 2018 fiscal year, the Compensation Committee recognized this outstanding performance. Accordingly, we are asking the stockholders to indicate their support for the Named Executive compensation as described in this Proxy Statement. This proposal, commonly known as a say-on-pay proposal, gives the stockholders the opportunity each year to express their views on the Named Executives compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of the Named Executives and the philosophy, policies and practices described in this Proxy Statement. Accordingly, we will ask the stockholders to vote FOR the following resolution at the Company's 2019 Annual Meeting:

RESOLVED, that the Company's stockholders approve, on an advisory basis, the compensation of the Named Executives, as disclosed in the Company's Proxy Statement for the 2019 Annual Meeting pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the 2018 Summary Compensation Table and the other related tables and disclosure.

The say-on-pay vote is advisory, and therefore not binding on the Company, the Compensation Committee or the Board. The Board and the Compensation Committee value the opinions of the Company's stockholders and to the extent there is any significant vote against the Named Executive compensation as disclosed in this Proxy Statement, we will consider the stockholders' concerns and the Compensation Committee will evaluate whether any actions are necessary to address those concerns.



Approval of Proposal No. 3 requires the affirmative vote of a majority of the votes cast at the 2019 Annual Meeting, provided a Quorum is present. **Unless you instruct us to vote differently, we will vote valid proxies FOR the approval of the compensation paid by the Company to its Named Executives as discussed in this Proxy Statement.**

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE *FOR* THE APPROVAL, ON AN ADVISORY BASIS, OF THE COMPENSATION PAID BY THE COMPANY TO ITS NAMED EXECUTIVES AS DISCUSSED IN THIS PROXY STATEMENT.**

### **STOCKHOLDER PROPOSALS**

In accordance with regulations issued by the SEC, stockholder proposals intended for presentation at the 2020 Annual Meeting must be received by the Secretary of the Company no later than December 10, 2019, if such proposals are to be considered for inclusion in the Company's Proxy Statement. In accordance with the Bylaws of the Company, stockholder proposals intended for presentation at the 2020 Annual Meeting that are not intended to be considered for inclusion in the Company's Proxy Statement must be received by the Secretary of the Company not earlier than December 10, 2019 and not later than January 9, 2020. For any proposal that is not submitted for inclusion in next year's Proxy Statement, but is instead sought to be presented directly at the 2020 Annual Meeting, SEC rules permit management to vote proxies in its discretion if the Company: (1) receives notice of the proposal before the close of business on February 23, 2020 and advises stockholders in the 2020 Proxy Statement about the nature of the matter and how management intends to vote on such matter; or (2) does not receive notice of the proposal prior to the close of business on February 23, 2020.

In addition, in accordance with the Bylaws, stockholder proposals intended for presentation at the 2019 Annual Meeting that are not intended for inclusion in this Proxy Statement must have been received by the Company not earlier than December 11, 2018 and not later than January 10, 2019. For any proposal that is not submitted for inclusion in this Proxy Statement, but is instead sought to be presented directly at the 2019 Annual Meeting, SEC rules permit management to vote proxies in its discretion if the Company: (1) received notice of the proposal before the close of business on February 24, 2019, and advises stockholders in this year's Proxy Statement about the nature of the matter and how management intends to vote on such matter; or (2) did not receive notice of the proposal prior to the close of business on February 24, 2019.

All proposals should be mailed via certified mail and addressed to Michael K. Kneller, Secretary, Landstar System, Inc., 13410 Sutton Park Drive South, Jacksonville, Florida 32224.

### **DELIVERY OF DOCUMENTS TO SECURITY HOLDERS SHARING AN ADDRESS**

The Company and its intermediaries shall provide one copy of a proxy statement or annual report to two or more security holders who share an address in accordance with Rule 14a-3(e)(1) of the Securities and Exchange Act of 1934, as amended, where consent of such security holders has been properly obtained and where neither the Company nor the intermediary has received contrary instructions from one or more of such security holders. The Company undertakes to deliver promptly upon written or oral request a separate copy of a proxy statement or annual report, as applicable, to any security holder at a shared address to which a single copy of the documents was delivered. A security holder can notify the Company that the security holder wishes to receive a separate

copy of a proxy statement or annual report by contacting the Company at the following phone number and/or mailing address:

Landstar System, Inc.

Investor Relations

13410 Sutton Park Drive South

Jacksonville, FL 32224

Phone: 904-398-9400

Security holders sharing an address can also request delivery of a single copy of a proxy statement or an annual report if they are receiving multiple copies of proxy statements or annual reports by contacting the Company at the preceding phone number and/or mailing address.

#### **OTHER MATTERS**

Management knows of no matters that are to be presented for action at the meeting other than those set forth above. If any other matters properly come before the 2019 Annual Meeting, the persons named in the enclosed form of proxy will vote the shares of Common Stock represented by proxies in accordance with their best judgment on such matters.

**PLEASE COMPLETE, SIGN, DATE AND RETURN THE  
ENCLOSED PROXY CARD PROMPTLY**

By Order of the Board of Directors

Michael K. Kneller  
*Vice President, General Counsel & Secretary*

13410 Sutton Park Drive South

Jacksonville, FL 32224

**THE COMPANY WILL FURNISH, WITHOUT CHARGE, TO ANY STOCKHOLDER OF THE COMPANY WHO SO REQUESTS, A COPY OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 29, 2018, AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. ANY SUCH REQUEST SHOULD BE DIRECTED TO LANDSTAR SYSTEM, INC., ATTENTION: MICHAEL K. KNELLER, SECRETARY, 13410 SUTTON PARK DRIVE SOUTH, JACKSONVILLE, FLORIDA 32224.**

**LANDSTAR SYSTEM, INC.**

**13410 SUTTON PARK DRIVE SOUTH**

**JACKSONVILLE, FL 32224**

**VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern Time on May 20, 2019. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS**

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 p.m. Eastern Time on May 20, 2019. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

E63378-P20615

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

**LANDSTAR SYSTEM, INC.**

**The Board of Directors recommends you vote FOR the following:**

1. Election of Directors

**Nominees:**                      **For    Against    Abstain**

1a. Homaira Akbari

1b. Diana M. Murphy

1c. Larry J. Thoele

**The Board of Directors recommends you  
vote FOR proposals 2 and 3.**

**For   Against   Abstain**

2. RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS THE  
COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR  
FISCAL YEAR 2019.

3. ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION.

**NOTE:** IN THEIR DISCRETION, EACH OF THE PROXIES IS AUTHORIZED TO  
VOTE UPON SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE  
MEETING OR ANY ADJOURNMENT THEREOF.

For address changes  
and/or comments,  
please check this box  
and write them on  
the back where  
indicated.

Please sign exactly as your name(s)  
appear(s) hereon. When signing as  
attorney, executor, administrator,  
trustee, guardian or other fiduciary,  
please give full title as such. Joint  
owners should each sign personally.  
All holders must sign. If a  
corporation or partnership, please  
sign in full corporate or partnership  
name by authorized officer.

Signature [PLEASE  
SIGN WITHIN BOX]

Date

Signature (Joint Owners)   Date

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**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:**

The Notice and Proxy Statement, Annual Report on Form 10-K and Stockholder Letter are available at  
[www.proxyvote.com](http://www.proxyvote.com).

E63379-P20615

**LANDSTAR SYSTEM, INC.**

**Annual Meeting of Stockholders**

**May 21, 2019 9:00 AM local time**

**This proxy is solicited on behalf of the Board of Directors**

The undersigned hereby appoints L. Kevin Stout and Michael K. Kneller, jointly and severally, as Proxies, each with the power to appoint his substitute, and hereby authorizes each or both of them to represent and to vote, as designated on the reverse side, all of the shares of Common Stock of Landstar System, Inc., held of record by the undersigned on March 26, 2019, at the Annual Meeting of Stockholders to be held in the offices of Landstar System, Inc., at 13410 Sutton Park Drive South, Jacksonville, Florida 32224 on Tuesday, May 21, 2019, at 9:00 a.m., local time, or any adjournment or postponement thereof. None of the matters to be acted upon, each of which has been proposed by Landstar System, Inc., is related to or conditioned on the approval of other matters.

**This proxy when properly executed will be voted in accordance with the specifications made herein by the undersigned stockholder. If no direction is made, this proxy will be voted FOR proposals 1, 2 and 3.**

**Address Changes/Comments:** \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

(If you noted any Address Changes/Comments above, please mark corresponding box on the reverse side.)

**Continued and to be signed on reverse side**