

HUB GROUP INC  
Form 10-Q  
October 26, 2006  
**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, 2006 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  
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)

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(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 X 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 X 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 X

On October 20, 2006, the registrant had 39,090,050 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)

|                                                                                                                                                                                        | <b>September 30,<br/>2006<br/>(Unaudited)</b> | <b>December 31,<br/>2005</b> |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|------------------------------|
| <b>ASSETS</b>                                                                                                                                                                          |                                               |                              |
| CURRENT ASSETS:                                                                                                                                                                        |                                               |                              |
| Cash and cash equivalents                                                                                                                                                              | \$ 32,936                                     | \$ 36,133                    |
| Restricted investments                                                                                                                                                                 | 2,550                                         | 1,387                        |
| Accounts receivable                                                                                                                                                                    |                                               |                              |
| Trade, net                                                                                                                                                                             | 166,801                                       | 147,004                      |
| Other                                                                                                                                                                                  | 6,570                                         | 10,603                       |
| Prepaid taxes                                                                                                                                                                          | 141                                           | 6,040                        |
| Deferred taxes                                                                                                                                                                         | 454                                           | -                            |
| Prepaid expenses and other current assets                                                                                                                                              | 5,355                                         | 3,860                        |
| Assets of discontinued operations                                                                                                                                                      | -                                             | 17,855                       |
| <b>TOTAL CURRENT ASSETS</b>                                                                                                                                                            | <b>214,807</b>                                | <b>222,882</b>               |
| Property and equipment, net                                                                                                                                                            | 25,192                                        | 12,767                       |
| Other intangibles, net                                                                                                                                                                 | 7,614                                         | -                            |
| Goodwill, net                                                                                                                                                                          | 220,448                                       | 208,150                      |
| Other assets                                                                                                                                                                           | 390                                           | 619                          |
| <b>TOTAL ASSETS</b>                                                                                                                                                                    | <b>\$ 468,451</b>                             | <b>\$ 444,418</b>            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                                            |                                               |                              |
| CURRENT LIABILITIES:                                                                                                                                                                   |                                               |                              |
| Accounts payable                                                                                                                                                                       |                                               |                              |
| Trade                                                                                                                                                                                  | \$ 126,534                                    | \$ 114,094                   |
| Other                                                                                                                                                                                  | 7,131                                         | 3,668                        |
| Accrued expenses                                                                                                                                                                       |                                               |                              |
| Payroll                                                                                                                                                                                | 18,810                                        | 20,909                       |
| Other                                                                                                                                                                                  | 31,525                                        | 18,917                       |
| Deferred taxes                                                                                                                                                                         | -                                             | 960                          |
| Liabilities of discontinued operations                                                                                                                                                 | -                                             | 5,341                        |
| <b>TOTAL CURRENT LIABILITIES</b>                                                                                                                                                       | <b>184,000</b>                                | <b>163,889</b>               |
| DEFERRED TAXES                                                                                                                                                                         | 39,930                                        | 38,454                       |
| STOCKHOLDERS' EQUITY:                                                                                                                                                                  |                                               |                              |
| Preferred stock, \$.01 par value, 2,000,000 shares authorized;<br>no shares issued or outstanding in 2006 and 2005                                                                     | -                                             | -                            |
| Common stock                                                                                                                                                                           |                                               |                              |
| Class A: \$.01 par value; 47,337,700 shares authorized;<br>41,224,792 shares issued and 39,090,050 outstanding in 2006;<br>41,224,792 shares issued and 39,962,484 outstanding in 2005 | 412                                           | 412                          |
| Class B: \$.01 par value; 662,300 shares authorized;<br>662,296 shares issued and outstanding in 2006 and 2005                                                                         | 7                                             | 7                            |
| Additional paid-in capital                                                                                                                                                             | 174,273                                       | 183,524                      |
| Purchase price in excess of predecessor basis, net of tax<br>benefit of \$10,306                                                                                                       | (15,458)                                      | (15,458)                     |
| Retained earnings                                                                                                                                                                      | 132,724                                       | 97,557                       |
| Unearned compensation                                                                                                                                                                  | -                                             | (6,259)                      |
| Treasury stock; at cost 2,134,742 shares in 2006<br>and 1,262,308 shares in 2005                                                                                                       | (47,437)                                      | (17,708)                     |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>                                                                                                                                                      | <b>244,521</b>                                | <b>242,075</b>               |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                                      | <b>\$ 468,451</b>                             | <b>\$ 444,418</b>            |

See notes to unaudited condensed consolidated financial statements.



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**HUB GROUP, INC.**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share amounts)

|                                                                                             | <b>Three Months<br/>Ended September 30,<br/>2006</b> |         | <b>2005</b> |         | <b>Nine Months<br/>Ended September 30,<br/>2006</b> |           | <b>2005</b> |           |
|---------------------------------------------------------------------------------------------|------------------------------------------------------|---------|-------------|---------|-----------------------------------------------------|-----------|-------------|-----------|
| Revenue                                                                                     | \$                                                   | 432,009 | \$          | 387,434 | \$                                                  | 1,184,069 | \$          | 1,078,661 |
| Transportation costs                                                                        |                                                      | 374,673 |             | 342,173 |                                                     | 1,023,869 |             | 949,472   |
| Gross margin                                                                                |                                                      | 57,336  |             | 45,261  |                                                     | 160,200   |             | 129,189   |
| Costs and expenses:                                                                         |                                                      |         |             |         |                                                     |           |             |           |
| Salaries and benefits                                                                       |                                                      | 23,965  |             | 20,985  |                                                     | 71,271    |             | 62,125    |
| General and administrative                                                                  |                                                      | 9,890   |             | 8,367   |                                                     | 28,585    |             | 26,589    |
| Depreciation and amortization                                                               |                                                      | 1,642   |             | 2,262   |                                                     | 5,029     |             | 6,736     |
| Total costs and expenses                                                                    |                                                      | 35,497  |             | 31,614  |                                                     | 104,885   |             | 95,450    |
| Operating income                                                                            |                                                      | 21,839  |             | 13,647  |                                                     | 55,315    |             | 33,739    |
| Other income (expense):                                                                     |                                                      |         |             |         |                                                     |           |             |           |
| Interest expense                                                                            |                                                      | (22)    |             | (17)    |                                                     | (65)      |             | (109)     |
| Interest income                                                                             |                                                      | 670     |             | 217     |                                                     | 1,668     |             | 601       |
| Other, net                                                                                  |                                                      | 7       |             | 60      |                                                     | 63        |             | 91        |
| Total other income                                                                          |                                                      | 655     |             | 260     |                                                     | 1,666     |             | 583       |
| Income from continuing operations<br>before provision for income taxes                      |                                                      | 22,494  |             | 13,907  |                                                     | 56,981    |             | 34,322    |
| Provision for income taxes                                                                  |                                                      | 9,000   |             | 5,481   |                                                     | 22,795    |             | 13,953    |
| Income from continuing operations                                                           |                                                      | 13,494  |             | 8,426   |                                                     | 34,186    |             | 20,369    |
| Discontinued operations:                                                                    |                                                      |         |             |         |                                                     |           |             |           |
| Income from discontinued operations of HGDS (including<br>loss on disposal of \$70 in 2006) |                                                      | -       |             | 1,954   |                                                     | 1,634     |             | 4,228     |
| Provision for income taxes                                                                  |                                                      | -       |             | 770     |                                                     | 653       |             | 1,714     |
| Income from discontinued operations                                                         |                                                      | -       |             | 1,184   |                                                     | 981       |             | 2,514     |
| Net income                                                                                  | \$                                                   | 13,494  | \$          | 9,610   | \$                                                  | 35,167    | \$          | 22,883    |
| Basic earnings per common share                                                             |                                                      |         |             |         |                                                     |           |             |           |
| Income from continuing operations                                                           | \$                                                   | 0.34    | \$          | 0.21    | \$                                                  | 0.85      | \$          | 0.51      |
| Income from discontinued operations                                                         | -                                                    | 0.03    |             |         | \$                                                  | 0.02      |             | 0.06      |
| Net income                                                                                  | \$                                                   | 0.34    | \$          | 0.24    | \$                                                  | 0.87      | \$          | 0.57      |
| Diluted earnings per common share                                                           |                                                      |         |             |         |                                                     |           |             |           |
| Income from continuing operations                                                           | \$                                                   | 0.33    | \$          | 0.21    | \$                                                  | 0.83      | \$          | 0.49      |
| Income from discontinued operations                                                         | -                                                    | 0.03    |             |         |                                                     | 0.02      |             | 0.06      |
| Net income                                                                                  | \$                                                   | 0.33    | \$          | 0.24    | \$                                                  | 0.85      | \$          | 0.55      |
| Basic weighted average number of shares outstanding                                         |                                                      | 39,773  |             | 39,280  |                                                     | 40,246    |             | 39,932    |
| Diluted weighted average number of shares outstanding                                       |                                                      | 40,572  |             | 40,812  |                                                     | 41,161    |             | 41,572    |

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, 2006****(in thousands, except shares)**

|                                                                      | <b>September 30,<br/>2006</b> |
|----------------------------------------------------------------------|-------------------------------|
| Class A & B Common Stock Shares Outstanding                          |                               |
| Beginning of year                                                    | 40,624,780                    |
| Purchase of treasury shares                                          | (1,965,627)                   |
| Treasury shares issued under restricted stock and stock option plans | 1,093,193                     |
| Ending balance                                                       | 39,752,346                    |
| Class A & B Common Stock Amount                                      |                               |
| Beginning of year                                                    | \$ 419                        |
| Issuance of restricted stock and exercise of stock options           | -                             |
| Ending balance                                                       | 419                           |
| Additional Paid-in Capital                                           |                               |
| Beginning of year                                                    | 183,524                       |
| Equity reclassification impact of adopting SFAS No. 123 (R)          | (6,259)                       |
| Exercise of non-qualified stock options                              | (12,250)                      |
| Share-based compensation expense                                     | 2,649                         |
| Issuance of restricted stock awards, net of forfeitures              | (1,288)                       |
| Tax benefit of share-based compensation plans                        | 7,897                         |
| Ending balance                                                       | 174,273                       |
| Purchase Price in Excess of Predecessor Basis, Net of Tax            |                               |
| Beginning of year                                                    | (15,458)                      |
| Ending balance                                                       | (15,458)                      |
| Retained Earnings                                                    |                               |
| Beginning of year                                                    | 97,557                        |
| Net income                                                           | 35,167                        |
| Ending balance                                                       | 132,724                       |
| Unearned Compensation                                                |                               |
| Beginning of year                                                    | (6,259)                       |
| Equity reclassification impact of adopting SFAS No. 123 (R)          | 6,259                         |
| Ending balance                                                       | -                             |
| Treasury Stock                                                       |                               |
| Beginning of year                                                    | (17,708)                      |
| Purchase of treasury shares                                          | (45,191)                      |
| Issuance of restricted stock and exercise of stock options           | 15,462                        |
| Ending balance                                                       | (47,437)                      |
| Total stockholders' equity                                           | \$ 244,521                    |
| See notes to unaudited condensed consolidated financial statements.  |                               |

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

|                                                                                                          | <b>Nine Months Ended September 30,</b> |             |
|----------------------------------------------------------------------------------------------------------|----------------------------------------|-------------|
|                                                                                                          | <b>2006</b>                            | <b>2005</b> |
| Cash flows from operating activities:                                                                    |                                        |             |
| Income from continuing operations                                                                        | \$ 34,186                              | \$ 20,369   |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities: |                                        |             |
| Depreciation and amortization                                                                            | 6,410                                  | 7,031       |
| Deferred taxes                                                                                           | 12                                     | 8,810       |
| Compensation expense related to share-based compensation plans                                           | 2,649                                  | 1,581       |
| Gain on sale of assets                                                                                   | (31)                                   | (271)       |
| Other assets                                                                                             | 234                                    | 530         |
| Changes in working capital excluding effects of purchase transaction:                                    |                                        |             |
| Restricted investments                                                                                   | (1,163)                                | (1,173)     |
| Accounts receivable, net                                                                                 | (6,325)                                | (22,251)    |
| Prepaid taxes                                                                                            | 5,295                                  | -           |
| Prepaid expenses and other current assets                                                                | (1,202)                                | 379         |
| Accounts payable                                                                                         | 13,904                                 | 17,119      |
| Accrued expenses                                                                                         | 9,152                                  | (664)       |
| Net cash provided by operating activities                                                                | 63,121                                 | 31,460      |
| Cash flows from investing activities:                                                                    |                                        |             |
| Proceeds from sale of equipment                                                                          | 228                                    | 573         |
| Purchases of property and equipment                                                                      | (5,247)                                | (3,188)     |
| Cash used in acquisition of Comtrak, Inc.                                                                | (39,942)                               | -           |
| Proceeds from the disposal of discontinued operations                                                    | 12,203                                 | -           |
| Net cash used in investing activities                                                                    | (32,758)                               | (2,615)     |
| Cash flows from financing activities:                                                                    |                                        |             |
| Proceeds from stock options exercised                                                                    | 1,924                                  | 4,304       |
| Purchase of treasury stock                                                                               | (45,191)                               | (30,571)    |
| Excess tax benefits from share-based compensation                                                        | 7,897                                  | -           |
| Net cash used in financing activities                                                                    | (35,370)                               | (26,267)    |
| Cash flows from operating activities of discontinued operations                                          | 1,848                                  | 7,752       |
| Cash flows used in investing activities of discontinued operations                                       | (38)                                   | (289)       |
| Net cash provided by discontinued operations                                                             | 1,810                                  | 7,463       |
| Net (decrease) increase in cash and cash equivalents                                                     | (3,197)                                | 10,041      |
| Cash and cash equivalents beginning of period                                                            | 36,133                                 | 16,806      |
| Cash and cash equivalents end of period                                                                  | \$ 32,936                              | \$ 26,847   |
| Supplemental disclosures of cash flow information                                                        |                                        |             |
| Cash paid for:                                                                                           |                                        |             |
| Interest                                                                                                 | \$ 64                                  | \$ 59       |
| Income taxes                                                                                             | \$ 6,573                               | \$ 3,310    |

See notes to unaudited condensed consolidated financial statements.



**HUB GROUP, INC.**

**NOTES TO UNAUDITED CONDENSED**

**CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. Interim Financial Statements**

The 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, 2006 and results of operations for the three months and nine months ended September 30, 2006 and 2005.

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, 2005. Results of operations in interim periods are not necessarily indicative of results to be expected for a full year due partially to seasonality.

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

**NOTE 2. Share-Based Compensation**

In 1996, we adopted a Long-Term Incentive Plan (the 1996 Incentive Plan ). The number of shares of Class A Common Stock reserved for issuance under the 1996 Incentive Plan was 1,800,000. In 1997, we adopted a second Long-Term Incentive Plan (the 1997 Incentive Plan ). The number of shares of Class A Common Stock reserved for issuance under the 1997 Incentive Plan was 600,000. In 1999 we adopted a third Long-Term Incentive Plan (the 1999 Incentive Plan ). The number of shares of Class A Common Stock reserved for issuance under the 1999 Incentive Plan was 2,400,000. In 2002, we adopted a fourth Long-Term Incentive Plan (the 2002 Incentive Plan ). The number of shares of Class A Common Stock reserved for issuance under the 2002 Incentive Plan was 2,400,000. In 2003, we amended our 2002 Incentive Plan to add an additional 2,000,000 shares of Class A Common Stock that are reserved for issuance. Under the 1996, 1997, 1999 and 2002 Incentive Plans, stock options, stock appreciation rights, restricted stock and performance units may be granted for the purpose of attracting and motivating our key employees and non-employee directors. The options granted to non-employee directors vest ratably over a three-year period and expire 10 years after the date of grant. The options granted to employees vest over a range of three to five years and expire 10 years after the date of grant. Restricted stock vests over a three to five year period. At September 30, 2006, 920,021 shares are available for future grant.

Prior to January 1, 2006, we accounted for our share-based compensation plans under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, as permitted by Statement of Financial Accounting Standard (SFAS) No. 123 Accounting for Stock-Based Compensation. No stock-option based employee compensation cost was recognized in the income statement prior to 2006, as all stock options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective January 1, 2006, we adopted the fair value recognition provisions of FASB Statement No. 123 (R) Share-Based Payment (SFAS No. 123 (R)), using the modified-prospective transition method. Under that transition method, compensation cost recognized in 2006 includes: (a) compensation costs for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant

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date fair value estimated in accordance with the original provisions of SFAS No. 123 and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123 (R). Results for prior periods have not been restated. We have not granted any stock options since 2003.

We recognize the cost of all share-based awards on a straight-line basis over the vesting period of the award. Share-based compensation expense for the three months ended September 30, 2006 and 2005 was \$0.9 million and \$0.5 million or \$0.6 million and \$0.3 million net of taxes, respectively. Share-based compensation expense for the nine months ended September 30, 2006 and 2005 was \$2.6 million and \$1.6 million or \$1.6 million and \$1.0 million net of taxes, respectively. Share-based compensation is included in salaries and benefits in the accompanying statements of income.

We have elected to calculate our initial pool of excess benefits under FASB Staff Position 123 (R)-3 ( FSP ). Prior to the adoption of SFAS No. 123 (R), we presented all benefits of tax deductions resulting from the exercise of share-based compensation as operating cash flows in the Statement of Cash Flows. Beginning on January 1, 2006, we changed our cash flow presentation in accordance with the FSP which requires benefits of tax deductions in excess of the compensation cost recognized (excess tax benefits) to be classified as a financing cash in-flow and an operating cash out-flow. The results for the nine months ended September 30, 2006 include \$7.9 million of excess tax benefits as a financing cash in-flow and an operating cash out-flow.

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The following table illustrates the effect on the net income and net income per share if we had applied the fair value recognition provisions of SFAS No. 123, to share-based employee compensation during the three and nine months ended September 30, 2005 (in thousands, except per share data):

|                                                                                                                                             | <u><b>Three Months Ended<br/>September 30,<br/>2005</b></u> | <u><b>Nine Months Ended<br/>September 30,<br/>2005</b></u> |
|---------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|------------------------------------------------------------|
| Income from continuing operations, as reported                                                                                              | \$ 8,426                                                    | \$ 20,369                                                  |
| Income from discontinued operations, as reported                                                                                            | <u>1,184</u>                                                | <u>2,514</u>                                               |
| Total net income                                                                                                                            | \$ 9,610                                                    | \$ 22,883                                                  |
| Add: Total share based compensation included in net income, net of related tax effects                                                      | 328                                                         | 951                                                        |
| Deduct: Total share-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | <u>(398)</u>                                                | <u>(1,193)</u>                                             |
| Income from continuing operations, pro forma                                                                                                | \$ 8,356                                                    | \$ 20,127                                                  |
| Income from discontinued operations, pro forma                                                                                              | <u>1,184</u>                                                | <u>2,514</u>                                               |
| Total net income, pro forma                                                                                                                 | \$ <u>9,540</u>                                             | \$ <u>22,641</u>                                           |
| Earnings per share:                                                                                                                         |                                                             |                                                            |
| Basic from continuing operations, as reported                                                                                               | \$0.21                                                      | \$0.51                                                     |
| Basic from discontinued operations, as reported                                                                                             | \$0.03                                                      | \$0.06                                                     |
| Basic pro forma from continuing operations                                                                                                  | \$0.21                                                      | \$0.50                                                     |
| Basic pro forma from discontinued operations                                                                                                | \$0.03                                                      | \$0.06                                                     |
| Diluted from continuing operations, as reported                                                                                             | \$0.21                                                      | \$0.49                                                     |
| Diluted from discontinued operations, as reported                                                                                           | \$0.03                                                      | \$0.06                                                     |
| Diluted pro forma from continuing operations                                                                                                | \$0.20                                                      | \$0.48                                                     |
| Diluted pro forma from discontinued operations                                                                                              | \$0.03                                                      | \$0.06                                                     |

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The following table summarizes the stock option activity for the quarters ended March 31, 2006, June 30, 2006 and September 30, 2006:

| <b>Stock Options</b>              | <b>Shares</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual Life</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> |
|-----------------------------------|---------------|----------------------------------------------------|----------------------------------------------------------------|------------------------------------------|
| Outstanding at December 31, 2005  | 1,783,228     | \$2.06                                             |                                                                |                                          |
| Options exercised                 | (610,532)     | \$1.87                                             |                                                                |                                          |
| Options forfeited                 | (4,000)       | \$4.69                                             |                                                                |                                          |
| Outstanding at March 31, 2006     | 1,168,696     | \$2.15                                             | 6.04                                                           | \$ 24,121,300                            |
| Options exercised                 | (391,200)     | \$1.95                                             |                                                                |                                          |
| Options forfeited                 | (1,600)       | \$1.22                                             |                                                                |                                          |
| Outstanding at June 30, 2006      | 775,896       | \$2.25                                             | 5.76                                                           | \$ 17,285,063                            |
| Options exercised                 | (7,600)       | \$2.54                                             |                                                                |                                          |
| Options forfeited                 | -             | \$0.00                                             |                                                                |                                          |
| Outstanding at September 30, 2006 | 768,296       | \$2.25                                             | 5.52                                                           | \$ 15,773,448                            |
| Exercisable at September 30, 2006 | 604,296       | \$2.40                                             | 5.29                                                           | \$ 12,315,932                            |

Intrinsic value for stock options is defined as the difference between the current market value and the grant price. The total intrinsic value of options exercised during the quarters ended September 30, 2006 and September 30, 2005 was \$0.2 million and \$4.8 million, respectively. The total intrinsic value of options exercised during the nine months ended September 30, 2006 and September 30, 2005 was \$20.9 million and \$16.0 million, respectively. Cash received from stock options exercised during the nine months ended September 30, 2006 was \$1.9 million and the tax benefit realized for tax deductions from stock options exercised was \$7.9 million.

The following table summarizes the non-vested restricted stock activity for the quarters ended March 31, 2006, June 30, 2006 and September 30, 2006:

| <b>Non-vested restricted stock</b> | <b>Shares</b>   | <b>Weighted<br/>Average Grant<br/>Date Fair Value</b> |
|------------------------------------|-----------------|-------------------------------------------------------|
| Non-vested December 31, 2005       | 743,504         | \$ 8.93                                               |
| Granted                            | 93,504          | \$ 21.39                                              |
| Vested                             | (4,808)         | \$ 7.99                                               |
| Forfeited                          | <u>(10,732)</u> | \$ 9.17                                               |
| Non-vested at March 31, 2006       | 821,468         | \$ 10.35                                              |
| Granted                            | 11,798          | \$ 22.91                                              |
| Vested                             | (17,142)        | \$ 10.71                                              |
| Forfeited                          | <u>(10,748)</u> | \$ 8.12                                               |
| Non-vested at June 30, 2006        | 805,376         | \$ 10.56                                              |
| Granted                            | 1,517           | \$ 23.09                                              |
| Vested                             | (2,300)         | \$ 10.11                                              |
| Forfeited                          | <u>(1,478)</u>  | \$ 16.92                                              |
| Non-vested at September 30, 2006   | 803,115         | \$ 10.57                                              |



The fair value of non-vested restricted stock is equal to the market price of our stock at the date of grant.

The weighted average grant date fair value of non-vested restricted stock granted in the quarter ended September 30, 2005 was \$16.59. The weighted average grant date fair value of non-vested restricted stock granted in the nine months ended September 30, 2005 was \$15.01. The total fair value of shares vested in the quarters ending September 30, 2006 and 2005 was \$0.1 million and \$0.0 million, respectively. The total fair value of shares vested in the nine months ending September 30, 2006 and 2005 was \$0.5 million and \$1.5 million, respectively.

As of September 30, 2006, there was \$5.7 million of unrecognized compensation cost related to non-vested share-based compensation that is expected to be recognized over a weighted average period of 0.78 years.

In May 2006, the Board of Directors granted certain of our officers 593,542 performance units. The performance units entitle the recipients to receive restricted shares of our Class A Common Stock contingent upon the achievement of an operating income earnings target. The aggregate operating income for the three year period ending December 31, 2008 must meet a specified target amount in order for these performance units to be earned and converted to restricted stock. Should the employees earn restricted stock under this program, the restricted stock will be granted in early 2009 and then vests ratably as of the first business day of January in each of 2010, 2011 and 2012 provided the officer remains an employee on each of the vesting dates. The maximum amount that would be recorded as salary expense over this 68 month period assuming the targets are met is \$13.8 million, which is calculated based on the stock price on the date the performance units were granted which was \$23.25.

### NOTE 3. Earnings Per Share

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

|                                      | Three Months Ended<br>September 30, 2006 |        |                     | Three Months Ended<br>September 30, 2005 |        |                     |
|--------------------------------------|------------------------------------------|--------|---------------------|------------------------------------------|--------|---------------------|
|                                      | Income                                   | Shares | Per Share<br>Amount | Income                                   | Shares | Per Share<br>Amount |
| <b>Basic EPS</b>                     |                                          |        |                     |                                          |        |                     |
| Income from continuing operations    | \$13,494                                 | 39,773 | \$ 0.34             | \$ 8,426                                 | 39,280 | \$ 0.21             |
| Income from discontinued operations  | -                                        | 39,773 | -                   | 1,184                                    | 39,280 | 0.03                |
| Net Income                           | \$13,494                                 | 39,773 | \$ 0.34             | \$ 9,610                                 | 39,280 | \$ 0.24             |
| <b>Effect of Dilutive Securities</b> |                                          |        |                     |                                          |        |                     |
| Stock options and restricted stock   |                                          | 799    |                     |                                          | 1,532  |                     |
| <b>Diluted EPS</b>                   |                                          |        |                     |                                          |        |                     |
| Income from continuing operations    | \$13,494                                 | 40,572 | \$ 0.33             | \$ 8,426                                 | 40,812 | \$ 0.21             |
| Income from discontinued operations  | -                                        | 40,572 | -                   | 1,184                                    | 40,812 | 0.03                |
| Net Income                           | \$13,494                                 | 40,572 | \$ 0.33             | \$ 9,610                                 | 40,812 | \$ 0.24             |



|                                      | Nine Months Ended<br>September 30, 2006 |        |                     | Nine Months Ended<br>September 30, 2005 |        |                     |
|--------------------------------------|-----------------------------------------|--------|---------------------|-----------------------------------------|--------|---------------------|
|                                      | Income                                  | Shares | Per Share<br>Amount | Income                                  | Shares | Per Share<br>Amount |
| <b>Basic EPS</b>                     |                                         |        |                     |                                         |        |                     |
| Income from continuing operations    | \$34,186                                | 40,246 | \$ 0.85             | \$ 20,369                               | 39,932 | \$ 0.51             |
| Income from discontinued operations  | 981                                     | 40,246 | 0.02                | 2,514                                   | 39,932 | 0.06                |
| Net Income                           | \$35,167                                | 40,246 | \$ 0.87             | \$ 22,883                               | 39,932 | \$ 0.57             |
| <b>Effect of Dilutive Securities</b> |                                         |        |                     |                                         |        |                     |
| Stock options and restricted stock   |                                         | 915    |                     |                                         | 1,640  |                     |
| <b>Diluted EPS</b>                   |                                         |        |                     |                                         |        |                     |
| Income from continuing operations    | \$34,186                                | 41,161 | \$ 0.83             | \$ 20,369                               | 41,572 | \$ 0.49             |
| Income from discontinued operations  | 981                                     | 41,161 | 0.02                | 2,514                                   | 41,572 | 0.06                |
| Net Income                           | \$35,167                                | 41,161 | \$0.85              | \$ 22,883                               | 41,572 | \$ 0.55             |

#### NOTE 4. Property and Equipment

Property and equipment consist of the following (in thousands):

|                                                 | September 30,<br>2006 | December 31,<br>2005 |
|-------------------------------------------------|-----------------------|----------------------|
| Building and improvements                       | \$ 54                 | \$ -                 |
| Leasehold improvements                          | 991                   | 824                  |
| Computer equipment and software                 | 46,677                | 46,160               |
| Furniture and equipment                         | 6,734                 | 6,593                |
| Transportation equipment                        | 18,651                | 2,181                |
|                                                 | 73,107                | 55,758               |
| Less: Accumulated depreciation and amortization | (47,915)              | (42,991)             |
| Property and Equipment, net                     | \$ 25,192             | \$ 12,767            |

#### NOTE 5. Debt

On March 23, 2005, we entered into a revolving credit agreement that provides for unsecured borrowings of up to \$40.0 million. The interest rate ranges from LIBOR plus 0.75% to 1.25% or Prime plus 0.5%. The revolving line of credit expires on March 23, 2010. The financial covenants require a minimum net worth of \$175.0 million and a cash flow leverage ratio of not more than 2.0 to 1.0. The commitment fees charged on the unused line of credit are between 0.15% and 0.25%. On February 21, 2006, we amended the revolving credit agreement to provide for unsecured borrowing up to \$50.0 million. No other terms of the agreement were amended.

We had \$48.3 million of unused and available borrowings under our bank revolving line of credit at September 30, 2006. We were in compliance with our debt covenants at September 30, 2006.

We have standby letters of credit that expire from 2006 to 2012. As of September 30, 2006, the outstanding letters of credit were \$1.7 million.

**NOTE 6. Commitments and Contingencies**

In March 2006, we entered into an equipment purchase contract with Singamas North America, Inc. We agreed to purchase 2,000 fifty-three foot dry freight steel domestic containers for approximately \$18.0 million. We have received 1,493 units as of September 30, 2006 and we expect delivery of the remaining units over the next few months. We financed these containers with 7 year operating leases.

We are a party to litigation incident to our business, including claims for freight lost or damaged in transit, freight improperly shipped or improperly billed, property damage and personal injury. Some of the lawsuits to which we are 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.

**NOTE 7. Stock Split**

The Board of Directors approved a two-for-one stock split in May 2006. The Board set May 22, 2006 as the record date and June 6, 2006 as the payment date. All number of share and per-share amounts have been retroactively restated to give effect to the two-for-one stock split, which was effected in the form of a 100% stock dividend. In addition, all options and performance units have been retroactively restated for the stock split in accordance with the terms of the incentive plans. Each of our Class A stockholders and Class B stockholders received one Class A share on each share of Class A Common Stock and each share of Class B Common Stock held by them on the record date in connection with the stock split. In accordance with the terms of our Certificate of Incorporation, the number of votes held by each shareholder of Class B Common Stock was adjusted in connection with this stock dividend such that each share of Class B Common Stock now entitles its holder to approximately 80 votes. Each share of Class A Common Stock entitles its holder to one vote.

**NOTE 8. Acquisition**

At the close of business on February 28, 2006, we acquired certain assets of Comtrak, Inc. ( Comtrak ), a transportation company whose services include primarily rail and international drayage for the intermodal sector. Comtrak was established in 1983 and is headquartered in Memphis, Tennessee. As of February 28, 2006, it had 398 employees and fifteen terminals located primarily in the southeastern United States. Comtrak utilizes company drivers and third-party owner operators to serve its customers. Comtrak had net sales of \$87.1 million, including sales to Hub of \$8.6 million, for the year ended December 31, 2005. The acquisition is consistent with our strategic plan to increase the amount of local trucking (or drayage) we perform. Comtrak performs drayage for the international intermodal market and this transaction provides us with an immediate entry into this growing market.

We paid the \$38.0 million purchase price plus working capital adjustment of \$1.2 million, which was finalized during the three months ended June 30, 2006, in accordance with the terms of the Asset Purchase Agreement, from available cash. There is an earn-out mechanism for 2006 and 2007, which will not exceed \$10.0 million in total and is based on Comtrak's 2006 and 2007 EBITDA as defined in the Asset Purchase Agreement. The additional contingent consideration will be added to the purchase price and will be applied to goodwill when the contingency is resolved. The results of operations of Comtrak are included in our consolidated statements of income for the period March 1, 2006 to September 30, 2006.

The Comtrak acquisition was accounted for as a purchase business combination in accordance with Statement of Financial Accounting Standards No. 141 Business Combinations. Assets acquired and liabilities assumed were recorded in the accompanying consolidated balance sheet at their fair values as of March 1, 2006.

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Pro forma results including the acquisition at the beginning of the periods presented are not materially different than actual results.

The following table summarizes the allocation of the total purchase price to the assets acquired and liabilities assumed as of the date of the acquisition (in thousands):

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|                                           | <b>March 1, 2006</b> |
|-------------------------------------------|----------------------|
| Accounts receivable                       |                      |
| Trade, net                                | \$ 9,012             |
| Other                                     | 428                  |
| Prepaid expenses and other current assets | 294                  |
| Property and equipment                    | 13,507               |
| Goodwill                                  | 12,298               |
| Other intangible assets                   | 7,894                |
| Total assets acquired                     | \$43,433             |
| Accounts payable                          |                      |
| Trade                                     | \$ 832               |
| Other                                     | 1,166                |
| Accrued expenses                          |                      |
| Payroll                                   | 944                  |
| Other                                     | 549                  |
| Total liabilities assumed                 | \$ 3,491             |
| Net assets acquired                       | \$39,942             |
| Direct acquisition costs                  | 766                  |
| Purchase price                            | \$39,176             |

The property and equipment's useful lives range from 6 months to 15 years. The above allocation is based on a valuation using management's estimates and assumptions and the use of an independent appraisal. We expect the amortization of all goodwill for tax purposes to be deductible over 15 years and for book purposes it has an indefinite life.

The components of the Other intangible assets listed in the above table as of the acquisition date are as follows (in thousands):

|                                    | <b>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Balance at<br/>September 30, 2006</b> | <b>Life</b> |
|------------------------------------|---------------|-------------------------------------|------------------------------------------|-------------|
| Relationships with owner operators | \$ 647        | \$ (63)                             | \$ 584                                   | 6 years     |
| Backlog/open orders                | 20            | (20)                                | -                                        | 1 month     |
| Trade name                         | 2,904         | -                                   | 2,904                                    | Indefinite  |
| Customer relationships             | 3,823         | (148)                               | 3,675                                    | 15 years    |
| Information technology             | 500           | (49)                                | 451                                      | 6 years     |
| Total                              | \$ 7,894      | \$(280)                             | \$7,614                                  |             |

The above intangible assets will be amortized using the straight-line method. Amortization expense for the three and nine month periods ended September 30, 2006 was \$0.1 million and \$0.3 million, respectively. Amortization expense for the next five years is as follows (in thousands):

|                |        |
|----------------|--------|
| Remainder 2006 | \$ 112 |
| 2007           | 445    |
| 2008           | 445    |

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2009  
2010

445  
445

**NOTE 9. Discontinued Operations**

On May 1, 2006, we entered into a definitive agreement to sell certain assets of HGDS to a third party. As specified in the Asset Purchase Agreement, the buyer assumed \$4.5 million of liabilities and we received a cash payment of \$12.2 million. The current and comparative period results of HGDS have been reported as discontinued operations in our Consolidated Financial Statements. These discontinued operations generated diluted earnings per share of \$0.03 for the three months ended September 30, 2005. These discontinued operations generated diluted earnings per share of \$0.02 and \$0.06 for the nine months ended September 30, 2006 and 2005, respectively.

The financial results of HGDS included in discontinued operations are as follows (in thousands):

|                                                            |  | <b>Three Months Ended,<br/>September 30, 2005</b> |
|------------------------------------------------------------|--|---------------------------------------------------|
| Revenue                                                    |  | \$ 11,965                                         |
| Income from discontinued operations<br>before income taxes |  | 1,954                                             |
| Income tax provision                                       |  | 770                                               |
| Income from discontinued operations                        |  | \$ 1,184                                          |

|                                                            | <b>Nine Months Ended,<br/>September 30, 2006</b> | <b>Nine Months Ended,<br/>September 30, 2005</b> |
|------------------------------------------------------------|--------------------------------------------------|--------------------------------------------------|
| Revenue                                                    | \$ 19,194                                        | \$ 32,227                                        |
| Income from discontinued operations<br>before income taxes | 1,634                                            | 4,228                                            |
| Income tax provision                                       | 653                                              | 1,714                                            |
| Income from discontinued operations                        | \$ 981                                           | \$ 2,514                                         |

The total assets sold to and liabilities assumed by the purchaser of HGDS on May 1, 2006 as well as total assets and liabilities of HGDS included in the captions Assets of discontinued operations and Liabilities of discontinued operations at December 31, 2005 are as follows (in thousands):

|                                           | <b>May 1, 2006</b> | <b>Dec. 31, 2005</b> |
|-------------------------------------------|--------------------|----------------------|
| <b>Assets</b>                             |                    |                      |
| Accounts receivable-trade, net            | \$ 8,845           | \$ 9,861             |
| Prepaid expenses and other current assets | 149                | 146                  |
| Property and equipment, net               | 670                | 758                  |
| Goodwill, net                             | 7,026              | 7,026                |
| Other assets                              | 44                 | 64                   |

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|                                                     |           |           |
|-----------------------------------------------------|-----------|-----------|
| <b>Total assets of discontinued operations</b>      | \$ 16,734 | \$ 17,855 |
| <b>Liabilities</b>                                  |           |           |
| Accounts payable-trade                              | \$ 3,619  | \$ 3,618  |
| Accounts payable-other                              | 64        | 67        |
| Accrued expenses-payroll                            | 449       | 1,183     |
| Accrued expenses-other                              | 330       | 473       |
| <b>Total liabilities of discontinued operations</b> | \$ 4,462  | \$ 5,341  |

**NOTE 10. Related Party Transaction**

In March 2006, we entered into a ten year lease agreement for a building and property (Comtrak's Memphis facility) with a related party, the President of Comtrak. Rent paid under this lease agreement totaled \$0.4 million for the first nine months of 2006 and will total \$0.6 million for the year ended December 31, 2006. The annual lease payments escalate by less than 1% per year.

**NOTE 11. New Pronouncement**

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, which is an interpretation of SFAS No. 109, Accounting for Income Taxes. 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. FIN 48 is effective for fiscal years beginning after December 15, 2006. We will implement this interpretation in the fiscal year starting January 1, 2007. We cannot reasonably estimate the impact of this interpretation at this time.



**HUB GROUP, INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL**

**CONDITION AND RESULTS OF OPERATIONS**

**OUTLOOK, RISKS AND UNCERTAINTIES**

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

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

**EXECUTIVE SUMMARY**

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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.

Some of our drayage services are provided by our subsidiary, Quality Services, LLC ( QS ). QS has terminals in Chicago, St. Louis, Stockton, Los Angeles, Atlanta, Jacksonville, Cleveland and Columbus. QS assists us in providing reliable, cost effective intermodal services to our customers.

We acquired Comtrak, Inc. ( Comtrak ) 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. Comtrak has terminals in Atlanta, Birmingham, Charleston, Charlotte, Chattanooga, Dallas, Houston, Huntsville, Jacksonville, Kansas City, Memphis, Nashville, Savannah and Tampa. The results of Comtrak are included in our results of operations from March 1, 2006, its date of acquisition.

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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 as well as from 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 48% of our transportation revenue. During 2006 and 2005, we severed relationships with certain customers which impeded our intermodal revenue growth. We have mitigated our risks in the automotive sector by significantly reducing or eliminating our relationship with two automotive suppliers in 2006. While we continue to do some limited business for this sector, we are carefully managing our credit exposure.

We use various performance indicators to manage our business. We closely monitor margin and gains and losses for our top 50 customers and 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. In addition, the assets and liabilities have been reclassified as discontinued operations in the consolidated balance sheet as of December 31, 2005.

## RESULTS OF OPERATIONS

The following table summarizes our revenue by business line:

|                                    | Three Months Ended<br>September 30, |                  |              | Nine Months Ended<br>September 30, |                    |             |
|------------------------------------|-------------------------------------|------------------|--------------|------------------------------------|--------------------|-------------|
|                                    | 2006                                | 2005             | %<br>Change  | 2006                               | 2005               | %<br>Change |
| <b>Revenue</b>                     |                                     |                  |              |                                    |                    |             |
| <b>(in thousands)</b>              |                                     |                  |              |                                    |                    |             |
| <b>Transportation</b>              |                                     |                  |              |                                    |                    |             |
| Intermodal                         | \$318,927                           | \$284,052        | 12.3%        | \$865,499                          | \$777,459          | 11.3%       |
| Brokerage                          | 77,129                              | 67,590           | 14.1%        | 224,805                            | 195,361            | 15.1%       |
| Logistics                          | 35,953                              | 35,792           | 0.4%         | 93,765                             | 105,841            | (11.4)%     |
| <b>Total continuing operations</b> | <b>\$432,009</b>                    | <b>\$387,434</b> | <b>11.5%</b> | <b>\$1,184,069</b>                 | <b>\$1,078,661</b> | <b>9.8%</b> |



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

|                                   | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|-----------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
|                                   | <b>2006</b>                                 | <b>2005</b> | <b>2006</b>                                | <b>2005</b> |
| Revenue                           | 100.0%                                      | 100.0%      | 100.0%                                     | 100.0%      |
| Transportation costs              | 86.7                                        | 88.3        | 86.5                                       | 88.0        |
| Gross margin                      | 13.3                                        | 11.7        | 13.5                                       | 12.0        |
| Costs and expenses:               |                                             |             |                                            |             |
| Salaries and benefits             | 5.5                                         | 5.4         | 6.0                                        | 5.8         |
| General and administration        | 2.3                                         | 2.2         | 2.4                                        | 2.5         |
| Depreciation and amortization     | 0.4                                         | 0.6         | 0.4                                        | 0.6         |
| Total costs and expenses          | 8.2                                         | 8.2         | 8.8                                        | 8.9         |
| Operating income                  | 5.1                                         | 3.5         | 4.7                                        | 3.1         |
| Other income (expense):           |                                             |             |                                            |             |
| Interest expense                  | 0.0                                         | 0.0         | 0.0                                        | 0.0         |
| Interest income                   | 0.1                                         | 0.1         | 0.1                                        | 0.1         |
| Other, net                        | 0.0                                         | 0.0         | 0.0                                        | 0.0         |
| Total other income (expense)      | 0.1                                         | 0.1         | 0.1                                        | 0.1         |
| Income from continuing operations |                                             |             |                                            |             |
| before provision for income taxes | 5.2                                         | 3.6         | 4.8                                        | 3.2         |
| Provision for income taxes        | 2.1                                         | 1.4         | 1.9                                        | 1.3         |
| Income from continuing operations | 3.1%                                        | 2.2%        | 2.9%                                       | 1.9%        |



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*Three Months Ended September 30, 2006 Compared to the Three Months Ended September 30, 2005*

### **Revenue**

Revenue increased 11.5% to \$432.0 million in 2006 from \$387.4 million in 2005. Intermodal revenue increased 12.3% due primarily to a 7.2% increase related to Comtrak and a 8.3% combined increase related to price, mix and fuel surcharges offset by a 3.2% decline in volume. Truck brokerage revenue increased 14.1% due primarily to an increase in volume and revenue per load from price increases, fuel and mix. Logistics revenue increased slightly due primarily to the full implementation of customers that we started doing business with earlier in the year partially offset by the previously disclosed loss of several customers. Hub Distribution's revenue has been reclassified to discontinued operations due to the sale.

### **Gross Margin**

Gross margin increased 26.7% to \$57.3 million in 2006 from \$45.3 million in 2005. As a percentage of revenue, gross margin increased to 13.3% in 2006 from 11.7% in 2005. The increase in gross margin as a percentage of revenue is due to various margin enhancement efforts, growth in truck brokerage and our drayage operations.

### **Salaries and Benefits**

Salaries and benefits increased to \$24.0 million in 2006 from \$21.0 million in 2005. The increase is related to Comtrak and an increase in salaries, employee benefits and incentive based compensation. As a percentage of revenue, salaries and benefits increased to 5.5% from 5.4% in 2005. Headcount as of September 30, 2006 was 1,086, which excludes drivers, as driver costs are included in transportation costs.

### **General and Administrative**

General and administrative expenses increased to \$9.9 million in 2006 from \$8.4 million in 2005 partially due to the acquisition of Comtrak. The increase related to Comtrak was partially offset by a decrease in telephone expense, bad debt expense, professional fees and equipment lease expense. As a percentage of revenue, general and administrative expenses increased to 2.3% in 2006 from 2.2% in 2005.

### **Depreciation and Amortization**

Depreciation and amortization decreased to \$1.6 million in 2006 from \$2.3 million in 2005. This expense as a percentage of revenue decreased to 0.4% in 2006 from 0.6% in 2005. The decrease in depreciation and amortization is due primarily to lower software depreciation due to certain assets being fully depreciated.

**Other Income (Expense)**

Interest expense remained consistent at approximately \$0.1 million in 2006 and 2005. Interest income increased to \$0.7 million in 2006 from \$0.2 million in 2005. The increase in interest income is due to a higher average investment balance in 2006 and a higher interest rate.

**Provision for Income Taxes**

The provision for income taxes increased to \$9.0 million in 2006 compared to \$5.5 million in 2005. The increase in the provision is the result of higher taxable income.

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### Income from Continuing Operations

Income from continuing operations increased to \$13.5 million in 2006 compared to \$8.4 million in 2005 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 which was disposed of May 1, 2006 at a pre-tax loss of \$0.1 million. For the three months ended September 30, 2005 income from discontinued operations was \$1.2 million.

### Earnings Per Common Share

Basic earnings per share from continuing operations were \$0.34 in 2006 and \$0.21 in 2005. Basic earnings per share from discontinued operations were \$0.03 in 2005. Basic earnings per share were \$0.34 in 2006 and \$0.24 in 2005.

Diluted earnings per share from continuing operations increased to \$0.33 in 2006 from \$0.21 in 2005. Diluted earnings per share from discontinued operations were \$0.03 in 2005. Diluted earnings per share increased to \$0.33 in 2006 from \$0.24 in 2005. All shares, per-share amounts and options have been retroactively restated to give effect to the two-for-one stock split in June 2006.

*Nine Months Ended September 30, 2006 Compared to the Nine Months Ended September 30, 2005*

### Revenue

Revenue increased 9.8% to \$1.2 billion in 2006 from \$1.1 billion in 2005. Intermodal revenue increased 11.3% due primarily to a 5.9% increase related to Comtrak and 7.4% combined increase related to price, mix and fuel surcharges offset by a 2.0% volume decline. Truck brokerage revenue increased 15.1% to \$224.8 million due primarily to an increase in volume and revenue per load from price increases, fuel and mix. Logistics revenue decreased 11.4% to \$93.8 million due to the previously disclosed loss of several customers offset by business from some new customers. Hub Distribution's revenue has been reclassified to discontinued operations due to the sale.

### Gross Margin

Gross margin increased 24.0% to \$160.2 million in 2006 from \$129.2 million in 2005. As a percentage of revenue, gross margin increased to 13.5% in 2006 from 12.0% in 2005. The increase in gross margin as a percentage of revenue is due to various margin enhancement efforts, growth in truck brokerage and our drayage operations.

### **Salaries and Benefits**

Salaries and benefits increased to \$71.3 million in 2006 from \$62.1 million in 2005 due primarily to Comtrak and an increase in salaries, employee benefits and incentive based compensation. As a percentage of revenue, salaries and benefits increased to 6.0% from 5.8% in 2005.

### **General and Administrative**

General and administrative expenses increased to \$28.6 million in 2006 from \$26.6 million in 2005 due to the acquisition of Comtrak partially offset by a decrease in bad debt expense, professional fees and lease expense. As a percentage of revenue, these expenses decreased to 2.4% in 2006 from 2.5% in 2005.

### **Depreciation and Amortization**

Depreciation and amortization decreased to \$5.0 million in 2006 from \$6.7 million in 2005. This expense as a percentage of revenue decreased to 0.4% in 2006 from 0.6% in 2005. The decrease in depreciation and amortization is due primarily to lower software depreciation due to certain assets being fully depreciated.

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

Interest expense remained consistent at \$0.1 million in 2006 and 2005. Interest income increased to \$1.7 million in 2006 from \$0.6 million in 2005. The increase in interest income is due to a higher average investment balance in 2006 and higher interest rates.

### **Provision for Income Taxes**

The provision for income taxes increased to \$22.8 million in 2006 compared to \$14.0 million in 2005. The increase in the provision is the result of higher taxable income.

### **Income from Continuing Operations**

Income from continuing operations increased to \$34.2 million in 2006 compared to \$20.4 million in 2005 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 in 2006 and \$2.5 million in 2005. Certain assets of HGDS were disposed of on May 1, 2006 at a pre-tax loss of \$0.1 million.

### **Earnings Per Common Share**

Basic earnings per share from continuing operations were \$0.85 in 2006 and \$0.51 in 2005. Basic earnings per share from discontinued operations were \$0.02 in 2006 and \$0.06 in 2005. Basic earnings per share were \$0.87 in 2006 and \$0.57 in 2005.

Diluted earnings per share from continuing operations increased to \$0.83 in 2006 from \$0.49 in 2005. Diluted earnings per share from discontinued operations were \$0.02 in 2006 and \$0.06 in 2005. Diluted earnings per share increased to \$0.85 in 2006 from \$0.55 in 2005. All

shares, per-share amounts and options have been retroactively restated to give effect to the two-for-one stock split in June 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, 2005, 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 more significant accounting policies and estimates.

### **Allowance for Uncollectible Trade Accounts Receivable**

In the normal course of business, we extend credit to customers after a review of each customer's credit history. An allowance for uncollectible trade accounts has been established through an analysis of the accounts receivable aging, an assessment of collectibility based on historical trends and an evaluation of the current economic conditions. To be more specific, we reserve every account balance that has aged over one year, certain customers in bankruptcy and account balances specifically identified as uncollectible. In addition, we provide a reserve for accounts not specifically identified as uncollectible based upon historical trends that are updated routinely. The allowance is reported on the balance sheet in net accounts receivable. Actual collections of accounts receivable could differ from management's estimates due to changes in future economic, industry or customer financial conditions. Recoveries of receivables previously charged off are recorded when received.

### **Revenue Recognition**

Revenue is recognized at the time 1) persuasive evidence of an arrangement exists, 2) services have been rendered, 3) the sales price is fixed and determinable and 4) collectibility is reasonably assured. In accordance with EITF 91-9, revenue and related transportation costs are recognized based on relative transit time. Further, we report revenue on a gross basis in accordance with the criteria in EITF 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent. We are the primary obligor and are responsible for providing the service desired by the customer. The customer views us as responsible for fulfillment including the acceptability of the service. Service requirements may include, for example, on-time delivery, handling freight loss and damage claims, setting up appointments for pick up and delivery and tracing shipments in transit. We have discretion in setting sales prices and as a result, our earnings vary. In addition, we have the discretion to select our vendors from multiple suppliers for the services ordered by our customers. Finally, we have credit risk for our receivables. These three factors, discretion in setting prices, discretion in selecting vendors and credit risk, further support reporting revenue on the gross basis.

### **Deferred Income Taxes**

Deferred income taxes are recognized for the future tax effects of temporary differences between financial and income tax reporting using tax rates in effect for the years in which the differences are expected to reverse. We believe that it is more likely than not that our deferred tax assets will be realized with the exception of \$0.2 million related to state tax net operating losses and other state credits for which valuation allowances have been established. In the event the probability of realizing the remaining deferred tax assets do not meet the more likely than not threshold in the future, a valuation allowance would be established for the deferred tax assets deemed unrecoverable.

### **Valuation of Goodwill and Other Indefinite-Lived Intangibles**

We review goodwill and other indefinite-lived intangibles for impairment on an annual basis or whenever events or changes in circumstances indicate the carrying amount of goodwill or other intangibles may not be recoverable. We utilize a third-party independent valuation firm to assist in performing the necessary valuations to be used in the impairment testing. These valuations are based on market capitalization, discounted cash flow analysis or a combination of both methodologies. The assumptions used in the valuations include expectations regarding future operating performance, discount rates, control premiums and other factors which are subjective in nature. Actual cash flows from operations could differ from management's estimates due to changes in business conditions, operating performance and economic conditions. Should estimates differ materially from actual results, we may be required to record impairment charges in the future.

### **Share-Based Compensation**

In December 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), Share-Based Payment, which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. SFAS No. 123 (R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in SFAS No. 123 (R) is similar to the approach described in Statement 123. However, SFAS No. 123 (R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

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As permitted by Statement 123, prior to January 1, 2006 we accounted for share-based payments to employees using Opinion 25's intrinsic value method and, as such, recognized no compensation cost for employee stock options. Had we adopted SFAS No. 123 (R) in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in Note 2 of the consolidated financial statements.

We have adopted SFAS No. 123 (R) effective January 1, 2006 using the modified prospective method. We also elected to calculate our initial pool of excess tax benefits under FSP (R)-3 ( FSP ). The FSP requires benefits of tax deductions in excess of compensation cost recognized (excess tax benefits) to be classified as a financing cash in-flow and an operating cash out-flow, rather than as an operating cash flow as required prior to the adoption of SFAS No. 123 (R).

### **New Pronouncement**

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 ( FIN48 ), Accounting for Uncertainty in Income Taxes, which is an interpretation of SFAS No. 109, Accounting for Income Taxes. 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. FIN 48 is effective for fiscal years beginning after December 15, 2006. We will implement this interpretation in the fiscal year starting January 1, 2007. We cannot reasonably estimate the impact of this interpretation at this time.

### **LIQUIDITY AND CAPITAL RESOURCES**

During the year, we have funded operations and capital expenditures through cash flows from operations.

Cash provided by operating activities for the nine months ended September 30, 2006, was approximately \$63.1 million, which resulted primarily from net income from operations of \$34.2 million, non-cash charges of \$9.3 million and an increase in working capital of \$19.6 million.

Net cash used in investing activities for the nine months ended September 30, 2006, was \$32.8 million and related primarily to our acquisition of Comtrak for \$39.9 million partially offset by the \$12.2 million of proceeds from the disposition of our discontinued operations. We expect capital expenditures to be approximately \$9.0 million for the year ended December 31, 2006.

The net cash used in financing activities for the nine months ended September 30, 2006, was \$35.4 million. We generated \$1.9 million of cash from stock options exercised and used \$45.2 million of cash to purchase treasury stock. We also reported \$7.9 million of excess tax benefits as a financing cash in-flow. This was previously reported as operating cash flows prior to the adoption of SFAS 123 (R).

Cash provided by discontinued operations was \$1.8 million for the nine months ended September 30, 2006 and \$7.5 million for the nine months ended September 30, 2005.

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On March 23, 2005 we entered into a revolving credit agreement that provides for unsecured borrowings of up to \$40.0 million. The interest rate ranges from LIBOR plus 0.75% to 1.25% or Prime plus 0.5%. The revolving line of credit expires on March 23, 2010. The financial covenants require a minimum net worth of \$175.0 million and a cash flow leverage ratio of not more than 2.0 to 1.0. The commitment fees charged on the unused line of credit are between 0.15% and 0.25%. On February 21, 2006, we amended the revolving credit agreement to provide for unsecured borrowing up to \$50.0 million. No other terms of the agreement were amended.

Our unused and available borrowings under our bank revolving line of credit at September 30, 2006 are \$48.3 million. We were in compliance with our debt covenants at September 30, 2006.

We have standby letters of credit that expire from 2006 to 2012. As of September 30, 2006, our outstanding letters of credit were \$1.7 million.

## Contractual Obligations

Our contractual cash obligations as of September 30, 2006 are minimum rental commitments under noncancellable operating leases, principally for real estate, containers and equipment which are payable as follows (in thousands):

|                     |           |
|---------------------|-----------|
| Remainder 2006      | \$ 6,724  |
| 2007                | 22,305    |
| 2008                | 15,450    |
| 2009                | 12,077    |
| 2010                | 10,052    |
| 2011                | 9,389     |
| 2012 and thereafter | 11,466    |
| Total               | \$ 87,463 |

In March 2006, we entered into an equipment purchase contract with Singamas North America, Inc. We agreed to purchase 2,000 fifty-three foot dry freight steel domestic containers for approximately \$18.0 million. We have received 1,493 units as of September 30, 2006 and we expect delivery of the remaining units over the next few months. We financed these containers with 7 year operating leases.

## 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, 2006, 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, 2006. 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.



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

On August 22, 2005, our Board of Directors authorized the purchase of up to \$45.0 million of our Class A Common Stock. This authorization expires on December 31, 2006. We intend to hold the repurchased shares in treasury for future use. During the third quarter, we completed the authorized purchase of \$45.0 million of our Class A Common Stock.

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

|                | <b>Total Number of<br/>Shares Purchased</b> | <b>Average Price<br/>Paid Per Share</b> | <b>Total Number of<br/>Shares Purchased as<br/>Part of Publicly<br/>Announced Plan</b> | <b>Maximum Value of Shares<br/>that May Yet Be Purchased<br/>Under the Plan (in 000 s)</b> |
|----------------|---------------------------------------------|-----------------------------------------|----------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|
| January 1 to   |                                             |                                         |                                                                                        |                                                                                            |
| March 31       | -                                           | \$ -                                    | -                                                                                      | \$ 45,000                                                                                  |
| April 1 to     |                                             |                                         |                                                                                        |                                                                                            |
| June 30        | -                                           | \$ -                                    | -                                                                                      | \$ 45,000                                                                                  |
| July 1 to      |                                             |                                         |                                                                                        |                                                                                            |
| July 31        | 393,300                                     | \$ 22.23                                | 393,300                                                                                | \$ 36,258                                                                                  |
| August 1 to    |                                             |                                         |                                                                                        |                                                                                            |
| August 31      | 1,563,845                                   | \$ 23.19                                | 1,563,845                                                                              | \$ -                                                                                       |
| September 1 to |                                             |                                         |                                                                                        |                                                                                            |
| September 30   | -                                           | \$ -                                    | -                                                                                      | \$ -                                                                                       |
| Total          | 1,957,145                                   | \$ 22.99                                | 1,957,145                                                                              | \$ -                                                                                       |

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 make purchases from time to time as market conditions warrant. We intend to hold the repurchased shares in treasury for future use.

**Item 6. Exhibits**

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



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

HUB GROUP, INC.

DATE: October 26, 2006

/s/ Thomas M. White

Thomas M. White  
Senior 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) promulgated under the Securities Exchange Act of 1934.                    |
| 31.2        | Certification of Thomas M. White, Senior Vice President, Chief Financial Officer and Treasurer, Pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934. |
| 32.1        | Certification of David P. Yeager and Thomas M. White, Chief Executive Officer and Chief Financial Officer, respectively, Pursuant to 18 U.S.C. Section 1350.                      |