HUNT J B TRANSPORT SERVICES INC
Form 10-Q
July 31, 2006

FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the Quarter Ended June 30, 2006

OR

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

Commission file number 0-11757

J.B. HUNT TRANSPORT SERVICES, INC.

(Exact name of registrant as specified in its charter)

Arkansas	**71-0335111**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

615 J.B. Hunt Corporate Drive, Lowell, Arkansas 72745

(Address of principal executive offices, and Zip Code)

(479) 820-0000

(Registrant s telephone number, including area code)

www.jbhunt.com

(Registrant s web site)

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

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

Yes o No x

The number of shares of the registrant s $0.01 par value common stock outstanding on June 30, 2006 was 147,356,739.

J.B. HUNT TRANSPORT SERVICES, INC.

Form 10-Q
For The Quarter Ended June 30, 2006
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J.B. HUNT TRANSPORT SERVICES, INC.

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

	Three Months Ended June 30		**Six Months Ended June 30**	
	2006	**2005**	**2006**	**2005**
Operating revenues, excluding fuel surcharge revenues	$ 724,041	$ 686,758	$ 1,414,076	$ 1,338,758
Fuel surcharge revenues	114,213	72,448	204,078	129,626
Total operating revenues	838,254	759,206	1,618,154	1,468,384
Operating expenses				
Salaries, wages and employee benefits	224,099	213,655	438,627	414,538
Rents and purchased transportation	283,540	253,299	549,127	492,375
Fuel and fuel taxes	115,202	89,507	219,784	172,377
Depreciation and amortization	44,520	40,109	88,050	79,341
Operating supplies and expenses	36,662	31,210	71,571	62,864
Insurance and claims	15,338	13,075	27,800	24,830
Operating taxes and licenses	8,677	9,330	17,092	18,216
General and administrative expenses, net of gains on asset dispositions	9,253	10,738	17,875	20,526
Communication and utilities	5,554	5,278	11,431	11,144
Total operating expenses	742,845	666,201	1,441,357	1,296,211
Operating income	95,409	93,005	176,797	172,173
Interest income	235	229	434	380
Interest expense	3,299	1,758	4,004	2,992
Equity in loss of associated company	1,634	1,284	2,221	2,135
Earnings before income taxes	90,711	90,192	171,006	167,426
Income taxes	35,377	35,561	66,692	65,296
Net earnings	$ 55,334	$ 54,631	$ 104,314	$ 102,130
Weighted average basic shares outstanding	150,678	158,387	152,355	159,539
Basic earnings per share	$ 0.37	$ 0.34	$ 0.68	$ 0.64
Weighted average diluted shares outstanding	154,619	163,483	156,422	164,940
Diluted earnings per share	$ 0.36	$ 0.33	$ 0.67	$ 0.62
Dividends declared per common share	$ 0.08	$ 0.06	$ 0.16	$ 0.12

See accompanying notes to condensed consolidated financial statements.

J.B. HUNT TRANSPORT SERVICES, INC.

Condensed Consolidated Balance Sheets
(in thousands)

	June 30, 2006 (unaudited)	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,210	$ 7,412
Accounts receivable	325,305	343,501
Prepaid expenses and other	85,676	123,777
Total current assets	420,191	474,690
Property and equipment	1,678,977	1,591,561
Less accumulated depreciation	571,844	537,502
Net property and equipment	1,107,133	1,054,059
Other assets	17,200	20,125
	$ 1,544,524	$ 1,548,874
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current debt	$ 40,000	$ 0
Trade accounts payable	176,994	162,749
Claims accruals	13,192	15,651
Accrued payroll	44,113	61,001
Other accrued expenses	8,129	9,198
Deferred income taxes	7,166	27,487
Total current liabilities	289,594	276,086
Borrowings under revolving lines of credit	177,000	124,000
Other long-term liabilities	55,186	45,834
Deferred income taxes	300,852	285,929
Stockholders equity	721,892	817,025
	$ 1,544,524	$ 1,548,874

See accompanying notes to condensed consolidated financial statements.

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J.B. HUNT TRANSPORT SERVICES, INC.

Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Six Months Ended June 30 2006	2005
Cash flows from operating activities:		
Net earnings	$ 104,314	$ 102,130
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	88,050	79,341
Stock compensation expense	3,552	
Gain on sale of revenue equipment	(1,281)	(1,853)
Deferred income taxes	(5,398)	435
Equity in loss of associated company	2,221	2,135
Tax benefit of stock options exercised		8,302
Changes in operating assets and liabilities:		
Trade accounts receivable	18,196	(22,653)
Income tax receivable		12,838
Other assets	40,019	30,207
Trade accounts payable	14,244	(51,347)
Claims accruals	(2,459)	(821)
Accrued payroll and other accrued expenses	(12,156)	(27,490)
Net cash provided by operating activities	249,302	131,224
Cash flows from investing activities:		
Additions to property and equipment	(173,396)	(131,352)
Proceeds from sale of equipment	33,553	47,243
Increase in other assets	(1,214)	(8,827)
Net cash used in investing activities	(141,057)	(92,936)
Cash flows from financing activities:		
Proceeds from revolving lines of credit	93,000	67,300
Acquisition of treasury stock	(184,694)	(116,313)
Dividends paid	(24,552)	(19,233)
Tax benefit of stock options exercised	9,799	
Net cash used in financing activities	(106,447)	(68,246)
Net increase (decrease) in cash and cash equivalents	1,798	(29,958)
Cash and cash equivalents at beginning of period	7,412	34,715
Cash and cash equivalents at end of period	$ 9,210	$ 4,757
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 3,160	$ 2,382
Income taxes	59,827	42,473

See accompanying notes to condensed consolidated financial statements.

J.B. HUNT TRANSPORT SERVICES, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

Our condensed consolidated financial statements included in this Form 10-Q have been prepared without audit (except that the balance sheet information as of December 31, 2005 has been derived from consolidated financial statements which were audited) in accordance with the rules and regulations of the Securities and Exchange Commission. Although certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted, we believe that the disclosures are adequate to make the information presented not misleading. You should read the accompanying condensed consolidated financial statements in conjunction with the audited financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2005.

We believe that all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the interim periods presented have been made. The results of operations for the interim periods presented in this report are not necessarily indicative of the results to be expected for the full calendar year ending December 31, 2006. Our business is somewhat seasonal with slightly higher freight volumes typically experienced during the months of August through early November.

2. Earnings Per Share

We compute basic earnings per share by dividing net earnings available to common shareholders by the actual weighted average number of common shares outstanding for the reporting period. Diluted earnings per share reflects the potential dilution that could occur if holders of options, unvested restricted shares or other contracts to issue common stock exercised or converted their holdings into common stock. Outstanding stock options and unvested restricted shares represent the dilutive effects on weighted average shares. The table below presents a reconciliation between basic and diluted weighted average shares outstanding and the related earnings per share. All amounts in the table, except per share amounts, are expressed in thousands.

	Three Months Ended June 30		**Six Months Ended June 30**	
	2006	**2005**	**2006**	**2005**
Net earnings	$ 55,334	$ 54,631	$ 104,314	$ 102,130
Weighted average basic shares outstanding	150,678	158,387	152,355	159,539
Dilutive effect of common stock equivalents	3,941	5,096	4,067	5,401
Weighted average diluted shares outstanding	154,619	163,483	156,422	164,940
Basic earnings per share	$ 0.37	$ 0.34	$ 0.68	$ 0.64
Diluted earnings per share	$ 0.36	$ 0.33	$ 0.67	$ 0.62

We had options to purchase shares of common stock which were outstanding during the periods shown, but were excluded from the computation of diluted earnings per share because the option price was greater than the average market price of the common shares. A summary of those options follows:

	Three Months Ended June 30						Six Months Ended June 30					
	2006			2005			2006			2005		
Number of shares under option	13,000			1,446,000			13,000			25,000		
Range of exercise price	$	24.27	$24.43	$	20.29	$24.43	$	24.27	$24.43	$	21.51	$24.43

3. Recent Accounting Pronouncements

In June 2006, The Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109.* This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. We are currently assessing the impact of this Interpretation on our financial statements.

4. Share-Based Compensation

We maintain a Management Incentive Plan (the Plan) that provides various stock-based financial vehicles to compensate our key employees with JBHT common stock or common stock equivalents. Under the Plan, as amended, we have, from time to time, utilized restricted stock awards, restricted options and nonstatutory stock options to compensate our employees and directors. We currently are utilizing restricted stock and nonstatutory stock options.

Our nonstatutory stock options may be granted to key employees for the purchase of JBHT common stock for 100% of the fair market value of the common stock at the grant date. These options generally vest over a 10-year period and are forfeited if the employee terminates for any reason other than death, disability or retirement after age 55. 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 exercise of an option.

We awarded 633,200 shares of restricted stock during 2005 and an additional 55,090 shares of restricted stock during the first six months of 2006. These restricted shares have various vesting schedules ranging from five to ten years. These restricted shares do not contain rights to vote or receive dividends until the vesting date. Unvested restricted shares are forfeited if the employee terminates for any reason other than death or disability.

Prior to January 1, 2006, we accounted for our stock-based compensation using the intrinsic value method and in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations. In accordance with this previous guidance, compensation expense related to stock option grants was recorded on the date of the grant only if the current market price of the underlying stock exceeded the exercise price. Under APB No. 25, we recognized the cost of restricted stock over the applicable vesting period. As a result, we recognized approximately $0.5 million of expense during 2005 related to our unvested restricted stock. However, prior to January 1, 2006, we did not record compensation expense related to unexercised stock options and provided pro forma disclosure amounts in our footnotes in accordance with Statement No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*.

Financial Accounting Standards Board (FASB) Statement No. 123, *Share-Based Payment* (revised 2004) required the cost of all share-based payments to employees, including grants of employee stock options, to be recognized in our consolidated financial statements based on the grant date fair value of those awards. In accordance with Statement No. 123R, this cost will be recognized over the period for which an employee is required to provide service in exchange for the award. For awards outstanding as of January 1, 2006, Statement No. 123R required us to recognize compensation expense for the unvested portion of outstanding share-based payments based on the fair value of the award on the grant date. It also required that the benefits associated with tax deductions in excess of recognized compensation expense be reported as a financing cash flow rather than as an operating cash flow. We adopted Statement No. 123R, effective January 1, 2006, utilizing the modified prospective method, and, therefore, did not restate our prior-period results.

The following table includes the disclosures required by Statement No. 123R, and illustrates the pro forma impact on net earnings and earnings per share as if we had applied the fair value recognition provision of Statement No. 123R:

	Three Months Ended June 30, 2005	**Six Months Ended June 30, 2005**
Net earnings as reported (in thousands)	$ 54,631	$ 102,130
Deduct:		
Compensation cost using the fair value method, net of tax	1,261	2,522
Pro forma	$ 53,370	$ 99,608
Net earnings per share		
As reported		
Basic	$ 0.34	$ 0.64
Diluted	$ 0.33	$ 0.62
Pro Forma		
Basic	$ 0.34	$ 0.62
Diluted	$ 0.33	$ 0.60

The weighted-average fair value of each stock option included in the preceding pro forma amounts was estimated on the date of grant using the Black-Scholes option-pricing model and is amortized over the vesting period of the underlying options. The following assumptions were utilized:

	Three and Six Months Ended June 30, 2005
Risk-free interest rate	3.83%
Expected life	6.5 years
Volatility	54.8%
Expected dividend yield	1.25%

Our financial results for the six months ended June 30, 2006, were negatively impacted by the adoption of Statement 123R. The requirement to account for share-based compensation under Statement No. 123R rather than APB Opinion No. 25, effective January 1, 2006, reduced our earnings as follows (in thousands, except per share amounts).

	Six Months Ended June 30, 2006
Earnings before income taxes	$ (2,703)
Net earnings	$ (1,649)
Basic earnings per share	$ (0.01)
Diluted earnings per share	$ (0.01)

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

	Three MonthsEnded June 30 2006	2005	Six Months Ended June 30 2006	2005
Stock options				
Pre-tax compensation expense	$ 1,351	$ 0	$ 2,703	$ 0
Tax benefit	527	0	1,054	0
Stock option expense, net of tax	$ 824	$ 0	$ 1,649	$ 0
Restricted stock				
Pre-tax compensation expense	$ 555	$ 0	$ 1,106	$ 0
Tax benefit	216	0	431	0
Restricted stock expense, net of tax	$ 339	$ 0	$ 675	$ 0

We did not award any stock options during the first six months of 2006.

Restricted shares were awarded during the three month and six month periods ended June 30, 2006 with the following values:

	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Number of shares awarded	15,340	55,090
Weighted average fair value	$ 24.55	$ 23.03
Aggregate total value	$ 376,730	$ 1,268,901

A summary of our nonstatutory options and restricted shares of common stock follows:

Stock Options

	Number Of Shares		Average Exercise Price	Weighted Average Weighted Aggregate Contractual Term (in years)	Remaining Intrinsic Value (in thousands)
Outstanding at December 31, 2005	10,826,539		$ 8.02		
Granted	0				
Exercised	(1,432,211	)	4.95		
Forfeited	(118,500	)	8.54		
Outstanding at June 30, 2006	9,275,828		$ 8.48	6.5	$ 152,381
Exercisable at June 30, 2006	1,623,982		$ 5.39	4.8	$ 31,693

Restricted Shares

	Number Of Shares		Weighted Average Grant Date Fair Value
Unvested at December 31, 2005	633,200		$ 18.89
Granted	55,090		23.03
Vested	(13,119	)	19.62
Forfeited	(9,660	)	19.67
Unvested at June 30, 2006	665,511		$ 19.21

As of June 30, 2006, we had $21.4 million and $11.4 million of total unrecognized compensation expense related to stock options and restricted stock, respectively, that is expected to be recognized over the remaining weighted average period of approximately 6.5 years for stock options and 10 years for restricted stock.

5. Debt

	(in thousands) June 30, 2006	December 31, 2005
Outstanding borrowings under revolving lines of credit	$ 217,000	$ 124,000
Less current maturities	40,000	0
	$ 177,000	$ 124,000

At June 30, 2006, we were authorized to borrow up to a total of $400 million under two different revolving lines of credit. The first line of credit is supported by a credit agreement with a group of banks for a total amount of $200 million. This line of credit is unsecured and matures on April 2010. The applicable interest rate under this agreement is based on either the prime rate or LIBOR, depending upon the specific type of borrowing, plus a margin based on the level of borrowings and our credit rating. At June 30, 2006, we had $177 million outstanding at an average interest rate of 5.88% under this agreement.

Our second line of credit is a bridge loan with LaSalle Bank National Association which was discussed in an 8-K filing dated May 19, 2006. This line of credit is expected to be cancelled during the third quarter of 2006 and replaced by a new accounts receivable securitization program with ABN AMRO, N.V. The applicable interest rate for the bridge loan was the same as our first revolving line of credit.

At June 30, 2006, we had $40 million outstanding at an average interest rate of 5.71% under the Bridge Loan Agreement. The new Accounts Receivable Securitization will be a revolving credit facility up to $200 million that is secured by our accounts receivable. The applicable interest rate is the prevailing A1/P1 commercial paper rate in the market.

6. Capital Stock

We announced on July 20, 2006, that our Board of Directors declared a regular quarterly dividend of $0.08 per common share, payable on August 18, 2006, to stockholders of record on August 2, 2006.

7. Comprehensive Income

During the three and six months ended June 30, 2006 and 2005, comprehensive income was equal to net earnings.

8. Income Taxes

Our effective income tax rate was 39.0% for the three and six month periods ended June 30, 2006, compared with 39.4% for the three months ended June 30, 2005 and 39.0% for the six months ended June 30, 2005. In determining our quarterly provision for income taxes, we use an estimated annual effective tax rate, which is based on our expected annual income, statutory tax rates and best estimate of non-deductible and non-taxable items of income and expense and the ultimate outcome of tax audits. The 2006 effective income tax rate reflects changes in estimates of state income taxes and non-deductible and non-taxable items as they relate to expected annual income.

The Internal Revenue Service (IRS) has proposed to disallow the tax benefits associated with certain sale-and-leaseback transactions. In 1999, we entered into a series of transactions effecting a sale and leaseback of a portion of our Intermodal container and chassis fleet for a selling price of approximately $175 million. This transaction was examined by the IRS in an audit of our 1998 and 1999 tax returns. In December 2003, we received an IRS Notice of Proposed Assessment which disallowed the tax benefits associated with these transactions, and as a result, we have filed an appeal in the matter. Based on events occurring subsequent to December 31, 2004, we have reversed all prior benefits taken on this transaction. We have recorded a contingent liability of approximately $40.2 million (including accrued interest of $13.1 million) at June 30, 2006, as a component of other long-term liabilities on our balance sheet. We are scheduled to have a conference with the IRS Appeals Division during the third quarter of this year. If a resolution of the matter cannot be reached in the appeals process, the IRS will forward a 90-day letter, also known as a Notice of Deficiency. A resolution of the dispute could occur at any point in the administrative process or could extend through a trial and court appeals. If we are unsuccessful in defending this transaction, we could owe additional taxes and interest, which we believe have been properly accrued on our balance sheet at June 30, 2006. We continue to believe our tax positions comply with applicable tax law for which we received advice and opinions from our then external public accountants and attorneys prior to entering into these transactions, and we continue to vigorously defend against the IRS position using all administrative and legal processes available.

9. Legal Proceedings

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

10. Business Segments

We operated three distinct business segments during the three and six months ended June 30, 2006 and 2005. These segments included: Intermodal (JBI), Dedicated Contract Services (DCS) and Truck (JBT). The operation of each of these businesses is described in footnote (11) of our annual report (Form 10-K) for the year ended December 31, 2005. A summary of certain segment information is presented below (in millions):

	Assets * As of June 30	
	2006	**2005**
JBI	$ 473	$ 386
DCS	412	345
JBT	482	416
Other (includes corporate)	178	319
Total	$ 1,545	$ 1,466

* Business segment assets exclude the net impact of intercompany accounts.

	Operating Revenues Three Months Ended June 30		**Six Months Ended June 30**	
	2006	**2005**	**2006**	**2005**
JBI	$ 353	$ 309	$ 677	$ 596
DCS	232	209	443	403
JBT	259	246	509	478
Subtotal	844	764	1,629	1,477
Inter-segment eliminations	(6)	(5)	(11)	(9)
Total	$ 838	$ 759	$ 1,618	$ 1,468

	Operating Income Three Months Ended June 30		**Six Months Ended June 30**	
	2006	**2005**	**2006**	**2005**
JBI	$ 43.4	$ 38.5	$ 79.3	$ 73.0
DCS	25.9	27.0	48.8	47.1
JBT	25.6	27.1	47.8	51.5
Other (includes corporate)	0.5	0.4	0.9	0.6
Total	$ 95.4	$ 93.0	$ 176.8	$ 172.2

	Depreciation and Amortization Expense Three Months Ended June 30		**Six Months Ended June 30**	
	2006	**2005**	**2006**	**2005**
JBI	$ 8.3	$ 6.3	$ 15.8	$ 12.4
DCS	15.9	14.7	31.2	29.3
JBT	17.6	16.3	35.5	32.1
Other (includes corporate)	2.7	2.8	5.6	5.5
Total	$ 44.5	$ 40.1	$ 88.1	$ 79.3

11. Reclassifications

We have reclassified certain amounts from our 2005 financial statements so they will be consistent with the way we have classified amounts in 2006.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

You should refer to the attached interim condensed consolidated financial statements and related notes and also to our annual report (Form 10-K) for the year ended December 31, 2005 as you read the following discussion. We may make statements in this report that reflect our current expectation regarding future results of operations, performance and achievements. These are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995, and are based on our belief or interpretation of information currently available. You should realize there are many risks and uncertainties that could cause actual results to differ materially from those described. Some of the factors and events that are not within our control and could have a significant impact on future operating results are general economic conditions, cost and availability of diesel fuel, accidents, adverse weather conditions, competitive rate fluctuations, availability of drivers, adverse legal decisions and audits or tax assessments of various federal, state or local taxing authorities, including the Internal Revenue Service. You should also refer to Item 1A of our annual report (Form 10-K) for the year ended December 31, 2005, for additional information on risk factors and other events that are not within our control. Current and future changes in fuel prices could result in significant fluctuations of quarterly earnings. Our future financial and operating results may fluctuate as a result of these and other risk factors as described from time to time in our filings with the Securities and Exchange Commission.

GENERAL

We are one of the largest full-load and multi-modal transportation companies in North America. We operate three 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 primarily from the actual movement of freight from shippers to consignees and from serving as a logistics provider by offering or arranging for others to provide the transportation service. We account for our business on a calendar year basis with our full year ending on December 31 and our quarterly reporting periods ending on March 31, June 30 and September 30.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our financial statements in conformity 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 assets and liabilities are affected by these estimates. We evaluate these estimates on an ongoing basis, utilizing historical experience, consultation with experts 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 (workers compensation), vehicular collisions and accidents and cargo claims. Most insurance arrangements include a level of self-insurance (deductible) coverage applicable to each claim, but provide an umbrella policy to limit our exposure to catastrophic claim costs that are completely insured. The amounts of self-insurance change from time to time based on certain measurement dates and policy expiration dates. During 2005, we were self-insured for essentially $2 million per claim for personal injury and property damage and $1 million per claim for workers compensation. Effective January 1, 2006, the self-insured portion of our claims exposure for personal injury, property damage and workers compensation was reduced to $500,000 per claim.

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 claim 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. In doing so, the recorded ultimate liability considers future claims growth and provides an allowance for incurred-but-not-reported claims. We do not discount our estimated losses. We are also substantially self-insured for loss of and damage to our owned and leased revenue equipment. At June 30, 2006, we had approximately $13.2 million of estimated claims payable. In addition, we are required to pay certain advanced deposits and monthly premiums. At June 30, 2006, we had a prepaid insurance asset of approximately $49.0 million classified on our consolidated balance sheet in prepaid expenses and other, which represented pre-funded claims and premiums.

Revenue Equipment

We operate a significant number of tractors, trucks, containers and trailers in connection with our business. This equipment is generally purchased or may be acquired under capital or operating lease agreements. In addition, we may rent revenue equipment from third parties and various railroads under short-term rental arrangements. Revenue equipment which is purchased is depreciated on the straight-line method over the estimated useful life down 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 impairments to our existing assets.

We have an agreement with our primary tractor supplier for guaranteed residual or trade-in values for certain new equipment. We have utilized these guaranteed trade-in values as well as other operational information, such as anticipated annual miles, in accounting for depreciation expense. If our tractor supplier were unable to perform under the terms of our agreement for guaranteed trade-in values, it could have a material negative impact on our financial results. We had no revenue equipment under capital lease arrangements at June 30, 2006.

Revenue Recognition

We recognize revenue based on the relative transit time of the freight transported. Accordingly, a portion of the total revenue which 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.

Segments

We operated three segments during the three and six months ended June 30, 2006. The operation of each of these businesses is described in footnote (11) of our annual report (Form 10-K) for the year ended December 31, 2005.

RESULTS OF OPERATIONS

Comparison of Second Quarter 2006 to Second Quarter 2005

Summary of Operating Segments Results
For The Three Months Ended June 30
(dollars in millions)

	Operating Revenues			Operating Income	
	2006	2005	% Change	2006	2005
JBI	$ 353	$ 309	14 %	$ 43.4	$ 38.5
DCS	232	209	11	25.9	27.0
JBT	259	246	5	25.6	27.1
Other	0	0		0.5	0.4
Subtotal	844	764	10 %	95.4	93.0
Inter-segment eliminations	(6)	(5)		0.0	0.0
Total	$ 838	$ 759	10 %	$ 95.4	$ 93.0

Overview

Our total consolidated operating revenues for the second quarter of 2006 were $838 million, an increase of approximately 10% over the $759 million in the second quarter of 2005. Fuel surcharge (FSC) revenues had an impact on this comparison. We identify and account separately for FSC revenue during each reporting period. However, periodic changes in contract or tariff rates, such as a customer-requested change in the fuel cost per gallon base rate, can impact the comparison of FSC revenues between reporting periods. Notwithstanding this issue of directly comparing FSC revenue, if the amount of FSC revenue was excluded from both the second quarter of 2006 and the comparable period of 2005, consolidated operating revenues would have increased by 5%.

JBI segment revenue increased 14%, to $353 million during the second quarter of 2006, compared with $309 million in 2005. If the amount of FSC revenue was excluded from both the 2006 and 2005 periods, segment revenue would have increased 8%. This 8% increase in segment revenue was primarily a result of a 5% increase in load volume and price improvements of just under 4%. Operating income in the JBI segment rose to $43.4 million in 2006, from $38.5 million in 2005, primarily due to the increase in revenue. Increases in rail purchased transportation costs are being recovered in higher rates as customer contract timing allows.

DCS segment revenue grew 11%, to $232 million in 2006, from $209 million in 2005. If FSC revenues were excluded from both the 2006 and 2005 periods, the increase in DCS revenue would have been 7%. This 7% increase in DCS segment revenue was driven by an approximate 4% increase in the active tractor count and a 3% rise in rates and revenue (excluding FSC) per truck. Load volume in 2006 rose approximately 1%. Operating income of our DCS segment declined to $25.9 million in 2006, from $27.0 million in 2005, partly due to start-up costs associated with growing the fleet. This comparison was also negatively impacted by an approximate $2 million favorable accident settlement in 2005 and two unfavorable settlements in 2006, which approximated a total cost of $1.3 million.

JBT segment revenue totaled $259 million for the second quarter of 2006, an increase of 5% over the $246 million in the 2005. If FSC revenues were excluded from both the 2006 and 2005 periods, segment revenue would have increased by approximately 1%. The average number of tractors in the fleet declined nearly 2% during 2006 and load count decreased approximately 1%. Rate increases approximated 4% on consistent freight from contract customers. Segment operating income declined to $25.6 million in 2006, from $27.1 million in 2005. Operating income in 2006 was reduced by lower tractor utilization and higher operating costs for driver compensation, revenue equipment ownership, maintenance, employee health care and claims. The continuing shortage of qualified drivers resulted in the decline in tractor utilization, the reduction of the fleet size and higher driver pay costs.

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

	Three Months Ended June 30 Dollar Amounts as a Percentage of Total Operating Revenues 2006	2005	Percentage Change of Dollar Amounts Between Quarters 2006 vs. 2005
Total operating revenues	100.0 %	100.0 %	10.4 %
Operating expenses			
Salaries, wages and employee benefits	26.7 %	28.1 %	4.9 %
Rents and purchased transportation	33.8	33.4	11.9
Fuel and fuel taxes	13.8	11.8	28.7
Depreciation and amortization	5.3	5.3	11.0
Operating supplies and expenses	4.4	4.1	17.5
Insurance and claims	1.8	1.7	17.3
Operating taxes and licenses	1.0	1.2	(7.0)
General and administrative expenses, net of gains on asset dispositions	1.1	1.4	(13.8)
Communication and utilities	0.7	0.7	5.2
Total operating expenses	88.6	87.7	11.5
Operating income	11.4	12.3	2.6
Net interest expense	0.4	0.2	100.4
Equity in loss of associated companies	0.2	0.2	27.3
Earnings before income taxes	10.8	11.9	0.6
Income taxes	4.2	4.7	(0.5)
Net earnings	6.6 %	7.2 %	1.3 %

Consolidated Operating Expenses

Total operating expenses increased 11.5%, while operating revenues rose 10.4% during the second quarter of 2006, over the comparable period of 2005. Notwithstanding the comments above regarding the comparability of FSC revenues between reporting periods, fuel costs and FSC revenues did have an impact on the comparison of revenues and costs between periods. Operating income rose to $95.4 million during the second quarter of 2006, from $93.0 million in 2005.

Salaries, wages and employee benefit costs increased 4.9% in 2006 over 2005, but declined to 26.7% of revenue in 2006, from 28.1% in 2005. While we continue to increase various levels of driver compensation as required to attract and retain quality drivers, we, to date, have been able to recover the majority of these higher costs through rate increases. We did experience an approximate 46% increase in employee health costs during the current quarter that was well above our expectations and primarily related to an abnormal number of large claims.

Rents and purchased transportation costs rose 11.9% in 2006, primarily due to additional funds paid to railroads and drayage companies, related to our JBI business growth, our use of independent contractors and some increases in the volume of out-sourced freight.

Fuel cost per gallon was approximately 27% higher in 2006, over 2005. We have fuel surcharge programs in place with the majority of our customers which allow us to adjust charges relatively quickly when fuel costs change. We were able to recover substantially all of our increased fuel costs experienced during the second quarter of 2006. Slightly lower fuel miles per gallon in 2006 also contributed to our higher fuel costs. Depreciation and amortization expense increased 11.0% in 2006, primarily a result of expansion of our container and tractor fleets, as well as higher purchase prices for tractors. The 17.5% increase in operating supplies and expenses was partly due to higher tractor maintenance, tire and driver recruiting costs.

Insurance and claims cost were up 17.3% in 2006, primarily due to higher premium expenses. We elected to reduce the self-insured portion of our casualty claims from $2 million to $500,000 in 2006. General and administrative expenses declined 13.8% in 2006, partly due to lower legal fees. Second quarter 2005 expense levels included legal fees associated with an arbitration proceeding that concluded in late 2005. Gains and losses on asset dispositions are also classified in this expense category. We experienced net gains of approximately $0.5 million in 2006, compared with $0.8 million in 2005.

Net interest expense approximately doubled in 2006, primarily due to increased debt levels. Total debt rose to $217 million at June 30, 2006, from $67 million at June 30, 2005. Our higher debt levels were primarily a result of treasury stock repurchase activity and the acquisition of revenue equipment. Our effective income tax rate was 39.0% in 2006 and 39.4% in 2005. In determining our quarterly provision for income taxes, we use an estimated annual effective tax rate, which is based on our expected annual income, statutory tax rates, best estimate of non-deductible and non-taxable items of income and expense and the ultimate outcome of tax audits. The slightly lower effective income tax rate in 2006 reflects changes in estimates of state income taxes and non-deductible and non-taxable items as they relate to expected annual income.

The equity in loss of associated company item on our consolidated statement of earnings reflects our share of the operating results for Transplace, Inc. (TPI).

Comparison of Six Months Ended June 30, 2006 to Six Months Ended June 30, 2005

Summary of Operating Segments Results
For The Six Months Ended June 30
(dollars in millions)

	Operating Revenues			Operating Income	
	2006	2005	% Change	2006	2005
JBI	$ 677	$ 596	14 %	$ 79.3	$ 73.0
DCS	443	403	10	48.8	47.1
JBT	509	478	7	47.8	51.5
Other	0	0		0.9	0.6
Subtotal	1,629	1,477	10 %	176.8	172.2
Inter-segment eliminations	(11)	(9)		0.0	0.0
Total	$ 1,618	$ 1,468	10 %	$ 176.8	$ 172.2

Overview

Our total consolidated operating revenues for the first six months of 2006 were $1,618 million, an increase of approximately 10% over the $1,468 million for the comparable period of 2005. FSC revenues had an impact on this comparison. We identify and account separately for FSC revenue during each reporting period. However, periodic changes in contract or tariff rates, such as a customer-requested change in the fuel cost per gallon base rate, can impact the comparison of FSC revenues between reporting periods. Notwithstanding this issue of directly comparing FSC revenue, if the amount of FSC revenue was excluded from both the first six months of 2006 and the comparable period of 2005, consolidated operating revenues would have increased by 6%.

JBI segment revenue increased 14%, to $677 million during the first six months of 2006, compared with $596 million in 2005. If the amount of FSC revenue was excluded from both the 2006 and 2005 periods, segment revenue would have increased 8%. This 8% increase in segment revenue was primarily a result of a 5% increase in load volume and price improvements of approximately 3%. Operating income in the JBI segment rose to $79.3 million, from $73.0 million in 2005, primarily due to the increase in revenue. Increases in rail purchased transportation costs are being recovered in higher rates as customer contract timing allows.

DCS segment revenue grew 10%, to $443 million in 2006, from $403 million in 2005. If FSC revenues were excluded from both the 2006 and 2005 periods, the increase in DCS revenue would have been 6%. This 6% increase in DCS segment revenue was primarily driven by an approximate 5% increase in the size of the truck fleet. Load volume in 2006 rose approximately 1%. Operating income of our DCS segment rose to $48.8 million in 2006, from $47.1 million in 2005.

JBT segment revenue totaled $509 million for the first six months of 2006, an increase of 7% over the $478 million in the 2005. If FSC revenues were excluded from both the 2006 and 2005 periods, segment revenue would have increased by approximately 2%. The average number of tractors in the fleet was essentially the same in 2006 and 2005. Rate increases approximated 3% on freight from consistent shippers. Segment operating income declined to $47.8 million in 2006, from $51.5 million in 2005. Operating income in 2006 was reduced by lower tractor utilization and higher operating costs for driver compensation, revenue equipment ownership, maintenance, employee health care and claims. The continuing shortage of qualified drivers resulted in the decline in tractor utilization, the reduction of the fleet size and higher driver pay costs.

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

	Six Months Ended June 30 Dollar Amounts as a Percentage of Total Operating Revenues 2006		**2005**		**Percentage Change of Dollar Amounts Between Periods 2006 vs. 2005**	
Total operating revenues	100.0	%	100.0	%	10.2	%
Operating expenses						
Salaries, wages and employee benefits	27.1	%	28.2	%	5.8	%
Rents and purchased transportation	33.9		33.5		11.5	
Fuel and fuel taxes	13.6		11.7		27.5	
Depreciation and amortization	5.5		5.4		11.0	
Operating supplies and expenses	4.4		4.3		13.9	
Insurance and claims	1.7		1.7		12.0	
Operating taxes and licenses	1.1		1.3		(6.2	)
General and administrative expenses, net of gains on asset dispositions	1.1		1.4		(12.9	)
Communication and utilities	0.7		0.8		2.6	
Total operating expenses	89.1		88.3		11.2	
Operating income	10.9		11.7		2.7	
Net interest expense	0.3		0.2		36.7	
Equity in loss of associated companies	0.1		0.1		4.0	
Earnings before income taxes	10.5		11.4		2.1	
Income taxes	4.1		4.4		2.1	
Net earnings	6.4	%	7.0	%	2.1	%

Consolidated Operating Expenses

Total operating expenses increased 11.2%, while operating revenues rose 10.2% during the first six months of 2006, over the comparable period of 2005. Notwithstanding the comments above regarding the comparability of FSC revenues between reporting periods, fuel costs and FSC revenues did have an impact on the comparison of revenues and costs between periods. Operating income rose to $176.8 million in 2006, from $172.2 million in 2005.

Salaries, wages and employee benefit costs increased 5.8% in 2006 over 2005, but declined to 27.1% of revenue in 2006, from 28.2% in 2005. While we continue to increase various levels of driver compensation as required to attract and retain quality drivers, we, to date, have been able to recover the majority of these higher costs through rate increases. We did experience an approximate 33% increase in employee health costs that was well above our expectations and primarily related to an abnormal number of large claims.

Rents and purchased transportation costs rose 11.5% in 2006, primarily due to additional funds paid to railroads and drayage companies, related to our JBI business growth, our use of independent contractors and some increases in the volume of out-sourced freight.

Fuel cost per gallon was approximately 24% higher in 2006, over 2005. We have fuel surcharge programs in place with the majority of our customers which allow us to adjust charges relatively quickly when fuel costs change. We were able to recover substantially all of our increased fuel costs experienced during the first six months of 2006. Slightly lower fuel miles per gallon in 2006 also contributed to our higher fuel costs. Depreciation and amortization expense increased 11.0% in 2006, primarily a result of expansion of our tractor and container fleets, as well as, higher purchase prices for tractors. The 13.9% increase in operating supplies and expenses was partly due to higher tractor maintenance, tire and driver recruiting costs.

Insurance and claims cost were up 12.0% in 2006, primarily due to higher premium expenses. We elected to reduce the self-insured portion of our casualty claims from $2 million to $500,000 in 2006. General and administrative expenses declined 12.9% in 2006, partly due to lower legal fees. Our 2005 expense levels included legal fees associated with an arbitration proceeding that concluded in late 2005. Gains and losses on asset dispositions are also classified in this expense category. We experienced net gains of approximately $1.3 million in 2006, compared with $1.9 million in 2005.

Net interest expense increased 36.7% in 2006, primarily due to increased debt levels. Total debt rose to $217 million at June 30, 2006 from $67 million at June 30, 2005. Our higher debt levels were primarily a result of treasury stock repurchase activity and the acquisition of revenue equipment. Our effective income tax rate was 39.0% in 2006 and 2005. In determining our quarterly provision for income taxes, we use an estimated annual effective tax rate, which is based on our expected annual income, statutory tax rates, best estimate of non-deductible and non-taxable items of income and expense and the ultimate outcome of tax audits.

The equity in loss of associated company item on our consolidated statement of earnings reflects our share of the operating results for Transplace, Inc. (TPI).

<u>Liquidity and Capital Resources</u>

Cash Flow

We typically generate significant amounts of cash from operating activities. Net cash provided by operating activities totaled $249 million during the first six months of 2006, compared with $131 million for the same period of 2005. The unusually high level of cash provided by operating activities during the current period was partly due to significant reductions in accounts receivable. We received funds from our insurance carrier related to casualty and workers compensation claims and also experienced an improvement in the aging of our accounts receivable from customers. In addition, the change in the 2006 accounts payable balance, relative to 2005, which partly related to payments to revenue equipment vendors, favorably impacted current period cash provided by operating activities. Net cash used in investing activities totaled $141 million in 2006, compared with $93 million in 2005. This increase reflects additional purchases of new tractor and trailing equipment. Net cash used in financing activities was $106 million in 2006, compared with $68 million in 2005. We had net purchases of $185 million of treasury stock during the first six months of 2006, compared with $116 million in 2005. Our dividend payments totaled nearly $25 million in 2006, compared with $19 million in 2005. Proceeds from financing activities came from our revolving lines of credit.

Selected Balance Sheet Data

	As of June 30, 2006	**December 31, 2005**	**June 30, 2005**
Working capital ratio	1.45	1.72	1.61
Current maturities of long-term debt (millions)	$ 40.0		
Total debt (millions)	$ 217.0	$ 124.0	$ 67.3
Total debt to equity	.30	.15	.08
Total debt as a ratio to total capital	.23	.13	.07

Liquidity

Our need for capital has typically resulted from the acquisition of intermodal containers, trucks, tractors and trailers required to support our growth and the replacement of older equipment with new, late model equipment. We are frequently able to accelerate or postpone a portion of equipment replacements depending on market conditions. We have, during the past few years, obtained capital through cash generated from operations, revolving lines of credit and secondary common stock offerings. We have also periodically utilized capital and operating leases to acquire revenue equipment. We had no capital lease arrangements at June 30, 2006. To date, none of our operating leases contain any guaranteed residual value clauses.

At June 30, 2006, we were authorized to borrow up to a total of $400 million under two different revolving lines of credit. The first line of credit is supported by a credit agreement with a group of banks for a total amount of $200 million. This line of credit is unsecured and matures on April 2010. The applicable interest rate under this agreement is based on either the prime rate or LIBOR, depending upon the specific type of borrowing, plus a margin based on the level of borrowings and our credit rating. At June 30, 2006, we had $177 million outstanding at an average interest rate of 5.88% under this agreement.

Our second line of credit is a bridge loan with LaSalle Bank National Association which was discussed in an 8-K filing dated May 19, 2006. This line of credit is expected to be cancelled during the third quarter of 2006 and replaced by a new accounts receivable securitization program with ABN AMRO, N.V. The applicable interest rate for the bridge loan was the same as our first revolving line of credit. At June 30, 2006, we had $40 million outstanding at an average interest rate of 5.71% under the Bridge Loan Agreement. The new Accounts Receivable Securitization will be a revolving credit facility up to $200 million that is secured by our accounts receivable. The applicable interest rate is the prevailing A1/P1 commercial paper rate in the market.

We believe that our liquid assets, cash generated from operations and revolving lines of credit will provide sufficient funds for our operating and capital requirements for the foreseeable future.

Contractual Cash Obligations
As of June 30, 2006
Amounts Due by Period
(dollars in millions)

	Total	One Year Or Less	One To Three Years	Four To Five Years	After Five Years
Operating leases	$ 82	$ 47	$ 32	$ 2	