

HUNT J B TRANSPORT SERVICES INC
Form 10-Q
July 31, 2009
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**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 June 30, 2009

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)

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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 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

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
Non-accelerated filer

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 June 30, 2009 was 126,845,471.

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J.B. HUNT TRANSPORT SERVICES, INC.

Form 10-Q

For The Quarterly Period Ended June 30, 2009

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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)

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Operating revenues, excluding fuel surcharge revenues	\$ 702,986	\$ 763,303	\$ 1,366,639	\$ 1,487,474
Fuel surcharge revenues	66,798	214,036	125,980	368,248
Total operating revenues	769,784	977,339	1,492,619	1,855,722
Operating expenses:				
Rents and purchased transportation	336,569	377,433	635,991	708,108
Salaries, wages and employee benefits	192,933	220,961	385,279	434,596
Fuel and fuel taxes	62,712	157,637	121,942	291,639
Depreciation and amortization	47,094	50,728	94,457	101,267
Operating supplies and expenses	38,665	40,965	74,292	77,762
Insurance and claims	13,858	14,262	25,709	32,064
General and administrative expenses, net of asset dispositions	19,401	8,584	27,847	18,114
Operating taxes and licenses	7,022	8,120	13,917	16,173
Communication and utilities	4,439	4,604	9,104	9,898
Total operating expenses	722,693	883,294	1,388,538	1,689,621
Operating income	47,091	94,045	104,081	166,101
Interest income	132	257	286	500
Interest expense	7,637	10,322	14,547	22,072
Equity in loss of affiliated company	223	1,023	848	1,878
Earnings before income taxes	39,363	82,957	88,972	142,651
Income taxes	15,314	32,353	34,165	55,634
Net earnings	\$ 24,049	\$ 50,604	\$ 54,807	\$ 87,017
Weighted average basic shares outstanding	126,346	125,047	126,213	124,852
Basic earnings per share	\$ 0.19	\$ 0.40	\$ 0.43	\$ 0.70
Weighted average diluted shares outstanding	129,364	128,476	128,962	128,195

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Diluted earnings per share	\$	0.19	\$	0.39	\$	0.42	\$	0.68
Dividends declared per common share	\$	0.11	\$	0.10	\$	0.22	\$	0.20

See Notes to Condensed Consolidated Financial Statements.

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

(in thousands)

(unaudited)

	June 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,570	\$ 2,373
Trade accounts receivable, net	308,313	280,614
Assets held for sale	18,018	17,843
Prepaid expenses and other	56,333	95,457
Total current assets	386,234	396,287
Property and equipment, at cost	2,165,261	2,169,893
Less accumulated depreciation	750,704	783,363
Net property and equipment	1,414,557	1,386,530
Other assets	20,095	10,636
	\$ 1,820,886	\$ 1,793,453
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current debt	\$ 61,500	\$ 118,500
Trade accounts payable	173,125	196,059
Claims accruals	19,408	18,095
Accrued payroll	39,389	33,156
Other accrued expenses	46,540	31,995
Deferred income taxes	10,048	10,083
Total current liabilities	350,010	407,888
Long-term debt	586,700	515,000
Other long-term liabilities	31,075	30,490
Deferred income taxes	275,962	311,064
Stockholders equity	577,139	529,011
	\$ 1,820,886	\$ 1,793,453

See Notes to Condensed Consolidated Financial Statements.

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

(in thousands)

(unaudited)

	Six Months Ended June 30	
	2009	2008
Cash flows from operating activities:		
Net earnings	\$ 54,807	\$ 87,017
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	94,457	101,267
Share-based compensation	9,499	6,025
(Gain)/loss on sale of revenue equipment and other	2,284	(574)
Impairment on assets held for sale	10,284	
Provision for deferred income taxes	(35,137)	(2,048)
Equity in loss of affiliated company	848	1,878
Changes in operating assets and liabilities:		
Trade accounts receivable	(27,933)	(49,656)
Income tax payable	15,706	(2,865)
Other assets	38,462	42,663
Trade accounts payable	(19,320)	10,861
Claims accruals	1,313	(67)
Accrued payroll and other accrued expenses	5,368	9,010
Net cash provided by operating activities	150,638	203,511
Cash flows from investing activities:		
Additions to property and equipment	(184,967)	(157,384)
Net proceeds from sale of equipment	50,275	46,984
Net distributions of available for sale investments	735	4,139
Changes in other assets	(9,648)	(83)
Net cash used in investing activities	(143,605)	(106,344)
Cash flows from financing activities:		
Payments on long-term debt	(7,000)	(7,000)
Net borrowings/(repayments) on revolving lines of credit and other	18,087	(93,922)
Stock option exercises and other	4,353	4,456
Tax benefit on stock options exercised	6,466	10,549
Dividends paid	(27,742)	(24,947)
Net cash used in financing activities	(5,836)	(110,864)
Net increase/(decrease) in cash and cash equivalents	1,197	(13,697)
Cash and cash equivalents at beginning of period	2,373	14,957
Cash and cash equivalents at end of period	\$ 3,570	\$ 1,260
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 14,919	\$ 22,130

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Income taxes	\$	47,635	\$	49,918
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See Notes to Condensed Consolidated Financial Statements.

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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, 2008. 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, 2009, or any other interim period. Our business is somewhat seasonal with slightly higher freight volumes typically experienced during August through early November.

Impairment of Long-lived Assets and Assets Held for Sale

In June 2009, we entered into a plan to sell approximately 700 tractors, the majority of which were operating in our JBI and DCS segments. We reclassified the net book value of this equipment from net property and equipment to assets held for sale in our June 30, 2009 Balance Sheet and discontinued recording depreciation expense for these assets held for sale. We recorded a pretax charge of \$10.3 million to reduce the carrying value of these assets to estimated fair value, less cost to sell. These impairment charges are included in general and administrative expenses, net of asset dispositions in our Condensed Consolidated Statements of Earnings and are reflected in our applicable business segments final results.

Recent Accounting Pronouncements

We adopted the provisions of Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157*, (FSP 157-2) for nonfinancial assets and liabilities effective January 1, 2009. Adoption of FSP 157-2 increased our disclosures regarding fair value instruments, but did not have an effect on our operating income or net earnings. See Note 7, *Fair Value Measurements*, for more discussion.

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In May 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 165, *Subsequent Events*, (FAS 165), which is effective for us during the second quarter 2009. FAS 165 sets forth the circumstances and the period after the balance sheet date for which an entity should evaluate events for recognition or disclosure in our financial statements. In addition, FAS 165 identifies the disclosures that an entity should make about such events. We adopted this statement for the second quarter ended 2009 and have evaluated subsequent events from June 30, 2009 through July 31, 2009 in accordance with the statement. Adoption of FAS 165 did not have an effect on our financial results.

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 second quarter 2009, compared to 3.4 million shares during second quarter 2008. During the six

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months ended June 30, 2009 and June 30, 2008, the dilutive effect of restricted share units and stock options was 2.7 million shares and 3.3 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 June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Restricted share units:				
Pretax compensation expense	\$ 4,131	\$ 2,225	\$ 8,351	\$ 4,391
Tax benefit	1,586	868	3,207	1,712
Restricted share unit expense, net of tax	\$ 2,545	\$ 1,357	\$ 5,144	\$ 2,679
Stock options:				
Pretax compensation expense	\$ 812	\$ 990	\$ 1,148	\$ 1,634
Tax benefit	312	386	441	637
Stock option expense, net of tax	\$ 500	\$ 604	\$ 707	\$ 997

As of June 30, 2009, we had \$34.7 million and \$9.3 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 2.1 years for restricted share units and 1.8 years for stock options. During the six months ended June 30, 2009, we issued 25,261 shares for vested restricted share units and 776,975 shares as a result of stock option exercises.

4. Financing Arrangements

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

	June 30, 2009	December 31, 2008
Revolving lines of credit	\$ 186.7	\$ 165.0
Senior notes	400.0	400.0
Term loan	61.5	68.5
Less current portion of long-term debt	(61.5)	(118.5)
Total long-term debt	\$ 586.7	\$ 515.0

Revolving Lines of Credit

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At June 30, 2009, we were authorized to borrow up to \$350 million under a revolving line of credit, which expires in March 2012 and is supported by a credit agreement with a group of banks. 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 June 30, 2009, we had \$186.7 million outstanding at an average interest rate of 1.13% under this agreement.

Effective June 29, 2009, we terminated a \$75 million accounts receivable securitization facility. Concurrent with this termination, we dissolved a wholly-owned subsidiary called JBH Receivables LLC, which was formed in July 2006 as a bankruptcy remote entity associated with the accounts receivable securitization facility.

Senior Notes

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

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due semiannually in January and July of each year.

Term Loan

Our \$100 million term loan facility, which matures in September 2009, was arranged in connection with our purchase of used, dry-van trailers and is collateralized by a security interest in the trailing equipment. 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 in September 2009, when the related term loan is due. At June 30, 2009, we had \$61.5 million outstanding under this agreement.

Our revolving line 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 June 30, 2009.

5. Capital Stock

On April 30, 2009, our Board of Directors declared a regular quarterly dividend of \$0.11 per common share, which was paid on May 29, 2009, to stockholders of record on May 15, 2009. On July 16, 2009, our Board of Directors declared a regular quarterly dividend of \$0.11 per common share, payable on August 14, 2009, to stockholders of record on July 31, 2009.

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 June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Net earnings	\$ 24,049	\$ 50,604	\$ 54,807	\$ 87,017
Unrealized gain/(loss) on derivative instruments, net of income taxes	344	786		