HUNT J B TRANSPORT SERVICES INC
Form 10-K
February 22, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended	**Commission file number**
December 31, 2018	**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	**72745-0130**
Lowell, Arkansas	(ZIP Code)
(Address of principal executive offices)	

Registrant's telephone number, including area code: **479-820-0000**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, $0.01 Par Value**

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

Yes __X__ No _____

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

Yes _____ No __X__

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

Yes __X__ No _____

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes __X__ No _____

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer __X__ Accelerated filer _____ Non-accelerated filer _____ Smaller reporting company _____ Emerging growth company ____

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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

Yes _____ No __X__

The aggregate market value of 86,721,074 shares of the registrant's $0.01 par value common stock held by non-affiliates as of June 30, 2018, was $10.5 billion (based upon $121.55 per share).

As of February 12, 2019, the number of outstanding shares of the registrant's common stock was 108,738,788.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Notice and Proxy Statement for the Annual Meeting of Stockholders, to be held April 18, 2019, are incorporated by reference in Part III of this Form 10-K.

J.B. HUNT TRANSPORT SERVICES, INC.

Form 10-K

For The Fiscal Year Ended December 31, 2018

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PART IV

FORWARD-LOOKING STATEMENTS

This report, including documents which are incorporated by reference and other documents which we file periodically with the Securities and Exchange Commission (SEC), contains statements that may be considered to be "forward-looking statements." Such statements relate to our predictions concerning future events or operations and are within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are inherently uncertain, subject to risks, and should be viewed with caution. These statements are based on our belief or interpretation of information currently available. Stockholders and prospective investors are cautioned that actual results and future events may differ materially from these forward-looking statements as a result of many factors. Some of the factors and events that are not within our control and that could have a material impact on future operating results include: general economic and business conditions, competition and competitive rate fluctuations, cost and availability of diesel fuel, ability to attract and retain qualified drivers and delivery personnel, a loss of one or more major customers, interference with or termination of our relationships with certain railroads, rail service delays, insurance costs and availability, claims expense, retention of key employees, terrorist attacks or actions, acts of war, adverse weather conditions, disruption or failure of information systems, new or different environmental or other laws and regulations, operational disruption or adverse effects of business acquisitions, increased costs for new revenue equipment or decreases in the value of used equipment, and the ability of revenue equipment manufacturers to perform in accordance with agreements for guaranteed equipment trade-in values.

You should understand that many important factors, in addition to those listed above, could impact us financially. Our operating results may fluctuate as a result of these and other risk factors or events as described in our filings with the SEC. Some important factors that could cause our actual results to differ from estimates or projections contained in the forward-looking statements are described under "Risk Factors" in Item 1A. We assume no obligation to update any forward-looking statement to the extent we become aware that it will not be achieved for any reason.

PART I

ITEM 1. BUSINESS

OVERVIEW

We are one of the largest surface transportation, delivery, and logistics companies in North America. J.B. Hunt Transport Services, Inc. is a publicly held holding company that, together with our wholly owned subsidiaries, provides safe and reliable transportation and delivery services to a diverse group of customers and consumers throughout the continental United States, Canada, and Mexico. Unless otherwise indicated by the context, “we,” “us,” “our,” the “Company”, and “JBHT” refer to J.B. Hunt Transport Services, Inc. and its consolidated subsidiaries. We were incorporated in Arkansas on August 10, 1961, and have been a publicly held company since our initial public offering in 1983. Our service offerings include transportation of full-truckload containerized freight, which we directly transport utilizing our company-controlled revenue equipment and company drivers or independent contractors. We have arrangements with most of the major North American rail carriers to transport freight in containers or trailers. We also provide customized freight movement, revenue equipment, labor, systems, and delivery services that are tailored to meet individual customers’ requirements and typically involve long-term contracts. These arrangements are generally referred to as dedicated services and may include multiple pickups and drops, local and home deliveries, freight handling, specialized equipment, and freight network design. Our local and home delivery services typically are provided through a network of cross-dock service centers throughout the continental United States. Utilizing a network of thousands of reliable third-party carriers, we also provide comprehensive transportation and logistics services. In addition to full-load, dry-van operations, these unrelated outside carriers also provide flatbed, refrigerated, less-than-truckload (LTL), and other specialized equipment, drivers, and services. Our customers’ business activities are extremely diverse, and our customer base includes a large number of Fortune 500 companies.

We believe our ability to offer multiple services, utilizing our four business segments and a full complement of logistics services through third parties, represents a competitive advantage. These segments include Intermodal (JBI), Dedicated Contract Services® (DCS), Integrated Capacity Solutions (ICS), and Truckload (JBT). Our business is somewhat seasonal, with slightly higher freight volumes typically experienced during August through early November. Our DCS segment is subject to somewhat less seasonal variation than our other segments.

Additional general information about us is available at jbhunt.com. We make a number of reports and other information available free of charge on our website, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. Our website also contains corporate governance guidelines, our code of ethics, our whistleblower policy, Board committee charters, and other corporate policies. The information on our website is not, and shall not be deemed to be, a part of this annual report on Form 10-K or incorporated into any other filings we make with the SEC.

Our Mission and Strategy

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

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

Increasingly, our customers are seeking energy-efficient transportation solutions to reduce both cost and greenhouse-gas emissions. Our intermodal service addresses both demands. Further, we are customizing dedicated solutions aimed at minimizing transportation-related carbon emissions. Efforts to improve fleet fuel efficiency are ongoing, and we are an Environmental Protection Agency (EPA) SmartWay℠ Transport Partner.

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

operating segments

Segment information is also included in Note 13 to our Consolidated Financial Statements.

JBI Segment

The transportation service offerings of our JBI segment utilize arrangements with most major North American rail carriers to provide intermodal freight solutions for our customers throughout the continental United States, Canada, and Mexico. Our JBI segment began operations in 1989, forming a unique partnership with what is now the BNSF Railway Company (BNSF); this was a watershed event in the industry and the first agreement that linked major rail and truckload carriers in a joint service environment. JBI draws on the intermodal services of rail carriers for the underlying linehaul movement of its equipment between rail ramps. The origin and destination pickup and delivery services (drayage) are handled by our company-owned tractors for the majority of our intermodal loads, while third-party dray carriers are used where economical. By performing our own drayage services, we are able to provide a cost-competitive, seamless coordination of the combined rail and dray movements for our customers.

JBI operates 88,739 pieces of company-owned trailing equipment systemwide. The fleet primarily consists of 53-foot, high-cube containers and is designed to take advantage of intermodal double-stack economics and superior ride quality. We own and maintain our own chassis fleet, consisting of 81,442 units. The containers and chassis are uniquely designed so that they may only be paired together, which we feel creates an operational competitive advantage. JBI also manages a fleet of 5,017 company-owned tractors, 633 independent contractor trucks, and 6,208 company drivers. At December 31, 2018, the total JBI employee count was 7,081. Revenue for the JBI segment in 2018 was $4.72 billion.

DCS Segment

DCS focuses on private fleet conversion and creation in replenishment, specialized equipment, and final-mile delivery services. We specialize in the design, development, and execution of supply-chain solutions that support a variety of transportation networks. Our final-mile delivery services are supported with a network of approximately 102 cross-dock and other delivery system network locations nationwide, with 98% of the continental U.S. population living within 150 miles of a network location. Contracts with our customers are long-term, ranging from three to 10 years, with the average being approximately five years. Pricing of our contracts typically involves cost-plus arrangements, with our fixed costs being recovered regardless of equipment utilization, but is customized based on invested capital and duration.

At December 31, 2018, this segment operated 9,652 company-owned trucks, 412 customer-owned trucks, and 51 independent contractor trucks. DCS also operates 20,344 owned pieces of trailing equipment and 6,366 customer-owned trailers. The DCS segment employed 13,747 people, including 11,331 drivers, at December 31, 2018. DCS revenue for 2018 was $2.16 billion.

ICS Segment

ICS provides traditional freight brokerage and transportation logistics solutions to customers through relationships with thousands of third-party carriers and integration with our owned equipment. By leveraging the J.B. Hunt brand, systems, and network, we provide a broader service offering to customers by providing flatbed, refrigerated, expedited, and LTL, as well as a variety of dry-van and intermodal solutions. ICS provides single-source logistics management for customers desiring to outsource their transportation functions and utilize our proven supply-chain technology and design expertise to improve efficiency. ICS operates 44 remote sales offices or branches, as well as on-site logistics personnel working in direct contact with customers.

At December 31, 2018, the ICS segment employed 1,142 people, with a carrier base of approximately 73,100. ICS revenue for 2018 was $1.33 billion.

JBT Segment

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

At December 31, 2018, the JBT segment operated 1,139 company-owned tractors and employed 1,440 people, 1,200 of whom were drivers. At December 31, 2018, we had 973 independent contractors operating in the JBT segment. JBT revenue for 2018 was $417 million.

Marketing and Operations

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

We generally market all of our service offerings through a nationwide sales and marketing network. We use a specific sales force in DCS due to the length, complexity, and specialization of the sales cycle. In accordance with our typical arrangements, we bill the customer for all services, and we, in turn, pay all third parties for their portion of transportation services provided.

People

We believe that one of the factors differentiating us from our competitors is our service-oriented people. As of December 31, 2018, we had 27,621 employees, which consisted of 18,739 company drivers, 7,589 office personnel, and 1,293 maintenance technicians. We also had arrangements with approximately 1,657 independent contractors to transport freight in our trailing equipment. None of our employees are represented by unions or covered by collective bargaining agreements.

Revenue Equipment

Our JBI segment utilizes uniquely designed high-cube containers and chassis, which can only be paired with each other and can be separated to allow the containers to be double-stacked on rail cars. The composition of our DCS trailing fleet varies with specific customer requirements and may include dry-vans, flatbeds, temperature-controlled, curtain-side vans, straight trucks, and dump trailers. We primarily utilize third-party carriers' tractor and trailing equipment for our ICS segment. Our JBT segment operates primarily 53-foot dry-van trailers.

As of December 31, 2018, our company-owned tractor and truck fleet consisted of 15,808 units. In addition, we had 1,657 independent contractors who operate their own tractors but transport freight in our trailing equipment. We operate with standardized tractors in as many fleets as possible, particularly in our JBI and JBT fleets. Due to our customers' preferences and the actual business application, our DCS fleet is extremely diversified. We believe operating with relatively newer revenue equipment provides better customer service, attracts quality drivers, and lowers maintenance expense. At December 31, 2018, the average age of our combined tractor fleet was 2.3 years, while our containers averaged 6.4 years of age and our trailers averaged 6.3 years. We perform routine servicing and preventive maintenance on our equipment at our regional terminal facilities.

Competition and the Industry

The freight transportation markets in which we operate are frequently referred to as highly fragmented and competitive. Our JBI segment competes with other intermodal marketing companies; other full-load carriers that utilize railroads for a portion of the transportation service; and, to a certain extent, some railroads directly. The diversified nature of the services provided by our DCS segment attracts competition from customers' private fleets, other private fleet outsourcing companies, equipment leasing companies, local and regional delivery service providers, and some truckload carriers. Our ICS segment utilizes the fragmented nature of the truck industry and competes with other non-asset-based logistics companies and freight brokers, as well as full-load carriers. The full-load freight competition of our JBT segment includes thousands of carriers, many of which are very small. While we compete with a number of smaller carriers on a regional basis, only a limited number of companies represent competition in all markets across the country.

We compete with other transportation service companies primarily in terms of price, on-time pickup and delivery service, availability and type of equipment capacity, and availability of carriers for logistics services.

Regulation

Our operations as a for-hire motor carrier are subject to regulation by the U.S. Department of Transportation (DOT) and the Federal Motor Carrier Safety Administration (FMCSA), and certain business is also subject to state rules and regulations. The DOT periodically conducts reviews and audits to ensure our compliance with federal safety requirements, and we report certain accident and other information to the DOT. Our operations into and out of Canada and Mexico are subject to regulation by those countries. We are also subject to a variety of requirements of national, state, and local governments, including the U.S. Environmental Protection Agency and the Occupational Safety and Health Administration.

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

ITEM 1A. RISK FACTORS

In addition to the forward-looking statements outlined previously in this Form 10-K and other comments regarding risks and uncertainties, the following risk factors should be carefully considered when evaluating our business. Our business, financial condition or financial results could be materially and adversely affected by any of these risks.

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

We are also affected by recessionary economic cycles and downturns in customers’ business cycles, particularly in market segments and industries where we have a significant concentration of customers. Economic conditions represent a greater potential for loss, and we may be required to increase our reserve for bad debt losses. In addition, our results of operations may be affected by seasonal factors. Customers tend to reduce shipments after the winter holiday season, and our operating expenses tend to be higher in the winter months, primarily due to colder weather, which causes higher fuel consumption from increased idle time and higher maintenance costs.

We depend on third parties in the operation of our business.

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

In January 2017, we exercised our right to utilize the arbitration process to review the division of revenue collected beginning May 1, 2016, as well as to clarify other issues, under our Joint Service Agreement with BNSF. BNSF requested the same, and the arbitration process is on-going. On October 5, 2018, we received the arbitrators' Interim Award. The details of the Interim Award are confidential and require the parties to submit additional information requested by the arbitrators to decide certain unresolved matters. For the determined components of the Interim Award, we recorded an $18.3 million pre-tax charge in the third quarter 2018, related to certain charges claimed by BNSF for specific services requested for customers from April 2014 through May 2018. On December 7, 2018 the arbitrators' issued their Clarified Interim Award of October 5, 2018 resulting from some of the parties' additional submissions to the Panel regarding certain issues related to determining the revenue division between the parties. On January 11, 2019, the Panel issued its Second Interim Award ordering that $89.4 million is due from the Company to BNSF resulting from the adjusted revenue divisions relating to the 2016 period at issue ($52.1 million) and for calendar year 2017 ($37.3 million). The parties have been instructed to make further submissions on the revenue divisions for calendar year 2018 and going forward, as well as other confidential issues raised during the arbitration process so that the panel can issue an appropriate interim and/or final award regarding all issues raised during the proceeding. We recorded pretax charges for contingent liabilities in the fourth quarter 2018 of $89.4 million claimed by the BNSF for the period May 1, 2016 through December 31, 2017 and $44.6 million for the period January 1, 2018 through December 31, 2018, for a total of $134 million.

The other financial implications from the Interim Award and the Clarified Interim Award will not be fully determined until the arbitrators issue additional award(s) following their review of each party's requested additional submissions. At this time, we are unable to reasonably predict the final outcome of the arbitration, and, as such, no further gain or loss contingency can be determined or recorded. If decided adversely, this matter could result in a liability material to our financial condition or results of operations. BNSF provides a significant amount of rail transportation services to our JBI business segment. Normal commercial business activity between the parties, including load tendering, load tracing, billing and payments, is expected to continue on a timely basis.

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

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

Fuel costs can be very volatile. We have a fuel surcharge revenue program in place with the majority of our customers, which has historically enabled us to recover the majority of higher fuel costs. Most of these programs automatically adjust weekly depending on the cost of fuel. However, there can be timing differences between a change in our fuel cost and the timing of the fuel surcharges billed to our customers. In addition, we incur additional costs when fuel price increases cannot be fully recovered due to our engines being idled during cold or warm weather and empty or out-of-route miles that cannot be billed to customers. Rapid increases in fuel costs or shortages of fuel could have a material adverse effect on our operations or future profitability. As of December 31, 2018, we had no derivative financial instruments to reduce our exposure to fuel-price fluctuations.

Insurance and claims expenses could significantly reduce our earnings.

Our future insurance and claims expenses might exceed historical levels, which could reduce our earnings. If the number or severity of claims for which we are self-insured increases, our operating results could be adversely affected. We have policies in place for 2019 with substantially the same terms as our 2018 policies for personal injury, property damage, workers' compensation, and cargo loss or damage, with the exception of decreasing our self-insured portion of workers' compensation claims to zero for nearly all states. We purchase insurance coverage for the amounts above which we are self-insured. If these expenses increase and we are unable to offset the increase with higher freight rates, our earnings could be materially and adversely affected.

We derive a significant portion of our revenue from a few major customers, the loss of one or more of which could have a material adverse effect on our business.

For the calendar year ended December 31, 2018, our top 10 customers, based on revenue, accounted for approximately 30% of our revenue. Our JBI, ICS, and JBT segments typically do not have long-term contracts with their customers. While our DCS segment business may involve long-term written contracts, those contracts may contain cancellation clauses, and there is no assurance that our current customers will continue to utilize our services or continue at the same levels. A reduction in or termination of our services by one or more of our major customers could have a material adverse effect on our business and operating results.

We operate in a regulated industry, and increased direct and indirect costs of compliance with, or liability for violation of, existing or future regulations could have a material adverse effect on our business.

The DOT, FMCSA, and various state agencies exercise broad powers over our business, generally governing matters including authorization to engage in motor carrier service, equipment operation, safety, and financial reporting. We are audited periodically by the DOT to ensure that we are in compliance with various safety, hours-of-service, and other rules and regulations. If we were found to be out of compliance, the DOT could restrict or otherwise impact our operations. Our failure to comply with any applicable laws, rules or regulations to which we are subject, whether actual or alleged, could expose us to fines, penalties or potential litigation liabilities, including costs, settlements and judgments. Further, these agencies could institute new laws, rules or regulations or issue interpretation changes to existing regulations at any time. Compliance with new laws, rules or regulations could substantially impair labor and equipment productivity, increase our costs or impact our ability to offer certain services.

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

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

A determination that independent contractors are employees could expose us to various liabilities and additional costs.

Tax and other regulatory authorities often seek to assert that independent contractors in the transportation service industry are employees rather than independent contractors. There can be no assurance that interpretations that support the independent contractor status will not change or that various authorities will not successfully assert a position that re-classifies independent contractors to be employees. If our independent contractors are determined to be our employees, that determination could materially increase our exposure under a variety of federal and state tax, workers' compensation, unemployment benefits, labor, employment and tort laws, as well as our potential liability for employee benefits. In addition, such changes may be applied retroactively, and if so, we may be required to pay additional amounts to compensate for prior periods. Any of the above increased costs would adversely affect our business and operating results.

We may be subject to litigation claims that could result in significant expenditures.

We by the nature of our operations are exposed to the potential for a variety of litigation, including personal injury claims, vehicular collisions and accidents, alleged violations of federal and state labor and employment laws, such as class-action lawsuits alleging wage and hour violations and improper pay, commercial and contract disputes, cargo loss and property damage claims. While we purchase insurance coverage at levels we deem adequate, future litigation may exceed our insurance coverage or may not be covered by insurance. We accrue a provision for a litigation matter according to applicable accounting standards based on the ongoing assessment of the strengths and weaknesses of the litigation, its likelihood of success, and an evaluation of the possible range of loss. Our inability to defend ourselves against a significant litigation claim, could have a material adverse effect on our financial results.

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

We rely on information technology throughout all areas of our business to initiate, track, and complete customer orders; process financial and nonfinancial data; compile results of operations for internal and external reporting; and achieve operating efficiencies and growth. Our information technology systems may be susceptible to various interruptions, including equipment or network failures, failed upgrades or replacement of software, user error, power outages, natural disasters, cyber-attacks, terrorist attacks, computer viruses, hackers, or other security breaches. We have mitigated our exposure to these risks through the establishment and maintenance of technology security programs and disaster recovery plans, but these mitigating activities may not be sufficient. A significant disruption, failure or security breach in our information technology systems could have a material adverse effect on our business, which could include operational disruptions, loss of confidential information, external reporting delays or errors, legal claims, or damage to our business reputation.

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

We compete with many other transportation service providers of varying sizes and, to a lesser extent, with LTL carriers and railroads, some of which have more equipment and greater capital resources than we do. Additionally, some of our competitors periodically reduce their freight rates to gain business, especially during times of reduced growth rates in the economy, which may limit our ability to maintain or increase freight rates or to maintain our profit margins.

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

Extreme or unusual weather conditions can disrupt our operations, impact freight volumes, and increase our costs, all of which could have a material adverse effect on our business results.

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

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

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

Acquisitions or business combinations may disrupt or have a material adverse effect on our operations or earnings.

We could have difficulty integrating acquired companies' assets, personnel and operations with our own. Regardless of whether we are successful in making an acquisition or completing a business combination, the negotiations could disrupt our ongoing business, distract our management and employees, and increase our operating costs. Acquisitions and business combinations are accompanied by a number of inherent risks, including, without limitation, the difficulty of integrating acquired companies and operations; potential disruption of our ongoing businesses and distraction of our management or the management of acquired companies; difficulties in maintaining controls, procedures and policies; potential impairment of relationships with employees and partners as a result of any integration of new management personnel; potential inability to manage an increased number of locations and employees; failure to realize expected efficiencies, synergies and cost savings; or the effect of any government regulations which relate to the businesses acquired.

Our business could be materially impacted if and to the extent that we are unable to succeed in addressing any of these risks or other problems encountered in connection with an acquisition or business combination, many of which cannot be presently identified.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own our corporate headquarters in Lowell, Arkansas. In addition, we own or lease a number of buildings in Lowell that we utilize for administrative support, customer service, freight dispatch, data processing and warehousing, and data backup and disaster recovery. We also own or lease 43 other significant facilities across the United States where we perform maintenance on our equipment, provide bulk fuel, and employ personnel to support operations. These facilities vary in size from 2 to 39 acres. Each of our business segments utilizes these facilities. In addition, we have 98 leased facilities in our DCS cross-dock and other delivery system networks, with the remaining four locations outsourced, and 44 leased or owned remote sales offices or branches in our ICS segment. We also own or lease multiple small facilities, offices, and parking yards throughout the country that support our customers' business needs.

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

Type	Acreage	Maintenance Shop/ Cross-dock Facility (square feet)	Office Space (square feet)
Maintenance and support facilities	443	1,020,000	190,000
Cross-dock and delivery system facilities	24	2,308,000	124,000
Corporate headquarters, Lowell, Arkansas	88	-	407,000
Offices and data center, Lowell, Arkansas	8	-	60,000
Branch sales offices	-	-	92,000
Other facilities, offices, and parking yards	343	211,000	129,000

ITEM 3. LEGAL PROCEEDINGS

We are a defendant in certain alleged class-action lawsuits in which the plaintiffs are current and former California-based drivers who allege claims for unpaid wages, failure to provide meal and rest periods, and other items. In the lead class-action, we reached an agreement and recorded a reserve in September 2018 to resolve all pending claims for a class settlement payment of $15 million, subject to Court approval. The Court granted preliminary settlement approval in November 2018. Notice of the settlement has been mailed to all settlement class members and the deadline for objections to the settlement passed without any objections filed. We expect the Court's order granting final approval to be issued in April 2019. The overlapping claims in the other alleged class-action lawsuits remain stayed pending final approval of the settlement in the lead class-action case.

In January 2017, we exercised our right to utilize the arbitration process to review the division of revenue collected beginning May 1, 2016, as well as to clarify other issues, under our Joint Service Agreement with BNSF. BNSF requested the same, and the arbitration process is on-going. On October 5, 2018, we received the arbitrators' Interim Award. The details of the Interim Award are confidential and require the parties to submit additional information requested by the arbitrators to decide certain unresolved matters. For the determined components of the Interim Award, we recorded an $18.3 million pre-tax charge in the third quarter 2018, related to certain charges claimed by BNSF for specific services requested for customers from April 2014 through May 2018. On December 7, 2018 the arbitrators' issued their Clarified Interim Award of October 5, 2018 resulting from some of the parties' additional submissions to the Panel regarding certain issues related to determining the revenue division between the parties. On January 11, 2019, the Panel issued its Second Interim Award ordering that $89.4 million is due from the Company to BNSF resulting from the adjusted revenue divisions relating to the 2016 period at issue ($52.1 million) and for calendar year 2017 ($37.3 million). The parties have been instructed to make further submissions on the revenue divisions for calendar year 2018 and going forward, as well as other confidential issues raised during the arbitration process so that the panel can issue an appropriate interim and/or final award regarding all issues raised during the proceeding. We recorded pretax charges for contingent liabilities in the fourth quarter 2018 of $89.4 million claimed by the BNSF for the period May 1, 2016 through December 31, 2017 and $44.6 million for the period January 1, 2018 through December 31, 2018, for a total of $134 million.

The other financial implications from the Interim Award and the Clarified Interim Award will not be fully determined until the arbitrators issue additional award(s) following their review of each party's requested additional submissions. At this time, we are unable to reasonably predict the final outcome of the arbitration, and, as such, no further gain or loss contingency can be determined or recorded. If decided adversely, this matter could result in a liability material to our financial condition or results of operations. BNSF provides a significant amount of rail transportation services to our JBI business segment. Normal commercial business activity between the parties, including load tendering, load tracing, billing and payments, is expected to continue on a timely basis.

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Our common stock is traded on the NASDAQ Global Select Market (NASDAQ) under the symbol "JBHT." At December 31, 2018, we were authorized to issue up to 1 billion shares of our common stock, and 167.1 million shares were issued. We had 108.7 million and 109.8 million shares outstanding as of December 31, 2018 and 2017, respectively. On February 12, 2019, we had 1,133 stockholders of record of our common stock.

Dividend Policy

Our dividend policy is subject to review and revision by the Board of Directors, and payments are dependent upon our financial condition, liquidity, earnings, capital requirements, and any other factors the Board of Directors may deem relevant. On January 23, 2019, we announced an increase in our quarterly cash dividend from $0.24 to $0.26 per share, which will be paid February 22, 2019, to stockholders of record on February 8, 2019. We currently intend to continue paying cash dividends on a quarterly basis. However, no assurance can be given that future dividends will be paid.

Purchases of Equity Securities

The following table summarizes purchases of our common stock during the three months ended December 31, 2018:

Period	Number of Common Shares Purchased	Average Price Paid Per Common Share Purchased	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Maximum Dollar Amount of Shares That May Yet Be Purchased

			(1)	Under the Plan (in millions) (1)
October 1 through October 31, 2018	-	$ -	-	$ 421
November 1 through November 30, 2018	-	-	-	421
December 1 through December 31, 2018	493,905	101.86	493,905	371
Total	493,905	$ 101.86	493,905	$ 371

(1) On April 20, 2017, our Board of Directors authorized the purchase of up to $500 million of our common stock.

Stock Performance Graph

The following graph compares the cumulative 5-year total return of stockholders of our common stock with the cumulative total returns of the S&P 500 index and two customized peer groups. The peer group labeled “Peer Group 2017” consists of 13 companies: C.H. Robinson Worldwide Inc., CSX Corp, Expeditors International Of Washington Inc., Hub Group Inc., Kansas City Southern, Norfolk Southern Corp, Old Dominion Freight Line Inc., Republic Services Inc., Ryder System Inc., Schneider National Inc., Stericycle Inc., Waste Management Inc. and XPO Logistics Inc. The peer group labeled “Peer Group 2018” consists of 14 companies: C.H. Robinson Worldwide Inc., CSX Corp, Expeditors International Of Washington Inc., Hub Group Inc., Kansas City Southern, Knight-Swift Transportation Holdings Inc., Norfolk Southern Corp, Old Dominion Freight Line Inc., Republic Services Inc., Ryder System Inc., Schneider National Inc., Stericycle Inc., Waste Management Inc. and XPO Logistics Inc. The graph assumes the value of the investment in our common stock, in the index, and in each of the peer groups (including reinvestment of dividends) was $100 on December 31, 2013, and tracks it through December 31, 2018. The stock price performance included in this graph is not necessarily indicative of future stock price performance.

	Years Ended December 31,					
	2013	2014	2015	2016	2017	2018
J.B. Hunt Transport Services, Inc.	$100.00	$110.12	$96.88	$129.61	$155.01	$126.48
S&P 500	100.00	113.69	115.26	129.05	157.22	150.33
Peer Group 2017	100.00	120.17	102.00	130.72	176.06	177.76
Peer Group 2018	100.00	120.90	102.35	131.32	176.84	175.96

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the Consolidated Financial Statements and notes thereto, Management's Discussion and Analysis of Financial Condition and Results of Operations, and other financial data included elsewhere in this annual report.

(Dollars in millions, except per share amounts)

Earnings data for the years ended December 31,	2018	2017	2016	2015	2014
Operating revenues	$8,615	$7,190	$6,555	$6,188	$6,165
Operating income	681	624	721	716	632
Net earnings	490	686	432	427	375
Basic earnings per share	4.48	6.24	3.84	3.69	3.20
Diluted earnings per share	4.43	6.18	3.81	3.66	3.16
Cash dividends per share	0.96	0.92	0.88	0.84	0.80
Operating expenses as a percentage of operating revenues:					
Rents and purchased transportation	51.5 %	50.8 %	49.7 %	48.4 %	50.0 %
Salaries, wages and employee benefits	22.4	22.4	22.4	22.5	20.9
Fuel and fuel taxes	5.3	4.8	4.3	5.1	7.4
Depreciation and amortization	5.1	5.3	5.5	5.5	4.8
Operating supplies and expenses	3.5	3.6	3.6	3.6	3.5
General and administrative expenses, net of asset dispositions	1.8	1.8	1.3	1.1	0.8
Insurance and claims	1.5	1.7	1.2	1.2	1.3
Operating taxes and licenses	0.6	0.6	0.7	0.7	0.7
Communication and utilities	0.4	0.3	0.3	0.3	0.4
Total operating expenses	92.1	91.3	89.0	88.4	89.8
Operating income	7.9	8.7	11.0	11.6	10.2
Net interest expense	0.5	0.4	0.4	0.4	0.4
Earnings before income taxes	7.4	8.3	10.6	11.2	9.8
Income taxes	1.7	(1.2)	4.0	4.3	3.7
Net earnings	5.7 %	9.5 %	6.6 %	6.9 %	6.1 %

Balance sheet data as of December 31,	2018	2017	2016	2015	2014
Working capital ratio	1.11	1.45	1.65	1.61	1.11
Total assets (millions)	$5,092	$4,465	$3,951	$3,630	$3,374
Stockholders' equity (millions)	$2,101	$1,839	$1,414	$1,300	$1,205
Current portion of long-term debt (millions)	$251	-	-	-	$250
Total debt (millions)	$1,149	$1,086	$986	$998	$929
Total debt to equity	0.55	0.59	0.70	0.77	0.77
Total debt as a percentage of total capital	35 %	37 %	41 %	43 %	44 %

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

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

Critical Accounting Policies and Estimates

The preparation of our financial statements in accordance with U.S. generally accepted accounting principles requires us to make estimates and assumptions that impact the amounts reported in our Consolidated Financial Statements and accompanying notes. Therefore, the reported amounts of assets, liabilities, revenues, expenses and associated disclosures of contingent liabilities are affected by these estimates. We evaluate these estimates on an ongoing basis, utilizing historical experience, consultation with third parties and other methods considered reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from our estimates. Any effects on our business, financial position or results of operations resulting from revisions to these estimates are recognized in the accounting period in which the facts that give rise to the revision become known. We consider our critical accounting policies and estimates to be those that require us to make more significant judgments and estimates when we prepare our financial statements and include the following:

Workers' Compensation and Accident Costs

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

The amounts of self-insurance change from time to time based on measurement dates, policy expiration dates, and claim type. We have policies in place for 2019 with substantially the same terms as our 2018 policies for personal injury, property damage, workers' compensation, and cargo loss or damage, with the exception of decreasing our self-insured portion of workers' compensation claims to zero for nearly all states.

Our claims accrual policy for all self-insured claims is to recognize a liability at the time of the incident based on our analysis of the nature and severity of the claims and analyses provided by third-party claims administrators, as well as legal, economic, and regulatory factors. Our safety and claims personnel work directly with representatives from the insurance companies to continually update the estimated cost of each claim. The ultimate cost of a claim develops over time as additional information regarding the nature, timing, and extent of damages claimed becomes available. Accordingly, we use an actuarial method to develop current claim information to derive an estimate of our ultimate claim liability. This process involves the use of loss-development factors based on our historical claims experience and includes a contractual premium adjustment factor, if applicable. In doing so, the recorded liability considers future claims growth and provides a reserve for incurred-but-not-reported claims. We do not discount our estimated losses. At December 31, 2018, we had an accrual of approximately $260 million for estimated claims. In addition, we record receivables for amounts expected to be reimbursed for payments made in excess of self-insurance levels on covered claims. At December 31, 2018, we have recorded $261 million of expected reimbursement for covered excess claims, other insurance deposits, and prepaid insurance premiums.

Revenue Equipment

We operate a significant number of tractors, trucks, containers, chassis, and trailers in connection with our business. This equipment may be purchased or acquired under lease agreements. In addition, we may rent revenue equipment from various third parties under short-term rental arrangements. Purchased revenue equipment is depreciated on the straight-line method over the estimated useful life to an estimated salvage or trade-in value. We periodically review the useful lives and salvage values of our revenue equipment and evaluate our long-lived assets for impairment. We have not identified any impairment to our assets at December 31, 2018.

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

Revenue Recognition

We record revenues on the gross basis at amounts charged to our customers because we control and are primarily responsible for the fulfillment of promised services. Accordingly, we serve as a principal in the transaction. We invoice our customers, and we maintain discretion over pricing. Additionally, we are responsible for selection of third-party transportation providers to the extent used to satisfy customer freight requirements.

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

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

Income Taxes

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

The Tax Cuts and Jobs Act (the Act) was enacted in December 2017. Beginning in 2018, the Act reduced the U.S. federal corporate tax rate from 35% to 21%. At December 31, 2017, we made a reasonable estimate of the effects on our existing deferred tax assets and liabilities based on the rates at which they were expected to reverse in the future, which was generally 21%. The provisional amount recorded resulting from the remeasurement of our deferred tax balance was $309.2 million, which was included as a component of 2017 income tax from continuing operations. During 2018, we finalized our calculations for our 2017 federal income tax return, which was filed based on the law prior to the Act, resulting in no significant change to the initial measurement of these balances. Remaining aspects of the Act were not relevant to our operations.

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

RESULTS OF OPERATIONS

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

	Percentage of Operating Revenues			Percentage Change Between Years	
	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
Operating revenues	100.0%	100.0%	100.0%	19.8 %	9.7 %
Operating expenses:					
Rents and purchased transportation	51.5	50.8	49.7	21.5	12.1
Salaries, wages and employee benefits	22.4	22.4	22.4	19.8	9.5
Fuel and fuel taxes	5.3	4.8	4.3	32.1	22.6
Depreciation and amortization	5.1	5.3	5.5	13.7	6.1
Operating supplies and expenses	3.5	3.6	3.6	18.0	10.3
General and administrative expenses, net of asset dispositions	1.8	1.8	1.3	29.7	44.6
Insurance and claims	1.5	1.7	1.2	4.7	57.6
Operating taxes and licenses	0.6	0.6	0.7	14.0	(2.5)
Communication and utilities	0.4	0.3	0.3	28.9	20.1
Total operating expenses	92.1	91.3	89.0	20.8	12.5
Operating income	7.9	8.7	11.0	9.2	(13.5)
Net interest expense	0.5	0.4	0.4	40.8	13.2
Earnings before income taxes	7.4	8.3	10.6	7.7	(14.5)
Income taxes	1.7	(1.2)	4.0	266.1	(134.5)
Net earnings	5.7 %	9.5 %	6.6 %	(28.7 %)	58.8 %

2018 Compared With 2017

Consolidated Operating Revenues

Our total consolidated operating revenues increased 19.8% to $8.61 billion in 2018, compared to $7.19 billion in 2017, primarily due to overall increased load volume and higher revenue per load in all four of our segments. Fuel surcharge revenues increased 40.2% to $1.1 billion in 2018, compared to $754 million in 2017. If fuel surcharge revenues were excluded from both years, our 2018 revenue increased 17.4% over 2017.

Consolidated Operating Expenses

Our 2018 consolidated operating expenses increased 20.8% from 2017, while year-over-year revenue increased 19.8%, resulting in a 2018 operating ratio of 92.1% compared to 91.3% in 2017. Rents and purchased transportation costs increased 21.5% in 2018, primarily due to increased rail and truck purchased transportation rates and the increase in load volume, which increased services provided by third-party rail and truck carriers within JBI and ICS segments. In addition, our JBI segment incurred charges of $152.3 million to rail purchase transportation expense related to the ongoing arbitration with BNSF. Salaries, wages and employee benefit costs increased 19.8% in 2018 from 2017. This increase was primarily related to increases in driver pay and office personnel compensation due to an increase in the number of employees and a tighter supply of qualified drivers.

Fuel and fuel taxes expense increased 32.1% in 2018 compared with 2017, due primarily to an increase in road miles and increases in the price of fuel during 2018. We have fuel surcharge programs in place with the majority of our customers. These programs typically involve a specified computation based on the change in national, regional, or local fuel prices. While these programs may address fuel cost changes as frequently as weekly, most also reflect a specified miles-per-gallon factor and require a certain minimum change in fuel costs to trigger a change in fuel surcharge revenue. As a result, some of these programs have a time lag between when fuel costs change and when this change is reflected in revenues. Due to these programs, this lag negatively impacts operating income in times of rapidly increasing fuel costs and positively impacts operating income when fuel costs decrease rapidly.

It is not meaningful to compare the amount of fuel surcharge revenue or the change in fuel surcharge revenue between reporting periods to fuel and fuel taxes expense, or the change of fuel expense between periods, as a significant portion of fuel cost is included in our payments to railroads, dray carriers and other third parties. These payments are classified as purchased transportation expense.

Depreciation and amortization expense increased 13.7% in 2018, primarily due to additions to our JBI segment tractor, container and chassis fleets to support additional business demand and equipment purchased related to new DCS long-term customer contracts.

Operating supplies and expenses increased 18.0%, driven primarily by higher equipment maintenance and tire expenses due to increased equipment counts, higher travel costs, increased toll costs, and higher building maintenance expenses. General and administrative expenses increased 29.7% from 2017, primarily due to increased building and computer rentals, higher professional fees, higher advertising costs, higher bad debt expense driven by a customer bankruptcy, and increased net losses from asset sales and disposals, partially offset by the 2017 inclusion of a $20.2 million reserve of a cash advance for the purchases of new trailing equipment from a manufacturer that did not meet delivery. Additionally, net losses from sale or disposal of assets were $12.1 million in 2018, compared to net losses of $7.4 million in 2017. Insurance and claims expense increased 4.7% in 2018, primarily due to higher incident volume.

Net interest expense for 2018 increased by 40.8% compared with 2017, due to an increase in average debt levels, higher effective interest rates on our debt, and expenses incurred to refinance our revolving line of credit compared to 2017.

Our effective income tax rate was 23.6% in 2018 and (15.29%) in 2017. The increase in 2018 was primarily due to a $309.2 million decrease in income tax expense in 2017 resulting from adjustments to our deferred tax balances at December 31, 2017, for the change in future tax rates prescribed by the Tax Cuts and Jobs Act.

Segments

We operated four business segments during calendar year 2018. The operation of each of these businesses is described in our Notes to Consolidated Financial Statements. The following tables summarize financial and operating data by segment:

	Operating Revenue by Segment Years Ended December 31, (in millions)		
	2018	2017	2016
JBI	$4,717	$4,084	$3,796
DCS	2,163	1,719	1,533
ICS	1,335	1,025	852
JBT	417	378	388
Total segment revenues	8,632	7,206	6,569
Intersegment eliminations	(17)	(16)	(14)
Total	$8,615	$7,190	$6,555

	Operating Income by Segment Years Ended December 31, (in millions)		
	2018	2017	2016
JBI	$401	$407	$450
DCS	193	171	205
ICS	50	23	36
JBT	37	23	30
Total	$681	$624	$721

Operating Data by Segment

	Years Ended December 31,		
	2018	2017	2016
JBI			
Loads	2,049,014	1,999,807	1,916,303
Average length of haul (miles)	1,648	1,681	1,657
Revenue per load	$2,302	$2,042	$1,981
Average tractors during the period[(1)]	5,551	5,362	5,222
Tractors (end of period)			
Company-owned	5,017	4,776	4,581
Independent contractor	633	764	695
Total tractors	5,650	5,540	5,276
Net change in trailing equipment during the period	6,262	4,016	5,637
Trailing equipment (end of period)	94,902	88,610	84,594
Average effective trailing equipment usage	88,739	82,969	77,179
DCS			
Loads	2,981,344	2,575,245	2,401,332
Average length of haul (miles)	177	178	177
Revenue per truck per week[(2)]	$4,534	$4,226	$4,077
Average trucks during the period[(3)]	9,264	7,946	7,307
Trucks (end of period)			
Company-owned	9,652	8,124	6,976
Independent contractor	51	59	15
Customer-owned (DCS-operated)	412	544	410
Total trucks	10,115	8,727	7,401
Trailing equipment (end of period)	26,710	25,811	22,688
Average effective trailing equipment usage	26,806	24,550	22,827
ICS			
Loads	1,234,632	992,834	852,179
Revenue per load	$1,081	$1,032	$999
Gross profit margin	15.4 %	13.3 %	14.3 %
Employee count (end of period)	1,142	954	824
Approximate number of third-party carriers (end of period)	73,100	56,700	50,900
JBT			
Loads	355,038	370,591	385,298
Average length of haul (miles)	427	435	455
Loaded miles (000)	151,322	160,932	175,038
Total miles (000)	181,718	192,433	207,998
Average nonpaid empty miles per load	85.5	85.1	85.6
Revenue per tractor per week[(2)]	$4,148	$3,556	$3,458
Average tractors during the period[(1)]	1,990	2,098	2,191
Tractors (end of period)			

Company-owned	1,139	1,291	1,376
Independent contractor	973	741	752
Total tractors	2,112	2,032	2,128
Trailing equipment (end of period)	6,800	7,120	7,642
Average effective trailing equipment usage	6,513	7,066	6,956

(1) Includes company-owned and independent contractor tractors
(2) Using weighted workdays
(3) Includes company-owned, independent contractor, and customer-owned trucks

JBI Segment

JBI segment revenue increased 15% to $4.72 billion in 2018, from $4.08 billion in 2017. This increase in revenue was primarily a result of a 2% increase in load volume and a 13% increase in revenue per load, which is the combination of changes in freight mix, customer rates, and fuel surcharge revenue. Eastern network loads grew at 10% and transcontinental loads decreased 2% compared to 2017. Average length of haul decreased 2% in 2018 when compared to 2017. Revenue per load excluding fuel surcharges increased approximately 10% compared to 2017.

Operating income of the JBI segment decreased to $401 million in 2018, from $407 million in 2017. Benefits from volume growth and increased revenue per load were offset by increases in rail purchased transportation costs, which included $152.3 million of additional expense related to the ongoing arbitration with BNSF. Benefits where further offset by higher driver wage and retention costs, higher driver recruiting expenses, higher outsourced dray costs, increased costs for onboarding and integration of container tracking technologies, higher equipment ownership costs, and costs of reduced efficiency and disruptions within the rail network. In addition, 2017 included a $20.2 million expense for the reserve of a cash advance for the purchases of new trailing equipment from a manufacturer that did not meet delivery.

DCS Segment

DCS segment revenue increased 26% to $2.16 billion in 2018, from $1.72 billion in 2017. Productivity, defined as revenue per truck per week, increased 7% when compared to 2017. Productivity excluding fuel surcharge revenue increased 5% from 2017. The increase in productivity was primarily a result of better integration of assets between customer accounts, customer rate increases, and increased customer supply chain fluidity during 2018 compared to 2017. In addition, the growth in DCS revenue includes an increase of $113 million in Final Mile Services (FMS) revenue, approximately $66 million of which was derived from the 2017 acquisition of Special Logistics Dedicated, LLC (SLD). DCS ended 2018 with a net additional 1,388 revenue-producing trucks when compared to 2017.

Operating income of our DCS segment increased to $193 million in 2018, from $171 million in 2017. Increased revenue and improved asset integration was offset by higher costs from the expanded FMS network, increased driver wages and recruiting costs, higher non-driver salaries, wages and benefits, increased maintenance costs on equipment scheduled to be traded in the current year, higher overall insurance and claims costs, implementation costs for new customer contracts and approximately $4.4 million in additional non-cash amortization expense compared to 2017.

ICS Segment

ICS segment revenue increased 30% to $1.33 billion in 2018, from $1.02 billion in 2017. Overall volumes increased 24%. Revenue per load increased 5% primarily due to increased contractual and spot rates. Contractual business was approximately 70% of the total load volume and 48% of the total revenue in the 2018, compared to 70% of the total load volume and 53% of the total revenue in 2017.

Operating income increased to $50 million in 2018, from $23 million in 2017. Gross profit margin improved to 15.4% in the current year compared to 13.3% in 2017 primarily due to improved contractual margins and increased spot market activity. This increase in gross profit margin was partially offset by higher personnel costs, higher technology development costs, and increase bad debt expense due to a customer bankruptcy. Approximately $558 million of ICS revenue for 2018 was executed through the marketplace for JBHunt360. ICS's carrier base increased 29%, and the employee count increased 20% when compared to 2017.

JBT Segment

JBT segment revenue increased 10% to $417 million in 2018, from $378 million in 2017. Excluding fuel surcharges, revenue for 2018 increased 9% compared to 2017, primarily from a 16% increase in rates per loaded mile, partially offset by an 4% decrease in load count.

JBT segment had operating income of $37 million in 2018 compared with $23 million in 2017. The increase in operating income was driven primarily by higher rates per loaded mile and lower equipment ownership costs, partially offset by increased driver wage and retention costs, higher driver and independent contractor recruiting expenses, and higher independent contractor costs per mile.

2017 Compared With 2016

Consolidated Operating Revenues

Our total consolidated operating revenues increased 9.7% to $7.19 billion in 2017, compared to $6.56 billion in 2016, primarily due to overall increased load volume and higher revenue per load in our JBI, DCS, and ICS segments. Fuel surcharge revenues increased 37.5% to $754 million in 2017, compared to $548 million in 2016. If fuel surcharge revenues were excluded from both years, our 2017 revenue increased 7.1% over 2016.

Consolidated Operating Expenses

Our 2017 consolidated operating expenses increased 12.5% from 2016, while year-over-year revenue increased 9.7%, resulting in a 2017 operating ratio of 91.3% compared to 89.0% in 2016. Rents and purchased transportation costs increased 12.1% in 2017, primarily due to increased rail and truck purchased transportation rates and the increase in load volume, which increased services provided by third-party rail and truck carriers within JBI and ICS segments. Salaries, wages and employee benefit costs increase 9.5% in 2017 from 2016. This increase was primarily related to increases in driver pay and office personnel compensation due to an increase in the number of employees and a tighter supply of qualified drivers. In addition, 2016 included a $15.2 million benefit recorded to reflect a change in our employee paid time off policy.

Fuel and fuel taxes expense increased 22.6% in 2017 compared with 2016, due primarily to increases in the price of fuel during 2017. Depreciation and amortization expense increased 6.1% in 2017, primarily due to additions to our JBI segment tractor, container and chassis fleets to support additional business demand and equipment purchased related to new DCS long-term customer contracts.

Operating supplies and expenses increased 10.3%, driven primarily by increased mileage activity and tire expense. General and administrative expenses increased 44.6% from 2016, primarily due to a $20.2 million reserve of a cash advance for the purchases of new trailing equipment from a manufacturer that did not meet delivery, increased building rental expense, higher professional fee expenses, higher computer software subscription costs, and increased net losses from asset sales and disposals in 2017. Net losses from sale or disposal of assets were $7.4 million in 2017, compared to net losses of $5.5 million in 2016. Insurance and claims expense increased 57.6% in 2017, primarily due to higher incident volume and accident severity and an $18.6 million increase in reserves for certain claims not covered by insurance.

Net interest expense for 2017 increased by 13.2% compared with 2016, due to an increase in average debt levels and higher effective interest rates on our debt during 2017.

Our effective income tax rate was (15.29)% in 2017 and 37.90% in 2016. The decrease in 2017 was primarily due to a $309.2 million decrease in income tax expense resulting from adjustments to our deferred tax balances at December 31, 2017, for the change in future tax rates prescribed by the Tax Cuts and Jobs Act.

JBI Segment

JBI segment revenue increased 7.6% to $4.08 billion in 2017, from $3.80 billion in 2016. This increase in revenue was primarily a result of an 4.4% increase in load volume and a 3.1% increase in revenue per load, which is the combination of changes in freight mix, customer rates, and fuel surcharge revenue. Load volume in our transcontinental loads grew 7.2% while our eastern network was relatively flat compared to 2016. Average length of haul increased 1.4% in 2017 when compared to 2016. Revenue per load excluding fuel surcharge was flat in 2017 when compared to 2016.

Operating income of the JBI segment decreased to $407 million in 2017, from $450 million in 2016. Benefits from volume growth and increased revenue per load were offset by increases in rail purchased transportation costs, rail inefficiencies, higher driver wages and recruiting costs, higher equipment ownership costs, increased insurance and claims costs, which included an $8.5 million increase in reserves for certain insurance and claims, and the $20.2 million expense for the reserve of a cash advance for the purchases of new trailing equipment from a manufacturer that did not meet delivery. In addition, 2016 included a $5.7 million, one-time benefit from the change in paid time off policy.

DCS Segment

DCS segment revenue increased 12.1% to $1.72 billion in 2017, from $1.53 billion in 2016. Productivity, defined as revenue per truck per week, increased 3.7% when compared to 2016. Revenue, excluding fuel surcharges, increased 10.0% in 2017 compared to 2016, and productivity excluding fuel surcharge revenue increased 1.6% from 2016. The increase in revenue in 2017 was primarily a result of better integration of assets among customer accounts and customer rate increases, partially offset by lower productivity under new customer contracts, compared to 2016. DCS ended 2017 with a net additional 1,326 revenue-producing trucks when compared to 2016.

Operating income of our DCS segment decreased to $171 million in 2017, from $205 million in 2016. The increase in revenue and improved asset utilization were offset by higher driver wages and recruiting costs, increased insurance and claims cost, which included a $7.6 million increase in reserves for certain insurance and claims, increased start up expenditures for new customer contracts, higher equipment ownership costs, and the addition of acquisition costs and intangible asset amortization associated with the purchase of SLD when compared to 2016. In addition, 2016 included a $7.3 million, one-time benefit from the change in paid time off policy.

ICS Segment

ICS segment revenue increased 20.3% to $1.02 billion in 2017, from $852 million in 2016. Overall volumes increased 16.5%. Revenue per load increased 3.3% primarily due to freight mix changes driven by customer demand. Contractual business was approximately 70% of the total load volume and 53% of the total revenue in the 2017, compared to 74% of the total load volume and 64% of the total revenue in 2016.

Operating income decreased to $23 million in 2017, from $36 million in 2016, primarily due to lower gross profit margins, increased insurance and claims cost, which included a $1.8 million increase in reserves for certain insurance and claims, increased number of branches less than two years old, and higher technology development costs. ICS gross profit margin decreased to 13.3% for 2017 from 14.3% for 2016. ICS's carrier base increased 11.4%, and the employee count increased 15.8% when compared to 2016. In addition, 2016 included a $1.0 million, one-time benefit from the change in paid time off policy.

JBT Segment

JBT segment revenue decreased 2.4% to $378 million in 2017, from $388 million in 2016, primarily from a 3.8% decrease in load count partially offset by a 1.4% increase in revenue per load. Excluding fuel surcharges, revenue for 2017 decreased 4.5% compared to 2016, primarily due to the reduction in load volume and a 4.4% decrease in length of haul.

JBT segment had operating income of $23 million in 2017 compared with $30 million in 2016. The decrease in operating income was driven primarily by lower revenue, increased driver wages and recruiting costs, higher independent contractor cost per mile, increased insurance and claims cost, which included an $0.7 million increase in reserves for certain insurance and claims, and increased tractor maintenance costs compared to 2016. In addition, 2016 included a $1.2 million, one-time benefit from the change in paid time off policy.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities totaled $1.09 billion in 2018, compared to $855 million in 2017. This increase was primarily due to the increase in pre-tax earnings and the reduction in the U.S. federal corporate tax rate as a result of the Tax Cuts and Jobs Act, in 2018.

Net cash used in investing activities totaled $887 million in 2018, compared with $651 million in 2017. The increase resulted primarily from an increase in equipment purchases, net of proceeds from the sale of equipment, in 2018, partially offset by the 2017 purchase of SLD.

Net cash used in financing activities was $208 million in 2018, compared with $196 million in 2017. This increase resulted primarily from lower proceeds from long-term debt issuances, net of long-term debt repayments, partially offset by a decrease in treasury stock purchased in 2018.

Our dividend policy is subject to review and revision by the Board of Directors, and payments are dependent upon our financial condition, liquidity, earnings, capital requirements, and other factors the Board of Directors may deem relevant. We paid a $0.22 per share quarterly dividend in 2016, a $0.23 per share quarterly dividend in 2017, and a $0.24 per share quarterly dividend in 2018. On January 23, 2019, we announced an increase in our quarterly cash dividend from $0.24 to $0.26 per share, which will be paid February 22, 2019, to stockholders of record on February 8, 2019. We currently intend to continue paying cash dividends on a quarterly basis. However, no assurance can be given that future dividends will be paid.

Liquidity

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

In September 2018, we replaced our $500 million senior revolving credit facility dated September 2015 with a new credit facility authorizing us to borrow up to $750 million under a senior revolving line of credit, which is supported by a credit agreement with a group of banks and expires September 2023. This senior credit facility allows us to request an increase in the total commitment by up to $250 million and to request a one-year extension of the maturity date. The applicable interest rate under this agreement is based on the Prime Rate, the Federal Funds Rate, or LIBOR, depending upon the specific type of borrowing, plus an applicable margin based on our credit rating and other fees. At December 31, 2018, we had $309 million outstanding at an average interest rate of 3.47% under this agreement.

Our senior notes consist of three separate issuances. The first and second issuances are $250 million of 2.40% senior notes due March 2019 and $250 million of 3.85% senior notes due March 2024, respectively, both of which were issued in March 2014. Interest payments under both notes are due semiannually in March and September of each year. The third issuance is $350 million of 3.30% senior notes due August 2022, issued in August 2015. Interest payments under this note are due semiannually in February and August of each year. We may redeem for cash some or all of these notes based on a redemption price set forth in the note indenture. We currently have interest rate swap agreements which effectively convert our $250 million of 2.40% fixed-rate senior notes due March 2019 and our $350 million of 3.30% fixed-rate senior notes due August 2022 to variable rates, resulting in interest rates of 3.63% and 3.97%, respectively, at December 31, 2018. The applicable interest rates under these swap agreements are based on LIBOR plus an established margin. For our senior notes maturing in 2019, it is our intent to pay the entire outstanding balances in full, on or before the maturity dates, using our existing senior revolving line of credit or other sources of long-term financing. In addition, we have a shelf registration filed with the SEC and may draw upon it as warranted.

Our financing arrangements require us to maintain certain covenants and financial ratios. We were in compliance with all covenants and financial ratios at December 31, 2018.

As previously mentioned above, the Tax Cuts and Jobs Act was enacted in December 2017. Beginning in 2018, the Act reduced the U.S. federal corporate tax rate from 35% to 21%, which had a positive effect on our overall liquidity.

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

We are currently committed to spend approximately $381.6 million, net of proceeds from sales or trade-ins, during 2019 and 2020, which is primarily related to the acquisition of containers, chassis, and tractors.

Off-Balance Sheet Arrangements

In addition to our net purchase commitments of $381.6 million, our only other off-balance sheet arrangements are related to operating leases. As of December 31, 2018, we had approximately $117.8 million of obligations, primarily related to facility leases.

Contractual Obligations and Commitments

The following table summarizes our expected obligations and commitments (in millions) as of December 31, 2018:

	Total	2019	2020-2021	2022-2023	2024 and thereafter
Operating leases	$117.8	$34.9	$ 50.6	$ 21.9	$ 10.4
Long-term debt obligations	1,159.0	250.0	-	659.0	250.0
Interest payments on debt [1]	154.3	36.1	68.5	47.3	2.4
Commitments to acquire revenue equipment and facilities	381.6	381.6	-	-	-
Total	$1,812.7	$702.6	$ 119.1	$ 728.2	$ 262.8

[1] Interest payments on debt are based on the debt balance and applicable rate at December 31, 2018.

We had standby letters of credit outstanding of approximately $1.3 million at December 31, 2018, that expire at various dates in 2019, which are related to certain operating agreements and our self-insured retention levels for casualty and workers' compensation claims. We plan to renew these letters of credit in accordance with our third-party agreements. The table above excludes $56.8 million of liabilities related to uncertain tax positions, including interest and penalties, as we are unable to reasonably estimate the ultimate timing of settlement. See Note 7, Income Taxes, in the Notes to Consolidated Financial Statements for further discussion.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk can be quantified by measuring the financial impact of a near-term adverse increase in short-term interest rates on variable-rate debt outstanding. Our total long-term debt consists of both fixed and variable interest rate facilities. Our senior notes have fixed interest rates ranging from 2.40% to 3.85%. These fixed-rate facilities reduce the impact of changes to market interest rates on future interest expense. Our senior revolving line of credit has variable interest rates, which are based on the Prime Rate, the Federal Funds Rate, or LIBOR, depending upon the specific type of borrowing, plus any applicable margins. We currently have interest rate swap agreements which effectively convert our $250 million of 2.40% fixed-rate senior notes due March 2019 and our $350 million of 3.30% fixed-rate senior notes due August 2022 to variable rates. The applicable interest rates under these swap agreements are based on LIBOR plus an established margin. Our earnings would be affected by changes in these short-term variable interest rates. At our current level of borrowing, a one-percentage-point increase in our applicable rate would reduce annual pretax earnings by $9.1 million.

Although we conduct business in foreign countries, international operations are not material to our consolidated financial position, results of operations, or cash flows. Additionally, foreign currency transaction gains and losses were not material to our results of operations for the year ended December 31, 2018. Accordingly, we are not currently subject to material foreign currency exchange rate risks from the effects that exchange rate movements of foreign currencies would have on our future costs or on future cash flows we would receive from our foreign investment. To date, we have not entered into any foreign currency forward exchange contracts or other derivative financial instruments to hedge the effects of adverse fluctuations in foreign currency exchange rates.

The price and availability of diesel fuel are subject to fluctuations due to changes in the level of global oil production, seasonality, weather, and other market factors. Historically, we have been able to recover a majority of fuel-price increases from our customers in the form of fuel surcharges. We cannot predict the extent to which volatile fluctuations in fuel prices will continue in the future or the extent to which fuel surcharges could be collected to offset fuel-price increases. As of December 31, 2018, we had no derivative financial instruments to reduce our exposure to fuel-price fluctuations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2018 and 2017

Consolidated Statements of Earnings for years ended December 31, 2018, 2017, and 2016

Consolidated Statements of Stockholders’ Equity for years ended December 31, 2018, 2017, and 2016

Consolidated Statements of Cash Flows for years ended December 31, 2018, 2017, and 2016

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain controls and procedures designed to ensure that the information we are required to disclose in the reports we file with the SEC is recorded, processed, summarized and reported, within the time periods specified in the SEC rules, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2018.

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

Management's Report on Internal Control Over Financial Reporting

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

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

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework (2013 Framework).* Based on our assessment, we believe that as of December 31, 2018, our internal control over financial reporting is effective based on those criteria.

The effectiveness of internal control over financial reporting as of December 31, 2018, has been audited by Ernst & Young LLP, an independent registered public accounting firm that also audited our Consolidated Financial Statements. Ernst & Young LLP's report on internal control over financial reporting is included herein (following Item 15).

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the fourth quarter ended December 31, 2018, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required for Item 10 is hereby incorporated by reference from the Notice and Proxy Statement for the Annual Meeting of Stockholders to be held April 18, 2019.

ITEM 11. EXECUTIVE COMPENSATION

The information required for Item 11 is hereby incorporated by reference from the Notice and Proxy Statement for the Annual Meeting of Stockholders to be held April 18, 2019.

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

Except as set forth below, the information required for Item 12 is hereby incorporated by reference from the Notice and Proxy Statement for the Annual Meeting of Stockholders to be held April 18, 2019.

Securities Authorized For Issuance Under Equity Compensation Plans

The following table summarizes, as of December 31, 2018, information about compensation plans under which equity securities of the Company are authorized for issuance.

Plan Category[1]	Number of Securities To Be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (A)	Weighted-average Exercise Price of Outstanding Options, Warrants, and Rights (B)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (A)) (C)
Equity compensation plans approved by security holders	1,606,347	$ - [2]	6,260,958

(1) We have no equity compensation plans that are not approved by security holders.

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

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

The information required for Item 13 is hereby incorporated by reference from the Notice and Proxy Statement for the Annual Meeting of Stockholders to be held April 18, 2019.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required for Item 14 is hereby incorporated by reference from the Notice and Proxy Statement for the Annual Meeting of Stockholders to be held April 18, 2019.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

(1) Financial Statements
The financial statements included in Item 8 above are filed as part of this annual report.

(2) Financial Statement Schedules
Schedule II – Valuation and Qualifying Accounts (in millions)

Allowance for Doubtful Accounts, Revenue Adjustments and Other for the Years Ended:	Balance at Beginning of Year	Charged to Expense/ Against Revenue	Write-Offs, Net of Recoveries	Balance at End of Year
December 31, 2016	9.9	19.5	(16.0)	13.4
December 31, 2017	13.4	29.3	(18.7)	24.0
December 31, 2018	24.0	35.7	(23.9)	35.8

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

(3) Exhibits

Exhibit Number	Description

3.1	Amended and Restated Articles of Incorporation of J.B. Hunt Transport Services, Inc. dated May 19, 1988 (incorporated by reference from Exhibit 3.1 of the Company's quarterly report on Form 10-Q for the period ended March 31, 2005, filed April 29, 2005)
3.2	Amended and Restated Bylaws of J.B. Hunt Transport Services, Inc. dated April 23, 2015 (incorporated by reference from Exhibit 3.1 of the Company's current report on Form 8-K, filed April 27, 2015)
10.1	Amended and Restated Employee Retirement Plan (incorporated by reference from Exhibit 99 of the Company's registration statement on Form S-8 (File No. 033-57127), filed December 30, 1994)
10.2	Third Amended and Restated Management Incentive Plan (incorporated by reference from Appendix A of the Company's definitive proxy statement on Schedule 14A, filed March 9, 2017)
10.3	Summary of Compensation Arrangements with Named Executive Officers for 2018 (incorporated by reference from Exhibit 99.1 of the Company's current report on Form 8-K, filed January 25, 2018)
10.4	Summary of Compensation Arrangements with Named Executive Officers for 2019 (incorporated by reference from Exhibit 99.1 of the Company's current report on Form 8-K, filed January 25, 2019)
10.5	Indenture (incorporated by reference from Exhibit 4.1 of the Company's registration statement on Form S-3ASR (File No. 333-169365), filed September 14, 2010)
10.6	Second Supplemental Indenture (incorporated by reference from Exhibit 4.2 of the Company's current report on Form 8-K, filed March 6, 2014)
10.7	Third Supplemental Indenture (incorporated by reference from Exhibit 4.4 of the Company's current report on Form 8-K, filed March 6, 2014)

10.8	Fourth Supplemental Indenture (incorporated by reference from Exhibit 4.3 of the Company's current report on Form 8-K, filed August 6, 2015)
10.9	Credit Agreement and related documents (incorporated by reference from Exhibit 10.1 of the Company's current report on Form 8-K, filed September 28, 2018)
21.1	Subsidiaries of J.B. Hunt Transport Services, Inc.
23.1	Consent of Ernst & Young LLP
31.1	Rule 13a-14(a)/15d-14(a) Certification
31.2	Rule 13a-14(a)/15d-14(a) Certification
32.1	Section 1350 Certification
99.1	Equity Interests Purchase Agreement dated July 20, 2017 (incorporated by reference from Exhibit 99.1 of the Company's current report on Form 8-K, filed July 25, 2017)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, in the City of Lowell, Arkansas, on the 22nd day of February 2019.

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

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on the 22nd day of February 2019, on behalf of the registrant and in the capacities indicated.

/s/ John N. Roberts, III John N. Roberts, III	President and Chief Executive Officer, Member of the Board of Directors (Principal Executive Officer)
/s/ David G. Mee David G. Mee	Executive Vice President, Finance and Administration, Chief Financial Officer (Principal Financial Officer)
/s/ John Kuhlow John Kuhlow	Senior Vice President Finance, Controller, Chief Accounting Officer
/s/ Kirk Thompson Kirk Thompson	Chairman of the Board of Directors
/s/ James L. Robo James L. Robo	Member of the Board of Directors (Lead Director)
/s/ Douglas G. Duncan Douglas G. Duncan	Member of the Board of Directors
/s/ Francesca M. Edwardson Francesca M. Edwardson	Member of the Board of Directors
/s/ Wayne Garrison	Member of the Board of Directors

Wayne Garrison	
/s/ Sharilyn S. Gasaway Sharilyn S. Gasaway	Member of the Board of Directors
/s/ Gary C. George Gary C. George	Member of the Board of Directors
/s/ J. Bryan Hunt, Jr. J. Bryan Hunt, Jr.	Member of the Board of Directors
/s/ Coleman H. Peterson Coleman H. Peterson	Member of the Board of Directors

INDEX TO CONSOLIDATED FINANCIAL INFORMATION

Management's Report on Internal Control Over Financial Reporting

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

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

We are responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements. Because of its inherent limitation, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. We assessed the effectiveness of our internal control over financial reporting as of December 31, 2018. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework (2013 Framework)*. Based on our assessment, we believe that as of December 31, 2018, our internal control over financial reporting is effective based on those criteria.

The effectiveness of internal control over financial reporting as of December 31, 2018, has been audited by Ernst & Young LLP, an independent registered public accounting firm that also audited our Consolidated Financial Statements. Ernst & Young LLP's report on internal control over financial reporting is included herein.

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

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

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of J.B. Hunt Transport Services, Inc. (the Company) as of December 31, 2018 and 2017, the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 22, 2019, expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2005.

Rogers, Arkansas

February 22, 2019

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited J.B. Hunt Transport Services, Inc.’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, J.B. Hunt Transport Services, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets as of December 31, 2018 and 2017, the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the “financial statements”) of the Company and our report dated February 22, 2019, expressed an unqualified opinion thereon.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Ernst & Young LLP

Rogers, Arkansas

February 22, 2019

J.B. HUNT TRANSPORT SERVICES, INC.
Consolidated Balance Sheets
December 31, 2018 and 2017
(in thousands, except share data)

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$7,600	$14,612
Trade accounts receivable, net	1,051,698	920,767
Other receivables, net	274,511	283,499
Inventories	21,977	20,688
Prepaid expenses	147,195	99,162
Total current assets	1,502,981	1,338,728
Property and equipment, at cost:		
Revenue and service equipment	4,716,860	4,158,878
Land	49,486	47,231
Structures and improvements	238,202	202,730
Furniture and office equipment	324,695	261,625
Total property and equipment	5,329,243	4,670,464
Less accumulated depreciation	1,884,132	1,687,133
Net property and equipment	3,445,111	2,983,331
Goodwill	40,087	39,764
Other intangible assets, net	65,070	73,691
Other assets	38,398	29,835
Total assets	$5,091,647	$4,465,349
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	$250,706	$-
Trade accounts payable	709,736	598,594
Claims accruals	275,139	251,980
Accrued payroll	80,922	42,382
Other accrued expenses	35,845	28,888
Total current liabilities	1,352,348	921,844
Long-term debt	898,398	1,085,649
Other long-term liabilities	96,056	76,661
Deferred income taxes	643,461	541,870
Total liabilities	2,990,263	2,626,024
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, $100 par value. 10 million shares authorized; none outstanding	-	-
Common stock, $.01 par value. 1 billion shares authorized; (167,099,432 shares issued at December 31, 2018 and 2017, of which 108,710,825 shares and 109,753,008 shares were outstanding at December 31, 2018 and 2017, respectively)	1,671	1,671
Additional paid-in capital	340,457	310,811

Retained earnings	4,188,435	3,803,844
Treasury stock, at cost (58,388,607 shares at December 31, 2018, and 57,346,424 shares at December 31, 2017)	(2,429,179)	(2,277,001)
Total stockholders' equity	2,101,384	1,839,325
Total liabilities and stockholders' equity	$5,091,647	$4,465,349

See Notes to Consolidated Financial Statements.

J.B. HUNT TRANSPORT SERVICES, INC.
Consolidated Statements of Earnings
Years Ended December 31, 2018, 2017 and 2016
(in thousands, except per share amounts)

	2018	**2017**	**2016**
Operating revenues, excluding fuel surcharge revenues	$7,557,648	$6,435,858	$6,007,347
Fuel surcharge revenues	1,057,226	753,710	548,112
Total operating revenues	8,614,874	7,189,568	6,555,459
Operating expenses:			
Rents and purchased transportation	4,434,540	3,650,806	3,255,692
Salaries, wages and employee benefits	1,926,213	1,608,378	1,469,187
Fuel and fuel taxes	459,011	347,573	283,437
Depreciation and amortization	435,893	383,518	361,510
Operating supplies and expenses	303,529	257,239	233,223
General and administrative expenses, net of asset dispositions	163,270	125,878	87,053
Insurance and claims	129,406	123,579	78,410
Operating taxes and licenses	51,080	44,825	45,954
Communication and utilities	30,911	23,983	19,973
Total operating expenses	7,933,853	6,565,779	5,834,439
Operating income	681,021	623,789	721,020
Interest income	224	235	71
Interest expense	40,427	28,785	25,294
Earnings before income taxes	640,818	595,239	695,797
Income taxes	151,233	(91,024)	263,707
Net earnings	$489,585	$686,263	$432,090
Weighted average basic shares outstanding	109,375	109,987	112,474
Basic earnings per share	$4.48	$6.24	$3.84
Weighted average diluted shares outstanding	110,428	111,049	113,361
Diluted earnings per share	$4.43	$6.18	$3.81
Dividends declared per common share	$0.96	$0.92	$0.88

See Notes to Consolidated Financial Statements.

J.B. HUNT TRANSPORT SERVICES, INC.
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2018, 2017 and 2016
(in thousands, except per share amounts)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Stockholders' Equity
Balances at December 31, 2015	$ 1,671	$ 268,728	$ 2,885,843	$ (1,855,890)	$ 1,300,352
Comprehensive income:					
Net earnings	-	-	432,090	-	432,090
Cash dividend declared and paid ($0.88 per share)	-	-	(98,990)	-	(98,990)
Tax benefit of stock options exercised and restricted shares issued	-	7,044	-	-	7,044
Purchase of treasury shares	-	-	-	(249,760)	(249,760)
Share-based compensation	-	40,625	-	-	40,625
Stock option exercises and restricted share issuances, net of stock repurchased for payroll taxes	-	(23,310)	-	6,010	(17,300)
Balances at December 31, 2016	$ 1,671	$ 293,087	$ 3,218,943	$ (2,099,640)	$ 1,414,061
Comprehensive income:					
Net earnings	-	-	686,263	-	686,263
Cash dividend declared and paid ($0.92 per share)	-	-	(101,362)	-	(101,362)
Purchase of treasury shares	-	-	-	(179,813)	(179,813)
Share-based compensation	-	38,291	-	-	38,291
Restricted share issuances, net of stock repurchased for payroll taxes	-	(20,567)	-	2,452	(18,115)
Balances at December 31, 2017	$ 1,671	$ 310,811	$ 3,803,844	$ (2,277,001)	$ 1,839,325
Comprehensive income:					
Net earnings	-	-	489,585	-	489,585
Cash dividend declared and paid ($0.96 per share)	-	-	(104,994)	-	(104,994)
Purchase of treasury shares	-	-	-	(150,338)	(150,338)
Share-based compensation	-	47,369	-	-	47,369
Restricted share issuances, net of stock repurchased for payroll taxes	-	(17,723)	-	(1,840)	(19,563)
Balances at December 31, 2018	$ 1,671	$ 340,457	$ 4,188,435	$ (2,429,179)	$ 2,101,384

See Notes to Consolidated Financial Statements.

J.B. HUNT TRANSPORT SERVICES, INC.
Consolidated Statements of Cash Flows
Years Ended December 31, 2018, 2017 and 2016
(in thousands)

	2018	**2017**	**2016**
Cash flows from operating activities:			
Net earnings	$489,585	$686,263	$432,090
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	435,893	383,518	361,510
Share-based compensation	47,369	38,291	40,625
Loss on sale of revenue equipment and other	12,107	7,370	5,490
Advance deposit impairment	-	20,240	-
Deferred income taxes	101,591	(248,764)	50,414
Changes in operating assets and liabilities:			
Trade accounts receivable	(130,931)	(166,111)	(120,994)
Income taxes receivable or payable	(41,071)	(45,542)	60,956
Other current assets	(6,133)	69,462	(37,101)
Trade accounts payable	98,037	85,237	60,818
Claims accruals	21,580	25,021	5,524
Accrued payroll and other accrued expenses	59,814	168	(5,189)
Net cash provided by operating activities	1,087,841	855,153	854,143
Cash flows from investing activities:			
Additions to property and equipment	(995,650)	(526,928)	(638,430)
Proceeds from sale of equipment	110,165	16,413	153,174
Business acquisition	-	(136,879)	-
Change in other assets	(1,288)	(3,888)	(132)
Net cash used in investing activities	(886,773)	(651,282)	(485,388)
Cash flows from financing activities:			
Proceeds from revolving lines of credit and other	3,204,715	2,716,155	1,715,427
Payments on revolving lines of credit and other	(3,137,900)	(2,612,501)	(1,724,365)
Purchase of treasury stock	(150,338)	(179,813)	(249,760)
Stock option exercises and other	967	1,100	1,341
Stock repurchased for payroll taxes	(20,530)	(19,215)	(18,641)
Tax benefit of stock options exercised and restricted shares issued	-	-	7,044
Dividends paid	(104,994)	(101,362)	(98,990)
Net cash used in financing activities	(208,080)	(195,636)	(367,944)

Net increase/(decrease) in cash and cash equivalents	(7,012)	8,235	811
Cash and cash equivalents at beginning of year	14,612	6,377	5,566
Cash and cash equivalents at end of year	$7,600	$14,612	$6,377
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	$39,901	$28,785	$24,800
Income taxes	$83,822	$190,783	$143,634
Noncash investing activities			
Accruals for equipment received	$49,390	$53,026	$13,522

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Business

J.B. Hunt Transport Services, Inc. is one of the largest surface transportation and delivery service companies in North America. We operate four distinct, but complementary, business segments and provide a wide range of general and specifically tailored freight and logistics services to our customers. We generate revenues from the actual movement of freight from shippers to consignees, customized labor and delivery services, and serving as a logistics provider by offering or arranging for others to provide the transportation service. Unless otherwise indicated by the context, “we,” “us,” “our” and “JBHT” refer to J.B. Hunt Transport Services, Inc. and its consolidated subsidiaries.

2. Summary of Significant Accounting Policies

Basis of Consolidation

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

Use of Estimates

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

We believe certain accounting policies and estimates are of more significance in our financial statement preparation process than others. We believe the most critical accounting policies and estimates include the economic useful lives and salvage values of our assets, provisions for uncollectible accounts receivable, estimates of exposures under our insurance and claims policies, and estimates for taxes. To the extent that actual, final outcomes are different from our estimates, or that additional facts and circumstances cause us to revise our estimates, our earnings during that accounting period will be affected.

Cash and Cash Equivalents

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

Accounts Receivable and Allowance

Our trade accounts receivable includes accounts receivable reduced by an allowance for uncollectible accounts and revenue adjustments. Receivables are recorded at amounts billed to customers when loads are delivered or services are performed. The allowance for uncollectible accounts and revenue adjustments is based on historical experience, as well as any known trends or uncertainties related to customer billing and account collectability. The adequacy of our allowance is reviewed quarterly. Balances are charged against the allowance when it is determined the receivable will not be recovered. The allowance for uncollectible accounts and revenue adjustments for our trade accounts receivable was $23.6 million and $15.4 million at December 31, 2018 and 2017, respectively. The allowance for uncollectible accounts for our other receivables was $12.2 million and $8.6 million at December 31, 2018 and 2017, respectively.

Inventory

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

Investments in Marketable Equity Securities

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

At December 31, 2018 and 2017, we had no available-for-sale securities. See Note 8, Employee Benefit Plans, for a discussion of our trading securities.

Property and Equipment

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

We continually evaluate the carrying value of our assets for events or changes in circumstances that indicate the carrying value may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

Revenue Recognition

We record revenues on the gross basis at amounts charged to our customers because we control and are primarily responsible for the fulfillment of promised services. Accordingly, we serve as a principal in the transaction. We invoice our customers, and we maintain discretion over pricing. Additionally, we are responsible for selection of third-party transportation providers to the extent used to satisfy customer freight requirements.

Our revenue is earned through the service offerings of our four reportable business segments. See Note 13, Business Segments, for revenue reported by segment. All revenue transactions between reporting segments are eliminated in consolidation.

Intermodal (JBI) - JBI segment includes freight that is transported by rail over at least some portion of the movement and also includes certain repositioning truck freight moved by JBI equipment or third-party carriers, when such highway movement is intended to direct JBI equipment back toward intermodal operations. JBI performs these services primarily through contractual rate quotes with customers that are held static for a period of time, usually one year.

Dedicated Contract Services® (DCS) - DCS segment business includes company-owned and customer-owned, DCS-operated revenue equipment and employee drivers assigned to a specific customer, traffic lane, or service. DCS operations usually include formal, written longer-term customer contracts that govern services performed and applicable rates.

Integrated Capacity Solutions (ICS) - ICS provides non-asset and asset-light transportation solutions to customers through relationships with third-party carriers and integration with company-owned equipment. ICS services include flatbed, refrigerated, and less-than-truckload (LTL), as well as a variety of dry-van and intermodal solutions. ICS performs these services through customer contractual rate quotes as well as spot quotes that are one-time rate quotes issued for a single transaction or group of transactions.

Truckload (JBT) - JBT business includes full-load, dry-van freight that is typically transported utilizing company-owned or company-controlled revenue equipment. This freight is typically transported over roads and highways and does not move by rail. JBT utilizes both contractual rate quotes and spot rate quotes with customers.

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

Derivative Instruments

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

Income Taxes

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

Earnings Per Share

We compute basic earnings per share by dividing net earnings available to common stockholders by the actual weighted average number of common shares outstanding for the reporting period. Diluted earnings per share reflect the potential dilution that could occur if holders of unvested restricted and performance share units or options exercised or converted their holdings into common stock. Outstanding unvested restricted share units and stock options represent the dilutive effects on weighted average shares. A reconciliation of the number of shares used in computing basic and diluted earnings per share is shown below (in thousands):

	Years ended December 31,		
	2018	2017	2016
Weighted average shares outstanding – basic	109,375	109,987	112,474
Effect of common stock equivalents	1,053	1,062	887
Weighted average shares outstanding – diluted	110,428	111,049	113,361

Concentrations of Credit Risk

Financial instruments, which potentially subject us to concentrations of credit risk, include trade receivables. For each of the years ended December 31, 2018, 2017, and 2016, our top 10 customers, based on revenue, accounted for approximately 30%, 29%, and 29% of our total revenue. Our top 10 customers, based on revenue, accounted for approximately 32% and 31% of our total trade accounts receivable at December 31, 2018 and 2017, respectively. We had no individual customers with revenues greater than 10% of total revenues.

Share-based Compensation

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

Claims Accruals

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

The amounts of self-insurance change from time to time based on measurement dates, policy expiration dates, and claim type. For 2016 through 2018, we were self-insured for $500,000 per occurrence for personal injury and property damage and self-insured for $100,000 per workers’ compensation claim. We have policies in place for 2019 with substantially the same terms as our 2018 policies for personal injury, property damage, workers’ compensation, and cargo loss or damage, with the exception of decreasing our self-insured portion of workers’ compensation claims to zero for nearly all states.

Our claims accrual policy for all self-insured claims is to recognize a liability at the time of the incident based on our analysis of the nature and severity of the claims and analyses provided by third-party claims administrators, as well as legal, economic, and regulatory factors. Our safety and claims personnel work directly with representatives from the insurance companies to continually update the estimated cost of each claim. The ultimate cost of a claim develops over time as additional information regarding the nature, timing, and extent of damages claimed becomes available. Accordingly, we use an actuarial method to develop current claim information to derive an estimate of our ultimate claim liability. This process involves the use of loss-development factors based on our historical claims experience and includes a contractual premium adjustment factor, if applicable. In doing so, the recorded liability considers future claims growth and provides an allowance for incurred-but-not-reported claims. We do not discount our estimated losses. At December 31, 2018 and 2017, we had an accrual of approximately $260 million and $238 million, respectively, for estimated claims. In addition, we record receivables for amounts expected to be reimbursed for payments made in excess of self-insurance levels on covered claims. At December 31, 2018 and 2017, we have recorded $261 million and $256 million, respectively, of expected reimbursement for covered excess claims, other insurance deposits, and prepaid insurance premiums. Of these total asset balances, $158 million and $193 million have been included in other receivables in our Consolidated Balance Sheets at December 31, 2018 and 2017, respectively.

Goodwill and Other Intangible Assets

Goodwill represents the excess of cost over the fair value of net identifiable tangible and intangible assets acquired in a business combination. Goodwill and intangible assets with indefinite lives are not amortized. Goodwill is reviewed, using a market based approach, for potential impairment as of October 1st on an annual basis or, more frequently, if circumstances indicate a potential impairment is present. Intangible assets with finite lives are amortized on the straight-line method over the estimated useful lives of 5 to 10 years.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, Leases, which requires lessees to recognize a right-of-use asset and a lease liability for most leases on the balance sheet as well as other qualitative and quantitative disclosures. ASU 2016-02 is to be applied using a modified retrospective method and is effective for us on January 1, 2019. In July 2018, the FASB issued ASU 2018-11, Leases, which provides an optional transition method allowing entities to recognize a cumulative-effect adjustment to the opening balance of stockholders' equity in the period of adoption, with no restatement of comparative prior periods required. We will adopt the standard using this optional transition method.

The FASB has provided certain practical expedients in applying the standard. Of the allowed practical expedients within the standard applicable to our operations, we will elect the package of practical expedients, which among other things, allows us to carry forward the historical lease classification upon adoption of the standard. We will not elect the hindsight practical expedient when determining the lease term for existing leases. In addition, we will not separate nonlease components from lease components by class of underlying assets where appropriate and we will not apply the recognition requirements of the standard to short-term leases, as allowed by the standard.

Upon adoption of the standard we will record offsetting lease assets and lease liabilities on our Consolidated Balance Sheet in the amount of $102.4 million, as of January 1, 2019. We do not expect the adoption of the standard to have a material impact on our earnings or debt covenant compliance and no impact on our cash flows.

In August 2018, the FASB issued ASU 2018-15, Intangibles – Goodwill and Other – Internal-Use Software, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The new standard is effective for us on January 1, 2020, but early adoption is permitted. ASU 2018-15 can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The adoption of the new guidance is not expected to have a material impact on our financial statements.

Accounting Pronouncements Adopted in 2018

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which supersedes virtually all existing revenue recognition guidance. The new standard requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. This update also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. We adopted ASU 2014-09 in the first quarter 2018, using the modified retrospective transition approach, which did not have a material impact on how we recognize revenue or to our financial statements or disclosures.

3. Financing Arrangements

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

	December 31,	
	2018	2017
Senior revolving line of credit	$307.1	$241.4
Senior notes	842.0	844.2
Less current portion of long-term debt	(250.7)	-
Total long-term debt	$898.4	$1,085.6

Aggregate maturities of long-term debt subsequent to December 31, 2018, are as follows: $250.7 million in 2019, $342.5 million in 2022, $307.1 in 2023, and $248.8 million thereafter.

Senior Revolving Line of Credit

In September 2018, we replaced our $500 million senior revolving credit facility dated September 2015 with a new credit facility authorizing us to borrow up to $750 million under a senior revolving line of credit, which is supported by a credit agreement with a group of banks. This new senior credit facility has a five year term expiring September 2023, and allows us to request an increase in the total commitment by up to $250 million and to request a one year extension of the maturity date. The applicable interest rate under this agreement is based on the Prime Rate, the Federal Funds Rate, or LIBOR, depending upon the specific type of borrowing, plus an applicable margin and other fees. At December 31, 2018, we had $309.0 million outstanding at an average interest rate of 3.47% under this agreement.

Senior Notes

Our senior notes consist of three separate issuances. The first and second issuances are $250 million of 2.40% senior notes due March 2019 and $250 million of 3.85% senior notes due March 2024, respectively, both of which were issued in March 2014. Interest payments under both notes are due semiannually in March and September of each year. The third issuance is $350 million of 3.30% senior notes due August 2022, issued in August 2015. Interest payments under this note are due semiannually in February and August of each year, beginning February 2016. All three senior notes were issued by J.B. Hunt Transport Services, Inc., a parent-level holding company with no significant assets or operations. The notes are guaranteed on a full and unconditional basis by a wholly owned subsidiary. All other subsidiaries of the parent are minor. We registered these offerings and the sale of the notes under the Securities Act of 1933, pursuant to a shelf registration statement filed in February 2014. All notes are unsecured obligations and rank equally with our existing and future senior unsecured debt. We may redeem for cash some or all of the notes based on a redemption price set forth in the note indenture. See Note 4, Derivative Financial Instruments, for terms of interest rate swaps entered into on the $250 million of 2.40% senior notes due March 2019 and the $350 million of 3.30% senior notes due August 2022.

Our financing arrangements require us to maintain certain covenants and financial ratios. We were in compliance with all covenants and financial ratios at December 31, 2018. For our senior notes maturing in 2019, it is our intent to pay the entire outstanding balances in full, on or before the maturity dates, using our existing senior revolving line of credit or other sources of long-term financing. In addition, we have a shelf registration filed with the SEC and may draw upon it as warranted.

4. Derivative Financial Instruments

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

We entered into receive fixed-rate and pay variable-rate interest rate swap agreements simultaneously with the issuance of our $250 million of 2.40% senior notes due March 2019 and $350 million of 3.30% senior notes due August 2022, to effectively convert this fixed-rate debt to variable-rate. The notional amounts of these interest rate swap agreements equal those of the corresponding fixed-rate debt. The applicable interest rates under these agreements is based on LIBOR plus an established margin, resulting in an interest rate of 3.63% for our $250 million of 2.40% senior notes and 3.97% for our $350 million of 3.30% senior notes at December 31, 2018. The swaps expire when the corresponding senior notes are due. The fair values of these swaps are recorded in other assets and other long-term liabilities in our Consolidated Balance Sheet at December 31, 2018. See Note 9, Fair Value Measurements, for disclosure of fair value. These derivatives meet the required criteria to be designated as fair value hedges and as the specific terms and notional amounts of these derivative instruments match those of the fixed-rate debt being hedged, these derivative instruments are assumed to perfectly hedge the related debt against changes in fair value due to changes in the benchmark interest rate. Accordingly, any change in the fair value of these interest rate swaps recorded in earnings is offset by a corresponding change in the fair value of the related debt.

5. Capital Stock

We have one class of preferred stock and one class of common stock. We had no outstanding shares of preferred stock at December 31, 2018 or 2017. Holders of shares of common stock are entitled to receive dividends when and if declared by the Board of Directors and are entitled to one vote per share on all matters submitted to a vote of the stockholders. On January 23, 2019, we announced an increase in our quarterly cash dividend from $0.24 to $0.26 per share, which will be paid February 22, 2019, to stockholders of record on February 8, 2019. At December 31, 2018, we had 1.6 million shares of common stock to be issued upon the vesting of equity awards and 6.3 million shares reserved for future issuance pursuant to share-based payment plans. During calendar year 2018, we purchased approximately 1.3 million shares, or $150.3 million, of our common stock in accordance with plans authorized by our Board. At December 31, 2018, we had $371 million available under an authorized plan to purchase our common stock.

6. Share-based Compensation

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

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

Our performance share units vest based on the passage of time (generally 3 to 10 years) and achievement of performance criteria. Performance share units do not contain rights to vote or receive dividends until the vesting date. Unvested performance share units are forfeited if the employee terminates for any reason other than death, disability, or special circumstances as determined by the Compensation Committee. Performance shares are valued based on the fair value of the award on the grant date, adjusted for dividend estimates based on grant date dividend rates.

In the past, nonstatutory stock options have been granted to key employees for the purchase of our common stock for 100% of the fair market value of the common stock at the grant date as awarded by the Compensation Committee. These options generally vested over a 10-year period and were forfeited immediately if the employee terminated for any reason other than death, disability or retirement after age 55. We did not grant any stock options during the years ended December 31, 2018, 2017, and 2016.

An employee is allowed to surrender shares of common stock received upon vesting to satisfy tax withholding obligations incident to the vesting of restricted share units and performance share units.

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

	Years ended December 31,		
	2018	2017	2016
Restricted share units			
Pretax compensation expense	$32,797	$28,679	$29,938
Tax benefit	7,740	(4,385)	11,347
Restricted share units, net of tax	$25,057	$33,064	$18,591
Performance share units			
Pretax compensation expense	$14,572	$9,612	$10,687
Tax benefit	3,439	(1,470)	4,050
Performance share awards, net of tax	$11,133	$11,082	$6,637

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

Restricted Share Units	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2015	1,516,750	$ 63.96
Granted	540,746	75.03
Vested	(520,619)	54.78
Forfeited	(34,221)	69.14
Unvested at December 31, 2016	1,502,656	$ 71.16
Granted	158,319	90.06
Vested	(380,702)	67.29
Forfeited	(37,745)	75.13
Unvested at December 31, 2017	1,242,528	$ 74.71

Granted	370,669	119.82
Vested	(337,512)	79.02
Forfeited	(29,850)	83.69
Unvested at December 31, 2018	1,245,835	$ 86.80

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Performance Share Units	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2015	490,673	$ 67.04
Granted	142,114	74.71
Vested	(148,733)	62.84
Forfeited	-	-
Unvested at December 31, 2016	484,054	$ 70.58
Granted	-	-
Vested	(155,867)	68.27
Forfeited	-	-
Unvested at December 31, 2017	328,187	$ 71.68
Granted	150,763	122.57
Vested	(118,438)	69.29
Forfeited	-	-
Unvested at December 31, 2018	360,512	$ 93.74

At December 31, 2018, we had $59.1 million and $13.7 million of total unrecognized compensation expense related to restricted share units and performance share units, respectively, that is expected to be recognized on a straight-line basis over the remaining weighted average vesting period of approximately 3.6 years for restricted share units and 2.6 years for performance share units.

The aggregate intrinsic value of restricted and performance share units vested and options exercised during the years ended December 31, 2018, 2017, and 2016, was $55.1 million, $49.3 million, and $56.7 million, respectively. The aggregate intrinsic value of unvested restricted and performance share units was $149.5 million at December 31, 2018. The total fair value of shares vested for restricted share, performance share, and stock option awards during the years ended December 31, 2018, 2017, and 2016, was $35.0 million, $36.4 million, and $38.1 million, respectively.

7. Income Taxes

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

	Years ended December 31,		
	2018	2017	2016
Current:			

Federal	$22,904	$134,284	$191,422
State and local	26,738	23,456	21,871
	49,642	157,740	213,293
Deferred:			
Federal	97,670	(261,592)	45,846
State and local	3,921	12,828	4,568
	101,591	(248,764)	50,414
Total tax expense/(benefit)	$151,233	$(91,024)	$263,707

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Income tax expense attributable to earnings before income taxes differed from the amounts computed using the statutory federal income tax rate of 21% as follows (in thousands):

	Years ended December 31,		
	2018	2017	2016
Income tax at federal statutory rate	$134,572	$208,334	$243,529
State tax, net of federal effect	24,627	18,334	19,165
Federal tax reform	(3,219)	(309,223)	-
Benefit of stock compensation	(4,919)	(4,907)	-
199/R&D credit	1,000	(7,056)	-
Nondeductible meals and entertainment	1,071	1,374	1,419
Change in effective state tax rate, net of federal benefit	(1,469)	3,403	(1,055)
Other, net	(430)	(1,283)	649
Total tax expense	$151,233	$(91,024)	$263,707

The Tax Cuts and Jobs Act (the Act) was enacted in December 2017. Beginning in 2018, the Act reduced the U.S. federal corporate tax rate from 35% to 21%. At December 31, 2017, we had not completed our accounting for the tax effects of enactment of the Act. However, we made a reasonable estimate of the effects on our existing deferred tax assets and liabilities based on the rates at which they were expected to reverse in the future, which was generally 21%. The provisional amount recorded resulting from the remeasurement of our deferred tax balance was $309.2 million, which was included as a component of 2017 income tax from continuing operations. During 2018, we finalized our calculations for our 2017 federal income tax return, which was filed based on the law prior to the Act, resulting in no significant change to the initial measurement of these balances. Remaining aspects of the Act were not relevant to our operations.

Income taxes receivable was $102.4 million and $61.3 million at December 31, 2018 and 2017, respectively. These amounts have been included in other receivables in our Consolidated Balance Sheets. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2018 and 2017, are presented below (in thousands):

	December 31,			
	2018		2017	
Deferred tax assets:				
Insurance accruals	$	34,889	$	27,700
Allowance for doubtful accounts		7,649		6,605
Compensation accrual		10,461		3,661
Deferred compensation accrual		20,396		17,620
Federal benefit of state uncertain tax		10,364		8,681

positions				
State NOL carry-forward		6,041		4,944
Other		4,626		3,134
Total gross deferred tax assets		94,426		72,345
Valuation allowance		(6,041)		(4,944)
Total deferred tax assets, net of valuation allowance		88,385		67,401
<u>Deferred tax liabilities:</u>				
Plant and equipment, principally due to differences in depreciation		696,913		566,396
Prepaid permits and insurance, principally due to expensing for income tax purposes		33,594		28,089
Other		1,339		14,786
Total gross deferred tax liabilities		731,846		609,271
Net deferred tax liability	$	643,461	$	541,870

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

	December 31,		
	2018	2017	2016
Beginning balance	$45.3	$35.4	$32.0
Additions based on tax positions related to the current year	13.9	11.6	10.3
Additions/(reductions) based on tax positions taken in prior years	(2.4)	5.4	(3.2)
Reductions due to settlements	-	(2.4)	(0.4)
Reductions due to lapse of applicable statute of limitations	(4.6)	(4.7)	(3.3)
Ending balance	$52.2	$45.3	$35.4

At December 31, 2018 and 2017, we had a total of $52.2 million and $45.3 million, respectively, in gross unrecognized tax benefits. Of these amounts, $43.1 million and $37.5 million represent the amount of unrecognized tax benefits that, if recognized, would impact our effective tax rate in 2018 and 2017, respectively. Interest and penalties related to income taxes are classified as interest expense in our Consolidated Statements of Earnings. The amount of accrued interest and penalties recognized during the years ended December 31, 2018, 2017, and 2016, was $2.4 million, $2.1 million, and $1.9 million, respectively. Future changes to unrecognized tax benefits will be recognized as income tax expense and interest expense, as appropriate. The total amount of accrued interest and penalties for such unrecognized tax benefits at December 31, 2018 and 2017, was $4.6 million and $3.6 million, respectively.

Tax years 2015 and forward remain subject to examination by federal tax jurisdictions, while tax years 2008 and forward remain open for state jurisdictions.

8. Employee Benefit Plans

We maintain a defined contribution employee retirement plan, which includes a 401(k) option, under which all employees are eligible to participate. We match a specified percentage of employee contributions, subject to certain limitations. For the years ended December 31, 2018, 2017, and 2016, our matching contributions to the plan were $19.7 million, $16.7 million, and $15.6 million, respectively.

We have a nonqualified deferred compensation plan that allows eligible employees to defer a portion of their compensation. The compensation deferred under this plan is credited with earnings or losses on investments elected by plan participants. Each participant is fully vested in all deferred compensation and earnings; however, these amounts are subject to general creditor claims until actually distributed to the employee. A participant may elect to receive deferred amounts in one payment or in quarterly installments payable over a period of 2 to 25 years upon reaching age 55, having 15 years of service, or becoming disabled. Our total liability under this plan was $15.7 million as of December 31, 2018, and $16.4 million as of December 31, 2017. These amounts are included in other long-term liabilities in our Consolidated Balance Sheets. Participant withholdings are held by a trustee and invested in equity securities as directed by participants. These investments are classified as trading securities and recorded at fair value. Realized and unrealized gains and losses are recognized currently in earnings. The investments are included in other assets in our Consolidated Balance Sheets and totaled $15.7 million as of December 31, 2018, and $16.4 million as of December 31, 2017.

9. Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	Asset/(Liability) Balance December 31,		
	2018	2017	Input Level
Trading investments	$15.7	$16.4	1
Interest rate swaps	$(4.8)	$(1.4)	2
Senior notes, net of unamortized discount and debt issuance costs	$(591.3)	$(595.6)	2

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

Financial Instruments

The carrying amount of our senior revolving line of credit and remaining senior notes not measured at fair value on a recurring basis was $555.9 million and $490.0 million at December 31, 2018 and 2017, respectively. The estimated fair value of these liabilities using the income approach (Level 2), based on their net present value, discounted at our current borrowing rate, was $564.9 million and $506.3 million at December 31, 2018 and 2017, respectively.

In 2017, we remeasured an advance deposit previously made for the purchase of new trailing equipment from a carrying amount of $20.2 million to a fair value of zero, due the manufacturer not being able to meet delivery. The resulting charge was included in general and administrative expenses, net of asset dispositions in our Consolidated Statements of Earnings. The carrying amounts of all other instruments at December 31, 2018 and 2017, approximate their fair value due to the short maturity of these instruments.

10. Commitments and Contingencies

As of December 31, 2018, we had approximately $117.8 million of obligations remaining under operating lease arrangements related primarily to terminal and support facilities. Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2018, are approximately $117.8 million, with payment streams as follows (in millions): 2019 - $34.9; 2020 - $29.9; 2021 - $20.7; 2022 - $13.7; and thereafter - $18.6.

Total rent expense was $98.7 million in 2018, $64.3 million in 2017, and $44.1 million in 2016. At December 31, 2018, we had outstanding commitments of approximately $381.6 million, net of proceeds from sales or trade-ins during 2019 and 2020, which is primarily related to the acquisition of containers, chassis, and tractors.

During 2018, we issued financial standby letters of credit as a guaranty of our performance under certain operating agreements and self-insurance arrangements. If we default on our commitments under the agreements or other arrangements, we are required to perform under these guaranties. The undiscounted maximum amount of our obligation to make future payments in the event of defaults is approximately $1.3 million as of December 31, 2018.

We are a defendant in certain alleged class-action lawsuits in which the plaintiffs are current and former California-based drivers who allege claims for unpaid wages, failure to provide meal and rest periods, and other items. In the lead class-action, we reached an agreement and recorded a reserve in September 2018 to resolve all pending claims for a class settlement payment of $15 million, subject to Court approval. The Court granted preliminary settlement approval in November 2018. Notice of the settlement has been mailed to all settlement class members and the deadline for objections to the settlement passed without any objections filed. We expect the Court’s order granting final approval to be issued in April 2019. The overlapping claims in the other alleged class-action lawsuits remain stayed pending final approval of the settlement in the lead class-action case.

In January 2017, we exercised our right to utilize the arbitration process to review the division of revenue collected beginning May 1, 2016, as well as to clarify other issues, under our Joint Service Agreement with BNSF Railway Company (BNSF). BNSF requested the same, and the arbitration process is on-going. On October 5, 2018, we received the arbitrators' Interim Award. The details of the Interim Award are confidential and require the parties to submit additional information requested by the arbitrators to decide certain unresolved matters. For the determined components of the Interim Award, we recorded an $18.3 million pre-tax charge in the third quarter 2018, related to certain charges claimed by BNSF for specific services requested for customers from April 2014 through May 2018. On December 7, 2018 the arbitrators' issued their Clarified Interim Award of October 5, 2018 resulting from some of the parties' additional submissions to the Panel regarding certain issues related to determining the revenue division between the parties. On January 11, 2019, the Panel issued its Second Interim Award ordering that $89.4 million is due from the Company to BNSF resulting from the adjusted revenue divisions relating to the 2016 period at issue ($52.1 million) and for calendar year 2017 ($37.3 million). The parties have been instructed to make further submissions on the revenue divisions for calendar year 2018 and going forward, as well as other confidential issues raised during the arbitration process so that the panel can issue an appropriate interim and/or final award regarding all issues raised during the proceeding. We recorded pretax charges for contingent liabilities in the fourth quarter 2018 of $89.4 million claimed by the BNSF for the period May 1, 2016 through December 31, 2017 and $44.6 million for the period January 1, 2018 through December 31, 2018, for a total of $134 million.

The other financial implications from the Interim Award and the Clarified Interim Award will not be fully determined until the arbitrators issue additional award(s) following their review of each party's requested additional submissions. At this time, we are unable to reasonably predict the final outcome of the arbitration, and, as such, no further gain or loss contingency can be determined or recorded. If decided adversely, this matter could result in a liability material to our financial condition or results of operations. BNSF provides a significant amount of rail transportation services to our JBI business segment. Normal commercial business activity between the parties, including load tendering, load tracing, billing and payments, is expected to continue on a timely basis.

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

11. Acquisitions

On January 7, 2019, we entered into an agreement to acquire substantially all of the assets and assume certain specified liabilities of the affiliated entities of Cory 1st Choice Home Delivery (Cory), subject to customary closing conditions. The closing of the transaction was effective on February 15, 2019. The purchase price was $100 million. Upon closing of this acquisition, we acquired customer contracts, net working capital and assumed various facility leases. We used our existing revolving credit facility to finance this transaction. The final calculation of net working capital and the purchase price allocation are currently in process. The Cory acquisition was accounted for as a business combination and will operate within our Dedicated Contract Services® business segment.

In July 2017, we entered into an agreement to acquire Special Logistics Dedicated, LLC (SLD), and its affiliated entities, subject to customary closing conditions. The purchase price was $136.0 million with no assumption of debt. The closing of the transaction was effective on July 31, 2017. Total consideration paid in cash under the SLD agreement was $137.6 million and consisted of the agreed upon purchase price adjusted for an estimated working capital adjustment and cash acquired. In addition, we incurred approximately $3.1 million in transaction costs which are recorded in general and administrative expenses, net of asset dispositions in our Consolidated Statements of Earnings. The SLD acquisition was accounted for as a business combination. Assets acquired and liabilities assumed were recorded in our Consolidated Balance Sheet at their estimated fair values, as of the closing date, using cost, market data and valuation techniques that reflect management's judgment and estimates. As a result of the acquisition, we recorded approximately $76 million of finite-lived intangible assets and approximately $40 million of goodwill. Goodwill consists of acquiring and retaining the SLD existing network and expected synergies from the combination of operations. The results of the acquired operations after the respective acquisition date have been included in our Consolidated Statements of Earnings.

12. Goodwill and Other Intangible Assets

As discussed in Note 11, Acquisitions, in 2017, we recorded goodwill of approximately $40 million and additional finite-lived intangible assets of approximately $76 million in connection with the SLD acquisition. All goodwill was assigned to our Dedicated Contract Services® business segment. No impairment losses have been recorded for goodwill as of December 31, 2018. Prior to the SLD acquisition, our only intangible asset consisted of our purchased LDC network access within our Dedicated Contract Services® segment. Identifiable intangible assets consist of the following (in millions):

	December 31,		Weighted Average Amortization
	2018	2017	Period
Finite-lived intangibles:			
Non-competition agreements	$0.2	$0.2	5
Customer relationships	75.3	75.3	10
LDC Network	10.5	10.5	10
Total finite-lived intangibles	86.0	86.0	
Less accumulated amortization	(20.9)	(12.3)	
Total identifiable intangible assets, net	$65.1	$73.7	

Our finite-lived intangible assets have no assigned residual values.

During the years ending December 31, 2018, 2017, and 2016, intangible asset amortization expense was $8.6 million, $4.2 million and $1.0 million, respectively. Estimated amortization expense for our finite-lived intangible assets is expected to be approximately $7.8 million for 2019 and $7.6 million for 2020 through 2023. Actual amounts of amortization expense may differ from estimated amounts due to additional intangible asset acquisitions, impairment or accelerated amortization of intangible assets, and other events.

13. Segment Information

We have four reportable business segments – Intermodal (JBI), Dedicated Contract Services® (DCS), Integrated Capacity Solutions (ICS), and Truckload (JBT) – which are based primarily on the services each segment provides. The JBI segment includes freight that is transported by rail over at least some portion of the movement and also includes certain repositioning truck freight moved by JBI equipment or third-party carriers, when such highway movement is intended to direct JBI equipment back toward intermodal operations. DCS segment business includes company-owned and customer-owned, DCS-operated revenue equipment and employee drivers assigned to a specific customer, traffic lane, or service. DCS operations usually include formal, written longer-term agreements or contracts that govern services performed and applicable rates. ICS provides non-asset and asset-light transportation solutions to customers through relationships with third-party carriers and integration with JBHT-owned equipment. ICS services include flatbed, refrigerated, and LTL, as well as a variety of dry-van and intermodal solutions. JBT business includes full-load, dry-van freight that is typically transported utilizing company-owned or company-controlled revenue equipment. This freight is typically transported over roads and highways and does not move by rail. All transactions between reporting segments are eliminated in consolidation.

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

	Assets (Excludes intercompany accounts) December 31,	
	2018	2017
JBI	$2,221	$2,108
DCS	1,595	1,182
ICS	212	204
JBT	307	283
Other (includes corporate)	757	688
Total	$5,092	$4,465

	Revenues Years ended December 31,		
	2018	2017	2016
JBI	$4,717	$4,084	$3,796
DCS	2,163	1,719	1,533
ICS	1,335	1,025	852
JBT	417	378	388
Total segment revenues	8,632	7,206	6,569
Intersegment eliminations	(17)	(16)	(14)
Total	$8,615	$7,190	$6,555

	Operating Income Years ended December 31,		
	2018	2017	2016
JBI	$401	$407	$450
DCS	193	171	205
ICS	50	23	36
JBT	37	23	30
Total	$681	$624	$721

Depreciation and Amortization Expense

	Years ended December 31,		
	2018	2017	2016
JBI	$173	$163	$160
DCS	200	158	143
JBT	38	41	41
Other	25	22	18
Total	$436	$384	$362

14. Quarterly Financial Information (Unaudited)

As further discussed in Note 10, Commitments and Contingencies, our fourth quarter 2018 operating income, net earnings and earnings per share included the impact of pretax charges for contingent liabilities. As further discussed in Note 7, Income Taxes, our fourth quarter 2017, net earnings and earnings per share included the effect of a $309.2 million provisional amount recorded as a component of income tax expense from continuing operations resulting from the remeasurement of our deferred tax balance due to the enactment of the Tax Cuts and Jobs Act. Operating results by quarter for the years ended December 31, 2018 and 2017 are as follows (in thousands, except per share data):

	Quarter			
	First	Second	Third	Fourth
2018:				
Operating revenues	$1,948,245	$2,139,027	$2,209,760	$2,317,842
Operating income	$168,781	$214,812	$174,688	$122,740
Net earnings	$118,142	$151,652	$131,110	$88,681
Basic earnings per share	$1.08	$1.39	$1.20	$0.81
Diluted earnings per share	$1.07	$1.37	$1.19	$0.81
2017:				
Operating revenues	$1,629,158	$1,726,915	$1,843,334	$1,990,160
Operating income	$149,389	$163,615	$164,972	$145,814
Net earnings	$102,702	$97,869	$100,385	$385,308
Basic earnings per share	$0.93	$0.89	$0.92	$3.51
Diluted earnings per share	$0.92	$0.88	$0.91	$3.48