HUNT J B TRANSPORT SERVICES INC
Form 10-K
February 29, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the year ended December 31, 2007	**Commission file number 0-11757**

J.B. HUNT TRANSPORT SERVICES, INC.

(Exact name of registrant as specified in its charter)

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** (Address of principal executive offices)	**72745-0130** (ZIP code)

Registrant s telephone number, including area code: 479-820-0000

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, $0.01 Par Value

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes **x** No o

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No **x**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes **x** No o

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

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

Large accelerated filer **x** Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No **x**

The aggregate market value of 91,239,482 shares of the registrant s $0.01 par value common stock held by non-affiliates as of June 30, 2007, was $2.7 billion (based upon $29.32 per share).

As of February 26, 2008, the number of outstanding shares of the registrant s common stock was 124,715,401.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Notice and Proxy Statement for the Annual Meeting of the Stockholders, to be held May 1, 2008, are incorporated by reference in Part III of this Form 10-K.

J.B. HUNT TRANSPORT SERVICES, INC.

Form 10-K

For The Calendar Year Ended December 31, 2007

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FORWARD-LOOKING STATEMENTS

This report, including documents which are incorporated by reference, and other documents which we file periodically with the Securities and Exchange Commission (SEC), contains statements that may be considered to be forward-looking statements. Such statements relate to our predictions concerning future events or operations and are within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are inherently uncertain, subject to risks, and should be viewed with caution. These statements are based on our belief or interpretation of information currently available. Stockholders and prospective investors are cautioned that actual results and future events may differ materially from the forward-looking statements as a result of many factors. Some of the factors and events that are not within our control and that could have a material impact on future operating results include: general economic and business conditions, competition and competitive rate fluctuations, cost and availability of diesel fuel, ability to attract and retain qualified drivers, a loss of one or more major customers, interference with or termination of our relationships with certain railroads, insurance costs and availability, claims expense, retention of key employees, terrorist attacks or actions, acts of war, adverse weather conditions, new or different environmental or other laws and regulations, increased costs for new revenue equipment or decreases in the value of used equipment and the ability of revenue equipment manufacturers to perform in accordance with agreements for guaranteed equipment trade-in values. Current and future changes in fuel prices could result in significant fluctuations of quarterly earnings.

You should understand that many important factors, in addition to those listed above, could impact us financially. Our operating results may fluctuate as a result of these and other risk factors or events as described in our filings with the SEC. Some important factors that could cause our actual results to differ from estimates or projections contained in the forward-looking statements are described under Risk Factors in Item 1A. We assume no obligation to update any forward-looking statement to the extent we become aware that it will not be achieved for any reason.

PART I

ITEM 1. BUSINESS

OVERVIEW

We are one of the largest surface transportation companies in North America. J.B. Hunt Transport Services, Inc. is a publicly held holding company that, together with our wholly owned subsidiaries and affiliated companies, provides a wide range of transportation services to a diverse group of customers throughout the continental United States, Canada and Mexico. Unless otherwise indicated by the context, we, us, our and JBHT refer to J.B. Hunt Transport Services, Inc. and its consolidated subsidiaries. We were incorporated in Arkansas on August 10, 1961, and have been a publicly held company since our initial public offering in 1983. Our service offerings include transportation of full-load freight, which we directly transport in multimodal arrangements utilizing our company-owned revenue equipment and company drivers, independent contractors, or third parties. This full-load freight may be transported entirely by truck over roads and highways, or may be moved, in part, by rail. We have arrangements with most of the major North American rail carriers to transport freight in containers and trailers. We also provide customized freight movement, revenue equipment, labor and systems services that are tailored to meet individual customers requirements and typically involve long-term contracts. These arrangements are generally referred to as dedicated services and may include multiple pickups and drops, local and home deliveries, freight handling, specialized equipment and network design. We also provide integrated capacity and comprehensive transportation services and solutions by utilizing a network of thousands of reliable third-party carriers. While these unrelated outside carriers at times supplement our dry van, full-load operations, they also provide flatbed, refrigerated, less-than-truckload and other specialized equipment, drivers and services. In addition, we have a 37% ownership interest in a global transportation logistics company, Transplace, Inc. (TPI). TPI is co-owned by five large transportation companies and provides supplemental sales, management and freight-movement services through arrangements with a large number of common carriers.

Our business operations are primarily organized through four distinct, but complementary, business segments. These segments include intermodal (JBI), dedicated contract services (DCS), full-load dry-van (JBT) and integrated capacity solutions (ICS). Our business is somewhat seasonal with slightly higher freight volumes typically experienced during the months of August through early November. Our DCS segment is subject to less seasonal variation than our other segments. For the calendar year ended December 31, 2007, our consolidated revenue totaled $3.5 billion, after the elimination of inter-segment business. Of the total, $1.7 billion, or 47%, was generated by our JBI business segment. Our DCS segment represented $937 million, or 27%, of total revenue. Our JBT segment generated $842 million, or 24%, and our ICS segment generated $92 million, or 2%.

Additional general information about us is available from our Internet website at www.jbhunt.com. We make a number of reports and other information available free of charge on our website, including our annual report on Form 10-K, our proxy statement and our earnings releases. Our website also contains corporate governance guidelines, our code of ethics, our whistleblower policy, committee charters for our Board of Directors and other corporate policies.

OUR MISSION AND STRATEGY

We forge long-term partnerships with key customers that include supply-chain management as an integral part of their strategy. Working in concert, we drive out cost, add value and function as an extension of our customers enterprise. We believe that our operating strategy can add value to customers and increase our profits and returns to stockholders.

RECENT FOCUS

During the past several years, we have taken significant steps to re-establish a primary focus on the profitability of our business segments. In each segment we have implemented capacity-management decision-making processes that result in the deployment of our assets where we believe they will generate more profit. We continually focus on replacing less-profitable freight with higher-margin freight and lanes. Selective pricing actions and ensuring that we properly charge for all services provided have also been areas of major focus. Recent examples of actions taken to redeploy our assets include: 1) a decision to sell certain revenue equipment within our JBT business segment; 2) expanding the number of third-party carriers that provide us with transportation services, and 3) growing our ICS business with new and existing customers. Each of these are discussed in more detail in the operating segments sections.

Increasingly, our customers are seeking energy-efficient transportation solutions to reduce both cost and greenhouse-gas emissions. Our intermodal service addresses both demands. We are also beginning to customize dedicated solutions aimed at minimizing transportation-related carbon emissions. Efforts to improve fleet fuel efficiency are ongoing, and we are an Environmental Protection Agency (EPA) SmartWay^{SM} Transport Partner.

In addition, fundamental changes in shipper supply-chain transportation logistics have resulted in the conversion of freight from traditional random truckload to intermodal and dedicated operations. We continue to ingrain safety into our corporate culture and conduct all of our operations as safely as possible.

OPERATING SEGMENTS

Segment information is also included in Note 13 to our Consolidated Financial Statements.

JBI Segment

The transportation service offerings of our JBI segment utilize arrangements with most major North American rail carriers to provide intermodal freight solutions for our customers throughout the continental United States, Canada and Mexico. Our JBI segment began operations in 1989 with a unique partnership with the former Santa Fe Railway (now the BNSF Railway Company), a watershed event in the industry and the first agreement that linked major rail and truckload carriers in a joint marketing environment. Essentially, JBI draws on the intermodal (also known as container on flatcar) services of rail carriers for the underlying linehaul movement of its equipment and performs the pickups and deliveries (drayage) for customers at the origin and destination rail terminal locations. We may directly provide the drayage service at either the origin or destination rail ramp utilizing our company-owned tractors, or we may purchase these services from third parties. JBI provides seamless coordination of the rail and over-the-road transport movements for our customers and delivers a single billing for the complete door-to-door service.

Our intermodal program has grown from 20 loads in late 1989 to more than 738,000 in 2007. JBI operates 34,019 company-controlled containers system wide. The entire fleet comprises 53-foot, high-cube containers and is designed to take advantage of intermodal double-stack economics and superior ride quality. JBI also manages a fleet of 1,795 company-owned tractors and 2,232 company drivers in support of intermodal operations. At December 31, 2007, the total JBI employee count was 2,494. Revenue for the JBI segment in calendar year 2007 was $1.65 billion, compared with $1.43 billion in 2006. As previously announced, an arbitration process with the BNSF Railway Company (BNI) was concluded during the third quarter 2005. In accordance with the settlement terms, we paid BNI $25.8 million. In addition, this settlement also resulted in higher rail purchased transportation expenses effective October 1, 2005. Normal commercial business activity continued with BNI during the approximate 15-month arbitration process, and normal business operations have continued since the final settlement.

DCS Segment

Since 1992, we have offered dedicated contract carriage as a service option. Our DCS segment operations specialize in the design, development and execution of customer-specific fleet solutions. Capitalizing on advanced systems and technologies, DCS offers transportation engineering solutions that support private fleet conversion, dedicated fleet creation and transportation system augmentation. DCS operations typically provide customized services that are governed by long-term contracts and currently include dry-van, flatbed, temperature-controlled, dump trailers and local inner-city operations.

DCS operations focus on delivering recognizable customer value through best-in-class service, cost control and guaranteed dedicated capacity. We utilize a proprietary methodology known as Customer Value Delivery® (CVD) to create, measure and communicate value generated for each customer. DCS leverages the JBHT freight network to reposition equipment near outbound domiciles, thereby reducing inefficient empty miles and system cost. We also frequently find synergy in shared resources with the JBT and JBI segments, including terminals, drivers, maintenance shops, bulk fuel locations and trailer pools providing further economies of scale. DCS revenue for calendar year 2007 was $937 million, compared with $915 million in 2006. In early 2004, DCS began utilizing independent contractors (ICs) and at December 31, 2007, we had 100 ICs operating in this segment. At December 31, 2007, our segment operated 4,941 company-controlled and 92 customer-owned trucks and employed 6,041 people, 5,262 of whom were drivers.

JBT Segment

Our primary transportation service offerings classified in this segment include full-load, dry-van freight, which is predominantly transported utilizing company-controlled tractors operating over roads and highways. We pick up our freight at the dock or specified location of the shipper and transport the load directly to the location of the consignee. Our loads are transported by our company-owned tractors and employee drivers or by ICs who agree to transport freight in our trailers. This type of freight movement typically results in our billing the customer for all applicable freight charges and, in turn, paying the third party for their portion of the transportation services provided. This type of service usually results in our recognition of revenue for the entire billing and the payment to the third party being classified as purchased transportation expense.

We operate under the approval of certain Canadian authorities, allowing us to transport freight to and from all points in the continental United States to Quebec, British Columbia and Ontario. We have authorization to operate directly in substantially all the Canadian provinces, but to date we have served limited points in Canada, primarily through interchange operations with Canadian motor carriers. In late 2000, we began utilizing ICs in the JBT segment and at December 31, 2007, we had 978 ICs operating in the JBT segment, some of whom were leasing company-owned tractors. JBT revenue for calendar year 2007 was $842 million, compared with $966 million in 2006. At December 31, 2007, the JBT segment operated 3,572 company-owned tractors and employed 4,517 people, 3,635 of whom were drivers. A portion of our JBT segment nondriver employees provide freight solicitation, order entry and other operational support services to our other two segments. We record inter-segment credits and charges to properly reflect these inter-segment support services.

In December 2007, we entered into a plan to reduce the size of our JBT fleet and sell approximately 700 tractors and 2,500 trailers. This plan is consistent with our strategy to move our economic model from that of a primarily asset-based truckload carrier to an asset-light transportation company and our focus for growth and investment in segments that provide the desired margins. We expect to sell this equipment during calendar year 2008. As a result of the plan, we recorded a pretax charge of $8.4 million in December 2007 to reduce the carrying value of the revenue equipment to estimated fair value, less costs to sell.

ICS Segment

ICS provides non-asset and asset-light transportation solutions to customers through relationships with third-party carriers and integration with JBHT owned equipment. This type of freight movement typically results in our billing the customer for all applicable freight charges and, in turn, paying the third party for their portion of the transportation services provided. This type of service usually results in our recognition of revenue for the entire billing and the payment to the third party being classified as purchased transportation expense. ICS services include flatbed, refrigerated and less-than-truckload (LTL), as well as a variety of dry van and intermodal solutions. ICS revenue for calendar year 2007 was $92 million, compared with $42 million in 2006. At December 31, 2007, the ICS segment employed approximately 120 people.

Prior to 2007, ICS financial results were reported as part of the JBT segment. Beginning January 1, 2007, we began reporting ICS results separately. Prior period segment information has been reclassified to reflect this change.

Logistics Business and Affiliated Company

Effective July 1, 2000, we contributed an existing logistics segment business to a newly formed company, Transplace, Inc. (TPI). TPI is a non-asset-based third-party logistics provider offering a blend of logistics technology and transportation management services. Our share of TPI s financial results is included on a one-line, nonoperating item included on our Consolidated Statements of Earnings titled equity in loss of affiliated company.

Operations in Mexico

We have provided transportation services to and from Mexico since 1989. These services typically involve equipment interchange operations with various Mexican motor carriers. We provide transportation services to and from Mexico primarily by utilizing the services of a variety of Mexican carriers.

Marketing and Operations

We transport, or arrange for the transportation of, a wide range of freight, including forest and paper products, building materials, general merchandise, food and beverages, chemicals and automotive parts. Our customer base is extremely diverse and includes a large number of Fortune 500 companies. Our ability to offer multiple services, utilizing our four business segments and a full complement of logistics services through third parties, represents a competitive advantage. We provide a broad range of transportation services to larger shippers that seek to use a limited number of core carriers. Our largest customer in 2007 was Wal-Mart Stores, Inc., which accounted for approximately 12% of our total revenue.

We generally market all of our service offerings through a nationwide sales and marketing network. We do have some sales and marketing functions managed at the business-unit level, particularly for our DCS segment. In accordance with our typical arrangements, we bill the customer for all services and we, in turn, pay all third parties for their portion of transportation services provided. In recent years, we have re-established a primary focus on improving the profitability of each of our business segments and charging a fair price for all services provided.

People

We believe that one of the factors differentiating us from our competitors is our service-oriented people. As of December 31, 2007, we had 15,795 employees, including 11,129 company drivers, 1,177 mechanics and 3,489 office personnel. We also had arrangements with 1,084 ICs to transport freight in our trailing equipment. None of our employees are represented by unions or covered by collective bargaining agreements.

While we experienced improvements in 2007 relative to the past few years, our industry has periodically had a difficult time attracting and retaining enough qualified truck drivers. It is also common for the driver turnover rate of individual carriers to exceed 100%. It has been our practice to compensate our drivers at an above-average level in order to attract a higher caliber of experience and minimize turnover. While we have not, to date, experienced significant operational disruptions due to driver shortages, we expect the costs to recruit, train and retain company drivers and ICs will continue to rise in the foreseeable future.

Revenue Equipment

As of December 31, 2007, our company-owned tractor and truck fleet consisted of 10,308 units. In addition, we had 1,084 ICs, who operate their own tractors, but transport freight in our trailing equipment. We operate with standardized tractors in as many fleets as possible, particularly in our JBI and JBT fleets. Based on our customers preferences and the actual business application, our DCS fleet is more diversified. We believe operating with relatively newer revenue equipment provides better customer service, attracts quality drivers and lowers maintenance expense. At December 31, 2007, the average age of our combined tractor fleet was 3.0 years, our trailers averaged 6.4 years of age and our containers averaged 5.7 years. We perform routine servicing and preventive maintenance of our equipment at most of our regional terminal facilities.

Our JBI segment utilizes high-cube containers, which can be separated from the chassis and double-stacked on rail cars. We are currently in the process of expanding our container fleet and reconditioning our chassis fleet. The composition of our DCS trailing fleet varies with specific customer requirements and may include dry-vans, flatbeds, temperature-controlled, curtain-side vans, straight trucks and dump trailers. We typically operate newer revenue equipment in our JBT segment to minimize downtime and maximize utilization. We primarily utilize third-party carriers tractor and trailing equipment for our ICS segment; however, certain loads will utilize third-party carriers tractors powering our trailing equipment.

In December 2007, we initiated a plan to sell certain revenue equipment in our JBT segment. This plan is an effort to continue moving our current economic model from that of a primarily asset-based truckload carrier of the past to an asset-light transportation company, while reducing the JBT fleet until acceptable margins and returns on invested capital are achieved. Terms of the plan include approximately 700 tractors and 2,500 trailers to be sold during calendar year 2008.

Effective with model-year 2007 tractors, the EPA mandated lower emission standards for newly manufactured heavy-duty tractor engines. The 2007 EPA-compliant engines require more costly ultra-low-sulfur diesel (ULSD) fuel. Current market information and our experience to date indicates that ULSD fuel costs approximately $0.02 to $0.05 more per gallon. In 2006, we began testing the model-year 2007 engines in a group of our tractors. To date, we have seen a slight reduction in miles per gallon due to using ULSD fuel and these new 2007 EPA-compliant engines, and an increase in operating costs. Further, the acquisition costs of these new engines has increased by approximately 10%. A new set of more stringent emissions standards will become effective for newly-manufactured tractor engines in January 2010.

Competition and the Industry

The market in which we compete is frequently referred to as highly fragmented and includes thousands of carriers, many of which are very small. While we compete with a number of smaller carriers on a regional basis, only a limited number of companies represent competition in all markets across the country. We compete with other freight transportation carriers primarily in terms of on-time pickup and delivery service, availability of drivers, and revenue equipment and price.

Regulation

Our operations as a for-hire motor carrier are subject to regulation by the U.S. Department of Transportation (DOT) and the Federal Motor Carrier Safety Administration (FMCSA), and certain business is also subject to state rules and regulations. The DOT periodically conducts reviews and audits to ensure our compliance with all federal safety requirements, and we report certain accident and other information to the DOT. Our operations into and out of Canada and Mexico are also subject to regulation by those countries.

In July 2007, the D.C. Circuit Court of Appeals vacated certain provisions contained in the hours-of-service (HOS) regulations, issued by the FMCSA. The 11-hour-limit rule, which restricts drivers to 11 hours of driving time within a 14-hour period from the start of the workday, and the 34-hour-restart rule, which allows drivers to restart their weekly on-duty calculations after 34 consecutive hours off duty, were vacated by the court s decision. In September 2007, subsequent to petitions and motions by various groups, the court granted a 90-day delay in the effective date of its ruling. In December 2007, the FMCSA temporarily reinstated the vacated provisions until it gathers public comment and safety analysis information before issuing a final ruling. The public comment period extends until March 17, 2008. There has been no lapse in these rules since they were issued by the FMCSA in 2005. We continue to monitor the actions of the FMCSA.

ITEM 1A. RISK FACTORS

In addition to the forward-looking statements outlined previously in this Form 10-K, and other comments regarding risks and uncertainties, the following risk factors should be carefully considered when evaluating our business. Our business, financial condition or financial results could be materially and adversely affected by any of these risks. Also note that additional risks not currently identified or known to us could also negatively impact our business or financial results.

Our business is subject to general economic and business factors that are largely out of our control, any of which could have a material adverse effect on our results of operations.

Our business is dependent upon a number of factors that may have a material adverse effect on the results of our operations, many of which are beyond our control. These factors include significant increases or rapid fluctuations in fuel prices, excess capacity in the trucking industry, interest rates, fuel taxes, license and registration fees, insurance premiums, self-insurance levels, interference with, or termination of, our relationships with certain railroads, terrorist attacks or actions, acts of war, adverse weather conditions, increased costs for new revenue equipment or decreases in the value of used equipment, surpluses in the market for used equipment, and difficulty in attracting and retaining qualified drivers and independent contractors.

We are also affected by recessionary economic cycles and downturns in customers business cycles, particularly in market segments and industries such as retail and manufacturing, where we have a significant concentration of customers. Economic conditions represent a greater potential for loss, and we may be required to increase our reserve for bad-debt losses. In addition, our results of operations may be affected by seasonal factors. Customers tend to reduce shipments after the winter holiday season, and our operating expenses tend to be higher in the winter months, primarily due to colder weather, which causes higher fuel consumption from increased idle time and higher maintenance costs.

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.

Some of these factors include:

- We compete with many other transportation carriers of varying sizes and, to a lesser extent, with less-than-truckload carriers and railroads, some of which have more equipment and greater capital resources than we do.

- Some of our competitors periodically reduce their freight rates to gain business, especially during times of reduced growth rates in the economy, which may limit our ability to maintain or increase freight rates or maintain our profit margins.