HUNT J B TRANSPORT SERVICES INC
Form 10-K405
March 08, 2002

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 fiscal year ended	**Commission file number**
December 31, 2001	**0-11757**

J.B. HUNT TRANSPORT SERVICES, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Arkansas	**71-0335111**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
615 J.B. Hunt Corporate Drive	
Lowell, Arkansas	**72745**
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(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, $.01 Par Value

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTIONS 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 AT LEAST THE PAST 90 DAYS.

YES ý NO o

INDICATE BY CHECK MARK IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO ITEM 405 OF REGULATION S-K (SECTION 229.405 OF THIS CHAPTER) IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED, TO THE BEST OF 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. ý

THE AGGREGATE MARKET VALUE OF 21,081,533 SHARES OF THE REGISTRANT S $.01 PAR VALUE COMMON STOCK HELD BY NON-AFFILIATES OF THE REGISTRANT AS OF FEBRUARY 28, 2002 WAS $494,783,580 (BASED UPON $23.47 PER SHARE BEING THE CLOSING SALE PRICE ON THAT DATE, AS REPORTED BY NASDAQ). IN MAKING THIS CALCULATION, THE ISSUER HAS ASSUMED, WITHOUT ADMITTING FOR ANY PURPOSE, THAT ALL EXECUTIVE OFFICERS AND DIRECTORS OF THE REGISTRANT, AND NO OTHER PERSONS, ARE AFFILIATES.

THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE REGISTRANT S CLASSES OF COMMON STOCK, AS OF FEBRUARY 28, 2002: 36,336,471.

DOCUMENTS INCORPORATED BY REFERENCE

CERTAIN PORTIONS OF THE NOTICE AND PROXY STATEMENT FOR THE ANNUAL MEETING OF THE STOCKHOLDERS TO BE HELD APRIL 25, 2002 PART II.

PART I

ITEM 1. BUSINESS

GENERAL

J.B. Hunt Transport Services, Inc., together with its wholly-owned subsidiaries (JBHT or the Company), is a diversified transportation services company operating under the jurisdiction of the U.S. Department of Transportation (DOT) and various state regulatory agencies. JBHT is an Arkansas holding company incorporated on August 10, 1961. Through its subsidiaries and associated companies, JBHT provides a wide range of logistics and transportation services to a diverse group of customers. The Company directly manages or provides tailored, technology-driven solutions to a growing list of Fortune 500 companies. These customers may request specifically targeted transportation service or outsource their entire transportation function to JBHT, or an associated company. The Company also directly transports full-load containerizable freight throughout the continental United States and portions of Canada and Mexico. Transportation services may utilize JBHT equipment and employees, or may employ equipment and services provided by associated or unrelated third parties in the transportation industry. The Company had three reportable business segments during calendar year 2001. These segments included dry-van truck only (JBT), intermodal (JBI) and dedicated contract services (DCS). In addition, JBHT operated a logistics business segment from 1992 until mid 2000. Effective July 1, 2000, the Company, along with four other large publicly-held transportation companies, contributed its logistics business to a new, commonly owned company, Transplace, Inc.

JBT SEGMENT

Primary transportation service offerings classified in this segment include full truck-load, dry-van, freight which is predominantly transported utilizing company-owned revenue equipment. Freight is picked up at the dock or specified location of the shipper and transported directly to the location of the consignee. The load may be transported entirely by company-owned and controlled power equipment or a portion of the movement may be handled by a third-party motor carrier. Typically, the charges for the entire movement are billed to the customer by the Company and the Company, in turn, pays the third-party for their portion of the transportation services provided. JBT operates utilizing certain Canadian authorities which were initially granted in 1988 and may transport freight to and from all points in the continental United States to Quebec, British Columbia and Ontario. The Company has authorization to operate directly in all the Canadian provinces, but to date has served limited points in Canada, primarily through interchange operations with Canadian motor carriers. The Company operated its JBT and JBI segments in combined fashion in periods prior to January 1, 2000. This combined operation was reported as Van/Intermodal (Van) in prior periods. In late 2000, the Company began utilizing independent contractors on a limited basis in the JBT segment. These independent contractors (I/C s) own their tractors and agree to transport freight in Company owned or controlled trailing equipment. At December 31, 2001, approximately 340 I/C s were operating in the JBT segment. JBT gross revenue for calendar year 2001 was $829 million, compared with $834 million in 2000. At December 31, 2001, the JBT segment operated approximately 5,380 company owned tractors and employed 8,270 people, 6,373 of whom were drivers.

JBI SEGMENT

Transportation service offerings of the JBI segment utilize agreements with various railroads to provide proven intermodal freight solutions to JBI customers in all major lanes of commerce in the United States, Canada, and Mexico. The Company differentiates itself from others through its premium service network, as well as, coordinated door to door service on company-owned and controlled assets. The Company established its first intermodal agreement with the Santa Fe Railway in 1989. Through growth of this transportation segment and additions, deletions, and mergers of rail carriers, the Company now has agreements with seven North American rail carriers including: BNSF, Norfolk

Southern, CSX, Kansas City Southern, Union Pacific, Canadian National, and Florida East Coast railroads. Typically, freight is picked up at the dock or specified location of the shipper and transported to the rail carrier for loading on to rail cars. Upon completion of the rail routing, the freight is picked up at the rail carrier s ramp and transported to the consignee. These originating and destination drays may be transported entirely by company-owned and controlled power equipment or may be handled by a third-party motor carrier. It is the Company s customary business practice that all charges for the entire movement are billed to the customer by the Company and the Company, in turn, pays the rail carrier and third-party motor carrier for their portion of the transportation services provided. In 1993, rail operations were expanded to utilize high-cube containers which can be separated from the chassis and double-stacked on rail cars to provide improved productivity. This concept is known as container-on-flatcar (COFC). The agreements the Company has with its rail carriers allow for the majority of JBI business carried under these rail agreements to receive priority space on trains and preferential loading and unloading at rail facilities. JBI gross revenue for calendar year 2001 was $740 million, compared with $681 million in 2000. At December 31, 2001, the JBI segment operated approximately 910 tractors and employed 1,608 people, 1,288 of whom were drivers.

DCS SEGMENT

Since 1992, JBHT has offered dedicated contract carriage as a service option. DCS segment operations specialize in the design, development, and execution of supply chain solutions. Capitalizing on advanced systems and technologies, DCS offers engineered transportation 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, and temperature-controlled operations. Near 100% on-time service is standard with efficient routes executed to design specifications.

DCS operations focus on driving out cost and enhancing customer value through leveraging the JBHT network for backhaul repositioning freight. Network freight may be used to reposition equipment near outbound domiciles, thereby reducing inefficient empty miles and system cost. DCS also frequently finds synergy in shared resources with the JBT and JBI segments including terminals, maintenance shops, bulk fuel locations, and trailer pools providing further economies of scale. DCS gross revenue for calendar year 2001 was $549 million, compared with $479 million in 2000. At December 31, 2001, the DCS segment operated approximately 4,480 tractors and employed 5,383 people, 4,633 of whom were drivers.

LOGISTICS BUSINESS AND ASSOCIATED COMPANY

The Company formally began offering logistics transportation services in 1992 through a wholly-owned subsidiary, J.B. Hunt Logistics (JBL). JBL services frequently included an arrangement whereby a shipper might outsource a substantial portion of its entire distribution and transportation process to one organization. The JBL segment business included a wide range of comprehensive transportation and management services including experienced professional managers, information and optimization technology, and the actual design or redesign of system solutions. A new logistics customer or service arrangement may have required a significant amount of up-front analysis and design time, while alternatives were considered and custom systems and software were developed. Effective July 1, 2000, the Company contributed substantially all of its JBL segment business, all related intangible assets and $5 million of cash to a newly-formed, commonly-owned company, Transplace, Inc. (TPC).

TPC is an Internet-based global transportation logistics company. TPC commenced operations in July of 2000 and initially included substantially all of the logistics business of the Company, Covenant Transport, Inc.; Swift Transportation Co., Inc; U.S. Xpress Enterprises, Inc., and Werner Enterprises, Inc. TPC gross revenue for calendar year 2001 approximated $702 million, which revenue is not included in the Company s financial statements for 2001. The Company presently has an approximate 27% ownership interest in TPC and, accordingly, utilizes the equity method of accounting. The financial results of TPC are included on a one-line, non-operating item included on the Consolidated Statements of Earnings entitled equity in earnings of associated companies.

ASSOCIATED COMPANY - MEXICO

The Company has provided transportation services to and from Mexico since 1989. These services frequently involve equipment interchange operations with various Mexican motor carriers. A joint venture agreement with Transportacion Maritima Mexicana, one of the largest transportation companies in Mexico, was signed in 1992. The joint venture, Comercializadora Internacional de Carga, St. de CV and its subsidiaries, originate and complete northbound and southbound international truck movements between the U.S. and Mexico. The joint venture also provides Mexican domestic irregular route truck service, refrigerated freight services, Mexican dedicated contract business and short-haul drayage to and from the Mexican maritime ports and rail heads. For the calendar year ended December 31, 2001 and for prior years, the Company s share of its Mexican joint venture operating results were included on a one-line, non-operating item on the Consolidated Statements of Earnings entitled equity in earnings of associated companies. The Company anticipates a sale of its interest, which is expected to be consummated in early 2002.

MARKETING AND OPERATIONS

JBHT transports a wide range of products including automotive parts, department store merchandise, paper and wood products, food and beverages, plastics, chemicals and manufacturing materials and supplies. The Company s primary customers include many of the Fortune 500 companies, but no single customer accounted for more than 15% of revenues during 2001. A broad geographic dispersion and a good balance in the type of freight transported allows JBHT some protection from major seasonal fluctuations. However, consistent with the truckload industry in general, freight is typically stronger during the second half of the year, with peak volume occurring in August through mid November. Revenue and earnings are also affected by bad weather, holidays, fuel prices, driver cost and availability, and railroad service levels.

The Company generally markets all of its service offerings through a nationwide marketing network. All transportation services offered are typically billed directly to the customer by JBHT and all inquiries, claims and other customer contacts are handled by the Company. Certain marketing, sales, engineering and design functions are assigned to each operating segment. However, marketing and pricing strategy, and national account service coordination is managed at the corporate level.

PERSONNEL

At December 31, 2001, JBHT employed approximately 16,380 people, including 12,294 drivers. Historically the truckload transportation industry and the Company have experienced shortages of qualified drivers. In addition, driver turnover rates for truckload motor carriers frequently exceed 100%. In September of 1996, JBHT announced a new compensation program for the approximate 3,500 over-the-road JBT drivers at that time. This comprehensive package, which was effective in February of 1997, included an average 33% increase in wages for this group of employees. This program was designed to attract and retain a professional and experienced work force capable of delivering a high level of customer service. As anticipated, this increase in driver wages and benefits was partially offset by lower driver recruiting and training expense, reduced accident costs and better equipment utilization. Primarily due to the over-the-road (OTR) driver pay change in 1997, average driver turnover rates declined from approximately 85% in 1996 to the 45% to 50% range during 1997 through 1999. During late 2000 and 2001, supply and demand conditions for drivers changed and a number of truck load carriers, including the Company, implemented lower mileage pay rates for newly hired drivers. Partly as a result of this reduced compensation level for drivers, the Company s driver turnover rate was approximately 70% in 2000 and over 100% in 2001. At December 31, 2001 JBHT also employed approximately 3,090 office employees and 1,000 mechanics. No employees are represented by collective bargaining agreements.

REVENUE EQUIPMENT

At December 31, 2001, JBHT owned or leased approximately 10,770 company tractors, 25,580 trailers and 18,740 containers. JBHT believes that modern, late-model, clean equipment differentiates quality customer service, increases equipment utilization and reduces maintenance costs and downtime. The Company generally operates with newer revenue equipment in the JBT segment, with the age of tractors and trailers approximating 1.5 years and 2 years, respectively, at December 31, 2001. Slightly older equipment and tractors designed for local and regional operations are typically utilized in the JBI and DCS segments. Specially designed high-cube containers which can be separated from the chassis and double-stacked on rail cars are also operated by JBI. The average age of JBI tractors and containers at December 31, 2001 was approximately 3.5 years and 6.5 years, respectively. The JBI segment commenced receiving brand new containers and reconditioned chassis in late 2001 and plans to receive approximately 6,000 new containers during 2002. The composition of the dedicated contract fleet varies with specific customer service requirements. All JBHT revenue equipment is maintained in accordance with a specific maintenance program primarily based on age and/or miles traveled.

COMPETITION

JBHT is one of the largest publicly held truckload carriers in the United States. It competes primarily with other irregular route, truckload common carriers. Less-than-truckload common carriers and private carriers generally provide limited competition for truckload carriers. JBHT and its associated companies are one of a few carriers offering nationwide logistics management and dedicated revenue equipment services. Although a number of carriers may provide competition on a regional basis, only a limited number of companies represent competition in all markets. The extensive rail network developed in conjunction with the various railroads also allows the Company the opportunity to differentiate its services in the marketplace.

REGULATION

The Company s operations as a for-hire carrier are subject to regulation by the U.S. Department of Transportation s Federal Motor Carrier Safety Administration (FMCSA) and by various Canadian provinces. Entry controlled barriers were substantially removed as a result of federal deregulation statutes such as the Interstate Commerce Commission Termination Act of 1995 (ICCTA). The FMCSA continues to enforce safety regulations and has proposed new rules which, if approved in their present form, would limit driver s hours of service. President Bush is considering implementation of provisions of the North America Free Trade Agreement (NAFTA), which may result in increased competition between U.S. and Mexican carriers for truckload services moving between these two countries. The Clean Air Act of 1990 established tighter pollution standards for emissions from automobiles and trucks. These new standards were effective on a phased in basis beginning with model year 1994. Under the current rules, additional standards are effective in October of 2002. The impact of these new rules on the Company has not yet been determined. The Company believes it has responded effectively to the marketplace changes caused by increased domestic competition and that it can effectively respond to any foreseeable changes in FMCSA regulations or NAFTA implementation.

ITEM 2. PROPERTIES

The Company s corporate headquarters are in Lowell, Arkansas. A 150,000-square-foot building was constructed and occupied in September 1990. The Company also utilizes its former corporate building as general offices. In 1999, a new 20,000 square foot building was constructed and occupied near the corporate headquarters. A portion of this leased facility serves as a backup data center and provides disaster recovery support services. An additional 20,000 square foot building consisting of general office space for Corporate employees was completed and occupied in 2000. This building is located next to the data center building and is a leased facility.

Principal outside facilities consist primarily of general offices which support operational, safety and maintenance functions. In addition to the principal facilities listed below, the Company leases numerous small offices and trailer parking yards in various locations throughout the county to support customer trailing equipment pool commitments.

A summary of the Company s principal facilities follows:

Location	Acreage	Maintenance Shop (square feet)	Office Space (square feet)
Atlanta, Georgia	30	29,800	10,400
Chicago, Illinois	27	50,000	14,000
Dallas, Texas	14	24,000	7,800
Detroit, Michigan	27	44,300	10,800
East Brunswick, New Jersey	20	20,000	7,800
Houston, Texas	13	24,700	7,200
Kansas City, Missouri	10	31,000	6,700
Little Rock, Arkansas	24	29,200	7,200
Louisville, Kentucky	14	40,000	10,000
Lowell, Arkansas (corporate headquarters)	25		150,000
Lowell, Arkansas	40	50,200	14,000

Lowell, Arkansas (office and data center)	2		20,000
Lowell, Arkansas (office)	2		20,000
Memphis, Tennessee	10	26,700	8,000
Phoenix, Arizona	14	10,000	5,300
San Bernardino, California	8	14,000	4.000
South Gate, California	12	12,000	5,500
Syracuse, New York	13	19,000	8,000

ITEM 3. LEGAL PROCEEDINGS

The Company is 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, management believes the resolution of claims and pending litigation will not have a material adverse effect on the financial condition or results of operations of the Company.

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

No matters were submitted during the fourth quarter of 2001 to a vote of security holders.

EXECUTIVE OFFICERS OF THE COMPANY

Information with respect to the executive officers of the Company is set forth below:

Name	Age	Position with Company	Executive Officer Since
J.B. Hunt	75	Senior Chairman of the Board; Director	1961
Wayne Garrison	49	Chairman of the Board; Director	1979
Johnelle Hunt	70	Secretary; Director	1972
Kirk Thompson	48	President and Chief Executive Officer; Director	1984
Paul R. Bergant	55	Executive Vice President, Marketing and Chief Marketing Officer	1985
Bob D. Ralston	55	Executive Vice President, Equipment and Properties	1989
Jerry W. Walton	55	Executive Vice President, Finance and Administration and Chief Financial Officer	1991
Craig Harper	44	Executive Vice President, Operations and Chief Operations Officer	1997
John N. Roberts III (1)	37	President, Dedicated Contract Services, and Executive Vice President, Enterprise Solutions	1997
Kay J. Palmer (2)	38	Chief Information Officer	1999

(1) Mr. Roberts joined the Company in 1989 as a management trainee. In December of 1990, he became a Regional Marketing Manager. In February of 1996, he was named Vice President, Marketing Strategy and was appointed President, Dedicated Contract Services, in July of 1997. In June of 1998, he was appointed to the additional position of Executive Vice President of Enterprise Solutions.

(2) Ms. Palmer joined the Company in 1988 as a programming specialist. In June of 1989, she was named Director of Application Services. In June of 1995, she was named Vice President of Applications. She became Senior Vice President of Information Services in August of 1998 and named Chief Information Officer in June of 1999.

PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

PRICE RANGE OF COMMON STOCK

The Company s common stock is traded in the over-the-counter market under the symbol JBHT. The following table sets forth, for the calendar years indicated, the range of high and low sales prices for the Company s common stock as reported by the National Association of Securities Dealers Automated Quotations National Market System (NASDAQ).

		2001		2000
Period	**High**		**Low**	