

HUB GROUP INC  
Form 10-Q  
April 23, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

**FORM 10-Q**

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

For the quarterly period ended March 31, 2007 or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-27754

**HUB GROUP, INC.**

**(Exact name of registrant as specified in its charter)**

**Delaware**

**36-4007085**

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

**3050 Highland Parkway, Suite 100**

**Downers Grove, Illinois 60515**

(Address, including zip code, of principal executive offices)

**(630) 271-3600**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12-b of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b-2 of the Exchange Act).  
Yes  No

On April 19, 2007, the registrant had 38,785,442 outstanding shares of Class A common stock, par value \$.01 per share, and 662,296 outstanding shares of Class B common stock, par value \$.01 per share.

**HUB GROUP, INC.**

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**HUB GROUP, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share amounts)

	March 31, 2007	December 31, 2006
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 34,730	\$ 43,491
Accounts receivable		
Trade, net	150,772	158,284
Other	8,078	8,369
Prepaid taxes	1,098	3,202
Deferred taxes	3,424	3,433
Prepaid expenses and other current assets	6,794	4,450
<b>TOTAL CURRENT ASSETS</b>	<b>204,896</b>	<b>221,229</b>
Restricted investments	4,278	3,017
Property and equipment, net	27,342	26,974
Other intangibles, net	7,391	7,502
Goodwill, net	225,448	225,448
Other assets	419	378
<b>TOTAL ASSETS</b>	<b>\$ 469,774</b>	<b>\$ 484,548</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable		
Trade	\$ 110,441	\$ 117,676
Other	6,826	6,839
Accrued expenses		
Payroll	8,545	18,294
Other	31,567	26,617
Related party payable	-	5,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>157,379</b>	<b>174,426</b>
Non-current liabilities	10,989	7,691
Deferred taxes	41,295	43,587
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$.01 par value; 2,000,000 shares authorized; no shares issued or outstanding in 2007 and 2006	-	-
Common stock		
Class A: \$.01 par value; 47,337,700 shares authorized; 41,224,792 shares issued and 38,789,847 outstanding in 2007; 41,224,792 shares issued and 38,943,122 outstanding in 2006	412	412
Class B: \$.01 par value; 662,300 shares authorized; 662,296 shares issued and outstanding in 2007 and 2006	7	7
Additional paid-in capital	175,779	179,203
Purchase price in excess of predecessor basis, net of tax benefit of \$10,306	(15,458)	(15,458)

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Retained earnings	157,662	146,243
Treasury stock; at cost, 2,434,945 shares in 2007 and 2,281,670 shares in 2006	(58,291)	(51,563)
TOTAL STOCKHOLDERS' EQUITY	260,111	258,844
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 469,774	\$ 484,548

See notes to unaudited condensed consolidated financial statements.

**HUB GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except per share amounts)

			<b>Three Months Ended March 31,</b>		
	<b>2007</b>			<b>2006</b>	
Revenue	\$	393,297	\$	356,764	
Transportation costs		336,636		309,391	
Gross margin		56,661		47,373	
Costs and expenses:					
Salaries and benefits		25,610		22,881	
General and administrative		11,601		8,969	
Depreciation and amortization		1,172		1,859	
Total costs and expenses		38,383		33,709	
Operating income		18,278		13,664	
Other income (expense):					
Interest expense		(21)		(18)	
Interest income		645		446	
Other, net		3		30	
Total other income		627		458	
Income from continuing operations before provision for income taxes		18,905		14,122	
Provision for income taxes		7,486		5,649	
Income from continuing operations		11,419		8,473	
Discontinued operations:					
Income from discontinued operations of HGDS		-		1,094	
Provision for income taxes		-		437	
Income from discontinued operations		-		657	
Net income	\$	11,419	\$	9,130	
Basic earnings per common share					
Income from continuing operations	\$	0.29	\$	0.21	
Income from discontinued operations	\$	-	\$	0.02	
Net income	\$	0.29	\$	0.23	
Diluted earnings per common share					
Income from continuing operations	\$	0.29	\$	0.21	
Income from discontinued operations	\$	-	\$	0.01	
Net income	\$	0.29	\$	0.22	
		39,257		40,196	

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Basic weighted average number of shares  
outstanding  
Diluted weighted average number of shares  
outstanding

39,766

41,302

See notes to unaudited condensed consolidated financial statements.

**HUB GROUP, INC**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**For the three months ended March 31, 2007**  
**(in thousands, except shares)**

		<b>March 31, 2007</b>
<b>Class A &amp; B Common Stock Shares Outstanding</b>		
Beginning of year		39,605,418
Purchase of treasury shares		(415,724)
Treasury shares issued for restricted stock and stock options exercised		262,449
Ending balance		39,452,143
<b>Class A &amp; B Common Stock Amount</b>		
Beginning of year	\$	419
Ending balance		419
<b>Additional Paid-in Capital</b>		
Beginning of year		179,203
Exercise of non-qualified stock options		(2,124)
Share-based compensation expense		960
Tax benefit of share-based compensation plans		1,380
Issuance of restricted stock awards, net of forfeitures		(3,640)
Ending balance		175,779
<b>Purchase Price in Excess of Predecessor Basis, Net of Tax</b>		
Beginning of year		(15,458)
Ending balance		(15,458)
<b>Retained Earnings</b>		
Beginning of year		146,243
Net income		11,419
Ending balance		157,662
<b>Treasury Stock</b>		
Beginning of year		(51,563)
Purchase of treasury shares		(12,740)
Issuance of restricted stock and exercise of stock options		6,012
Ending balance		(58,291)
Total stockholders' equity	\$	260,111

See notes to unaudited condensed consolidated financial statements.



**HUB GROUP, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Cash flows from operating activities:		
Income from continuing operations	\$ 11,419	\$ 8,473
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	1,804	2,176
Deferred taxes	1,652	917
Compensation expense related to share-based compensation plans	960	771
Loss on sale of assets	2	26
Changes in operating assets and liabilities excluding effects of purchase transaction:		
Restricted investments	(1,261)	(586)
Accounts receivable, net	7,803	18,172
Prepaid taxes	2,104	(125)
Prepaid expenses and other current assets	(2,344)	(1,628)
Other assets	(41)	299
Accounts payable	(7,248)	(5,090)
Accrued expenses	(4,799)	(8,292)
Non-current liabilities	(637)	(80)
Net cash provided by operating activities	9,414	15,033
Cash flows from investing activities:		
Proceeds from sale of equipment	15	26
Purchases of property and equipment	(2,078)	(1,047)
Cash used in acquisition of Comtrak, Inc.	(5,000)	(40,491)
Net cash used in investing activities	(7,063)	(41,512)
Cash flows from financing activities:		
Proceeds from stock options exercised	248	1,141
Purchase of treasury stock	(12,740)	(38)
Excess tax benefits from share-based compensation	1,380	4,767
Net cash (used in) provided by financing activities	(11,112)	5,870
Cash flows from operating activities of discontinued operations	-	1,822
Cash flows used in investing activities of discontinued operations	-	(32)
Net cash provided by discontinued operations	-	1,790
Net decrease in cash and cash equivalents	(8,761)	(18,819)
Cash and cash equivalents beginning of period	43,491	36,133
Cash and cash equivalents end of period	\$ 34,730	\$ 17,314

Supplemental disclosures of cash paid for:

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Interest	\$	21	\$	17
Income taxes	\$	232	\$	91

See notes to unaudited condensed financial statements.

**HUB GROUP, INC.****NOTES TO UNAUDITED CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS****NOTE 1. Interim Financial Statements**

Our accompanying unaudited condensed consolidated financial statements of Hub Group, Inc. (“we”, “us” or “our”) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted pursuant to those rules and regulations. However, we believe that the disclosures contained herein are adequate to make the information presented not misleading.

The financial statements reflect, in our opinion, all material adjustments (which include only normal recurring adjustments) necessary to fairly present our financial position at March 31, 2007 and results of operations for the three months ended March 31, 2007 and 2006. All number of share and per-share amounts have been retroactively restated to give effect to the two-for-one stock split, which was effected in the form of a 100% stock dividend in June 2006.

These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2006. Results of operations in interim periods are not necessarily indicative of results to be expected for a full year due partially to seasonality.

**NOTE 2. Share-Based Compensation**

During the first quarter of 2007, our Chief Financial Officer resigned. As a result, he forfeited 64,516 performance units. The maximum expense that would have been recorded related to these performance units was \$1.5 million. We did not record any expense related to performance units during 2006 or 2007 and so there was no reversing of previous expense.

**NOTE 3. Earnings Per Share**

The following is a reconciliation of our earnings per share:

	<b>Three Months Ended March 31, 2007 (000's)</b>			<b>Three Months Ended March 31, 2006 (000's)</b>		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
<b>Basic EPS</b>						
Income from continuing operations	\$ 11,419	39,257	\$ 0.29	\$ 8,473	40,196	\$ 0.21
Income from discontinued operations	-	39,257	-	657	40,196	0.02
Net Income	\$ 11,419	39,257	\$ 0.29	\$ 9,130	40,196	\$ 0.23
<b>Effect of Dilutive Securities</b>						
Stock options and restricted stock	-	509	-	-	1,106	-

**Diluted EPS**

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Income from continuing operations	\$	11,419	39,766	\$	0.29	\$	8,473	41,302	\$	0.21
Income from discontinued operations		-	39,766		-		657	41,302		0.01
Net Income	\$	11,419	39,766	\$	0.29	\$	9,130	41,302	\$	0.22

**NOTE 4. Debt**

We had \$47.5 million of unused and available borrowings under our bank revolving line of credit at March 31, 2007. We were in compliance with our debt covenants at March 31, 2007.

We have standby letters of credit that expire from 2007 to 2012. As of March 31, 2007, the outstanding letters of credit were \$2.5 million.

**NOTE 5. Commitments and Contingencies**

In March 2007, we entered into an equipment purchase contract with Singamas Management Services, Ltd. and Singamas North America, Inc. We agreed to purchase 2,000 fifty-three foot dry freight steel domestic containers for approximately \$19.4 million. We expect delivery of 500 units per month during the period May through August 2007. We plan to finance these containers with operating leases.

We are a party to litigation incident to our business, including claims for freight lost or damaged in transit, freight improperly shipped or improperly billed, property damage and personal injury. Some of the lawsuits to which we are party are covered by insurance and are being defended by our insurance carriers. Some of the lawsuits are not covered by insurance and we are defending them. Management does not believe that the outcome of this litigation will have a material adverse effect on our financial position.

**NOTE 6. Income Taxes**

Effective January 1, 2007, we adopted Financial Accounting Standards Board Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes". Although the implementation of FIN 48 did not impact the amount of our liability for unrecognized tax benefits, we reclassified \$4.0 million of our liability for unrecognized tax benefits from deferred tax liabilities to non-current liabilities to conform with the balance sheet presentation requirements of FIN 48. As of January 1, 2007, the amount of unrecognized tax benefits was \$4.2 million of which \$1.6 million would, if recognized, decrease our effective tax rate.

Hub Group, Inc. or its subsidiaries are subject to income tax in the U.S. federal jurisdiction and numerous state jurisdictions. The Internal Revenue Service ("IRS") has completed its examinations of our federal income tax returns for the tax years 2000 through 2004. However, tax years 1997 and 2000 through 2006 remain open to examination by the major tax jurisdictions to which we are subject.

During its examination of our 1997 federal income tax return, the IRS proposed to reclassify our allocation of a significant amount of tax basis in fixed assets to non-amortizable intangibles. This dispute is being reviewed by the IRS Office of Appeals, and it is reasonably possible that it will be resolved by December 31, 2007 resulting in a decrease in our liability for uncertain tax positions of up to \$4.0 million. Should the decrease occur, it would have a positive impact on our effective tax rate of up to \$1.4 million and the remaining \$2.6 million decrease in our liability for uncertain tax positions would be reclassified as additional deferred tax liability.

We recognize interest expense and penalties accrued related to unrecognized tax benefits in our provision for income taxes. At January 1, 2007, accrued interest was \$1.3 million.



**HUB GROUP, INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS**

**OUTLOOK, RISKS AND UNCERTAINTIES**

The information contained in this quarterly report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “expects,” “hopes,” “believes,” “intends,” “estimates,” “anticipates,” and variations of these words and similar expressions are intended to identify these forward-looking statements. Forward-looking statements are inherently uncertain and subject to risks. Such statements should be viewed with caution. Actual results or experience could differ materially from the forward-looking statements as a result of many factors. We assume no liability to update any such forward-looking statements contained in this quarterly report. Factors that could cause our actual results to differ materially include:

- the degree and rate of market growth in the domestic intermodal, truck brokerage and logistics markets served by us;
  - deterioration in our relationships with existing railroads or adverse changes to the railroads' operating rules;
    - changes in rail service conditions or adverse weather conditions;
    - further consolidation of railroads;
- the impact of competitive pressures in the marketplace, including entry of new competitors, direct marketing efforts by the railroads or marketing efforts of asset-based carriers;
  - changes in rail, drayage and trucking company capacity;
  - railroads moving away from ownership of intermodal assets;
    - equipment shortages or equipment surplus;
  - changes in the cost of services from rail, drayage, truck or other vendors;
    - labor unrest in the rail, drayage or trucking company communities;
      - general economic and business conditions;
      - fuel shortages or fluctuations in fuel prices;
      - increases in interest rates;
    - changes in homeland security or terrorist activity;
  - difficulties in maintaining or enhancing our information technology systems;
    - changes to or new governmental regulation;
    - loss of several of our largest customers;
    - inability to recruit and retain key personnel;
    - changes in insurance costs and claims expense; and
  - inability to close and successfully integrate any future business combinations

**EXECUTIVE SUMMARY**

Hub Group, Inc. (“we”, “us” or “our”) is the largest intermodal marketing company (“IMC”) in the United States and a full service transportation provider offering intermodal, truck brokerage and logistics services. We operate through a nationwide network of operating centers.

As an IMC, we arrange for the movement of our customers' freight in containers and trailers over long distances. We contract with railroads to provide transportation for the long-haul portion of the shipment and with local trucking companies, known as “drayage companies,” for local pickup and delivery. As part of the intermodal services, we negotiate rail and drayage rates, electronically track shipments in transit, consolidate billing and handle claims for freight loss or damage on behalf of our customers.





Through our subsidiary Comtrak Logistics, Inc. (“Comtrak”), we acquired substantially all the assets of Comtrak Inc. at the close of business on February 28, 2006. Comtrak is a transportation company whose services include primarily rail and international drayage for the intermodal sector. The results of Comtrak are included in our results of operations from March 1, 2006.

Our drayage services are provided by our subsidiaries, Comtrak and Quality Services, LLC (“QS”) who assist us in providing reliable, cost effective intermodal services to our customers. Our subsidiaries have terminals in Atlanta, Birmingham, Charleston, Charlotte, Chattanooga, Chicago, Cleveland, Columbus, Dallas, Houston, Huntsville, Jacksonville, Kansas City, Los Angeles, Memphis, Nashville, Perry, Savannah, St. Louis, Stockton, and Tampa. At March 31, 2007, QS and Comtrak owned 304 tractors, leased 71 tractors, leased or owned 605 trailers and employed 364 drivers and contracted with 894 owner-operators.

We also arrange for the transportation of freight by truck, providing customers with another option for their transportation needs. We match the customers’ needs with carriers’ capacity to provide the most effective service and price combinations. As part of our truck brokerage services, we negotiate rates, track shipments in transit and handle claims for freight loss or damage on behalf of our customers.

Our logistics service consists of complex transportation management services, including load consolidation, mode optimization and carrier management. These service offerings are designed to take advantage of the increasing trend for shippers to outsource all or a greater portion of their transportation needs.

We have full time marketing representatives throughout North America who service local, regional and national accounts. We believe that fostering long-term customer relationships is critical to our success and allows us to better understand our customers’ needs and specifically tailor our transportation services to them.

One of our primary goals is to grow our net income. We achieved this growth through an increase in revenue and margin from our existing transportation customers, winning new customers and the acquisition of Comtrak. Our yield management group works with sales and operations to enhance customer margins. Our top 50 customers’ revenue represents approximately 52.6% of our revenue. During 2006, we severed relationships with certain customers, due to profitability issues and credit issues which impeded our intermodal revenue growth. We have mitigated our risks in the automotive sector by significantly reducing or eliminating our relationship with two automotive parts suppliers in 2006. While we continue to do some limited business for this sector, we are carefully managing our credit exposure.

We use various performance indicators to manage our business. We closely monitor margin and gains and losses for our top 50 customers and loads with negative margins. We also evaluate on-time performance, costs per load by location and daily sales outstanding by location. Vendor cost changes and vendor service issues are also monitored closely.

Substantially all of the assets of Hub Group Distribution Services, LLC (“HGDS” or “Hub Distribution”) were sold to the President of the former subsidiary on May 1, 2006. Accordingly, the results of operations of HGDS for the current and prior periods have been reported as discontinued operations, including their revenue for the three months ended March 31, 2006 of \$14.4 million.



**RESULTS OF OPERATIONS**

The following table summarizes our revenue by business line (in thousands):

		<b>Three Months Ended March 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>% Change</b>	
<b>Revenue</b>				
Intermodal	\$ 287,833	\$ 260,693	10.4%	
Truck brokerage	74,580	69,537	7.3	
Logistics	30,884	26,534	16.4	
<b>Total revenue from continuing operations</b>	<b>\$ 393,297</b>	<b>\$ 356,764</b>	<b>10.2%</b>	

The following table includes certain items in the consolidated statement of income as a percentage of revenue:

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Revenue	100.0%	100.0%
Transportation costs	85.6	86.7
Gross margin	14.4	13.3
Costs and expenses:		
Salaries and benefits	6.5	6.4
General and administration	3.0	2.6
Depreciation and amortization	0.3	0.5
Total costs and expenses	9.8	9.5
Operating income	4.6	3.8
Other expense:		
Interest income	0.2	0.1
Total other income	0.2	0.1
Income from continuing operations before provision for income taxes	4.8	3.9
Provision for income taxes	1.9	1.5
Income from continuing operations	2.9%	2.4%

*Three Months Ended March 31, 2007 Compared to the Three Months Ended March 31, 2006*

## **Revenue**

Revenue increased 10.2% to \$393.3 million in 2007 from \$356.8 million in 2006. Intermodal revenue increased 10.4% to \$287.8 million due primarily to a 4.3% increase in volume, a 5.0% increase related to Comtrak and 1.1% combined increase related to price, mix and fuel surcharges. Truck brokerage revenue increased 7.3% to \$74.6 million due primarily to an increase in volume and revenue per load from price increases and mix. Logistics revenue increased 16.4% to \$30.9 million as a result of increased business from existing customers. Hub Distribution's revenue has been reclassified to discontinued operations due to its sale on May 1, 2006.

## **Gross Margin**

Gross margin increased 19.6% to \$56.7 million in 2007 from \$47.4 million in 2006. This margin expansion comes primarily from Comtrak since we only owned it for one month in the first quarter of 2006 and strong results in truck brokerage. As a percent of revenue, gross margin has increased to 14.4% in 2007 from 13.3% in 2006. The increase in gross margin as a percentage of revenue is due to truck brokerage, doing more of our own drayage more efficiently and a one time profitable vendor deal.

## **Salaries and Benefits**

As a percentage of revenue, salaries and benefits increased slightly to 6.5% in 2007 from 6.4% in 2006. Salaries and benefits increased to \$25.6 million in 2007 from \$22.9 million in 2006. The majority of the increase relates to Comtrak. Headcount as of March 31, 2007 was 1,106 which excludes drivers, as driver costs are included in transportation costs. In the first quarter of 2007, we recorded \$0.4 million of severance expense.

## **General and Administrative**

General and administrative expenses increased to \$11.6 million for 2007 from \$9.0 million in 2006. As a percentage of revenue, these expenses increased to 3.0% in 2007 from 2.6% in 2006. The increase relates primarily to Comtrak and to increased spending on consultants of approximately \$1.0 million related to a marketing project.

## **Depreciation and Amortization**

Depreciation and amortization decreased to \$1.2 million in 2007 from \$1.9 million in 2006. This expense as a percentage of revenue decreased to 0.3% in 2007 from 0.5% in 2006. The decrease in depreciation and amortization is due primarily to lower computer software depreciation.

## **Other Income (Expense)**

Interest income increased to \$0.6 million in 2007 from \$0.4 million in 2006. The increase in interest income is due to a higher average investment balance and higher interest rates in 2007.

## **Provision for Income Taxes**

The provision for income taxes increased to \$7.5 million in 2007 compared to \$5.6 million in 2006. We provided for income taxes using an effective rate of 39.6% in 2007 and an effective rate of 40.0% in the first quarter of 2006. The decrease in the effective tax rate is primarily a consequence of our change in the timing of restricted stock award grants and vesting.

### **Income from Continuing Operations**

Income from continuing operations increased to \$11.4 million in 2007 from \$8.5 million in 2006 due primarily to higher gross margin, lower depreciation and amortization expense and higher interest income.

### **Income from Discontinued Operations**

Income from discontinued operations includes income from the operations of HGDS. This income was \$0.7 million for the three months ended March 31, 2006.

### **Earnings Per Common Share**

Basic earnings per share from continuing operations was \$0.29 in 2007 and \$0.21 in 2006. Basic earnings per share from discontinued operations was \$0.02 in 2006. Basic earnings per share was \$0.29 for 2007 and \$0.23 for 2006. Diluted earnings per share from continuing operations increased to \$0.29 in 2007 from \$0.21 in 2006. Diluted earnings per share from discontinued operations was \$0.01 in 2006. Diluted earnings per share were \$0.29 for 2007 and \$0.22 for 2006.

### **CRITICAL ACCOUNTING POLICIES**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. In certain circumstances, those estimates and assumptions can affect amounts reported in the accompanying consolidated financial statements. We have made our best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. We do not believe there is a great likelihood that materially different amounts would be reported related to the accounting policies described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. Note 1 of the "Notes to Consolidated Financial Statements" in our Annual Report on Form 10-K for the year ended December 31, 2006, includes a summary of the significant accounting policies and methods used in the preparation of our consolidated financial statements. The following is a brief discussion of the changes that occurred during 2007 to the significant accounting policies and estimates disclosed in Note 1 of the "Notes to Consolidated Financial Statements" in our Annual Report on Form 10-K for the year ended December 31, 2006.

### **New Pronouncement**

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48 ("FIN48"), Accounting for Uncertainty in Income Taxes, which is an interpretation of SFAS No. 109, Accounting for Income Taxes. Although the implementation of FIN 48 did not impact the amount of our liability for unrecognized tax benefits, we did reclassify \$4.0 million of our liability for unrecognized tax benefits from deferred tax liabilities to non-current liabilities to conform with the balance sheet presentation requirements of FIN 48. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. In addition, FIN 48 clearly scopes out income taxes from Financial Accounting Standards Board Statement No. 5, Accounting for Contingencies.

### **LIQUIDITY AND CAPITAL RESOURCES**

During the first quarter, we have funded operations, capital expenditures, the earn out payment and our stock buy back through cash flows from operations.



Cash provided by operating activities for the three months ended March 31, 2007, was approximately \$9.4 million, which resulted primarily from income from continuing operations of \$11.4 million, non-cash charges of \$4.4 million partially offset by a decrease in the change in operating assets and liabilities of \$6.4 million.

Net cash used in investing activities for the three months ended March 31, 2007, was \$7.1 million and related primarily to the \$5.0 million earn out payment made to the former owner of Comtrak and purchases of property and equipment. We expect capital expenditures to be approximately \$10.0 to \$11.0 million in 2007.

The net cash used in financing activities for the three months ended March 31, 2007, was \$11.1 million. We generated \$0.2 million of cash from stock options being exercised and used \$12.7 million of cash to purchase treasury stock. We also reported \$1.4 million of excess tax benefits from share-based compensation as a financing cash in-flow.

We had \$47.5 million of unused and available borrowings under our bank revolving line of credit at March 31, 2007. We were in compliance with our debt covenants at March 31, 2007.

We have standby letters of credit that expire from 2007 to 2012. As of March 31, 2007, the outstanding letters of credit were \$2.5 million.

The \$5.0 million related party payable was paid out during the first quarter of 2007. This amount relates to the 2006 earn out payment due to the former owner of Comtrak. A similar amount will be paid in 2008 if the 2007 earn out is achieved.

We spent approximately \$12.5 million on stock repurchases in 2007. We have authorization to spend an additional \$62.5 million to purchase common stock through June of 2008. We may make additional purchases from time to time as market conditions warrant.

### Contractual Obligations

Our contractual cash obligations as of March 31, 2007 are minimum rental commitments. Minimum annual rental commitments, at March 31, 2007, under non-cancelable operating leases, principally for real estate, containers and equipment are payable as follows (in thousands):

2007	\$	16,203
2008		16,636
2009		13,437
2010		11,317
2011		10,529
2012 and thereafter		12,923
	\$	81,045

In March 2007, we entered into an equipment purchase contract with Singamas Management Services, Ltd. and Singamas North America, Inc. We agreed to purchase 2,000 fifty-three foot dry freight steel domestic containers for approximately \$19.4 million. We expect delivery of 500 units per month during the period May through August 2007. We plan to finance these containers with operating leases. These commitments are not included in the table above since the arrangements have not yet been finalized.

## Deferred Compensation

Under our Nonqualified Deferred Compensation Plan (the “Plan”), participants can elect to defer certain compensation. Payments under the Plan are due as follows as of March 31, 2007 (in thousands):

2007	\$ -
2008	2,012
2009	956
2010	1,488
2011	585
2012 and thereafter	3,961
	\$ 9,002

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk related to changes in interest rates on our bank line of credit which may adversely affect our results of operations and financial condition.

## CONTROLS AND PROCEDURES

As of March 31, 2007, an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of March 31, 2007. There have been no changes in our internal control over financial reporting identified in connection with such evaluation that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



**PART II. Other Information****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On October 26, 2006, our Board of Directors authorized the purchase of up to \$75.0 million of our Class A Common Stock. This authorization expires June 30, 2008. We intend to hold the repurchased shares in treasury for future use. During the first quarter we made purchases of 408,205 shares at a value of \$12.5 million. We may make additional purchases from time to time as market conditions warrant.

The following table displays the number of shares purchased and the maximum value of shares that may yet be purchased under the plan:

	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plan</b>	<b>Maximum Value of Shares that May Yet Be Purchased Under the Plan (in 000's)</b>
January 1 to January 31	--	--	--	\$ 75,000
February 1 to February 28	--	--	--	75,000
March 1 to March 31	408,205	\$ 30.62	408,205	62,500
Total	408,205	\$ 30.62	408,205	\$ 62,500

**Item 6. Exhibits**

The exhibits included as part of the Form 10-Q are set forth in the Exhibit Index immediately preceding such Exhibits and are incorporated herein by reference.



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Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

HUB GROUP, INC.

DATE: April 23, 2007

/s/ Terri A. Pizzuto

Terri A. Pizzuto

Executive Vice President-Chief Financial

Officer and Treasurer

(Principal Financial Officer)

**EXHIBIT INDEX**

Exhibit No. Description

- |      |  |
|------|--|
| 10.1 | Equipment Purchase Contract, dated as of March 8, 2007, by and between Hub City Terminals, Inc., Singamas Management Services, Ltd. and Singamas North America, Inc. (incorporated by reference to Exhibit 10.1 to the Registrant's report on Form 8-K filed March 12, 2007, File No. 000-27754) |
| 31.1 | Certification of David P. Yeager, Vice Chairman and Chief Executive Officer, Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.   |
| 31.2 | Certification of Terri A. Pizzuto, Executive Vice President, Chief Financial Officer and Treasurer, Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.  |
| 32.1 | Certification of David P. Yeager and Terri A. Pizzuto, Chief Executive Officer and Chief Financial Officer, respectively, Pursuant to 18 U.S.C. Section 1350.  |