HUNT J B TRANSPORT SERVICES INC
Form 10-Q
April 29, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

OR

__TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 0-11757

J.B. HUNT TRANSPORT SERVICES, INC.
(Exact name of registrant as specified in its charter)

Arkansas	71-0335111
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

615 J.B. Hunt Corporate Drive, Lowell, Arkansas 72745
(Address of principal executive offices)

479-820-0000
(Registrant's telephone number, including area code)

www.jbhunt.com
(Registrant's web site)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes __ No __

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

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

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

The number of shares of the registrant’s $0.01 par value common stock outstanding on March 31, 2010 was 127,328,832.

J.B. HUNT TRANSPORT SERVICES, INC.

Form 10-Q
For The Quarterly Period Ended March 31, 2010
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Part I. Financial Information

ITEM 1. FINANCIAL STATEMENTS

J.B. HUNT TRANSPORT SERVICES, INC.

Condensed Consolidated Statements of Earnings
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended March 31,	
	2010	2009
Operating revenues, excluding fuel surcharge revenues	$736,826	$663,654
Fuel surcharge revenues	107,847	59,181
Total operating revenues	844,673	722,835
Operating expenses:		
Rents and purchased transportation	374,769	299,422
Salaries, wages and employee benefits	208,295	192,345
Fuel and fuel taxes	80,377	59,230
Depreciation and amortization	48,012	47,363
Operating supplies and expenses	36,042	35,626
Insurance and claims	11,551	11,850
General and administrative expenses, net of asset dispositions	6,659	8,450
Operating taxes and licenses	6,534	6,895
Communication and utilities	4,994	4,664
Total operating expenses	777,233	665,845
Operating income	67,440	56,990
Interest expense, net	6,494	6,756
Equity in operations of affiliated company	0	625
Earnings before income taxes	60,946	49,609
Income taxes	23,464	18,851
Net earnings	$37,482	$30,758
Weighted average basic shares outstanding	127,282	126,078
Basic earnings per share	$0.29	$0.24
Weighted average diluted shares outstanding	130,397	128,558
Diluted earnings per share	$0.29	$0.24
Dividends declared per common share	$0.12	$0.11

See Notes to Condensed Consolidated Financial Statements.

J.B. HUNT TRANSPORT SERVICES, INC.

Condensed Consolidated Balance Sheets
(in thousands)

	March 31, 2010 (unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$7,787	$7,843
Trade accounts receivable, net	341,659	310,339
Prepaid expenses and other	70,467	74,283
Total current assets	419,913	392,465
Property and equipment, at cost	2,198,855	2,192,947
Less accumulated depreciation	749,396	748,276
Net property and equipment	1,449,459	1,444,671
Other assets	19,761	19,778
	$1,889,133	$1,856,914
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$200,000	$0
Trade accounts payable	180,085	191,347
Claims accruals	23,025	18,545
Accrued payroll	52,043	34,651
Other accrued expenses	19,107	14,170
Deferred income taxes	11,147	10,505
Total current liabilities	485,407	269,218
Long-term debt	341,000	565,000
Other long-term liabilities	36,073	35,581
Deferred income taxes	354,138	343,262
Stockholders' equity	672,515	643,853
	$1,889,133	$1,856,914

See Notes to Condensed Consolidated Financial Statements.

J.B. HUNT TRANSPORT SERVICES, INC.

Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2010	2009
Cash flows from operating activities:		
Net earnings	$37,482	$30,758
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	48,012	47,363
Share-based compensation	5,193	4,556
(Gain)/loss on sale of revenue equipment and other	(2,200)	211
Provision/(benefit) for deferred income taxes	11,517	(2,741)
Equity in operations of affiliated company	0	625
Changes in operating assets and liabilities:		
Trade accounts receivable	(31,321)	1,720
Income tax payable	10,367	6,980
Other assets	1,147	17,530
Trade accounts payable	(10,285)	(37,721)
Claims accruals	4,480	503
Accrued payroll and other accrued expenses	12,283	3,538
Net cash provided by operating activities	86,675	73,322
Cash flows from investing activities:		
Additions to property and equipment	(69,607)	(66,735)
Net proceeds from sale of equipment	21,934	20,141
Net proceeds from the sale of available for sale investments	0	550
Change in other assets	(68)	(7,321)
Net cash used in investing activities	(47,741)	(53,365)
Cash flows from financing activities:		
Payments on long-term debt	0	(3,500)
Proceeds from revolving lines of credit and other	235,423	359,770
Payments on revolving lines of credit and other	(260,400)	(361,500)
Stock option exercises and other	393	130
Tax benefit on stock options exercised	865	215
Dividends paid	(15,271)	(13,869)
Net cash used in financing activities	(38,990)	(18,754)
Net change in cash and cash equivalents	(56)	1,203
Cash and cash equivalents at beginning of period	7,843	2,373
Cash and cash equivalents at end of period	$7,787	$3,576
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$12,213	$12,688
Income taxes	$718	$14,652

See Notes to Condensed Consolidated Financial Statements.

J.B. HUNT TRANSPORT SERVICES, INC.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. General

Basis of Presentation

The accompanying unaudited interim Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information. We believe such statements include all adjustments (consisting only of normal recurring adjustments) necessary for the fair presentation of our financial position, results of operations and cash flows at the dates and for the periods indicated. Pursuant to the requirements of the Securities and Exchange Commission (SEC) applicable to quarterly reports on Form 10-Q, the accompanying financial statements do not include all disclosures required by GAAP for annual financial statements. While we believe the disclosures presented are adequate to make the information not misleading, these unaudited interim Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2009. Operating results for the periods presented in this report are not necessarily indicative of the results that may be expected for the calendar year ending December 31, 2010, or any other interim period. Our business is somewhat seasonal with slightly higher freight volumes typically experienced during August through early November in our Truck and Intermodal segments.

2. Earnings Per Share

We compute basic earnings per share by dividing net earnings available to common stockholders by the actual weighted average number of common shares outstanding for the reporting period. Diluted earnings per share reflects the potential dilution that could occur if holders of unvested restricted share units or stock options exercised or converted their holdings into common stock. The dilutive effect of restricted share units and stock options was 3.1 million shares during the first quarter 2010, compared to 2.5 million shares during the first quarter 2009.

There were no stock options outstanding where the exercise price was greater than the average market price at March 31, 2010. Options to purchase 12,000 shares of common stock, with an exercise price range of $24.27 - $24.43, were outstanding at March 31, 2009, but were excluded from the computation of diluted earnings per share because the exercise price was greater than the average market price of the common shares.

3. Share-based Compensation

The following table summarizes the components of our share-based compensation program expense (in thousands):

	Three Months Ended March 31,	
	2010	2009
Restricted share units:		
Pretax compensation expense	$4,868	$4,220
Tax benefit	1,874	1,603
Restricted share unit expense, net of tax	$2,994	$2,617
Stock options:		
Pretax compensation expense	$324	$336

Tax benefit	125	128
Stock option expense, net of tax	$199	$208

As of March 31, 2010, we had $40.2 million and $6.0 million of total unrecognized compensation expense related to restricted share units and nonstatutory stock options, respectively, which is expected to be recognized over the remaining weighted-average period of 3.5 years for restricted share units and 1.8 years for stock options.

4. Financing Arrangements

Outstanding borrowings under our current financing arrangements consist of the following (in millions):

	March 31, 2010	December 31, 2009
Revolving line of credit	$141.0	$165.0
Senior notes	400.0	400.0
Less current portion of long-term debt	(200.0)	--
Total long-term debt	$341.0	$565.0

Revolving Line of Credit

At March 31, 2010, we were authorized to borrow up to $350 million under a revolving line of credit, which is supported by a credit agreement with a group of banks and expires in March 2012. The applicable interest rate under this agreement is based on either the prime rate or LIBOR, depending upon the specific type of borrowing, plus a margin based on the level of borrowing and our credit rating. At March 31, 2010, we had $141 million outstanding at an average interest rate of 0.90% under this agreement.

Senior Notes

Our senior notes consist of two separate issuances. The first is $200 million of 5.31% senior notes, which mature in March 2011. Interest payments are due semiannually in March and September of each year. The second is $200 million of 6.08% senior notes, which mature in July 2014. For this second issuance, principal payments in the amount of $50.0 million are due in July 2012 and 2013, with the remainder due upon maturity. Interest payments are due semiannually in January and July of each year.

Our revolving line of credit and senior notes require us to maintain certain covenants and financial ratios. We were in compliance with all covenants and financial ratios at March 31, 2010.

5. Capital Stock

On February 4, 2010, our Board of Directors declared a regular quarterly dividend of $0.12 per common share, which was paid on February 26, 2010, to stockholders of record on February 12, 2010. On April 28, 2010, our Board of Directors declared a regular quarterly dividend of $0.12 per common share, which will be paid on May 28, 2010, to stockholders of record on May 14, 2010. On April 28, 2010, our Board of Directors authorized the purchase of $500 million of our common stock.

6. Comprehensive Income

Comprehensive income includes changes in the fair value of an interest rate swap, which qualified for hedge accounting and expired effective September 29, 2009. A reconciliation of net earnings and comprehensive income follows (in thousands):

	Three Months Ended March 31,	
	2010	2009
Net earnings	$37,482	$30,758

Unrealized gain on derivative instruments	--	650
Income tax expense	--	(247)
Comprehensive income	$37,482	$31,161

7. Fair Value Measurements

Our assets and liabilities measured at fair value are based on the market approach valuation technique which considers prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities.

The following are assets and liabilities measured at fair value, based on quoted market prices (Level 1) and completed sales or market asking prices for similar assets (Level 2), at March 31, 2010 (in millions):

	Quoted Prices in Active Markets for Identical Assets/(Liabilities) (Level 1)	Significant Other Observable Inputs Assets/(Liabilities) (Level 2)
Trading investments	$ 9.6	$ --
Assets held for sale	$ --	$ 0.5

Trading investments and assets held for sale are classified in other assets in our Condensed Consolidated Balance Sheets. Trading investments are measured on a recurring basis. Assets held for sale are measured on a nonrecurring basis.

The carrying amounts and estimated fair values, based on their net present value using market rates obtained from third parties, of our long-term debt at March 31, 2010, were as follows (in millions):

	Carrying Value	Estimated Fair Value
Revolving line of credit	$141.0	$141.0
Senior notes	$400.0	$366.9

The carrying amounts of all other instruments at March 31, 2010, approximate their fair value due to the short maturity of these instruments.

8. Income Taxes

Our effective income tax rate was 38.5% for the three months ended March 31, 2010, compared with 38.0% for the three months ended March 31, 2009. In determining our quarterly provision for income taxes, we use an estimated annual effective tax rate, which is based on our expected annual income, statutory tax rates, best estimate of nontaxable and nondeductible items of income and expense and the ultimate outcome of tax audits. The 2010 effective income tax rate reflects changes in estimates related to state income taxes and nontaxable and nondeductible items as they relate to expected annual income.

At March 31, 2010, we had a total of $18.9 million in gross unrecognized tax benefits, which are a component of other long-term liabilities on our balance sheet. Of this amount, $12.3 million represents the amount of unrecognized tax benefits that, if recognized, would impact our effective tax rate. The total amount of accrued interest and penalties for such unrecognized tax benefits was $3.3 million at March 31, 2010.

9. Legal Proceedings

We are involved in certain claims and pending litigation arising from the normal conduct of business. Based on our present knowledge of the facts and, in certain cases, opinions of outside counsel, we believe the resolution of these claims and pending litigation will not have a material adverse effect on our financial condition, results of operations or our liquidity.

We are a defendant in certain class-action allegations in which the plaintiffs are current and former California-based drivers who allege claims for unpaid wages, failure to provide meal and rest periods, and other items. Further proceedings have been stayed in these matters pending the California Supreme Court's decision in a case unrelated to ours involving similar issues. We cannot reasonably estimate at this time the possible loss or range of loss, if any, that may arise from these lawsuits.

10. Business Segments

We reported four distinct business segments during the three months ended March 31, 2010 and 2009. These segments included Intermodal (JBI), Dedicated Contract Services® (DCS), Truck (JBT), and Integrated Capacity Solutions (ICS). The operation of each of these businesses is described in Note 13, Segment Information, of our Annual Report (Form 10-K) for the year ended December 31, 2009. A summary of certain segment information is presented below (in millions):

	Assets (Excludes intercompany accounts) As of March 31,	
	2010	2009
JBI	$950	$813
DCS	460	400
JBT	287	374
ICS	29	26
Other (includes corporate)	163	168
Total	$1,889	$1,781

	Operating Revenues For The Three Months Ended March 31,	
	2010	2009
JBI	$469	$391
DCS	208	179
JBT	113	102
ICS	61	56
Subtotal	851	728
Inter-segment eliminations	(6)	(5)
Total	$845	$723

	Operating Income (Loss) For The Three Months Ended March 31,	
	2010	2009
JBI	$48	$41
DCS	18	17
JBT	1	(6)
ICS	1	4
Other (includes corporate)	(1)	1
Total	$67	$57

	Depreciation and Amortization Expense For The Three Months Ended March 31,	
	2010	2009
JBI	$18	$15
DCS	16	16
JBT	11	14
ICS	0	0
Other (includes corporate)	3	2
Total	$48	$47

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should refer to the attached interim Condensed Consolidated Financial Statements and related notes and also to our Annual Report (Form 10-K) for the year ended December 31, 2009, as you read the following discussion. We may make statements in this report that reflect our current expectation regarding future results of operations, performance and achievements. These are "forward-looking" statements as defined in the Private Securities Litigation Reform Act of 1995, and are based on our belief or interpretation of information currently available. You should realize there are many risks and uncertainties that could cause actual results to differ materially from those described. Some of the factors and events that are not within our control and could have a significant impact on future operating results are general economic conditions, cost and availability of fuel, accidents, adverse weather conditions, competitive rate fluctuations, availability of drivers, adverse legal decisions and audits or tax assessments of various federal, state or local taxing authorities. Additionally, our business is somewhat seasonal with slightly higher freight volumes typically experienced during August through early November in our Truck and Intermodal segments. You should also refer to Item 1A of our Annual Report (Form 10-K) for the year ended December 31, 2009, for additional information on risk factors and other events that are not within our control. Our future financial and operating results may fluctuate as a result of these and other risk factors as described from time to time in our filings with the SEC.

GENERAL

We are one of the largest surface transportation and delivery service companies in North America. We operate four distinct, but complementary, business segments and provide a wide range of transportation and delivery services to a diverse group of customers throughout the continental United States, Canada and Mexico. We generate revenues primarily from the actual movement of freight from shippers to consignees and from serving as a logistics provider by offering or arranging for others to provide the transportation service. In addition, we offer services that generally are not provided by common truckload or intermodal carriers, including specialized equipment, on-site management and final-mile delivery services. We account for our business on a calendar year basis with our full year ending on December 31 and our quarterly reporting periods ending on March 31, June 30 and September 30. The operation of each of our four business segments is described in Note 13, Segment Information, of our Annual Report (Form 10-K) for the year ended December 31, 2009.

Critical Accounting Policies and Estimates

The preparation of our financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that impact the amounts reported in our Condensed Consolidated Financial Statements and accompanying notes. Therefore, the reported amounts of assets, liabilities, revenues, expenses and associated disclosures of contingent assets and liabilities are affected by these estimates. We evaluate these estimates on an ongoing basis, utilizing historical experience, consultation with experts and other methods considered reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from our estimates. Any effects on our business, financial position or results of operations resulting from revisions to these estimates are recognized in the accounting period in which the facts that give rise to the revision become known.

Information regarding our Critical Accounting Policies and Estimates can be found in our Annual Report (Form 10-K). The four critical accounting policies that we believe require us to make more significant judgments and estimates when we prepare our financial statements include those relating to self-insurance accruals, revenue equipment, revenue recognition and income taxes. We have discussed the development and selection of these critical accounting policies and estimates with the Audit Committee of our Board of Directors. In addition, Note 2, Summary of Significant Accounting Policies, to the financial statements in our Annual Report (Form 10-K) for the year ended December 31, 2009, contains a summary of our critical accounting policies. There have been no material changes to the methodology we apply for critical accounting estimates as previously disclosed in our Annual Report on Form 10-K.

RESULTS OF OPERATIONS

Comparison of Three Months Ended March 31, 2010 to Three Months Ended March 31, 2009

Summary of Operating Segment Results
For the Three Months Ended March 31,
(in millions)

	Operating Revenues			Operating Income (Loss)	
	2010	2009	% Change	2010	2009
JBI	$469	$391	20 %	$47.5	$41.3
DCS	208	179	16	18.4	17.4
JBT	113	102	11	0.6	(5.8)
ICS	61	56	8	1.1	4.1
Subtotal	851	728	17 %	67.6	57.0
Inter-segment eliminations	(6)	(5)	(5)	(0.2)	--
Total	$845	$723	17 %	$67.4	$57.0

Our total consolidated operating revenues increased to $845 million for the first quarter 2010, a 17% increase from $723 million in the first quarter 2009. The increase in operating revenues was primarily attributable to higher volumes in our JBI and ICS segments, significant growth in our DCS segment, as well as revenue growth in our JBT segment. Higher fuel prices resulted in fuel surcharge (FSC) revenues of $107.8 million during the current quarter, compared with $59.2 million in 2009. If FSC revenues were excluded from both periods, first quarter 2010 revenue increased 11% from 2009.

JBI segment revenue increased 20%, to $469 million during the first quarter 2010, compared with $391 million in 2009. This increase in segment revenue was primarily a result of a 21% increase in load volume over the prior year period. Load volume in our eastern network increased 26% over the prior year. Additionally, transcontinental volume increased 20%. Operating income of the JBI segment increased to $47.5 million in the first quarter 2010, from $41.3 million in 2009, primarily due to the volume and revenue growth.

DCS segment revenue increased 16%, to $208 million in the first quarter 2010, from $179 million in 2009. Excluding fuel surcharges, revenue increased 13%, compared to the first quarter 2009. This revenue increase related to new final-mile delivery contracts added in 2009, as well as an increase in productivity, defined as revenue per truck excluding FSC, at our base business accounts. Operating income of our DCS segment increased to $18.4 million in 2010, from $17.4 million in 2009. This increase in operating income was primarily due to increased demand and new business, partially offset by implementation expenses associated with new business.

JBT segment revenue totaled $113 million for the first quarter 2010, an increase of 11% from $102 million in the first quarter 2009. Excluding FSC, segment revenue increased 4%. This increase in revenue was primarily a result of increased load volume, compared to the same quarter a year ago, which allowed selectivity among available loads. In addition, higher spot rates and longer length of haul contributed to the revenue increase. Our JBT segment operating income was approximately $0.6 million during the first quarter 2010, compared with an operating loss of $5.8 million during first quarter 2009. This increase in operating income was the result of increased revenue and the impact of our network refinement and fleet reduction which allowed for effective cost control measures and better tractor utilization.

ICS segment revenue grew 8%, to $61 million in the first quarter 2010, from $56 million in 2009, which was primarily attributable to a 5% increase in load volume and a change in freight mix to more transactional shipments, which allows faster pricing adjustments in response to market fluctuations. Operating income of our ICS segment decreased to $1.1 million, from $4.1 million in 2009, due to an increase in purchased transportation expense, as well as an increase in costs related to new branch openings. ICS gross profit (gross revenue less purchased transportation expense) decreased 28% to $9.1 million, resulting in a gross profit margin decline to 14.8% in the current quarter from 22.2% in the first quarter 2009. The higher margins in the first quarter 2009 were partly attributable to the oversupply of carrier capacity, which resulted in lower third party charges. During the first quarter 2010, supply moderated creating the need to balance between our long-term growth objectives and procuring capacity that met our service and margin requirements. Our ICS employee count increased 7% during the first quarter 2010, compared with 2009, which was largely in sales and operations.

Consolidated Operating Expenses

The following table sets forth items in our Condensed Consolidated Statements of Earnings as a percentage of operating revenues and the percentage increase or decrease of those items as compared with the prior period.

	Three Months Ended March 31,		Percentage Change of Dollar Amounts Between Quarters
	Dollar Amounts as a Percentage of Total Operating Revenues		
	2010	2009	2010 vs. 2009
Total operating revenues	100.0 %	100.0 %	16.9 %
Operating expenses:			