Risk Identification and Evaluation of J.B. Hunt Transport Services, Inc.

EMBA 725: Corporate Risk Management

Executive Summary

The purpose of this report is to summarize the findings of my risk identification and risk evaluation analysis of J.B. Hunt Transport Services, Inc. The methodology I used to perform this analysis was to first read the form 10-K and 10-Q reports filed by J.B. Hunt over the past 12 months. I then read the 2010 form 10-K reports of: Arkansas Best Corp.; YRC Worldwide; Con-Way and Old Dominion. Following this research, I searched the J.B. Hunt website, and also the websites for the trucking industry including TruckingInfo.com. Additional research was performed by using risk and trucking industry “keywords: to search the internet for risk events and supporting information. The final phase of research was performed by visiting the Department of Transportation’s web site. The scope of this analysis was to determine which risks were “major” risks to J.B. Hunt Transport Services, Inc.

J.B. Hunt Transport Services, Inc. is one of the largest surface transportation, delivery and logistics companies in North America. They have four operating segments: JBI, which provides intermodal freight solutions; DCS, which specializes in providing supply chain solutions; JBT, which provides dry-van freight services; and ICS, which provides transportation logistics solutions.

The risk identification portion of the analysis determined that J.B. Hunt has 4 categories of major risks: Strategic; Financial; Operational; and Pure. The 5 strategic risks are: general economic and business condition risk; competition risk; competitive rate fluctuation risk; losing one or more major customers risk; and a slowdown in the retail and/or manufacturing sectors. The 3 financial risks are: interest rate risk; insurance cost, availability and claims expense risk; and the credit worthiness of their customer’s risk.

They have 9 operational risks: the cost and availability of diesel fuel risk; theft and damage during transit risk; employee unionization risk; the ability to attract and retain qualified drivers and delivery personnel risk; the dependence they have on third parties risk; the retention of key employees risk; environmental regulation risk; government regulations risk; and the risk of truck accidents. The only pure risk J.B. Hunt has is adverse weather risk.

The analysis performed has determined that truck accidents have possibility of inflicting the greatest financial harm to J.B. Hunt - $108 million, thus it is the greatest overall risk they face. Government regulations are the next most financially adverse risks with a possible cost of $80 million. The adverse weather conditions risk comes in at $26 million, followed by competition risk which is not quantifiable.

The second tier risks faced by J.B. Hunt are general economic and business condition risk at $76 million in possible exposure. Competitive rate fluctuations risk and retail and manufacturing slowdown risk fall next in line with very similar exposures.

Major Risk Identification

Strategic Risks:

1. General Economic and Business Conditions Risk

Justification for this risk comes in two forms: J.B. Hunt including the following in their Form 10-K – "Our business is subject to general economic and business factors, any of which could have a material adverse effect on our results of operations"; and the Ceridian-UCLA Pulse of Commerce Index™ by UCLA Anderson School of Management. This is an indicator of the state and possible future direction of the U.S. economy. The index is issued monthly, is based on real-time fuel consumption data for over the road trucking, and closely tracks to the Federal Reserve's Industrial Production Index. By tracking the volume and location of diesel fuel being purchased, the index closely monitors the over the road movement of raw materials, goods-in-process and finished goods to U.S. factories, retailers and consumers.

As the chart shows, as industrial production goes up and down with the economy, so goes the trucking industry. The general economic and business conditions risk for J.B. Hunt has both upside and downside exposures. When the economy is running well, J.B. Hunt can scale up to take advantage of it and make strong profits. When the economy is slowing down, J.B. Hunt can cut employees and expenses easier and quicker than their unionized competitors in order to remain profitable or reduce losses. Due to this flexibility, J.B. Hunt has an above average tolerance for this risk, and a comparative advantage in managing it.

2. Competition Risk

Justification for this risk comes from J.B. Hunt including the following in their Form 10-K: "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 services 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". The competitive risk for J.B. Hunt has more downside exposures than upside exposures. When competing with smaller/leaner firms or LTL carriers for contracts, J.B. Hunt is at a comparative disadvantage due to its size. When competing with larger, unionized firms, J.B. Hunt is at a comparative advantage due to lower wages. J.B. Hunt competes with smaller/leaner firms and LTL carriers more often that it competes with larger, unionized firms so it has a below average tolerance for this risk, and a small comparative disadvantage in managing it.

3. Competitive Rate Fluctuation Risk

Justification for this risk comes from J.B. Hunt including the following in their Form 10-K: "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 maintain our profit margins". The competitive rate fluctuation risk has downside exposure for J.B. Hunt. Smaller/leaner firms and/or LTL carriers are able to under-bid J.B. Hunt and make rate changes quicker than J.B. Hunt can. J.B. Hunt has a low tolerance for this risk, and is at a comparative disadvantage due to its size and contract pricing structure.

4. The Loss of One or More Major Customers Risk

Justification for this risk comes from J.B. Hunt including the following in their Form 10-K: "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". The loss of one or more major customers risk has large downside risk exposure for J.B. Hunt. For the calendar year ended December 31, 2010, their top 10 customers, based on revenue, accounted for approximately 34% of J.B. Hunt's revenue. J.B. Hunt has a low tolerance for this risk, and must continue to perform well in order to retain these top 10 customers.

5. Retail and Manufacturing Slowdown Risk

Justification for this risk comes in two forms: J.B. Hunt including the following in their Form 10-K - "We are also affected by recessionary economic cycles and downturns in customers' business cycles, particularly in market segments and industries such as retail and manufacturing, where we have a significant concentration of customers"; and Terrance Pohlen, Director of the University of North Texas' Center for Logistics Education and Research in the Dallas Business Journal on Friday, February 18, 2011: "Renewed demand for retail and manufacturing deliveries will be good news for the trucking industry". The retail and manufacturing slowdown risk has both upside and downside exposure for J.B. Hunt. When retail and/or manufacturing are in growth or boom cycles, J.B. Hunt's revenues grow too. But when retail and/or manufacture are contracting, J.B Hunt's revenues slump too. J.B. Hunt has an above average tolerance for this risk due to their non-unionized workforce, and their ability to add or cut employees and expenses as needed. J.B. Hunt is able to bear this risk and is at a comparative advantage due to its non-unionized employee structure.

Financial Risks:

1. Interest Rate Risk

Justification for this risk comes from J.B. Hunt including the following in their Form 10-K: "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". The interest rate risk has a small downside exposure for J.B. Hunt. Of J.B. Hunt's total $654.2 million of debt, they had $5.0 million of variable-rate debt outstanding at December 31, 2010, under their revolving lines of credit. The interest rates applicable to these agreements are based on either the prime rate or LIBOR. Their earnings would be affected by changes in these short-term interest rates related to this variable-rate debt outstanding. J.B. Hunt's remaining debt is fixed-rate debt, and therefore changes in market interest rates do not directly impact their interest expense. J.B. Hunt has a high tolerance for this risk due to the very small relative size of the exposure, and is very willing to bear this risk and is at a comparative advantage to deal with it.

2. Insurance Costs and Availability, Claims Expense Risk

Justification for this risk comes from J.B. Hunt including the following in their Form 10-K: "Insurance and claims expenses could significantly reduce our earnings. Our future insurance and claims expenses might exceed historical levels, which could reduce our earnings". The insurance costs and availability, claims expense risk has large downside exposure for J.B. Hunt. The cost of managing this risk continues to climb faster than the economy is growing which cuts into the profits of all companies, including J.B. Hunt. J.B. Hunt has a low tolerance for this risk, and is at a comparative disadvantage when compared to smaller trucking firms that do not purchase the same level of coverage that J.B. Hunt does. J.B. Hunt has no choice but to bear this risk, even though they would prefer not to.

3. Credit Worthiness of Customers Risk

Justification for this risk comes from J.B. Hunt including the following in their Form 10-K: "Financial instruments, which potentially subject us to concentrations of credit risk, include trade receivables". The credit worthiness of customers risk has downside exposure for J.B. Hunt. J.B. Hunt has written off an average of $9 million (3% of sales) in uncollectable receivables in each of the past three years. J.B. Hunt has a medium tolerance for this risk, as it has built in a write-off allowance level into its pricing that is not being exceeded. J.B. Hunt is at a comparative advantage due to: its ability to successfully manage the amount of these write-offs; it approves credit issuance judiciously; and generally has customers who pay their bills.

Operational Risks:

1. Cost and Availability of Diesel Fuel Risk:

Justification for this risk comes from J.B. Hunt including the following in their Form 10-K: "Rapid changes in fuel costs could impact our periodic financial results". The cost and availability of diesel fuel risk has both upside and downside exposure for J.B. Hunt. J.B. Hunt has a fuel surcharge revenue program in place with the majority of their customers to mitigate the downside exposure. This has historically enabled J.B. Hunt 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 fuel cost and the timing of the fuel surcharges billed to their customers. In addition, J.B. Hunt incurs additional costs when fuel price increases cannot be fully recovered due to their 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 their operations or future profitability. The upside exposure comes from the timing aspect when diesel fuel prices are falling, and the surcharge is reduced at a slower pace, allowing J.B. Hunt to capture some short-term profits. J.B. Hunt has a medium tolerance for this risk, and is at a comparative advantage due to their fuel surcharge revenue program.

2. Theft and Damage in Transit Risk:

Justification for this risk comes from: "NICB Reports 2010 Cargo Theft Statistics and Prevention Methods" The National Insurance Crime Bureau (NICB) released its Data Analytics Forecast Report, highlighting 2010's cargo theft statistics which consisted of 747 reports of stolen freight and a loss of over $171,000,000. The NICB report can be found on www.nicb.org/File%20Library/Public%20Affairs/2010-NICB-Identified-Cargo-Thefts.pdf. Theft and damage in transit risk has downside risk exposure for J.B. Hunt. Theft and damage incidents involving customer's product that occur in J.B. Hunt trailers will cause J.B. Hunt's insurance costs to increase. J.B. Hunt has a medium tolerance for this risk and no comparative advantage. They must continue to mitigate this risk with prevention measures and training, and insurance.

3. Employee Unionization Risk:

Justification for this risk comes from the Bureau of Labor Statistics (BSL): "American workers who are members of unions earn significantly more per hour than their nonunion counterparts". Data from the BLS National Compensation Survey shows that in July 2002, average hourly earnings among all union workers were $20.65, compared with $16.42 for nonunion workers. The employee unionization risk has downside exposure for J.B. Hunt as their employees are not currently unionized. If unionization were to be successfully implemented at J.B. Hunt, J.B. Hunt's labor costs would increase. J.B. Hunt has a comparative advantage in dealing with this risk based on their history of treating employees well. J.B. Hunt has a high tolerance for, and is willing to bear, this risk.

4. Ability to Attract and Retain Qualified Drivers and Delivery Personnel Risk:

Justification for this risk comes from J.B. Hunt including the following in their Form 10-K: "Difficulty in attracting and retaining drivers, delivery personnel and third-party carriers could affect our profitability and ability to grow". The ability to attract and retain qualified drivers and delivery personnel risk has downside exposure for J.B. Hunt. If J.B. Hunt is unable to attract and retain the necessary quality and number of employees or contract with enough independent contractors, they could be required to significantly increase their employee compensation package, let revenue equipment sit idle or dispose of the equipment altogether, which could adversely affect their growth and profitability. In addition, J.B. Hunt's growth could be limited by an inability to attract third-party carriers upon whom they rely to provide transportation services. J.B. Hunt has a medium tolerance for this risk based on their success in this area over the years, and is at a comparative advantage to other firms due to this successful history.

5. Dependence on Third Parties in the Operation of our Business Risk:

Justification for this risk comes from J.B. Hunt including the following in their Form 10-K: "Our JBI business segment utilizes railroads in the performance of its transportation services". The dependence on third parties in the operation of our business risk has downside exposure for J.B. Hunt. The majority of these services are provided pursuant to contractual relationships with the railroads. J.B. Hunt has agreements with various railroads including Burlington Northern Santa Fe and the Norfolk Southern railways. The inability to utilize one or more of these railroads could have a material adverse effect on J.B. Hunt's business and operating results. In addition, a portion of the freight they 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 J.B. Hunt's business. J.B. Hunt has a low tolerance for this risk, and is at a comparative disadvantage on this risk due to the significantly large portion of its revenues (over 50%) that utilizes a third party provider at some point in the delivery chain, when compared to other carriers.

6. Retention of Key Employees Risk:

Justification for this risk comes from the Forward-Looking Statements section in J.B. Hunt's Form 10-K: *Some of the factors and events that are not within our control and that could have a material impact on future operating results……* "*retention of key employees*". The retention of key employees risk has downside exposure for J.B. Hunt. Depending on which employees leave J.B. Hunt, the exposures and costs relate to: loss of productivity; damaged relationships with customers and suppliers; and general concern among other employees. J.B. Hunt has a low tolerance for this risk, and has no comparative advantage in dealing with it.

7. New or Different Environmental Regulations Risk:

Justification for this risk comes in two forms: J.B. Hunt including the following in their Form 10-K - "Our operations are subject to various environmental laws and regulations, the violation of which could result in substantial fines or penalties"; and an article by Jesse Lanum in the Martinez News-Gazette:"Trucking companies hurt by recent environmental rules" January 9, 2010: "All Drayage diesel trucks older than 1994 must be retired from service. Those built between 1994 and 2003 must undergo a costly retrofit — a soot trap ranging in price from $12,000 to $25,000, depending on the age of the vehicle. The new or different environmental regulations risk has large downside exposure for J.B. Hunt. According to Leo Kay, the Communication Director for the ARB, "there are approximately 20,000 affected trucks in California". J.B. Hunt is also 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. They operate in industrial areas, where truck terminals and other industrial activities are located, and where groundwater or other forms of environmental contamination have occurred. J.B. Hunt's operations involve the risks of fuel spillage or seepage, environmental damage and hazardous waste disposal, among others. They also maintain bulk fuel storage and fuel islands at several of their facilities. If a spill or other accident involving hazardous substances occurs, or if J.B. Hunt is found to be in violation of applicable laws or regulations, it could have a material adverse effect on their business and operating results. If they should fail to comply with applicable environmental regulations, they could be subject to substantial fines or penalties and to civil and criminal liability. J.B. Hunt has a low tolerance for this risk, and must expend considerable resources to mitigate and monitor it. J.B. Hunt has no comparative advantage with this risk.

8. Government Regulations Risk:

Justification for this risk comes from J.B. Hunt including the following in their Form 10-K: "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 government regulations risk has downside exposure for J.B. Hunt. The U.S. Department of Transportation (DOT) and various state agencies exercise broad powers over the trucking business, generally governing matters including authorization to engage in motor carrier service, equipment operation, safety and financial reporting. J.B. Hunt has a low tolerance for this risk, and has no comparative advantage in managing it.

9. Truck Accident Risk:

Justification for this risk comes from the National Highway Traffic Safety Administration:

Commercial Motor Vehicle Facts

Federal Motor Carrier Safety Administration November 2007

2006 Police-Reported Motor Vehicle Traffic Crashes

Crash Type	Large Trucks	All Vehicles
Fatal	4,321	38,588
Injury	77,000	1,746,000
Property Damage Only	287,000	4,189,000
Total	**368,000**	**5,974,000**

Source: National Highway Traffic Safety Administration (NHTSA), Fatality Analysis Reporting System (FARS) and General Estimates System (GES).

The truck accident risk has downside exposure for J.B. Hunt. Some facts about truck driving accidents: commercial trucks are involved in 2.4% of all auto accidents; trucks are 3 times less likely to be in an accident than a regular motor vehicle; one person is injured or killed in a truck accident every 16 minutes. J.B. Hunt's JBI division manages a fleet of 2,592 company-owned tractors. This large number of trucks on the road exposes them to the opportunity to have many accidents involving property damage, injuries and/or fatalities. J.B. Hunt has a low tolerance for this risk, and is at a neutral comparative advantage to other trucking firms.

Pure Risks:

1. Adverse Weather Conditions Risk:

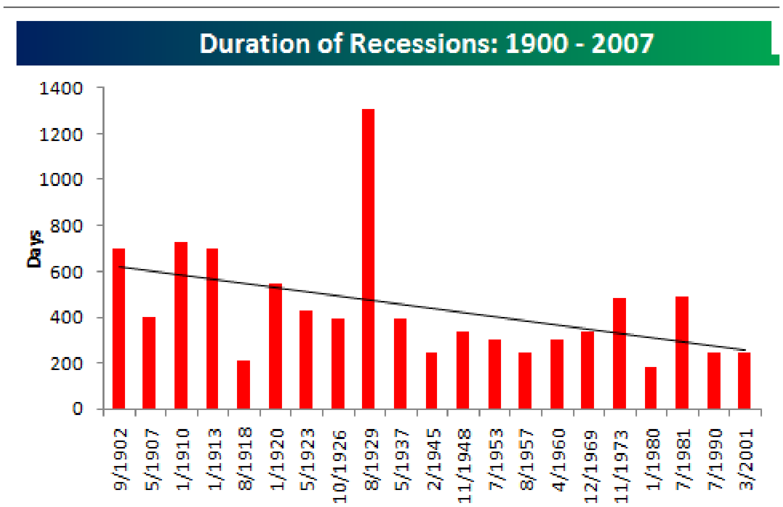
Justification for this risk comes from J.B. Hunt including the following in their Form 10-K: "Extreme or unusual weather conditions can disrupt our operations, impact freight volumes and increase our costs, all of which could have a material adverse effect on our business results". The adverse weather conditions risk has downside exposure for J.B. Hunt. Increased cost of operations due to adverse weather conditions, such as towing and other maintenance activities, frequently occur during the winter months. Natural disasters such as hurricanes and flooding can increase costs and also decrease revenues by impacting freight volumes. J.B. Hunt has a medium tolerance for this risk, and no comparative advantage.

Major Risk Evaluation

Strategic Risks:

1. General Economic and Business Conditions Risk:

To determine the frequency of the general economic and business condition risk that J.B. Hunt faces, the chart below shows that during a 108 year period, the U.S. economy experienced 21 recessions. J.B. Hunt's exposure to general economic and business condition risk occurring once every 5.14 years translates into a medium frequency risk.



http://bespokeinvest.typepad.com/bespoke/2007/09/the-business-cy.html

Using another recessionary data point which indicates that GDP drops by an approximate average of 2% during a recession, one can determine that the severity of the general economic and business condition risk for J.B. Hunt is .02 times their annual revenues of $3,793,000,000 – the high severity of this risk to J.B. Hunt should be that revenues will drop by approximately $75,860,000. As the chart also shows, the general economic and business condition risk is a continuous risk.

2. Competition Risk

In his April 2009 article, "Capacity rationalization still needed in trucking industry", David Mainor, Corporate Logistics Manager for Heatcraft Worldwide Refrigeration writes: "This article, while sounding draconian, accurately reflects the trucking industry's excess capacity still chasing too little demand. With excess capacity still in the market, a majority of agreements between shippers and carriers are probably based solely on price (rates and discounts)

In their form 10-K report, J.B. Hunt writes: “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”. These two sources substantiate the fact that competition risk has a high degree of severity, and in today’s market, has a high degree of frequency in their customer interactions. The competition risk is a continuous risk for J.B. Hunt

3. Competitive Rate Fluctuation Risk

In his February 2011 article, “Shippers, carriers strap in for next roller-coaster rate ride”, Mark B. Solomon writes: Right now, things are relatively quiet in the $520 billion U.S. truckload business. But with freight demand on the rise and capacity tightening, no one expects that to last.

A February survey of 500 U.S. and Canadian shippers by Morgan Stanley & Co. found that nearly 80 percent of respondents expect rate increases of about 4 percent over the next six months. The survey also indicated that robust freight volumes should support truckload volumes and prices. On the other hand, an easing of capacity that followed a short-lived tightening phase in the late summer and early fall of 2010 may act as a brake against higher rates. Another factor that could have a dampening effect on truckload rates is competition from intermodal service; the survey found that intermodal continues to gain share against truckload because respondents perceive intermodal as delivering superior value for each dollar spent.

William Greene, Morgan Stanley's lead transport analyst, is skeptical that truckload rates will soar any time soon: "Reduced [truckload] supply will support some level of pricing gains, but without a strong economy, it's hard to believe carriers can obtain the mid to high single-digit pricing required".

The information listed here leads to the conclusion that competitive rate fluctuation risk has a medium frequency. With projected rate fluctuations of between 4% and 9%, the severity is high. Competitive rate fluctuation risk is a continuous risk.

4. The Loss of One or More Major Customers Risk

According to J.B. Hunt’s form 10-K for the calendar year ended December 31, 2010, their top 10 customers accounted for approximately 34% of their revenue. J.B. Hunt had revenue in 2010 of $3,793,000,000. 34% of this revenue equals $1,289,620,000. Dividing this figure by 10 would mean that the average loss of one large customer would cost J.B. Hunt $128,962,000 in top line revenue. Clearly, this is a very severe risk for J.B. Hunt. J.B. Hunt does not publish a ranked customer list, and the internet provided no information either, so the author was unable to determine how long their major customers have been with J.B. Hunt – and how often they leave. Thus, the frequency of this risk is unknown. A guess would be that this is a low frequency risk as defections of major clients are infrequent in most all companies. The loss of one or more major customers risk is a continuous risk for J.B. Hunt.

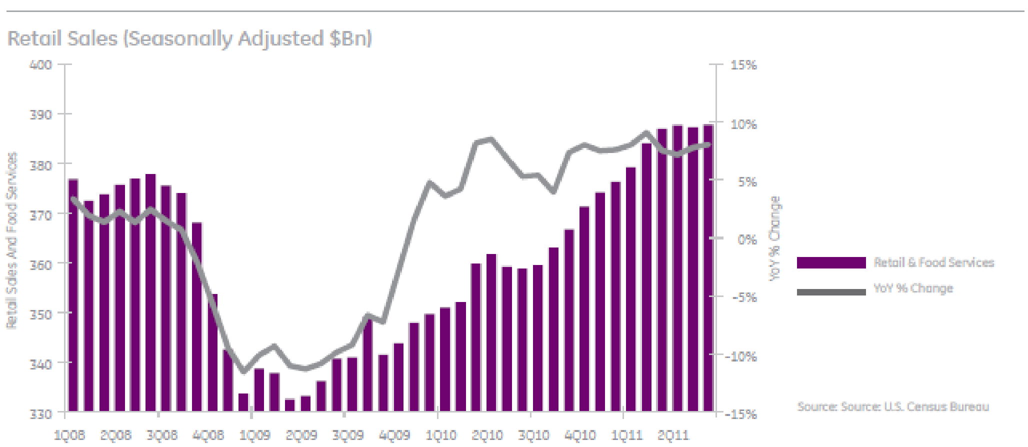
5. Retail and Manufacturing Slowdown

As reported by ACT Research, manufacturing, the prime demand driver for freight is likely to continue strong. ACT Research forecasts robust freight growth of 5.2% and 5.6% in 2011 and 2012. For more details, see

www.actresearch.net/reports/truckersdigest.pdf

Retail Sales

Another key indicator of truckload activity is Retail Sales as reported by the U.S. Census Bureau. Retail trade and food services grew +7.7% YoY in 2Q11 after increasing +8.2% in 1Q11.



(The grey line is YoY % Change)

As indicated by the previous data, truckload activity is significantly tied to the retail and manufacturing sectors. Being tied to two sectors indicates that this is a medium frequency risk for J.B. Hunt. As indicated by the chart and the numbers, the severity of this risk for J.B. Hunt is high. Retail and manufacturing slowdown is a continuous risk for J.B. Hunt.

Financial Risks:

1. Interest Rate Risk

J.B. Hunt's interest rate risk can be quantified by measuring the financial impact of a near-term adverse increase in short-term interest rates on their variable-rate debt outstanding. Of J.B. Hunt's total $654.2 million of debt, only $5.0 million is variable-rate debt outstanding as of December 31, 2010. In the unlikely event that the interest rate on the variable-rate debt increased by 5%, the effect to J.B. Hunt would be $250,000. For a $3.8 billion company, this is a low severity risk. Based on today's interest rate environment, this is also a low frequency risk. Interest rate risk is a continuous risk for J.B. Hunt.

2. Insurance Costs and Availability, Claims Expense Risk

From J.B. Hunt's form 10-K:

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 renewed our policies for 2011 with substantially the same terms as our 2010 policies for personal injury, cargo and property damage. We have reduced the self-insured portion of our workers' compensation claims exposure and are fully insured for substantially all claims incurred in 2011. 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.

Workers' Compensation and Accident Costs

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 that are completely insured.

When breaking this risk into three components: Insurance cost risk; Insurance availability risk; and claims expense risk – one can immediately determine that insurance availability risk is not severe or frequent. J.B Hunt should have no trouble obtaining insurance to offset their self-insurance practices. Insurance cost risk could change substantially with a history of claims, and thus is a medium severity and medium frequency risk. Claims expense risk represents the greatest risk of the three risks to J.B. Hunt. A rash of claims expense events could adversely affect J.B. Hunt's profitability. Claims expense risk is both a medium severity and a medium frequency risk.

Overall, insurance costs and availability, claims expense risk is a medium severity and medium frequency risk for J.B. Hunt. It is also a continuous risk for J.B. Hunt.

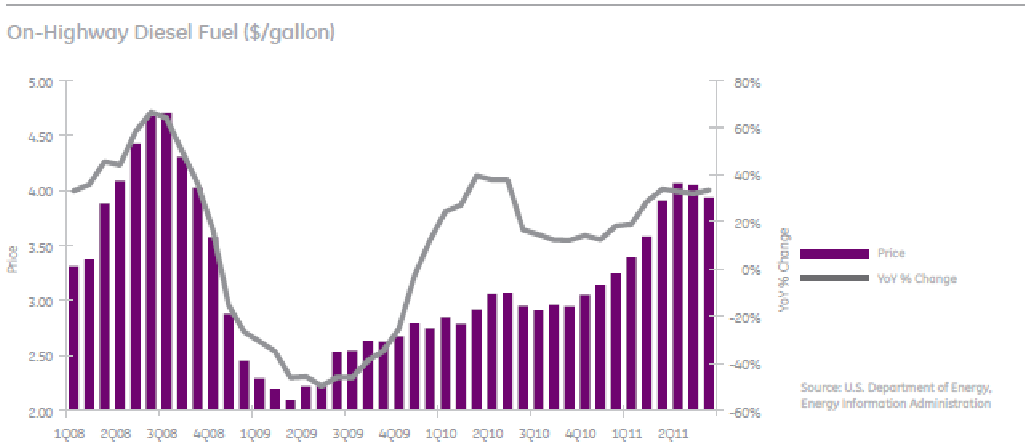
3. Credit Worthiness of Customers Risk

As indicated in their form 10-K, J.B. Hunt's top 10 customers, based on revenue, accounted for approximately 25% and 28% of their total trade accounts receivable for the years ended December 31, 2010 and 2009, respectively. J.B. Hunt has written-off an average of $10.15 million in un-collectable trade receivables over the past two years. J.B. Hunt's average trade receivable balance has been $330 million during this time period. This means that J.B. Hunt writes off an average of 3% of their receivables each year. If one of their top 10 customers were to not pay their portion of J.B. Hunt's receivables, that number would double to 6%. The magnitude of this possible event indicates that credit worthiness of customers risk is a high severity risk. Based on an average un-collectable trade receivable write-off of 3% over the past 3 years means that none of these top 10 customers have stopped paying their bills. Therefore, this is a low frequency risk. Credit worthiness of customers risk is a continuous risk for J.B. Hunt.

Operational Risks:

1. Cost and Availability of Diesel Fuel Risk:

While availability has not been an issue recently, according to GE Capital's Industry Research Monitor Fall 2011, the price of on-highway diesel fuel continues escalate, increasing +32.7% Year over Year in 2Q11, and +10.7% Quarter over Quarter to an average of $4.01 per gallon. Diesel reached a high in April and has declined in May and June. In its Short-Term Energy Outlook, the Energy Information Administration (EIA) increased its projection of diesel and gasoline prices. The EIA now expects diesel to increase +29.1% to an average $3.86 per gallon in 2011 and another +2.3% to $3.95 per gallon in 2012. Diesel averaged $3.90 per gallon in July 2011. Thus, the severity of the cost changes recently has been as high as 32.7% year over year. The severity of the inherent risk to J.B. Hunt with a 33% cost change when they are spending $9,100,000 per year in fuel and fuel taxes is $2,975,700.



As the chart above shows, the frequency of the cost of diesel fuel fluctuating is quarter to quarter, with the possibility of costs changing direction dramatically a few times each year. Changes in the cost of diesel fuel will be a continuous event well into the future.

2. Theft and Damage in Transit Risk:

The following information is provided by the NICB report found on www.nicb.org/File%20Library/Public%20Affairs/2010-NICB-Identified-Cargo-Thefts.pdf.

The National Insurance Crime Bureau (NICB) released its Data Analytics ForeCast Report last week, highlighting last year's cargo theft statistics which consisted of 747 reports of stolen freight and a loss of over $171,000,000. The average loss of stolen freight was $228,915. According to truckinfo.net, there are 2 million tractor/trailers in the U.S. J.B. Hunt operates 5,956 of these trucks, or .3% of the tractor/trailers operating in the U.S. .3% of the 747 reported thefts would mean that on average, J.B. Hunt would experience 2.24 losses per year for a total loss of $512,770. According to J.B. Hunt's income statement for 2010, insurance and claims cost them $1.3 million in 2010. Based on the size of J.B. Hunt, this would make theft and damage in transit risk a low severity risk, with a medium frequency. This risk is a continuous risk.

3. Employee Unionization Risk:

American workers who are members of unions earn significantly more per hour than their nonunion counterparts, according to a report from the Bureau of Labor Statistics (BLS). Data from the BLS National Compensation Survey shows that in July 2002, average hourly earnings among all union workers were $20.65, compared with $16.42 for nonunion workers.

Assuming the pay disparity has remained relatively constant over the past 8 years, this translates to a 20.5% premium for union workers/drivers over non-union workers/drivers. J.B. Hunt employs 10,172 truck drivers, 1,230 mechanics and 3,821 office workers. The truck drivers and mechanics make up 74% of J.B. Hunts workforce. In 2010 J.B. Hunt had $24 million in salaries, wages and employee benefits. 74% of this amount is $17.76 million. If just the drivers and mechanics were unionized, the possible effect to J.B. Hunt would be $4.45 million. Therefore, employee unionization risk is inherently a medium severity risk. The good news for J.B. Hunt is that they have been able to avoid unionization for their entire existence, so it is a low frequency risk. Employee unionization risk is a continuous risk for J.B. Hunt.

4. Ability to Attract and Retain Qualified Drivers and Delivery Personnel Risk:

According to projections from the National Employment Matrix shown below, trucking companies will need to increase the number of drivers they employ by 13% between the years of 2008 and 2018. J.B. Hunt faces both the task of keeping the talent they already have, and hiring and retaining 13% more drivers. Due to the size of their current driver workforce at 10,172, the ability to attract and retain qualified drivers and delivery personnel risk is a medium severity risk for J.B. Hunt. This will also be an ongoing process for J.B. Hunt, so it is a medium frequency risk as well.

Projections data from the National Employment Matrix

Occupational Title	SOC Code	Employment, 2008	Projected Employment, 2018	Change, 2008-18		Detailed Statistics	
				Number	Percent		
Driver/sales workers and truck drivers	53-3030	3,189,300	3,481,200	291,900	9	[PDF]	[XLS]
Driver/sales workers	53-3031	406,400	424,100	17,700	4	[PDF]	[XLS]
Truck drivers, heavy and tractor-trailer	53-3032	1,798,400	2,031,300	232,900	13	[PDF]	[XLS]
Truck drivers, light or delivery services	53-3033	984,500	1,025,900	41,400	4	[PDF]	[XLS]

NOTE: Data in this table are rounded. See the discussion of the employment projections table in the *Handbook* introductory chapter on *Occupational Information Included in the Handbook*.

The ability to attract and retain qualified drivers and delivery personnel risk is a continuous risk for J.B. Hunt.

5. Dependence on Third Parties in the Operation of our Business Risk:

As indicated in their form 10-K, J.B. Hunt's their 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 they have agreements with various Class I railroads, the majority of J.B. Hunt's business travels on the Burlington Northern Santa Fe and the Norfolk Southern railways. The inability to utilize one or more of these railroads could have a material adverse effect on J.B. Hunt's business and operating results. In addition, a portion of the freight they 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 J.B. Hunt's business.

J.B. Hunt's ICS business segment also utilizes third-party carriers. These third-parties are subject to similar regulation requirements noted previously, which may have a more significant impact on their operations causing them to exit the transportation industry. Aside from periodic use of J.B. Hunt's trailing equipment to fulfill certain loads, J.B. Hunt does not own the revenue equipment or control the drivers delivering the loads. The inability to obtain reliable third-party carriers could have a material adverse effect on J.B. Hunt's operating results and business growth.

The JBI and ICS divisions represent 64% of J.B. Hunt's overall business. Any problems with the execution or performance of their third parties and J.B. Hunt could suffer significant losses. Dependence on third parties in the operation of our business risk is a medium severity risk for J.B. Hunt. Based on all of the third parties they work with, it is also a medium frequency risk. Dependence on third parties in the operation of our business risk is a continuous risk for J.B. Hunt.

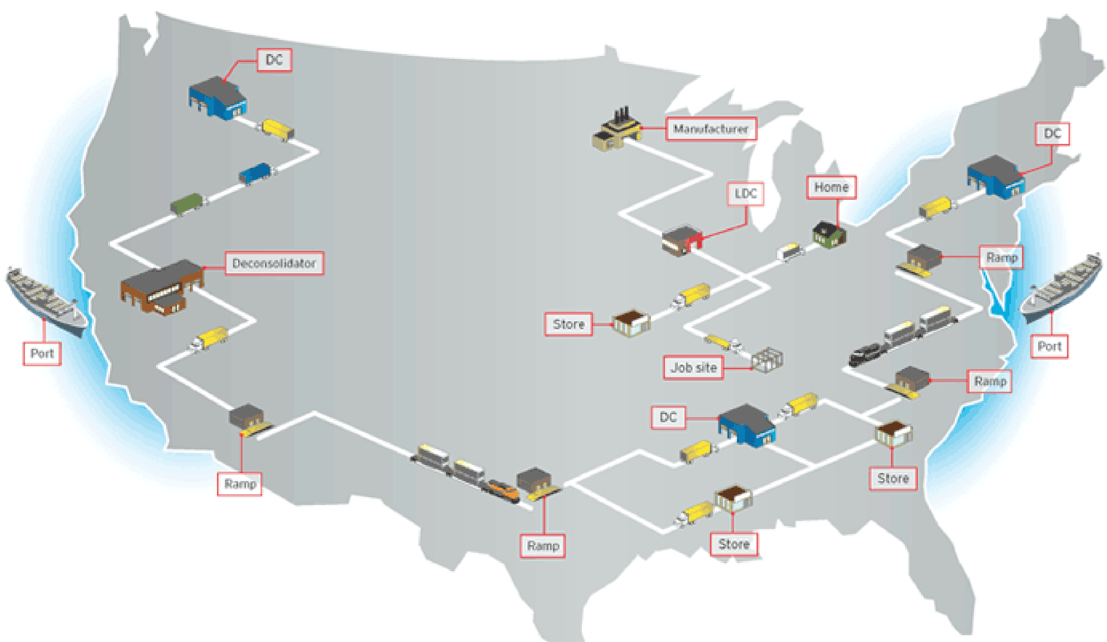
6. Retention of Key Employees Risk:

J.B. Hunt does not have a history of losing key employees. J.B. Hunt's web site lists the executive management of the company. The average tenure for the 12 people on the executive management committee is 25+ years. No additional key employee information was available in filings on Edgar or available via the internet. Retention of key employee risk is a low severity risk, with a low frequency. Retention of key employee risk is a continuous risk.

7. New or Different Environmental Regulations Risk:

An example of new environmental regulations that can pass into law and adversely affect J.B. Hunt is contained in an article by Jesse Lanum of the Martinez News-Gazette, "Trucking companies hurt by environmental rules" on January 9, 2010: The trucking industry is preparing for the first of a series of crippling regulations dealt them courtesy of the California Air Resources Board (ARB), whose goal has been to combat the side effects potentially caused by diesel emissions. The regulation states that all Drayage diesel trucks older than 1994 must be retired from service. Those built between 1994 and 2003 must undergo a costly retrofit — a soot trap ranging in price from $12,000 to $25,000, depending on the age of the vehicle. Leo Kay, the Communication Director for the ARB, said that there are approximately 20,000 affected trucks in California.

J.B. Hunt concentrates its operations in 3 geographic regions: west coast, mid-west, and east coast. Assuming that 1/3 of J.B. Hunt's 5,956 operate on the west coast and do business in California, this new regulation would apply to 1,985 trucks. Records are not available to determine the age of the affected 1,985 trucks, but if even only 10% of these trucks are 2003 models or older, the inherent risk to J.B. Hunt is $3.8 million. Since regulations such as this one will continue into the future all over the country, new or different environmental regulations risk is a severe risk to J.B. Hunt with a medium level of frequency. It is also a continuous risk.



8. Government Regulations Risk:

From sba.gov

		Cost per employee for firms with:		
Type of Regulation	All Firms	<20 employees	20-499 employees	500+ employees
All Federal Regulations	$ 5,633	$ 7,647	$ 5,411	$ 5,282
Economic	$ 2,567	$ 2,127	$ 2,372	$ 2,952
Workplace	$ 922	$ 920	$ 1,051	$ 841
Environmental	$ 1,249	$ 3,296	$ 1,040	$ 710
Tax Compliance	$ 894	$ 1,304	$ 948	$ 780

According to the chart above from sba.gov, the cost per employee of all federal regulations for a company the size of J.B. Hunt is $5,282. With 15,223 employees, the inherent risk for J.B. Hunt is over $80 million. Government regulations risk is an extremely severe risk for J.B. Hunt. It is also a high frequency risk, and is continuous.

9. Truck Accident Risk:

2001-2003 Average Costs of Truck Crashes (2005 Dollars)

Average Cost per Crash	$91,112

Source: Ted Miller, Eduard Zaloshnja, Rebecca Spicer, *Revised Cost of Large Truck and Bus Involved Crashes* (2006), adjusted to 2005 dollars.

Commercial Motor Vehicle Facts

Federal Motor Carrier Safety Administration November 2007

2006 Police-Reported Motor Vehicle Traffic Crashes

Crash Type	Large Trucks	All Vehicles
Fatal	4,321	38,588
Injury	77,000	1,746,000
Property Damage Only	287,000	4,189,000
Total	**368,000**	**5,974,000**

Source: National Highway Traffic Safety Administration (NHTSA), Fatality Analysis Reporting System (FARS) and General Estimates System (GES).

According to their form 10-K filing, J.B. Hunt's trucks traveled 2,425,872,630 miles in 2010. Data from Iowa State University's Institute for Transportation, the national overall average for truck accidents is 2.04 per million miles traveled. This translates into 1189 accidents per year for J.B. Hunt's drivers. Even using costs from 2005, their inherent risk of truck accidents is over $108 million. This is a high severity risk, with a high frequency. This is also a continuous risk for J.B. Hunt.

Pure Risks:

1. Adverse Weather Conditions Risk:

From U.S. Department of Transportation – Federal Highway Administration

http://ops.fhwa.dot.gov/weather/q1_roadimpact.htm

Weather Impacts on Safety

- On average, there are over 6,301,000 vehicle crashes each year. Twenty-four (24) percent of these crashes—approximately 1,511,000—are weather-related. Weather-related crashes are defined as those crashes that occur in adverse weather (i.e., rain, sleet, snow, and/or fog) or on slick pavement (i.e., wet pavement, snowy/slushy pavement, or icy pavement). On average, 7,130 people are killed and over 629,000 people are injured in weather-related crashes each year. (Source: **Fourteen-year averages from 1995 to 2008 analyzed by Noblis, based on NHTSA data)**.

Using the cost of truck accidents to J.B. Hunt at over $108 million, 24 percent of this amount, or $26 million, is attributable to weather.

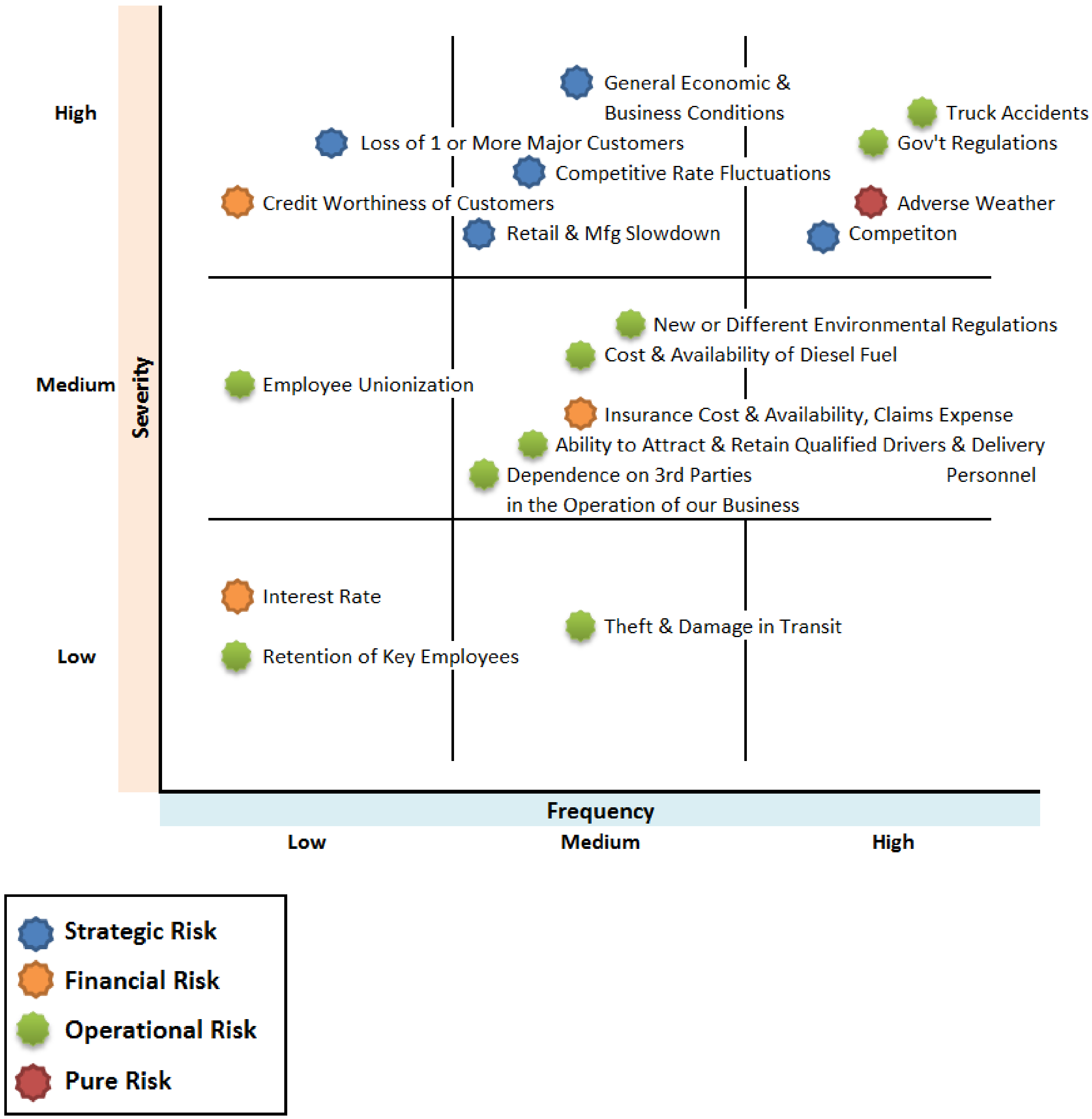
Weather Impacts on Productivity

- Each year trucking companies or CVOs lose an estimated 32.6 billion vehicle hours due to weather-related congestion in 281 of the nation's metropolitan areas. Nearly 12 percent of total estimated truck delay is due to weather in the 20 cities with the greatest volume of truck traffic. The estimated cost of weather-related delay to trucking companies ranges from 2.2 billion dollars to 3.5 billion dollars annually. (Source: " **Analysis of Weather Incident Effects on Commercial Vehicle Mobility in Large U.S. Cities," Mitretek Systems**).

It is clear from the data supplied by the U.S. Department of Safety; weather also costs J.B. Hunt a significant amount of lost productivity.

When adding weather-caused accident costs to weather-caused loss of productivity, adverse weather conditions risk is a high severity, high frequency risk. It is also a continuous risk for J.B. Hunt.

Risk Map


High
Medium
Low
Severity
General Economic &
Business Conditions
Truck Accidents
Loss of 1 or More Major Customers
Gov't Regulations
Competitive Rate Fluctuations
Credit Worthiness of Customers
Adverse Weather
Retail & Mfg Slowdown
Competiton
New or Different Environmental Regulations
Cost & Availability of Diesel Fuel
Employee Unionization
Insurance Cost & Availability, Claims Expense
Ability to Attract & Retain Qualified Drivers & Delivery
Personnel
Dependence on 3rd Parties
in the Operation of our Business
Interest Rate
Theft & Damage in Transit
Retention of Key Employees
Frequency
Low
Medium
High
Strategic Risk
Financial Risk
Operational Risk
Pure Risk

Risk Priorities

Rating:	1	2	3	4	5	6	7	8	9
Severity:	High	High	High	Medium	Medium	Medium	Low	Low	Low
Frequency:	High	Medium	Low	High	Medium	Low	High	Medium	Low

The grid above was used to rate each of J.B. Hunt's risks on a scale from 1 – 9 based on a combination of risk severity and risk frequency factors, with 1 being the largest risks J.B. Hunt faces, and 9 being the lowest risks they face. The risk consultant then sub-rates the risks that have the same overall risk rating in relation to each other below.

<u>Risk Priorities</u>

"1" rated risks include:

A. Competition
B. Government Regulations
C. Truck Accidents
D. Adverse Weather Conditions

Within this category, truck accidents have possibility of inflicting the greatest financial harm to J.B. Hunt - $108 million, thus it is the greatest overall risk they face. Government regulations are the next most financially adverse risks with a possible cost of $80 million. The adverse weather conditions risk comes in at $26 million, followed by competition risk which is not quantifiable.

"2" rated risks include:

E. General Economic and Business Conditions
F. Competitive Rate Fluctuations
G. Retail and Manufacturing Slowdown

Within this category, general economic and business condition risk is the most expensive risk to J.B. Hunt at $76 million in possible exposure. Competitive rate fluctuations risk and retail and manufacturing slowdown risk fall next in line with very similar exposures.

"3" rated risks include:

H. The Loss of one or More Major Customers
I. Credit Worthiness of Customers

Within this category, the loss of one or more major customers risk presents J.B. Hunt with the most exposure at $128 million. The credit worthiness of customers risk has $20 million in exposure.

"5" rated risks include:

J. Insurance Cost and Availability, Claims Expense
K. Cost and Availability of Diesel Fuel
L. Ability to Attract and Retain Qualified Drivers and Delivery Personnel
M. Dependence on Third Parties in the Operation of our Business
N. New or Different Environmental Regulations

Within this category, the new or different environmental regulations risk presents J.B. Hunt with $3.8 million in exposure. The next most significant risk for J.B. Hunt in this category is the cost and availability of diesel fuel risk with an exposure for J.B. Hunt of $2.9 million. I was unable to quantify the following risks, and rate them as very similar in impact exposure: insurance cost and availability, claims expense risk; ability to attract and retain qualified drivers and delivery personnel risk; and dependence on third parties in the operation of our business risk.

"6 - 9" rated risks include:

O. Employee Unionization
P. Theft and Damage in Transit
Q. Interest Rate
R. Retention of Key Employees

Within the remaining categories, the only "6" rated risk is employee unionization risk, with an exposure to J.B. Hunt of $4.5 million. The next more significant risk to J.B. Hunt is theft and damage in transit risk with an exposure of $512,000. The two remaining risks for J.B. Hunt are interest rate risk with $250,000 in exposure, and retention of key employee risk.