

HUNT J B TRANSPORT SERVICES INC

Form 10-Q

October 31, 2008

[Table of Contents](#)

**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 September 30, 2008**

**OR**

**o** **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)

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**Arkansas**  
(State or other jurisdiction  
of incorporation or  
organization)

**71-0335111**  
(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 such filing requirements for the past 90 days.

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 ☒ 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 ☒

The number of shares of the registrant's \$0.01 par value common stock outstanding on September 30, 2008 was 126,010,248.



Table of Contents

**J.B. HUNT TRANSPORT SERVICES, INC.**

**Form 10-Q**

**For The Quarter Ended September 30, 2008**

**Table of Contents**

|                                                                                                                      | <b>Page</b> |
|----------------------------------------------------------------------------------------------------------------------|-------------|
| <b>Part I. Financial Information</b>                                                                                 |             |
| <u>Item 1.</u>                                                                                                       |             |
| <u>Financial Statements</u>                                                                                          |             |
| <u>Condensed Consolidated Statements of Earnings for the Three and Nine Months Ended September 30, 2008 and 2007</u> | 3           |
| <u>Condensed Consolidated Balance Sheets as of September 30, 2008 and December 31, 2007</u>                          | 4           |
| <u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2008 and 2007</u>         | 5           |
| <u>Notes to Condensed Consolidated Financial Statements as of September 30, 2008</u>                                 | 6           |
| <u>Item 2.</u>                                                                                                       |             |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                         | 11          |
| <u>Item 3.</u>                                                                                                       |             |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u>                                                    | 19          |
| <u>Item 4.</u>                                                                                                       |             |
| <u>Controls and Procedures</u>                                                                                       | 20          |
| <b>Part II. Other Information</b>                                                                                    |             |
| <u>Item 1.</u>                                                                                                       |             |
| <u>Legal Proceedings</u>                                                                                             | 20          |
| <u>Item 1A.</u>                                                                                                      |             |
| <u>Risk Factors</u>                                                                                                  | 20          |
| <u>Item 2.</u>                                                                                                       |             |
| <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                                                   | 20          |
| <u>Item 3.</u>                                                                                                       |             |
| <u>Defaults Upon Senior Securities</u>                                                                               | 20          |
| <u>Item 4.</u>                                                                                                       |             |
| <u>Submission of Matters to a Vote of Security Holders</u>                                                           | 20          |
| <u>Item 5.</u>                                                                                                       |             |
| <u>Other Information</u>                                                                                             | 20          |
| <u>Item 6.</u>                                                                                                       |             |
| <u>Exhibits</u>                                                                                                      | 21          |
| <u>Signatures</u>                                                                                                    | 22          |
| Exhibits                                                                                                             | 23          |
| 71-0335111                                                                                                           | 4           |



Table of Contents**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)

|                                                                | <b>Three Months Ended<br/>September 30</b> |             | <b>Nine Months Ended<br/>September 30</b> |              |
|----------------------------------------------------------------|--------------------------------------------|-------------|-------------------------------------------|--------------|
|                                                                | <b>2008</b>                                | <b>2007</b> | <b>2008</b>                               | <b>2007</b>  |
| Operating revenues, excluding fuel surcharge revenues          | \$ 770,656                                 | \$ 767,365  | \$ 2,258,130                              | \$ 2,216,410 |
| Fuel surcharge revenues                                        | 225,778                                    | 124,273     | 594,026                                   | 328,539      |
| Total operating revenues                                       | 996,434                                    | 891,638     | 2,852,156                                 | 2,544,949    |
| Operating expenses:                                            |                                            |             |                                           |              |
| Rents and purchased transportation                             | 400,641                                    | 319,809     | 1,108,749                                 | 878,474      |
| Salaries, wages and employee benefits                          | 217,194                                    | 224,421     | 651,790                                   | 666,996      |
| Fuel and fuel taxes                                            | 143,028                                    | 116,596     | 434,667                                   | 336,425      |
| Depreciation and amortization                                  | 50,666                                     | 52,299      | 151,934                                   | 152,346      |
| Operating supplies and expenses                                | 41,924                                     | 40,399      | 119,686                                   | 115,840      |
| Insurance and claims                                           | 13,860                                     | 17,669      | 45,924                                    | 51,745       |
| General and administrative expenses, net of asset dispositions | 10,214                                     | 10,802      | 28,328                                    | 29,395       |
| Operating taxes and licenses                                   | 7,985                                      | 8,429       | 24,158                                    | 25,362       |
| Communication and utilities                                    | 4,656                                      | 5,315       | 14,553                                    | 15,841       |
| Total operating expenses                                       | 890,168                                    | 795,739     | 2,579,789                                 | 2,272,424    |
| Operating income                                               | 106,266                                    | 95,899      | 272,367                                   | 272,525      |
| Interest income                                                | 214                                        | 277         | 713                                       | 754          |
| Interest expense                                               | 9,694                                      | 12,764      | 31,766                                    | 31,367       |
| Equity in loss of affiliated company                           | 247                                        | 25          | 2,125                                     | 1,085        |
| Earnings before income taxes                                   | 96,539                                     | 83,387      | 239,189                                   | 240,827      |
| Income taxes                                                   | 36,239                                     | 32,604      | 91,872                                    | 82,016       |
| Net earnings                                                   | \$ 60,300                                  | \$ 50,783   | \$ 147,317                                | \$ 158,811   |
| Weighted average basic shares outstanding                      | 125,907                                    | 130,537     | 125,206                                   | 137,310      |
| Basic earnings per share                                       | \$ 0.48                                    | \$ 0.39     | \$ 1.18                                   | \$ 1.16      |
| Weighted average diluted shares outstanding                    | 129,042                                    | 133,659     | 128,480                                   | 140,675      |

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|                                     |    |      |    |      |    |      |    |      |
|-------------------------------------|----|------|----|------|----|------|----|------|
| Diluted earnings per share          | \$ | 0.47 | \$ | 0.38 | \$ | 1.15 | \$ | 1.13 |
| Dividends declared per common share | \$ | 0.10 | \$ | 0.09 | \$ | 0.30 | \$ | 0.27 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**J.B. HUNT TRANSPORT SERVICES, INC.****Condensed Consolidated Balance Sheets**

(in thousands)

|                                             | September 30, 2008<br>(unaudited) | December 31, 2007 |
|---------------------------------------------|-----------------------------------|-------------------|
| <b>ASSETS</b>                               |                                   |                   |
| Current assets:                             |                                   |                   |
| Cash and cash equivalents                   | \$ 2,450                          | \$ 14,957         |
| Accounts receivable, net                    | 379,372                           | 330,202           |
| Assets held for sale                        | 15,785                            | 39,747            |
| Prepaid expenses and other                  | 41,254                            | 103,988           |
| Total current assets                        | 438,861                           | 488,894           |
| Property and equipment, at cost             | 2,109,048                         | 2,080,893         |
| Less accumulated depreciation               | 755,328                           | 722,170           |
| Net property and equipment                  | 1,353,720                         | 1,358,723         |
| Other assets                                | 11,250                            | 15,129            |
|                                             | \$ 1,803,831                      | \$ 1,862,746      |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |                                   |                   |
| Current liabilities:                        |                                   |                   |
| Current portion of long-term debt           | \$ 147,000                        | \$ 234,000        |
| Trade accounts payable                      | 182,808                           | 189,987           |
| Claims accruals                             | 19,684                            | 19,402            |
| Accrued payroll                             | 50,776                            | 34,310            |
| Other accrued expenses                      | 11,372                            | 26,663            |
| Deferred income taxes                       | 24,488                            | 20,070            |
| Total current liabilities                   | 436,128                           | 524,432           |
| Long-term debt                              | 545,200                           | 679,100           |
| Other long-term liabilities                 | 32,974                            | 34,453            |
| Deferred income taxes                       | 306,632                           | 281,564           |
| Stockholders' equity                        | 482,897                           | 343,197           |
|                                             | \$ 1,803,831                      | \$ 1,862,746      |

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**J.B. HUNT TRANSPORT SERVICES, INC.****Condensed Consolidated Statements of Cash Flows**

(in thousands)

(unaudited)

|                                                                                     | <b>Nine Months Ended<br/>September 30</b> |             |
|-------------------------------------------------------------------------------------|-------------------------------------------|-------------|
|                                                                                     | <b>2008</b>                               | <b>2007</b> |
| Cash flows from operating activities:                                               |                                           |             |
| Net earnings                                                                        | \$ 147,317                                | \$ 158,811  |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                                           |             |
| Depreciation and amortization                                                       | 151,934                                   | 152,346     |
| Share-based compensation                                                            | 8,644                                     | 6,457       |
| Gain on sale of revenue equipment and other                                         | (377)                                     | (103)       |
| Provision (benefit) for deferred income taxes                                       | 29,486                                    | (2,761)     |
| Equity in loss of affiliated company                                                | 2,125                                     | 1,085       |
| Changes in operating assets and liabilities:                                        |                                           |             |
| Trade accounts receivable                                                           | (47,038)                                  | (12,970)    |
| Income tax payable                                                                  | (9,960)                                   | 18,592      |
| Other assets                                                                        | 57,069                                    | 57,602      |
| Trade accounts payable                                                              | 292                                       | 32,295      |
| Claims accruals                                                                     | 282                                       | (1,519)     |
| Accrued payroll and other accrued expenses                                          | 9,904                                     | (46,882)    |
| Net cash provided by operating activities                                           | 349,678                                   | 362,953     |
| Cash flows from investing activities:                                               |                                           |             |
| Additions to property and equipment                                                 | (201,045)                                 | (292,508)   |
| Net proceeds from sale of equipment                                                 | 78,663                                    | 24,137      |
| Net distributions of available for sale investments                                 | 5,456                                     | 0           |
| Increase in other assets                                                            | (378)                                     | (767)       |
| Net cash used in investing activities                                               | (117,304)                                 | (269,138)   |
| Cash flows from financing activities:                                               |                                           |             |
| Proceeds from issuance of long-term debt                                            | 0                                         | 400,000     |
| Payments on long-term debt                                                          | (10,500)                                  | (10,500)    |
| Net borrowings (repayments) on revolving lines of credit                            | (217,870)                                 | 71,300      |
| Issuance (purchase) of treasury stock and other                                     | 6,543                                     | (534,321)   |
| Tax benefit on stock options exercised                                              | 14,485                                    | 14,007      |
| Dividends paid                                                                      | (37,539)                                  | (37,559)    |
| Net cash used in financing activities                                               | (244,881)                                 | (97,073)    |
| Net decrease in cash and cash equivalents                                           | (12,507)                                  | (3,258)     |
| Cash and cash equivalents at beginning of period                                    | 14,957                                    | 7,371       |
| Cash and cash equivalents at end of period                                          | \$ 2,450                                  | \$ 4,113    |

## Supplemental disclosure of cash flow information:

Cash paid during the period for:

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|              |    |        |    |        |
|--------------|----|--------|----|--------|
| Interest     | \$ | 37,783 | \$ | 45,962 |
| Income taxes | \$ | 58,124 | \$ | 88,929 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

**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, 2007. 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, 2008, or any other interim period. Our business is somewhat seasonal with slightly higher freight volumes typically experienced during the months of August through early November.

*Recent Accounting Pronouncements*

Effective January 1, 2008, we adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157) and Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (FAS 159). See Note 7, Fair Value Measurements, for the impact of this adoption. In February 2008, the FASB issued FASB Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date of FAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until January 1, 2009. We have not yet determined the impact that the implementation of FAS 157 will have on our non-financial assets and liabilities which are not recognized on a recurring basis; however, we do not anticipate adoption to significantly impact our consolidated financial statements.

**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

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options or unvested restricted share units exercised or converted their holdings into common stock. The dilutive effect of stock options and restricted share units was 3.1 million shares during the third quarter 2008 and 2007. During the nine months ended September 30, 2008 and September 30, 2007, the dilutive effect of stock options and restricted share units was 3.3 million shares and 3.4 million shares, respectively.

### 3. Share-Based Compensation

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

# Table of Contents

|                                           | Three Months Ended<br>September 30 |          | Nine Months Ended<br>September 30 |          |
|-------------------------------------------|------------------------------------|----------|-----------------------------------|----------|
|                                           | 2008                               | 2007     | 2008                              | 2007     |
| Stock options:                            |                                    |          |                                   |          |
| Pre-tax compensation expense              | \$ 989                             | \$ 1,189 | \$ 2,624                          | \$ 3,380 |
| Tax benefit                               | 380                                | 465      | 1,008                             | 1,322    |
| Stock option expense, net of tax          | \$ 609                             | \$ 724   | \$ 1,616                          | \$ 2,058 |
| Restricted share units:                   |                                    |          |                                   |          |
| Pre-tax compensation expense              | \$ 1,629                           | \$ 945   | \$ 6,020                          | \$ 3,077 |
| Tax benefit                               | 626                                | 370      | 2,312                             | 1,203    |
| Restricted share unit expense, net of tax | \$ 1,003                           | \$ 575   | \$ 3,708                          | \$ 1,874 |

As of September 30, 2008, we had \$10.9 million and \$28.8 million of total unrecognized compensation expense related to nonstatutory stock options and restricted share units, respectively, which is expected to be recognized over the remaining weighted-average period of approximately 2.4 years for stock options and 2.6 years for restricted share units. During the nine months ended September 30, 2008, we issued 1.4 million shares as a result of stock option exercises and 75 thousand shares for vested restricted share units.

## 4. Financing Arrangements

Our current financing arrangements consist of the following (in millions):

|                                        | September 30, 2008 | December 31, 2007 |
|----------------------------------------|--------------------|-------------------|
| Revolving lines of credit              | \$ 220.2           | \$ 430.6          |
| Senior notes                           | 400.0              | 400.0             |
| Term loan                              | 72.0               | 82.5              |
| Less current portion of long-term debt | (147.0)            | (234.0)           |
| Total long-term debt                   | \$ 545.2           | \$ 679.1          |

### Revolving Lines of Credit

At September 30, 2008, we were authorized to borrow up to a total of \$425 million under two different revolving lines of credit. The first line of credit is supported by a credit agreement with a group of banks for a total amount of \$350 million, which expires March 29, 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 borrowings and our credit rating. At September 30, 2008, we had \$145.2 million outstanding at an average interest rate of 3.77% under this agreement.

Our second line of credit is an Accounts Receivable Securitization program. We renewed this facility at maturity on July 28, 2008, for a one-year term maturing on July 27, 2009. Upon renewal, we reduced the total commitment amount from \$225 million to \$75 million. The applicable interest rate under this agreement continues to be the prevailing A1/P1 commercial paper rate in the market plus an agreed-upon margin. At September 30, 2008, we had \$75.0 million outstanding at an average interest rate of 3.64% under this agreement.

*Senior Notes*

Our senior notes consist of two separate issuances. The first is \$200 million of 5.31% senior notes, which matures March 29, 2011. Interest payments are due semiannually in March and September of each year. The second is \$200 million of 6.08% senior notes, which matures July 26, 2014. For this second issuance, principal payments in the amount of \$50.0 million are due July 26, 2012 and July 26, 2013, with the remainder due upon maturity. Interest payments are due semiannually in January and July of each year.

*Term Loan*

Our \$100 million term loan facility, which matures September 29, 2009, was arranged in connection with

Table of Contents

our purchase of used, dry-van trailers and is collateralized by a security interest in the trailing equipment. We are required to make minimum quarterly principal payments in the amount of \$3.5 million, through June 29, 2009, with the remainder due upon maturity. Stated interest on this facility is a 3-month LIBOR variable rate. Concurrent with the loan and credit agreement, we entered into an interest rate swap agreement to effectively convert this floating rate debt to a fixed rate basis of 5.85%. The swap expires September 29, 2009, when the related term loan is due. At September 30, 2008, we had \$72.0 million outstanding under this term loan facility.

Our revolving lines of credit and debt facilities require us to maintain certain covenants and financial ratios. We were in compliance with all covenants and financial ratios at September 30, 2008.

## 5. Capital Stock

On July 22, 2008, our Board of Directors declared a regular quarterly dividend of \$0.10 per common share, which was paid August 15, 2008, to stockholders of record on August 1, 2008. On October 30, 2008, our Board of Directors declared a regular quarterly dividend of \$0.10 per common share, which will be paid December 2, 2008, to stockholders of record on November 14, 2008.

## 6. Comprehensive Income

Comprehensive income includes changes in the fair value of our interest rate swap, which qualifies for hedge accounting. A reconciliation of net earnings and comprehensive income follows (in thousands):

|                                                                       | Three Months Ended<br>September 30 |           | Nine Months Ended<br>September 30 |            |
|-----------------------------------------------------------------------|------------------------------------|-----------|-----------------------------------|------------|
|                                                                       | 2008                               | 2007      | 2008                              | 2007       |
| Net earnings                                                          | \$ 60,300                          | \$ 50,783 | \$ 147,317                        | \$ 158,811 |
| Unrealized gain (loss) on derivative instruments, net of income taxes | 295                                | (614)     | 261                               | (358)      |
| Comprehensive income                                                  | \$ 60,595                          | \$ 50,169 | \$ 147,578                        | \$ 158,453 |

## 7. Fair Value Measurements

As stated in Note 1, General, effective January 1, 2008, we adopted FAS 157. FAS 157, among other things, defines fair value, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. Assets and liabilities measured at fair value are based on one or more of three valuation techniques stated in FAS 157. The three valuation techniques are as follows:

Market Approach.

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|                  |                                                                                                                                                              |
|------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                  | Prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities.                             |
| Income Approach. | Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques and option-pricing models). |
| Cost Approach.   | Amount that currently would be required to replace the service capacity of an asset (often referred to as replacement cost).                                 |

FAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for evaluating such assumptions, FAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs in measuring fair value as follows:

- Level 1. Quoted prices in active markets for identified assets or liabilities;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions about what market participants would use in pricing the asset or liability.

Table of Contents*Assets and Liabilities Measured at Fair Value on a Recurring Basis*

The following are assets and liabilities measured at fair value on a recurring basis at September 30, 2008 (in millions):

|                                | <b>Asset/(Liability) Balance</b> | <b>Valuation Technique</b> | <b>Input Level</b> |
|--------------------------------|----------------------------------|----------------------------|--------------------|
| Available for sale investments | \$ 3.1                           | Market                     | 2                  |
| Trading investments            | 10.3                             | Market                     | 1                  |
| Interest rate swap             | (1.2)                            | Market                     | 2                  |

Available for sale investments are classified in Prepaid expenses and other, trading investments are classified in Other assets and the interest rate swap is classified in Other accrued expenses in our condensed consolidated balance sheets. Adoption of FAS 157 increased our disclosures regarding fair value measurements only and did not have an effect on our operating income or net earnings. No assets or liabilities were elected for fair value measurement under FAS 159, and therefore adoption of FAS 159 had no impact on our financial statements.

## 8. Income Taxes

Our effective income tax rate was 38.4% for the nine months ended September 30, 2008, compared with 34.1% for the nine months ended September 30, 2007. The increase in 2008 was primarily due to the 2007 rate being reduced by our settlement of a proposed IRS adjustment in 2007. 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 2008 effective income tax rate reflects changes in estimates of state income taxes and nondeductible and nontaxable items as they relate to expected annual income.

At September 30, 2008, we had a total of \$13.9 million in gross unrecognized tax benefits, which are classified in Other long-term liabilities in our condensed consolidated balance sheets. Of this amount, \$9.0 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 \$6.4 million at September 30, 2008. For the nine months ended September 30, 2008, we realized \$3.2 million of settlements related to our unrecognized tax benefits.

## 9. Legal Proceedings

We are involved in certain claims and pending litigation arising from the normal conduct of business. Based on the 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 liquidity.

## 10. Business Segments

We reported four distinct business segments during the three and nine months ended September 30, 2008. 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 2007 Form 10-K. A summary of certain segment information is presented below (in millions):

[Table of Contents](#)

| Assets                                         |      |       |      |       |
|------------------------------------------------|------|-------|------|-------|
| (Excludes the impact of intercompany accounts) |      |       |      |       |
| As of September 30                             |      |       |      |       |
|                                                | 2008 |       | 2007 |       |
| JB I                                           | \$   | 803   | \$   | 661   |
| DCS                                            |      | 397   |      | 427   |
| JBT                                            |      | 440   |      | 591   |
| ICS                                            |      | 26    |      | 11    |
| Other (includes corporate)                     |      | 138   |      | 136   |
| Total                                          | \$   | 1,804 | \$   | 1,826 |

| Operating Revenues                 |        |        |                                   |          |      |
|------------------------------------|--------|--------|-----------------------------------|----------|------|
| Three Months Ended<br>September 30 |        |        | Nine Months Ended<br>September 30 |          |      |
|                                    | 2008   | 2007   |                                   | 2008     | 2007 |
| JBI                                | \$ 532 | \$ 429 | \$ 1,464                          | \$ 1,171 |      |
| DCS                                | 244    | 237    | 716                               | 698      |      |
| JBT                                | 171    | 208    | 547                               | 645      |      |
| ICS                                | 59     | 26     | 149                               | 55       |      |
| Subtotal                           | 1,006  | 900    | 2,876                             | 2,569    |      |
| Inter-segment eliminations         | (10)   | (8)    | (24)                              | (24)     |      |
| Total                              | \$ 996 | \$ 892 | \$ 2,852                          | \$ 2,545 |      |

|                            |      | Operating Income                   |      |                                   |      |       |    |       |
|----------------------------|------|------------------------------------|------|-----------------------------------|------|-------|----|-------|
|                            |      | Three Months Ended<br>September 30 |      | Nine Months Ended<br>September 30 |      |       |    |       |
|                            | 2008 |                                    | 2007 | 2008                              | 2007 |       |    |       |
| JBI                        | \$   | 74.0                               | \$   | 61.0                              | \$   | 192.0 | \$ | 161.8 |
| DCS                        |      | 26.8                               |      | 24.4                              |      | 67.3  |    | 71.2  |
| JBT                        |      | 2.5                                |      | 9.2                               |      | 5.8   |    | 37.1  |
| ICS                        |      | 3.1                                |      | 1.4                               |      | 7.3   |    | 2.5   |
| Other (includes corporate) |      | (0.1)                              |      | (0.1)                             |      | (0.0) |    | (0.1) |
| Total                      | \$   | 106.3                              | \$   | 95.9                              | \$   | 272.4 | \$ | 272.5 |

| Depreciation and Amortization Expense |         |         |                                   |          |      |
|---------------------------------------|---------|---------|-----------------------------------|----------|------|
| Three Months Ended<br>September 30    |         |         | Nine Months Ended<br>September 30 |          |      |
|                                       | 2008    | 2007    |                                   | 2008     | 2007 |
| JB I                                  | \$ 14.7 | \$ 11.6 | \$ 42.1                           | \$ 32.5  |      |
| DCS                                   | 17.1    | 17.6    | 51.5                              | 52.7     |      |
| JBT                                   | 16.2    | 20.1    | 50.1                              | 58.4     |      |
| ICS                                   | 0.0     | 0.0     | 0.0                               | 0.0      |      |
| Other (includes corporate)            | 2.7     | 3.0     | 8.2                               | 8.7      |      |
| Total                                 | \$ 50.7 | \$ 52.3 | \$ 151.9                          | \$ 152.3 |      |

Table of Contents

**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, 2007 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 diesel 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, including the IRS. Additionally, our business is somewhat seasonal with slightly higher freight volumes typically experienced during the months of August through early November. You should also refer to Item 1A of our 2007 Form 10-K, for additional information on risk factors and other events that are not within our control. Current and future changes in fuel prices could result in significant fluctuations of quarterly earnings. 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 full-load and multi-modal transportation companies in North America. We operate four distinct, but complementary, business segments and provide a wide range of general and specifically tailored freight and logistics services to our customers. 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. 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.

**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 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 2007 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 2007 Form 10-K, contains a summary of our significant accounting policies. There have been no material changes to the methodology we apply for critical accounting estimates as previously disclosed in our 2007 Form 10-K.

**Segments**

We operated four segments during the third quarter 2008. The operation of each of these businesses is described in Note 13, Segment Information, of our 2007 Form 10-K.

[Table of Contents](#)**RESULTS OF OPERATIONS****Comparison of Three Months Ended September 30, 2008 to Three Months Ended September 30, 2007**

| Summary of Operating Segment Results<br>For the Three Months Ended September 30<br>(in millions) |        |                            |          |          |                          |  |
|--------------------------------------------------------------------------------------------------|--------|----------------------------|----------|----------|--------------------------|--|
|                                                                                                  | 2008   | Operating Revenues<br>2007 | % Change | 2008     | Operating Income<br>2007 |  |
| JBI                                                                                              | \$ 532 | \$ 429                     | 24%      | \$ 74.0  | \$ 61.0                  |  |
| DCS                                                                                              | 244    | 237                        | 3        | 26.8     | 24.4                     |  |
| JBT                                                                                              | 171    | 208                        | (18)     | 2.5      | 9.2                      |  |
| ICS                                                                                              | 59     | 26                         | 129      | 3.1      | 1.4                      |  |
| Other (includes corporate)                                                                       | 0      | 0                          | 0        | (0.1)    | (0.1)                    |  |
| Subtotal                                                                                         | 1,006  | 900                        | 12%      | 106.3    | 95.9                     |  |
| Inter-segment eliminations                                                                       | (10)   | (8)                        | 2        |          |                          |  |
| Total                                                                                            | \$ 996 | \$ 892                     | 12%      | \$ 106.3 | \$ 95.9                  |  |

Our total consolidated operating revenues increased to \$996 million in the third quarter 2008, a 12% increase from \$892 million in the third quarter 2007. This increase in operating revenues was primarily attributable to growth in our Intermodal segment and our non-asset based ICS segment, as well as higher fuel surcharge revenue. Significantly higher fuel prices resulted in fuel surcharge revenues of \$225.8 million during the current quarter, compared with \$124.3 million in 2007. Current quarter operating revenue, excluding fuel surcharges, was essentially the same as third quarter 2007. Containers and trailers grew from 58,802 to 61,406. The growth in trailing equipment was primarily to support additional intermodal business. The combined tractor fleet declined from 11,723 units in the third quarter 2007 to 10,029 units in the third quarter 2008, primarily due to our actions to reduce the size of the asset-based JBT segment fleet.

We have fuel surcharge programs in place with the majority of our customers. These programs typically involve a specified computation based on the change in national, regional or local fuel prices. While these programs may incorporate fuel cost increases as frequently as weekly, most also reflect a specified miles per gallon factor and require a certain minimum change in fuel costs (i.e., \$0.05 per gallon) to trigger an increase in fuel surcharge revenue. As a result, these programs have a timing lag between when the cost is incurred and when it is recovered. This lag negatively impacts operating income in times of rapidly increasing fuel costs and positively impacts operating income when fuel costs decrease rapidly. As typical in the truckload industry, many of these programs contain unrealistic fuel economy assumptions.

There are also two additional factors related to fuel costs and fuel surcharge revenue that impact operating income when fuel costs change rapidly. Depending on our specific business and traffic lane, frequently 10% to 15% of our miles traveled are empty. While these empty miles also incur fuel costs, we typically only charge fuel surcharge revenue on our loaded miles. In addition, most systems and software applications utilized in the transportation industry for measuring miles and billing revenue result in computations that average 10% to 12% fewer miles than what is actually traveled (i.e. hub miles). The combination of these two factors frequently results in no fuel surcharge revenue billed for approximately 20% to 25% of the miles our tractors actually travel. During times of rapidly changing fuel costs, operating income can be significantly impacted by these factors.

It is not meaningful to compare the amount of fuel surcharge revenue or the change in fuel surcharge revenue between reporting periods to fuel and fuel taxes expense or the change of fuel expense between periods, as a significant portion of fuel costs is included in our payments to railroads, dray carriers and other third parties. These payments are classified as purchased transportation expense. While we are not always able

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to recover all fuel cost increases, partly due to empty miles run and engine-idling time, we are able to recover the majority of our increased fuel costs.

JB I segment revenue increased 24%, to \$532 million during the third quarter 2008, compared with \$429 million in 2007. This increase in segment revenue was primarily the result of a 13% increase in load count. Revenue per load increased 9% driven by higher fuel surcharge revenue. Operating income of the JB I

Table of Contents

segment rose to \$74.0 million in the third quarter 2008, from \$61.0 million in 2007, primarily due to the increase in revenue. The rise in operating income was partially offset by increases in purchased transportation expense due to volume growth and higher fuel prices. We have expanded our company-owned dray fleet by more than 20% to 2,100 tractors, both in anticipation of continued growth and to further reduce our dependence on third-party dray.

DCS segment revenue grew 3%, to \$244 million in 2008, from \$237 million in 2007. This increase in DCS segment revenue was driven by increased fuel surcharges. Excluding fuel surcharges, revenue declined 6%, compared to the third quarter 2007, primarily due to the decline in the average truck count to 4,631 units in the third quarter 2008 vs. 5,248 units in the third quarter 2007. The decline in truck count reflects fleet reductions in response to changes in our customers' business demands and our action to reduce units that operate in more generic dedicated business. Operating income of our DCS segment increased to \$26.8 million in 2008, from \$24.4 million in 2007. The increase in operating income was primarily due to the sharp decline in fuel costs in the current quarter. As previously noted, a sharp decrease in fuel costs can positively impact operating income due to the timing lag in the fuel surcharge program. Operating income also increased due to decreases in casualty and workers compensation costs.

JBT segment revenue totaled \$171 million for the third quarter 2008, a decrease of 18% from the \$208 million in the third quarter 2007. Excluding fuel surcharges, revenue declined 26%, compared to third quarter 2007. This decrease in revenue was primarily a result of a 23% reduction in loads hauled, compared to the same quarter a year ago, due to reduced fleet size in the third quarter 2008. At the end of the third quarter, the fleet size was 30% smaller, or 1,419 units, compared to the third quarter 2007 as a result of our continued efforts to right-size our fleet. Rate per loaded mile, excluding fuel surcharges, increased by 6.7%, compared to the prior year period. Our JBT operating income decreased to \$2.5 million during the third quarter 2008, from \$9.2 million in the third quarter 2007. Operating income decreased due to decreased revenue, an increase in maintenance costs and \$1.4 million of expense related to losses on sales and write downs of idle equipment and assets held for sale.

ICS segment revenue grew 129%, to \$59 million in the third quarter 2008, from \$26 million in the third quarter 2007, which was attributable to steady load growth from new and existing customers. Operating income of our ICS segment increased to \$3.1 million, from \$1.4 million in 2007 primarily due to the volume growth in this segment, as our third-party carrier base grew 19% during the current quarter to over 15,200 carriers by quarter-end. This increase in operating income was partially offset by increases in salaries and wages as a result of employee growth and increases in purchased transportation expense due to volume growth. Our ICS staff grew 151% during the third quarter 2008, compared with 2007.

*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.

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## Table of Contents

|                                                                   | Three Months Ended September 30                                  |        | Percentage Change<br>of Dollar Amounts<br>Between Quarters<br>2008 vs. 2007 |
|-------------------------------------------------------------------|------------------------------------------------------------------|--------|-----------------------------------------------------------------------------|
|                                                                   | Dollar Amounts as a<br>Percentage of Total<br>Operating Revenues |        |                                                                             |
|                                                                   | 2008                                                             | 2007   |                                                                             |
| Total operating revenues                                          | 100.0%                                                           | 100.0% | 11.8%                                                                       |
| Operating expenses:                                               |                                                                  |        |                                                                             |
| Rents and purchased transportation                                | 40.2                                                             | 35.9   | 25.3                                                                        |
| Salaries, wages and employee benefits                             | 21.8                                                             | 25.2   | (3.2)                                                                       |
| Fuel and fuel taxes                                               | 14.4                                                             | 13.1   | 22.7                                                                        |
| Depreciation and amortization                                     | 5.1                                                              | 5.9    | (3.1)                                                                       |
| Operating supplies and expenses                                   | 4.2                                                              | 4.5    | 3.8                                                                         |
| Insurance and claims                                              | 1.4                                                              | 2.0    | (21.6)                                                                      |
| General and administrative expenses, net of asset<br>dispositions | 1.0                                                              | 0.9    | (5.4)                                                                       |
| Operating taxes and licenses                                      | 0.8                                                              | 1.2    | (5.3)                                                                       |
| Communication and utilities                                       | 0.4                                                              | 0.6    | (12.4)                                                                      |
| Total operating expenses                                          | 89.3                                                             | 89.2   | 11.9                                                                        |
| Operating income                                                  | 10.7                                                             | 10.8   | 10.8                                                                        |
| Interest income                                                   | 0.0                                                              | 0.0    | (22.7)                                                                      |
| Interest expense                                                  | 1.0                                                              | 1.4    | (24.1)                                                                      |
| Equity in loss of affiliated company                              | 0.0                                                              | 0.0    | 888.0                                                                       |
| Earnings before income taxes                                      | 9.7                                                              | 9.4    | 15.8                                                                        |
| Income taxes                                                      | 3.6                                                              | 3.7    | 11.1                                                                        |
| Net earnings                                                      | 6.1%                                                             | 5.7%   | 18.7%                                                                       |

Total operating expenses increased 11.9%, while operating revenues increased 11.8%, during the third quarter 2008, over the comparable period 2007. Changes in fuel costs and fuel surcharge revenues can have an impact on the comparison of revenues and costs between reporting periods. Operating income increased to \$106.3 million during the third quarter 2008, from \$95.9 million in 2007.

Rents and purchased transportation costs increased 25.3% in 2008. This increase was a direct result of our increase in load volume in our JBI and ICS segments, as well as the higher cost of fuel, since fuel costs of third-party rail and truck carriers are included in purchased transportation expense. JBI segment's rail purchased transportation expense increased by 23% due to increases in load volume and an increase in rates charged by our rail carriers. An increase of outsourced freight through our ICS segment growth also contributed to the increase in purchased transportation expense.

Salaries, wages and employee benefit costs decreased 3.2% in 2008 from 2007. This decrease was primarily related to reductions in the number of drivers in our JBT segment as a result of right-sizing our fleet.

Fuel costs increased 22.7% in 2008, compared with 2007 due to higher cost per gallon and slightly lower miles per gallon. Our fuel cost per gallon during the current quarter increased nearly 46% due to the steep rise in fuel prices.

Depreciation and amortization expense decreased 3.1%, which was primarily the result of the reduction of our tractor fleet. Operating supplies and expenses increased 3.8%, primarily due to higher maintenance costs and an increase in toll costs, compared with the third quarter 2007. Insurance and claims expense decreased 21.6% for 2008 compared with 2007, primarily due to a lower number of accidents and lower claims costs.

General and administrative expenses decreased 5.4% for the current quarter from the comparable period in 2007, primarily as a result of a decrease in driver advertising, recruiting costs and other professional expenses. Dispositions of revenue equipment and \$1.4 million of expense related to losses on sales and write downs of revenue equipment resulted in a net loss of \$0.1 million in 2008, compared with a net loss of \$0.2 million in 2007. Operating taxes and licenses decreased by 5.3% primarily due to the decrease in truck miles, freight demand and registered equipment.

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## Table of Contents

Net interest expense decreased 24.1% in 2008, due to a reduction in total debt during the third quarter 2008 and lower average borrowing rates on our variable rate financing arrangements. We continue to use operating cash flows to pay down debt and have reduced total debt by \$221 million year-to-date.

The equity in loss of affiliated company item on our Condensed Consolidated Statement of Earnings reflects our share of the operating results of Transplace, Inc. (TPI).

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. We expect our annual effective tax rate to be 38.4% for 2008. Our effective annual tax rate for calendar year 2007 was 34.4%. The increase in 2008 was primarily due to the 2007 rate being reduced by our settlement of a proposed IRS adjustment in 2007.

## Comparison of Nine Months Ended September 30, 2008 to Nine Months Ended September 30, 2007

| Summary of Operating Segment Results<br>For the Nine Months Ended September 30<br>(in millions) |          |                            |          |          |                          |  |
|-------------------------------------------------------------------------------------------------|----------|----------------------------|----------|----------|--------------------------|--|
|                                                                                                 | 2008     | Operating Revenues<br>2007 | % Change | 2008     | Operating Income<br>2007 |  |
| JB                                                                                              | \$ 1,464 | \$ 1,171                   | 25%      | \$ 192.0 | \$ 161.8                 |  |
| DCS                                                                                             | 716      | 698                        | 3        | 67.3     | 71.2                     |  |
| JBT                                                                                             | 547      | 645                        | (15)     | 5.8      | 37.1                     |  |
| ICS                                                                                             | 149      | 55                         | 169      | 7.3      | 2.5                      |  |
| Other (includes corporate)                                                                      | 0        | 0                          | 0        | 0.0      | (0.1)                    |  |
| Subtotal                                                                                        | 2,876    | 2,569                      | 12%      | 272.4    | 272.5                    |  |
| Inter-segment eliminations                                                                      | (24)     | (24)                       | 2        |          |                          |  |
| Total                                                                                           | \$ 2,852 | \$ 2,545                   | 12%      | \$ 272.4 | \$ 272.5                 |  |

Our total consolidated operating revenues increased to \$2,852 million for the nine months ended September 30, 2008, a 12% increase over the \$2,545 million for the comparable period 2007. Significantly higher fuel prices resulted in fuel surcharge revenues of \$594.0 million during the nine months ended September 30, 2008, compared with \$328.5 million in 2007. If fuel surcharge revenues were excluded from both periods, the increase of 2008 revenue over 2007 was 1.9%. The increased level of revenue, excluding fuel surcharge, was primarily attributable to higher volume in our Intermodal segment and significant growth in our ICS segment, which more than offset reductions in our JBT and Dedicated segments. As previously mentioned, containers and trailers grew from 58,802 to 61,406, while our combined tractor fleet declined from 11,723 units to 10,029 units. The growth in trailing equipment was primarily to support additional Intermodal business. Decreases in the tractor fleet were due to the weakness in freight demand in our JBT segment and our actions to move further away from an asset-heavy truckload model.

JB segment revenue increased 25%, to \$1,464 million in 2008, compared with \$1,171 million in 2007. This increase in segment revenue was primarily a result of a 16% increase in load volume and slightly higher revenue per loaded mile, exclusive of fuel surcharges. Operating income of the JB segment rose to \$192.0 million in 2008, from \$161.8 million in 2007, primarily due to the increase in revenue, which was partially offset by increases in purchased transportation expense, due to volume growth.

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DCS segment revenue grew 3%, to \$716 million in 2008, from \$698 million in 2007. This increase in DCS segment revenue was driven by increased fuel surcharges. Excluding fuel surcharges, revenue declined 5%, compared to the first nine months 2007, primarily due to the decline in the average truck count by 495 units. The lower truck count reflects fleet reductions in response to changes in our customers' business demands and our action to reduce units that operate in more generic dedicated business. Operating income of our DCS segment decreased to \$67.3 million in 2008, from \$71.2 million in 2007. The decline in operating income was primarily due to reduced volume.

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## Table of Contents

JBT segment revenue totaled \$547 million in 2008, a decrease of 15% from the \$645 million in 2007. This decrease in revenue was primarily a result of an 18% decrease in loads hauled, compared to the same period a year ago, due to our actions to reduce our fleet size. At September 30, 2008, the fleet size was 30% smaller, or 1,419 units, compared to 2007. Rate per loaded mile, excluding fuel surcharges, increased by 3%, compared to the prior year period. A significant part of this increase in rate related to an approximate 9% decline in length of haul. Our JBT segment operating income decreased to \$5.8 million in 2008, from \$37.1 million in 2007. The decrease in operating income was primarily the result of decreased revenue, higher fuel costs and increased maintenance costs associated with an older tractor fleet.

ICS segment revenue grew 169%, to \$149 million in 2008, from \$55 million in 2007, which was attributable to increases in load volume from both new and existing customers. Operating income of our ICS segment increased to \$7.3 million in 2008, from \$2.5 million in 2007, as operating leverage from higher revenue growth began to cover expenses primarily resulting from higher personnel and technology costs related to growing and investing in the ICS segment. Our ICS staff grew 151% in 2008, compared with 2007, which was largely in sales and operations, in connection with the growth in this segment.

## *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.

|                                                                   | Nine Months Ended September 30                                   |        | Percentage Change<br>of Dollar Amounts<br>Between Periods<br>2008 vs. 2007 |
|-------------------------------------------------------------------|------------------------------------------------------------------|--------|----------------------------------------------------------------------------|
|                                                                   | Dollar Amounts as a<br>Percentage of Total<br>Operating Revenues |        |                                                                            |
|                                                                   | 2008                                                             | 2007   |                                                                            |
| Total operating revenues                                          | 100.0%                                                           | 100.0% | 12.1%                                                                      |
| Operating expenses:                                               |                                                                  |        |                                                                            |
| Rents and purchased transportation                                | 39.0                                                             | 34.5   | 26.2                                                                       |
| Salaries, wages and employee benefits                             | 22.9                                                             | 26.2   | (2.3)                                                                      |
| Fuel and fuel taxes                                               | 15.2                                                             | 13.2   | 29.2                                                                       |
| Depreciation and amortization                                     | 5.3                                                              | 6.0    | (0.3)                                                                      |
| Operating supplies and expenses                                   | 4.2                                                              | 4.6    | 3.3                                                                        |
| Insurance and claims                                              | 1.6                                                              | 2.0    | (11.2)                                                                     |
| General and administrative expenses, net of asset<br>dispositions | 1.0                                                              | 1.2    | (3.6)                                                                      |
| Operating taxes and licenses                                      | 0.8                                                              | 1.0    | (4.7)                                                                      |
| Communication and utilities                                       | 0.5                                                              | 0.6    | (8.1)                                                                      |
| Total operating expenses                                          | 90.5                                                             | 89.3   | 13.5                                                                       |
| Operating income                                                  | 9.5                                                              | 10.7   | (0.1)                                                                      |
| Interest income                                                   | 0.0                                                              | 0.0    | (5.4)                                                                      |
| Interest expense                                                  | 1.1                                                              | 1.2    | 1.3                                                                        |
| Equity in loss of affiliated company                              | 0.0                                                              | 0.0    | 95.9                                                                       |
| Earnings before income taxes                                      | 8.4                                                              | 9.5    | (0.7)                                                                      |
| Income taxes                                                      | 3.2                                                              | 3.2    | 12.0                                                                       |
| Net earnings                                                      | 5.2%                                                             | 6.3%   | (7.2)%                                                                     |

Total operating expenses increased 13.5%, while operating revenues increased 12.1%, during the nine months ended September 30, 2008, over the comparable period 2007. Changes in fuel costs and fuel surcharge revenues can have an impact on the comparison of revenues and costs

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between reporting periods. Operating income was essentially the same in 2008, compared to the same period in 2007.

Rents and purchased transportation costs increased 26.2% in 2008. This increase was a direct result of our increase in load volume in our JBI and ICS segments, as well as the higher cost of fuel, since fuel costs of third-party rail and truck carriers are included in purchased transportation expense. JBI segment's rail purchased transportation expense increased by 25% due to increases in load volume and an increase in rates

Table of Contents

charged by our rail carriers. An increase of outsourced freight through our ICS segment growth also contributed to the increase in purchased transportation expense.

Salaries, wages and employee benefit costs decreased 2.3% in 2008 from 2007. This decrease was primarily related to reductions in the number of drivers in our JBT segment as a result of right-sizing our fleet.

Fuel costs increased 29.2% in 2008, compared with 2007 due to higher cost per gallon and slightly lower miles per gallon. Our fuel cost per gallon during the nine months ended September 30, 2008 increased nearly 49% due to the steep rise in fuel prices. See previous quarter-to-date fuel cost discussion for the impact of changing fuel prices on our fuel costs and results of operations.

Depreciation and amortization expense decreased slightly in 2008, which was primarily the result of the reduction in our tractor fleet. Operating supplies and expenses increased 3.3%, primarily due to higher maintenance costs, compared with 2007. Insurance and claims expense decreased 11.2% for 2008 compared with 2007, primarily due to a lower number of accidents and lower claims costs. This decrease in insurance costs was partially offset by an increase in cargo claims.

General and administrative expenses decreased 3.6% in 2008 from the comparable period in 2007, primarily as a result of a decrease in driver advertising, other driver expenses and other professional fees. This decrease was partially offset with an increase in bad debts. Net gains from sale of revenue equipment were \$0.6 million in 2008, compared with \$0.1 million in 2007. Operating taxes and licenses decreased by 4.7% due to the decrease in miles and freight demand.

Net interest expense increased slightly in 2008, primarily due to higher debt levels at the beginning of year 2008, which totaled \$913.1 million. Total debt decreased to \$692.2 million at September 30, 2008, from \$857.2 million at September 30, 2007. The increase in interest expense was partially offset by reduced borrowing rates on our variable rate debt.

The equity in loss of affiliated company item on our Condensed Consolidated Statement of Earnings reflects our share of the operating results of TPI.

**Liquidity and Capital Resources**

***Cash Flow***

Net cash provided by operating activities totaled \$350 million during the nine months ended September 30, 2008, compared with \$363 million for the same period 2007. Operating cash flows decreased primarily due to lower earnings and changes in the timing of collections of accounts receivable and payments to vendors. Net cash used in investing activities totaled \$117 million in 2008, compared with \$269 million in 2007.

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This decrease reflects a decline in purchasing new revenue equipment and higher proceeds from sales of equipment compared with 2007. Net cash used in financing activities totaled \$245 million, compared with \$97 million in 2007. This increase was primarily due to repayments on our revolving lines of credit in 2008 compared with cash provided by issuance of our senior notes and borrowings on our revolver in 2007. Cash provided by increased borrowings in 2007 was primarily used for company stock purchases and capital expenditures.

|                                              | September 30, 2008 | December 31, 2007 | September 30, 2007 |
|----------------------------------------------|--------------------|-------------------|--------------------|
| Working capital ratio                        | 1.01               | .93               | .77                |
| Current portion of long-term debt (millions) | \$ 147.0           | \$ 234.0          | \$ 234.0           |
| Total debt (millions)                        | \$ 692.2           | \$ 913.1          | \$ 857.2           |
| Total debt to equity                         | 1.43               | 2.66              | 2.39               |
| Total debt as a percentage of total capital  | 59%                | 73%               | 70%                |

### *Liquidity*

Our need for capital has typically resulted from the acquisition of intermodal containers and chassis, trucks, tractors and trailers required to support our growth and the replacement of older equipment with new, late model

Table of Contents

equipment. We are frequently able to accelerate or postpone a portion of equipment replacements depending on market conditions. We have, during the past few years, obtained capital through cash generated from operations, revolving lines of credit and long-term debt issuances. We have also periodically utilized operating leases to acquire revenue equipment. To date, none of our operating leases contain any guaranteed residual value clauses.

At September 30, 2008, we were authorized to borrow up to a total of \$425 million under two different revolving lines of credit. The first line of credit is supported by a credit agreement with a group of banks for a total amount of \$350 million, which expires March 29, 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 borrowings and our credit rating. At September 30, 2008, we had \$145.2 million outstanding at an average interest rate of 3.77% under this agreement.

Our second line of credit is an Accounts Receivable Securitization program with a revolving credit facility. We renewed this agreement at maturity on July 28, 2008, for a one-year term maturing on July 27, 2009. Upon renewal, we reduced the total commitment amount from \$225 million to \$75 million. The applicable interest rate under this agreement continues to be the prevailing A1/P1 commercial paper rate in the market plus an agreed-upon margin. The reduction in the maximum borrowing amount is a result of our continued efforts of using excess cash flow to pay down outstanding debt. At September 30, 2008, we had \$75.0 million outstanding at an average interest rate of 3.64% under this agreement.

Our revolving lines of credit and debt facilities require us to maintain certain covenants and financial ratios. We were in compliance with all covenants and financial ratios at September 30, 2008.

We believe that our liquid assets, cash generated from operations and revolving lines of credit will provide sufficient funds for our operating and capital requirements for the foreseeable future.

| Contractual Cash Obligations<br>As of September 30, 2008<br>Amounts Due by Period (in millions) |        |                     |                       |                       |                     |  |
|-------------------------------------------------------------------------------------------------|--------|---------------------|-----------------------|-----------------------|---------------------|--|
|                                                                                                 | Total  | One Year<br>Or Less | One to<br>Three Years | Four to<br>Five Years | After Five<br>Years |  |
| Operating leases                                                                                | \$ 4   | \$ 2                | \$ 2                  | \$ 0                  | \$ 0                |  |
| Long-term debt obligations                                                                      | 692    | 147                 | 395                   | 50                    | 100                 |  |
| Commitments to acquire revenue<br>equipment                                                     | 79     | 79                  | 0                     | 0                     | 0                   |  |
| Total                                                                                           | \$ 775 | \$ 228              | \$ 397                | \$ 50                 | \$ 100              |  |

Our net capital expenditures were approximately \$122 million through September 30, 2008, compared with \$268 million for the same period 2007. Capital expenditures in 2008 were primarily for tractor trades, additional intermodal containers, chassis, and other trailing equipment. We are currently committed to spend approximately \$79 million during the remainder of 2008, net of \$22 million of expected proceeds from sale or trade-in allowances, on revenue equipment. We expect to spend approximately \$225 million and \$275 million for net capital expenditures during calendar year 2008 and 2009, respectively. The table above excludes \$20 million of liabilities for uncertain tax positions as we are unable to reasonably estimate the ultimate timing of settlement.

*Off-Balance Sheet Arrangements*

Our only off-balance sheet arrangements are related to operating leases for trailing equipment and some data processing equipment and facilities. As of September 30, 2008, we had approximately 132 trailers and 1,005 containers/chassis that were subject to operating leases, and we had approximately \$0.4 million of obligations remaining under these leases.

[Table of Contents](#)

**Risk Factors**



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You should refer to Item 1A of our 2007 Form 10-K, under the caption **Risk Factors** for specific details on the following factors and events that are not within our control and could affect our financial results.

- Our business is subject to general economic and business factors, any of which could have a material adverse effect on our results of operations. Recent economic trends and the current tightening of credit in financial markets could adversely affect our ability, and the ability of our suppliers, to obtain financing for operations and capital expenditures.
- We operate in a competitive and somewhat fragmented industry. Numerous factors could impair our ability to maintain our current profitability and to compete with other carriers and private fleets.
- We derive a significant portion of our revenue from a few major customers, the loss of one or more of which could have a material adverse effect on our business.
- We depend on third parties in the operation of our business.
- Difficulty in attracting and retaining drivers and third-party carriers could affect our profitability and ability to grow.
- Ongoing insurance and claims expenses could significantly reduce our earnings.
- Our operations are subject to various environmental laws and regulations, the violation of which could result in substantial fines or penalties.
- We operate in a regulated industry, and increased direct and indirect costs of compliance with, or liability for violation of, existing or future regulations could have a material adverse effect on our business.
- Rapid changes in fuel costs can impact our periodic financial results.
- Extreme or unusual weather conditions can disrupt our operations, impact freight volumes and increase our costs, all of which could have a material adverse effect on our business results.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We had \$692 million of debt outstanding at September 30, 2008, including our revolving lines of credit, term loan facility, and senior notes issuances. We currently have an interest rate swap agreement which effectively converts the amounts outstanding under our \$100 million variable rate term loan facility to a fixed rate basis. Additionally, our senior notes have fixed interest rates of 5.31% and 6.08%. These fixed-rate facilities reduce the impact of changes to market interest rates on future interest expense. For those arrangements with variable interest rates, the rates are based on either the prime rate or LIBOR plus an applicable margin. Our earnings are affected by changes in these short-term interest rates. Risk can be quantified by measuring the financial impact of a near-term adverse increase in short-term interest rates. At our current level of borrowing, a one percent increase in our applicable rate would reduce annual pretax earnings by \$2.2 million.

Although we conduct business in foreign countries, international operations are not material to our consolidated financial position, results of operations or cash flows. Additionally, foreign currency transaction gains and losses were not material to our results of operations for the nine months ended September 30, 2008. Accordingly, we are not currently subject to material foreign currency exchange rate risks from the effects that exchange rate movements of foreign currencies would have on our future costs or on future cash flows we would receive from our foreign investment. As of September 30, 2008, we had no foreign currency forward exchange contracts or other derivative financial instruments to hedge the effects of adverse fluctuations in foreign currency exchange rates.

The price and availability of diesel fuel are subject to fluctuations due to changes in the level of global oil

Table of Contents

production, seasonality, weather and other market factors. Historically, we have been able to recover a majority of fuel price increases from our customers in the form of fuel surcharges. We cannot predict the extent to which high fuel price levels will continue in the future or the extent to which fuel surcharges could be collected to offset such increases. As of September 30, 2008, we had no derivative financial instruments to reduce our exposure to fuel price fluctuations.

**ITEM 4. CONTROLS AND PROCEDURES**

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our internal controls and disclosure controls. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2008, in alerting them on a timely basis to material information required to be disclosed by us in our periodic reports to the SEC.

In addition, there were no changes in our internal control over financial reporting during our first nine months of 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Part II. Other Information**

**ITEM 1. LEGAL PROCEEDINGS**

We are involved in certain claims and pending litigation arising from the normal conduct of business. Based on the 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, our results of operations or liquidity.

**ITEM 1A. RISK FACTORS**

Information regarding risk factors appears in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations of this report on Form 10-Q and in Part I, Item 1A of our 2007 Form 10-K.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Not applicable.

**ITEM 3.            DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4.            SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable.

**ITEM 5.            OTHER INFORMATION**

Not applicable.

Table of Contents

**ITEM 6. EXHIBITS**

Index to Exhibits

| <b>Exhibit<br/>Number</b> | <b>Exhibits</b>                        |
|---------------------------|----------------------------------------|
| 31.1                      | Rule 13a-14(a)/15d-14(a) Certification |
| 31.2                      | Rule 13a-14(a)/15d-14(a) Certification |
| 32.1                      | Section 1350 Certification             |
| 32.2                      | Section 1350 Certification             |

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, in the city of Lowell, Arkansas, on the 31st day of October, 2008.

**J.B. HUNT TRANSPORT SERVICES, INC.**  
(Registrant)

BY: /s/ Kirk Thompson  
Kirk Thompson  
President and  
Chief Executive Officer

BY: /s/ Jerry W. Walton  
Jerry W. Walton  
Executive Vice President,  
Finance and Administration,  
Chief Financial Officer

BY: /s/ Donald G. Cope  
Donald G. Cope  
Senior Vice President, Controller,  
Chief Accounting Officer