

HUNT J B TRANSPORT SERVICES INC  
Form 10-K  
February 23, 2017  
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 fiscal year ended Commission file number  
December 31, 2016 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** **72745-0130**  
(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, \$0.01 Par Value**

Edgar Filing: HUNT J B TRANSPORT SERVICES INC - Form 10-K

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

Yes  No

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

Yes  No

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 has submitted electronically and posted on its corporate website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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 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

Edgar Filing: HUNT J B TRANSPORT SERVICES INC - Form 10-K

The aggregate market value of 88,409,346 shares of the registrant's \$0.01 par value common stock held by non-affiliates as of June 30, 2016, was \$7.2 billion (based upon \$80.93 per share).

As of February 14, 2017, the number of outstanding shares of the registrant's common stock was 111,310,853.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain portions of the Notice and Proxy Statement for the Annual Meeting of Stockholders, to be held April 20, 2017, are incorporated by reference in Part III of this Form 10-K.

---

**J.B. HUNT TRANSPORT SERVICES, INC.****Form 10-K****For The Fiscal Year Ended December 31, 2016****Table of Contents**

|   | <u>Page</u>   |
|---|---|
| <b><u>PART I</u></b>                        |   |
| Item 1.                                     | Business 2  |
| Item 1A.                                    | Risk Factors 6  |
| Item 1B.                                    | Unresolved Staff Comments 9   |
| Item 2.                                     | Properties 9  |
| Item 3.                                     | Legal Proceedings 10  |
| Item 4.                                     | Mine Safety Disclosures 10  |
| <b><u>PART II</u></b>                       |   |
| Item 5.                                     | Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities 11 |
| Item 6.                                     | Selected Financial Data 14  |
| Item 7.                                     | Management’s Discussion and Analysis of Financial Condition and Results of Operations 15                        |
| Item 7A.                                    | Quantitative and Qualitative Disclosures About Market Risk 24   |
| Item 8.                                     | Financial Statements and Supplementary Data 25  |
| Item 9.                                     | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure 25                         |
| Item 9A.                                    | Controls and Procedures 25  |
| Item 9B.                                    | Other Information 26  |
| <b><u>PART III</u></b>                      |   |
| Item 10.                                    | Directors, Executive Officers and Corporate Governance 26   |
| Item 11.                                    | Executive Compensation 26   |
| Item 12.                                    | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters 26               |
| Item 13.                                    | Certain Relationships and Related Transactions, and Director Independence 26                                    |
| Item 14.                                    | Principal Accounting Fees and Services 26   |
| <b><u>PART IV</u></b>                       |   |
| Item 15.                                    | Exhibits, Financial Statement Schedules 26  |
| Signatures                                  | 28  |
| Index to Consolidated Financial Information | 29  |

## **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 these 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 and delivery personnel, a loss of one or more major customers, interference with or termination of our relationships with certain railroads, rail service delays, insurance costs and availability, claims expense, retention of key employees, terrorist attacks or actions, acts of war, adverse weather conditions, disruption or failure of information systems, 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.*

*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, delivery, and logistics companies in North America. J.B. Hunt Transport Services, Inc. is a publicly held holding company that, together with our wholly owned subsidiaries, provides safe and reliable transportation and delivery services to a diverse group of customers and consumers throughout the continental United States, Canada, and Mexico. Unless otherwise indicated by the context, “we,” “us,” “our,” the “Company”, 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-truckload containerized freight, which we directly

transport utilizing our company-controlled revenue equipment and company drivers or independent contractors. We have arrangements with most of the major North American rail carriers to transport freight in containers or trailers. We also provide customized freight movement, revenue equipment, labor, systems, and delivery 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 freight network design. Our local and home delivery services typically are provided through a network of cross-dock service centers throughout the continental United States. Utilizing a network of thousands of reliable third-party carriers, we also provide comprehensive transportation and logistics services. In addition to full-load, dry-van operations, these unrelated outside carriers also provide flatbed, refrigerated, less-than-truckload (LTL), and other specialized equipment, drivers, and services. Our customers' business activities are extremely diverse, and our customer base includes a large number of Fortune 500 companies.

We believe 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. These segments include Intermodal (JBI), Dedicated Contract Services® (DCS), Integrated Capacity Solutions (ICS), and Truck (JBT). Our business is somewhat seasonal, with slightly higher freight volumes typically experienced during August through early November. Our DCS segment is subject to somewhat less seasonal variation than our other segments. For the calendar year ended December 31, 2016, our consolidated revenue totaled \$6.56 billion, after the elimination of intersegment business. Of this total, 58% was generated by our JBI business segment, 23% by DCS, 13% by ICS, and 6% by JBT. For the year ended December 31, 2015, JBI represented 59%, DCS 24%, ICS 11%, and JBT 6% of our consolidated revenue. For the year ended December 31, 2014, JBI represented 60%, DCS 22%, ICS 12%, and JBT 6% of our consolidated revenue.

Additional general information about us is available at [www.jbhunt.com](http://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, Board committee charters, and other corporate policies. The information on our website is not, and shall not be deemed to be, a part of this annual report on Form 10-K or incorporated into any other filings we make with the SEC.

## **Our Mission and Strategy**

We forge long-term partnerships with key customers that include supply-chain management as an integral part of their strategies. Working in concert, we strive to drive out excess cost, add value and function as an extension of their enterprises. Our strategy is based on utilizing an integrated, multimodal approach to provide capacity-oriented solutions centered on delivering customer value and industry-leading service. We believe our unique operating strategy can add value to customers and increase our profits and returns to stockholders.

We continually analyze where we believe additional capital should be invested and management's resources should be focused to provide added benefits to our customers. These actions should, in turn, yield increasing returns to our stockholders.

Increasingly, our customers are seeking energy-efficient transportation solutions to reduce both cost and greenhouse-gas emissions. Our intermodal service addresses both demands. Further, we are customizing 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<sup>SM</sup> Transport Partner.

As always, we continue to ingrain safety into our corporate culture and strive to conduct all of our operations as safely as possible.

## **operating segments**

Segment information is also included in Note 11 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, forming a unique partnership with what is now the BNSF Railway Company; this was a watershed event in the industry and the first agreement that linked major rail and truckload carriers in a joint service environment. JBI draws on the intermodal services of rail carriers for the underlying linehaul movement of its equipment between rail ramps. The origin and destination pickup and delivery services (drayage) are handled by our company-owned tractors for the majority of our intermodal loads, while third-party dray carriers are used where economical. By performing our own drayage services, we are able to provide a cost-competitive, seamless coordination of the combined rail and dray movements for our customers.



JB I operates 84,594 pieces of company-owned trailing equipment systemwide. The fleet primarily consists of 53-foot, high-cube containers and is designed to take advantage of intermodal double-stack economics and superior ride quality. We own and maintain our own chassis fleet, consisting of 73,746 units. The containers and chassis are uniquely designed so that they may only be paired together, which we feel creates an operational competitive advantage. JB I also manages a fleet of 4,581 company-owned tractors, 695 independent contractor trucks, and 5,398 company drivers. At December 31, 2016, the total JB I employee count was 6,088. Revenue for the JB I segment in 2016 was \$3.80 billion.

### **DCS Segment**

DCS focuses on private fleet conversion and creation in replenishment, specialized equipment, and final-mile delivery services. We specialize in the design, development, and execution of supply-chain solutions that support a variety of transportation networks. Our final-mile delivery services are supported with a network of approximately 89 cross-dock locations nationwide, with 98% of the continental U.S. population living within 150 miles of a cross-dock location. Contracts with our customers are long-term, ranging from three to 10 years, with the average being approximately five years. Pricing of our contracts typically involves cost-plus arrangements, with our fixed costs being recovered regardless of equipment utilization, but is customized based on invested capital and duration.

At December 31, 2016, this segment operated 6,976 company-owned trucks, 410 customer-owned trucks, and 15 independent contractor trucks. DCS also operates 16,139 owned pieces of trailing equipment and 6,549 customer-owned trailers. The DCS segment employed 10,291 people, including 8,554 drivers, at December 31, 2016. DCS revenue for 2016 was \$1.53 billion.

### **ICS Segment**

ICS provides traditional freight brokerage and transportation logistics solutions to customers through relationships with thousands of third-party carriers and integration with our owned equipment. By leveraging the J.B. Hunt brand, systems, and network, we provide a broader service offering to customers by providing flatbed, refrigerated, expedited, and LTL, as well as a variety of dry-van and intermodal solutions. ICS provides single-source logistics management for customers desiring to outsource their transportation functions and utilize our proven supply-chain technology and design expertise to improve efficiency. ICS operates 42 remote sales offices or branches, as well as on-site logistics personnel working in direct contact with customers.

At December 31, 2016, the ICS segment employed 824 people, with a carrier base of approximately 50,900. ICS revenue for 2016 was \$852 million.

## **JBT Segment**

The service offering in this segment is full-load, dry-van freight, utilizing tractors operating over roads and highways. We typically pick up freight at the dock or specified location of the shipper and transport the load directly to the location of the consignee. We use our company-owned tractors and employee drivers or independent contractors who agree to transport freight in our trailers.

At December 31, 2016, the JBT segment operated 1,376 company-owned tractors and employed 1,668 people, 1,433 of whom were drivers. At December 31, 2016, we had 752 independent contractors operating in the JBT segment. JBT revenue for 2016 was \$388 million.

## **Marketing and Operations**

We transport, or arrange for the transportation of, a wide range of freight, including general merchandise, specialty consumer items, appliances, forest and paper products, food and beverages, building materials, soaps and cosmetics, automotive parts, agricultural products, electronics, and chemicals. Our customers' business activities are extremely diverse, and our customer base includes a large number of Fortune 500 companies. We provide a broad range of transportation services to shippers seeking to use a variety of transportation options to optimize their supply-chain logistics needs.

We generally market all of our service offerings through a nationwide sales and marketing network. We use a specific sales force in DCS due to the length, complexity, and specialization of the sales cycle. In addition, ICS utilizes its own local branch salespeople. 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.

## **People**

We believe that one of the factors differentiating us from our competitors is our service-oriented people. As of December 31, 2016, we had 22,190 employees, which consisted of 15,385 company drivers, 5,706 office personnel, and 1,099 maintenance technicians. We also had arrangements with approximately 1,462 independent contractors to transport freight in our trailing equipment. None of our employees are represented by unions or covered by collective bargaining agreements.

## **Revenue Equipment**

Our JBI segment utilizes uniquely designed high-cube containers and chassis, which can only be paired with each other and can be separated to allow the containers to be double-stacked on rail cars. 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 primarily utilize third-party carriers' tractor and trailing equipment for our ICS segment. Our JBT segment operates primarily 53-foot dry-van trailers.

As of December 31, 2016, our company-owned tractor and truck fleet consisted of 12,933 units. In addition, we had 1,462 independent contractors 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. Due to our customers' preferences and the actual business application, our DCS fleet is extremely diversified. We believe operating with relatively newer revenue equipment provides better customer service, attracts quality drivers, and lowers maintenance expense. At December 31, 2016, the average age of our combined tractor fleet was 1.9 years, while our containers averaged 5.9 years of age and our trailers averaged 7.6 years. We perform routine servicing and preventive maintenance on our equipment at our regional terminal facilities.

## **Competition and the Industry**

The freight transportation markets in which we operate are frequently referred to as highly fragmented and competitive. Our JBI segment competes with other intermodal marketing companies; other full-load carriers that

utilize railroads for a portion of the transportation service; and, to a certain extent, some railroads directly. The diversified nature of the services provided by our DCS segment attracts competition from customers' private fleets, other private fleet outsourcing companies, equipment leasing companies, local and regional delivery service providers, and some truckload carriers. Our ICS segment utilizes the fragmented nature of the truck industry and competes with other non-asset-based logistics companies and freight brokers, as well as full-load carriers. The full-load freight competition of our JBT segment 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 transportation service companies primarily in terms of price, on-time pickup and delivery service, availability and type of equipment capacity, and availability of carriers for logistics services.

### **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 federal safety requirements, and we report certain accident and other information to the DOT. Our operations into and out of Canada and Mexico are subject to regulation by those countries.

In 2013, the remaining provisions of the FMCSA's amendment to the hours-of-service (HOS) safety requirements for commercial truck drivers became effective, and we experienced some negative impact on our productivity as a result. However, in December 2014, as a result of the Consolidated and Further Continuing Appropriations Act of 2015, the FMCSA was required to rescind the 34-hour restart provision of the amended HOS rules to the pre-July 1, 2013 requirements. Furthermore, the FMCSA was required to conduct a field study measuring the safety benefit of the amended HOS rules before and after this rule change. This rule rescission is considered temporary pending the outcome of the study, which remains uncompleted. We continue to evaluate and adjust the various segments of our operations toward the ultimate impact of these changes in HOS safety requirements.

In December 2015, the FMCSA published a Final Rule requiring use of an Electronic Logging Device (ELD) by December 2017, for nearly all carriers. We have successfully implemented ELD's within our fleets.

In 2013, the FMCSA, in conjunction with the National Highway Traffic Safety Administration, submitted a Notice of Proposed Rulemaking, which was finalized and published in 2016, requiring the installation of speed-limiting devices on heavy trucks. This final rule will have minimal implementation cost for us, as all of our heavy trucks subject to this rule already have these devices installed. We do not anticipate a negative impact on our operations or productivity.

In 2016, the FMCSA published a Notice of Proposed Rulemaking to adopt revised methodologies towards a Safety Fitness Determination (SFD) for motor carriers. The proposed methodologies would determine when a motor carrier is not fit to operate commercial motor vehicles based on the carrier's on-road safety performance in relation to five of the Agency's seven Behavioral Analysis and Safety Improvement Categories (BASIC), a formal investigation, or a combination of the two. The intent of this action is to more effectively use FMCSA data and resources to identify unfit motor carriers and remove them from interstate commerce. We do not anticipate a negative impact on our operations or productivity.

We continue to monitor the actions of the FMCSA and other regulatory agencies, and evaluate all proposed rules to determine their impact on our operations.

## **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.

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. In addition to general U.S. economic trends, and to a lesser extent global economic trends, these factors include interference with or termination of our relationships with certain railroads; rail service delays; disruptions to U.S. port-of-call activity; significant increases or rapid fluctuations in fuel prices, fuel taxes, interest rates, insurance premiums, self-insurance levels, excess capacity in the intermodal or trucking industries, or license and registration fees; terrorist attacks or actions; acts of war; adverse weather conditions; disruption or failure of information technology systems; increased costs for new revenue equipment or decreases in the value of used equipment; increased tariffs assessed on or disruptions in the procurement of imported revenue equipment; volatile financial credit markets; and difficulty in attracting and retaining qualified drivers, independent contractors, and third-party carriers.

We are also affected by recessionary economic cycles and downturns in customers' business cycles, particularly in market segments and industries 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 depend on third parties in the operation of our business.**

Our JBI business segment utilizes railroads in the performance of its transportation services. The majority of these services are provided pursuant to contractual relationships with the railroads. While we have agreements with a number of Class I railroads, the majority of our business travels on the BNSF Railway Company (BNSF) and the Norfolk Southern railways. A material change in the relationship with, the ability to utilize one or more of these railroads or the overall service levels provided by these railroads could have a material adverse effect on our business and operating results. In addition, a portion of the freight we deliver is imported to the United States through ports of call that are subject to labor union contracts. Work stoppages or other disruptions at any of these ports could have a material adverse effect on our business.

In January, 2017, we exercised our right to utilize the arbitration process to review the division of revenue collected beginning May 1, 2016, as well as to clarify other issues, under our Joint Service Agreement with BNSF. BNSF has requested the same, and the arbitration process has commenced. BNSF provides a significant amount of rail transportation services to our JBI business segment. At this time, we are unable to reasonably predict the outcome of the arbitration, and, as such, no gain or loss contingency can be determined or recorded. Normal commercial business activity between the parties, including load tendering, load tracing, billing and payments, is expected to continue on a timely basis.

We also utilize independent contractors and third-party carriers to complete our services. These third parties are subject to similar regulation requirements, which may have a more significant impact on their operations, causing them to exit the transportation industry. Aside from when these third parties may use our trailing equipment to fulfill loads, we do not own the revenue equipment or control the drivers delivering these loads. The inability to obtain reliable third-party carriers and independent contractors could have a material adverse effect on our operating results and business growth.

**Rapid changes in fuel costs could impact our periodic financial results.**

Fuel costs can be very volatile. We have a fuel surcharge revenue program in place with the majority of our customers, which has historically enabled us to recover the majority of higher fuel costs. Most of these programs automatically adjust weekly depending on the cost of fuel. However, there can be timing differences between a change in our fuel cost and the timing of the fuel surcharges billed to our customers. In addition, we incur additional costs when fuel price increases cannot be fully recovered due to our engines being idled during cold or warm weather and empty or out-of-route miles that cannot be billed to customers. Rapid increases in fuel costs or shortages of fuel could have a material adverse effect on our operations or future profitability. As of December 31, 2016, we had no derivative financial instruments to reduce our exposure to fuel-price fluctuations.

**Insurance and claims expenses could significantly reduce our earnings.**

Our future insurance and claims expenses might exceed historical levels, which could reduce our earnings. If the number or severity of claims for which we are self-insured increases, our operating results could be adversely affected. We have policies in place for 2017 with substantially the same terms as our 2016 policies for personal injury, property damage, workers' compensation, and cargo loss or damage. We purchase insurance coverage for the amounts above which we are self-insured. If these expenses increase and we are unable to offset the increase with higher freight rates, our earnings could be materially and adversely affected.



**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.**

For the calendar year ended December 31, 2016, our top 10 customers, based on revenue, accounted for approximately 29% of our revenue. Our JBI, ICS, and JBT segments typically do not have long-term contracts with their customers. While our DCS segment business may involve a long-term written contract, those contracts may contain cancellation clauses, and there is no assurance that our current customers will continue to utilize our services or continue at the same levels. A reduction in or termination of our services by one or more of our major customers could have a material adverse effect on our business and operating results.

**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.**

The DOT, FMCSA, and various state agencies exercise broad powers over our business, generally governing matters including authorization to engage in motor carrier service, equipment operation, safety, and financial reporting. We are audited periodically by the DOT to ensure that we are in compliance with various safety, hours-of-service, and other rules and regulations. If we were found to be out of compliance, the DOT could restrict or otherwise impact our operations.

**Difficulty in attracting and retaining drivers and delivery personnel could affect our profitability and ability to grow.**

If we are unable to attract and retain the necessary quality and number of employees, we could be required to significantly increase our employee compensation package, let revenue equipment sit idle, dispose of the equipment altogether, or rely more on higher-cost third-party carriers, which could adversely affect our growth and profitability. In addition, our growth could be limited by an inability to attract third-party carriers upon whom we rely to provide transportation services.

**We rely significantly on our information technology systems, a disruption, failure or security breach of which could have a material adverse effect on our business.**

We rely on information technology throughout all areas of our business to initiate, track, and complete customer orders; process financial and nonfinancial data; compile results of operations for internal and external reporting; and achieve operating efficiencies and growth. Our information technology systems may be susceptible to various

interruptions, including equipment or network failures, failed upgrades or replacement of software, user error, power outages, natural disasters, cyber-attacks, terrorist attacks, computer viruses, hackers, or other security breaches. We have mitigated our exposure to these risks through the establishment and maintenance of technology security programs and disaster recovery plans, but these mitigating activities may not be sufficient. A significant disruption, failure or security breach in our information technology systems could have a material adverse effect on our business, which could include operational disruptions, loss of confidential information, external reporting delays or errors, legal claims, or damage to our business reputation.

**We operate in a competitive and highly fragmented industry. Numerous factors could impair our ability to maintain our current profitability and to compete with other carriers and private fleets.**

We compete with many other transportation service providers of varying sizes and, to a lesser extent, with LTL carriers and railroads, some of which have more equipment and greater capital resources than we do. Additionally, 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 to maintain our profit margins.

In an effort to reduce the number of carriers it uses, a customer often selects so-called “core carriers” as approved transportation service providers, and in some instances, we may not be selected. Many customers periodically accept bids from multiple carriers for their shipping needs, and this process may depress freight rates or result in the loss of some business to competitors. Also, certain customers that operate private fleets to transport their own freight could decide to expand their operations, thereby reducing their need for our services.

**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.**

Certain weather conditions such as ice and snow can disrupt our operations. Increases in the cost of our operations, such as towing and other maintenance activities, frequently occur during the winter months. Natural disasters such as hurricanes and flooding can also impact freight volumes and increase our costs.

**Our operations are subject to various environmental laws and regulations, the violation of which could result in substantial fines or penalties.**

We are subject to various environmental laws and regulations dealing with the handling of hazardous materials, underground fuel storage tanks, and discharge and retention of storm water. We operate in industrial areas, where truck terminals and other industrial activities are located and where groundwater or other forms of environmental contamination have occurred. Our operations involve the risks of fuel spillage or seepage, environmental damage, and hazardous waste disposal, among others. We also maintain bulk fuel storage and fuel islands at several of our facilities. If a spill or other accident involving hazardous substances occurs, or if we are found to be in violation of applicable laws or regulations, it could have a material adverse effect on our business and operating results. If we should fail to comply with applicable environmental regulations, we could be subject to substantial fines or penalties and to civil and criminal liability.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

#### **ITEM 2. PROPERTIES**

We own our corporate headquarters in Lowell, Arkansas. In addition, we own or lease a number of buildings in Lowell that we utilize for administrative support, customer service, freight dispatch, data processing and warehousing, and data backup and disaster recovery. We also own or lease 42 other significant facilities across the United States where we perform maintenance on our equipment, provide bulk fuel, and employ personnel to support operations. These facilities vary in size from 1 to 39 acres. Each of our business segments utilizes these facilities for various services, including bulk fueling, maintenance, and driver support activities. In addition, we have 89 leased facilities in our DCS cross-dock and delivery system network and 42 leased or owned remote sales offices or branches in our ICS segment. We also own or lease multiple small facilities, offices, and parking yards throughout the country that support

our customers' business needs.

A summary of our principal facilities in locations throughout the U.S. follows:

| Type   | Acreage | Maintenance Shop/<br>Cross-dock Facility<br>(square feet) | Office Space<br>(square feet) |
|--|---------|---|-------------------------------|
| Maintenance and support facilities           | 448     | 805,000   | 197,000                       |
| Cross-dock and delivery system facilities    | 23      | 1,304,000   | 118,000                       |
| Corporate headquarters, Lowell, Arkansas     | 99      | -   | 230,000                       |
| Offices and data center, Lowell, Arkansas    | 8       | -   | 69,000                        |
| Branch sales offices                         | -       | -   | 64,000                        |
| Other facilities, offices, and parking yards | 217     | 48,000  | 65,000                        |

### **ITEM 3. LEGAL PROCEEDINGS**

We are a defendant in certain class-action lawsuits 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. During the first half of 2014, the Court in the lead class-action granted judgment in our favor with regard to all claims. The plaintiffs have appealed the case to the Ninth Circuit Court of Appeals where it is currently pending. The overlapping claims in the remaining actions have been stayed pending a decision in the lead class-action case. We cannot reasonably estimate at this time the possible loss or range of loss, if any, that may arise from these lawsuits.

In January, 2017, we exercised our right to utilize the arbitration process to review the division of revenue collected beginning May 1, 2016, as well as to clarify other issues, under our Joint Service Agreement with BNSF. BNSF has requested the same, and the arbitration process has commenced. BNSF provides a significant amount of rail transportation services to our JBI business segment. At this time, we are unable to reasonably predict the outcome of the arbitration, and, as such, no gain or loss contingency can be determined or recorded. Normal commercial business activity between the parties, including load tendering, load tracing, billing and payments, is expected to continue on a timely basis.

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

#### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is traded on the NASDAQ Global Select Market (NASDAQ) under the symbol "JBHT." At December 31, 2016, we were authorized to issue up to 1 billion shares of our common stock, and 167.1 million shares were issued. We had 111.3 million and 113.9 million shares outstanding as of December 31, 2016 and 2015, respectively. The high and low sales prices of our common stock as reported by NASDAQ and the quarterly dividends paid per share on our common shares were:

| 2016           | Dividends<br>Paid | High    | Low     |
|----------------|-------------------|---------|---------|
| First Quarter  | \$ 0.22           | \$86.94 | \$63.58 |
| Second Quarter | 0.22              | 89.43   | 75.71   |
| Third Quarter  | 0.22              | 86.59   | 77.52   |
| Fourth Quarter | 0.22              | 102.38  | 76.20   |

| 2015           | Dividends<br>Paid | High    | Low     |
|----------------|-------------------|---------|---------|
| First Quarter  | \$ 0.21           | \$90.46 | \$77.50 |
| Second Quarter | 0.21              | 93.50   | 82.06   |
| Third Quarter  | 0.21              | 86.32   | 70.92   |
| Fourth Quarter | 0.21              | 79.73   | 69.69   |

On February 14, 2017, the high and low sales prices for our common stock as reported by NASDAQ were \$100.74 and \$99.42, respectively, and we had 1,018 stockholders of record.

**Dividend Policy**

Our dividend policy is subject to review and revision by the Board of Directors, and payments are dependent upon our financial condition, liquidity, earnings, capital requirements, and any other factors the Board of Directors may deem relevant. On January 25, 2017, we announced an increase in our quarterly cash dividend from \$0.22 to \$0.23 per share, which will be paid February 24, 2017, to stockholders of record on February 10, 2017. We currently intend to

continue paying cash dividends on a quarterly basis. However, no assurance can be given that future dividends will be paid.

**Purchases of Equity Securities**

The following table summarizes purchases of our common stock during the three months ended December 31, 2016:

| Period                               | Number of Common Shares Purchased | Average Price Paid Per Common Share Purchased | Total Number of Shares Purchased as Part of a Publicly Announced Plan <sup>(1)</sup> | Maximum   |
|--------------------------------------|-----------------------------------|---|--|---|
|                                      |                                   |   |  | Dollar Amount of Shares That May Yet Be Purchased Under the Plan<br>(in millions) |
| October 1 through October 31, 2016   | 759,590                           | \$ 78.99                                      | (2) 759,590  | \$ 216  |
| November 1 through November 30, 2016 | 120,935                           | 124.03  | (2) 120,935  | 201   |
| December 1 through December 31, 2016 | -                                 | -   | -  | 201   |
| Total                                | 880,525                           | \$ 85.18                                      | 880,525  | \$ 201  |

(1) On October 22, 2015, our Board of Directors authorized an additional purchase of up to \$500 million of our common stock.

Number of common shares and average price paid per common share reflect the effective total purchases upon (2) completion of our \$75 million accelerated repurchase program, which commenced in October 2016. Terms of the program included a deferment of 120,935 shares until program completion in November 2016.



## Stock Performance Graph

The following graph compares the cumulative 5-year total return of stockholders of our common stock with the cumulative total returns of the S&P 500 index and two customized peer groups. The peer group labeled “2015 Peer Group” consists of 11 companies: Avis Budget Group Inc., C.H. Robinson Worldwide Inc., CSX Corp, Expeditors International Of Washington Inc., Hertz Global Holdings Inc., Hub Group Inc., Kansas City Southern, Landstar System Inc., Norfolk Southern Corp, Ryder System Inc. and Swift Transportation Co. The peer group labeled “2016 Peer Group” consists of 12 companies: Avis Budget Group Inc., C.H. Robinson Worldwide Inc., CSX Corp, Expeditors International Of Washington Inc., Hertz Global Holdings Inc., Hub Group Inc., Kansas City Southern, Landstar System Inc., Norfolk Southern Corp, Old Dominion Freight Line Inc., Ryder System Inc. and Swift Transportation Co. The graph assumes the value of the investment in our common stock, in the index, and in each of the peer groups (including reinvestment of dividends) was \$100 on December 31, 2011, and tracks it through December 31, 2016. The stock price performance included in this graph is not necessarily indicative of future stock price performance.

|                                    | Years Ended December 31, |           |           |           |           |           |
|------------------------------------|--------------------------|-----------|-----------|-----------|-----------|-----------|
|                                    | 2011                     | 2012      | 2013      | 2014      | 2015      | 2016      |
| J.B. Hunt Transport Services, Inc. | \$ 100.00                | \$ 134.19 | \$ 174.78 | \$ 192.48 | \$ 169.33 | \$ 226.54 |
| S&P 500                            | 100.00                   | 116.00    | 153.58    | 174.60    | 177.01    | 198.18    |
| 2015 Peer Group                    | 100.00                   | 99.89     | 143.03    | 168.32    | 123.82    | 154.16    |
| 2016 Peer Group                    | 100.00                   | 100.60    | 144.43    | 171.54    | 126.39    | 158.69    |

## Securities Authorized For Issuance Under Equity Compensation Plans

| Plan Category <sup>(1)</sup> | Number of Securities To Be Issued Upon Exercise of Outstanding Options, Warrants, and Rights | Weighted-average Price of Outstanding Options, Warrants, and Rights | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in |
|------------------------------|--|---|---|
|                              |  |   |   |

|  | (A)       | (B)  | Column (A))<br>(C) |
|--|-----------|------|--------------------|
| Equity compensation plans approved by security holders | 1,986,710 | \$ - | (2) 6,873,114      |

We have no equity compensation plans that are not approved by security holders. We have proposed a restatement (1)to our existing equity compensation plan, subject to security holder approval at our April 20, 2017, Annual Meeting of Stockholders.

Currently, only restricted share units remain outstanding under our equity compensation plan. Upon vesting, (2)restricted share units are settled with shares of our common stock on a one-for-one basis and, accordingly, do not include an exercise price.

**ITEM 6. SELECTED FINANCIAL DATA**

(Dollars in millions, except per share amounts)

| Earnings data for the years ended December 31,                 | 2016    | 2015    | 2014    | 2013    | 2012    |
|--|---------|---------|---------|---------|---------|
| Operating revenues   | \$6,555 | \$6,188 | \$6,165 | \$5,585 | \$5,055 |
| Operating income   | 721     | 716     | 632     | 577     | 530     |
| Net earnings   | 432     | 427     | 375     | 342     | 310     |
| Basic earnings per share                                       | 3.84    | 3.69    | 3.20    | 2.92    | 2.64    |
| Diluted earnings per share                                     | 3.81    | 3.66    | 3.16    | 2.87    | 2.59    |
| Cash dividends per share                                       | 0.88    | 0.84    | 0.80    | 0.45    | 0.71    |
| Operating expenses as a percentage of operating revenues:      |         |         |         |         |         |
| Rents and purchased transportation                             | 49.7 %  | 48.4 %  | 50.0 %  | 50.2 %  | 49.2 %  |
| Salaries, wages and employee benefits                          | 22.4    | 22.5    | 20.9    | 20.4    | 20.5    |
| Depreciation and amortization                                  | 5.5     | 5.5     | 4.8     | 4.5     | 4.5     |
| Fuel and fuel taxes  | 4.3     | 5.1     | 7.4     | 8.2     | 9.2     |
| Operating supplies and expenses                                | 3.6     | 3.6     | 3.5     | 3.6     | 3.5     |
| General and administrative expenses, net of asset dispositions | 1.3     | 1.1     | 0.8     | 0.8     | 0.6     |
| Insurance and claims   | 1.2     | 1.2     | 1.3     | 1.0     | 1.1     |
| Operating taxes and licenses                                   | 0.7     | 0.7     | 0.7     | 0.7     | 0.6     |
| Communication and utilities                                    | 0.3     | 0.3     | 0.4     | 0.3     | 0.3     |
| Total operating expenses                                       | 89.0    | 88.4    | 89.8    | 89.7    | 89.5    |
| Operating income   | 11.0    | 11.6    | 10.2    | 10.3    | 10.5    |
| Net interest expense   | 0.4     | 0.4     | 0.4     | 0.4     | 0.5     |
| Earnings before income taxes                                   | 10.6    | 11.2    | 9.8     | 9.9     | 10.0    |
| Income taxes   | 4.0     | 4.3     | 3.7     | 3.8     | 3.9     |
| Net earnings   | 6.6 %   | 6.9 %   | 6.1 %   | 6.1 %   | 6.1 %   |

| Balance sheet data as of December 31,        | 2016    | 2015    | 2014    | 2013    | 2012    |
|--|---------|---------|---------|---------|---------|
| Working capital ratio                        | 1.65    | 1.61    | 1.11    | 0.96    | 1.10    |
| Total assets (millions)                      | \$3,829 | \$3,630 | \$3,374 | \$2,818 | \$2,462 |
| Stockholders' equity (millions)              | \$1,414 | \$1,300 | \$1,205 | \$1,012 | \$792   |
| Current portion of long-term debt (millions) | -       | -       | \$250   | \$250   | \$100   |
| Total debt (millions)                        | \$986   | \$998   | \$929   | \$707   | \$683   |
| Total debt to equity                         | 0.70    | 0.77    | 0.77    | 0.70    | 0.86    |
| Total debt as a percentage of total capital  | 41 %    | 43 %    | 44 %    | 41 %    | 46 %    |

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion of our results of operations and financial condition should be read in conjunction with our financial statements and related notes in Item 8. This discussion contains forward-looking statements. Please see "Forward-looking Statements" and "Risk Factors" for a discussion of items, uncertainties, assumptions and risks associated with these statements.*

### **Critical Accounting Policies and Estimates**

The preparation of our financial statements in accordance with U.S. generally accepted accounting principles 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 liabilities are affected by these estimates. We evaluate these estimates on an ongoing basis, utilizing historical experience, consultation with third parties 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. We consider our critical accounting policies and estimates to be those that require us to make more significant judgments and estimates when we prepare our financial statements and include the following:

### **Workers' Compensation and Accident Costs**

We purchase insurance coverage for a portion of expenses related to employee injuries, vehicular collisions, accidents, and cargo damage. Certain insurance arrangements include a level of self-insurance (deductible) coverage applicable to each claim. We have umbrella policies to limit our exposure to catastrophic claim costs. We are substantially self-insured for loss of and damage to our owned and leased revenue equipment.

The amounts of self-insurance change from time to time based on measurement dates, policy expiration dates, and claim type. We have policies in place for 2017 with substantially the same terms as our 2016 policies for personal injury, property damage, workers' compensation, and cargo loss or damage.

Our claims accrual policy for all self-insured claims is to recognize a liability at the time of the incident based on our analysis of the nature and severity of the claims and analyses provided by third-party claims administrators, as well as

legal, economic, and regulatory factors. Our safety and claims personnel work directly with representatives from the insurance companies to continually update the estimated cost of each claim. The ultimate cost of a claim develops over time as additional information regarding the nature, timing, and extent of damages claimed becomes available. Accordingly, we use an actuarial method to develop current claim information to derive an estimate of our ultimate claim liability. This process involves the use of loss-development factors based on our historical claims experience and includes a contractual premium adjustment factor, if applicable. In doing so, the recorded liability considers future claims growth and, if applicable, conversion to fully insured status and provides a reserve for incurred-but-not-reported claims. We do not discount our estimated losses. At December 31, 2016, we had an accrual of approximately \$98 million for estimated claims. In addition, we are required to pay certain advanced deposits and monthly premiums. At December 31, 2016, we had an aggregate prepaid insurance asset of approximately \$93 million, which represented prefunded premiums and deposits.

### **Revenue Equipment**

We operate a significant number of tractors, trucks, containers, chassis, and trailers in connection with our business. This equipment may be purchased or acquired under lease agreements. In addition, we may rent revenue equipment from various third parties under short-term rental arrangements. Purchased revenue equipment is depreciated on the straight-line method over the estimated useful life to an estimated salvage or trade-in value. We periodically review the useful lives and salvage values of our revenue equipment and evaluate our long-lived assets for impairment. We have not identified any impairment to our assets at December 31, 2016.

We have agreements with our primary tractor suppliers for residual or trade-in values for certain new equipment. We have utilized these trade-in values, as well as other operational information such as anticipated annual miles, in accounting for depreciation expense. If our suppliers were unable to perform under the terms of our agreements for trade-in values, it could have a material adverse effect on our financial results.

## **Revenue Recognition**

We recognize revenue based on the relative transit time of the freight transported and as other services are provided. Accordingly, a portion of the total revenue that will be billed to the customer once a load is delivered is recognized in each reporting period based on the percentage of the freight pickup and delivery service that has been completed at the end of the reporting period.

We record revenues on the gross basis at amounts charged to our customers because we are the primary obligor, we are a principal in the transaction, we invoice our customers and retain all credit risks, and we maintain discretion over pricing. Additionally, we are responsible for the selection of third-party transportation providers.

Our trade accounts receivable includes amounts due from customers that have been reduced by an allowance for uncollectible accounts and revenue adjustments. The allowance for uncollectible accounts and revenue adjustments is based on historical experience, as well as any known trends or uncertainties related to customer billing and account collectability. The adequacy of our allowance is reviewed quarterly.

## **Income Taxes**

We account for income taxes under the liability method. Our deferred tax assets and liabilities represent items that will result in a tax deduction or taxable income in future years for which we have already recorded the related tax expense or benefit in our statement of earnings. Deferred tax accounts arise as a result of timing differences between when items are recognized in our Consolidated Financial Statements and when they are recognized in our tax returns. We assess the likelihood that deferred tax assets will be recovered from future taxable income or the reversal of temporary timing differences. To the extent we believe recovery does not meet the more-likely-than-not threshold, a valuation allowance is established. To the extent we establish a valuation allowance, we include an expense as part of our income tax provision.

Significant judgment is required in determining and assessing the impact of complex tax laws and certain tax-related contingencies on our provision for income taxes. As part of our calculation of the provision for income taxes, we

assess whether the benefits of our tax positions are at least more likely than not to be sustained upon audit based on the technical merits of the tax position. For tax positions that are not more likely than not to be sustained upon audit, we accrue the largest amount of the benefit that is not more likely than not to be sustained in our Consolidated Financial Statements. Such accruals require us to make estimates and judgments, whereby actual results could vary materially from these estimates. Further, a number of years may elapse before a particular matter for which we have established an accrual is audited and resolved. See Note 7, Income Taxes, in our Consolidated Financial Statements for a discussion of our current tax contingencies.

**RESULTS OF OPERATIONS**

The following table sets forth items in our Consolidated Statements of Earnings as a percentage of operating revenues and the percentage increase or decrease of those items compared with the prior year.

|  | Percentage of      |        |        | Percentage |        |
|--|--------------------|--------|--------|------------|--------|
|  | Operating Revenues |        |        | Change     |        |
|  | 2016               | 2015   | 2014   | 2016       | 2015   |
|  |                    |        |        | vs.        | vs.    |
|  |                    |        |        | 2015       | 2014   |
| Operating revenues   | 100.0%             | 100.0% | 100.0% | 5.9 %      | 0.4 %  |
| Operating expenses:  |                    |        |        |            |        |
| Rents and purchased transportation                             | 49.7               | 48.4   | 50.0   | 8.7        | (2.9 ) |
| Salaries, wages and employee benefits                          | 22.4               | 22.5   | 20.9   | 5.4        | 8.1    |
| Depreciation and amortization                                  | 5.5                | 5.5    | 4.8    | 6.4        | 15.3   |
| Fuel and fuel taxes  | 4.3                | 5.1    | 7.4    | (9.5 )     | (31.0) |
| Operating supplies and expenses                                | 3.6                | 3.6    | 3.5    | 5.7        | 0.9    |
| General and administrative expenses, net of asset dispositions | 1.3                | 1.1    | 0.8    | 20.0       | 43.3   |
| Insurance and claims   | 1.2                | 1.2    | 1.3    | 6.4        | (9.1 ) |
| Operating taxes and licenses                                   | 0.7                | 0.7    | 0.7    | 6.7        | 11.1   |
| Communication and utilities                                    | 0.3                | 0.3    | 0.4    | (3.0 )     | (1.1 ) |
| Total operating expenses                                       | 89.0               | 88.4   | 89.8   | 6.6        | (1.1 ) |
| Operating income   | 11.0               | 11.6   | 10.2   | 0.7        | 13.3   |
| Net interest expense   | 0.4                | 0.4    | 0.4    | (1.1 )     | (5.4 ) |
| Earnings before income taxes                                   | 10.6               | 11.2   | 9.8    | 0.8        | 14.2   |
| Income taxes   | 4.0                | 4.3    | 3.7    | 0.3        | 14.4   |
| Net earnings   | 6.6 %              | 6.9 %  | 6.1 %  | 1.1 %      | 14.0 % |

**2016 Compared With 2015****Consolidated Operating Revenues**

Our total consolidated operating revenues increased 5.9% to \$6.56 billion in 2016, compared to \$6.19 billion in 2015, primarily due to overall increased load volume, partially offset by lower revenue per load in our JBI, ICS, and JBT segments. Fuel surcharge revenues decreased 18.4% to \$548 million in 2016, compared to \$671 million in 2015. If



fuel surcharge revenues were excluded from both years, our 2016 revenue increased 8.9% over 2015.

### **Consolidated Operating Expenses**

Our 2016 consolidated operating expenses increased 6.6% from 2015, while year-over-year revenue increased 5.9%, resulting in a 2016 operating ratio of 89.0% compared to 88.4% in 2015. Rents and purchased transportation costs increased 8.7% in 2016, primarily the result of increased rail purchased transportation rates and the increase in load volume, which increased services provided by third-party rail and truck carriers within JBI and ICS segments. Salaries, wages and employee benefit costs increased 5.4% in 2016 from 2015. This increase was primarily related to increases in driver pay and office personnel compensation due to an increase in the number of employees and a tighter supply of qualified drivers, partially offset by a \$15.2 million, one-time benefit recorded to reflect a change in our employee paid time off policy.

Depreciation and amortization expense increased 6.4% in 2016, primarily due to additions to our JBI segment tractor, container and chassis fleets to support additional business demand, equipment purchased related to new DCS long-term customer contracts, and new replacement equipment in JBT.

Fuel and fuel taxes expense decreased 9.5% in 2016 compared with 2015, due to decreases in the price of fuel during 2016, partially offset by increased road miles. 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 address fuel cost changes as frequently as weekly, most also reflect a specified miles-per-gallon factor and require a certain minimum change in fuel costs to trigger a change in fuel surcharge revenue. As a result, some of these programs have a time lag between when fuel costs change and when this change is reflected in revenues. Due to these programs, this lag negatively impacts operating income in times of rapidly increasing fuel costs and positively impacts operating income when fuel costs decrease rapidly.

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 cost is included in our payments to railroads, dray carriers and other third parties. These payments are classified as purchased transportation expense.

Operating supplies and expenses increased 5.7%, driven primarily by increased toll activity and tire expense. General and administrative expenses increased 20.0% from 2015, primarily due to increased charitable contributions and the absence of net gains from asset sales and disposals in 2016. Net losses from sale or disposal of assets were \$5 million in 2016, compared to net gains of \$1 million in 2015. Insurance and claims expense increased 6.4% in 2016, primarily due to higher incident volume.

Net interest expense for 2016 decreased by 1.1% compared with 2015, due primarily to lower effective interest rates.

Our effective income tax rate was 37.90% in 2016 and 38.10% in 2015. The decrease in 2016 was primarily due to a reduction in permanent differences related to executive compensation and lower state tax rates.

## Segments

We operated four business segments during calendar year 2016. The operation of each of these businesses is described in our Notes to Consolidated Financial Statements. The following tables summarize financial and operating data by segment:

### **Operating Revenue by Segment**

|                           | Years Ended December |         |         |
|---------------------------|----------------------|---------|---------|
|                           | 31, (in millions)    |         |         |
|                           | 2016                 | 2015    | 2014    |
| JBI                       | \$3,796              | \$3,665 | \$3,687 |
| DCS                       | 1,533                | 1,451   | 1,394   |
| ICS                       | 852                  | 699     | 718     |
| JBT                       | 388                  | 386     | 386     |
| Total segment revenues    | 6,569                | 6,201   | 6,185   |
| Intersegment eliminations | (14 )                | (13 )   | (20 )   |
| Total                     | \$6,555              | \$6,188 | \$6,165 |

**Operating Income  
by Segment**

|       | Years Ended      |       |       |
|-------|------------------|-------|-------|
|       | December 31, (in |       |       |
|       | millions)        |       |       |
|       | 2016             | 2015  | 2014  |
| JBI   | \$450            | \$477 | \$461 |
| DCS   | 205              | 163   | 117   |
| ICS   | 36               | 36    | 30    |
| JBT   | 30               | 40    | 24    |
| Total | \$721            | \$716 | \$632 |

**Operating Data by Segment**

|  | Years Ended December 31, |           |           |
|--|--------------------------|-----------|-----------|
|  | 2016                     | 2015      | 2014      |
| <b>JBI</b>   |                          |           |           |
| Loads  | 1,916,303                | 1,772,808 | 1,700,374 |
| Average length of haul (miles)                             | 1,657                    | 1,652     | 1,656     |
| Revenue per load   | \$1,981                  | \$2,067   | \$2,169   |
| Average tractors during the period <sup>(1)</sup>          | 5,222                    | 4,949     | 4,502     |
| Tractors (end of period)                                   |                          |           |           |
| Company-owned  | 4,581                    | 4,276     | 3,916     |
| Independent contractor                                     | 695                      | 805       | 761       |
| Total tractors   | 5,276                    | 5,081     | 4,677     |
| Trailing equipment (end of period)                         | 84,594                   | 78,957    | 73,298    |
| Average effective trailing equipment usage                 | 77,179                   | 72,622    | 68,683    |
| <b>DCS</b>   |                          |           |           |
| Loads  | 2,401,332                | 2,250,099 | 2,101,707 |
| Average length of haul (miles)                             | 177                      | 175       | 177       |
| Revenue per truck per week <sup>(2)</sup>                  | \$4,077                  | \$4,028   | \$4,098   |
| Average trucks during the period <sup>(3)</sup>            | 7,307                    | 7,012     | 6,641     |
| Trucks (end of period)                                     |                          |           |           |
| Company-owned  | 6,976                    | 6,762     | 6,425     |
| Independent contractor                                     | 15                       | 10        | 7         |
| Customer-owned (Dedicated-operated)                        | 410                      | 436       | 448       |
| Total trucks   | 7,401                    | 7,208     | 6,880     |
| Trailing equipment (end of period)                         | 22,688                   | 21,672    | 20,516    |
| Average effective trailing equipment usage                 | 22,827                   | 22,391    | 20,927    |
| <b>ICS</b>   |                          |           |           |
| Loads  | 852,179                  | 542,947   | 453,410   |
| Revenue per load   | \$999                    | \$1,288   | \$1,584   |
| Gross profit margin  | 14.3                     | % 15.3    | % 13.0    |
| Employee count (end of period)                             | 824                      | 670       | 582       |
| Approximate number of third-party carriers (end of period) | 50,900                   | 45,700    | 39,100    |
| <b>JBT</b>   |                          |           |           |
| Loads  | 385,298                  | 366,297   | 370,555   |
| Average length of haul (miles)                             | 455                      | 448       | 411       |
| Loaded miles (000)   | 175,038                  | 163,115   | 151,725   |
| Total miles (000)  | 207,998                  | 193,856   | 179,036   |
| Average nonpaid empty miles per load                       | 85.6                     | 83.9      | 73.7      |
| Revenue per tractor per week <sup>(2)</sup>                | \$3,458                  | \$3,698   | \$4,068   |
| Average tractors during the period <sup>(1)</sup>          | 2,191                    | 2,051     | 1,868     |
| Tractors (end of period)                                   |                          |           |           |
| Company-owned  | 1,376                    | 1,462     | 1,296     |

Edgar Filing: HUNT J B TRANSPORT SERVICES INC - Form 10-K

|  |       |       |       |
|--|-------|-------|-------|
| Independent contractor                     | 752   | 687   | 590   |
| Total tractors                             | 2,128 | 2,149 | 1,886 |
| Trailing equipment (end of period)         | 7,642 | 7,604 | 7,215 |
| Average effective trailing equipment usage | 6,956 | 6,460 | 5,891 |

(1) Includes company-owned and independent contractor tractors

(2) Using weighted workdays

(3) Includes company-owned, independent contractor, and customer-owned trucks

## **JBI Segment**

JBI segment revenue increased 3.6% to \$3.80 billion in 2016, from \$3.66 billion in 2015. This increase in revenue was primarily a result of an 8.1% increase in load volume, offset by a 4.2% decrease in revenue per load, which is the combination of changes in freight mix, customer rates, and fuel surcharge revenue. Load volume in our eastern network increased 6.7%, and transcontinental loads grew 9.0% compared to 2015. Excluding fuel surcharge, revenues increased 7.1% and revenue per load decreased 1.0% in 2016 over the prior year. Average length of haul remained relatively flat in 2016 when compared to 2015.

Operating income of the JBI segment decreased to \$450 million in 2016, from \$477 million in 2015. Benefits from volume growth, improved network efficiency, improved rail service, and approximately \$5.7 million from the change in paid time off policy were offset by increased rail purchased transportation costs, higher equipment ownership costs, increased insurance and cargo claim expense and higher driver wage and retention costs.

## **DCS Segment**

DCS segment revenue increased 5.6% to \$1.53 billion in 2016, from \$1.45 billion in 2015. Productivity, defined as revenue per truck per week, increased 1.2% when compared to 2015. Revenue, excluding fuel surcharges, increased 7.3% in 2016 compared to 2015, and productivity excluding fuel surcharge revenue increased 2.8% from 2015, primarily from improved overall operational efficiencies, including better integration of assets between customer accounts, fewer unseated trucks, increased customer supply-chain fluidity, load counts and customer rate increases. DCS ended 2016 with a net additional 193 revenue-producing trucks when compared to 2015.

Operating income of our DCS segment increased to \$205 million in 2016, from \$163 million in 2015. The increase is primarily due to increased revenue, improved asset utilization, and approximately \$7.3 million from the change in paid time off policy, partially offset by higher driver wage and recruiting costs, increased salaries and benefits expenses, and higher equipment ownership costs.

## **ICS Segment**

ICS segment revenue increased 21.7% to \$852 million in 2016, from \$699 million in 2015. Overall volumes increased 57.0%. Revenue per load decreased 22.5% primarily due to freight mix changes driven by customer demand. Contractual business was approximately 74% of the total load volume and 64% of the total revenue in the 2016, compared to 71% of the total load volume and 63% of the total revenue in 2015.

Operating income remained flat at \$36 million for both 2016 and 2015, primarily due to increased revenue and approximately \$1.0 million from the change in paid time off policy, being offset by a 6.3% decrease in gross profit margin, increased claim costs, higher technology costs and increased personnel costs, as the total branch count increased to 42 from 34 at the end of 2015. ICS gross profit margin decreased to 14.3% for 2016 from 15.3% for 2015. ICS's carrier base increased 11.4%, and the employee count increased 23.0% when compared to 2015.

### **JBT Segment**

JBT segment revenue increased 0.6% to \$388 million in 2016, from \$386 million in 2015. Excluding fuel surcharges, revenue for 2016 increased 3.8% compared to 2015, primarily due to increased average truck count, partially offset by core customer rate decreases and freight mix changes.

JBT segment had operating income of \$30 million in 2016 compared with \$40 million in 2015. Benefits from an increased average truck count, higher load volume, and approximately \$1.2 million from the change in paid time off policy, were more than offset by increased driver recruiting costs, higher independent contractor cost per mile, higher safety and insurance costs, and increased tractor maintenance costs.

## 2015 Compared With 2014

### Consolidated Operating Revenues

Our total consolidated operating revenues were \$6.19 billion in 2015, remaining relatively flat when compared to \$6.17 billion in 2014. Overall customer rate increases and load growth, and increased fleet counts in our JBI, DCS, and JBT segments, were offset by a 38.0% decrease in fuel surcharge revenue to \$671 million in 2015 when compared to \$1.08 billion in 2014, due to decreases in the price of fuel during the year. If fuel surcharge revenues were excluded from both years, our 2015 revenue increased 8.5% over 2014.

### Consolidated Operating Expenses

Our 2015 consolidated operating expenses decreased 1.1% from 2014, while year-over-year revenue remained flat, resulting in a 2015 operating ratio of 88.4% compared to 89.8% in 2014. Rents and purchased transportation costs decreased 2.9% in 2015, primarily the result of the lower fuel component in the cost of services provided by third-party rail and truck carriers within JBI, DCS, and ICS segments. Salaries, wages and employee benefit costs increased 8.1% in 2015 from 2014. This increase was primarily related to increases in driver pay and office personnel compensation due to an increase in the number of employees and a tighter supply of qualified drivers.

Depreciation and amortization expense increased 15.3% in 2015, primarily due to additions to our JBI segment tractor, container and chassis fleets to support additional business demand, equipment purchased related to new DCS long-term customer contracts, and new replacement equipment in JBT.

Fuel and fuel taxes expense decreased 31.0% in 2015 compared with 2014, due to decreases in the price of fuel during 2015, partially offset by increased road miles. 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 address fuel cost changes as frequently as weekly, most also reflect a specified miles-per-gallon factor and require a certain minimum change in fuel costs to trigger a change in fuel surcharge revenue. As a result, some of these programs have a time lag between when fuel costs change and when this change is reflected in revenues. Due to these programs, this lag negatively impacts operating income in times of rapidly increasing fuel costs and positively impacts operating income when fuel costs decrease rapidly.

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 cost is included in our payments to railroads, dray carriers and other third parties. These payments are classified as purchased transportation expense.

Operating supplies and expenses increased 0.9%, driven primarily by increased toll rates and activity, partially offset by decreased general equipment maintenance and repair costs. General and administrative expenses increased 43.3% from 2014, due primarily to costs related to corporate wide streamlining and technology redevelopment efforts. Net gains from sale or disposal of assets were \$1 million in 2015, compared with \$6 million in 2014. Insurance and claims expense decreased 9.1% in 2015, primarily due to decreased accident severity and fewer incidents.

Net interest expense for 2015 decreased by 5.4% compared with 2014, primarily due to lower effective interest rates.

Our effective income tax rate was 38.10% in 2015 and 38.01% in 2014. The increase in 2015 was primarily related to an increase in state income tax expense.

## **JBI Segment**

JBI segment revenue decreased 0.6% to \$3.66 billion in 2015, from \$3.69 billion in 2014, resulting from a decrease in revenue per load, which is attributable to customer rate increases offset by lower fuel surcharges and freight mix. This decrease was partially offset by increases in load volume in both our eastern and transcontinental networks. Excluding fuel surcharge, revenues increased 8.7% and revenue per load increased 4.4% in 2015 over the prior year. Average length of haul remained relatively flat in 2015 when compared to 2014.

Operating income in our JBI segment increased to \$477 million in 2015, from \$461 million in 2014. This increase was primarily due to customer rate increases, increased load volume, reduced reliance on outsourced dray carriers, lower insurance and cargo claim costs, and lower maintenance costs, partially offset by increases in rail purchased transportation rates, higher equipment depreciation expense, higher driver procurement and retention expenses, and \$6.4 million in corporate-wide streamlining and technology redevelopment costs.

## **DCS Segment**

DCS segment revenue increased 4.1% to \$1.45 billion in 2015, from \$1.39 billion in 2014. Productivity, defined as revenue per truck per week, decreased 1.7% when compared to 2014, primarily from lower fuel surcharge revenue. Revenue, excluding fuel surcharges, increased 10.0% in 2015 compared to 2014, and productivity excluding fuel surcharge revenue increased 3.9% from 2014, primarily from customer rate increases and additional activity at customer accounts. DCS ended 2015 with a net additional 328 revenue-producing trucks when compared to 2014.

Operating income increased to \$163 million in 2015, compared with \$117 million in 2014. The increase in operating income was primarily due to increased revenue, improved asset utilization, less reliance on third-party carriers and lower maintenance costs, partially offset by increased equipment depreciation expense, higher driver wage and recruiting costs, and \$2.6 million in corporate-wide streamlining and technology redevelopment costs.

## **ICS Segment**

ICS segment revenue decreased 2.6% to \$699 million in 2015, from \$718 million in 2014. This decrease in revenue was primarily due to decreased revenue per load resulting from lower fuel prices, changes in freight mix, and less transactional customer demand, partially offset by an increase in overall load volume. Contractual business was approximately 71% of the total load volume and 63% of the total revenue in the 2015, compared to 63% of the total load volume and 55% of the total revenue in 2014.

Operating income increased to \$36 million in 2015, compared to \$30 million in 2014, primarily due to improved gross profit margin. ICS gross profit margin increased to 15.3% for 2015 from 13.0% for 2014. Improvements in gross profit margin were offset by approximately \$4.4 million in corporate-wide streamlining and technology redevelopment costs and higher personnel costs as the total branch count increased to 34 from 29 at the end of 2014. ICS's carrier base increased 17%, and the employee count increased 15% when compared to 2014.

### **JBT Segment**

JBT segment revenue remained flat at \$386 million in 2015 when compared to 2014. Excluding fuel surcharges, revenue for 2015 increased 7.5% compared to 2014, primarily due to increased truck count and core rate increases.

JBT segment had operating income of \$40 million in 2015 compared with \$24 million in 2014. Benefits from an increased truck count, core rate increases, and improvements in equipment maintenance costs, insurance and claims costs, and fuel economy were partially offset by lower asset utilization, higher driver wage and hiring costs, lower gains on equipment sales, increased equipment depreciation expense, increased driver and independent contractor costs per mile, and corporate-wide streamlining and technology redevelopment costs.

## **LIQUIDITY AND CAPITAL RESOURCES**

Net cash provided by operating activities was \$854 million in 2016 and \$873 million in 2015. This decrease in 2016 was primarily due to the timing of collections of trade and other receivables, partially offset by increased earnings, collection of income taxes receivable and the timing of the payments of trade payables.

Net cash used in investing activities totaled \$485 million in 2016, compared with \$577 million in 2015. The decrease resulted primarily from a reduction in equipment purchases, partially offset by a decrease in proceeds from the sale of equipment in 2016, compared to 2015.

Net cash used in financing activities was \$368 million in 2016, compared with \$297 million in 2015. This change resulted primarily from higher long-term debt repayments, net of proceeds from long-term debt, in 2016, partially offset by a reduction in treasury stock purchases.

Our dividend policy is subject to review and revision by the Board of Directors, and payments are dependent upon our financial condition, liquidity, earnings, capital requirements, and other factors the Board of Directors may deem relevant. We paid a \$0.20 per share quarterly dividend in 2014, a \$0.21 per share quarterly dividend in 2015, and a \$0.22 per share quarterly dividend in 2016. On January 25, 2017, we announced an increase in our quarterly cash dividend from \$0.22 to \$0.23 per share, which will be paid February 24, 2017, to stockholders of record on February 10, 2017. We currently intend to continue paying cash dividends on a quarterly basis. However, no assurance can be given that future dividends will be paid.

### **Liquidity**

Our need for capital has typically resulted from the acquisition of containers, chassis, trucks, tractors, and trailers required to support our growth and the replacement of older equipment. We are frequently able to accelerate or postpone a portion of equipment replacements depending on market conditions. We obtain capital through cash generated from operations, revolving lines of credit, and long-term debt issuances. We have also periodically utilized capital and operating leases for revenue equipment.

At December 31, 2016, we were authorized to borrow up to \$500 million under a senior revolving line of credit, which is supported by a credit agreement with a group of banks and expires in September 2020. This senior credit facility allows us to request an increase in the total commitment by up to \$250 million and to request a one-year extension of the maturity date. The applicable interest rate under this agreement is based on the Prime Rate, the

Federal Funds Rate, or LIBOR, depending upon the specific type of borrowing, plus an applicable margin based on our credit rating and other fees. At December 31, 2016, we had \$140 million outstanding at an average interest rate of 1.76% under this agreement.

Our senior notes consist of three separate issuances. The first and second issuances are \$250 million of 2.40% senior notes due March 2019 and \$250 million of 3.85% senior notes due March 2024, respectively, both of which were issued in March 2014. Interest payments under both notes are due semiannually in March and September of each year. The third issuance is \$350 million of 3.30% senior notes due August 2022, issued in August 2015. Interest payments under this note are due semiannually in February and August of each year. We may redeem for cash some or all of these notes based on a redemption price set forth in the note indenture. We currently have interest rate swap agreements which effectively convert our \$250 million of 2.40% fixed-rate senior notes due March 2019 and our \$350 million of 3.30% fixed-rate senior notes due August 2022 to variable rates, resulting in interest rates of 1.81% and 2.26%, respectively, at December 31, 2016. The applicable interest rates under these swap agreements are based on LIBOR plus an established margin.

Our financing arrangements require us to maintain certain covenants and financial ratios. We were in compliance with all covenants and financial ratios at December 31, 2016.

We believe our liquid assets, cash generated from operations, and various financing arrangements will provide sufficient funds for our operating and capital requirements for the foreseeable future.

We are currently committed to spend approximately \$967 million, net of proceeds from sales or trade-ins, during 2017 and 2018, which is primarily related to the acquisition of containers, chassis, and tractors.

### Off-Balance Sheet Arrangements

Our only off-balance sheet arrangements are related to operating leases. As of December 31, 2016, we had approximately \$36.7 million of obligations, primarily related to facility leases.

### Contractual Obligations and Commitments

The following table summarizes our expected obligations and commitments (in millions) as of December 31, 2016:

|   | Total     | 2017    | 2018-2019 | 2020-2021 | 2022 and thereafter |
|---|-----------|---------|-----------|-----------|---------------------|
| Operating leases  | \$36.7    | \$15.2  | \$ 15.3   | \$ 6.1    | \$ 0.1              |
| Long-term debt obligations                              | 990.0     | -       | 250.0     | 140.0     | 600.0               |
| Interest payments on debt <sup>(1)</sup>                | 134.3     | 24.5    | 45.7      | 37.2      | 26.9                |
| Commitments to acquire revenue equipment and facilities | 966.6     | 302.4   | 664.2     | -         | -                   |
| Total   | \$2,127.6 | \$342.1 | \$ 975.2  | \$ 183.3  | \$ 627.0            |

<sup>(1)</sup> Interest payments on debt are based on the debt balance and applicable rate at December 31, 2016.

We had standby letters of credit outstanding of approximately \$4.4 million at December 31, 2016, that expire at various dates in 2017, which are related to certain operating agreements and our self-insured retention levels for casualty and workers' compensation claims. We plan to renew these letters of credit in accordance with our third-party agreements. The table above excludes \$39.8 million of liabilities related to uncertain tax positions, including interest and penalties, as we are unable to reasonably estimate the ultimate timing of settlement. See Note 7, Income Taxes, in the Notes to Consolidated Financial Statements for further discussion.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Interest rate risk can be quantified by measuring the financial impact of a near-term adverse increase in short-term interest rates on variable-rate debt outstanding. Our total long-term debt consists of both fixed and variable interest rate facilities. Our senior notes have fixed interest rates ranging from 2.40% to 3.85%. These fixed-rate facilities reduce the impact of changes to market interest rates on future interest expense. Our senior revolving line of credit has variable interest rates, which are based on the Prime Rate, the Federal Funds Rate, or LIBOR, depending upon the specific type of borrowing, plus any applicable margins. We currently have interest rate swap agreements which effectively convert our \$250 million of 2.40% fixed-rate senior notes due March 2019 and our \$350 million of 3.30% fixed-rate senior notes due August 2022 to variable rates. The applicable interest rates under these swap agreements are based on LIBOR plus an established margin. Our earnings would be affected by changes in these short-term variable interest rates. At our current level of borrowing, a one-percentage-point increase in our applicable rate would reduce annual pretax earnings by \$7.4 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 year ended December 31, 2016. 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. To date, we have not entered into any 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 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 volatile fluctuations in fuel prices will continue in the future or the extent to which fuel surcharges could be collected to offset fuel-price increases. As of December 31, 2016, we had no derivative financial instruments to reduce our exposure to fuel-price fluctuations.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Our Consolidated Financial Statements, Notes to Consolidated Financial Statements, and reports thereon of our independent registered public accounting firm as specified by this Item are presented following Item 15 of this report and include:

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2016 and 2015

Consolidated Statements of Earnings for years ended December 31, 2016, 2015, and 2014

Consolidated Statements of Stockholders' Equity for years ended December 31, 2016, 2015, and 2014

Consolidated Statements of Cash Flows for years ended December 31, 2016, 2015, and 2014

Notes to Consolidated Financial Statements

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**



We maintain controls and procedures designed to ensure that the information we are required to disclose in the reports we file with the SEC is recorded, processed, summarized and reported, within the time periods specified in the SEC rules, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. 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 disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2016.

The certifications of our Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act have been filed as Exhibits 31.1 and 31.2 to this report.

### **Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitation, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework (2013 Framework)*. Based on our assessment, we believe that as of December 31, 2016, our internal control over financial reporting is effective based on those criteria.

The effectiveness of internal control over financial reporting as of December 31, 2016, has been audited by Ernst & Young LLP, an independent registered public accounting firm that also audited our Consolidated Financial Statements. Ernst & Young LLP's report on internal control over financial reporting is included herein.

### **Changes in Internal Control Over Financial Reporting**

There has been no change in our internal control over financial reporting during the fourth quarter ended December 31, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **ITEM 9B. OTHER INFORMATION**

None.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required for Item 10 is hereby incorporated by reference from the Notice and Proxy Statement for the Annual Meeting of Stockholders to be held April 20, 2017.

### **ITEM 11. EXECUTIVE COMPENSATION**

The information required for Item 11 is hereby incorporated by reference from the Notice and Proxy Statement for the Annual Meeting of Stockholders to be held April 20, 2017.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required for Item 12 is hereby incorporated by reference from the Notice and Proxy Statement for the Annual Meeting of Stockholders to be held April 20, 2017.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required for Item 13 is hereby incorporated by reference from the Notice and Proxy Statement for the Annual Meeting of Stockholders to be held April 20, 2017.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required for Item 14 is hereby incorporated by reference from the Notice and Proxy Statement for the Annual Meeting of Stockholders to be held April 20, 2017.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(A) Financial Statements, Financial Statement Schedules and Exhibits:

(1) Financial Statements

The financial statements included in Item 8 above are filed as part of this annual report.



(2) Financial Statement Schedules

Schedule II – Valuation and Qualifying Accounts (in millions)

| Allowance for Doubtful<br>Accounts and Revenue<br>Adjustments for the Years Ended: | Balance<br>at<br>Beginning<br>of<br>Year | Charged<br>to<br>Expense/<br>Against<br>Revenue | Write-Offs,<br>Net of<br>Recoveries | Balance<br>at<br>End of<br>Year |
|--|--|---|-------------------------------------|---------------------------------|
| December 31, 2014  | \$ 8.1                                   | \$ 19.0   | \$ (17.6 )                          | \$ 9.5                          |
| December 31, 2015  | 9.5                                      | 9.5   | (9.1 )                              | 9.9                             |
| December 31, 2016  | 9.9                                      | 19.5  | (16.0 )                             | 13.4                            |

All other schedules have been omitted either because they are not applicable or because the required information is included in our Consolidated Financial Statements or the notes thereto.

(3) Exhibits

The response to this portion of Item 15 is submitted as a separate section of this report on Form 10-K (Exhibit Index).

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) 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 23<sup>rd</sup> day of February, 2017.

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

By: /s/ John N. Roberts, III  
John N. Roberts, III  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on the 23<sup>rd</sup> day of February, 2017, on behalf of the registrant and in the capacities indicated.

|  |   |
|--|---|
| /s/ John N. Roberts, III<br>John N. Roberts, III | President and Chief Executive Officer, Member of the Board of Directors (Principal Executive Officer)                               |
| /s/ David G. Mee<br>David G. Mee                 | Executive Vice President, Finance and Administration, Chief Financial Officer and Corporate Secretary (Principal Financial Officer) |
| /s/ John Kuhlow<br>John Kuhlow                   | Senior Vice President Finance, Controller, Chief Accounting Officer   |
| /s/ Kirk Thompson<br>Kirk Thompson               | Chairman of the Board of Directors  |
| /s/ James L. Robo<br>James L. Robo               | Member of the Board of Directors (Lead Director)  |
| /s/ Douglas G. Duncan<br>Douglas G. Duncan       | Member of the Board of Directors  |

Edgar Filing: HUNT J B TRANSPORT SERVICES INC - Form 10-K

|  |                                  |
|--|----------------------------------|
| /s/ Francesca M. Edwardson<br>Francesca M. Edwardson | Member of the Board of Directors |
| /s/ Wayne Garrison<br>Wayne Garrison                 | Member of the Board of Directors |
| /s/ Sharilyn S. Gasaway<br>Sharilyn S. Gasaway       | Member of the Board of Directors |
| /s/ Gary C. George<br>Gary C. George                 | Member of the Board of Directors |
| /s/ J. Bryan Hunt, Jr.<br>J. Bryan Hunt, Jr.         | Member of the Board of Directors |
| /s/ Coleman H. Peterson<br>Coleman H. Peterson       | Member of the Board of Directors |

EXHIBIT INDEX

| Exhibit Number | Description   |
|----------------|---|
| 3.1            | Amended and Restated Articles of Incorporation of J.B. Hunt Transport Services, Inc. dated May 19, 1988 (incorporated by reference from Exhibit 3.1 of the Company's quarterly report on Form 10-Q for the period ended March 31, 2005, filed April 29, 2005) |
| 3.2            | Amended and Restated Bylaws of J.B. Hunt Transport Services, Inc. dated April 23, 2015 (incorporated by reference from Exhibit 3.1 of the Company's current report on Form 8-K, filed April 27, 2015)   |
| 10.1           | Amended and Restated Employee Retirement Plan (incorporated by reference from Exhibit 99 of the Company's registration statement on Form S-8, filed December 30, 1994)  |
| 10.2           | Second Amended and Restated Management Incentive Plan (incorporated by reference from Exhibit 10.1 of the Company's quarterly report on Form 10-Q for the period ended June 30, 2012, filed July 31, 2012)  |
| 10.3           | Amendment to Second Amended and Restated Management Incentive Plan (incorporated by reference from Exhibit 10.1 of the Company's current report on Form 8-K, filed July 26, 2016)   |
| 10.4           | Summary of Compensation Arrangements with Named Executive Officers (incorporated by reference from Exhibit 99.1 of the Company's current report on Form 8-K, filed October 24, 2016)  |
| 10.5           | Indenture (incorporated by reference from Exhibit 4.1 of the Company's registration statement on Form S-3ASR, filed September 14, 2010)   |
| 10.6           | Second Supplemental Indenture (incorporated by reference from Exhibit 4.2 of the Company's current report on Form 8-K, filed March 6, 2014)   |
| 10.7           | Third Supplemental Indenture (incorporated by reference from Exhibit 4.4 of the Company's current report on Form 8-K, filed March 6, 2014)  |
| 10.8           | Fourth Supplemental Indenture (incorporated by reference from Exhibit 4.3 of the Company's current report on Form 8-K, filed August 6, 2015)  |
| 10.9           | Credit Agreement and related documents (incorporated by reference from Exhibit 10.1 of the Company's current report on Form 8-K, filed October 2, 2015)   |
| 21.1           | Subsidiaries of J.B. Hunt Transport Services, Inc.  |
| 23.1           | Consent of Ernst & Young LLP  |
| 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

101.INSXBRL Instance Document

101.SCHXBRL Taxonomy Extension Schema Document

101.CALXBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LABXBRL Taxonomy Extension Label Linkbase Document

101.PREXBRL Taxonomy Extension Presentation Linkbase Document

INDEX TO CONSOLIDATED FINANCIAL INFORMATION

|  | <u>PAGE</u> |
|--|-------------|
| Management's Report on Internal Control Over Financial Reporting                                     | 31          |
| Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements         | 32          |
| Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting | 33          |
| Consolidated Balance Sheets as of December 31, 2016 and 2015   | 34          |
| Consolidated Statements of Earnings for years ended December 31, 2016, 2015, and 2014                | 35          |
| Consolidated Statements of Stockholders' Equity for years ended December 31, 2016, 2015, and 2014    | 36          |
| Consolidated Statements of Cash Flows for years ended December 31, 2016, 2015, and 2014              | 37          |
| Notes to Consolidated Financial Statements   | 38          |

## Management's Report on Internal Control Over Financial Reporting

We are responsible for the preparation, integrity, and fair presentation of our Consolidated Financial Statements and related information appearing in this report. We take these responsibilities very seriously and are committed to maintaining controls and procedures that are designed to ensure that we collect the information we are required to disclose in our reports to the SEC and to process, summarize, and disclose this information within the time periods specified by the SEC.

Based on an evaluation of our disclosure controls and procedures as of the end of the period covered by this report, conducted by our management and with the participation of our Chief Executive Officer and Chief Financial Officer, we believe our controls and procedures are effective to ensure that we are able to collect, process, and disclose the information we are required to disclose in our reports filed with the SEC within the required time periods.

We are responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements. Because of its inherent limitation, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. We assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework (2013 Framework)*. Based on our assessment, we believe that as of December 31, 2016, our internal control over financial reporting is effective based on those criteria.

The effectiveness of internal control over financial reporting as of December 31, 2016, has been audited by Ernst & Young LLP, an independent registered public accounting firm that also audited our Consolidated Financial Statements. Ernst & Young LLP's report on internal control over financial reporting is included herein.

/s/John N. Roberts, III  
John N. Roberts, III  
President and Chief Executive Officer  
(Principal Executive Officer)

/s/ David G. Mee  
David G. Mee  
Executive Vice President, Finance and  
Administration, Chief Financial Officer  
(Principal Financial Officer)



### **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of J.B. Hunt Transport Services, Inc.

We have audited the accompanying consolidated balance sheets of J.B. Hunt Transport Services, Inc. as of December 31, 2016 and 2015, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of J.B. Hunt Transport Services, Inc. at December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), J.B. Hunt Transport Services, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 23, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Rogers, Arkansas  
February 23, 2017



## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of J.B. Hunt Transport Services, Inc.

We have audited J.B. Hunt Transport Services, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). J.B. Hunt Transport Services, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, J.B. Hunt Transport Services, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of J.B. Hunt Transport Services, Inc. as of December 31, 2016 and 2015, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016, and our report dated February 23, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Rogers, Arkansas  
February 23, 2017



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

## Consolidated Balance Sheets

December 31, 2016 and 2015

(in thousands, except share data)

|  | <b>2016</b> | <b>2015</b> |
|--|-------------|-------------|
| <b>Assets</b>  |             |             |
| Current assets:  |             |             |
| Cash and cash equivalents  | \$6,377     | \$5,566     |
| Trade accounts receivable, net   | 745,288     | 624,294     |
| Other receivables  | 67,926      | 106,986     |
| Inventories  | 18,577      | 23,191      |
| Prepaid expenses   | 107,513     | 97,888      |
| Total current assets   | 945,681     | 857,925     |
| Property and equipment, at cost:   |             |             |
| Revenue and service equipment  | 3,820,439   | 3,636,767   |
| Land   | 46,827      | 39,026      |
| Structures and improvements  | 175,900     | 154,142     |
| Furniture and office equipment   | 215,749     | 189,516     |
| Total property and equipment   | 4,258,915   | 4,019,451   |
| Less accumulated depreciation  | 1,440,124   | 1,318,122   |
| Net property and equipment   | 2,818,791   | 2,701,329   |
| Other assets   | 64,516      | 70,290      |
| Total assets   | \$3,828,988 | \$3,629,544 |
| <b>Liabilities and Stockholders' Equity</b>  |             |             |
| Current liabilities:   |             |             |
| Trade accounts payable   | \$384,308   | \$340,332   |
| Claims accruals  | 109,745     | 104,220     |
| Accrued payroll  | 51,929      | 59,420      |
| Other accrued expenses   | 27,152      | 28,445      |
| Total current liabilities  | 573,134     | 532,417     |
| Long-term debt   | 986,278     | 998,003     |
| Other long-term liabilities  | 64,881      | 58,552      |
| Deferred income taxes  | 790,634     | 740,220     |
| Total liabilities  | 2,414,927   | 2,329,192   |
| Commitments and contingencies (Note 10)  |             |             |
| Stockholders' equity:  |             |             |
| Preferred stock, \$100 par value. 10 million shares authorized; none outstanding   | -           | -           |
| Common stock, \$.01 par value. 1 billion shares authorized; (167,099,432 shares issued at December 31, 2016 and 2015, of which 111,305,021 shares and 113,947,780 shares were outstanding at December 31, 2016 and 2015, respectively) | 1,671       | 1,671       |
| Additional paid-in capital   | 293,087     | 268,728     |

Edgar Filing: HUNT J B TRANSPORT SERVICES INC - Form 10-K

|  |             |             |
|--|-------------|-------------|
| Retained earnings  | 3,218,943   | 2,885,843   |
| Treasury stock, at cost (55,794,411 shares at December 31, 2016, and 53,151,652 shares at December 31, 2015) | (2,099,640) | (1,855,890) |
| Total stockholders' equity   | 1,414,061   | 1,300,352   |
| Total liabilities and stockholders' equity   | \$3,828,988 | \$3,629,544 |

See Notes to Consolidated Financial Statements.

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

## Consolidated Statements of Earnings

Years Ended December 31, 2016, 2015 and 2014

(in thousands, except per share amounts)

|  | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|--|-------------|-------------|-------------|
| Operating revenues, excluding fuel surcharge revenues          | \$6,007,347 | \$5,516,282 | \$5,082,827 |
| Fuel surcharge revenues  | 548,112     | 671,364     | 1,082,614   |
| Total operating revenues                                       | 6,555,459   | 6,187,646   | 6,165,441   |
| Operating expenses:  |             |             |             |
| Rents and purchased transportation                             | 3,255,692   | 2,994,586   | 3,085,276   |
| Salaries, wages and employee benefits                          | 1,469,187   | 1,394,239   | 1,290,404   |
| Depreciation and amortization                                  | 361,510     | 339,613     | 294,496     |
| Fuel and fuel taxes  | 283,437     | 313,034     | 453,919     |
| Operating supplies and expenses                                | 233,223     | 220,597     | 218,539     |
| General and administrative expenses, net of asset dispositions | 87,053      | 72,522      | 50,596      |
| Insurance and claims   | 78,410      | 73,689      | 81,062      |
| Operating taxes and licenses                                   | 45,954      | 43,084      | 38,796      |
| Communication and utilities                                    | 19,973      | 20,588      | 20,811      |
| Total operating expenses                                       | 5,834,439   | 5,471,952   | 5,533,899   |
| Operating income   | 721,020     | 715,694     | 631,542     |
| Interest income  | 71          | 86          | 87          |
| Interest expense   | 25,294      | 25,577      | 27,028      |
| Earnings before income taxes                                   | 695,797     | 690,203     | 604,601     |
| Income taxes   | 263,707     | 262,968     | 229,809     |
| Net earnings   | \$432,090   | \$427,235   | \$374,792   |
| Weighted average basic shares outstanding                      | 112,474     | 115,677     | 117,000     |
| Basic earnings per share                                       | \$3.84      | \$3.69      | \$3.20      |
| Weighted average diluted shares outstanding                    | 113,361     | 116,728     | 118,445     |
| Diluted earnings per share                                     | \$3.81      | \$3.66      | \$3.16      |
| Dividends declared per common share                            | \$0.88      | \$0.84      | \$0.80      |

See Notes to Consolidated Financial Statements.

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

## Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2016, 2015 and 2014

(in thousands, except per share amounts)

|   | <b>Common<br/>Stock</b> | <b>Additional<br/>Paid-in<br/>Capital</b> | <b>Retained<br/>Earnings</b> | <b>Treasury<br/>Stock</b> | <b>Stockholders'<br/>Equity</b> |
|---|-------------------------|---|------------------------------|---------------------------|---------------------------------|
| Balances at December 31, 2013   | \$ 1,671                | \$ 226,595                                | \$ 2,274,784                 | \$(1,490,598)             | \$ 1,012,452                    |
| Comprehensive income:   |                         |   |                              |                           |                                 |
| Net earnings  | -                       | -   | 374,792                      | -                         | 374,792                         |
| Cash dividend declared and paid (\$0.80 per share)  | -                       | -   | (93,604 )                    | -                         | (93,604 )                       |
| Tax benefit of stock options exercised and restricted shares issued                               | -                       | 16,645                                    | -                            | -                         | 16,645                          |
| Purchase of treasury shares   | -                       | -   | -                            | (125,000 )                | (125,000 )                      |
| Share-based compensation  | -                       | 35,333                                    | -                            | -                         | 35,333                          |
| Stock option exercises and restricted share issuances, net of stock repurchased for payroll taxes | -                       | (30,932 )                                 | -                            | 14,837                    | (16,095 )                       |
| Balances at December 31, 2014   | \$ 1,671                | \$ 247,641                                | \$ 2,555,972                 | \$(1,600,761)             | \$ 1,204,523                    |
| Comprehensive income:   |                         |   |                              |                           |                                 |
| Net earnings  | -                       | -   | 427,235                      | -                         | 427,235                         |
| Cash dividend declared and paid (\$0.84 per share)  | -                       | -   | (97,364 )                    | -                         | (97,364 )                       |
| Tax benefit of stock options exercised and restricted shares issued                               | -                       | 12,877                                    | -                            | -                         | 12,877                          |
| Purchase of treasury shares   | -                       | -   | -                            | (262,275 )                | (262,275 )                      |
| Share-based compensation  | -                       | 37,228                                    | -                            | -                         | 37,228                          |
| Stock option exercises and restricted share issuances, net of stock repurchased for payroll taxes | -                       | (29,018 )                                 | -                            | 7,146                     | (21,872 )                       |
| Balances at December 31, 2015   | \$ 1,671                | \$ 268,728                                | \$ 2,885,843                 | \$(1,855,890)             | \$ 1,300,352                    |
| Comprehensive income:   |                         |   |                              |                           |                                 |
| Net earnings  | -                       | -   | 432,090                      | -                         | 432,090                         |
| Cash dividend declared and paid (\$0.88 per share)  | -                       | -   | (98,990 )                    | -                         | (98,990 )                       |
| Tax benefit of stock options exercised and restricted shares issued                               | -                       | 7,044                                     | -                            | -                         | 7,044                           |
| Purchase of treasury shares   | -                       | -   | -                            | (249,760 )                | (249,760 )                      |
| Share-based compensation  | -                       | 40,625                                    | -                            | -                         | 40,625                          |
| Stock option exercises and restricted share issuances, net of stock repurchased for payroll taxes | -                       | (23,310 )                                 | -                            | 6,010                     | (17,300 )                       |

Edgar Filing: HUNT J B TRANSPORT SERVICES INC - Form 10-K

|                               |          |            |              |               |              |
|-------------------------------|----------|------------|--------------|---------------|--------------|
| Balances at December 31, 2016 | \$ 1,671 | \$ 293,087 | \$ 3,218,943 | \$(2,099,640) | \$ 1,414,061 |
|-------------------------------|----------|------------|--------------|---------------|--------------|

See Notes to Consolidated Financial Statements.

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

## Consolidated Statements of Cash Flows

Years Ended December 31, 2016, 2015 and 2014

(in thousands)

|   | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|---|-------------|-------------|-------------|
| Cash flows from operating activities:   |             |             |             |
| Net earnings  | \$432,090   | \$427,235   | \$374,792   |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |             |             |             |
| Depreciation and amortization   | 361,510     | 339,613     | 294,496     |
| Share-based compensation  | 40,625      | 37,228      | 35,333      |
| (Gain)/loss on sale of revenue equipment and other                                  | 5,490       | (1,281 )    | (6,342 )    |
| Provision for deferred income taxes   | 50,414      | 80,427      | 79,343      |
| Changes in operating assets and liabilities:  |             |             |             |
| Trade accounts receivable   | (120,994 )  | 8,011       | (72,339 )   |
| Income taxes receivable or payable  | 60,956      | 3,055       | (72,291 )   |
| Other current assets  | (37,101 )   | (26,493 )   | (42,730 )   |
| Trade accounts payable  | 60,818      | 8,600       | 15,284      |
| Claims accruals   | 5,524       | 7,502       | 28,498      |
| Accrued payroll and other accrued expenses  | (5,189 )    | (10,589 )   | 12,735      |
| Net cash provided by operating activities   | 854,143     | 873,308     | 646,779     |
| Cash flows from investing activities:   |             |             |             |
| Additions to property and equipment   | (638,430 )  | (725,122 )  | (808,569 )  |
| Proceeds from sale of equipment   | 153,174     | 168,686     | 148,859     |
| Change in other assets  | (132 )      | (20,096 )   | 29          |
| Net cash used in investing activities   | (485,388 )  | (576,532 )  | (659,681 )  |
| Cash flows from financing activities:   |             |             |             |
| Proceeds from issuances of long-term debt   | -           | 349,129     | 499,642     |
| Payments on long-term debt  | -           | (250,000 )  | (250,000 )  |
| Proceeds from revolving lines of credit and other                                   | 1,715,427   | 2,110,800   | 2,092,193   |
| Payments on revolving lines of credit and other                                     | (1,724,365) | (2,138,466) | (2,110,749) |
| Purchase of treasury stock  | (249,760 )  | (262,275 )  | (125,000 )  |
| Stock option exercises and other  | 1,341       | 2,978       | 7,324       |
| Stock repurchased for payroll taxes   | (18,641 )   | (24,850 )   | (23,419 )   |
| Tax benefit of stock options exercised and restricted shares issued                 | 7,044       | 12,877      | 16,645      |
| Dividends paid  | (98,990 )   | (97,364 )   | (93,604 )   |
| Net cash provided by/(used in) financing activities                                 | (367,944 )  | (297,171 )  | 13,032      |
| Net increase/(decrease) in cash and cash equivalents                                | 811         | (395 )      | 130         |
| Cash and cash equivalents at beginning of year                                      | 5,566       | 5,961       | 5,831       |
| Cash and cash equivalents at end of year  | \$6,377     | \$5,566     | \$5,961     |
| Supplemental disclosure of cash flow information:                                   |             |             |             |
| Cash paid during the year for:  |             |             |             |

Edgar Filing: HUNT J B TRANSPORT SERVICES INC - Form 10-K

|              |           |           |           |
|--------------|-----------|-----------|-----------|
| Interest     | \$24,800  | \$27,245  | \$26,685  |
| Income taxes | \$143,634 | \$163,304 | \$192,955 |

See Notes to Consolidated Financial Statements.

## **Notes to Consolidated Financial Statements**

### **1. Business**

J.B. Hunt Transport Services, Inc. is one of the largest surface transportation and delivery service 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 from the actual movement of freight from shippers to consignees, customized labor and delivery services, and serving as a logistics provider by offering or arranging for others to provide the transportation service. Unless otherwise indicated by the context, “we,” “us,” “our” and “JBHT” refer to J.B. Hunt Transport Services, Inc. and its consolidated subsidiaries.

### **2. Summary of Significant Accounting Policies**

#### **Basis of Consolidation**

Our Consolidated Financial Statements include all of our wholly owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation. J.B. Hunt Transport Services, Inc. is a parent-level holding company with no significant assets or operations. J.B. Hunt Transport, Inc. is a wholly owned subsidiary of J.B. Hunt Transport Services, Inc. and is the primary operating subsidiary. All other subsidiaries of J.B. Hunt Transport Services, Inc. are minor.

#### **Use of Estimates**

The Consolidated Financial Statements contained in this report have been prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these statements requires us to make estimates and assumptions that directly affect the amounts reported in such statements and accompanying notes. We evaluate these estimates on an ongoing basis utilizing historical experience, consulting with experts and using other methods we consider reasonable in the particular circumstances. Nevertheless, our actual results may differ significantly from our estimates.

We believe certain accounting policies and estimates are of more significance in our financial statement preparation process than others. We believe the most critical accounting policies and estimates include the economic useful lives and salvage values of our assets, provisions for uncollectible accounts receivable, estimates of exposures under our insurance and claims policies, and estimates for taxes. To the extent that actual, final outcomes are different from our



estimates, or that additional facts and circumstances cause us to revise our estimates, our earnings during that accounting period will be affected.

### **Reclassifications**

Certain prior year amounts have been reclassified to conform with the 2016 presentation format.

### **Cash and Cash Equivalents**

Cash in excess of current operating requirements is invested in short-term, highly liquid investments. We consider all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

### **Accounts Receivable and Allowance**

Our trade accounts receivable includes accounts receivable reduced by an allowance for uncollectible accounts and revenue adjustments. Receivables are recorded at amounts billed to customers when loads are delivered or services are performed. The allowance for uncollectible accounts and revenue adjustments is based on historical experience, as well as any known trends or uncertainties related to customer billing and account collectability. The adequacy of our allowance is reviewed quarterly. Balances are charged against the allowance when it is determined the receivable will not be recovered. The allowance for uncollectible accounts and revenue adjustments was \$13.4 million and \$9.9 million at December 31, 2016 and 2015, respectively.

### **Inventory**

Our inventories consist primarily of revenue equipment parts, tires, supplies, and fuel and are valued using the lower of average cost or market.

### **Investments in Marketable Equity Securities**

Our investments consist of marketable equity securities stated at fair value and are designated as either trading securities or available-for-sale securities at the time of purchase based upon the intended holding period. Changes in the fair value of our trading securities are recognized currently in “general and administrative expenses, net of asset dispositions” in our Consolidated Statements of Earnings. Changes in the fair value of our available-for-sale securities are recognized in “accumulated other comprehensive income” on our Consolidated Balance Sheets, unless we determine that an unrealized loss is other-than-temporary. If we determine that an unrealized loss is other-than-temporary, we recognize the loss in earnings. Cost basis is determined using average cost.

At December 31, 2016 and 2015, we had no available-for-sale securities. See Note 8, Employee Benefit Plans, for a discussion of our trading securities.

### **Property and Equipment**

Depreciation of property and equipment is calculated on the straight-line method over the estimated useful lives of 4 to 10 years for tractors, 7 to 20 years for trailing equipment, 10 to 40 years for structures and improvements, and 3 to 10 years for furniture and office equipment. Salvage values are typically 10% to 30% of original cost for tractors and trailing equipment and reflect any agreements with tractor suppliers for residual or trade-in values for certain new equipment. We capitalize tires placed in service on new revenue equipment as a part of the equipment cost. Replacement tires and costs for recapping tires are expensed at the time the tires are placed in service. Gains and losses on the sale or other disposition of equipment are recognized at the time of the disposition and are classified in general and administrative expenses, net of asset dispositions in the Consolidated Statements of Earnings.

### **Revenue Recognition**

We recognize revenue based on relative transit time in each reporting period and as other services are provided, with expenses recognized as incurred. Accordingly, a portion of the total revenue that will be billed to the customer once a load is delivered is recognized in each reporting period based on the percentage of the freight pickup and delivery service that has been completed at the end of the reporting period.

We record revenues on the gross basis at amounts charged to our customers because we are the primary obligor, we are a principal in the transaction, we invoice our customers and retain all credit risks, and we maintain discretion over pricing. Additionally, we are responsible for selection of third-party transportation providers to the extent used to

satisfy customer freight requirements.

### **Derivative Instruments**

We periodically utilize derivative instruments to manage exposure to changes in interest rates. At inception of a derivative contract, we document relationships between derivative instruments and hedged items, as well as our risk-management objective and strategy for undertaking various derivative transactions, and assess hedge effectiveness. If it is determined that a derivative is not highly effective as a hedge, or if a derivative ceases to be a highly effective hedge, we discontinue hedge accounting prospectively.

### **Income Taxes**

Income taxes are accounted for under the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date. We record valuation allowances for deferred tax assets to the extent we believe these assets are not more likely than not to be realized through the reversal of existing taxable temporary differences, projected future taxable income, or tax-planning strategies. We record a liability for unrecognized tax benefits when the benefits of tax positions taken on a tax return are not more likely than not to be sustained upon audit. Interest and penalties related to uncertain tax positions are classified as interest expense in the Consolidated Statements of Earnings.

## 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 reflect the potential dilution that could occur if holders of unvested restricted and performance share units or options exercised or converted their holdings into common stock. Outstanding unvested restricted share units and stock options represent the dilutive effects on weighted average shares. A reconciliation of the number of shares used in computing basic and diluted earnings per share is shown below (in thousands):

|   | Years ended December 31, |         |         |
|---|--------------------------|---------|---------|
|   | 2016                     | 2015    | 2014    |
| Weighted average shares outstanding – basic   | 112,474                  | 115,677 | 117,000 |
| Effect of common stock equivalents            | 887                      | 1,051   | 1,445   |
| Weighted average shares outstanding – diluted | 113,361                  | 116,728 | 118,445 |

## Concentrations of Credit Risk

Financial instruments, which potentially subject us to concentrations of credit risk, include trade receivables. For the years ended December 31, 2016, 2015, and 2014, our top 10 customers, based on revenue, accounted for approximately 29%, 29%, and 28%, respectively, of our total revenue. Our top 10 customers, based on revenue, accounted for approximately 28% and 27% of our total trade accounts receivable at December 31, 2016 and 2015, respectively. We had no individual customers with revenues greater than 10% of total revenues.

## Share-based Compensation

We have a share-based compensation plan covering certain employees, including officers and directors. We account for share-based compensation utilizing the fair value recognition provisions of current accounting standards for share-based payments. We currently utilize restricted share units and performance share units and in the past have also utilized nonstatutory stock options. Issuances of our stock upon restricted share unit and performance share unit vesting or share option exercise are made from treasury stock. Our restricted share unit and performance share unit awards may include both graded-vesting and cliff-vesting awards and therefore vest in increments during the requisite service period or at the end of the requisite service period, as appropriate for each type of vesting. We recognize compensation expense on a straight-line basis over the requisite service periods within each award.

## Claims Accruals

We purchase insurance coverage for a portion of expenses related to employee injuries, vehicular collisions, accidents, and cargo damage. We are substantially self-insured for loss of and damage to our owned and leased revenue equipment. Certain insurance arrangements include a level of self-insurance (deductible) coverage applicable to each claim. We have umbrella policies to limit our exposure to catastrophic claim costs.

The amounts of self-insurance change from time to time based on measurement dates, policy expiration dates, and claim type. For 2014 through 2016, we were self-insured for \$500,000 per occurrence for personal injury and property damage and self-insured for \$100,000 per workers' compensation claim. We have policies in place for 2017 with substantially the same terms as our 2016 policies for personal injury, workers' compensation, and cargo and property damage.

Our claims accrual policy for all self-insured claims is to recognize a liability at the time of the incident based on our analysis of the nature and severity of the claims and analyses provided by third-party claims administrators, as well as legal, economic, and regulatory factors. Our safety and claims personnel work directly with representatives from the insurance companies to continually update the estimated cost of each claim. The ultimate cost of a claim develops over time as additional information regarding the nature, timing, and extent of damages claimed becomes available. Accordingly, we use an actuarial method to develop current claim information to derive an estimate of our ultimate claim liability. This process involves the use of loss-development factors based on our historical claims experience and includes a contractual premium adjustment factor, if applicable. In doing so, the recorded liability considers future claims growth and, if applicable, conversion to fully insured status and provides an allowance for incurred-but-not-reported claims. We do not discount our estimated losses. At December 31, 2016 and 2015, we had an accrual of approximately \$98 million and \$95 million, respectively, for estimated claims. In addition, we are required to pay certain advanced deposits and monthly premiums. At December 31, 2016 and 2015, we had an aggregate prepaid insurance asset of approximately \$93 million and \$87 million, respectively, which represented prefunded premiums.

### **Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which supersedes virtually all existing revenue recognition guidance. The new standard requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. This update also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract.

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which deferred the effective date of ASU 2014-09, one year to interim and annual periods beginning after December 15, 2017. Early adoption is permitted after the original effective date of December 15, 2016.

We have selected an implementation team and have begun accumulation of contracts for review and documentation in accordance with the standard. We intend to adopt this new standard in the first quarter 2018, using the modified retrospective transition approach. Based on our work to date, we do not expect the standard to have a material impact on our financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities, which amends certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments are to be applied by means of a cumulative-effect adjustment to the balance sheet and are effective for interim and annual periods beginning after December 15, 2017. With certain

exceptions, early adoption is not permitted. The adoption of the new guidance is not expected to have a material impact on our financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, which requires lessees to recognize a right-of-use asset and a lease liability for most leases in the balance sheet as well as other qualitative and quantitative disclosures. ASU 2016-02 is to be applied using a modified retrospective method and is effective for interim and annual periods beginning after December 15, 2018, but early adoption is permitted. We are currently evaluating the potential effects of the adoption of this update on our financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting, which amends and simplifies certain aspects of accounting for share-based payment award transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments are effective for interim and annual periods beginning after December 15, 2016, but early adoption is permitted. The application methods to be used in adoption vary with each component of the standard. The adoption of the new guidance is not expected to have a material impact on our financial statements.

### Accounting Pronouncements Adopted in 2016

In April 2015, the FASB issued ASU 2015-03, Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs, which amended the current presentation of debt issuance costs in the financial statements. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, instead of as an asset. The amendments are to be applied retrospectively and were effective for interim and annual periods beginning after December 15, 2015. We retroactively adopted ASU 2015-03 in 2016, and have reclassified all prior periods to be consistent with the amendments outlined in the ASU. The impact of the prior period reclassification was a \$1.4 million reduction of current assets, a \$5.6 million reduction of other assets, and a \$7.0 million reduction of long-term debt at December 31, 2015.

### 3. Financing Arrangements

Outstanding borrowings, net of unamortized discount, debt issuance cost, and fair value swap, under our current financing arrangements consist of the following (in millions):

|  | December 31, |         |
|--|--------------|---------|
|  | 2016         | 2015    |
| Senior revolving line of credit        | \$139.0      | \$148.7 |
| Senior notes                           | 847.3        | 849.3   |
| Less current portion of long-term debt | -            | -       |
| Total long-term debt                   | \$986.3      | \$998.0 |

Aggregate maturities of long-term debt subsequent to December 31, 2016, are as follows: \$250.9 million in 2019, \$139.0 million in 2020, and \$596.4 million thereafter.

#### *Senior Revolving Line of Credit*

At December 31, 2016, we were authorized to borrow up to \$500 million under a senior revolving line of credit, which is supported by a credit agreement with a group of banks and expires in September 2020. This senior credit facility allows us to request an increase in the total commitment by up to \$250 million and to request a one-year extension of the maturity date. The applicable interest rate under this agreement is based on either the Prime Rate, the Federal Funds Rate, or LIBOR, depending upon the specific type of borrowing, plus an applicable margin based on our credit rating and other fees. At December 31, 2016, we had \$140.0 million outstanding at an average interest rate of 1.76% under this agreement.



*Senior Notes*

Our senior notes consist of three separate issuances. The first and second issuances are \$250 million of 2.40% senior notes due March 2019 and \$250 million of 3.85% senior notes due March 2024, respectively, both of which were issued in March 2014. Interest payments under both notes are due semiannually in March and September of each year. The third issuance is \$350 million of 3.30% senior notes due August 2022, issued in August 2015. Interest payments under this note are due semiannually in February and August of each year, beginning February 2016. All three senior notes were issued 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 these offerings and the sale of the notes under the Securities Act of 1933, pursuant to a shelf registration statement filed in February 2014. All notes are unsecured obligations and rank equally with our existing and future senior unsecured debt. We may redeem for cash some or all of the notes based on a redemption price set forth in the note indenture. See Note 4, Derivative Financial Instruments, for terms of interest rate swaps entered into on the \$250 million of 2.40% senior notes due March 2019 and the \$350 million of 3.30% senior notes due August 2022.

Our financing arrangements require us to maintain certain covenants and financial ratios. We were in compliance with all covenants and financial ratios at December 31, 2016.

#### **4. Derivative Financial Instruments**

We periodically utilize derivative instruments for hedging and non-trading purposes to manage exposure to changes in interest rates and to maintain an appropriate mix of fixed and variable-rate debt. At inception of a derivative contract, we document relationships between derivative instruments and hedged items, as well as our risk-management objective and strategy for undertaking various derivative transactions, and assess hedge effectiveness. If it is determined that a derivative is not highly effective as a hedge, or if a derivative ceases to be a highly effective hedge, we discontinue hedge accounting prospectively.

We entered into receive fixed-rate and pay variable-rate interest rate swap agreements simultaneously with the issuance of our \$250 million of 2.40% senior notes due March 2019 and \$350 million of 3.30% senior notes due August 2022, to effectively convert this fixed-rate debt to variable-rate. The notional amounts of these interest rate swap agreements equal those of the corresponding fixed-rate debt. The applicable interest rates under these agreements is based on LIBOR plus an established margin, resulting in an interest rate of 1.81% for our \$250 million of 2.40% senior notes and 2.26% for our \$350 million of 3.30% senior notes at December 31, 2016. The swaps expire when the corresponding senior notes are due. The fair values of these swaps are recorded in other assets in our Consolidated Balance Sheet at December 31, 2016. See Note 9, Fair Value Measurements, for disclosure of fair value. These derivatives meet the required criteria to be designated as fair value hedges and as the specific terms and notional amounts of these derivative instruments match those of the fixed-rate debt being hedged, these derivative instruments are assumed to perfectly hedge the related debt against changes in fair value due to changes in the benchmark interest rate. Accordingly, any change in the fair value of these interest rate swaps recorded in earnings is offset by a corresponding change in the fair value of the related debt.

#### **5. Capital Stock**

We have one class of preferred stock and one class of common stock. We had no outstanding shares of preferred stock at December 31, 2016 or 2015. Holders of shares of common stock are entitled to receive dividends when and if declared by the Board of Directors and are entitled to one vote per share on all matters submitted to a vote of the stockholders. At December 31, 2016, we had 2.0 million shares of common stock to be issued upon the vesting of equity awards and 6.9 million shares reserved for future issuance pursuant to share-based payment plans. During calendar year 2016, we purchased approximately 3.1 million shares, or \$249.8 million, of our common stock in accordance with plans authorized by our Board. At December 31, 2016, we had \$201.2 million available under an authorized plan to purchase our common stock.

#### **6. Share-based Compensation**

We maintain a Management Incentive Plan (the “Plan”) that provides various share-based financial methods to compensate our key employees with shares of our common stock or common stock equivalents. Under the Plan, as amended, we have, from time to time, utilized restricted share units, performance share units, restricted shares, and nonstatutory stock options to compensate our employees and directors. We currently are utilizing restricted and performance share units.

Our restricted share units have various vesting schedules generally ranging from 3 to 10 years when awarded. These restricted share units do not contain rights to vote or receive dividends until the vesting date. Unvested restricted share units are forfeited if the employee terminates for any reason other than death, disability, or special circumstances as determined by the Compensation Committee. Restricted share units are valued based on the fair value of the award on the grant date, adjusted for dividend estimates based on grant date dividend rates.

Our performance share units vest based on the passage of time (generally 2 to 10 years) and achievement of performance criteria. Performance share units do not contain rights to vote or receive dividends until the vesting date. Unvested performance share units are forfeited if the employee terminates for any reason other than death or disability. Performance shares are valued based on the fair value of the award on the grant date, adjusted for dividend estimates based on grant date dividend rates.

In the past, nonstatutory stock options have been granted to key employees for the purchase of our common stock for 100% of the fair market value of the common stock at the grant date as awarded by the Compensation Committee. These options generally vested over a 10-year period and were forfeited immediately if the employee terminated for any reason other than death, disability or retirement after age 55. We did not grant any stock options during the years ended December 31, 2016, 2015, and 2014.

An employee is allowed to surrender shares of common stock that the employee has owned for at least six months in full or partial payment of the option price of an option being exercised and/or to satisfy tax withholding obligations incident to the vesting of restricted share units, performance share units, or the exercise of an option.

We account for our restricted share units, performance share units, and stock options in accordance with current accounting standards for share-based payments. These standards require that the cost of all share-based payments to employees, including grants of employee stock options, be recognized in our Consolidated Financial Statements based on the grant date fair value of those awards. This cost is recognized over the period for which an employee is required to provide service in exchange for the award, subject to the attainment of performance metrics established for performance share units. Share-based compensation expense is recorded in salaries, wages, and employee benefits in our Consolidated Statements of Earnings, along with other compensation expenses to employees. The following table summarizes the components of our share-based compensation program expense (in thousands):

|                                      | Years ended December 31, |          |          |
|--------------------------------------|--------------------------|----------|----------|
|                                      | 2016                     | 2015     | 2014     |
| Restricted share units               |                          |          |          |
| Pretax compensation expense          | \$29,938                 | \$27,898 | \$27,256 |
| Tax benefit                          | 11,347                   | 10,629   | 10,360   |
| Restricted share units, net of tax   | \$18,591                 | \$17,269 | \$16,896 |
| Performance share units              |                          |          |          |
| Pretax compensation expense          | \$10,687                 | \$9,330  | \$7,882  |
| Tax benefit                          | 4,050                    | 3,555    | 2,996    |
| Performance share awards, net of tax | \$6,637                  | \$5,775  | \$4,886  |
| Stock options                        |                          |          |          |
| Pretax compensation expense          | \$-                      | \$-      | \$195    |
| Tax benefit                          | -                        | -        | 74       |
| Stock option expense, net of tax     | \$-                      | \$-      | \$121    |



A summary of our restricted share units, performance share units, and nonstatutory stock options is as follows:

| <i>Restricted Share Units</i> | Number of<br>Shares | Weighted                               |
|-------------------------------|---------------------|--|
|                               |                     | Average<br>Grant<br>Date Fair<br>Value |
| Unvested at December 31, 2013 | 2,421,430           | \$ 41.49                               |
| Granted                       | 447,780             | 75.61                                  |
| Vested                        | (808,914 )          | 37.33                                  |
| Forfeited                     | (119,298 )          | 47.81                                  |
| Unvested at December 31, 2014 | 1,940,998           | \$ 51.74                               |
| Granted                       | 390,143             | 74.86                                  |
| Vested                        | (783,483 )          | 39.45                                  |
| Forfeited                     | (30,908 )           | 54.89                                  |
| Unvested at December 31, 2015 | 1,516,750           | \$ 63.96                               |
| Granted                       | 540,746             | 75.03                                  |
| Vested                        | (520,619 )          | 54.78                                  |
| Forfeited                     | (34,221 )           | 69.14                                  |
| Unvested at December 31, 2016 | 1,502,656           | \$ 71.16                               |

| <i>Performance Share Units</i> | Number<br>of<br>Shares | Weighted                               |
|--------------------------------|------------------------|--|
|                                |                        | Average<br>Grant<br>Date Fair<br>Value |
| Unvested at December 31, 2013  | 408,025                | \$ 56.78                               |
| Granted                        | 106,945                | 76.22                                  |
| Vested                         | (81,075 )              | 53.26                                  |
| Forfeited                      | -                      | -                                      |
| Unvested at December 31, 2014  | 433,895                | \$ 62.23                               |
| Granted                        | 160,574                | 74.37                                  |
| Vested                         | (103,796)              | 58.28                                  |
| Forfeited                      | -                      | -                                      |
| Unvested at December 31, 2015  | 490,673                | \$ 67.04                               |
| Granted                        | 142,114                | 74.71                                  |
| Vested                         | (148,733)              | 62.84                                  |
| Forfeited                      | -                      | -                                      |
| Unvested at December 31, 2016  | 484,054                | \$ 70.58                               |

| <i>Stock Options</i> | Number of | Weighted | Weighted | Aggregate |
|----------------------|-----------|----------|----------|-----------|
|                      |           |          | Average  |           |

Edgar Filing: HUNT J B TRANSPORT SERVICES INC - Form 10-K

|                                  | Shares<br>(in<br>thousands) | Average<br>Exercise<br>Price | Remaining<br>Contractual<br>Term<br><br>(in years) | Intrinsic<br>Value<br><br>(in<br>millions) |
|----------------------------------|-----------------------------|------------------------------|--|--|
| Outstanding at December 31, 2013 | 440                         | \$ 19.08                     | 1.67   | \$ 25.6                                    |
| Exercised                        | (341 )                      | 18.70                        | -  | 19.9                                       |
| Forfeited                        | (1 )                        | 19.08                        | -  | -  |
| Outstanding at December 31, 2014 | 98                          | \$ 20.40                     | 0.86   | \$ 6.3                                     |
| Exercised                        | (95 )                       | 20.35                        | -  | 5.8  |
| Forfeited                        | (1 )                        | 24.27                        | -  | -  |
| Outstanding at December 31, 2015 | 2                           | \$ 20.76                     | 0.05   | \$ 0.1                                     |
| Exercised                        | (2 )                        | 20.76                        | -  | -  |
| Forfeited                        | -                           | -                            | -  | -  |
| Outstanding at December 31, 2016 | -                           | \$ -                         | -  | \$ -                                       |
| Exercisable                      | -                           | \$ -                         | -  | \$ -                                       |

At December 31, 2016, we had \$66.9 million and \$19.4 million of total unrecognized compensation expense related to restricted share units and performance share units, respectively, that is expected to be recognized on a straight-line basis over the remaining weighted average vesting period of approximately 3.6 years for restricted share units and 2.5 years for performance share units.

The aggregate intrinsic value of restricted and performance share units vested and options exercised during the years ended December 31, 2016, 2015, and 2014, was \$56.7 million, \$80.8 million, and \$88.5 million, respectively. The aggregate intrinsic value of unvested restricted and performance share units was \$192.8 million at December 31, 2016. The total fair value of shares vested for restricted share, performance share, and stock option awards during the years ended December 31, 2016, 2015, and 2014, was \$38.1 million, \$37.3 million, and \$37.5 million, respectively.

## 7. Income Taxes

Income tax expense attributable to earnings before income taxes consists of (in thousands):

|                   | Years ended December 31, |           |           |
|-------------------|--------------------------|-----------|-----------|
|                   | 2016                     | 2015      | 2014      |
| Current:          |                          |           |           |
| Federal           | \$191,422                | \$160,235 | \$130,761 |
| State and local   | 21,871                   | 22,306    | 19,705    |
|                   | 213,293                  | 182,541   | 150,466   |
| Deferred:         |                          |           |           |
| Federal           | 45,846                   | 71,292    | 72,547    |
| State and local   | 4,568                    | 9,135     | 6,796     |
|                   | 50,414                   | 80,427    | 79,343    |
| Total tax expense | \$263,707                | \$262,968 | \$229,809 |

Income tax expense attributable to earnings before income taxes differed from the amounts computed using the statutory federal income tax rate of 35% as follows (in thousands):

|  | Years ended December 31, |           |           |
|--|--------------------------|-----------|-----------|
|  | 2016                     | 2015      | 2014      |
| Income tax at federal statutory rate                       | \$243,529                | \$241,571 | \$211,610 |
| State tax, net of federal effect                           | 19,165                   | 18,671    | 17,357    |
| Nondeductible meals and entertainment                      | 1,419                    | 1,420     | 1,395     |
| Change in effective state tax rate, net of federal benefit | (1,055 )                 | 1,761     | 256       |



|                   |           |           |           |
|-------------------|-----------|-----------|-----------|
| Other, net        | 649       | (455 )    | (809 )    |
| Total tax expense | \$263,707 | \$262,968 | \$229,809 |

Income taxes receivable was \$15.7 million and \$76.7 million at December 31, 2016 and 2015, respectively. These amounts have been included in other receivables in our Consolidated Balance Sheets. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2016 and 2015, are presented below (in thousands):

|   | December 31, |           |
|---|--------------|-----------|
|   | 2016         | 2015      |
| <u>Deferred tax assets:</u>   |              |           |
| Insurance accruals  | \$34,788     | \$33,522  |
| Allowance for doubtful accounts   | 2,347        | 2,335     |
| Compensation accrual  | 10,443       | 13,991    |
| Deferred compensation accrual   | 26,062       | 24,687    |
| Federal benefit of state uncertain tax positions                                    | 14,085       | 12,751    |
| Other   | 3,853        | 4,036     |
| Total gross deferred tax assets   | 91,578       | 91,322    |
| Valuation allowance   | -            | (552 )    |
| Total deferred tax assets, net of valuation allowance                               | 91,578       | 90,770    |
| <u>Deferred tax liabilities:</u>  |              |           |
| Plant and equipment, principally due to differences in depreciation                 | 831,555      | 786,840   |
| Prepaid permits and insurance, principally due to expensing for income tax purposes | 37,119       | 33,064    |
| Other   | 13,538       | 11,086    |
| Total gross deferred tax liabilities  | 882,212      | 830,990   |
| Net deferred tax liability  | \$790,634    | \$740,220 |

Guidance on accounting for uncertainty in income taxes prescribes recognition and measurement criteria and requires that we assess whether the benefits of our tax positions taken are more likely than not of being sustained under tax audits. We have made adjustments to the balance of unrecognized tax benefits, a component of other long-term liabilities on our Consolidated Balance Sheets, as follows (in millions):

|  | December 31, |        |        |
|--|--------------|--------|--------|
|  | 2016         | 2015   | 2014   |
| Beginning balance  | \$32.0       | \$31.6 | \$29.7 |
| Additions based on tax positions related to the current year       | 10.3         | 9.4    | 8.2    |
| Additions/(reductions) based on tax positions taken in prior years | (3.2 )       | (2.5 ) | 0.4    |
| Reductions due to settlements                                      | (0.4 )       | (3.0 ) | (3.7 ) |
| Reductions due to lapse of applicable statute of limitations       | (3.3 )       | (3.5 ) | (3.0 ) |
| Ending balance   | \$35.4       | \$32.0 | \$31.6 |

At December 31, 2016 and 2015, we had a total of \$35.4 million and \$32.0 million, respectively, in gross unrecognized tax benefits. Of these amounts, \$23.0 million and \$20.8 million represent the amount of unrecognized tax benefits that, if recognized, would impact our effective tax rate in 2016 and 2015, respectively. Interest and penalties related to income taxes are classified as interest expense in our Consolidated Statements of Earnings. The amount of accrued interest and penalties recognized during the years ended December 31, 2016, 2015, and 2014, was \$1.9 million, \$1.9 million, and \$1.8 million, respectively. Future changes to unrecognized tax benefits will be

recognized as income tax expense and interest expense, as appropriate. The total amount of accrued interest and penalties for such unrecognized tax benefits at December 31, 2016 and 2015, was \$4.4 million and \$4.0 million, respectively.

Tax years 2013 and forward remain subject to examination by federal tax jurisdictions, while tax years 2005 and forward remain open for state jurisdictions.

## **8. Employee Benefit Plans**

We maintain a defined contribution employee retirement plan, which includes a 401(k) option, under which all employees are eligible to participate. We match a specified percentage of employee contributions, subject to certain limitations. For the years ended December 31, 2016, 2015, and 2014, our matching contributions to the plan were \$15.6 million, \$14.7 million, and \$11.6 million, respectively.

We have a nonqualified deferred compensation plan that allows eligible employees to defer a portion of their compensation. The compensation deferred under this plan is credited with earnings or losses on investments elected by plan participants. Each participant is fully vested in all deferred compensation and earnings; however, these amounts are subject to general creditor claims until actually distributed to the employee. A participant may elect to receive deferred amounts in one payment or in quarterly installments payable over a period of 2 to 25 years upon reaching age 55, having 15 years of service, or becoming disabled. Our total liability under this plan was \$14.9 million as of December 31, 2016, and \$13.6 million as of December 31, 2015. These amounts are included in other long-term liabilities in our Consolidated Balance Sheets. Participant withholdings are held by a trustee and invested in equity securities as directed by participants. These investments are classified as trading securities and recorded at fair value. Realized and unrealized gains and losses are recognized currently in earnings. The investments are included in other assets in our Consolidated Balance Sheets and totaled \$14.9 million as of December 31, 2016, and \$13.6 million as of December 31, 2015.

## 9. Fair Value Measurements

### *Assets and Liabilities Measured at Fair Value on a Recurring Basis*

Our assets and liabilities measured at fair value are based on valuation techniques which consider prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. These valuation methods are based on either quoted market prices (Level 1) or inputs, other than quoted prices in active markets, that are observable either directly or indirectly (Level 2). The following are assets and liabilities measured at fair value on a recurring basis at December 31, 2016 (in millions):

|   | Asset/(Liability)<br>Balance | Input<br>Level |
|---|------------------------------|----------------|
| Trading investments   | \$ 14.9                      | 1              |
| Interest rate swap  | \$ 2.9                       | 2              |
| Senior notes, net of unamortized discount and debt issuance costs | \$ (599.0)                   | ) 2            |

The fair value of trading investments has been measured using the market approach (Level 1) and reflect quoted market prices. The fair values of interest rate swaps and corresponding senior notes have been measured using the income approach (Level 2), which include relevant interest rate curve inputs. Trading investments and interest rate swaps are classified in other assets in our Consolidated Balance Sheets, and the senior notes are classified in long-term debt in our Consolidated Balance Sheets.

### *Financial Instruments*

The carrying amount and estimated fair value at December 31, 2016, using the income approach (Level 2), based on their net present value, discounted at our current borrowing rate, of our senior revolving line of credit and remaining senior notes not measured at fair value on a recurring basis, were \$387.3 million and \$402.3 million, respectively.

The carrying amounts of all other instruments at December 31, 2016, approximate their fair value due to the short maturity of these instruments.

## **10. Commitments and Contingencies**

As of December 31, 2016, we had approximately \$36.7 million of obligations remaining under operating lease arrangements related primarily to terminal and support facilities. Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2016, are approximately \$36.7 million, with payment streams as follows (in millions): 2017 - \$15.2; 2018 - \$9.4; 2019 - \$5.9; 2020 - \$4.3; 2021 - \$1.8; and thereafter - \$0.1.

Total rent expense was \$44.1 million in 2016, \$39.5 million in 2015, and \$39.1 million in 2014. At December 31, 2016, we had outstanding commitments of approximately \$967 million, net of proceeds from sales or trade-ins during 2017 and 2018, which is primarily related to the acquisition of containers, chassis, and tractors.

During 2016, we issued financial standby letters of credit as a guaranty of our performance under certain operating agreements and self-insurance arrangements. If we default on our commitments under the agreements or other arrangements, we are required to perform under these guaranties. The undiscounted maximum amount of our obligation to make future payments in the event of defaults is approximately \$4.4 million as of December 31, 2016.

We are a defendant in certain class-action lawsuits 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. During the first half of 2014, the Court in the lead class-action granted judgment in our favor with regard to all claims. The plaintiffs have appealed the case to the Ninth Circuit Court of Appeals where it is currently pending. The overlapping claims in the remaining actions have been stayed pending a decision in the lead class-action case. We cannot reasonably estimate at this time the possible loss or range of loss, if any, that may arise from these lawsuits.

In January, 2017, we exercised our right to utilize the arbitration process to review the division of revenue collected beginning May 1, 2016, as well as to clarify other issues, under our Joint Service Agreement with BNSF Railway Company (BNSF). BNSF has requested the same, and the arbitration process has commenced. BNSF provides a significant amount of rail transportation services to our JBI business segment. At this time, we are unable to reasonably predict the outcome of the arbitration, and, as such, no gain or loss contingency can be determined or recorded. Normal commercial business activity between the parties, including load tendering, load tracing, billing and payments, is expected to continue on a timely basis.

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

## **11. Segment Information**

We have four reportable business segments – Intermodal (JBI), Dedicated Contract Service<sup>®</sup> (DCS), Integrated Capacity Solutions (ICS), and Truck (JBT) – which are based primarily on the services each segment provides. The JBI segment includes freight that is transported by rail over at least some portion of the movement and also includes certain repositioning truck freight moved by JBI equipment or third-party carriers, when such highway movement is intended to direct JBI equipment back toward intermodal operations. DCS segment business includes company-owned and customer-owned, DCS-operated revenue equipment and employee drivers assigned to a specific customer, traffic

lane, or service. DCS operations usually include formal, written longer-term agreements or contracts that govern services performed and applicable rates. ICS provides non-asset and asset-light transportation solutions to customers through relationships with third-party carriers and integration with JBHT-owned equipment. ICS services include flatbed, refrigerated, and LTL, as well as a variety of dry-van and intermodal solutions. JBT business includes full-load, dry-van freight that is typically transported utilizing company-owned or company-controlled revenue equipment. This freight is typically transported over roads and highways and does not move by rail. All transactions between reporting segments are eliminated in consolidation.

Our customers are geographically dispersed across the United States. A summary of certain segment information as of December 31 is presented below (in millions):

|                            | Assets                           |         |         |
|----------------------------|----------------------------------|---------|---------|
|                            | (Excludes intercompany accounts) |         |         |
|                            | December 31,                     |         |         |
|                            | 2016                             | 2015    | 2014    |
| JBI                        | \$2,032                          | \$1,848 | \$1,733 |
| DCS                        | 951                              | 949     | 832     |
| ICS                        | 136                              | 99      | 106     |
| JBT                        | 279                              | 286     | 289     |
| Other (includes corporate) | 431                              | 448     | 414     |
| Total                      | \$3,829                          | \$3,630 | \$3,374 |

|                           | Revenues                 |         |         |
|---------------------------|--------------------------|---------|---------|
|                           | Years ended December 31, |         |         |
|                           | 2016                     | 2015    | 2014    |
| JBI                       | \$3,796                  | \$3,665 | \$3,687 |
| DCS                       | 1,533                    | 1,451   | 1,394   |
| ICS                       | 852                      | 699     | 718     |
| JBT                       | 388                      | 386     | 386     |
| Total segment revenues    | 6,569                    | 6,201   | 6,185   |
| Intersegment eliminations | (14 )                    | (13 )   | (20 )   |
| Total                     | \$6,555                  | \$6,188 | \$6,165 |

|       | Operating Income         |       |       |
|-------|--------------------------|-------|-------|
|       | Years ended December 31, |       |       |
|       | 2016                     | 2015  | 2014  |
| JBI   | \$450                    | \$477 | \$461 |
| DCS   | 205                      | 163   | 117   |
| ICS   | 36                       | 36    | 30    |
| JBT   | 30                       | 40    | 24    |
| Total | \$721                    | \$716 | \$632 |

Depreciation and  
Amortization  
Expense  
Years ended  
December 31,



|       | 2016  | 2015  | 2014  |
|-------|-------|-------|-------|
| JBI   | \$160 | \$148 | \$130 |
| DCS   | 143   | 133   | 117   |
| JBT   | 41    | 42    | 32    |
| Other | 18    | 17    | 15    |
| Total | \$362 | \$340 | \$294 |

**12. Quarterly Financial Information (Unaudited)**

Operating results by quarter for the years ended December 31, 2016 and 2015 are as follows (in thousands, except per share data):

|                            | Quarter<br>First | Second      | Third       | Fourth      |
|----------------------------|------------------|-------------|-------------|-------------|
| 2016:                      |                  |             |             |             |
| Operating revenues         | \$1,528,712      | \$1,615,026 | \$1,690,659 | \$1,721,062 |
| Operating income           | \$167,890        | \$175,792   | \$182,977   | \$194,361   |
| Net earnings               | \$100,098        | \$105,011   | \$109,425   | \$117,556   |
| Basic earnings per share   | \$0.89           | \$0.93      | \$0.97      | \$1.05      |
| Diluted earnings per share | \$0.88           | \$0.92      | \$0.97      | \$1.05      |
| 2015:                      |                  |             |             |             |
| Operating revenues         | \$1,440,180      | \$1,539,957 | \$1,586,494 | \$1,621,015 |
| Operating income           | \$155,220        | \$173,735   | \$193,846   | \$192,893   |
| Net earnings               | \$91,932         | \$103,419   | \$115,139   | \$116,746   |
| Basic earnings per share   | \$0.79           | \$0.89      | \$1.00      | \$1.02      |
| Diluted earnings per share | \$0.78           | \$0.88      | \$0.99      | \$1.01      |