

HUB GROUP INC
Form 10-Q
October 24, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2008 or

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

For the transition period from _____ to _____

Commission file number: 0-27754

HUB GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-4007085
(I.R.S. Employer Identification No.)

3050 Highland Parkway, Suite 100
Downers Grove, Illinois 60515
(Address, including zip code, of principal executive offices)
(630) 271-3600
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

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

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On October 22, 2008, the registrant had 36,986,572 outstanding shares of Class A common stock, par value \$.01 per share, and 662,296 outstanding shares of Class B common stock, par value \$.01 per share.

HUB GROUP, INC.

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

| | September 30, 2008 (unaudited) | December 31, 2007 |
|---|--------------------------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 63,378 | \$ 38,002 |
| Accounts receivable | | |
| Trade, net | 202,901 | 160,944 |
| Other | 12,594 | 9,828 |
| Prepaid taxes | 86 | 86 |
| Deferred taxes | 4,024 | 5,044 |
| Prepaid expenses and other current assets | 5,734 | 4,318 |
| TOTAL CURRENT ASSETS | 288,717 | 218,222 |
| Restricted investments | 7,089 | 5,206 |
| Property and equipment, net | 30,955 | 29,662 |
| Other intangibles, net | 6,722 | 7,056 |
| Goodwill, net | 230,448 | 230,448 |
| Other assets | 1,165 | 1,373 |
| TOTAL ASSETS | \$ 565,096 | \$ 491,967 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | | |
| Trade | \$ 150,434 | \$ 123,020 |
| Other | 9,189 | 6,683 |
| Accrued expenses | | |
| Payroll | 13,537 | 16,446 |
| Other | 28,067 | 32,408 |
| Related party payable | - | 5,000 |
| TOTAL CURRENT LIABILITIES | 201,227 | 183,557 |
| Non-current liabilities | 10,121 | 10,363 |
| Deferred taxes | 53,587 | 47,148 |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock, \$.01 par value; 2,000,000 shares authorized; no shares issued or outstanding in 2008 and 2007 | - | - |
| Common stock | | |
| Class A: \$.01 par value; 97,337,700 shares authorized and 41,224,792 shares issued in 2008 and 2007; 36,986,767 shares outstanding in 2008 and 36,666,731 shares outstanding in 2007 | 412 | 412 |
| Class B: \$.01 par value; 662,300 shares authorized; 662,296 shares issued and outstanding in 2008 and 2007 | 7 | 7 |

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| | | |
|--|------------|------------|
| Additional paid-in capital | 173,158 | 176,657 |
| Purchase price in excess of predecessor basis, net of tax benefit of \$10,306 | (15,458) | (15,458) |
| Retained earnings | 251,077 | 206,042 |
| Treasury stock; at cost, 4,238,025 shares in 2008 and 4,558,061 shares in 2007 | (109,035) | (116,761) |
| TOTAL STOCKHOLDERS' EQUITY | 300,161 | 250,899 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 565,096 | \$ 491,967 |

See notes to unaudited condensed consolidated financial statements.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| Revenue | \$ 514,212 | \$ 417,842 | \$ 1,430,136 | \$ 1,212,704 |
| Transportation costs | 451,052 | 360,332 | 1,249,635 | 1,040,770 |
| Gross margin | 63,160 | 57,510 | 180,501 | 171,934 |
| Costs and expenses: | | | | |
| Salaries and benefits | 24,116 | 22,100 | 73,780 | 71,887 |
| General and administrative | 10,766 | 9,596 | 31,393 | 31,415 |
| Depreciation and amortization | 995 | 1,080 | 2,987 | 3,455 |
| Total costs and expenses | 35,877 | 32,776 | 108,160 | 106,757 |
| Operating income | 27,283 | 24,734 | 72,341 | 65,177 |
| Other income (expense): | | | | |
| Interest expense | (31) | (33) | (83) | (78) |
| Interest and dividend income | 362 | 711 | 1,040 | 1,967 |
| Other, net | (58) | 24 | 28 | 82 |
| Total other income | 273 | 702 | 985 | 1,971 |
| Income before provision for income taxes | 27,556 | 25,436 | 73,326 | 67,148 |
| Provision for income taxes | 10,626 | 8,828 | 28,291 | 25,346 |
| Net income | \$ 16,930 | \$ 16,608 | \$ 45,035 | \$ 41,802 |
| Basic earnings per common share | \$ 0.45 | \$ 0.43 | \$ 1.21 | \$ 1.07 |
| Diluted earnings per common share | \$ 0.45 | \$ 0.42 | \$ 1.20 | \$ 1.06 |
| Basic weighted average number of shares outstanding | 37,209 | 38,777 | 37,167 | 39,026 |
| Diluted weighted average number of shares outstanding | 37,541 | 39,230 | 37,478 | 39,511 |

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, 2008
 (in thousands, except shares)

| | | September 30, 2008 |
|---|----|-----------------------|
| Class A & B Common Stock Shares Outstanding | | |
| Beginning of year | | 37,329,027 |
| Purchase of treasury shares | | (67,809) |
| Treasury shares issued for restricted stock and stock options exercised | | 387,845 |
| Ending balance | | 37,649,063 |
| Class A & B Common Stock Amount | | |
| Beginning of year | \$ | 419 |
| Ending balance | | 419 |
| Additional Paid-in Capital | | |
| Beginning of year | | 176,657 |
| Exercise of non-qualified stock options | | (3,989) |
| Share-based compensation expense | | 3,332 |
| Tax benefit of share-based compensation plans | | 2,709 |
| Issuance of restricted stock awards, net of forfeitures | | (5,551) |
| Ending balance | | 173,158 |
| Purchase Price in Excess of Predecessor Basis, Net of Tax | | |
| Beginning of year | | (15,458) |
| Ending balance | | (15,458) |
| Retained Earnings | | |
| Beginning of year | | 206,042 |
| Net income | | 45,035 |
| Ending balance | | 251,077 |
| Treasury Stock | | |
| Beginning of year | | (116,761) |
| Purchase of treasury shares | | (2,215) |
| Issuance of restricted stock and exercise of stock options | | 9,941 |
| Ending balance | | (109,035) |
| Total stockholders' equity | \$ | 300,161 |

See notes to unaudited condensed consolidated financial statements.

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

| | Nine Months Ended September 30, | |
|---|------------------------------------|-----------|
| | 2008 | 2007 |
| Cash flows from operating activities: | | |
| Net income | \$ 45,035 | \$ 41,802 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 5,326 | 5,475 |
| Deferred taxes | 7,459 | 3,178 |
| Compensation expense related to share-based compensation plans | 3,332 | 2,893 |
| Loss (gain) on sale of assets | 77 | (156) |
| Changes in operating assets and liabilities: | | |
| Restricted investments | (1,883) | (2,099) |
| Accounts receivable, net | (44,723) | (26,244) |
| Prepaid taxes | - | 2,033 |
| Prepaid expenses and other current assets | (1,416) | (794) |
| Other assets | 208 | 21 |
| Accounts payable | 29,920 | 12,724 |
| Accrued expenses | (7,250) | 1,909 |
| Non current liabilities | (242) | 662 |
| Net cash provided by operating activities | 35,843 | 41,404 |
| Cash flows from investing activities: | | |
| Proceeds from sale of equipment | 857 | 715 |
| Purchases of property and equipment | (7,219) | (8,203) |
| Cash used in acquisition of Comtrak, Inc. | (5,000) | (5,000) |
| Net cash used in investing activities | (11,362) | (12,488) |
| Cash flows from financing activities: | | |
| Proceeds from stock options exercised | 401 | 703 |
| Purchase of treasury stock | (2,215) | (37,142) |
| Excess tax benefits from share-based compensation | 2,709 | 3,856 |
| Net cash provided by (used in) financing activities | 895 | (32,583) |
| Net increase (decrease) in cash and cash equivalents | 25,376 | (3,667) |
| Cash and cash equivalents beginning of period | 38,002 | 43,491 |
| Cash and cash equivalents end of period | \$ 63,378 | \$ 39,824 |
| Supplemental disclosures of cash paid for: | | |
| Interest | \$ 83 | \$ 78 |
| Income taxes | \$ 19,932 | \$ 14,518 |

See notes to unaudited condensed consolidated financial statements.

HUB GROUP, INC.
NOTES TO UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Interim Financial Statements

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

The financial statements reflect, in our opinion, all material adjustments (which include only normal recurring adjustments) necessary to fairly present our financial position at September 30, 2008 and results of operations for the three months and nine months ended September 30, 2008 and 2007.

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, 2007. 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 classified to conform to the current year presentation.

NOTE 2. Earnings Per Share

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

| | Three Months Ended September 30, 2008 | | | Three Months Ended September 30, 2007 | | |
|-------------------------------------|--|--------|---------------------|--|--------|---------------------|
| | Income | Shares | Per Share Amount | Income | Shares | Per Share Amount |
| Basic EPS | | | | | | |
| Net income | \$ 16,930 | 37,209 | \$ 0.45 | \$ 16,608 | 38,777 | \$ 0.43 |
| Effect of Dilutive Securities | | | | | | |
| Stock options & restricted stock | | 332 | | | 453 | |
| Diluted EPS | \$ 16,930 | 37,541 | \$ 0.45 | \$ 16,608 | 39,230 | \$ 0.42 |
| | | | | | | |
| | Nine Months Ended September 30, 2008 | | | Nine Months Ended September 30, 2007 | | |
| | Income | Shares | Per Share Amount | Income | Shares | Per Share Amount |
| Basic EPS | | | | | | |
| Net income | \$ 45,035 | 37,167 | \$ 1.21 | \$ 41,802 | 39,026 | \$ 1.07 |

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Effect of Dilutive
Securities

Stock options &
restricted stock

311

485

| | | | | | | |
|-------------|-----------|--------|---------|-----------|--------|---------|
| Diluted EPS | \$ 45,035 | 37,478 | \$ 1.20 | \$ 41,802 | 39,511 | \$ 1.06 |
|-------------|-----------|--------|---------|-----------|--------|---------|

NOTE 3. Debt

We had \$47.1 million of unused and available borrowings under our bank revolving line of credit at September 30, 2008. We were in compliance with our debt covenants at September 30, 2008.

We have standby letters of credit that expire at various dates from 2008 to 2012. As of September 30, 2008, the outstanding letters of credit totaled \$2.9 million.

NOTE 4. Commitments and Contingencies

In February 2008, we entered into an equipment purchase contract with Singamas Management Services, Ltd. and Singamas North America, Inc. We agreed to purchase 1,000 fifty-three foot dry freight steel domestic containers for approximately \$10.0 million. All units were received as of September 30, 2008. We entered into operating leases to finance these containers with terms of approximately six years.

In the second quarter of 2008, we entered into agreements to purchase approximately \$7.2 million worth of tractors, expecting to take possession during the third and fourth quarters. During the third quarter, we purchased 70 units at a cost of \$4.4 million. We anticipate purchasing the remaining 30 units at a cost of approximately \$2.8 million during the fourth quarter. These purchases will be funded with cash.

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

NOTE 5. Fair Value Measurement

We adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS No. 157) effective January 1, 2008 as required. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. There was no cumulative effect recorded upon adoption. At September 30, 2008, cash and cash equivalents and restricted investments include \$62.3 million in a money market fund comprised of U.S. treasury securities and repurchase agreements for these securities and \$7.1 million of mutual funds, respectively, which are reported at fair value. The fair value measurement of these securities is based on quoted prices in active markets for identical assets which are defined as "Level 1" of the fair value hierarchy based on the criteria in SFAS No. 157.

HUB GROUP, INC.

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

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

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

EXECUTIVE SUMMARY

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

As an IMC, we arrange for the movement of our customers' freight in containers and trailers over long distances. We contract with railroads to provide transportation for the long-haul portion of the shipment and with local trucking companies, known as “drayage companies,” for local pickup and delivery. As part of the intermodal services, we

negotiate rail and drayage rates, electronically track shipments in transit, consolidate billing and handle claims for freight loss or damage on behalf of our customers.

Our drayage services are provided by our subsidiaries, Comtrak Logistics, Inc. (“Comtrak”) and Quality Services, LLC (“QS”) that assist us in providing reliable, cost effective intermodal services to our customers. Our subsidiaries have terminals in Atlanta, Birmingham, Charleston, Charlotte, Chattanooga, Chicago, Cleveland, Columbus, Dallas, Huntsville, Jacksonville, Kansas City, Los Angeles, Memphis, Nashville, Perry, Savannah, St. Louis, Stockton, and Tampa. At September 30, 2008, Comtrak and QS owned 313 tractors, leased 22 tractors, leased or owned 605 trailers, and employed 316 drivers and contracted with 866 owner-operators.

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

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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 and winning new customers. Our yield management group works with pricing and operations to enhance customer margins. Our top 50 customers' revenue represents approximately 48.0% of our revenue as of September 30, 2008.

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

RESULTS OF OPERATIONS

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

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|-----------------|-------------------------------------|------------|-------------|------------------------------------|--------------|-------------|
| | 2008 | 2007 | % Change | 2008 | 2007 | % Change |
| Revenue | | | | | | |
| Intermodal | \$ 369,668 | \$ 303,289 | 21.9% | \$ 1,024,079 | \$ 891,999 | 14.8% |
| Truck brokerage | 101,190 | 78,441 | 29.0 | 289,766 | 227,089 | 27.6 |
| Logistics | 43,354 | 36,112 | 20.1 | 116,291 | 93,616 | 24.2 |
| Total revenue | \$ 514,212 | \$ 417,842 | 23.1% | \$ 1,430,136 | \$ 1,212,704 | 17.9% |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------------|-------------------------------------|--------|------------------------------------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| Revenue | 100.0% | 100.0% | 100.0% | 100.0% |
| Transportation costs | 87.7 | 86.2 | 87.4 | 85.8 |
| Gross margin | 12.3 | 13.8 | 12.6 | 14.2 |
| Costs and expenses: | | | | |
| Salaries and benefits | 4.7 | 5.3 | 5.2 | 5.9 |
| General and administrative | 2.1 | 2.3 | 2.2 | 2.6 |
| Depreciation and amortization | 0.2 | 0.3 | 0.2 | 0.3 |
| Total costs and expenses | 7.0 | 7.9 | 7.6 | 8.8 |
| Operating income | 5.3 | 5.9 | 5.0 | 5.4 |

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| | | | | |
|--|------|------|------|------|
| Other income: | | | | |
| Interest and dividend income | 0.1 | 0.2 | 0.1 | 0.1 |
| Total other income | 0.1 | 0.2 | 0.1 | 0.1 |
| Income before provision for income taxes | | | | |
| | 5.4 | 6.1 | 5.1 | 5.5 |
| Provision for income taxes | | | | |
| | 2.1 | 2.1 | 2.0 | 2.1 |
| Net income | | | | |
| | 3.3% | 4.0% | 3.1% | 3.4% |

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Three Months Ended September 30, 2008 Compared to the Three Months Ended September 30, 2007

Revenue

Revenue increased 23.1% to \$514.2 million in 2008 from \$417.8 million in 2007. Intermodal revenue increased 21.9% to \$369.7 million due to a 9% increase in volume and a 13% increase in pricing related to fuel. Truck brokerage revenue increased 29.0% to \$101.2 million due to higher volume, improved mix and pricing, including fuel. Logistics revenue increased 20.1% to \$43.3 million related to obtaining several new customers.

Gross Margin

Gross margin increased 9.8% to \$63.2 million in 2008 from \$57.5 million in 2007. This margin expansion comes primarily from increases in intermodal volume. As a percent of revenue, gross margin has decreased to 12.3% in 2008 from 13.8% in 2007. The decrease in gross margin as a percent of revenue was driven by mix and more competitive pricing in all service lines.

Salaries and Benefits

As a percentage of revenue, salaries and benefits decreased to 4.7% in 2008 from 5.3% in 2007. Salaries and benefits increased to \$24.1 million in 2008 from \$22.1 million in 2007 due primarily to raises, more employees, and higher bonuses and commissions. Headcount as of September 30, 2008 was 1,112 which excludes drivers as driver costs are included in transportation costs.

General and Administrative

General and administrative expenses increased to \$10.8 million in 2008 from \$9.6 million in 2007. As a percentage of revenue, these expenses decreased slightly to 2.1% from 2.3%. Total expenses increased due to a loss on sale of tractors, additional marketing initiatives, and driver recruiting costs.

Depreciation and Amortization

Depreciation and amortization decreased to \$1.0 million in 2008 from \$1.1 million in 2007. This expense as a percentage of revenue decreased to 0.2% in 2008 from 0.3% in 2007. The decrease in depreciation and amortization is due primarily to lower computer software depreciation as some of our software was fully depreciated.

Other Income (Expense)

Interest and dividend income decreased to \$0.4 million in 2008 from \$0.7 million in 2007. This income as a percentage of revenue decreased to 0.1% in 2008 from 0.2% in 2007. The decrease in interest and dividend income is a result of lower interest rates.

Provision for Income Taxes

The provision for income taxes increased to \$10.6 million in 2008 compared to \$8.8 million in 2007. We provided for income taxes using an effective rate of 38.6% in 2008 and an effective rate of 34.7% in 2007. The 2007 effective rate was lower primarily because tax legislation enacted by the State of Illinois in the third quarter of 2007 created a benefit from the reduction of non-current deferred tax liabilities. The tax legislation modified how we apportion taxable income to Illinois.

Net Income

Net income increased to \$16.9 million in 2008 from \$16.6 million in 2007 due to higher gross margin partially offset by higher salaries and benefit costs, income tax expense and higher general and administrative expenses.

Earnings Per Common Share

Basic earnings per share were \$0.45 in 2008 and \$0.43 in 2007. Diluted earnings per share were \$0.45 in 2008 and \$0.42 in 2007.

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Nine Months Ended September 30, 2008 Compared to the Nine Months Ended September 30, 2007

Revenue

Revenue increased 17.9% to \$1.4 billion in 2008 from \$1.2 billion in 2007. Intermodal revenue increased 14.8% to \$1.0 billion due to a 3.6% increase in volume and an 11.2% increase in pricing related to fuel. Truck brokerage revenue increased 27.6% to \$289.8 million from \$227.1 million due to higher volume, mix and pricing, including fuel. Logistics revenue increased 24.2% to \$116.3 million as a result of increased business from new customers.

Gross Margin

Gross margin increased 5.0% to \$180.5 million in 2008 from \$171.9 million in 2007. This margin expansion is primarily due to strong growth in truck brokerage and new logistics customers. As a percent of revenue, gross margin has decreased to 12.6% in 2008 from 14.2% in 2007. The decrease in gross margin as a percentage of revenue is due to a one-time \$2.0 million profitable vendor deal in the first quarter of 2007, the owner operator work stoppage in northern California that cost us an extra \$1.0 million in 2008 and competitive pricing.

Salaries and Benefits

Salaries and benefits increased to \$73.8 million in 2008 from \$71.9 million in 2007 due primarily to raises, more employees, and higher bonuses and commissions. As a percentage of revenue, salaries and benefits were 5.2% for 2008 compared to 5.9% for 2007.

General and Administrative

General and administrative expenses remained constant at \$31.4 million for 2008 and 2007. As a percentage of revenue, these expenses decreased to 2.2% in 2008 from 2.6% in 2007.

Depreciation and Amortization

Depreciation and amortization decreased to \$3.0 million in 2008 from \$3.5 million in 2007. This expense as a percentage of revenue decreased to 0.2% in 2008 from 0.3% in 2007. The decrease in depreciation and amortization is due primarily to lower computer software depreciation as some of our software was fully depreciated.

Other Income (Expense)

Interest and dividend income decreased to \$1.0 million in 2008 from \$2.0 million in 2007. The decrease in interest and dividend income is a result of lower interest rates.

Provision for Income Taxes

The provision for income taxes increased to \$28.3 million in 2008 compared to \$25.3 million in 2007. We provided for income taxes using an effective rate of 38.6% in 2008 and an effective rate of 37.7% in 2007. The 2007 effective rate was lower primarily because tax legislation enacted by the State of Illinois in the third quarter of 2007 created a benefit from the reduction of non-current deferred tax liabilities. The tax legislation modified how we apportion taxable income to Illinois.

Net Income

Net income increased to \$45.0 million in 2008 from \$41.8 million in 2007 due primarily to higher gross margin and lower depreciation and amortization expense, partially offset by higher income taxes, salaries and benefits, and

reduced interest and dividend income.

Earnings Per Common Share

Basic earnings per share was \$1.21 in 2008 and \$1.07 in 2007. Diluted earnings per share increased to \$1.20 in 2008 from \$1.06 in 2007.

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 our accounting policies. 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, 2007, includes a summary of the significant accounting policies and methods used in the preparation of our consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

During 2008, we have funded operations, capital expenditures and the earn-out payment related to the Comtrak acquisition through cash flows from operations.

Cash provided by operating activities for the nine months ended September 30, 2008 was approximately \$35.8 million, which resulted primarily from income of \$45.0 million adjusted for non-cash charges of \$16.2 million, partially offset by the change in operating assets and liabilities of \$25.4 million.

Net cash used in investing activities for the nine months ended September 30, 2008 was \$11.4 million and related primarily to capital expenditures of \$7.2 million, partially offset by \$0.8 million of cash generated from the sale of equipment. We expect capital expenditures to be approximately \$10.0 million to \$11.0 million for all of 2008.

The net cash provided in financing activities for the nine months ended September 30, 2008 was \$0.9 million. We generated \$0.4 million of cash from stock options exercised and used \$2.2 million of cash to purchase treasury stock.

We had \$47.1 million of unused and available borrowings under our bank revolving line of credit at September 30, 2008. We were in compliance with our debt covenants at September 30, 2008.

We have standby letters of credit that expire at various dates from 2008 to 2012. As of September 30, 2008, the outstanding letters of credit were \$2.9 million.

The \$5.0 million related party payable was paid out during the first quarter of 2008. This amount relates to the 2007 earn-out payment due to the former owner of Comtrak. This payment completed the potential earn-outs related to the purchase of Comtrak.

We have authorization to spend up to \$75.0 million to purchase common stock through June of 2009. Through the first nine months of 2008, we have purchased 38,800 shares for \$1.4 million. We may make additional purchases from time to time as market conditions warrant.

Contractual Obligations

Our contractual cash obligations as of September 30, 2008 are minimum rental commitments. Minimum annual rental commitments at September 30, 2008, under non-cancelable operating leases, principally for real estate, containers and equipment are payable as follows (in thousands):

| | |
|---------------------|-----------|
| 2008 | \$ 5,287 |
| 2009 | 19,323 |
| 2010 | 16,902 |
| 2011 | 15,303 |
| 2012 | 13,673 |
| 2013 and thereafter | 6,959 |
| | \$ 77,447 |

In February 2008, we entered into an equipment purchase contract with Singamas Management Services, Ltd. and Singamas North America, Inc. We agreed to purchase 1,000 fifty-three foot dry freight steel domestic containers for approximately \$10.0 million. We have received all 1,000 units as of September 30, 2008. We entered into operating leases to finance these containers with terms of approximately six years.

In the second quarter of 2008, we entered into agreements to purchase approximately \$7.2 million worth of tractors, expecting to take possession during the third and fourth quarters. During the third quarter, we purchased 70 units at a cost of \$4.4 million. We anticipate purchasing the remaining 30 units at a cost of approximately \$2.8 million during the fourth quarter. These purchases will be funded with cash.

Deferred Compensation

Under our Nonqualified Deferred Compensation Plans (the "Plans"), participants can elect to defer certain compensation. Payments under the Plans are due as follows as of September 30, 2008 (in thousands):

| | |
|---------------------|----------|
| 2008 | \$ 145 |
| 2009 | 705 |
| 2010 | 1,579 |
| 2011 | 475 |
| 2012 | 590 |
| 2013 and thereafter | 6,245 |
| | \$ 9,739 |

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 4. CONTROLS AND PROCEDURES

As of September 30, 2008, 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, 2008. There have been no changes in our internal control over financial reporting identified in connection with such evaluation that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. Other Information

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

On November 14, 2007, our Board of Directors authorized the purchase of up to \$75.0 million of our Class A Common Stock. This authorization expires June 30, 2009. Through September, 2008 we have purchased 38,800 shares. We may make additional purchases from time to time as market conditions warrant, and any repurchased shares are expected to be held in treasury for future use.

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

| | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan | Maximum Value of Shares that May Yet Be Purchased Under the Plan (in 000's) |
|--------------------------------|--|---------------------------------|--|--|
| July 1 to July 31 | 4,900 | \$ 31.00 | 4,900 | \$ 74,848 |
| August 1 to August 31 | -- | \$ -- | -- | 74,848 |
| September 1 to September 30 | 33,900 | \$ 36.87 | 33,900 | 73,598 |
| Total | 38,800 | \$ 36.12 | 38,800 | \$ 73,598 |

This table excludes 29,009 shares (\$0.8 million) purchased by the Company during the nine months ended September 30, 2008 related to employee withholding upon vesting of restricted stock.

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 24,2008

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

EXHIBIT INDEX

| Exhibit No. | Description |
|-------------|---|
| 31.1 | Certification of David P. Yeager, Vice Chairman and Chief Executive Officer, Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. |
| 31.2 | Certification of Terri A. Pizzuto, Executive Vice President, Chief Financial Officer and Treasurer, Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. |
| 32.1 | Certification of David P. Yeager and Terri A. Pizzuto, Chief Executive Officer and Chief Financial Officer, respectively, Pursuant to 18 U.S.C. Section 1350. |