

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 June 30, 2001 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.)

377 EAST BUTTERFIELD ROAD, SUITE 700  
LOMBARD, ILLINOIS 60148  
(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 X No \_\_\_

On August 13, 2001, the registrant had 7,046,250 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.  
 UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS  
 (in thousands, except share amounts)

	June 30, 2001	December 31, 2000
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ -	\$ -
Accounts receivable, net	170,611	195,765
Deferred taxes	9,444	7,933
Prepaid expenses and other current assets	4,043	3,609
	184,098	207,307
<b>TOTAL CURRENT ASSETS</b>		
PROPERTY AND EQUIPMENT, net	39,266	43,854
GOODWILL, net	211,037	213,907
OTHER ASSETS	1,735	2,177
	\$ 436,136	\$ 467,245
<b>TOTAL ASSETS</b>		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Accounts payable		
Trade	\$ 161,618	\$ 166,743
Other	8,272	8,529
Accrued expenses		
Payroll	9,212	9,559
Other	9,277	9,658
Current portion of long-term debt	8,035	12,341
	196,414	206,830
<b>TOTAL CURRENT LIABILITIES</b>		
LONG-TERM DEBT, EXCLUDING CURRENT PORTION	86,075	109,089
DEFERRED TAXES	16,984	15,202
CONTINGENCIES AND COMMITMENTS		
MINORITY INTEREST	753	352
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value, 2,000,000 shares authorized; no shares issued or outstanding in 2001 and 2000	-	-
Common stock,		
Class A: \$.01 par value; 12,337,700 shares authorized; 7,046,050 shares issued and outstanding in 2001 and 2000	70	70
Class B: \$.01 par value; 662,300 shares authorized; 662,296 shares issued and outstanding in 2001 and 2000	7	7
Additional paid-in capital	110,817	110,817
Purchase price in excess of predecessor basis, net of tax benefit of \$10,306	(15,458)	(15,458)
Retained earnings	40,725	40,336
Accumulated other comprehensive loss	(251)	-
	135,910	135,772
<b>TOTAL STOCKHOLDERS' EQUITY</b>		
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	\$ 436,136	\$ 467,245

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Revenue	\$ 318,023	\$ 344,329	\$ 663,958	\$ 672,897
Transportation costs	272,692	299,746	572,591	588,849
Gross margin	45,331	44,583	91,367	84,048
Costs and expenses:				
Salaries and benefits	23,497	24,148	48,202	47,324
Selling, general and administrative	12,340	11,064	24,552	22,431
Depreciation and amortization of property and equipment	2,835	1,247	5,970	2,400
Amortization of goodwill	1,435	1,435	2,870	2,870
Impairment of property and equipment	-	-	3,401	-
Total costs and expenses	40,107	37,894	84,995	75,025
Operating income	5,224	6,689	6,372	9,023
Other income (expense):				
Interest expense	(2,423)	(2,824)	(5,367)	(6,008)
Interest income	80	168	333	340
Other, net	36	20	(278)	123
Total other expense	(2,307)	(2,636)	(5,312)	(5,545)
Income before minority interest and provision for income taxes	2,917	4,053	1,060	3,478
Minority interest	1,111	158	400	120
Income before provision for income taxes	1,806	3,895	660	3,358
Provision for income taxes	741	1,597	271	1,377
Net income	\$ 1,065	\$ 2,298	\$ 389	\$ 1,981
Basic earnings per common share	\$ 0.14	\$ 0.30	\$ 0.05	\$ 0.26
Diluted earnings per common share	\$ 0.14	\$ 0.30	\$ 0.05	\$ 0.26

See notes to unaudited condensed consolidated financial statements.

HUB GROUP, INC.  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
 For the six months ended June 30, 2001  
 (in thousands, except shares)

	Class A & B Common Stock		Additional Paid-in Capital	Purchase Price in Excess of Predecessor Basis, Net of Tax	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount					
Balance at December 31, 2000	7,708,346	\$ 77	\$ 110,817	\$ (15,458)	\$ 40,336	\$ -	\$ 135,772
Comprehensive income							
Net income	-	-	-	-	389	-	389
Other comprehensive income (loss):							
Cumulative effect of adopting Statement 133, net of tax of \$55	-	-	-	-	-	79	79
Unrealized interest rate swap loss net of tax benefit of (\$230)	-	-	-	-	-	(330)	(330)
Comprehensive income							138
Balance at June 30, 2001	7,708,346	\$ 77	\$ 110,817	\$ (15,458)	\$ 40,725	\$ (251)	\$ 135,910

See notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2001	2000
Cash flows from operating activities:		
Net income	\$ 389	\$ 1,981
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	6,317	2,811
Amortization of goodwill	2,870	2,870
Impairment of property and equipment	3,401	-
Deferred taxes	271	1,754
Minority interest	400	120
Loss/(Gain) on sale of assets	423	(13)
Changes in working capital:		
Accounts receivable, net	25,154	4,457
Prepaid expenses and other current assets	(434)	(3,069)
Accounts payable	(5,382)	16,620
Accrued expenses	(979)	(528)
Other assets	442	141
Net cash provided by operating activities	32,872	27,144
Cash flows from investing activities:		
Purchases of property and equipment, net	(5,552)	(13,698)
Net cash used in investing activities	(5,552)	(13,698)
Cash flows from financing activities:		
Proceeds from sale of common stock	-	31
Distributions to minority interest	-	(454)
Payments on long-term debt	(27,320)	(14,915)
Proceeds from issuance of long-term debt	-	27
Net cash used in financing activities	(27,320)	(15,311)
Net decrease in cash and cash equivalents	-	(1,865)
Cash and cash equivalents, beginning of period	-	1,865
Cash and cash equivalents, end of period	\$ -	\$ -
Supplemental disclosures of cash flow information Cash paid for:		
Interest	\$ 5,574	\$ 6,286
Income taxes	36	1,520
Non-cash activity:		
Unrealized loss on derivative instrument	\$ 251	\$ -

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. (the "Company") 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, the Company believes that the disclosures contained herein are adequate to make the information presented not misleading.

The financial statements reflect, in the opinion of management, all material adjustments (which include only normal recurring adjustments) necessary to present fairly the Company's financial position and results of operations.

NOTE 2. Earnings per Share

The following is a reconciliation of the Company's Earnings per Share:

	Three Months Ended June 30, 2001		Three Months Ended June 30, 2000	
	(000's)		(000's)	
	Income Shares	Per-Share Amount	Income Shares	Per-Share Amount
Basic Earnings per Share				
Income available to common stockholders	\$1,065 7,708	\$ 0.14	\$2,298 7,708	\$ 0.30
Effect of Dilutive Securities Stock options	- 7	-	- -	-
Diluted Earnings per Share				
Income available to common stockholders plus assumed exercises	\$1,065 7,715	\$ 0.14	\$2,298 7,708	\$ 0.30
	Six Months Ended June 30, 2001		Six Months Ended June 30, 2000	
	(000's)		(000's)	
	Income Shares	Per-Share Amount	Income Shares	Per-Share Amount
Basic Earnings per Share				
Income available to common stockholders	\$ 389 7,708	\$ 0.05	\$1,981 7,707	\$ 0.26
Effect of Dilutive Securities Stock options	- 5	-	- 17	-
Diluted Earnings per Share				
Income available to common stockholders plus assumed exercises	\$ 389 7,713	\$ 0.05	\$1,981 7,724	\$ 0.26

NOTE 3. Property and Equipment

Property and equipment consist of the following:

	June 30, ----- 2001 -----	December 31, ----- 2000 -----
	(000's)	
Building and improvements	\$ 57	\$ 57
Leasehold improvements	2,139	2,111
Computer equipment and software	44,846	46,396
Furniture and equipment	7,525	7,635
Transportation equipment and automobiles	3,525	3,678
	-----	-----
	58,092	59,877
Less: Accumulated depreciation and amortization	(18,826)	(16,023)
	-----	-----
PROPERTY AND EQUIPMENT, net	\$ 39,266	\$ 43,854
	=====	=====

Depreciation and amortization expense for the six months ending June 30, 2001, includes approximately \$1.5 million in additional depreciation due primarily to a change in estimated useful lives for various assets. Of this amount, \$0.9 million relates to various assets, that in December 2000, were determined to be no longer useful once the Company's new operating system was completed. The remaining \$0.6 million of additional depreciation relates to the Company's decision to accelerate depreciation for a piece of communications software that was replaced with a more stable and cost effective software application during the second quarter of 2001.

NOTE 4. Impairment of Property and Equipment

On March 30, 2001, a \$3.4 million pretax charge was recorded due to the impairment of Hub Group Distribution Services' ("Hub Distribution") e-Logistics software ("e-software"). This e-software was used to process orders relating to the home delivery of large box items purchased over the internet. Management made the decision to exit the internet home delivery business and, in conjunction with this decision, all customer contracts associated with the internet home delivery business were terminated as of March 30, 2001. Consequently, the e-software's fair value was reduced to zero based on the lack of any future cash flows attributable to Hub Distribution's e-Logistics initiative. The Company does not intend to use the software in the future.

NOTE 5. Restructuring Charge

In the fourth quarter of 2000, management approved a plan to restructure the Company's accounting functions and centralize them at its corporate headquarters in Lombard, Illinois. This centralization plan will result in the reduction of 56 accounting-related positions from the operating companies. All affected employees were informed in mid-November 2000. In connection with this plan, the Company recorded a pre-tax charge of \$250,000 included in salaries and benefits in the fourth quarter of 2000. As of June 30, 2001, \$184,000 had been paid related to the accounting restructuring and twenty-three employees had been terminated. The remaining \$66,000 of accrual is expected to be paid during the third quarter of 2001.

NOTE 6. Derivative Financial Instrument

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ("Statement 133"), "Accounting for Derivative Instruments and Hedging Activities." On January 1, 2001, the Company adopted Statement 133 and recorded the fair value of its interest rate swap of \$79,000, net of related income taxes of \$55,000, as an asset. The transition adjustment to record the asset was included in other comprehensive income.

The Company uses this interest rate swap to manage its exposure to changes in interest rates for its floating rate debt. This interest rate swap qualifies as a cash flow hedge. The interest rate differential to be received or paid on the swap is recognized in the condensed consolidated statements of operations as a reduction or increase in interest expense, respectively. In accordance with the new derivative requirements, the effective portion of the change in the fair value of the derivative instrument is recorded in the condensed consolidated balance sheets as a component of current assets or liabilities and other comprehensive income. The ineffective portion of the change in the fair value of the derivative instrument, along with the gain or loss on the hedged item, is recorded in earnings and reported in the condensed consolidated statements of operations, on the same line as the hedged item.

For the three months ended June 30, 2001, the Company adjusted its derivative financial instrument to fair value which resulted in an unrealized loss of \$330,000, net of the related income tax benefit or \$230,000. This adjustment is included in other comprehensive loss.

#### NOTE 7. Recent Accounting Pronouncements

On June 30, 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 141, "Business Combinations" ("Statement 141"). Under Statement 141, all business combinations initiated after June 30, 2001 must be accounted for using the purchase method of accounting. Use of the pooling-of-interests method will be prohibited. Additionally, Statement 141 requires that certain intangible assets that can be identified and named be recognized as assets apart from goodwill. Statement 141 is effective for all business combinations initiated after June 30, 2001.

On June 30, 2001, the FASB issued Statement No. 142, "Goodwill and Other Intangible Assets" ("Statement 142"). Under Statement 142, goodwill and intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives. The Company will adopt Statement 142 as of January 1, 2002 for goodwill and other intangible assets acquired prior to June 30, 2001. As of June 30, 2001, goodwill, net of accumulated amortization, is \$211.0 million and amortization expense for the six months ended June 30, 2001 is \$2.9 million. Except as set forth in Outlook, Risks and Uncertainties - Amortization of Goodwill, the Company has not yet fully determined the impact that Statement 142 will have on the Company's financial condition or results of operations.

#### NOTE 8. Contingency

On May 31, 2001, a large customer ("Customer") filed for reorganization under the Corporate Reorganization Act of Korea. The Customer is currently completing a revitalization plan and has yet to receive court approval of the plan. This procedure is expected to take approximately three to six months. The Customer currently owes the Company \$4.6 million in outstanding accounts receivable and \$0.2 million in interest charges. These amounts are included in Accounts Receivable, net in the accompanying condensed consolidated balance sheets. As of June 30, 2001, the Company has not recorded any bad debt reserve related specifically to the Customer due to the uncertainty of the outcome of this matter. Should the Customer negotiate a payment plan with court approval, these receivables could be collected over a period of years. Should the Customer liquidate, the Company expects to recognize a charge ranging from \$0.0 to \$4.8 million related to uncollectible receivables.



HUB GROUP, INC.

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

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2001 COMPARED TO THE THREE MONTHS ENDED JUNE 30,  
2000

REVENUE

Revenue for Hub Group, Inc. (the "Company") decreased 7.6% to \$318.0 million in 2001 from \$344.3 million in 2000. Overall, management believes that a soft economy and the impact of having higher fuel surcharges in the prior year has negatively impacted the current year growth. Intermodal revenue decreased 12.4% from 2000. The decline in intermodal was significantly impacted by a \$15.9 million reduction in demand for intermodal service from the Company's steamship customers. Two large steamship customers no longer use the Company's services. While one steamship customer has discontinued service to North America, the other has changed its method of business. Truckload brokerage revenue decreased 7.5% from 2000. Logistics revenue, which includes revenue from the Company's supply chain solutions services and revenue from Hub Group Distribution Services ("Hub Distribution"), increased 19.4% compared to 2000. This increase was primarily due to significant growth from the Company's supply chain solutions business.

GROSS MARGIN

Gross margin increased 1.7% to \$45.3 million in 2001 from \$44.6 million in 2000. As a percent of revenue, gross margin increased to 14.3% from 12.9% in 2000. The increase in gross margin as a percent of revenue is primarily due to two significant factors. First, Hub Distribution experienced an unusually strong gross margin percentage due to some one-time installation projects and an amendment to a contract with one of its customers. This amendment allowed for a rate increase back to the beginning of the current contract year. Hub Distribution had a net increase in gross margin of \$0.6 million that related to months prior to the second quarter. Second, the intermodal gross margin percentage increased due to a change in business mix and the loss of the high volume, lower margin steamship business.

SALARIES AND BENEFITS

Salaries and benefits decreased 2.7% to \$23.5 million in 2001 from \$24.1 million in 2000. As a percentage of revenue, salaries and benefits increased to 7.4% from 7.0% in 2000. The increase as a percentage of revenue is due primarily to the decrease in revenue.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses increased 11.5% to \$12.3 million in 2001 from \$11.1 million in 2000. As a percentage of revenue, these expenses increased to 3.9% from 3.2% in 2000. The increase as a percentage of revenue is primarily attributed to the decrease in revenue and increased expenditures related to information systems. Information systems costs increased, in part, due to the leasing of computer hardware required to support newly developed software applications, data communication costs and costs associated with the outsourced data center.

DEPRECIATION AND AMORTIZATION OF PROPERTY AND EQUIPMENT

Depreciation and amortization increased 127.3% to \$2.8 million in 2001 from \$1.2 million in 2000. This expense as a percentage of revenue increased to 0.9% from 0.4% in 2000. During the quarter, the Company recognized \$0.6 million in additional depreciation due to a change in estimated useful life for a piece of communications software. This software was replaced with a more stable and cost effective software application during the second quarter of 2001.

Additionally, the increase in depreciation and amortization is due to the depreciation of newly implemented software applications placed into service throughout 2000 and 2001.

#### AMORTIZATION OF GOODWILL

Amortization of goodwill remained constant at \$1.4 million in both 2001 and 2000.

#### OTHER INCOME (EXPENSE)

Interest expense decreased 14.2% to \$2.4 million in 2001 from \$2.8 million in 2000. The decrease in interest expense is due primarily to carrying a lower average debt balance this year as compared to the prior year.

Interest income decreased to \$0.1 million in 2001 from \$0.2 million in 2000.

#### MINORITY INTEREST

Minority interest increased to \$1.1 million in 2001 from \$0.2 million in 2000. Minority interest represents the 35% minority interest in Hub Distribution.

#### INCOME TAXES

The provision for income taxes decreased to \$0.7 million in 2001 compared to \$1.6 million in 2000. The Company is providing for income taxes using an effective rate of 41.0% in both years.

#### NET INCOME

Net income decreased to \$1.1 million in 2001 from \$2.3 million in 2000.

#### EARNINGS PER SHARE

Basic and diluted earnings per common share decreased to \$0.14 in 2001 from \$0.30 in 2000.

#### SIX MONTHS ENDED JUNE 30, 2001 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2000

##### REVENUE

Revenue for Hub Group, Inc. (the "Company") decreased 1.3% to \$664.0 million in 2001 from \$672.9 million in 2000. Overall, management believes that a soft economy has negatively impacted the current year growth. Intermodal revenue decreased 5.1% from 2000. Truckload brokerage revenue decreased 2.5% from 2000. Logistics revenue, which includes revenue from the Company's supply chain solutions services and revenue from Hub Group Distribution Services ("Hub Distribution"), increased 22.0% compared to 2000. This increase was primarily due to significant growth from the Company's supply chain solutions business.

##### GROSS MARGIN

Gross margin increased 8.7% to \$91.4 million in 2001 from \$84.0 million in 2000. As a percent of revenue, gross margin increased to 13.8% from 12.5% in 2000. The increase in gross margin as a percent of revenue is primarily due to two significant factors. First, gross margin for intermodal was negatively impacted in the first quarter of 2000 due to the lag between when the Company received fuel surcharges from its vendors and when the Company reached agreement to pass these charges on to its customers. During the first quarter of 2001, this same lag worked to Hub's benefit as fuel surcharges began to decrease. In effect, the Company has recouped the margin it lost in the prior year related to

fuel surcharges. Second, Hub Distribution experienced an unusually strong gross margin percentage due to some one-time installation projects and an amendment to a contract with one of its customers. This amendment allowed for a rate increase back to the beginning of the current contract year.

#### SALARIES AND BENEFITS

Salaries and benefits increased 1.9% to \$48.2 million in 2001 from \$47.3 million in 2000. As a percentage of revenue, salaries and benefits increased to 7.3% from 7.0% in 2000. The increase as a percentage of revenue is primarily attributed to normal year-over-year merit and cost of living increases granted to the Company's employees as well as the decrease in revenue.

#### SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses increased 9.5% to \$24.6 million in 2001 from \$22.4 million in 2000. As a percentage of revenue, these expenses increased to 3.7% from 3.3% in 2000. The increase as a percentage of revenue is primarily attributed to increased expenditures related to information systems and to the decrease in revenue. Information systems costs increased, in part, due to the leasing of computer hardware required to support newly developed software applications, data communication costs and costs associated with the outsourced data center.

#### DEPRECIATION AND AMORTIZATION OF PROPERTY AND EQUIPMENT

Depreciation and amortization increased 148.8% to \$6.0 million in 2001 from \$2.4 million in 2000. This expense as a percentage of revenue increased to 0.9% from 0.4% in 2000. During the first half of the year, the Company recognized \$1.5 million in additional depreciation due primarily to a change in estimated useful lives for various assets. Of this amount, \$0.9 million relates to various assets, that in December 2000, were determined to be no longer useful once the Company's new operating system was completed. The remaining \$0.6 million of additional depreciation relates to the Company's decision to accelerate depreciation for a piece of communications software that was replaced with a more stable and cost effective software application during the second quarter of 2001. Additionally, the increase in depreciation and amortization is due to the depreciation of newly implemented software applications placed into service throughout 2000 and 2001.

#### AMORTIZATION OF GOODWILL

Amortization of goodwill remained constant at \$2.9 million in both 2001 and 2000.

#### IMPAIRMENT OF PROPERTY AND EQUIPMENT

The \$3.4 million impairment charge in 2001 was due to Hub Distribution's exit from its initiative surrounding the home delivery of large box items purchased over the internet.

#### OTHER INCOME (EXPENSE)

Interest expense decreased 10.7% to \$5.4 million in 2001 from \$6.0 million in 2000. The decrease in interest expense is due primarily to carrying a lower average debt balance this year as compared to the prior year.

Interest income remained constant at \$0.3 million in both 2001 and 2000.

Other income/(expense) decreased to \$(0.3) million in 2001 from \$0.1 million in 2000. The change is due primarily to a \$0.4 million loss on the disposal of a piece of software in 2001.

## MINORITY INTEREST

Minority interest increased to \$0.4 million in 2001 from \$0.1 million in 2000. Minority interest represents the 35% minority interest in Hub Distribution.

## INCOME TAXES

The provision for income taxes decreased to \$0.3 million in 2001 compared to \$1.4 million in 2000. The Company is providing for income taxes using an effective rate of 41.0% in both years.

## NET INCOME

Net income decreased to \$0.4 million in 2001 from \$2.0 million in 2000.

## EARNINGS PER SHARE

Basic and diluted earnings per common share decreased to \$0.05 in 2001 from \$0.26 in 2000.

## LIQUIDITY AND CAPITAL RESOURCES

The Company has funded its operations and capital expenditures through cash flows from operations and bank borrowings.

Cash provided by operating activities for the six months ended June 30, 2001, was approximately \$32.9 million, which resulted primarily from a decrease in accounts receivable of \$25.2 million.

Net cash used in investing activities for the six months ended June 30, 2001, was \$5.6 million related to capital expenditures. The capital expenditures were principally made to enhance the Company's information system capabilities. The most significant project relates to a customized operating system.

The net cash used in financing activities for the six months ended June 30, 2001, was \$27.3 million. This was comprised of \$19.0 million of voluntary payments on the Company's line of credit and \$8.3 million of scheduled payments on the Company's term debt, installment notes and capital leases.

The Company maintains a multi-bank credit facility. The facility was originally comprised of \$50.0 million in term debt and a \$50.0 million revolving line of credit. At June 30, 2001, there was \$39.0 million of outstanding term debt and \$5.0 million outstanding and \$45.0 million unused and available under the line of credit. Borrowings under the line of credit are unsecured and have a five-year term that began on April 30, 1999, with a floating interest rate based upon the LIBOR (London Interbank Offered Rate) or Prime Rate. The term debt has quarterly payments ranging from \$1,250,000 to \$2,000,000 with a balloon payment of \$19.0 million due on March 31, 2004.

On March 30, 2001, the Company executed an amendment of its unsecured \$50.0 million term debt and the \$50.0 million five-year revolving line of credit agreement. The amendment modifies the definition of EBITDAM slightly, extending the date for adding back certain non-cash charges. All other provisions of the existing credit facility remained unchanged. The Company was in compliance with the financial covenants that were effective as of June 30, 2001.

The Company maintains \$50.0 million of private placement debt (the "Notes"). These Notes are unsecured and have an eight-year average life. Interest is paid quarterly. These Notes mature on June 25, 2009, with annual payments of \$10.0 million commencing on June 25, 2005.

On March 30, 2001, the Company executed an amendment to the Notes. This amendment modifies the definition of EBITDAM slightly, extending the date for adding back certain non-cash charges. All other provisions of the Notes agreement remained unchanged. The Company was in compliance with the financial covenants that were effective as of June 30, 2001.

#### RECENT ACCOUNTING PRONOUNCEMENTS

On June 30, 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 141, "Business Combinations" ("Statement 141"). Under Statement 141, all business combinations initiated after June 30, 2001 must be accounted for using the purchase method of accounting. Use of the pooling-of-interests method will be prohibited. Additionally, Statement 141 requires that certain intangible assets that can be identified and named be recognized as assets apart from goodwill. Statement 141 is effective for all business combinations initiated after June 30, 2001.

On June 30, 2001, the FASB issued Statement No. 142, "Goodwill and Other Intangible Assets" ("Statement 142"). Under Statement 142, goodwill and intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives. The Company will adopt Statement 142 as of January 1, 2002 for goodwill and other intangible assets acquired prior to June 30, 2001. As of June 30, 2001, goodwill, net of accumulated amortization, is \$211.0 million and amortization expense for the six months ended June 30, 2001 is \$2.9 million. Except as set forth in Outlook, Risks and Uncertainties - Amortization of Goodwill, the Company has not yet fully determined the impact that Statement 142 will have on the Company's financial condition or results of operations.

#### OUTLOOK, RISKS AND UNCERTAINTIES

Except for historical data, the information contained in this Quarterly Report constitutes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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. Forward-looking statements in this report include, but are not limited to, those contained in this "Outlook, Risks and Uncertainties" section regarding expectations, hopes, beliefs, estimates, intentions or strategies regarding the future. The Company assumes no liability to update any such forward-looking statements. In addition to those mentioned elsewhere in this section, such risks and uncertainties include the impact of competitive pressures in the marketplace, including the entry of new, web-based competitors and direct marketing efforts by the railroads, the degree and rate of market growth in the intermodal, brokerage and logistics markets served by the Company, changes in rail and truck capacity, further consolidation of rail carriers, deterioration in relationships with existing rail carriers, rail service conditions, changes in governmental regulation, adverse weather conditions, fuel shortages, changes in the cost of services from rail, drayage and other vendors and fluctuations in interest rates.

#### GROSS MARGIN

Management estimates it may not sustain the high margin percentage in its niche logistic services business performed by Hub Distribution, as many of these high margin projects are one-time in nature and comparable projects may very well not occur during the remainder of the year. Therefore, the Company estimates gross margin as a percentage of revenue will possibly decline in future periods from the 14.3% level which existed in the second quarter of 2001.

#### DEPRECIATION AND AMORTIZATION OF PROPERTY AND EQUIPMENT

Management estimates that as a percentage of revenue depreciation and amortization of property and equipment will increase significantly in the future. The most significant factor that will cause an increase in the percentage is increased software depreciation related to the Company's information systems. During the second quarter of 2001, the Company placed its new proprietary operating system in service. Additional factors that could cause an increase in the percentage are increased depreciation expense if the Company decided to purchase rather than lease a greater proportion of assets or

accelerating depreciation due to changes in useful lives of other existing assets. The reduction in depreciation and amortization expense from the impairment charge recorded by Hub Distribution is expected to offset only a portion of the expected increase in depreciation and amortization as a percentage of revenue.

#### AMORTIZATION OF GOODWILL

The Company will adopt FASB Statement 142 as of January 1, 2002. As a result of this new standard, goodwill and intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. In conjunction with Statement 142, the Company will cease amortizing its goodwill, which the Company expects will result in approximately \$5.7 million of reduced amortization expense on an annual basis beginning in 2002. The Company will also, at a minimum, test annually for impairment. Should the Company determine that its goodwill is impaired in the context of Statement 142, the goodwill will be restated to reflect its fair value and a corresponding charge to earnings would result.

#### INTEREST EXPENSE

As described above, interest expense decreased significantly during the first half of the year due primarily to carrying a lower average debt balance than the prior year. Due to several issues surrounding the centralization of accounting and the implementation of new accounting and operations systems, the Company benefited from a temporary slowdown in its accounts payable processing during the second quarter. The Company does not expect this slowdown to continue and therefore may not sustain such a low level of interest expense in future periods.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company believes that cash to be provided by operations, cash available under its line of credit and the Company's ability to obtain additional credit will be sufficient to meet the Company's short-term working capital and capital expenditure needs. The Company believes that the aforementioned items are sufficient to meet its anticipated long-term working capital, capital expenditure and debt repayment needs. As mentioned in interest expense above, the Company does not expect the slowdown of accounts payable processing to continue. Should this slowdown cease, the Company does expect that its current debt level may increase significantly.

#### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk related to changes in interest rates which may adversely affect its results of operations and financial condition. The Company seeks to minimize the risk from interest rate volatility through its regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. The Company does not use financial instruments for trading purposes.

The Company has both fixed and variable rate debt as described in Note 8 of the Company's Form 10-K filed for the year ended December 31, 2000. The Company has entered into an interest rate swap agreement designated as a hedge on a portion of the Company's variable rate debt. The purpose of the swap is to fix the interest rate on a portion of the variable rate debt and reduce certain exposures to interest rate fluctuations. At June 30, 2001, the Company had an interest rate swap with a notional amount of \$25.0 million, a weighted average pay rate of 7.87%, a weighted average receive rate of 5.96% and a maturity date of September 30, 2002. This swap agreement involves the exchange of amounts based on the variable interest rate for amounts based on the fixed interest rate over the life of the agreement, without an exchange of the notional amount upon which the payments are based. The differential to be paid or received as interest rates change is accrued and recognized as an adjustment of interest expense related to the debt.

The main objective of interest rate risk management is to reduce the total funding cost to the Company and to alter the interest rate exposure to the desired risk profile.

Item 4. Submission of Matters to a Vote of Security Holders

The 2001 Annual Meeting of Stockholders of Hub Group, Inc. was held on May 15, 2001. At this meeting, the following six directors were reelected with the following votes: Phillip C. Yeager: 19,344,669 votes for and 505,678 votes withheld; David P. Yeager: 19,343,894 votes for and 506,453 votes withheld; Thomas L. Hardin: 19,352,294 votes for and 498,053 votes withheld; Gary D. Eppen: 19,846,937 votes for and 3,410 votes withheld; Charles R. Reaves: 19,846,937 votes for and 3,410 votes withheld; Martin P. Slark: 19,846,937 votes for and 3,410 votes withheld.

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

HUB GROUP, INC.

DATE: August 13, 2001

/s/ Jay E. Parker  
Jay E. Parker  
Vice President-Finance and  
Chief Financial Officer  
(Principal Financial Officer)