

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

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 0-11757

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

Arkansas
(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 the filing requirements for the past 90 days.

Yes No

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

Yes No

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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, 2010 was 123,272,249.

J.B. HUNT TRANSPORT SERVICES, INC.

Form 10-Q
For The Quarterly Period Ended September 30, 2010
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Part I. Financial Information

ITEM 1. FINANCIAL STATEMENTS

J.B. HUNT TRANSPORT SERVICES, INC.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Operating revenues, excluding fuel surcharge revenues	\$854,836	\$740,697	\$2,403,695	\$2,107,337
Fuel surcharge revenues	131,188	93,052	369,778	219,032
Total operating revenues	986,024	833,749	2,773,473	2,326,369
Operating expenses:				
Rents and purchased transportation	446,721	365,057	1,240,951	1,001,048
Salaries, wages and employee benefits	237,353	203,446	673,852	588,725
Fuel and fuel taxes	84,592	72,510	249,511	194,452
Depreciation and amortization	49,808	47,098	146,968	141,555
Operating supplies and expenses	39,905	40,398	114,512	114,690
Insurance and claims	11,543	12,316	34,743	38,024
General and administrative expenses, net of asset dispositions	13,147	10,232	28,628	38,082
Operating taxes and licenses	6,790	6,984	20,032	20,901
Communication and utilities	4,675	4,754	13,999	13,857
Total operating expenses	894,534	762,795	2,523,196	2,151,334
Operating income	91,490	70,954	250,277	175,035
Interest expense, net	6,662	6,308	19,767	20,569
Equity in operations of affiliated company	-	(229)	-	619
Earnings before income taxes	84,828	64,875	230,510	153,847
Income taxes	32,659	24,912	88,746	59,077
Net earnings	\$52,169	\$39,963	\$141,764	\$94,770
Weighted average basic shares outstanding	123,390	127,073	125,439	126,503
Basic earnings per share	\$0.42	\$0.31	\$1.13	\$0.75
Weighted average diluted shares outstanding	126,404	129,819	128,559	129,251
Diluted earnings per share	\$0.41	\$0.31	\$1.10	\$0.73
Dividends declared per common share	\$0.12	\$0.11	\$0.36	\$0.33

See Notes to Condensed Consolidated Financial Statements.

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J.B. HUNT TRANSPORT SERVICES, INC.

Condensed Consolidated Balance Sheets
(in thousands)

	September 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$68,560	\$7,843
Trade accounts receivable, net	371,120	310,339
Prepaid expenses and other	46,585	74,283
Total current assets	486,265	392,465
Property and equipment, at cost	2,277,087	2,192,947
Less accumulated depreciation	827,055	748,276
Net property and equipment	1,450,032	1,444,671
Other assets	19,712	19,778
Total assets	\$1,956,009	\$1,856,914
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$200,000	\$-
Trade accounts payable	218,703	191,347
Claims accruals	27,801	18,545
Accrued payroll	49,810	34,651
Other accrued expenses	17,794	14,170
Deferred income taxes, current	11,108	10,505
Total current liabilities	525,216	269,218
Long-term debt	449,164	565,000
Other long-term liabilities	41,115	35,581
Deferred income taxes, noncurrent	346,056	343,262
Stockholders' equity	594,458	643,853
Total liabilities and stockholders' equity	\$1,956,009	\$1,856,914

See Notes to Condensed Consolidated Financial Statements.

J.B. HUNT TRANSPORT SERVICES, INC.

Condensed Consolidated Statements of Cash Flows

(in thousands)
(unaudited)

Nine Months Ended
September 30,
2010 2009

Cash flows from operating activities:

Net earnings	\$ 141,764	\$ 94,770
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	146,968	141,555
Share-based compensation	14,981	12,418
(Gain)/loss on sale of revenue equipment and other	(3,250)	7,061
Impairment on assets held for sale	180	10,284
Provision for deferred income taxes	3,397	18,619
Equity in operations of affiliated company	-	619
Changes in operating assets and liabilities:		
Trade accounts receivable	(60,782)	(59,833)
Income tax payable	8,125	(14,750)
Other assets	24,678	48,080
Trade accounts payable	31,049	(15,831)
Claims accruals	9,257	(1,309)
Accrued payroll and other accrued expenses	13,870	6,477
Net cash provided by operating activities	330,237	248,160

Cash flows from investing activities:

Additions to property and equipment	(175,156)	(281,740)
Net proceeds from sale of equipment	29,796	80,433
Net proceeds from the sale of available for sale investments	-	2,005
Changes in other assets	(49)	(9,573)
Net cash used in investing activities	(145,409)	(208,875)

Cash flows from financing activities:

Proceeds from long-term debt	249,164	-
Payments on long-term debt	-	(68,500)
Proceeds from revolving lines of credit and other	1,051,238	995,385
Payments on revolving lines of credit and other	(1,218,374)	(934,100)
Purchase of treasury stock	(175,250)	-
Stock option exercises and other	5,299	4,644
Tax benefit on stock options exercised	8,917	7,326
Dividends paid	(45,105)	(41,702)
Net cash used in financing activities	(124,111)	(36,947)
Net change in cash and cash equivalents	60,717	2,338
Cash and cash equivalents at beginning of period	7,843	2,373
Cash and cash equivalents at end of period	\$ 68,560	\$ 4,711

Supplemental disclosure of cash flow information:

Cash paid for interest	\$25,188	\$26,918
Cash paid for income taxes	\$68,087	\$48,647

See Notes to Condensed Consolidated Financial Statements.

J.B. HUNT TRANSPORT SERVICES, INC.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. General

Basis of Presentation

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

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 options or unvested restricted share units exercised or converted their holdings into common stock. The dilutive effect of restricted share units and stock options was 3.0 million shares during the third quarter 2010, compared to 2.7 million shares during third quarter 2009. During the nine months ended September 30, 2010 and September 30, 2009, the dilutive effect of restricted share units and stock options was 3.1 million shares and 2.7 million shares, respectively.

3. Share-based Compensation

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Restricted share units:				
Pretax compensation expense	\$3,578	\$2,107	\$13,389	\$10,458
Tax benefit	1,378	809	5,155	4,016
Restricted share unit expense, net of tax	\$2,200	\$1,298	\$8,234	\$6,442
Stock options:				
Pretax compensation expense	\$616	\$812	\$1,591	\$1,960
Tax benefit	237	312	612	753
Stock option expense, net of tax	\$379	\$500	\$979	\$1,207

As of September 30, 2010, we had \$32.3 million and \$6.0 million of total unrecognized compensation expense related to restricted share units and nonstatutory stock options, respectively, which is expected to be recognized over the remaining weighted-average period of 3.4 years for restricted share units and 1.3 years for stock options. During the nine months ended September 30, 2010, we issued 331,386 shares for vested restricted share units and 937,177 shares as a result of stock option exercises.

4. Financing Arrangements

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

	September 30, 2010	December 31, 2009
Revolving line of credit	\$ -	\$ 165.0
Senior notes, net of unamortized discount	649.2	400.0
Less current portion of long-term debt	(200.0)	-
Total long-term debt	\$ 449.2	\$ 565.0

Revolving Line of Credit

At September 30, 2010, we were authorized to borrow up to \$350 million under a revolving line of credit, which is supported by a credit agreement with a group of banks and expires in March 2012. The applicable interest rate under this agreement is based on either the prime rate or LIBOR, depending upon the specific type of borrowing, plus a margin based on the level of borrowings and our credit rating. At September 30, 2010, we had no outstanding balance under our revolving line of credit.

Senior Notes

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

The third is \$250 million of 3.375% senior notes, which were issued during September 2010, by J.B. Hunt Transport Services, Inc., a parent-level holding company with no significant assets or operations. The notes are guaranteed on a full and unconditional basis by a wholly-owned subsidiary. All other subsidiaries of the parent are minor. We registered this offering and sale of the notes under the Securities Act of 1933, pursuant to a shelf registration statement filed in September 2010. These notes are unsecured obligations and rank equally with all of our existing and future senior unsecured debt. The notes mature September 2015, with interest payments due semiannually in March and September of each year, beginning March 2011. We may redeem for cash some or all of the notes based on a redemption price set forth in the note indenture.

Our financing arrangements require us to maintain certain covenants and financial ratios. We were in compliance with all covenants and financial ratios at September 30, 2010.

5. Capital Stock

On April 28, 2010, our Board of Directors authorized the purchase of \$500 million of our common stock. We have purchased 5.2 million shares for approximately \$175 million. At September 30, 2010, we had \$325 million remaining under this authorization. On July 15, 2010, our Board of Directors declared a regular quarterly dividend of \$0.12 per common share, which was paid on August 13, 2010, to stockholders of record on July 30, 2010. On October 28, 2010, our Board of Directors declared a regular quarterly dividend of \$0.12 per common share, which will be paid on December 2, 2010, to stockholders of record on November 15, 2010.

6. Comprehensive Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net earnings	\$52,169	\$39,963	\$141,764	\$94,770
Unrealized gain on derivative instruments	-	714	-	1,926
Income tax expense	-	(274)	-	(739)
Comprehensive income	\$52,169	\$40,403	\$141,764	\$95,957

7. Fair Value Measurements

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

The following are assets and liabilities measured at fair value, based on quoted market prices (Level 1) and completed sales or market asking prices for similar assets (Level 2), at September 30, 2010 (in millions):

	Quoted Prices in	
	Active Markets for Identical Assets/(Liabilities) (Level 1)	Significant Other Observable Inputs Assets/(Liabilities) (Level 2)
Trading investments	\$ 10.1	\$ -
Assets held for sale	\$ -	\$ 0.2

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

The carrying amounts and estimated fair values, based on their net present value using market rates obtained from third parties, of our long-term debt at September 30, 2010, were as follows (in millions):

	Carrying Value	Estimated Fair Value
Senior notes, net of unamortized discount	\$ 649.2	\$ 676.3

The carrying amounts of all other instruments at September 30, 2010, approximate their fair value due to the short maturity of these instruments.

8. Income Taxes

Our effective income tax rate was 38.5% for the three and nine month periods ended September 30, 2010, compared with 38.4% for the three and nine month periods ended September 30, 2009. In determining our quarterly provision

for income taxes, we use an estimated annual effective tax rate, which is based on our expected annual income, statutory tax rates, best estimate of nontaxable and nondeductible items of income and expense and the ultimate outcome of tax audits.

At September 30, 2010, we had a total of \$18.7 million in gross unrecognized tax benefits, which is a component of other long-term liabilities on our balance sheet. Of this amount, \$12.1 million represents the amount of unrecognized tax benefits that, if recognized, would impact our effective tax rate. The total amount of accrued interest and penalties for such unrecognized tax benefits was \$3.2 million at September 30, 2010.

9. Legal Proceedings

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

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

10. Business Segments

We reported four distinct business segments during the three and nine months ended September 30, 2010. These segments included: Intermodal (JBI), Dedicated Contract Services (DCS), Truck (JBT), and Integrated Capacity Solutions (ICS). The operation of each of these businesses is described in Note 13, Segment Information, of our Annual Report (Form 10-K) for the year ended December 31, 2009. A summary of certain segment information is presented below (in millions):

	Assets (Excludes intercompany accounts) As of September 30, 2010		2009
JBI	\$1,026		\$906
DCS	442		449
JBT	308		328
ICS	36		31
Other (includes corporate)	144		144
Total	\$1,956		\$1,858

	Operating Revenues			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
JBI	\$ 559	\$ 456	\$ 1,553	\$ 1,272
DCS	232	197	669	550
JBT	124	119	361	329
ICS	77	68	208	192
Inter-segment eliminations	(6)	(6)	(18)	(17)
Total	\$ 986	\$ 834	\$ 2,773	\$ 2,326

	Operating Income (Loss)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
JBI	\$60.3	\$49.6	\$167.3	