

HUB GROUP INC  
Form 10-Q  
August 04, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2011

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)

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**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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes  No

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 definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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 July 28, 2011, the registrant had 36,828,282 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.

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

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
	(unaudited)	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 18,279	\$ 115,144
Accounts receivable trade, net	348,314	185,879
Accounts receivable other	28,256	17,958
Prepaid taxes	128	296
Deferred taxes	3,426	3,314
Prepaid expenses and other current assets	11,309	6,569
<b>TOTAL CURRENT ASSETS</b>	<b>409,712</b>	<b>329,160</b>
Restricted investments	14,642	11,421
Property and equipment, net	69,373	47,806
Other intangibles, net	20,876	5,856
Goodwill, net	262,223	233,029
Other assets	2,509	2,135
<b>TOTAL ASSETS</b>	<b>\$ 779,335</b>	<b>\$ 629,407</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable trade	\$ 215,087	\$ 121,078
Accounts payable other	14,880	10,064
Accrued payroll	14,499	14,378
Accrued other	39,152	21,898
<b>TOTAL CURRENT LIABILITIES</b>	<b>283,618</b>	<b>167,418</b>
Non-current liabilities	18,463	13,950
Deferred taxes	74,500	71,739
<b>STOCKHOLDERS EQUITY:</b>		
Preferred stock, \$.01 par value; 2,000,000 shares authorized; no shares issued or outstanding in 2011 and 2010		
Common stock		
Class A: \$.01 par value; 97,337,700 shares authorized and 41,224,792 shares issued in 2011 and 2010; 36,828,747 shares outstanding in 2011 and 36,638,359 shares outstanding in 2010		
	412	412
Class B: \$.01 par value; 662,300 shares authorized; 662,296 shares issued and outstanding in 2011 and 2010		
	7	7
Additional paid-in capital	166,742	169,722
Purchase price in excess of predecessor basis, net of tax benefit of \$10,306	(15,458)	(15,458)
Retained earnings	367,898	343,010
Other comprehensive income	6	6
Treasury stock; at cost, 4,396,045 shares in 2011 and 4,586,433 shares in 2010	(116,853)	(121,399)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>402,754</b>	<b>376,300</b>

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TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 779,335	\$ 629,407
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See notes to unaudited consolidated financial statements.

**Table of Contents****HUB GROUP, INC.****UNAUDITED CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenue	\$ 759,709	\$ 458,113	\$ 1,245,088	\$ 875,407
Transportation costs	674,956	407,537	1,103,028	776,013
Gross margin	84,753	50,576	142,060	99,394
Costs and expenses:				
Salaries and benefits	32,746	23,863	59,547	47,321
Agent fees and commissions	13,765	584	14,516	1,133
General and administrative	12,852	9,480	24,911	19,076
Depreciation and amortization	1,472	934	2,408	1,907
Total costs and expenses	60,835	34,861	101,382	69,437
Operating income	23,918	15,715	40,678	29,957
Other income (expense):				
Interest expense	(69)	(12)	(83)	(26)
Interest and dividend income	45	23	77	48
Other, net	60	84	269	152
Total other income	36	95	263	174
Income before provision for income taxes	23,954	15,810	40,941	30,131
Provision for income taxes	9,564	6,180	16,053	11,799
Net income	\$ 14,390	\$ 9,630	\$ 24,888	\$ 18,332
Basic earnings per common share	\$ 0.39	\$ 0.26	\$ 0.67	\$ 0.49
Diluted earnings per common share	\$ 0.39	\$ 0.26	\$ 0.67	\$ 0.49
Basic weighted average number of shares outstanding	36,901	37,429	36,893	37,478
Diluted weighted average number of shares outstanding	37,060	37,580	37,041	37,611

See notes to unaudited consolidated financial statements.

**Table of Contents****HUB GROUP, INC.****UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 24,888	\$ 18,332
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	6,292	3,945
Deferred taxes	2,733	4,644
Compensation expense related to share-based compensation plans	2,433	1,822
(Gain) loss on sale of assets	(8)	19
<b>Changes in operating assets and liabilities:</b>		
Restricted investments	(1,043)	289
Accounts receivable, net	(62,743)	(52,505)
Prepaid taxes	169	240
Prepaid expenses and other current assets	(3,976)	(66)
Other assets	305	(520)
Accounts payable	31,079	36,312
Accrued expenses	8,445	2,939
Non-current liabilities	1,400	(441)
<b>Net cash provided by operating activities</b>	<b>9,974</b>	<b>15,010</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of equipment	214	720
Purchases of property and equipment	(15,281)	(2,051)
Cash used in acquisitions, net of cash acquired	(90,909)	
<b>Net cash used in investing activities</b>	<b>(105,976)</b>	<b>(1,331)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from stock options exercised	26	14
Purchase of treasury stock	(1,477)	(12,365)
Excess tax benefits from share-based compensation	584	154
<b>Net cash used in financing activities</b>	<b>(867)</b>	<b>(12,197)</b>
Effect of exchange rate changes on cash and cash equivalents	4	11
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(96,865)</b>	<b>1,493</b>
Cash and cash equivalents beginning of period	115,144	126,863
<b>Cash and cash equivalents end of period</b>	<b>\$ 18,279</b>	<b>\$ 128,356</b>
<b>Supplemental disclosures of cash paid for:</b>		
Interest	\$ 83	\$ 26

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Income taxes

See notes to unaudited consolidated financial statements.

\$ 7,529 \$ 4,304



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

Our accompanying unaudited 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 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 as of June 30, 2011 and results of operations for the three months and six months ended June 30, 2011 and 2010.

These unaudited 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, 2010. Results of operations in interim periods are not necessarily indicative of results to be expected for a full year due partially to seasonality.

*Reclassifications:* Certain prior year amounts have been reclassified to conform to the current year presentation.

**NOTE 2. Earnings Per Share**

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

	<b>Three Months Ended, June 30,</b>		<b>Six Months Ended, June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Net income for basic and diluted earnings per share	\$ 14,390	\$ 9,630	\$ 24,888	\$ 18,332
Weighted average shares outstanding basic	36,901	37,429	36,893	37,478
Dilutive effect of stock options and restricted stock	159	151	148	133
Weighted average shares outstanding diluted	37,060	37,580	37,041	37,611
Earnings per share basic	\$ 0.39	\$ 0.26	\$ 0.67	\$ 0.49
Earnings per share diluted	\$ 0.39	\$ 0.26	\$ 0.67	\$ 0.49

**NOTE 3. Debt**

On March 31, 2011, we amended our Credit Agreement which increased our maximum unsecured borrowing capacity from \$10.0 million to \$50.0 million and extended the term until March 2014. The interest rate under the Credit Agreement is equal to LIBOR plus 1.75%. The financial covenants require a minimum net worth of \$300.0 million and a cash flow leverage ratio of not more than 2.0 to 1.0. The commitment fee charged on the unused line of credit is 0.375%.

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We have standby letters of credit that expire at various dates in 2011 and 2012. As of June 30, 2011, the outstanding letters of credit totaled \$2.6 million.

We had \$47.4 million of unused and available borrowings under our bank revolving line of credit as of June 30, 2011. We were in compliance with our debt covenants as of June 30, 2011.

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**NOTE 4. Commitments and Contingencies**

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 a 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 or results of operations.

**NOTE 5. Fair Value Measurement**

The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximated fair value as of June 30, 2011 and December 31, 2010 due to their short-term nature.

Cash and cash equivalents included \$15.5 million and \$114.6 million as of June 30, 2011 and December 31, 2010, respectively, invested in a money market fund comprised of U.S. treasury securities and repurchase agreements for these securities.

Restricted investments included \$14.6 million and \$11.4 million as of June 30, 2011 and December 31, 2010, respectively, of mutual funds which are reported at fair value.

The fair value measurement of these securities is based on quoted prices in active markets for identical assets which are defined as Level 1 of the fair value hierarchy in the Fair Value Measurements and Disclosures Topic of the Codification.

**NOTE 6. Guarantees**

We are guaranteeing certain tractor lease payments. The guarantees expire at various dates beginning in 2012 through 2017.

The potential maximum exposure under these lease guarantees was approximately \$11.6 million and \$6.8 million as of June 30, 2011 and December 31, 2010, respectively. The potential maximum exposure represents the amount of the remaining lease payments on all outstanding guaranteed leases as of June 30, 2011 and December 31, 2010. However, upon default, we have the option to purchase the tractors. We could then sell the tractors and use the proceeds to recover all or a portion of the amounts paid under the guarantees. There were no material defaults during the quarter ended June 30, 2011.

As of June 30, 2011 and December 31, 2010, respectively, the liability was approximately \$0.2 million and \$0.1 million, for the guarantees representing the fair value of the guarantees based on a discounted cash-flow analysis. We are amortizing the liability over the remaining lives of the respective guarantees.

**NOTE 7. Comprehensive Income**

Foreign subsidiaries' assets and liabilities are translated to United States dollars at the end of period exchange rates. Revenues and expenses are translated at average rates for the period. Translation adjustments are reported as a separate component of stockholders' equity in accumulated other comprehensive income. Total comprehensive income was \$14.4 million and \$9.6 million for the quarters ended June 30, 2011 and 2010, respectively, and \$24.9 million and \$18.3 million for the six months ended June 30, 2011 and 2010, respectively.

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**NOTE 8. Acquisitions**

On April 1, 2011 (the Acquisition Date ) we entered into a definitive agreement pursuant to which we acquired all of the capital stock of Exel Transportation Services, Inc. ( ETS ). ETS is now our wholly-owned subsidiary, operating independently and renamed Mode Transportation, LLC ( Mode ). The purchase price for the ETS stock was \$83.4 million before post closing adjustments for working capital. Based on estimated working capital, the actual amount paid at closing was \$90.1 million, net of cash acquired of \$8.0 million, which we paid with cash on hand. We are in the process of finalizing the working capital adjustments which we estimate will decrease the purchase price by \$8.4 million to \$81.7 million. The \$8.4 million working capital adjustment expected to be refunded is included in Accounts receivable other in our Consolidated Balance Sheet at June 30, 2011. The results of operations for Mode are included in our Unaudited Consolidated Statements of Income for the period April 1, 2011 to June 30, 2011.

Mode has approximately 300 Independent Business Owners (IBO s) who sell and operate the business throughout North America. Mode also has a company managed operation in Dallas, a temperature protected services division, Temstar, located in Lombard, IL and corporate offices in Dallas and Memphis. We believe this acquisition brings us highly complementary service offerings, more scale and a talented sales channel that allows us to better reach small and midsize customers.

We incurred certain due diligence costs of \$1.7 million and integration costs of \$0.3 million associated with the transaction. Costs incurred during the three and six months ended June 30, 2011 were approximately \$0.3 million and approximately \$2.0 million, respectively. These acquisition costs are included in General and administrative costs in the Unaudited Consolidated Statements of Income for both the three and six month periods ended June 30, 2011.

The Mode acquisition was accounted for as a purchase business combination in accordance with ASC 805 Business Combinations . Assets acquired and liabilities assumed were recorded in the accompanying consolidated balance sheet at their estimated fair values as of April 1, 2011 with the remaining unallocated purchase price recorded as goodwill. The fair value assigned to the agency/customer relationships identifiable intangible was determined using an income approach based on management s estimates and assumptions. The fair value assigned to the property and equipment was determined based on a market approach.

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The following table summarizes the preliminary allocation of the total purchase price to the assets acquired and liabilities assumed as of the date of the acquisition, pending finalization of valuation efforts and the aforementioned working capital adjustment (in thousands):

	<b>April 1, 2011</b>
Accounts receivable trade	\$ 100,114
Accounts receivable other	1,429
Prepaid expenses and other current assets	764
Restricted investments	2,178
Property and equipment	10,632
Other intangibles	15,362
Goodwill	28,918
Other assets	678
<b>Total assets acquired</b>	<b>\$ 160,075</b>
Accounts payable trade	\$ 67,656
Accounts payable other	90
Accrued payroll	998
Accrued other	6,543
Non current liabilities	3,072
<b>Total liabilities assumed</b>	<b>\$ 78,359</b>
Net assets acquired	\$ 81,716
<b>Purchase price</b>	<b>\$ 81,716</b>

The total amount of tax deductible goodwill is preliminarily estimated at \$25.6 million and will be amortized over 15 years. There is approximately \$5.0 million of assumed liabilities which will provide additional tax deductible goodwill when paid.

The component of the Other intangibles listed in the above table as of the acquisition date are preliminarily estimated as follows (in thousands):

	<b>Amount</b>	<b>Accumulated Amortization</b>	<b>Balance at June 30, 2011</b>	<b>Life</b>
Agency/customer relationships	\$ 15,362	\$ (192)	\$ 15,170	20 years

The above intangible asset will be amortized using the straight-line method. Amortization expense related to this acquisition for both the three and six month periods ended June 30, 2011 was \$0.2 million. Amortization expense related to Mode for the next five years is as follows (in thousands):

Remainder 2011	\$ 384
2012	768
2013	768
2014	768
2015	768

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The following unaudited pro forma consolidated results of operations for 2011 and 2010 assume that the acquisition of Mode was completed as of January 1, 2010 (in thousands, except for per share amounts):

	<b>Three Months Ended June 30, 2010</b>
Revenue	\$ 640,697
Net income	\$ 10,335
Earnings per share	
Basic	\$ 0.28
Diluted	\$ 0.28

	<b>Six Months Ended June 30, 2011</b>	<b>Six Months Ended June 30, 2010</b>
Revenue	\$ 1,423,367	\$ 1,211,355
Net income	\$ 25,714	\$ 18,832
Earnings per share		
Basic	\$ 0.70	\$ 0.50
Diluted	\$ 0.69	\$ 0.50

The unaudited pro forma consolidated results for the three and six month periods were prepared using the acquisition method of accounting and are based on the historical financial information of Hub and Mode. The historical financial information has been adjusted to give effect to the pro forma adjustments that are: (i) directly attributable to the acquisition, (ii) factually supportable and (iii) expected to have a continuing impact on the combined results. The unaudited pro forma consolidated results are not necessarily indicative of what our consolidated results of operations actually would have been had we completed the acquisition on January 1, 2010.

On June 3, 2011, we purchased certain assets of Domestic Transport, Inc. ( Domestic Transport ). Domestic Transport was founded in 2005 with one truck hauling containers out of the Ports of Seattle and Tacoma. Domestic Transport has grown to a 22-driver operation that handles container deliveries in the state of Washington and throughout the Pacific Northwest.

The total purchase price was \$0.7 million payable in installments of \$0.6 million at closing and four equal installments of \$0.025 million, paid quarterly over the next four quarters. The purchase price was allocated as follows: \$0.1 million for the driver and customer relationships, \$0.2 million for tractors and the remaining \$0.4 million for goodwill.

**Table of Contents****NOTE 9. Business Segments**

Due to the acquisition of Mode as discussed in Note 8, we now report two distinct business segments, Mode which includes Mode business only and Hub, which is all business other than Mode.

Hub offers comprehensive intermodal, truck brokerage and logistics services. Our employees operate the freight through a network of operating centers located in the United States and Mexico. Each operating center is strategically located in a market with a significant concentration of shipping customers and one or more railheads. Hub has full time employees located throughout the United States and Mexico.

Mode markets and operates its freight transportation services, consisting of intermodal, truck brokerage and logistics, primarily through IBOs who enter into contractual arrangements with Mode.

The following is a summary of operating results and certain other financial data for our business segments (in thousands):

	Three Months Ended June 30, 2011			Three Months Ended June 30, 2010				
	Hub	Mode	Inter- Segment Elims	Hub Group Total	Hub	Mode	Inter- Segment Elims	Hub Group Total
Revenue	\$ 560,418	\$ 201,756	\$ (2,465)	\$ 759,709	\$ 458,113	\$	\$	\$ 458,113
Transportation costs	497,832	179,589	(2,465)	674,956	407,537			407,537
Gross margin	62,586	22,167		84,753	50,576			50,576
Costs and expenses:								
Salaries and benefits	28,111	4,635		32,746	23,863			23,863
Agent fees and commissions	638	13,127		13,765	584			584
General and administrative	10,264	2,588		12,852	9,480			9,480
Depreciation and amortization	951	521		1,472	934			934
Total costs and expenses	39,964	20,871		60,835	34,861			34,861
Operating income	\$ 22,622	\$ 1,296	\$	\$ 23,918	\$ 15,715	\$	\$	\$ 15,715
Capital expenditures	\$ 10,374	\$ 27	\$	\$ 10,401	\$ 1,404	\$	\$	\$ 1,404

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	Six Months Ended June 30, 2011				Six Months Ended June 30, 2010			
	Hub	Mode	Inter- Segment Elims	Hub Group Total	Hub	Mode	Inter- Segment Elims	Hub Group Total
Revenue	\$ 1,045,797	\$ 201,756	\$ (2,465)	\$ 1,245,088	\$ 875,407	\$	\$	\$ 875,407
Transportation costs	925,904	179,589	(2,465)	1,103,028	776,013			776,013
Gross margin	119,893	22,167		142,060	99,394			99,394
Costs and expenses:								
Salaries and benefits	54,912	4,635		59,547	47,321			47,321
Agent fees and commissions	1,389	13,127		14,516	1,133			1,133
General and administrative	22,323	2,588		24,911	19,076			19,076
Depreciation and amortization	1,887	521		2,408	1,907			1,907
Total costs and expenses	80,511	20,871		101,382	69,437			69,437
Operating income	\$ 39,382	\$ 1,296	\$	\$ 40,678	\$ 29,957	\$	\$	\$ 29,957
Capital expenditures	\$ 15,254	\$ 27	\$	\$ 15,281	\$ 2,051	\$	\$	\$ 2,051

	As of June 30, 2011				As of December 31, 2010			
	Hub	Mode	Inter- Segment Elims	Hub Group Total	Hub	Mode	Inter- Segment Elims	Hub Group Total
Total assets	\$ 611,290	\$ 175,809	\$ (7,764)	\$ 779,335	\$ 629,407	\$	\$	\$ 629,407
Goodwill	\$ 233,305	\$ 28,918	\$	\$ 262,223	\$ 233,029	\$	\$	\$ 233,029

**NOTE 10. Restructuring Charges**

In the second quarter of 2011, we recorded restructuring charges of approximately \$0.3 million consisting of severance charges for 31 employees. Severance payments of \$0.2 million remained to be paid as of June 30, 2011.

All severance charges are included in Salaries and benefits in the Unaudited Consolidated Statements of Income.

The following table displays the activity and balances of the restructuring reserves in the Consolidated Balance Sheets (in thousands):

<b>Balance at March 31, 2011</b>	\$
Restructuring expenses-severance	320
Cash payments made	146
<b>Balance at June 30, 2011</b>	\$ 174



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**NOTE 11. New Pronouncements**

In May 2011, the Financial Accounting Standards Board ( FASB ) issued an update to Topic 820 - Fair Value Measurements and Disclosures of the Accounting Standards Codification. This update provides guidance on how fair value accounting should be applied where its use is already required or permitted by other standards. The guidance does not extend the use of fair value accounting. We will adopt this guidance effective January 1, 2012 as required and does not expect the adoption to have a significant impact to its consolidated financial statements.

In June 2011, the FASB issued an update to Topic 220 - Comprehensive Income of the Accounting Standards Codification. The update is intended to increase the prominence of other comprehensive income in the financial statements. The guidance requires that we present components of comprehensive income in either one continuous or two separate, but consecutive financial statements and no longer permits the presentation of comprehensive income in the Consolidated Statement of Shareholders' Equity. We expect to adopt this new guidance effective January 1, 2012, as required and does not expect the adoption to have a significant impact to our consolidated financial statements.

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**HUB GROUP, INC.**

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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;

increases in costs for independent contractors due to regulatory, judicial and legal changes;

labor unrest in the rail, drayage or trucking company communities;

general economic and business conditions;

inability to successfully protect our data against cyber attacks;

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significant deterioration in our customer s financial condition, particularly in the retail, consumer products and durable goods sectors;

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 including CSA 2010 and hours of service;

significant increases to health insurance costs due to the Health Care and Education Reconciliation Act of 2010;

loss of several of our largest customers;

inability to recruit and retain key personnel;

inability to recruit and retain drivers and owner operators;

inability to recruit and retain agents;

changes in insurance costs and claims expense;

changes to current laws which will aid union organizing efforts; and

inability to successfully integrate business combinations, including Mode.

### **EXECUTIVE SUMMARY**

Hub Group, Inc. ( we , us or our ) consists of two distinct business segments, Hub and Mode. The Mode segment includes only the newly acquired business. The Hub segment includes all businesses other than Mode. Hub Group (as opposed to just Hub), refers to the consolidated results for the whole

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company, including both the Mode and Hub segments. The results of operations of Mode are included in our consolidated statements of income for the period April 1, 2011 to June 30, 2011. For the segment financial results, refer to Note 9.

We are 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 and independent business owners.

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.

Some of our drayage services are provided by our subsidiary, Comtrak Logistics, Inc. ( Comtrak ), which assists us in providing reliable, cost effective intermodal services to our customers. Comtrak has terminals in Atlanta, Birmingham, Charleston, Charlotte, Chattanooga, Chicago, Cleveland, Columbus (OH), Dallas, Harrisburg, Huntsville, Indianapolis, Jacksonville, Kansas City, Milwaukee, Memphis, Nashville, Los Angeles, Perry (FL), Philadelphia, Savannah, Seattle, St. Louis, Stockton, and Titusville (FL). As of June 30, 2011, Comtrak owned 288 tractors, leased or owned 483 trailers, employed 273 drivers and contracted with 1,546 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.

Hub has full time marketing employees throughout the United States and Mexico 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.

Hub's top 50 customers' revenue represents approximately 61% of the Hub segment revenue for the six months ended June 30, 2011. We use various performance indicators to manage our business. We closely monitor margin and gains and losses for our top 50 customers. We also evaluate on-time performance, costs per load and daily sales outstanding by customer account. Vendor cost changes and vendor service issues are also monitored closely.

Mode has approximately 300 Independent Business Owners who sell and operate the business throughout North America. Mode also has a company managed operation in Dallas, a temperature protected services division, Temstar, located in Lombard, IL and corporate offices in Dallas and Memphis. Mode's top 20 customers' revenue represents approximately 40% of the Mode segment revenue for the three months ended June 30, 2011. We closely monitor revenue and margin for these customers. We believe this acquisition brings us highly complementary service offerings, more scale and a talented sales channel that allows us to better reach small and midsize customers.

**Table of Contents****RESULTS OF OPERATIONS**

*Three Months Ended June 30, 2011 Compared to the Three Months Ended June 30, 2010*

The following table summarizes our revenue by segment and business line (in thousands) for the three months ended June 30:

	Three Months Ended June 30, 2011				Three Months Ended June 30, 2010			
	Hub	Mode	Inter- Sement Elims	Hub Group Total	Hub	Mode	Inter- Sement Elims	Hub Group Total
Intermodal	\$ 396,298	\$ 85,150	\$ (2,092)	\$ 479,356	\$ 320,351	\$	\$	\$ 320,351
Truck brokerage	89,764	81,180	(373)	170,571	86,355			86,355
Logistics	74,356	35,426		109,782	51,407			51,407
<b>Total revenue</b>	<b>\$ 560,418</b>	<b>\$ 201,756</b>	<b>\$ (2,465)</b>	<b>\$ 759,709</b>	<b>\$ 458,113</b>	<b>\$</b>	<b>\$</b>	<b>\$ 458,113</b>

**Revenue**

Hub Group revenue increased 65.8% to \$759.7 million in 2011 from \$458.1 million in 2010. The Hub segment revenue increased 22.3% to \$560.4 million. Hub intermodal revenue increased 23.7% to \$396.3 million due to a 12% increase in loads and a 12% increase for fuel, price and mix. Hub truck brokerage revenue increased 3.9% to \$89.8 million due to a 13% increase for fuel, price and mix, offset partially by a 9% decrease in loads. Hub logistics revenue increased 44.6% to \$74.4 million related primarily to new customers who were on boarded in the last year. The Mode segment revenue for the quarter was \$201.8 million.

**Gross Margin**

Hub Group gross margin increased 67.6% to \$84.8 million in 2011 from \$50.6 million in 2010. Hub segment gross margin increased 23.7% to \$62.6 million. Hub's \$12.0 million margin increase is due to growth in all three of our service lines. Intermodal margin experienced the most significant growth followed by truck brokerage and then logistics. A large part of our success in growing intermodal margin comes from doing more of our own drayage, reducing empty dray miles and better matching of inbound and outbound loads. We are up 442 drivers compared to last year at this time. Hub's gross margin as a percentage of sales increased to 11.2% as compared to last year's 11.0% margin. This increase is due to increases in both intermodal and truck brokerage gross margin as a percentage of sales. The Mode segment gross margin was \$22.2 million for the quarter, which is 11.0% as a percentage of revenue.

**Table of Contents****CONSOLIDATED OPERATING EXPENSES**

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

	Three Months Ended June 30,	
	2011	2010
Revenue	100.0%	100.0%
Transportation costs	88.8	89.0
<b>Gross margin</b>	<b>11.2</b>	<b>11.0</b>
Costs and expenses:		
Salaries and benefits	4.3	5.2
Agent fees and commissions	1.8	0.1
General and administrative	1.7	2.1
Depreciation and amortization	0.2	0.2
<b>Total costs and expenses</b>	<b>8.0</b>	<b>7.6</b>
Operating income	3.2	3.4

**Salaries and Benefits**

As a percentage of revenue, Hub Group's salaries and benefits decreased to 4.3% in 2011 from 5.2% in 2010 due to increased Hub revenue and the acquisition of Mode. Mode's business model of using IBO's to operate their freight versus Hub's employee model lowered salaries and benefit expense as a percentage of revenue. Hub Group's salaries and benefits increased to \$32.7 million in 2011 from \$23.9 million in 2010. The increase in salaries and benefits related to Mode was approximately \$4.6 million and the increase in salaries and benefits related to Hub was approximately \$4.2 million. The Hub segment increase of \$4.2 million was due primarily to an increase in salary expense of \$1.6 million resulting from a headcount increase of 41 employees and \$0.4 million of severance charges of which \$0.3 million relates to the restructuring discussed in Note 10 to the unaudited consolidated financial statements. In addition, the Hub segment increase is due to increases in bonus expense of \$1.6 million, payroll tax expense of \$0.4 million, employee benefits of \$0.3 million and compensation expense related to restricted stock awards of \$0.3 million. Headcount at Hub Group, excluding drivers, as of June 30, 2011 was 1,316, which includes 195 Mode employees. Driver costs are included in transportation costs.

**Agent Fees and Commissions**

Hub Group's agent fees and commissions expenses increased to \$13.8 million in 2011 from \$0.6 million in 2010. As a percentage of revenue, these expenses increased to 1.8% in 2011 from 0.1% in 2010. The increase in the expense and the percentage of revenue was primarily related to the acquisition and Mode's IBO model.

**General and Administrative**

Hub Group's general and administrative expenses increased to \$12.9 million in 2011 from \$9.5 million in 2010. As a percentage of revenue, these expenses decreased to 1.7% in 2011 from 2.1% in 2010. The increase in expense related to Mode was approximately \$2.6 million. The Hub segment increase of \$0.8 million was due primarily to increases in bad debt expense of \$0.4 million, outside services of \$0.3 million and rent expense of \$0.1 million.

**Depreciation and Amortization**

Hub Group's depreciation and amortization increased to \$1.5 million in 2011 from \$0.9 million in 2010. The increase in expense was primarily related to the Mode acquisition. This expense as a percentage of revenue remained constant at 0.2% in both 2011 and 2010.



**Table of Contents****Other Income (Expense)**

Hub Group's other income decreased to \$0.04 million in 2011 from \$0.1 million in 2010 due primarily to an increase in interest expense incurred on our line of credit.

**Provision for Income Taxes**

The provision for income taxes increased to \$9.6 million in 2011 from \$6.2 million in 2010. Our effective rate was 39.9% in 2011 and 39.1% in 2010. The 2011 effective tax rate was higher due primarily to the impact of re-valuing our deferred taxes utilizing a higher projected annual state tax rate as of June 30, 2011 resulting from the impact of the acquisition of Mode.

**Net Income**

Net income increased to \$14.4 million in 2011 from \$9.6 million in 2010 due primarily to higher gross margin.

**Earnings Per Common Share**

Basic earnings per share were \$0.39 in 2011 and \$0.26 in 2010. Basic earnings per share increased primarily due to the increase in net income.

Diluted earnings per share were \$0.39 in 2011 and \$0.26 in 2010. Diluted earnings per share increased primarily due to the increase in net income.

*Six Months Ended June 30, 2011 Compared to the Six Months Ended June 30, 2010*

The following table summarizes our revenue by segment and business line (in thousands) for the six months ended June 30:

	Six Months Ended June 30, 2011				Six Months Ended June 30, 2010			
	Hub	Mode	Inter- Sement Elims	Hub Group Total	Hub	Mode	Inter- Sement Elims	Hub Group Total
Intermodal	\$ 732,979	\$ 85,150	\$ (2,092)	\$ 816,037	\$ 607,084	\$	\$	\$ 607,084
Truck brokerage	174,450	81,180	(373)	255,257	169,937			169,937
Logistics	138,368	35,426		173,794	98,386			98,386
<b>Total revenue</b>	<b>\$ 1,045,797</b>	<b>\$ 201,756</b>	<b>\$ (2,465)</b>	<b>\$ 1,245,088</b>	<b>\$ 875,407</b>	<b>\$</b>	<b>\$</b>	<b>\$ 875,407</b>

**Revenue**

Hub Group revenue increased 42.2% to \$1,245.1 million in 2011 from \$875.4 million in 2010. The Hub segment revenue increased 19.5% to \$1,045.8 million. Hub intermodal revenue increased 20.7% to \$733.0 million due to a 12% increase in loads and a 9% increase for fuel, price and mix. Hub truck brokerage revenue increased 2.7% to \$174.5 million due to a 12% increase in fuel, price and mix, offset partially by a 9% decrease in loads. Hub logistics revenue increased 40.6% to \$138.4 million related primarily to existing customer growth and new customers who were on boarded in 2010. The Mode segment revenue was \$201.8 million.



**Table of Contents****Gross Margin**

Hub Group gross margin increased 42.9% to \$142.1 million in 2011 from \$99.4 million in 2010. The Hub segment gross margin increased 20.6% to \$119.9 million. Hub's \$20.5 million gross margin increase came primarily from Hub intermodal. Hub intermodal margin grew because we performed more of our own drayage, improved equipment utilization and handled 12% more loads. As a percentage of consolidated revenue, gross margin remained constant at 11.4% in both 2011 and 2010. The Mode segment gross margin for the period was \$22.2 million, which is 11.0% as a percentage of revenue.

**CONSOLIDATED OPERATING EXPENSES**

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

	Six Months Ended June 30,	
	2011	2010
Revenue	100.0%	100.0%
Transportation costs	88.6	88.6
<b>Gross margin</b>	<b>11.4</b>	<b>11.4</b>
Costs and expenses:		
Salaries and benefits	4.7	5.4
Agent fees and commissions	1.2	0.1
General and administrative	2.0	2.2
Depreciation and amortization	0.2	0.2
<b>Total costs and expenses</b>	<b>8.1</b>	<b>7.9</b>
Operating income	3.3	3.5

**Salaries and Benefits**

Hub Group's salaries and benefits increased to \$59.5 million in 2011 from \$47.3 million in 2010. The Hub segment salaries and benefits increase of \$7.6 million was due primarily to increases in salaries of \$3.3 million, bonus of \$1.8 million, employee benefits of \$0.7 million, commissions of \$0.6 million and compensation related to restricted stock awards of \$0.6 million. The increase in expense related to Mode was approximately \$4.6 million. As a percentage of revenue, salaries and benefits decreased to 4.7% in 2011 from 5.4% in 2010 due to increased revenue and the acquisition of Mode. Mode's business model of using IBO's to market and operate their freight versus Hub's employee model lowered salaries and benefit expense as a percentage of revenue.

**Agent Fees and Commissions**

Hub Group's agent fees and commissions expenses increased to \$14.5 million in 2011 from \$1.1 million in 2010. As a percentage of revenue, these expenses increased to 1.2% in 2011 from 0.1% in 2010. The increase in expense and the percentage of revenue was primarily related to the acquisition and Mode's IBO model.

**General and Administrative**

Hub Group's general and administrative expenses increased to \$24.9 million in 2011 from \$19.1 million in 2010. As a percentage of revenue, these expenses decreased to 2.0% in 2011 from 2.2% in 2010. The increase in expense related to Mode was approximately \$2.6 million. The Hub segment increase of \$3.2 million was due primarily to \$2.0 million of expenses associated with the Mode acquisition, an increase in bad debt expense of \$0.4 million, an increase in rent of \$0.2 million and an increase in office expenses of \$0.2 million.

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### **Depreciation and Amortization**

Hub Group's depreciation and amortization increased to \$2.4 million in 2011 from \$1.9 million in 2010. The increase in expense was related to Mode. This expense as a percentage of revenue remained constant at 0.2% in both 2011 and 2010.

### **Other Income (Expense)**

Hub Group's interest and other income increased to \$0.3 million in 2011 from \$0.2 million in 2010. The increase in other income was primarily due to currency translation gain for the six months ended June 30, 2011.

### **Provision for Income Taxes**

The provision for income taxes increased to \$16.1 million in 2011 from \$11.8 million in 2010 due to the increase in pretax income. The effective rate was 39.2% in both 2011 and 2010.

### **Net Income**

Net income increased to \$24.9 million in 2011 from \$18.3 million in 2010 due primarily to higher gross margin.

### **Earnings Per Common Share**

Basic earnings per share increased to \$0.67 in 2011 from \$0.49 in 2010. Basic earnings per share increased primarily due to the increase in net income.

Diluted earnings per share increased to \$0.67 in 2011 from \$0.49 in 2010. Diluted earnings per share increased primarily due to the increase in net income.

## **LIQUIDITY AND CAPITAL RESOURCES**

During the first half of 2011, we have funded operations, capital expenditures, acquisitions and stock buy backs related to employee withholding upon vesting of restricted stock with cash flows from operations and cash on hand.

Cash provided by operating activities for the six months ended June 30, 2011 was approximately \$10.0 million, which resulted primarily from income of \$24.9 million adjusted for non-cash charges of \$11.5 million offset by the change in operating assets and liabilities of \$26.4 million.

Net cash used in investing activities for the six months ended June 30, 2011 was \$106.0 million and related to our acquisitions of Mode and Domestic Transport for \$90.9 million and capital expenditures, net of proceeds, of \$15.1 million. We expect to collect the \$8.4 million final working capital adjustment related to the Mode acquisition in the third quarter of 2011. We currently expect capital expenditures to be between \$65 million and \$70 million for all of 2011. Approximately \$46 million will be used to purchase containers and the remainder will be spent on technology investments. As of June 30, 2011, we have received 1,196 containers and expect 2,804 containers to be received between July and October.

The net cash used in financing activities for the six months ended June 30, 2011 was \$0.9 million. We used \$1.5 million of cash to purchase treasury stock and reported \$0.6 million of excess tax benefits from share-based compensation as a financing cash in-flow.

On March 31, 2011, we amended our Credit Agreement which increased our maximum unsecured borrowing capacity from \$10.0 million to \$50.0 million and extended the term until March 2014. The interest rate under the Credit Agreement is equal to LIBOR plus 1.75%. The financial covenants require a minimum net worth of \$300.0 million and a cash flow leverage ratio of not more than 2.0 to 1.0. The commitment fee charged on the unused line of credit is 0.375%.

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We have standby letters of credit that expire at various dates in 2011 and 2012. As of June 30, 2011, the outstanding letters of credit totaled \$2.6 million.

We had \$47.4 million of unused and available borrowings under our bank revolving line of credit as of June 30, 2011. We were in compliance with our debt covenants as of June 30, 2011.

We believe that our cash, cash flow from operations and borrowings available under our Credit Agreement will be sufficient to meet our cash needs for at least the next twelve months.

**Item 3. 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.

**Item 4. CONTROLS AND PROCEDURES**

As of June 30, 2011, 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 June 30, 2011. Except as set forth below, 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 have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

On April 1, 2011, we completed the acquisition of Mode. We are currently integrating processes, employees, technologies and operations. Management will continue to evaluate our internal controls over financial reporting as we complete our integration.

**PART II. Other Information**

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**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.

DATE: August 4, 2011

HUB GROUP, INC.

/s/ Terri A. Pizzuto  
Terri A. Pizzuto  
Executive Vice President, Chief Financial  
Officer and Treasurer  
(Principal Financial Officer)

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**EXHIBIT INDEX**

Exhibit No.	Description
10.1	Stock Purchase Agreement, dated as of April 1, 2011, by Hub Group, Inc., DPWN Holdings (USA), Inc. and Exel Transportation Services, Inc. (incorporated by reference to Exhibit 10.2 to the Registrant's report on Form 8-K dated March 31, 2011 and filed April 6, 2011, File No. 000-27754)
31.1	Certification of David P. Yeager, 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.
101	The following financial statements and footnotes from the Hub Group Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 formatted in XBRL: (i) Consolidated Balance Sheets; (ii) Unaudited Consolidated Statements of Income; (iii) Unaudited Consolidated Statements of Cash Flows; and (iv) Notes to Unaudited Consolidated Financial Statements.