3D ADVISORS

This 3DAdvisors Report Covers:
✓ **Insider Trading**: Insider Trading Behavior
✓ **Accounting**: Quality of Earnings Issues
Governance: Corporate Governance Issues
✓ **Fundamentals:** Analysis of fundamentals

Exec Behavior Signals Greater Recession Vulnerability
J.B. Hunt Transport Services Inc. (NASDAQ:JBHT)

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Business Description

J.B. Hunt Transport Services Inc., together with its subsidiaries, operates as a surface transportation company in North America. It provides transportation for forest and paper products, building materials, general merchandise, food and beverages, chemicals, and automotive parts. The Company operates in four segments: Intermodal (JBI), Dedicated Contract Services (DCS), Full-Load Dry-Van (JBT), and Integrated Capacity Solutions (ICS). As of December 31, 2007, the JBI segment operated 34,019 company-controlled containers and managed a fleet of 1,795 company-owned tractors; the DCS segment operated 4,941 company-controlled and 92 customer-owned trucks; and the JBT segment operated 3,572 company-owned tractors. The Company was founded in 1961 and is headquartered in Lowell, Arkansas.

Key Statistics

Sector:	Last Close:	Market Cap:	Avg Vol (3m):
Services	**$33.75**	**$4.21B**	**2,321,100**
Industry:	52 Wk Range:	Trailing P/E:	Shrs Out:
Trucking	**$23.28-$36.32**	**21.86**	**124.72M**
F/T Employees:	FYE:	Forward P/E:	Short % of Float:
15,795	**31-Dec**	**17.67**	**17.40%**

Summary of 3DAdvisors Findings for JBHT

- **Insider Trading:** Significant trading behavior on three separate levels
- **Accounting:** Company levers balance sheet to buy back shares at high prices
- **Fundamentals:** Trucking division continues to drag down results
- **Accounting:** Real effect of fuel costs obfuscated by poor disclosure
- **Accounting:** Miscellaneous noteworthy items

Discussion of 3DAdvisors Findings for JBHT

With just over 17% of the outstanding shares shorted and a stubbornly buoyant stock price supported by aggressive share repurchases, it is not hard to imagine why J.B. Hunt Transport Services Inc. is not on everyone's list of new short candidates, in spite of the looming specter of recession. Conversely, there can be no doubt that those who have shorted JBHT in recent periods have experienced pain in having done so. Part of what may be keeping the shares afloat in the face of increasing recessionary signals is that some analysts are betting that certain players in the trucking industry are poised for quick gains at the first sign of any economic recovery.

But the trading behavior of JBHT executives – some of it obvious but some of it very subtle and probably not widely known – is presenting one of the more revealing negative patterns that we have seen in some time. When one considers that JBHT limits its disclosures by not conducting earnings conference calls and that its SEC filings are missing key details, the significance of insider clues, the likes of which we are seeing here, tend to stand out as important indicators of management sentiment with regard to current business conditions and future stock prices.

In addition to the egregious trading profile, the Company's vulnerability to recession seems evident, especially given that it provides transport services to building materials, auto parts, and general merchandise customers, just to mention some of the more vulnerable industries it serves. Moreover, the asset-based trucking segment (JBT) continues to contract even while management persisted in its strategy of significantly levering its balance sheet during 2007 in order to buy back shares. With limited borrowing capacity under existing agreements and the Company's receivable securitization facility mostly used up, the need for increased cash generation has become unmistakable as there are significant payments on long-term debt due in the coming year. This is not an enviable position to be in if we are on the precipice of a recession, and the observed trading behavior *strongly* suggests that JBHT insiders are not willing to wait around to feel the effects of any possible prolonged down turn.

We also believe that the 17.4% reported short position may be somewhat misleading. Insiders have pledged a *huge* number of shares (16% of the shares outstanding) as collateral against personal loans, and we believe a large portion of the current short position may be accounted for by the hedging activities of the counterparties to these loans. At the very least, we remind our clients that there are certain potential risks associated with insiders pledging large blocks of stock as collateral for loans or margin accounts, not to mention the fact that it is noteworthy behavior as it represents yet another way for insiders to monetize their positions without reporting an open market sale on a Form 4 (see our recently updated Special Report, Hidden Risks: Insider Shares Pledged as Collateral). So JBHT may not be the "crowded short" it appears to be, providing yet another reason to look into the name.

Insider Trading: Significant trading behavior on three separate levels

Insiders Selling Shares Held in 401(k) Accounts

As we mentioned in our original commentary on JBHT trading in the *Insider Research Bulletin* on 06/23/08, some subtle behavior by certain executives is highly significant but easy to miss and in this particular case, is one of the more egregious examples of this particular type of behavior that we have seen. We have always considered certain insider holdings, such as those held in 401(k) plans (well in advance of retirement) and children's trusts, to be truly long-term in nature and not normally susceptible to timing moves by the related executives. Indeed, it has been our experience over time that when insiders act on their positions held in these accounts, it is prudent to weight these trades as more meaningful in evaluating his or her trading behavior.

In the case of JBHT, this behavior has surfaced in the form of 401(k) selling. Prior to recent behavior, J.B. Hunt executives had been regularly *contributing* to their 401(k) accounts, even making some sizeable fund transfers along the way in order to accumulate shares in their retirement accounts. Things changed, however, in 2Q08 when three key operating officers cleared out *all* the JBHT stock held in their accounts. The most notable activity came from CEO **Kirk Thompson** who liquidated all 16,000 shares held in his retirement account. What makes his sale so noteworthy is that, just ten months prior, Thompson had reallocated $280,000 of his plan assets (in August of 2007) to purchase 10,329 JBHT shares as the issue traded at $27 but is now pulling them out after a 24% gain.

Also selling was Executive V.P. of Sales and Marketing **Terrence Matthews**, who has regularly bought JBHT shares for both his and his wife's 401(k) accounts for the past nine years. He last purchased $55,000 of JBHT for his account in February with the shares trading at $30 only to then sell 100,000 of the 104,000 plan shares two months later after the issue gained 6%. It was clearly defined on the Form 4 that this was an intra-fund transfer, which indicates he sold the stock and reinvested the cash into other assets. Finally, COO **Craig Harper** liquidated the 17,000 shares held in his account just three months after the Company made his annual $6,000 contribution. Even though he has been an open market seller over the years, including the monetization of shares through multiple forward sale contracts, this was the first time on record that he sold his retirement account shares.

We should also point out that these 401(k) dispositions do not show up as sales on any insider data reporting website and typically go unnoticed by the investor community. Pursuant to Rule 16(a), these trades qualify as a discretionary transaction resulting in disposition of issuer securities (part of a qualified benefit plan), which requires they be filed with an "I" transaction code on the Form 4s. Although the insider is in fact selling the stock on the open market, a transaction that should warrant filing the open market sale transaction code ("S"), companies do not pass up the opportunity to use the "I" code, which results in the transaction receiving less attention and scrutiny.

Executive	Position	401(k) Shares Sold	Sale Date	% of Shares Held in 401(k)
Kirk Thompson	President, CEO	16,357	06/02/08	100%
Craig Harper	COO	17,439	05/06/08	100%
Terrence Matthews	EVP of Marketing	100,000	04/21/08	96%

Significant Holdings Reductions

The 401(k) sales, however, were just the beginning of what has caught our eye with regard to JBHT insider behavior: On April 14th J.B. Hunt reported an 18% drop in first quarter profits which, contrary to most guesstimates, was not directly related to fuel prices, but a 16% decline in loads in the Company's Truck operations. Revenues increased 10% in the quarter, but 7% of the gain was attributed to fuel surcharges passed onto the Company's customers. On a sequential basis, earnings declined 33% from 4Q07 while operating revenues came in 9% lighter. To this, CEO Thompson commented, "Given the unprecedented rise in fuel prices during the first quarter 2008 and extreme weakness in freight demand in our Truck segment, we are actually quite pleased with the relative performance of our Company". While Thompson might say he is satisfied with the quarterly results, his trading behavior does little to suggest he has any confidence in the near-term prospects for the shares. Just two days after making the above statement, Thompson began monetizing every last share and option at his disposal, including all those held in his retirement plan, and by June 2nd had *cleared out his entire position*, except for 200,000 shares of common, all of which are pledged as collateral for undisclosed loans or margin requirements. Thompson will see only one third of his position replenished through vesting of additional stock options in the next two years (see Appendix A).

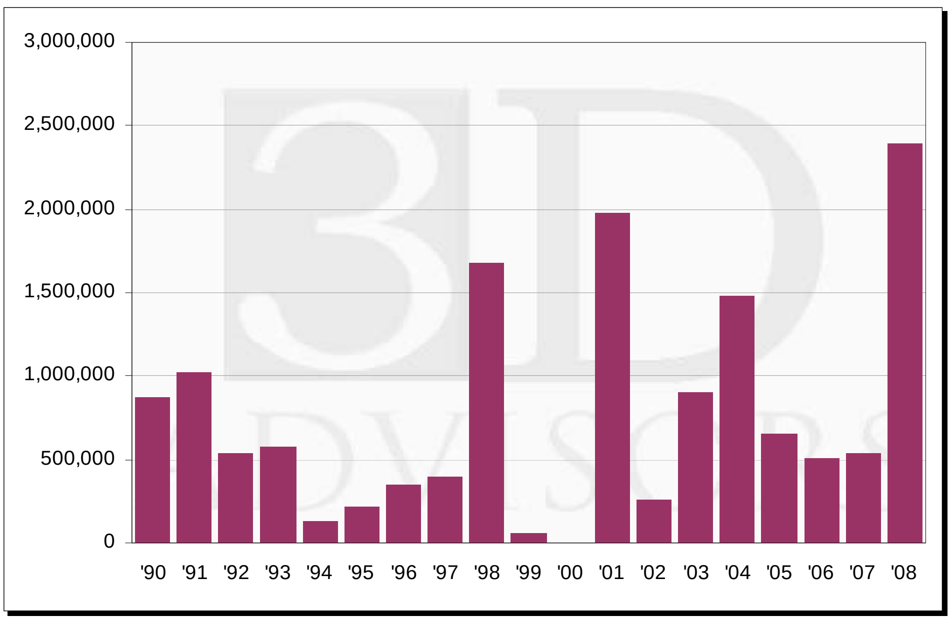
In all, fifteen insiders have sold 2.4 million JBHT shares so far in the first half of 2008, in stark contrast to management's own statements and the confidence shown by certain sell-side analysts. If we exclude the sales of Company founder Johnnie B. Hunt (passed away in December 2006), who controlled 27.5% of the outstanding shares and are now owned by his wife, **Johnelle Hunt**, the selling volume through the first half of 2008 already surpasses the volume for any full year going back to 1990 (see Figure 1 below). Emphasizing this is the fact that, prior to these sales management (excluding Johnelle Hunt) had held just 11 million shares (a 22% drop). In this case, JBHT executives sold considerably more shares in the past year than they will vest in over the next 52 weeks. The figures in the table below speak for themselves.

Officer	Position	Shares Sold Last 52 Weeks	Options/Shares Vesting Next 52 Weeks
W. Garrison	Exec Chairman	1,402,591	60,000
K. Thompson	Pres, CEO	334,309	82,980
C. Harper	COO	202,935	38,490
J. Walton	CFO	81,332	21,332
P. Bergant	CMO	189,814	18,336
T. Matthews	EVP of Marketing	172,264	28,890

In addition to CEO Thompson, we note the following key insiders selling (see Insider Research Bulletin 06/23/08 for full details):

- **Alfred "Craig" Harper (50)*** – Executive V.P of Operations, Chief Operations Officer. Harper sold 108,047 shares since February 1st, beginning immediately after 4Q07 earnings were released. After first selling 60,000 out of his common holdings in February, he would then cash out all 17,439 shares held in his 401(k) plan on May 6th. Most recently, he monetized all 30,608 options that vested one day earlier. These sales hold even more significance since Harper is scheduled to deliver 60,000 of his remaining common shares on June 20th under the terms of a forward sale contract entered into in July 2005. After that, he will still have 40,000 shares pledged through a second contract he opened in August 2006. By July 1st Harper's **actionable holdings were down 75% since January** and have no prospect of being replenished to their former levels (outside of open market purchases) as he will vest in only 38,000 options and shares through the end of 2009 (see Appendix A).

Figure 1. Annual Selling Volume of JBHT Insiders. (Note: 2008 through 06/20/08 only) Source: JBHT SEC Filings.



- **Paul Bergant (61)*** – Executive V.P., Chief Merchandising Officer, President of Intermodal. Bergant sold 70,000 shares out of his common holdings on February 4th and February 11th, and once he vested in options (he had no actionable options in February) on June 1st, resurfaced to monetize all 31,332 new options on June 5th at $34, none of which would have expired before December 2009. The 131,000 shares sold this year **accounted for 32% of his actionable holdings**, which now consist of just common stock. Based on the number of unvested options and shares he holds, it will take more than four years to replace the ownership diversified away thus far in 2008. As of now, he has only 20,000 options and shares on tap to vest through the end of 2009 (see Appendix A).

- **Wayne Garrison (55)*** – Executive Chairman. Garrison has been JBHT's chairman since 1995 but held a number of executive positions between 1978 and 1991. Although he has been a frequent trader over the years, 18 of his last 19 sales occurred between 1990 and 2001. He had not sold in nearly four years. Despite the multiple sales in the last 18 years, no period of activity gets close to matching his selling volume thus far in 2008. Without any vested options at his disposal, Garrison turned to his common holdings to sell 1,002,591 shares on February 20th, netting $28.3 million. He would resurface on May 15th and May 16th, after the shares moved up to the $35 range, to sell another 400,000 shares for $14.2 million. The 1.4 million sold accounted for 20% of his actionable holdings, which takes into account the 500,000 shares he pledged to secure an undisclosed indebtedness. He will have only 60,000 options and shares vest over the next 52 weeks (see Appendix A).

* Indicates individual was a "Named Executive" in the Company's last proxy.

Insider Shares Pledged as Collateral

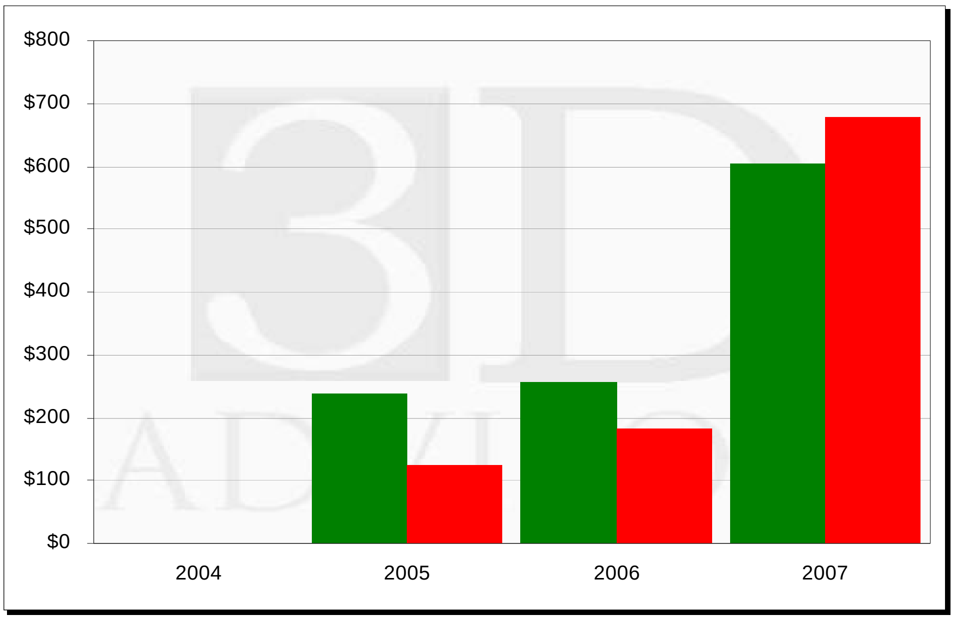
We have issued a continuing series of Special Reports (09/14/07 and 05/14/08) on the topic of corporate insiders who use their stock as collateral to secure personal loans and margin accounts and the risks associated with this behavior. On a percentage basis of overall outstanding shares JBHT insiders are close to the top of the charts with regards to this behavior. Heading the list is the aforementioned Johnelle Hunt, who just recently resigned from the board after 15 years due to the Company's mandatory retirement age. However, she still serves as JBHT's corporate secretary. It is reported that 19.7 million of her 34.4 million shares are currently pledged, although the Proxy does not provide any more color on her indebtedness or what financial institution(s) currently hold these shares. Executive Chairman **Wayne Garrison** and President, CEO **James "Kirk" Thompson** collectively pledged nearly 1 million shares for undisclosed uses, while **Director Bryan Hunt**, son of Johnelle and J.B. Hunt, now has his entire actionable position pledged as collateral following his most recent sales**. In total, the 20.5 million shares currently tied up by J.B. Hunt's insiders for their personal borrowings account for 16.4% of the outstanding shares, a dangerously high percentage should the issue suffer a substantial price correction.**

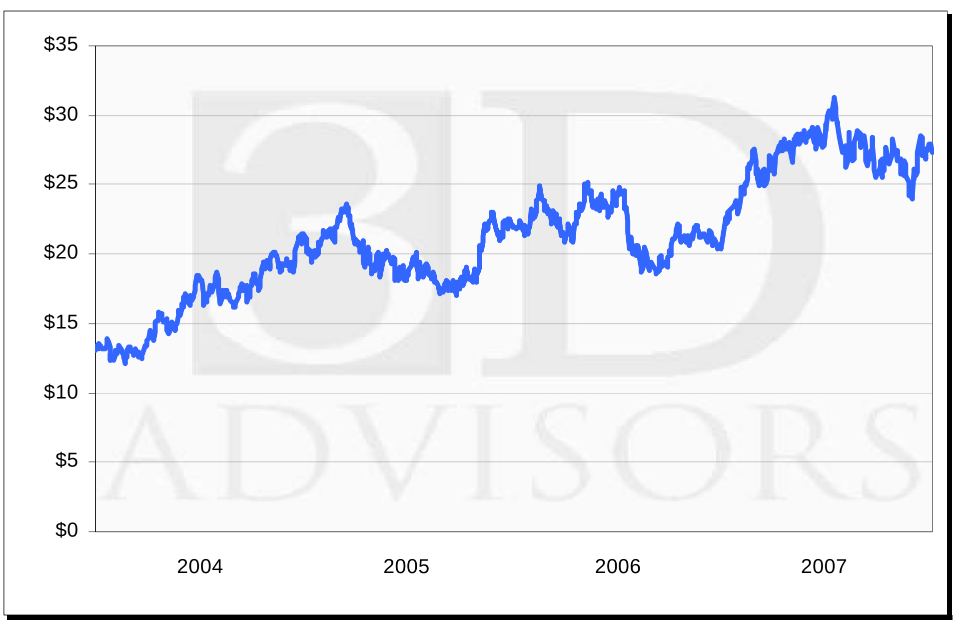
Accounting: Company levers balance sheet to buy back shares at high prices

We are hard-pressed to find a Company whose balance sheet has paid for the practice of aggressive share buybacks to the extent that JBHT has and we further note that the buybacks were taking place at historically high prices (see Figure 2 below). Since the recent repurchase binge began in 2005, repurchases have jumped from $0 (in 2004) to $603 million in 2007. During the period, this conversion of equity into long-term debt has been significant as such debt has correspondingly risen from $0 to $679 million, or just about double shareholders' equity. Accordingly, the attendant interest expense ate up a whopping 16.25% of operating income in 1Q08, up from 11.8% in 2007.

The condition of the balance sheet makes one wonder what refinancing plans will look like as the Company is facing payment due on long-term debt totaling $164 million within the next 12 months. It seems highly unlikely that this will be covered by cash from operations. As of the end of 1Q08 (03/31/08) there was $75 million still available from the receivables securitization plan that will, no doubt, be needed for normal operations. Draw downs from the remaining line of credit should be expected. The term loan facility, however, matures on 09/29/09 and there will be a sizeable balloon remaining at that time. The need for some form of new financing seems close at hand, although management contends otherwise.

Figure 2. Top Chart: JBHT Share Repurchases (Green Bars) and Long-Term Debt (Red Bars), Millions of $. Source: JBHT SEC Filings. Bottom Chart: JBHT Daily Closing Price, 01/03/04 through 12/31/07. Source: Reuters





Fundamentals: Trucking division continues to drag down results

It is no secret that JBHT's asset-based trucking operations (JBT), which is the Company's primary transportation service offering, finds its results challenged. Revenues have been in decline over the past three years, have declined 15% over the past two years, dropping from $990 million in 2005 to $842 million in 2007, and this during a time of relative economic strength. The drop in JBT operating income during the period is even more prominent: Since 2005 it has shriveled 68%, from $117 million to just $32 million in 2007. And as its customers begin to feel the bite of the current economic slow down, things appear to be getting much worse. For 1Q08, the JBT segment recorded no profit at all on a 14% year-over-year decline in revenue.

In response, and following a major trend in the transport industry, the Company is attempting to move away from its trucking segment in favor of the more asset-light intermodal segment (JBI) and thus far, in doing so, has incurred an $8.4 million charge to reduce the carrying value of 700 trucks and 2,500 trailers to fair value. Given the fact, however, that 28% of the Company's assets are wrapped up in JBT, and given the eroded profitability of the segment and the fact that many companies are now trying to dump these assets, this $8.4 million charge may prove to be just the beginning as the Company continues its trek towards selling off older, less fuel efficient, equipment in its streamlining efforts. Given the Company's movement to more of an asset light structure, restructuring and impairment charges could well be material in the remaining quarters of 2008.

Accounting: Re-setting of fleet residual values could have impact

JBHT regularly discloses the following in its SEC filings [bolding is ours]:

> **We have an agreement with our primary tractor supplier for guaranteed 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 tractor supplier were unable to perform under the terms of our agreement for trade-in values, it could have a material negative impact on our financial results.**

Though the disclosure has been consistent since 2003, a subtle word change began in the 2006 SEC Form 10-K and continues in the 2007 10-K. The change resulted in dropping the word (bolded in red above) "guaranteed" from the discussion. The omission of "guaranteed" made us curious if something had changed in the landscape at the manufacturers' level, perhaps causing "guaranteed" trade-in values to be not-so-guaranteed.

Our checks with the owner of a large auto dealer in the Northeast, who also owns a rental car company, agreed with our hypothesis. He explained that he is facing similar issues as U.S. car makers, finding that residual values have become "upside down", are getting away from what he terms "The Fleet Drug" and that, having the ability to reset residuals, they are changing the equations for such values on trade-ins. This is causing modification of depreciation schedules in the current environment. To account for this, he utilizes a 1% reserve for this residual problem. We have seen nothing from JBHT as to whether they reserve for this as well.

So it seems that with such high diesel prices and low truck resale values comes pushback from companies that originally made trade-in "guarantees". Since JBHT clearly states that it uses such values in accounting for its depreciation expense, the Company very well may be facing depreciation adjustments or even impairment charges for its fleet carrying values in coming periods.

Accounting: Real effect of fuel costs obfuscated by poor disclosure

We are aware that asset-based trucking companies have been able to mitigate much of the increasing cost of fuel through fuel surcharges passed on directly to customers. Indeed, in 2007 almost 14% of JBHT's revenues came from such surcharges. In 1Q08, this percentage rose to 17.5% of revenues. Fuel surcharges provide so much of an essential cushion to price increases that the Company does not hedge its fuel costs. While it goes without saying that the Company's ability to recover increased fuel prices through fuel surcharges has been critical to maintaining profitable operations, the fuel surcharges may be even more of a factor in that regard than is first apparent.

This makes us wonder how exposed JBHT is when it comes to surcharges levied on it from third-party carriers it utilizes in its asset-light operations. As is general practice in the industry, the Company discloses that it classifies such charges as Purchased Transportation Expense (PTE). Unlike many of its peers, however, JBHT fails to break out the components of PTE, making it impossible to understand how much it is being billed for fuel charges from other carriers down the line. Consequently, it is impossible for us to know how much of the Company's collected fuel surcharges are actually paid out to third parties.

Our hunch is that this is a big number. We say this because of the relationship between JBHT's fuel surcharge revenues and its fuel expense. For the full year 2007 and for the first quarter of 2008, fuel surcharge revenues exceeded the total cost of fuel and fuel taxes by $16.5 million and $20.2 million, respectively. In 2006, it booked fuel surcharge revenues of $430 million or 96% of its $447 million in fuel expenses. Ditto for 2005 where surcharge revenues were 86% of fuel costs.

Conceivably, there could be some explanation as to why the surcharges are so far in excess of all fuel cost and fuel taxes, but none is given. One would expect that fuel surcharges are intended to recover fuel cost increases and not total fuel costs. Unless some undisclosed cost is included elsewhere in the income statement, fuel surcharges appear to be a major contributor to operating income. Based on the Company's disclosure that "we shared portions of our higher FSC (fuel surcharge) revenues with these third parties", and disclosure from certain competitors who choose to provide more detail on their breakout of PTE's than does JBHT, it is highly likely that Purchased Transportation Expense includes fuel surcharges paid by Hunt to other carriers which would account for all or part of the unexplained disparity between fuel cost and surcharge revenues. The Devil is in the details though and, in the case of JBHT, the details just aren't disclosed.

Accounting: Miscellaneous noteworthy items

- **Client concentration:** 38% of JBHT's revenue comes from its top 10 customers. The most glaring issue however, may be the fact that Wal-Mart represents 12% of revenues. Knowing how aggressively Wal-Mart deals with its suppliers, we have to assume the margins on the resulting revenue are razor thin, at best.

- **Margin issues:** Company management steadfastly maintains that its goal is to maintain total operating expenses below 90% of revenues. In 1Q08, they rose to 92% of revenues and, with no definitive answer provided in the SEC Form 10-Q and no available conference call, the reason is never made clear.

- **Poor bad debt expense disclosure:** The recent 1Q08 SEC Form 10-Q speaks of an increase in bad debt expense but provides no detail. Additionally, the 2007 SEC Form 10-K carried no Valuation and Qualifying Accounts exhibit with which to show its normal bad A/R allowance and related write-offs. We suspect that the A/R allowance may be inadequate and will have to be increased soon.

Appendix A

Common Stock and Option Holdings for Selected J.B. Hunt Transport Services Inc. Insiders

Name	Actionable Position as of 06/20/08: Common	Options [1]	Total [2]	Derivative Equity Expected to Vest in Next 12 Months: Grant Date	Strike Price	Vesting Date	# Vesting
Paul Bergant	308,773	10,000	**318,773**	10/16/06	N/A	07/15/08	2,996
Executive V.P., Chief Marketing				11/01/07	N/A	07/15/08	5,000
Officer, President of Intermodal				10/23/03	$12.20	06/01/09	13,336
							18,336
Wayne Garrison	5,979,090	0	**5,979,090**	10/27/05	N/A	07/15/08	5,000
Executive Chairman				10/26/06	N/A	07/15/08	5,000
				11/01/07	N/A	07/15/08	30,000
				10/23/03	$12.20	06/01/09	20,000
							60,000
Alfred "Craig" Harper	159,643	0	**159,643**	10/24/02	$7.08	06/01/09	8,890
Executive V.P. of Operations,				10/23/03	$12.20	06/01/09	9,600
Chief Operations Officer				11/02/01	$3.47	06/02/09	20,000
							38,490
Terrence Matthews	54,093	24,008	**78,101**	08/05/02	$5.61	06/01/09	12,000
Executive V.P. of Sales and				10/24/02	$7.08	06/01/09	8,890
Marketing				10/23/03	$12.20	06/01/09	8,000
							28,890
Kay Palmer	55,538	0	**55,538**	02/19/02	$5.65	06/01/09	12,000
Executive V.P., Chief Information				10/24/02	$7.08	06/01/09	6,667
Officer				10/23/03	$12.20	06/01/09	8,000
							26,667
Bob Ralston	131,658	36,532	**168,190**	10/16/06	N/A	07/15/08	2,000
Executive V.P. of Equipment and				11/01/07	N/A	07/15/08	3,500
Properties				10/23/03	$12.20	06/01/09	13,336
							18,836
James "Kirk" Thompson	200,000	0	**200,000**	11/05/00	$3.37	06/01/09	15,200
President, CEO, Director				10/24/02	$7.08	06/01/09	17,780
				10/23/03	$12.20	06/01/09	20,000
				11/02/01	$3.47	06/02/09	30,000
							82,980
Jerry Walton	179,840	23,332	**203,172**	10/16/06	N/A	07/15/08	2,996
Executive V.P. of Finance and				11/01/07	N/A	07/15/08	5,000
Administration, CFO				10/23/03	$12.20	06/01/09	13,336
							21,332

[1] Total number of vested, in-the-money options.

[2] Total actionable position includes common stock plus vested in-the-money options.

[3] Strike Price N/A indicates the series is restricted stock, not options

Note: Red text indicates series is currently out-of-the-money