

HUB GROUP INC
Form 10-Q
October 25, 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 September 30, 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
(State or other jurisdiction of
incorporation or organization)

36-4007085
(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 ☒

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On October 19, 2007, the registrant had 38,122,060 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.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

| | September 30, 2007 | December 31, 2006 |
|--|-----------------------------------|----------------------------------|
| | (unaudited) | |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 39,824 | \$ 43,491 |
| Accounts receivable | | |
| Trade, net | 181,601 | 158,284 |
| Other | 11,296 | 8,369 |
| Prepaid taxes | 86 | 2,119 |
| Deferred taxes | 4,207 | 3,433 |
| Prepaid expenses and other current assets | 5,244 | 4,450 |
| TOTAL CURRENT ASSETS | 242,258 | 220,146 |
| Restricted investments | 5,116 | 3,017 |
| Property and equipment, net | 29,477 | 26,974 |
| Other intangibles, net | 7,168 | 7,502 |
| Goodwill, net | 225,448 | 225,448 |
| Other assets | 1,440 | 1,461 |
| TOTAL ASSETS | \$ 510,907 | \$ 484,548 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | | |
| Trade | \$ 129,986 | \$ 117,676 |
| Other | 6,091 | 6,839 |
| Accrued expenses | | |
| Payroll | 12,484 | 18,294 |
| Other | 35,742 | 26,617 |
| Related party payable | - | 5,000 |
| TOTAL CURRENT LIABILITIES | 184,303 | 174,426 |
| Non-current liabilities | 13,400 | 7,691 |
| Deferred taxes | 42,248 | 43,587 |
| STOCKHOLDERS' EQUITY: | | |
| 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; 97,337,700 shares authorized in 2007; 41,224,792 shares issued and 38,217,278 outstanding in 2007; 47,337,700 shares authorized in 2006; 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 | 176,317 | 179,203 |
| Purchase price in excess of predecessor basis, net of tax benefit of \$10,306 | (15,458) | (15,458) |
| Retained earnings | 188,045 | 146,243 |
| Treasury stock; at cost, 3,007,514 shares in 2007 and 2,281,670 shares in 2006 | (78,367) | (51,563) |
| TOTAL STOCKHOLDERS' EQUITY | 270,956 | 258,844 |

| | | |
|--|------------|------------|
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 510,907 | \$ 484,548 |
|--|------------|------------|

See notes to unaudited condensed consolidated financial statements.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|--------------|
| | 2007 | 2006 | 2007 | 2006 |
| Revenue | \$ 417,842 | \$ 432,009 | \$ 1,212,704 | \$ 1,184,069 |
| Transportation costs | 360,332 | 374,673 | 1,040,770 | 1,023,869 |
| Gross margin | 57,510 | 57,336 | 171,934 | 160,200 |
| Costs and expenses: | | | | |
| Salaries and benefits | 22,100 | 23,965 | 71,887 | 71,271 |
| General and administrative | 9,596 | 9,890 | 31,415 | 28,585 |
| Depreciation and amortization | 1,080 | 1,642 | 3,455 | 5,029 |
| Total costs and expenses | 32,776 | 35,497 | 106,757 | 104,885 |
| Operating income | 24,734 | 21,839 | 65,177 | 55,315 |
| Other income (expense): | | | | |
| Interest expense | (33) | (22) | (78) | (65) |
| Interest income | 711 | 670 | 1,967 | 1,668 |
| Other, net | 24 | 7 | 82 | 63 |
| Total other income | 702 | 655 | 1,971 | 1,666 |
| Income from continuing operations before provision for income taxes | 25,436 | 22,494 | 67,148 | 56,981 |
| Provision for income taxes | 8,828 | 9,000 | 25,346 | 22,795 |
| Income from continuing operations | 16,608 | 13,494 | 41,802 | 34,186 |
| Discontinued operations: | | | | |
| Income from discontinued operations of HGDS | - | - | - | 1,634 |
| Provision for income taxes | - | - | - | 653 |
| Income from discontinued operations | - | - | - | 981 |
| Net income | \$ 16,608 | \$ 13,494 | \$ 41,802 | \$ 35,167 |
| Basic earnings per common share | | | | |
| Income from continuing operations | \$ 0.43 | \$ 0.34 | \$ 1.07 | \$ 0.85 |
| Income from discontinued operations | \$ - | \$ - | \$ - | \$ 0.02 |
| Net income | \$ 0.43 | \$ 0.34 | \$ 1.07 | \$ 0.87 |
| Diluted earnings per common share | | | | |

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| | | | | | | | | |
|-------------------------------------|----|------|----|------|----|------|----|------|
| Income from continuing operations | \$ | 0.42 | \$ | 0.33 | \$ | 1.06 | \$ | 0.83 |
| Income from discontinued operations | \$ | - | \$ | - | \$ | - | \$ | 0.02 |
| Net income | \$ | 0.42 | \$ | 0.33 | \$ | 1.06 | \$ | 0.85 |

| | | | | |
|---|--------|--------|--------|--------|
| Basic weighted average number of shares outstanding | 38,777 | 39,773 | 39,026 | 40,246 |
| Diluted weighted average number of shares outstanding | 39,230 | 40,572 | 39,511 | 41,161 |

See notes to unaudited condensed consolidated financial statements.

HUB GROUP, INC
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the nine months ended September 30, 2007
(in thousands, except shares)

| | September 30, 2007 |
|---|-------------------------------|
| Class A & B Common Stock Shares Outstanding | |
| Beginning of year | 39,605,418 |
| Purchase of treasury shares | (1,161,762) |
| Treasury shares issued for restricted stock and stock options exercised | 435,918 |
| Ending balance | 38,879,574 |
| Class A & B Common Stock Amount | |
| Beginning of year | \$ 419 |
| Ending balance | 419 |
| Additional Paid-in Capital | |
| Beginning of year | 179,203 |
| Exercise of non-qualified stock options | (5,940) |
| Share-based compensation expense | 2,893 |
| Tax benefit of share-based compensation plans | 3,856 |
| Issuance of restricted stock awards, net of forfeitures | (3,695) |
| Ending balance | 176,317 |
| Purchase Price in Excess of Predecessor Basis, Net of Tax | |
| Beginning of year | (15,458) |
| Ending balance | (15,458) |
| Retained Earnings | |
| Beginning of year | 146,243 |
| Net income | 41,802 |
| Ending balance | 188,045 |
| Treasury Stock | |
| Beginning of year | (51,563) |
| Purchase of treasury shares | (37,142) |
| Issuance of restricted stock and exercise of stock options | 10,338 |
| Ending balance | (78,367) |
| Total stockholders' equity | \$ 270,956 |

See notes to unaudited condensed consolidated financial statements.

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

| | Nine Months Ended September 30, | |
|--|--|-------------|
| | 2007 | 2006 |
| Cash flows from operating activities: | | |
| Income from continuing operations | \$ 41,802 | \$ 34,186 |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities: | | |
| Depreciation and amortization | 5,475 | 6,410 |
| Deferred taxes | 3,178 | 12 |
| Compensation expense related to share-based compensation plans | 2,893 | 2,649 |
| Gain on sale of assets | (156) | (31) |
| Changes in operating assets and liabilities excluding effects of purchase transaction: | | |
| Restricted investments | (2,099) | (1,163) |
| Accounts receivable, net | (26,244) | (6,325) |
| Prepaid taxes | 2,033 | 5,295 |
| Prepaid expenses and other current assets | (794) | (1,202) |
| Other assets | 21 | 234 |
| Accounts payable | 11,562 | 13,904 |
| Accrued expenses | 3,315 | 9,152 |
| Non-current liabilities | 418 | - |
| Net cash provided by operating activities | 41,404 | 63,121 |
| Cash flows from investing activities: | | |
| Proceeds from sale of equipment | 715 | 228 |
| Purchases of property and equipment | (8,203) | (5,247) |
| Cash used in acquisition of Comtrak, Inc. | (5,000) | (39,942) |
| Proceeds from the disposal of discontinued operations | - | 12,203 |
| Net cash used in investing activities | (12,488) | (32,758) |
| Cash flows from financing activities: | | |
| Proceeds from stock options exercised | 703 | 1,924 |
| Purchase of treasury stock | (37,142) | (45,191) |
| Excess tax benefits from share-based compensation | 3,856 | 7,897 |
| Net cash used in by financing activities | (32,583) | (35,370) |
| Cash flows from operating activities of discontinued operations | - | 1,848 |
| Cash flows used in investing activities of discontinued operations | - | (38) |
| Net cash provided by discontinued operations | - | 1,810 |
| Net decrease in cash and cash equivalents | (3,667) | (3,197) |
| Cash and cash equivalents beginning of period | 43,491 | 36,133 |
| Cash and cash equivalents end of period | \$ 39,824 | \$ 32,936 |
| Supplemental disclosures of cash paid for: | | |
| Interest | \$ 78 | \$ 64 |
| Income taxes | \$ 14,518 | \$ 6,573 |

See notes to unaudited condensed consolidated 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 September 30, 2007 and results of operations for the three months and nine months ended September 30, 2007 and 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. Earnings Per Share

The following is a reconciliation of our earnings per share (in thousands, except for per share data):

| | Three Months Ended September 30, 2007 | | | Three Months Ended September 30, 2006 | | |
|--------------------------------------|--|--------|---------------------|--|--------|---------------------|
| | Income | Shares | Per Share Amount | Income | Shares | Per Share Amount |
| Basic EPS | | | | | | |
| Income from continuing operations | \$ 16,608 | 38,777 | \$ 0.43 | \$ 13,494 | 39,773 | \$ 0.34 |
| Income from discontinued operations | - | 38,777 | - | - | 39,773 | - |
| Net Income | \$ 16,608 | 38,777 | \$ 0.43 | \$ 13,494 | 39,773 | \$ 0.34 |
| Effect of Dilutive Securities | | | | | | |
| Stock options and restricted stock | | 453 | | | 799 | |
| Diluted EPS | | | | | | |
| Income from continuing operations | \$ 16,608 | 39,230 | \$ 0.42 | \$ 13,494 | 40,572 | \$ 0.33 |
| Income from discontinued operations | - | 39,230 | - | - | 40,572 | - |
| Net Income | \$ 16,608 | 39,230 | \$ 0.42 | \$ 13,494 | 40,572 | \$ 0.33 |

| | Nine Months Ended September 30, 2007 | | | Nine Months Ended September 30, 2006 | | |
|--------------------------------------|---|--------|---------------------|---|--------|---------------------|
| | Income | Shares | Per Share Amount | Income | Shares | Per Share Amount |
| Basic EPS | | | | | | |
| Income from continuing operations | \$ 41,802 | 39,026 | \$ 1.07 | \$ 34,186 | 40,246 | \$ 0.85 |
| Income from discontinued operations | - | 39,026 | - | 981 | 40,246 | 0.02 |
| Net Income | \$ 41,802 | 39,026 | \$ 1.07 | \$ 35,167 | 40,246 | \$ 0.87 |
| Effect of Dilutive Securities | | | | | | |
| Stock options and restricted stock | | 485 | | | 915 | |
| Diluted EPS | | | | | | |
| Income from continuing operations | \$ 41,802 | 39,511 | \$ 1.06 | \$ 34,186 | 41,161 | \$ 0.83 |
| Income from discontinued operations | - | 39,511 | - | 981 | 41,161 | 0.02 |
| Net Income | \$ 41,802 | 39,511 | \$ 1.06 | \$ 35,167 | 41,161 | \$ 0.85 |

NOTE 3. Debt

We had \$47.1 million of unused and available borrowings under our bank revolving line of credit at September 30, 2007. We were in compliance with our debt covenants at September 30, 2007.

We have standby letters of credit that expire from 2007 to 2012. As of September 30, 2007, the outstanding letters of credit were \$2.9 million.

NOTE 4. 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 have received 1,882 units as of September 30, 2007 and we expect delivery of the remainder by the end of October. We entered into operating leases to finance these containers with terms of approximately 6 years.

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 5. 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 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 \$5.3 million of which \$1.6 million would, if recognized, decrease our effective tax rate. As of September 30, 2007, the amount of unrecognized tax benefits was \$5.1 million of which \$1.7 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 2004 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 \$4.9 million. Should the decrease occur, it would have a positive impact on our effective tax rate of up to \$1.5 million and the remaining \$3.4 million decrease in our liability for uncertain tax positions would be reclassified as additional deferred tax liability.

We recognize accrued interest expense and penalties related to unrecognized tax benefits in our provision for income taxes. At January 1, 2007, accrued interest was \$2.1 million or \$1.3 million, net of income tax. During the nine months ended September 30, 2007, \$0.2 million of interest expense, net of tax, was recognized in our provision for income taxes.

During the third quarter of 2007, the State of Illinois enacted new tax legislation which impacts us by modifying how we apportion taxable income to Illinois. The enactment of the new legislation results in a reduction of our net deferred liabilities and a credit to our provision for state income taxes of approximately \$1.2 million. Without this adjustment, our effective tax rate would have been 39.4% for the third quarter of 2007 and 39.5% for the nine months ended September 30, 2007.

NOTE 6. New Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. We expect to adopt SFAS No. 157 effective January 1, 2008, as required. We do not believe the adoption of the Standard will have a significant impact on our financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to voluntarily choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective beginning January 1, 2008, but we have decided not to adopt this optional standard.

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 we serve;
 - 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;
- inability to recruit and maintain drivers and owner operators;
 - 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, Huntsville, Jacksonville, Kansas City, Los Angeles, Memphis, Nashville, Perry, Savannah, St. Louis, Stockton, and Tampa. At September 30, 2007, QS and Comtrak owned 308 tractors, leased 44 tractors, leased or owned 706 trailers, employed 337 drivers and contracted with 827 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 50.8% of our revenue.

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 through April 30, 2006 of \$4.8 million.

RESULTS OF OPERATIONS

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

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|-------------------------------------|-------------------|---------------|------------------------------------|---------------------|-------------|
| | 2007 | 2006 | % Change | 2007 | 2006 | % Change |
| Revenue | | | | | | |
| Intermodal | \$ 303,289 | \$ 318,927 | (4.9)% | \$ 891,999 | \$ 865,499 | 3.1% |
| Truck brokerage | 77,115 | 77,129 | 0.0 | 224,933 | 224,805 | 0.1 |
| Logistics | 37,438 | 35,953 | 4.1 | 95,772 | 93,765 | 2.1 |
| Total revenue from continuing operations | \$ 417,842 | \$ 432,009 | (3.3)% | \$ 1,212,704 | \$ 1,184,069 | 2.4% |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------|------------------------------------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| Revenue | 100.0% | 100.0% | 100.0% | 100.0% |
| Transportation costs | 86.2 | 86.7 | 85.8 | 86.5 |
| Gross margin | 13.8 | 13.3 | 14.2 | 13.5 |
| Costs and expenses: | | | | |
| Salaries and benefits | 5.3 | 5.5 | 5.9 | 6.0 |
| General and administrative | 2.3 | 2.3 | 2.6 | 2.4 |
| Depreciation and amortization | 0.3 | 0.4 | 0.3 | 0.4 |
| Total costs and expenses | 7.9 | 8.2 | 8.8 | 8.8 |
| Operating income | 5.9 | 5.1 | 5.4 | 4.7 |
| Other income: | | | | |
| Interest income | 0.2 | 0.1 | 0.1 | 0.1 |
| Total other income | 0.2 | 0.1 | 0.1 | 0.1 |
| Income from continuing operations before provision for income taxes | 6.1 | 5.2 | 5.5 | 4.8 |
| Provision for income taxes | 2.1 | 2.1 | 2.1 | 1.9 |
| Income from continuing operations | 4.0% | 3.1% | 3.4% | 2.9% |

Three Months Ended September 30, 2007 Compared to the Three Months Ended September 30, 2006

Revenue

Revenue decreased 3.3% to \$417.8 million in 2007 from \$432.0 million in 2006. Intermodal revenue decreased 4.9% to \$303.3 million due to a 2.1% decrease in volume, a 2.1% decrease in price and a 0.7% negative change in mix. Truck brokerage revenue remained constant at \$77.1 million on slightly lower volume. Logistics revenue increased 4.1% to \$37.4 million related to several new customers and increased business from existing customers.

Gross Margin

Gross margin increased slightly by 0.3% to \$57.5 million in 2007 from \$57.3 million in 2006. This margin expansion comes primarily from our logistics business. As a percent of revenue, gross margin has increased to 13.8% in 2007 from 13.3% in 2006.

Salaries and Benefits

As a percentage of revenue, salaries and benefits decreased slightly to 5.3% in 2007 from 5.5% in 2006. Salaries and benefits decreased to \$22.1 million in 2007 from \$24.0 million in 2006. This is due primarily to a decrease in incentive compensation including a \$0.9 million change in estimate related to the first half of 2007, recorded in the third quarter of 2007. Headcount as of September 30, 2007 was 1,064 which excludes drivers as driver costs are included in transportation costs.

General and Administrative

General and administrative expenses decreased to \$9.6 million in 2007 from \$9.9 million in 2006. As a percentage of revenue, these expenses remained constant at 2.3%. The decrease in general and administrative expenses is due to a decrease in general insurance expense for the quarter partially offset by an increase in professional services.

Depreciation and Amortization

Depreciation and amortization decreased to \$1.1 million in 2007 from \$1.6 million in 2006. This expense as a percentage of revenue decreased to 0.3% in 2007 from 0.4% in 2006. The decrease in depreciation and amortization is due primarily to lower computer software depreciation as some of our software was fully depreciated in earlier periods.

Other Income (Expense)

Interest income remained constant at \$0.7 million for 2007 and 2006.

Provision for Income Taxes

The provision for income taxes decreased to \$8.8 million in 2007 compared to \$9.0 million in 2006. The decrease is primarily attributable to a revaluation of deferred income taxes of approximately \$1.2 million related to an Illinois tax law change enacted during the quarter, which affects how service providers apportion income to Illinois.

Income from Continuing Operations

Income from continuing operations increased to \$16.6 million in 2007 from \$13.5 million in 2006 due primarily to lower salaries and benefit costs, lower depreciation and amortization expense, lower general and administrative expenses and higher gross margin.

Earnings Per Common Share

Basic earnings per share were \$0.43 in 2007 and \$0.34 in 2006. Diluted earnings per share increased to \$0.42 in 2007 from \$0.33 in 2006.

Nine Months Ended September 30, 2007 Compared to the Nine Months Ended September 30, 2006

Revenue

Revenue remained constant at \$1.2 billion in both 2007 and 2006. Intermodal revenue increased 3.1% to \$892.0 million due primarily to a 2.4% increase in volume and Comtrak being owned an additional two months in 2007. Truck brokerage revenue increased slightly to \$224.9 million from \$224.8 million due primarily to an increase in price and mix partially offset by a slight decrease in volume. Logistics revenue increased 2.1% to \$95.8 million as a result of increased business from new and 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 7.3% to \$171.9 million in 2007 from \$160.2 million in 2006. This margin expansion comes from Comtrak and an increase in volume from intermodal business. As a percent of revenue, gross margin has increased to 14.2% in 2007 from 13.5% in 2006. The increase in gross margin as a percentage of revenue is due to performing more of our own drayage more efficiently and better brokerage margins.

Salaries and Benefits

As a percentage of revenue, salaries and benefits were slightly lower at 5.9% for 2007 from 6.0% for 2006. Salaries and benefits increased to \$71.9 million in 2007 from \$71.3 million in 2006. The majority of the increase relates to Comtrak since we owned them for two additional months in 2007.

General and Administrative

General and administrative expenses increased to \$31.4 million for 2007 from \$28.6 million in 2006. As a percentage of revenue, these expenses increased to 2.6% in 2007 from 2.4% in 2006. The increase relates primarily to increased expenses in our Comtrak business including the two additional months that we owned them in 2007 compared to 2006 and increased spending on consultants of approximately \$1.2 million related to a marketing project partially offset by a favorable lease termination agreement.

Depreciation and Amortization

Depreciation and amortization decreased to \$3.5 million in 2007 from \$5.0 million in 2006. This expense as a percentage of revenue decreased to 0.3% in 2007 from 0.4% in 2006. The decrease in depreciation and amortization is due primarily to lower computer software depreciation as some of our software was fully depreciated in earlier periods.

Other Income (Expense)

Interest income increased to \$2.0 million in 2007 from \$1.7 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 \$25.3 million in 2007 compared to \$22.8 million in 2006. The increase is a result of the increase in pre-tax income partially offset by the revaluation of deferred income taxes of approximately \$1.2 million related to an Illinois tax law change enacted during the third quarter of 2007, which decreased our effective tax rate.

Income from Continuing Operations

Income from continuing operations increased to \$41.8 million in 2007 from \$34.2 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 \$1.0 million for the nine months ended September 30, 2006.

Earnings Per Common Share

Basic earnings per share from continuing operations was \$1.07 in 2007 and \$0.85 in 2006. Basic earnings per share from discontinued operations was \$0.02 in 2006. Basic earnings per share was \$1.07 for 2007 and \$0.87 for 2006. Diluted earnings per share from continuing operations increased to \$1.06 in 2007 from \$0.83 in 2006. Diluted earnings per share from discontinued operations was \$0.02 in 2006. Diluted earnings per share was \$1.06 for 2007 and \$0.85 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 Pronouncements

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48 ("FIN 48"), 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 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.

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In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. We expect to adopt SFAS No. 157 effective January 1, 2008, as required. We do not believe the adoption of the Standard will have a significant impact on our financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to voluntarily choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective beginning January 1, 2008, but we have decided not to adopt this optional standard.

LIQUIDITY AND CAPITAL RESOURCES

During 2007, we have funded operations, capital expenditures, the earn out payment related to the Comtrak acquisition and our stock buy back through cash flows from operations.

Cash provided by operating activities for the nine months ended September 30, 2007 was approximately \$41.4 million, which resulted primarily from income from continuing operations of \$41.8 million and non-cash charges of \$11.4 million, partially offset by the change in operating assets and liabilities of \$11.8 million. The decrease in cash provided by operating activities for the nine months ended September 30, 2007 versus the nine months ended September 30, 2006 is primarily a result of the deterioration of our day's sales outstanding due primarily to our retail customers.

Net cash used in investing activities for the nine months ended September 30, 2007 was \$12.5 million and related primarily to capital expenditures of \$8.2 million mostly comprised of tractors for the Comtrak operations and the \$5.0 million earn out payment made to the former owner of Comtrak, partially offset by \$0.7 million of cash generated from the sale of equipment. We expect capital expenditures to be approximately \$9.0 to \$10.0 million for all of 2007.

The net cash used in financing activities for the nine months ended September 30, 2007 was \$32.6 million. We generated \$0.7 million of cash from stock options exercised and used \$37.1 million of cash to purchase treasury stock. We also reported \$3.8 million of excess tax benefits from share-based compensation as a financing cash in-flow.

We had \$47.1 million of unused and available borrowings under our bank revolving line of credit at September 30, 2007. We were in compliance with our debt covenants at September 30, 2007.

We have standby letters of credit that expire from 2007 to 2012. As of September 30, 2007, the outstanding letters of credit were \$2.9 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 \$37.1 million on stock repurchases through September 30, 2007. At September 30, 2007, we had authorization to spend an additional \$38.3 million to purchase common stock through June of 2008. In October of 2007, we spent approximately \$3.0 million on stock repurchases and we may make additional purchases from time to time as market conditions warrant.

Contractual Obligations

Our contractual cash obligations as of September 30, 2007 are minimum rental commitments. We have a ten year lease agreement for a building and property (Comtrak's Memphis facility) with a related party, the President of Comtrak. Minimum annual rental commitments, at September 30, 2007, under non-cancelable operating leases, principally for real estate, containers and equipment are payable as follows (in thousands):

| | | |
|------|----|-------|
| 2007 | \$ | 4,997 |
|------|----|-------|

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| | |
|---------------------|-----------|
| 2008 | 18,324 |
| 2009 | 15,271 |
| 2010 | 13,313 |
| 2011 | 12,516 |
| 2012 and thereafter | 15,924 |
| | \$ 80,345 |

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 have received 1,882 units as of September 30, 2007 and we expect delivery of the remainder by the end of October. We entered into operating leases to finance these containers with terms of approximately 6 years. The commitments for the containers we have received are included in the table above.

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 September 30, 2007 (in thousands):

| | | |
|---------------------|----|--------|
| 2007 | \$ | - |
| 2008 | | 1,932 |
| 2009 | | 1,021 |
| 2010 | | 1,610 |
| 2011 | | 639 |
| 2012 and thereafter | \$ | 10,189 |

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 September 30, 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 September 30, 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 nine months we made purchases of 1,148,220 shares at a value of approximately \$36.7 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:

| | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan | Maximum Value of Shares that May Yet Be Purchased Under the Plan (in 000's) |
|--------------------------------|---|---|--|--|
| 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 |
| April 1 to April 30 | -- | -- | -- | 62,500 |
| May 1 to May 31 | -- | -- | -- | 62,500 |
| June 1 to June 30 | -- | -- | -- | 62,500 |
| July 1 to July 31 | 411,715 | \$ 34.49 | 411,715 | 48,300 |
| August 1 to August 31 | 100,000 | \$ 31.73 | 100,000 | 45,126 |
| September 1 to September 30 | 228,300 | \$ 29.97 | 228,300 | 38,285 |
| Total | 1,148,220 | \$ 31.98 | 1,148,220 | \$ 38,285 |

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.

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: October 25, 2007

/s/ Terri A. Pizzuto

Terri A. Pizzuto

Executive Vice President, Chief Financial

Officer and Treasurer

(Principal Financial Officer)

EXHIBIT INDEX

| Exhibit No. | Description |
|-------------|---|
| 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. |