Hub Group, Inc.
Form 10-K
March 01, 2019

false FY HUBG Hub Group, Inc. 0000940942 --12-31 Large Accelerated Filer false false false The shorter of useful life or lease term. P3Y true P3Y P5Y P3Y P1Y 0000940942 2018-01-01 2018-12-31 xbrli:shares 0000940942 us-gaap:CommonClassAMember 2019-02-18 0000940942 us-gaap:CommonClassBMember 2019-02-18 iso4217:USD 0000940942 2018-06-30 0000940942 2018-12-31 0000940942 2017-12-31 0000940942 us-gaap:CommonClassAMember 2018-12-31 0000940942 us-gaap:CommonClassAMember 2017-12-31 0000940942 us-gaap:CommonClassBMember 2018-12-31 0000940942 us-gaap:CommonClassBMember 2017-12-31 iso4217:USD xbrli:shares 0000940942 2017-01-01 2017-12-31 0000940942 2016-01-01 2016-12-31 0000940942 us-gaap:CommonStockMember 2015-12-31 0000940942 us-gaap:AdditionalPaidInCapitalMember 2015-12-31 0000940942 hubg:PurchasePriceInExcessOfPredecessorBasisNetOfTaxMember 2015-12-31 0000940942 us-gaap:RetainedEarningsMember 2015-12-31 0000940942 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2015-12-31 0000940942 us-gaap:TreasuryStockMember 2015-12-31 0000940942 2015-12-31 0000940942 us-gaap:TreasuryStockMember 2016-01-01 2016-12-31 0000940942 us-gaap:AdditionalPaidInCapitalMember 2016-01-01 2016-12-31 0000940942 us-gaap:RetainedEarningsMember 2016-01-01 2016-12-31 0000940942 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2016-01-01 2016-12-31 0000940942 us-gaap:CommonStockMember 2016-12-31 0000940942 us-gaap:AdditionalPaidInCapitalMember 2016-12-31 0000940942 hubg:PurchasePriceInExcessOfPredecessorBasisNetOfTaxMember 2016-12-31 0000940942 us-gaap:RetainedEarningsMember 2016-12-31 0000940942 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2016-12-31 0000940942 us-gaap:TreasuryStockMember 2016-12-31 0000940942 2016-12-31 0000940942 us-gaap:TreasuryStockMember 2017-01-01 2017-12-31 0000940942 us-gaap:AdditionalPaidInCapitalMember 2017-01-01 2017-12-31 0000940942 us-gaap:RetainedEarningsMember 2017-01-01 2017-12-31 0000940942 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-01-01 2017-12-31 0000940942 us-gaap:CommonStockMember 2017-12-31 0000940942 us-gaap:AdditionalPaidInCapitalMember 2017-12-31 0000940942 hubg:PurchasePriceInExcessOfPredecessorBasisNetOfTaxMember 2017-12-31 0000940942 us-gaap:RetainedEarningsMember 2017-12-31 0000940942 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-12-31 0000940942 us-gaap:TreasuryStockMember 2017-12-31 0000940942 us-gaap:TreasuryStockMember 2018-01-01 2018-12-31 0000940942 us-gaap:AdditionalPaidInCapitalMember 2018-01-01 2018-12-31 0000940942 us-gaap:RetainedEarningsMember 2018-01-01 2018-12-31 0000940942 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-01-01 2018-12-31 0000940942 us-gaap:CommonStockMember 2018-12-31 0000940942 us-gaap:AdditionalPaidInCapitalMember 2018-12-31 0000940942 hubg:PurchasePriceInExcessOfPredecessorBasisNetOfTaxMember 2018-12-31 0000940942 us-gaap:RetainedEarningsMember 2018-12-31 0000940942 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-12-31 0000940942 us-gaap:TreasuryStockMember 2018-12-31 0000940942 hubg:EstensonLogisticsLLCMember 2018-01-01 2018-12-31 0000940942 hubg:CaseStackIncorporationMember 2018-01-01 2018-12-31 0000940942 hubg:CaseStackIncorporationAndHubGroupDedicatedMember 2018-01-01 2018-12-31 xbrli:pure 0000940942 srt:MinimumMember 2018-12-31 0000940942 us-gaap:BuildingAndBuildingImprovementsMember srt:MaximumMember 2018-01-01 2018-12-31 0000940942 hubg:ComputerEquipmentAndSoftwareMember srt:MaximumMember 2018-01-01 2018-12-31 0000940942 us-gaap:FurnitureAndFixturesMember srt:MaximumMember 2018-01-01 2018-12-31 0000940942 us-gaap:TransportationEquipmentMember 2018-01-01 2018-12-31 0000940942 us-gaap:SoftwareDevelopmentMember 2018-01-01 2018-12-31 0000940942 us-gaap:LeaseholdImprovementsMember 2018-01-01 2018-12-31 0000940942 us-gaap:CustomerConcentrationRiskMember us-gaap:SalesRevenueServicesNetMember srt:MaximumMember 2018-01-01 2018-12-31 0000940942 us-gaap:CustomerConcentrationRiskMember us-gaap:SalesRevenueServicesNetMember srt:MaximumMember 2017-01-01 2017-12-31 0000940942 us-gaap:CustomerConcentrationRiskMember us-gaap:SalesRevenueServicesNetMember srt:MaximumMember

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2018

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File No. 0-27754

HUB GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	36-4007085
(State or other jurisdiction	(I.R.S. Employer
of incorporation of organization)	Identification No.)

2000 Clearwater Drive

Oak Brook, Illinois 60523

(Address and zip code of principal executive offices)

(630) 271-3600

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Class A Common Stock, $.01 par value

(Title of Class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definitions 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
Emerging
Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the Registrant's voting stock held by non-affiliates on June 30, 2018, based upon the last reported sale price on that date on the NASDAQ Global Select Market of $49.80 per share, was $1,613,285,990.

On February 18, 2019, the Registrant had 34,111,819 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.

Documents Incorporated by Reference

The Registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 23, 2019 (the "Proxy Statement") is incorporated by reference in Part III of this Form 10-K to the extent stated herein. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as a part hereof.

PART I

FORWARD LOOKING STATEMENTS

This annual report contains, and our officers and representatives may from time to time make, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “expects,” “hopes,” “believes,” “intends,” “estimates,” “anticipates,” “predicts,” “projects,” “potential,” “may,” “could,” “might,” “should,” and va words and similar expressions are intended to identify these forward-looking statements. In particular, information appearing under “Business,” “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” includes forward-looking statements. Forward-looking statements are neither historical facts nor assurance of future performance. Instead, they are based on our beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. All forward-looking statements made by us in this annual report are based upon information available to us on the date of this report and speak only as of the date in which they are made. Except as required by law, we expressly disclaim any obligations to publicly update any forward-looking statements whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements, in addition to those described in detail under Items 1A “Risk Factors,” include the following:

- the degree and rate of market growth in the domestic intermodal, truck brokerage, dedicated and logistics markets served by us;
- deterioration in our relationships, service conditions or provision of equipment with existing railroads or adverse changes to the railroads’ operating rules;
- inability to recruit and retain company drivers and owner-operators;
- 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;
- unanticipated changes in rail, drayage, warehousing and trucking company capacity or costs of services;
- increases in costs related to any reclassification or change in our treatment of drivers, owner-operators or other workers due to regulatory, judicial and legal decisions;
- joint employer claims alleging that the Company is a co-employer of any workers providing services to a Company contractor;
- labor unrest in the rail, drayage or trucking company communities;
- significant deterioration in our customers’ financial condition, particularly in the retail, consumer products and durable goods sectors;
- inability to identify, close and successfully integrate any future business combinations;
- fuel shortages or fluctuations in fuel prices;
- increases in interest rates;
- acts of terrorism and military action and the resulting effects on security;
- difficulties in maintaining or enhancing our information technology systems, implementing new systems or protecting against cyber-attacks;
- increases in costs associated with changes to or new governmental regulations;
- significant increases to employee health insurance costs;

- loss of several of our largest customers;
- awards received during annual customer bids not materializing;
- changes in insurance costs and claims expense;
- union organizing efforts and changes to current laws which will aid in these efforts;
- further consolidation of railroads;

1

- imposition of new tariffs or trade barriers or withdrawal from or renegotiation of existing free trade agreements which could reduce international trade and economic activity; and
- losses sustained on insured matters where the liability materially exceeds available insurance proceeds.

Item 1. BUSINESS

General

Hub Group, Inc. (the "Company", "Hub", "we", "us" or "our") is a leading, world class supply chain management company that provides value-added multi-modal transportation and logistics solutions by offering reliability, visibility and value to our customers. Our service offerings include comprehensive intermodal, truck brokerage, dedicated trucking, managed transportation, freight consolidation, warehousing, international transportation and other logistics services. The Company is a Delaware corporation that was incorporated on March 8, 1995 as successor to a business that was founded in 1971.

Today we are one of the largest freight transportation providers in the United States. Through our network, we have the ability to arrange for the movement of freight in and out of every major city in the United States, Canada and Mexico. We utilize an asset-light strategy that employs a combination of our company-operated equipment as well as assets operated by third parties to transport and store our customers' goods, which allows us to minimize our investment in equipment and facilities and reduce our capital requirements. Hub services a large and diversified customer base in a broad range of industries, including consumer products, retail and durable goods. We believe our strategy to offer multi-modal supply chain management solutions serves to strengthen and deepen our relationships with our customers and allows us to provide a more cost effective and higher service solution.

Our strategy includes the following elements:

- Deepen and diversify our customer relationships through a best-in-class customer experience across all solutions
- Acquire and organically develop new service offerings for our customers that will diversify our revenue streams and deliver sophisticated supply chain logistics solutions
- Selectively invest in assets to drive organic growth and reduce our costs
- Build a world class information technology platform to drive growth and efficiency and support future innovation
- Develop a culture that continues to enable innovation, service and teamwork

In support of our mission to provide multi-modal transportation and logistics solutions we regularly evaluate strategic transactions to enhance our core business lines and diversify our service offerings. Our recent strategic transactions include the following:

Estenson Acquisition. On July 1, 2017, our subsidiary Hub Group Trucking, Inc. ("HGT"), acquired the outstanding equity interests of Estenson Logistics, LLC ("Estenson"), a leading North American dedicated trucking company that operated over 1,000 trucks and employed approximately 1,300 drivers. Estenson now operates under the name Hub Group Dedicated ("Dedicated").

Mode Sale. On August 31, 2018, we sold the membership interests of our Mode Transportation, LLC ("Mode") subsidiary to an affiliate of York Capital Management ("Purchaser"). Mode's temperature protected division ("Temstar") was not included in the transaction and is now included in our intermodal line of business. Mode provided transportation management services to its customers through a network of approximately 170 agents.

CaseStack Acquisition. On December 3, 2018, a subsidiary of Hub Group, Inc. completed a merger with CaseStack, Inc. ("CaseStack"). CaseStack is a non-asset based transportation and logistics provider operating in two lines of business. CaseStack's logistics business provides warehouse and transportation logistics services, including retailer-driven collaborative consolidation programs, to its customers who primarily consist of consumer-packaged goods companies selling into the North American retail channel. CaseStack's transportation brokerage business offers truck brokerage services with a focus on less-than-truckload services. CaseStack does not own or operate any warehouses or transportation equipment. The financial results of CaseStack are included in our logistics line of business, except for their transportation brokerage business which is included in our truck brokerage line of business.

Services Provided

Our lines of business can be categorized as follows:

Intermodal. As an intermodal provider, we arrange for the movement of our customers' freight in containers and trailers, typically over long distances of 750 miles or more. We contract with railroads to provide transportation for the long-haul portion of the shipment between rail terminals. Local pickup and delivery services between origin or destination and rail terminals (referred to as "drayage") are provided by our HGT subsidiary and third-party local trucking companies.

In a typical intermodal transaction, the customer contacts Hub to place an order. We determine the price, arrange for the necessary intermodal equipment (which includes a container and chassis or a trailer) to be delivered to the customer by HGT or a third-party drayage company and, after the freight is loaded, arrange for the transportation of the container or trailer to the rail terminal where it is transported by the railroad to the destination rail terminal. Our predictive track and trace technology then monitors the shipment to ensure that it arrives as scheduled and alerts our customer service personnel if there are service delays. We then arrange for and confirm delivery by a drayage company at the destination. After unloading, the empty equipment is made available for reloading.

As of December 31, 2018, we owned approximately 37,000 53-foot containers and we had exclusive access to approximately 1,200 rail-owned containers for our dedicated use on the Union Pacific ("UP") and the Norfolk Southern ("NS") railroads.

During 2018, HGT accounted for approximately 53% of Hub's drayage needs by providing reliable, cost effective intermodal services to our customers. As of December 31, 2018, HGT had terminals in the Atlanta, Birmingham, Charlotte, Chattanooga, Chicago, Dallas, Harrisburg, Huntsville, Indianapolis, Jacksonville, Kalamazoo, Kansas City, Milwaukee, Memphis, Nashville, Newark, Philadelphia, Portland (OR), Salt Lake City, Seattle, St. Louis, Stockton and Wilmington (IL) metro areas. As of December 31, 2018, HGT leased or owned approximately 1,200 tractors and 200 trailers, employed approximately 1,300 drivers and contracted with approximately 1,300 owner-operators.

Dedicated Trucking. Our dedicated operation contracts with customers who seek to outsource a portion of their trucking transportation needs. We offer a dedicated fleet of equipment and drivers to each customer, as well as the management and infrastructure to operate according to the customer's high service expectations. Contracts with customers generally include fixed and variable pricing arrangements and may include charges for early termination which serves to reduce the financial risk we bear with respect to the utilization of our equipment. Our dedicated operation currently operates a fleet of approximately 1,400 tractors and 4,500 trailers at 130 locations throughout the United States. As of December 31, 2018, Dedicated employed approximately 1,900 drivers.

Truck Brokerage. We operate one of the largest truck brokerage operations in the U.S., providing customers with an over the road service option for their transportation needs. Our brokerage does not operate any trucks; instead we match customers' needs with carriers' capacity to provide the most effective service and price combination. We have contracts with a substantial base of carriers allowing us to meet the varied needs of our customers.

In a typical truck brokerage transaction, the customer contacts Hub to obtain a price quote for a particular freight movement. We make the delivery appointment and arrange with the appropriate carrier to pick up the freight. Once we receive confirmation that the freight has been picked up, we monitor the movement of the shipment until it reaches its destination and the delivery has been confirmed.

In 2018, we expanded our truck brokerage service offering through the acquisition of CaseStack. CaseStack's truck brokerage provides us with additional capabilities, particularly with respect to less-than-truckload freight.

Logistics. Hub's logistics business operates under the names Unyson Logistics and CaseStack. Unyson Logistics is comprised of a network of logistics professionals dedicated to developing, implementing and operating customized logistics solutions for customers. Unyson Logistics offers a wide range of transportation management services and technology solutions including shipment optimization, load consolidation, mode selection, carrier management, load planning and execution and web-based shipment visibility. Our multi-modal transportation capabilities include small parcel, heavyweight, expedited, less-than-truckload, truckload, intermodal, railcar and international shipping. Our CaseStack logistics business leverages proprietary technology along with collaborative partnerships with retailers and logistics providers to deliver cost savings and performance-enhancing supply chain services to consumer-packaged goods clients. CaseStack contracts with third-party warehouse providers in seven markets across North America to which its customers ship their goods to be stored and eventually consolidated, along with goods from other CaseStack customers, into full truckload shipments destined to major North American retailers. CaseStack offers its customers shipment visibility, transportation cost savings, high service and compliance with retailers' increasingly stringent supply chain requirements.

Marketing and Customers

As one of the leading transportation management companies in North America, Hub Group's mission is to be a world-class supply chain management company that provides innovative, value-added multi-modal solutions including intermodal, dedicated trucking, truck brokerage and logistics services. We have transformed our organization from a traditional intermodal marketing company (“IMC”) into a multi-modal solutions provider delivering reliability, visibility and value to our customers every day.

The focus on this mission has revolutionized our offerings and the way we service our customers. We seek to understand and analyze our customers’ entire network to provide innovative multi-modal solutions to drive savings, improve service and offer full visibility into their supply chains.

After 48 years in business, we continue to live by the simple mantra that "good" is not good enough. To ensure we grow and improve, we focus intently on our customers, listening to their needs, developing comprehensive transportation solutions and delivering superior service. We invest in our people, equipment and technology to maintain our competitive edge in order to be the best transportation provider for our customers.

The supply-chain needs of our customers have become more complex, efficient and lean. We are committed to helping our customers meet these needs. A particular focus has been providing our customers with increased speed and improved visibility into their supply chains. Our state-of-the-art technology and satellite tracking of intermodal containers helps to maintain our high levels of service while aiding capacity planning and providing 24/7 visibility into any shipment; and our people have the skills, training and information to quickly respond to our customers' changing supply chain networks. Every customer has a dedicated team of professionals ready to service all of their needs. We refer to this exceptional service approach the "One Hub" experience.

The majority of our business is in the retail, consumer products and durable goods. No one customer represents more than 10% of our total revenue in 2018 and 2017.

Information Technology Systems

Leveraging strong technology at the core and emerging technologies on the edge to achieve our business goals and to keep pace with customer demands remains the basis of our technology strategy. We purchase commercially available technology for commodity capabilities, we extend to create additional value leveraging emerging technologies, and we build solutions where we can create differentiated experiences for our customers, drivers, carriers and employees. In 2018 we initiated our multi-year investment and process enhancement initiative that we refer to as “Elevate” which includes implementing core foundational technologies, Oracle enterprise resource planning (“ERP”) and Oracle Human Capital Management (“HCM”) and Oracle Transportation Management (“OTM”) all of which are deployed in the cloud. Anchored on those common platforms our technology strategy includes the deployment of differentiating solutions facing our customers and carriers through our Hub Connect application and for our drivers through our Hub Pro application. In addition, we have many initiatives focused on internal productivity and efficiency that will be a dramatic change from the processes and technology used today.

In 2018, we converted two of our HGT terminals to our newly designed process and technology solutions for fleet operations. This included changes to the technology used for the recruiting, qualifying, and onboarding of drivers. This allows drivers to immediately begin using the entire suite of solutions on their first day of employment. We also deployed our state-of-the-art transportation management system, OTM, allowing us to optimally plan drivers and loads. This positively impacts both driver and asset utilization while improving the customer experience with more efficient, responsive operations. This deployment also added a significant set of capabilities to Hub Pro, our mobile solution for company drivers and owner operator drivers. These new capabilities include visibility to work assignments, direct communication to their manager, verification of work completed, hours of service compliance, vehicle inspection and other features focused on value to our drivers. This end to end solution was deployed leveraging both purchased and custom-built solutions integrated through our API platform. The deployment of this solution to each of our fleet terminals will be completed by the end of 2019.

Benefits of our Cloud First technology strategy include improvements to the rate and pace at which we can deliver technology solutions, while lowering the cost to serve and maintaining our high level of service quality. We also expect to deploy in 2019 ERP as our financial management solution as well as enabling HCM Cloud for driver payroll allowing us to leverage both solutions to improve efficiency and gain valuable insight. These and other new technology solutions are planned for 2019.

Relationship with Railroads

A key element of our business strategy is to strengthen our close working relationships with the major intermodal railroads in North America. Due to our size and relative importance, some railroads have dedicated support personnel to focus on our day-to-day service requirements. On a regular basis, our senior executives and each of the railroads meet to discuss major strategic issues concerning intermodal transportation.

We have relationships with each of the following major railroads:

Burlington Northern Santa Fe	Florida East Coast
Canadian National	Kansas City Southern
Canadian Pacific	Norfolk Southern
CSX	Union Pacific
Ferromex	

Relationship with Drayage Companies

Hub has a "Quality Drayage Program," under which participants commit to provide high quality drayage service along with clean and safe equipment, maintain a defined on-time performance level and follow specified procedures designed to minimize freight loss and damage. We negotiate drayage rates for transportation between specific origin and destination points.

We also provide drayage services with our own drayage operations, which we operate through our subsidiary HGT. Our drayage operations employ their own drivers and also contract with owner-operators who supply their own trucks.

Relationship with Trucking Companies

We contract with a large number of trucking companies that we use to transport freight. Our relationships with these trucking companies are important since these relationships determine pricing, load coverage and overall service.

Risk Management and Insurance

We require all of our trucking company vendors to carry general liability insurance, truckman's auto liability insurance and cargo insurance. Railroads, which are self-insured, provide limited cargo protection. To cover freight loss or damage when a carrier's liability cannot be established or a carrier's insurance is insufficient to cover the claim, we carry our own cargo insurance. We also carry general liability insurance with a companion umbrella policy on this general liability insurance.

We maintain separate insurance policies to cover potential exposure from our company-owned drayage and dedicated operations. We carry commercial general liability insurance subject to a policy aggregate limit, and trucker's automobile liability insurance with a limit per occurrence. Additionally, we have an umbrella excess liability policy and maintain motor truck cargo liability insurance.

Government Regulation

The Company and several of our subsidiaries, including Dedicated and CaseStack, are licensed by the Department of Transportation as brokers in arranging for the transportation of general commodities by motor vehicle. To the extent that we perform truck brokerage services, they do so under these licenses. The Department of Transportation prescribes qualifications for acting in this capacity, including a $75,000 surety bond that we have posted. In addition, Hub has customs bonds. To date, compliance with these regulations has not had a material adverse effect on our results of operations or financial condition; however, the transportation industry is subject to legislative or regulatory changes that can affect the economics of the industry by requiring changes in operating practices or influencing the demand for, and cost of, providing, transportation services.

Custom-Trade Partnership Against Terrorism

One of our operating subsidiaries achieved Custom-Trade Partnership Against Terrorism (C-TPAT) certification in 2013 and have maintained it since then. C-TPAT is a voluntary supply chain security program led by U.S. Customs and Border Protection focused on improving the security of private companies' supply chains with respect to terrorism. Companies who achieve C-TPAT certification must have a documented process for determining and alleviating risks throughout their international supply chain. This certification allows us to be considered low risk, resulting in expedited processing of our customers' cargo, including fewer customs examinations.

Competition

The transportation services industry is highly competitive. We compete against intermodal providers, as well as logistics companies, third party brokers, trucking companies and railroads that market their own services. Several larger trucking companies have entered into agreements with railroads to market intermodal services nationwide. Competition is based primarily on freight rates, quality of service, reliability, transit time and scope of operations. Several transportation service companies and trucking companies, and all of the major railroads, may have substantially greater financial and other resources than we do.

General

Employees: As of December 31, 2018, Hub Group had approximately 5,400 employees, which included approximately 3,100 drivers. We are not a party to any collective bargaining agreements and consider our relationship with our employees to be satisfactory.

Other: No material portion of our operations is subject to renegotiation of profits or termination of contracts at the election of the federal government. Our business is seasonal to the extent that certain customer groups, such as retail, are seasonal.

Periodic Reports

Our annual report to the Securities and Exchange Commission ("SEC") on Form 10-K, our quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to such reports, are available free of charge on our website at www.hubgroup.com as soon as reasonably practicable after we electronically file or furnish such reports to the SEC. Information on our website does not constitute part of this annual report on Form 10-K. In addition, the SEC maintains a website (http://www.sec.gov) that contains our annual, quarterly, and current reports, proxy and information statements, and other information we electronically file with, or furnish to, the SEC. Any materials we file with, or furnish to, the SEC may also be read and/or copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

Item 1A. RISK FACTORS

Our ability to expand our business or maintain our profitability may be adversely affected by a shortage of drivers and capacity.

We derive significant revenue from our intermodal, truck brokerage, dedicated and logistics services. Driver shortages and reliance on third-party companies for the operation of our intermodal, truck brokerage, dedicated and logistics services could adversely affect our profitability and limit our ability to expand our business or retain customers. Driver shortages may require increases to drivers' compensation that we may be unable to pass on to our customers, thereby increasing our cost of providing services and lowering our margins. Most drayage and certain less than truckload companies operate relatively small fleets and have limited access to capital for fleet expansion. Particularly during periods of economic expansion, it may be difficult for Dedicated, HGT and third-party trucking companies to expand their fleets due to chronic driver shortages.

Because we depend on railroads for our operations, our operating results and financial condition are likely to be adversely affected by any increase in rates, reduction or deterioration in rail service or change in the railroads' reliance on us to market their intermodal transportation services.

We depend on the major railroads in the United States for virtually all of the intermodal services we provide. In many markets, rail service is limited to one or a few railroads. Consequently, a reduction in, or elimination of, rail service to a particular market is likely to adversely affect our ability to provide intermodal transportation services to some of our customers. Rate increases would result in higher intermodal transportation costs, reducing the attractiveness of intermodal transportation compared to truck or other transportation modes, which could cause a decrease in demand for our services. Further, our ability to continue to expand our intermodal transportation business is dependent upon the railroads' ability to increase capacity for intermodal freight and provide consistent and reliable service. Our business could also be adversely affected by a work stoppage at one or more railroads or by adverse weather conditions or other factors that hinder the railroads' ability to provide reliable transportation services.

To date, the railroads have chosen to rely on us and other intermodal competitors to market their intermodal services rather than fully developing their own marketing capabilities. If one or more of the major railroads were to decide to reduce their dependence on us, the volume of intermodal shipments we arrange would likely decline, which could have a material adverse effect on our results of operations and financial condition.

If we fail to maintain and enhance our information technology systems, or if we fail to successfully implement new technology or enhancements, we may be at a competitive disadvantage and lose customers.

Hub Group continues to see technology as key to driving internal efficiencies as well as providing additional capabilities to customers and carriers. In addition, Hub Group's systems are critical to our operations and our ability to compete effectively as an intermodal provider, dedicated and drayage carrier, truck broker and logistics provider. We expect our customers to continue to demand more sophisticated technology-driven solutions from their suppliers and we must enhance or replace our information technology systems in response. This may involve significant research and development costs, implementation costs and potential challenges. To keep pace with changing technologies and customer demand, we are making investments in our technology, as well as investing in emerging technology to further drive innovation and efficiency. The back-office investments include implementing new order management, transportation management, contract management and financial management processes and systems. In a transformation of this size and scope we must mitigate risk by engaging external expertise and hiring internal experts. If we fail to successfully implement critical technology, if it does not provide the anticipated benefits or it does not meet market demands, we may be placed at a competitive disadvantage and could lose customers, materially adversely impacting our financial condition and results of operations.

Technology and new market entrants may also disrupt the way we and our competitors operate. As technology improves and new companies enter the freight brokerage market, our customers may be able to find alternatives to our services for matching shipments with available freight hauling capacity. We must continue to develop innovative emerging technologies to source, track and provide visibility to capacity while exploiting machine learning and artificial intelligence to further improve customer outcomes.

The inability to successfully implement our new enterprise resource planning system could materially adversely affect our business.

We may experience difficulties implementing our new ERP. We are engaged in a multi-year implementation of a new enterprise resource planning system. The ERP is designed to efficiently maintain our books and records and provide information important to the operation of our business to our management team. The ERP will continue to require significant investment of human and financial resources. In implementing the ERP, we may experience significant delays, increased costs and other difficulties. Any significant disruption or deficiency in the design and implementation of the ERP could adversely affect our ability to process orders, service customers, send invoices and track payments, fulfill contractual obligations, meet financial reporting obligations or otherwise operate our business.

Our information technology systems are subject to breaches in data security and other risks and the inability to use our information technology systems could materially adversely affect our business.

Our information technology systems are dependent upon global communications and cloud service providers, as well as their respective vendors, all of whom have at some point experienced significant system failures and outages in the past. These providers' systems are susceptible to outages from fire, floods, power loss, telecommunications failures, break-ins and similar events. Our infrastructure may also be vulnerable to computer viruses, malicious intrusion, random attacks and similar disruptions from unauthorized tampering with our computer systems. Failure to prevent or mitigate data loss or system intrusions from cyber-attacks or other security breaches, system failures or outages could expose us, our vendors, customers or third parties to a risk of loss or misuse of such information, which may adversely affect our operating results, result in litigation or otherwise harm our reputation or business. Likewise, data privacy breaches by employees and others who access our systems may pose a risk that sensitive customer, vendor or employee data may be exposed to unauthorized persons or to the public, materially adversely impacting our customer service, employee, customer and vendor relationships and our reputation.

The Company is continuously working to install new, and upgrade its existing, information technology systems and provide employee awareness training around phishing, malware, and other cyber risks to ensure that the Company is protected against cyber risks and security breaches. While we believe that we have taken appropriate security measures to protect our data and information technology systems and prevent data loss, there can be no assurance that our efforts may not prevent breakdowns or breaches in our systems that could result in a loss of customers or a reduction in demand for our services, or otherwise have a material adverse effect on our business.

We derive a significant portion of our revenue from our largest customers and the loss of one or more of these customers could have a material adverse effect on our revenue and business.

Our 10 largest customers accounted for approximately 41% of our total revenue in 2018, 36% in 2017 and 33% in 2016. While our dedicated and logistics businesses may involve long-term contracts, those contracts may contain cancellation clauses, and there is no assurance that our current customers will continue to utilize our services or continue at the same levels. A reduction in or termination of our services by one or more of our largest customers could have a material adverse effect on our revenue and business.

Our obligation to pay our carriers is not contingent upon receipt of payment from our clients and we extend credit to certain clients as part of our business model.

In most cases, we take full risk of credit loss for the transportation services we procure from carriers. Our obligation to pay our carriers is not contingent upon receipt of payment from our clients. If any of our key clients fail to pay for our services, our profitability would be negatively impacted.

Because our business is concentrated on intermodal services, any decrease in demand for intermodal transportation services compared to other transportation services could have an adverse effect on our results of operations.

We derived 60% of our revenue from our intermodal services in 2018, 60% in 2017 and 66% in 2016. As a result, any decrease in demand for intermodal transportation services compared to other transportation services could have a material adverse effect on our results of operations.

We operate in a highly competitive industry and our business may suffer if we are unable to adequately address potential downward pricing pressures and other competitive factors.

There are numerous competitive factors which could impair our ability to maintain our current profitability. We compete with many other transportation and logistics service providers, some of which have greater capital resources than we do. Some of our competitors periodically reduce their prices to gain business, and some of our competitors may have lower cost structures than we do, which may limit our ability to maintain or increase prices to preserve market share. Additionally, our customers may decide to in-source the services we currently provide for them using their own assets.

Relatively small increases in our transportation costs that we are unable to pass through to our customers are likely to have a significant effect on our gross margin and operating income.

Transportation costs represented 88% of our consolidated revenue in 2018, 89% in 2017 and 88% in 2016. Because transportation costs represent such a significant portion of our costs, any increases in the operating costs of railroads, trucking companies or drayage companies can be expected to result in higher freight rates. Transportation costs may increase if we are unable to sign on owner-operators or recruit employee drivers as this may increase driver costs or force us to use more expensive purchased transportation. The inability to pass cost increases to our customers is likely to have a significant effect on our gross margin and operating income.

An economic downturn and cyclical fluctuations in the economy could materially adversely affect our business.

Our operations and performance depend significantly on economic conditions. Uncertainty about United States and global economic conditions poses a risk as consumers and businesses may postpone spending in response to tighter credit, negative financial news and/or declines in income or asset values, which could have a material negative effect on demand for transportation services. We are unable to predict the likely duration and severity of disruptions in the financial markets and adverse economic conditions, and our business and results of operations could be materially and adversely affected. Other factors that could influence demand include fluctuations in fuel costs, labor costs, consumer confidence, and other macroeconomic factors affecting consumer spending behavior. We have little or no control over any of these factors or their effects on the transportation industry. Economic recession or a downturn in customers' business cycles also may have an adverse effect on our results of operations and growth by reducing demand for our services. Therefore, our results of operations, like the entire freight transportation industry, are cyclical and subject to significant period-to-period fluctuations. There could be a number of follow-on effects from a credit crisis on our business, including the insolvency of key transportation providers and the inability of our customers to obtain credit to finance development and/or manufacture products resulting in a decreased demand for transportation services. Our revenues and gross margins are dependent upon this demand, and if demand for transportation services declines, our revenues and gross margins could be adversely affected.

Although we believe we have adequate liquidity and capital resources to fund our operations internally, our inability to access the capital markets on favorable terms, or at all, may adversely affect our ability to engage in strategic transactions. The inability to obtain adequate financing from debt or capital sources could force us to self-fund strategic initiatives or even forgo certain opportunities, which in turn could potentially harm our performance.

Uncertainty about global economic conditions could also increase the volatility of our stock price.

We use a significant number of independent contractors, such as owner operators, in our businesses. Legislative, judicial and regulatory authorities may continue to take actions or render decisions that could affect the independent contractor classification, which could have a significant impact on our gross margin and operating income.

We do business with a large number of independent contractors, such as HGT owner-operators, consistent with longstanding industry practices. Legislative, judicial, and regulatory (including tax) authorities have taken actions and rendered decisions that could affect the independent contractor classifications. Class action and individual lawsuits have been filed against us and others in our industries, challenging the independent contractor classifications. See Item 3 - Legal Proceedings for further discussion and see Note 15 to the consolidated financial statements under “Legal Matters” for a description of material pending litigation and regulatory matters affecting us and certain risks to our business presented by such matters. If independent contractors are determined to be employees, or the Company a joint-employer of warehousemen used for our consolidation business, then we may incur legal liabilities associated with that determination, such as liability for unpaid wages, overtime, employee health insurance and taxes. If we were to change how we treat independent contractors or reclassify independent contractors to employees, then we would likely incur expenses associated with that reclassification and could incur additional ongoing expenses. The costs associated with these matters could have a material adverse effect on results of operations and our financial position.

Insurance and claims expenses could significantly reduce our earnings.

We maintain insurance, with a high self-insured retention, with licensed insurance companies. Our future insurance and claims expenses might exceed historical levels, which could reduce our earnings. If the number or severity of claims increases, our operating results could be adversely affected and the cost to renew our insurance could increase when our current coverage expires. If these expenses increase, and we are unable to offset the increase with higher freight rates to our customers, our earnings could be materially and adversely affected.

We are partially self-insured for certain losses related to employee medical coverage. Our self-insurance reserves may not be adequate to cover our medical claim liabilities.

We are partially self-insured for certain losses related to employee medical coverage, excluding employees covered by health maintenance organizations. We generally have an individual stop loss deductible per enrollee unless specific exposures are separately insured. We accrue a contingent liability based upon examination of historical trends, historical actuarial analysis, our claims experience, total plan enrollment (including employee contributions), population demographics, and other various estimates. Self-insurance reserves, net income, and cash flows could be materially affected if future claims differ significantly from our historical trends and assumptions.

We depend on third parties for equipment essential to operate our business, and if we fail to secure sufficient equipment, we could lose customers and revenue.

We depend on third parties for transportation equipment, such as tractors, containers, chassis, trailers and cross docks necessary for the operation of our business. Our industry has experienced equipment shortages in the past, particularly during the peak shipping season in the fall. A substantial amount of intermodal freight originates at or near the major West Coast ports, which have historically had the most severe equipment shortages. As an asset-light freight transportation management company, if we cannot secure sufficient transportation equipment at a reasonable price from third parties to meet our customers' needs, our customers may seek to have their transportation needs met by other providers with their own assets. This could have a material adverse effect on our business, results of operations and financial position.

The ability to hire or retain management and other key personnel

.

There is substantial competition for qualified personnel in the transportation services industry. Many individuals in the industry are required to sign non-competition agreements, severely limiting our ability to hire qualified personnel to compete in the market-place. As all key personnel devote their full time to our business, the loss of any member of our management team, or other key persons, or the inability to hire key persons, could have an adverse effect on us. We do not have written employment agreements with any of our executive officers and do not maintain key man insurance on any of our executive officers, although we do have non-competition agreements with them.

succession plan,

Our growth could be adversely affected if we are not able to successfully integrate acquisition prospects.

We believe that the failure to integrate an acquired business or assets could significantly impact financial results. We cannot guarantee that we will be able to execute and integrate acquisitions on commercially acceptable terms. Financial results most likely to be impacted include, but are not limited to, revenue, gross margin, salaries and benefits, selling general and administrative expenses, depreciation and amortization, interest expense, net income and our debt level.

Our business could be adversely affected by strikes or work stoppages by draymen, truckers, warehousemen, port workers and railroad workers.

There may be labor unrest, including strikes and work stoppages, among workers at various transportation providers and in industries affecting the transportation industry, such as port workers. We could lose business due to any significant work stoppage or slowdown and, if labor unrest results in increased rates for transportation providers such as draymen, we may not be able to pass these cost increases on to our customers. Strikes among longshoreman and clerical workers at ports in the past few years have slowed down the ports for a time, creating a major impact on the transportation industry. Work stoppages occurring among owner-operators in a specific market have increased our operating costs periodically in the past. In the past several years, there have been strikes involving railroad workers. Future strikes by railroad workers in the United States, Canada or anywhere else that our customers' freight travels by railroad would impact our operations. Any significant work stoppage, slowdown or other disruption involving port workers, railroad workers, truckers or draymen could adversely affect our business and results of operations.

The transportation industry is subject to government regulation, and regulatory changes could have a material adverse effect on our operating results or financial condition.

The Company and various subsidiaries, including Dedicated and CaseStack, are licensed by the Department of Transportation ("DOT") as motor carrier freight brokers. The DOT prescribes qualifications for acting in this capacity, including surety bond requirements. Our HGT and Dedicated subsidiaries are licensed by the DOT to act as motor carriers. The transportation industry is subject to DOT regulations regarding, among other things, driver breaks and "restart" rules that can affect the economics of the industry by requiring changes in operating practices or influencing the demand for, and cost of providing, transportation services. We are audited periodically by the DOT to ensure that we are in compliance with various safety, hours-of-service, and other rules and regulations. If we were found to be out of compliance, the DOT could levy fines and restrict or otherwise impact our operations. To date, compliance with these regulations has not had a material adverse effect on our results of operations or financial condition. We may also become subject to new or more restrictive regulations relating to carbon emissions under climate change legislation or limits on vehicle weight and size. Future laws and regulations may be more stringent and require changes in operating practices, influence the demand for transportation services or increase the cost of providing transportation services, any of which could materially adversely affect our business and results of operations.

We are not able to accurately predict how new governmental laws and regulations, or changes to existing laws and regulations, will affect the transportation industry generally, or us in particular. We are also unable to predict how the change in administration will affect government regulation of the transportation industry. Although government regulation that affects us and our competitors may simply result in higher costs that can be passed along to customers, that may not be the case.

Our operations may be subject to various environmental laws and regulations, the violation of which could result in substantial fines or penalties.

From time to time, we arrange for the movement of hazardous materials at the request of our customers. As a result, we may be subject to various environmental laws and regulations relating to the handling of hazardous materials. If we are involved in a spill or other accident involving hazardous materials, or if we are found to be in violation of applicable laws or regulations, we could be subject to substantial fines or penalties and to civil and criminal liability, any of which could have an adverse effect on our business and results of operations. The Company is also subject to certain Environmental Protection Agency ("EPA") and California Air Resources Board ("CARB") regulations. We may become subject to enforcement actions, new or more restrictive regulations, or differing interpretations of existing regulations, which may increase the cost of providing transportation services or adversely affect our results of operations.

Any attempt by the current administration to impose new tariffs, the future withdrawal from NAFTA or the withdrawal from or material modification of other international trade arrangements could adversely affect our business, financial condition and results of operations.

We arrange for the movement of freight, much of which originates from China, into and out of every major city in Mexico and Canada, and we import 53-foot intermodal containers manufactured in China. The potential withdrawal from the North American Free Trade Agreement ("NAFTA") and entry into the United States-Mexico-Canada Agreement ("USMCA"), any future withdrawal from other international trade arrangements, or the imposition of tariffs on imports of foreign-manufactured goods into the United States, could adversely affect our business, financial condition and results of operations. Additionally, the imposition of substantial tariffs on foreign-made intermodal containers or other products we utilize may increase the cost of providing transportation services or adversely affect our results of operations.

Changes in immigration laws could increase the costs of doing business or otherwise disrupt our operations.

We have hired individuals, including Information Technology ("IT") employees, from outside the United States. We have employee drivers and owner-operator drivers who are immigrants to the U.S. We engage third party consultants, including for various IT projects, who may utilize personnel from outside the United States. If immigration laws are changed or if new more restrictive government regulations are enacted or increased, our access to qualified and skilled personnel may be limited, the costs of doing business may increase and our operations may be disrupted.

We face litigation risks that could have a material adverse effect on the operation of our business.

We face litigation risks regarding a variety of issues, including without limitation, accidents involving our trucks and employees, alleged violations of federal and state labor and employment laws, securities laws, environmental liability and other matters. These proceedings may be time-consuming, expensive and disruptive to normal business operations. The defense of such lawsuits could result in significant expense and the diversion of our management's time and attention from the operation of our business. In recent years, several insurance companies have stopped offering coverage to trucking companies as a result of increases in the severity of automobile liability claims and higher costs of settlements and verdicts. This trend could adversely affect our ability to obtain suitable insurance coverage or could significantly increase our cost for obtaining such coverage, which would adversely affect our financial condition, results of operations, liquidity and cash flows. Costs we incur to defend or to satisfy a judgment or settlement of these claims may not be covered by insurance or could exceed the amount of that coverage or increase our insurance costs and could have a material adverse effect on our financial condition, results of operations, liquidity and cash flows.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 1C.EXECUTIVE OFFICERS OF THE REGISTRANT

In reliance on General Instruction G to Form 10-K, information on executive officers of the Registrant is included in this Part I. The table sets forth certain information as of February 1, 2019 with respect to each person who is an executive officer of the Company.

Name	Age	Position
David P. Yeager	65	Chairman of the Board of Directors and Chief Executive Officer
Donald G. Maltby	64	President, Chief Operating Officer and Director
Phillip D. Yeager	31	Chief Commercial Officer
Terri A. Pizzuto	60	Executive Vice President, Chief Financial Officer and Treasurer
Vava R. Dimond	52	Executive Vice President, Chief Information Officer
John C. Vesco	56	Executive Vice President, President of Hub Group Trucking
Brian D. Alexander	39	Executive Vice President, Unyson Logistics
Vincent C. Paperiello	48	Executive Vice President, Pricing and Yield Management
Douglas G. Beck	52	Executive Vice President, Secretary and General Counsel
Nicholas J. Hannigan	39	Executive Vice President, Truck Brokerage

David P. Yeager has served as our Chairman of the Board since November 2008 and as Chief Executive Officer since March 1995. From March 1995 through November 2008, Mr. Yeager served as Vice Chairman of the Board. From October 1985 through December 1991, Mr. Yeager was President of Hub Chicago. From 1983 to October 1985, he served as Vice President, Marketing of Hub Chicago. Mr. Yeager founded the St. Louis Hub in 1980 and served as its President from 1980 to 1983. Mr. Yeager founded the Pittsburgh Hub in 1975 and served as its President from 1975 to 1977. Mr. Yeager received a Masters in Business Administration degree from the University of Chicago in 1987 and a Bachelor of Arts degree from the University of Dayton in 1975. Mr. Yeager is the father of Phillip D. Yeager.

Donald G. Maltby was appointed a Director of the Company in May 2016 and President and Chief Operating Officer in September 2015. Mr. Maltby served as Chief Supply Chain Officer of Hub Supply Chain Solutions from January 2011 to May 2014. From February 2004 to December 2010, Mr. Maltby served as Executive Vice President-Logistics Services. Mr. Maltby previously served as President of Hub Online, our e-commerce division, from February 2000 through January 2004. Mr. Maltby also served as President of Hub Cleveland from July 1990 through January 2000 and from April 2002 to January 2004. Prior to joining Hub Group, Mr. Maltby served as President of Lyons Transportation, a wholly owned subsidiary of Sherwin Williams Company, from 1988 to 1990. In his career at Sherwin Williams, which began in 1981 and continued until he joined us in 1990, Mr. Maltby held a variety of management positions including Vice-President of Marketing and Sales for its Transportation Division. Mr. Maltby has been in the transportation and logistics industry since 1976, holding various executive and management positions. Mr. Maltby received a Masters in Business Administration from Baldwin Wallace College in 1982 and a Bachelor of Science degree from the State University of New York in 1976.

Phillip D. Yeager was named Chief Commercial Officer in January 2018 after serving as Executive Vice President, Account Management and Intermodal Operations since January 2016. Mr. Yeager previously served as Vice President of Account Management and Business Development from February 2014 to January 2016. Mr. Yeager is responsible for managing Hub Group's overall customer experience, including customer service, intermodal operations and rail relationships. Mr. Yeager joined Hub Group in 2011 as the Director of Strategy and Acquisitions to focus on strategic initiatives and acquisitions throughout the company. Prior to joining Hub Group, Mr. Yeager served as Assistant Vice President of Commercial Banking at BMO Harris Bank, and as an investment banking analyst for Lazard Freres & Co. Mr. Yeager earned his Bachelor of Arts degree from Trinity College in Hartford, Connecticut, and a Master of Business Administration from the University of Chicago Booth School of Business. Mr. Yeager is the son of David P. Yeager.

Terri A. Pizzuto has been our Executive Vice President, Chief Financial Officer and Treasurer since March 2007. Prior to this promotion, Ms. Pizzuto was Vice President of Finance from July 2002 through February 2007. Prior to joining us, Ms. Pizzuto was a partner in the Assurance and Business Advisory Group at Arthur Andersen LLP. Ms. Pizzuto worked for Arthur Andersen LLP for 22 years holding various positions and serving numerous transportation companies. Ms. Pizzuto received a Bachelor of Science in Accounting from the University of Illinois in 1981. Ms. Pizzuto is a CPA and a member of the American Institute of Certified Public Accountants.

Vava R. Dimond was named an Executive Vice President of the Company in May 2016 and Chief Information Officer in April 2015 after serving as the Interim Chief Information Officer since September 2014. Ms. Dimond began her career with Hub Group in June 2013 as the Vice President of Business Engineering, responsible for overseeing Hub Group's Business Intelligence, Business Engineering and Program Management projects and processes. Previously, Ms. Dimond spent 16 years with Schneider National and held several leadership positions within IT, most recently serving as Vice President of Technology Services. Ms. Dimond earned her Bachelor of Science degree in Economics from South Dakota State University in 1991. Ms. Dimond is the spouse of Mr. John C. Vesco.

John C. Vesco was named Executive Vice President, President of Hub Group Trucking in January 2016. Mr. Vesco has led Hub Group Trucking's operations as its President since January 2015, after serving as Executive Vice President of Hub Group Trucking from March 2012 to December 2014. Prior to joining Hub Group, Mr. Vesco held several management positions with Schneider National, most recently as Vice President and General Manager of Schneider Logistics. Mr. Vesco earned a Bachelor of Arts degree in Finance and Business Administration from Walsh University and a Master of Business Administration degree from Silver Lake College. Mr. Vesco is the spouse of Ms. Vava R. Dimond.

Brian D. Alexander was named Executive Vice President of Unyson Logistics in September 2015. Before being named Executive Vice President, Mr. Alexander served as Vice President of Operations of Unyson Logistics from December 2010 to September 2015 and was responsible for the operational execution and excellence for Fortune 500 manufacturing, retail and consumer packaged goods clients. Prior to that, Mr. Alexander was Unyson's Senior Director of Strategic Accounts, where he had a ten-year history of managing and directing continuous improvement initiatives for key accounts. Mr. Alexander earned a Bachelor's degree in Business Administration from Marquette University and Master of Business Administration degree from Cardinal Stritch University.

Vincent C. Paperiello was named Executive Vice President, Pricing and Yield Management in February 2016 after serving as Vice President, Pricing and Yield Management from March 2014 to February 2016. Since joining Hub Group in 1993, Mr. Paperiello has held a variety of operational, logistics management and business intelligence positions with the Company. In his current role, he is responsible for intermodal and regional trucking pricing strategy and execution, along with rail relations. Mr. Paperiello received a Bachelor of Arts degree in History from Western Illinois University and a Master of Business Administration – Finance degree from DePaul University, graduating with honors both times.

Douglas G. Beck was named Executive Vice President, Secretary and General Counsel in May 2016, after serving as Vice President, Secretary and General Counsel since July 2015, and Interim General Counsel since January 2015. In his role, Mr. Beck is responsible for managing the Legal, Human Resources and Compliance departments. Mr. Beck began his career with Hub Group in June 2011 as Assistant General Counsel. Prior to joining Hub Group, Mr. Beck was a Senior Attorney with Alberto-Culver Company from 2007 to 2011. Mr. Beck previously held counsel positions at Navistar International Corporation, Allegiance Healthcare Corporation and Seyfarth Shaw. Mr. Beck earned a Bachelor of Arts degree from the University of Illinois in 1987 graduating summa cum laude and received his Juris Doctor from Northwestern University School of Law in 1992.

Nicholas J. Hannigan was named Executive Vice President, Truck Brokerage in September 2018 after serving as Senior Vice President, Account Management since February 2018, and Vice President, Account Management upon joining Hub Group in January 2016. Mr. Hannigan joined Hub Group from Echo Global Logistics, where he held several roles including developing and executing Echo's Managed Transportation solution and, most recently, as Vice President of Corporate Development. Prior to joining Echo, Mr.

Hannigan was a management consultant with a boutique firm in Chicago and participated in management development program with McMaster-Carr. Mr. Hannigan graduated from University of Chicago with an AB in Economics.

Directors of the Registrant

In addition to David P. Yeager and Donald G. Maltby, the following six individuals are also on our Board of Directors: James C. Kenny – Director of Kenny Industries, LLC, an asset holding company, and Director of Kerry Group, PLC, a company traded on the London and Dublin stock exchanges; Peter B. McNitt – former Vice Chair of BMO Harris Bank, a United States bank; Charles R. Reaves – Chief Executive Officer of Reaves Enterprises, Inc., a real estate development company; Martin P. Slark – former Chief Executive Officer of Molex Incorporated, a manufacturer of electronic, electrical and fiber optic interconnection products and systems; Jonathan P. Ward – Operating Partner at Kohlberg & Co., a leading U.S. private equity firm; and Mary H. Boosalis – President and CEO of Premier Health, a health network in the Dayton, OH region.

Item 2. PROPERTIES

As of December 31, 2018, we directly, or indirectly through our subsidiaries, operated 33 offices throughout the United States, Canada and Mexico, including our headquarters in Oak Brook, Illinois and our HGT terminals located throughout the United States. We have corporate offices in Mesa, AZ, Fayetteville, AR and Santa Monica, CA. All of our office space except for our corporate headquarters is leased. Most office leases have initial terms of more than one year, and many include options to renew. While some of our leases expire in the near term, we do not believe that we will have difficulty in renewing them or in finding alternative office space. We believe that our offices are adequate for the purposes for which they are currently used.

Item 3. LEGAL PROCEEDINGS

We are a party to litigation incident to our business, including claims for personal injury and/or property damage, bankruptcy preference claims, and claims regarding freight lost or damaged in transit, improperly shipped or improperly billed. 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 defend those ourselves. We do not believe that the outcome of this litigation will have a materially adverse effect on our financial position or results of operations. See Item 1 Business—Risk Management and Insurance and see Note 15 to the consolidated financial statements under “Legal Matters” for a detailed discussion of our ongoing legal proceedings.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANTS COMMON EQUITY AND RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Class A Common Stock ("Class A Common Stock") trades on the NASDAQ Global Select Market tier of the NASDAQ Stock Market under the symbol "HUBG." There is no established trading market for shares of our Class B Common Stock (the "Class B Common Stock" together with the Class A Common Stock, the "Common Stock"). Set forth below are the high and low closing prices for shares of the Class A Common Stock for each full quarterly period in 2018 and 2017.

	2018		2017	
	High	Low	High	Low
First Quarter	$52.25	$40.30	$52.50	$41.55
Second Quarter	$54.46	$38.40	$47.80	$33.45
Third Quarter	$56.60	$44.90	$43.85	$33.17
Fourth Quarter	$49.35	$34.02	$48.90	$37.90

On February 22, 2019, there were approximately 459 stockholders of record of the Class A Common Stock and, in addition, there were an estimated 8,972 beneficial owners of the Class A Common Stock whose shares were held by brokers and other fiduciary institutions. On February 22, 2019, there were 9 holders of record of our Class B Common Stock.

We were incorporated in 1995 and have never paid cash dividends on either the Class A Common Stock or the Class B Common Stock. The declaration and payment of dividends are subject to the discretion of the Board of Directors. Any determination as to the payment of dividends will depend upon our results of operations, capital requirements and financial condition of the Company, and such other factors as the Board of Directors may deem relevant. Accordingly, there can be no assurance that the Board of Directors will declare or pay cash dividends on the shares of Common Stock in the future. Our certificate of incorporation requires that any cash dividends must be paid equally on each outstanding share of Class A Common Stock and Class B Common Stock. Our credit facility prohibits us from paying dividends on the Common Stock if there has been, or immediately following the payment of a dividend there would be, a default or an event of default under the credit facility. We are currently in compliance with the covenants contained in the credit facility.

Performance Graph

The following line graph compares the Company's cumulative total stockholder return on its Class A Common Stock since December 31, 2013 with the cumulative total return of the Nasdaq Stock Market Index (NQUSBT) and the Nasdaq Trucking and Transportation Index (NQUSB27707). These comparisons assume the investment of $100 on December 31, 2013 in each index and in the Company's Class A Common Stock and the reinvestment of dividends.

Item 6.SELECTED FINANCIAL DATA
Selected Financial Data

(in thousands except per share data)

	Years Ended December 31,				
	2018 (1)	2017 (2)	2016	2015	2014
Statement of Income Data:					
Revenue	$3,683,593	$3,123,063	$2,750,449	$2,699,236	$2,747,188
Gross margin	445,601	337,630	331,319	295,725	264,313
Operating income	124,919	72,669	96,557	90,983	61,525
Income from continuing operations before provision for income taxes	116,726	66,931	94,027	85,973	59,557
Income from continuing operations, net of income taxes	87,661	120,014	57,646	54,954	37,677
Income from discontinued operations net of income taxes	114,079	15,139	17,159	15,995	13,881
Net income	201,740	135,153	74,805	70,949	51,558
Earnings per share from continuing operations					
Basic	$2.62	$3.61	$1.70	$1.53	$1.03
Diluted	$2.61	$3.60	$1.70	$1.53	$1.03
Earnings per share from discontinued operations					
Basic	$3.42	$0.46	$0.51	$0.45	$0.38
Diluted	$3.40	$0.45	$0.51	$0.44	$0.37
Earnings per share from net income					
Basic	$6.04	$4.07	$2.21	$1.98	$1.41
Diluted	$6.01	$4.05	$2.20	$1.97	$1.40

	As of December 31,				
	2018 (1)	2017 (2)	2016	2015	2014
Balance Sheet Data:					
Total assets	$1,924,898	$1,670,941	$1,360,259	$1,301,146	$1,212,127
Long-term debt, including capital lease	233,810	222,504	126,105	114,194	88,397
Stockholders' equity	980,834	769,872	628,179	647,840	600,784

(1) Includes the results of operations for CaseStack from December 3, 2018, the date of its merger with a subsidiary of Hub Group, Inc.
(2) Includes the results of operations for Dedicated from July 1, 2017, the date of its acquisition by HGT.

On August 31, 2018, Hub entered into the Purchase Agreement with Purchaser, pursuant to which the Company sold all of the issued and outstanding membership interests of Mode to Purchaser. In our 2018 consolidated financial statements Mode is presented as discontinued operations for that year and all prior periods presented. The balance sheet data above includes Mode's assets for the years 2016, 2015 and 2014. In 2017, Mode's assets were classified as held for sale. The selected financial data for 2018 and prior years reflect Mode as discontinued operations. Refer to the Note 4 Discontinued Operations for additional information regarding the sale of Mode.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EXECUTIVE SUMMARY

We are a world class provider of multimodal logistics solutions. We offer comprehensive intermodal, truck brokerage, dedicated trucking and logistics services. We operate through a nationwide network of operating centers.

We also arrange for the transportation of freight by truck, providing customers with another option for their transportation needs. We match our 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 dedicated service line, Dedicated, contracts with customers looking to outsource a portion of their transportation needs. We offer a dedicated fleet of equipment and drivers, as well as the management and infrastructure to operate according to the customers' high service expectations.

Our logistics line of business 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. Our acquisition of CaseStack added consolidation and warehousing services that are marketed to consumer-packaged goods companies who serve the North American retail channel.

Hub has 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.

Hub's multimodal solutions group works with pricing, account management and operations to enhance Hub's customer margins across all lines of business. We are working on margin enhancement projects including pricing optimization, matching of inbound and outbound loads, reducing empty miles, improving our recovery of accessorial costs, optimizing our drayage costs, reducing repositioning costs, providing holistic solutions and reviewing and improving low profit freight.

Hub's top 50 customers represent approximately 68% of revenue for the year ended December 31, 2018. 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, customer service, cost per load and daily sales outstanding by customer account. Vendor cost changes and vendor service issues are also monitored closely.

Strategic Transactions

On August 31, 2018, we sold the membership interests of our Mode Transportation, LLC ("Mode") subsidiary to an affiliate of York Capital Management ("Purchaser"). Mode's temperature protected division ("Temstar") was not included in the transaction and is now included in our intermodal line of business.

Prior to the decision to sell Mode, Hub historically reported two distinct and reportable business segments. As a result of the decision to sell Mode, which is now classified as discontinued operations, we have one reporting segment. Revenue and costs related to Hub's business that did not comprise Mode are reported within results from continuing operations. All revenues and costs related to Mode's business are presented in results from discontinued operations. Prior year information has been adjusted to conform with the current presentation. Unless otherwise stated, the information disclosed in Management's Discussion and Analysis refers to continuing operations. See Note 4 of the Consolidated Financial Statements for additional information regarding results from discontinued operations.

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RESULTS OF OPERATIONS

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

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

	Twelve Months Ended December 31, 2018	Twelve Months Ended December 31, 2017
Intermodal	$2,195,316	$1,870,873
Truck brokerage	497,282	481,635
Logistics	698,138	655,543
Dedicated	292,857	115,012
Total revenue	$3,683,593	$3,123,063

The following is a summary of operating results and certain items in the consolidated statements of income as a percentage of revenue:

	Twelve Months Ended December 31,			
	2018		2017	
Revenue	$3,683,593	100.0%	$3,123,063	100.0%
Transportation costs	3,237,992	87.9%	2,785,433	89.2%
Gross margin	445,601	12.1%	337,630	10.8%
Costs and expenses:				
Salaries and benefits	222,786	6.0%	175,567	5.6%
General and administrative	81,272	2.2%	77,239	2.5%
Depreciation and amortization	16,624	0.5%	12,155	0.4%
Total costs and expenses	320,682	8.7%	264,961	8.5%
Operating income	$124,919	3.4%	$72,669	2.3%

Revenue

Hub's revenue increased 17.9% to $3.7 billion in 2018 from $3.1 billion in 2017. Intermodal revenue increased 17.3% to $2.2 billion primarily due to improved pricing, 4.3% higher volume, and higher fuel revenue. Truck brokerage revenue increased 3.2% to $497.3 million due to a 5.8% increase in fuel, mix and price combined, partially offset by a 2.6% decrease in volume. Logistics revenue increased 6.5% to $698.1 million related primarily to growth with existing customers and the addition of CaseStack. Dedicated's revenue increased 154.6% to $292.9 million due primarily to having a full year of results in 2018 versus six months of results in 2017 and growth with new customers.

Transportation Costs

Hub's transportation costs increased to $3.2 billion in 2018 from $2.8 billion in 2017. Transportation costs in 2018 consisted of purchased transportation costs of $2.6 billion and equipment and driver related costs of $607.8 million compared to 2017, which consisted of purchased transportation costs of $2.3 billion and equipment and driver related costs of $449.8 million. The 12.6% increase in purchased transportation costs was due primarily to rail cost increases, an increase in fuel costs, higher third-party carrier costs, higher volumes primarily in intermodal, and the addition of CaseStack. Equipment and driver related costs increased 35.1% in 2018 due primarily to having a full year of results in 2018 versus six months of results in 2017 for Dedicated.

Gross Margin

Hub's gross margin increased 32.0% to $445.6 million in 2018 from $337.6 million in 2017. The $108.0 million gross margin increase was the result of increases in all lines of business. Intermodal gross margin increased primarily due to improved pricing and higher volume. Partially offsetting the intermodal margin growth were higher rail and drayage costs. Truck brokerage gross margin increased due to growth with strategic customers and increased spot activity. Logistics gross margin increased due to the addition of CaseStack partially offset by lost customers and changes in customer mix. Dedicated gross margin increased due to having a full year of results in 2018 versus six months of results in 2017.

As a percentage of revenue, gross margin increased to 12.1% in 2018 from 10.8% in 2017. Intermodal gross margin as a percentage of sales increased 220 basis points due to improved prices, partially offset by rail and drayage cost increases. Average rail transit times were up 0.7 days which negatively impacted our results. Truck brokerage gross margin as a percentage of sales was flat due primarily increased purchase transportation costs and changes in customer mix. Logistics gross margin as a percentage of sales was flat due to changes in customer mix. Dedicated gross margin as a percentage of sales decreased 550 basis points due to increased costs for third party carriers, temporary drivers, rented trucks and higher start-up costs associated with new customers.

CONSOLIDATED OPERATING EXPENSES

Salaries and Benefits

Hub's salaries and benefits increased to $222.8 million in 2018 from $175.6 million in 2017. As a percentage of revenue, Hub's salaries and benefits increased to 6.0% in 2018 from 5.6% in 2017.

Hub's salaries and benefits increase of $47.2 million was due primarily to an increase in bonus expense of $23.9 million, a $13.6 million increase related to including Dedicated employees for twelve months in 2018 versus six months in 2017, increases of $4.6 million for restricted stock, an increase of $2.5 million for payroll taxes, and additional increases of $1.7 million for commissions, $0.6 million for employee benefits and $0.3 million for salaries.

Hub's headcount as of December 31, 2018 and 2017 was 2,312 and 1,923, respectively, which excludes drivers, as driver costs are included in transportation costs. The increase in Hub's headcount is primarily due to the acquisition of CaseStack.

General and Administrative

Hub's general and administrative expenses increase to $81.3 million in 2018 from $77.2 million in 2017. As a percentage of revenue, these expenses decreased to 2.2% in 2018 from 2.5% in 2017.

The increase of $4.1 million in general and administrative expense was due primarily to the $10.8 million increase for the addition of Dedicated for twelve months in 2018 versus six months in 2017, partially offset by income from a decrease of $4.7 million in the Dedicated contingent consideration, a decrease in travel expense of $1.0 million, a decrease in IT maintenance and office equipment expense of $0.7 million and a decrease in bad debt expense of $0.4 million.

Depreciation and Amortization

Hub's depreciation and amortization increased to $16.6 million in 2018 from $12.2 million in 2017. This expense as a percentage of revenue increased to 0.5% in 2018 from 0.4% in 2017. This increase is primarily due to an additional $1.8 million of amortization due to Dedicated having twelve months of results in 2018 versus six months in 2017, amortization of $0.9 million for the addition of CaseStack, as well as an increase of $1.7 million of software depreciation expense.

Other Income (Expense)

Hub's other expense increased to $8.2 million in 2018 from $5.7 million in 2017 due primarily to an increase in interest expense due to the addition of Dedicated's equipment loans for twelve months in 2018 versus six months in 2017, partially offset by an increase in interest income. The interest income resulted from having a large cash balance between the sale of Mode on August 31, 2018 and the purchase of CaseStack on December 3, 2018.

Provision for Income Taxes

The provision for income taxes increased to an expense of $29.1 million in 2018 from a benefit $53.1 million in 2017 due primarily to the favorable impact on income tax expense from the revaluation of deferred tax liabilities as a result of the enactment of the U.S. Tax Cuts and Jobs Act (the "Act") in 2017. Our effective tax rate was an expense of 24.9% in 2018 and a benefit of 79.3% in 2017.

Net Income

Net income decreased to $87.7 million in 2018 from $120.0 million in 2017 due primarily to the revaluation of deferred tax liabilities in connection with the Act, resulting in an income tax benefit in 2017 and higher operating expenses, partially offset by higher margin.

	Twelve months ended December 31		
	2018	2017	2016
Income from discontinued operations before gain on sale of Mode	$16,454	$24,006	$27,394
Gain on sale of Mode	132,448	-	-
Income from discontinued operations before income taxes	148,902	24,006	27,394
Provision for income taxes	34,823	8,867	10,235
Income from discontinued operations	$114,079	$15,139	$17,159

19

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

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

	Twelve Months Ended December 31,	
	2017	2016
Intermodal	$1,870,873	$1,803,974
Truck brokerage	481,635	389,700
Logistics	655,543	556,775
Dedicated	115,012	-
Total revenue	$3,123,063	$2,750,449

The following is a summary of operating results and certain items in the consolidated statements of income as a percentage of revenue:

	Twelve Months Ended December 31,			
	2017		2016	
Revenue	$3,123,063	100.0%	$2,750,449	100.0%
Transportation costs	2,785,433	89.2%	2,419,130	88.0%
Gross margin	337,630	10.8%	331,319	12.0%
Costs and expenses:				
Salaries and benefits	175,567	5.6%	166,118	6.0%
General and administrative	77,239	2.5%	60,932	2.2%
Depreciation and amortization	12,155	0.4%	7,712	0.3%
Total costs and expenses	264,961	8.5%	234,762	8.5%
Operating income	$72,669	2.3%	$96,557	3.5%

Revenue

Hub's revenue increased 13.5% to $3.1 billion in 2017 from $2.8 billion in 2016. Intermodal revenue increased 3.7% primarily due to higher fuel revenue, 1.1% higher volume and favorable mix, partially offset by a decrease in customer pricing. Truck brokerage revenue increased 23.6% to $481.6 million due to an 8.8% increase volume and a 14.8% increase in fuel, mix and price combined. Logistics revenue increased 17.7% to $655.5 million related primarily to new customers on-boarded during the year. Dedicated revenue was $115.0 million from the date of acquisition to December 31, 2017.

Transportation Costs

Hub's transportation costs increased to $2.8 billion in 2017 from $2.4 billion in 2016. The increase was primarily due to an increase in rail and fuel costs and higher volumes. Transportation costs in 2017 consisted of purchased transportation costs of $2.3 billion and equipment and driver related costs of $449.8 million compared to 2016 which consisted of purchased transportation costs of $2.1 billion and equipment and driver related costs of $360.4 million. This increase is primarily due to the equipment and driver related costs of Dedicated.

Gross Margin

Hub's gross margin increased 1.9% to $337.6 million in 2017 from $331.3 million in 2016. Hub Group's gross margin as a percentage of revenue decreased to 10.8% in 2017 from 12.0% in 2016.

Hub Group's gross margin increase resulted from the addition of Dedicated and growth in truck brokerage margin, partially offset by decreases in intermodal and logistics margin. Truck brokerage gross margin increased due to changes in customer mix and more spot business. Intermodal gross margin decreased primarily because of lower customer prices than last year and rail cost increases partially offset by slightly improved volume. Logistics gross margin decreased due to tighter truck capacity that resulted in higher purchased transportation costs and changes in customer mix.

CONSOLIDATED OPERATING EXPENSES

Salaries and Benefits

Hub’s salaries and benefits increased to $175.6 million in 2017 from $166.1 million in 2016. The increase was due primarily to the acquisition of Dedicated. In addition, increases in salaries expense of $9.0 million, related to employee raises and higher severance expense of $3.1 million, an increase in compensation expense related to restricted stock awards of $1.3 million and an increase in employee benefits expense of $1.0 million, which were partially offset by decreases in employee bonus expense of $14.3 million, payroll taxes of $0.5 million and sales commissions of $0.3 million. As a percentage of revenue, Hub’s salaries and benefits decreased to 5.6% from 6.0% in 2016.

Hub’s headcount as of December 31, 2017 and 2016 was 1,923 and 1,667, respectively, which excludes drivers, as driver costs are included in transportation costs. The increase was primarily a result of the Dedicated acquisition.

General and Administrative

Hub’s general and administrative expenses increased to $77.2 million in 2017 from $60.9 million in 2016. As a percentage of revenue, these expenses increased to 2.5% in 2017 from 2.2% in 2016.

The increase of $16.3 million in general and administrative expense was due partly to the acquisition of Dedicated and increases in IT consulting and professional service expense of $4.0 million, expenses related to due diligence and acquisition costs of $1.7 million, increases in temporary labor expense of $1.1 million, increased IT maintenance expense of $0.9 million, a change in the gain/loss on sale of assets of $0.9 million, expenses related to a network optimization study of $0.6 million in 2017, increases in rent expense of $0.6 million, equipment lease expense of $0.3 million, and bad debt expense of $0.2 million, partially offset by decreases in outside sales commissions of $0.4 million and meals and entertainment of $0.2 million.

Depreciation and Amortization

Hub’s depreciation and amortization increased to $12.2 million in 2017 from $7.7 million in 2016. This increase was related primarily to the amortization of the Dedicated trade name and customer relationships as well as depreciation of additional computer software.

Other Income (Expense)

Hub’s other expense increased to $5.7 million in 2017 from $2.5 million in 2016 due primarily to the additional interest expense related to the acquisition of Dedicated, an increase in interest expense related to our equipment debt and less foreign currency translation gains in 2017.

Provision for Income Taxes

The provision for income taxes decreased to a benefit of $53.1 million in 2017 from an expense of $36.4 million in 2016 due primarily to the favorable impact on income tax expense from the revaluation of deferred tax liabilities as a result of the enactment of the U.S. Tax Cuts and Jobs Act (the “Act”). Our effective tax rate was a benefit of 79.3% in 2017 and an expense of 38.7% in 2016.

Net Income

Net income increased to $120.0 million in 2017 from $57.6 million in 2016 to the revaluation of deferred tax liabilities in connection with the Act, resulting in an income tax benefit in 2017 and increased margin, partially offset by higher operating expenses.

Results from discontinued operations

Results associated with Mode are classified as income from discontinued operations, net of taxes, in our Consolidated Statements of Income. Prior year results have been adjusted to conform to current presentation. Below is a summary of results from discontinued operations for the twelve months ended December 31, 2018, 2017 and 2016.

	Twelve months ended December 31		
	2018	2017	2016
Income from discontinued operations before gain on sale of Mode	$16,454	$24,006	$27,394
Gain on sale of Mode	132,448	-	-
Income from discontinued operations before income taxes	148,902	24,006	27,394
Provision for income taxes	34,823	8,867	10,235
Income from discontinued operations	$114,079	$15,139	$17,159

LIQUIDITY AND CAPITAL RESOURCES

During 2018, we funded operations, capital expenditures, capital leases, repayments of debt, the acquisition of CaseStack and the purchase of our stock related to employee withholding upon vesting of restricted stock through cash flows from operations, proceeds from the sale of Mode, issuance of long-term debt and cash on hand. We believe that our cash, cash flows from operations and borrowings available under our Credit Agreement will be sufficient to meet our cash needs for at least the next twelve months.

Cash provided by operating activities for the year ended December 31, 2018 was approximately $210.8 million, which resulted primarily from income of $201.7 million and operating assets and liabilities of $16.2 million, offset by the transaction costs for the disposition of $5.8 million and non-cash charges of $1.3 million.

Cash provided by operating activities increased $85.6 million in 2018 versus 2017. The increase was due to higher net income in 2018 of $66.6 million and a $57.2 million change in operating assets and liabilities, partially offset by $32.4 million of non-cash items and $5.8 million of transaction costs related to the Disposition in 2018. The positive change in operating assets and liabilities of $57.2 million was caused by increases in the change of accounts receivable of $53.3 million, accrued expenses of $46.4 million, prepaid expenses of $5.8 million and restricted investments of $4.1 million as well as a decrease in the cash used for prepaid taxes of $23.3 million. These increases were partially offset by decreases in accounts payable of $53.5 million due to the timing of vendor payments, non-current liabilities of $14.1 million and other assets of $8.1 million. The decrease in non-cash charges primarily resulted from the gain on Disposition of $132.5 million plus the $4.7 million contingent consideration adjustment and the higher gain of the sale of equipment of $1.4 million, partially offset by increases in deferred taxes of $80.9 million, depreciation and amortization of $21.7 million and compensation expense related to stock-based compensation plans of $3.6 million.

Cash provided by operating activities increased $22.7 million in 2017 versus 2016. The increase was due primarily to higher net income in 2017 of $60.3 million resulting primarily from a revaluation of deferred tax liabilities in connection with the recently enacted Tax Cuts and Job Act. As a result of this deferred tax revaluation, non-cash charges decreased by $34.6 million which included a change in deferred tax liabilities of $55.1 million partially offset by an increase in depreciation and amortization expense of $17.5 million. The negative change in operating assets and liabilities of $3.0 million was caused by a decrease in the change of accrued expenses of $12.2 million, an increase in the cash used for prepaid taxes of $11.9 million and prepaid expenses of $8.7 million, partially offset by an increase in the change of accounts payable of $23.3 million due to the timing of vendor payments.

Net cash used in investing activities for the year ended December 31, 2018 was $209.5 million which includes acquisition payments related to CaseStack of $248.7 million and capital expenditures of $199.8 million. Proceeds included $228.0 million from the Disposition and $11.0 million from the sale of equipment. Capital expenditures of $199.8 million included tractor purchases of $96.0 million, containers of $42.5 million, transportation equipment of $33.6 million, technology investments of $26.5 million and the remainder for leasehold improvements.

Capital expenditures increased by approximately $125.3 million in 2018 as compared to 2017. The 2018 increase was due to increases in tractor purchases of $80.6 million, transportation equipment of $20.8 million, containers of $17.5 million and technology investments of $7.5 million, offset by less leasehold improvements.

Net cash used in investing activities for the year ended December 31, 2017 was $235.1 million which includes acquisition payments related to Dedicated of $165.9 million, capital expenditures of $74.5 million and proceeds from the sale of equipment of $5.3 million. Capital expenditures of $74.5 million included containers of $25.0 million, technology investments of $19.0 million, tractor purchases of $15.4 million, transportation equipment of $12.8 million, and the remainder for leasehold improvements.

In 2019, we estimate capital expenditures will range from $90 million to $100 million. We expect equipment purchases to range from $70 million to $75 million and technology investments will range from $20 million to $25 million.

Net cash provided by financing activities for the year ended December 31, 2018 was $31.6 million which includes proceeds from the issuance of debt $172.1 million, offset by repayments of long-term debt of $133.4 million, cash for stock tendered for payments of withholding taxes of $4.3 million and capital lease payments of $2.8 million.

The $20.5 million increase in cash provided by financing activities for 2018 compared to 2017 was primarily due to the increase in proceeds from the issuance of debt of $73.6 million and less debt issuance costs of $1.4 million, partially offset by increases in debt payments of $53.6 million and cash used for purchase of our stock related to employee withholding taxes of $0.9 million.

Net cash provided by financing activities for the year ended December 31, 2017 was $11.1 million which includes proceeds from the issuance of debt $98.5 million, offset by repayments of long-term debt of $79.9 million, cash for stock tendered for payments of withholding taxes of $3.4 million, capital lease payments of $2.8 million and payment of debt issuance costs of $1.4 million.

Cash paid for income taxes of $13.6 million was less than our income tax expense of $29.1 million. This was a result of significant favorable timing differences, primarily related to depreciation. We expect our cash paid for income taxes in 2019 to be less than our income tax expense as a result of favorable timing differences.

See Note 11 of the consolidated financial statements for details related to interest rates and commitment fees.

We have standby letters of credit that expire in 2019. As of December 31, 2018, our letters of credit were $27.0 million.

As of December 31, 2018, we had no borrowings under our bank revolving line of credit and our unused and available borrowings were $323.0 million. Our unused and available borrowings were $284.9 million as of December 31, 2017. We believe our line of credit is adequate to meet our cash needs. We were in compliance with our debt covenants as of December 31, 2018.

CONTRACTUAL OBLIGATIONS

Aggregated information about our obligations and commitments to make future contractual payments, such as debt and lease obligations, and contingent commitments as of December 31, 2018 is presented in the following table (in thousands).

Future Payments Due:

	Capital Lease	Operating Leases and Other Commitments	Long Term Debt	Total
2019	$3,091	$ 14,942	$101,713	$119,746
2020	3,099	11,879	83,589	98,567
2021	1,795	9,308	65,521	76,624
2022	-	8,350	49,327	57,677
2023	-	6,770	29,507	36,277
2024 and thereafter	-	9,831	1,127	10,958
	$7,985	$ 61,080	$330,784	$399,849

Deferred Compensation

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

Future Payments Due:

2019	$2,523
2020	2,593
2021	1,633
2022	1,135
2023	833

2024 and thereafter	10,227
	$18,944

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. The following is a brief discussion of the more significant accounting policies and estimates. These critical accounting policies are further discussed in Note 1 of the consolidated financial statements.

Revenue Recognition

On January 1, 2018 we adopted the Accounting Standards Codification (ASC) topic 606, Revenue from Contracts with Customers. Under this new standard our significant accounting policy for revenue is as follows:

Revenue: Revenue is recognized when we transfer services to our customers in an amount that reflects the consideration we expect to receive. We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. We generally recognize revenue over time because of continuous transfer of control to the customer. Since control is transferred over time, revenue and related transportation costs are recognized based on relative transit time, which is based on the extent of progress towards completion of the related performance obligation. We enter into contracts that can include various combinations of services, which are capable of being distinct and accounted for as separate performance obligations. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue. Further, in most cases, we report our revenue on a gross basis because we are the primary obligor as we are responsible for providing the service desired by the customer. Our customers view 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, the amount we earn varies. In addition, we have the discretion to select our vendors from multiple suppliers for the services ordered by our customers. These factors, discretion in setting prices and discretion in selecting vendors, further support reporting revenue on a gross basis for most of our revenue.

Allowance for Uncollectible Trade Accounts Receivable

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 collectability based on historical trends and an evaluation based on current economic conditions. Annually we review, in hindsight, the percentage of receivables that are collected that aged over one year, those that are not one year old and the accounts that went into bankruptcy. We reserve for accounts less than one year old based on specifically identified uncollectible balances and our historic collection percentage, including receivable adjustments charged through revenue for items such as billing disputes. In establishing a reserve for certain account balances specifically identified as uncollectible, we consider the aging of the customer receivables, the specific details as to why the receivable has not been paid, the customer’s current and projected financial results, the customer’s ability to meet and sustain its financial commitments, the positive or negative effects of the current and projected industry outlook and the general economic conditions. Our historical collection percentage has been over 98% for receivables that are less than a year old. Once a receivable ages over one year, our collection percentage is much lower, thus a separate calculation is done for open receivables that have aged over one year. We also review our collection percentage after a customer has gone into bankruptcy. Although these collection percentages may change both negatively and positively, since only a small portion of our receivables are aged over one year or are involved in a bankruptcy case, a large change in the either of those collection percentages would not have a material impact on our financial statements. Our level of reserves for customer accounts receivable fluctuate depending upon all the factors mentioned above. Historically, our reserve for uncollectible accounts has approximated actual accounts written off and we do not expect the reserve for uncollectible accounts to change significantly relative to our accounts receivable balance. The allowance for uncollectible accounts is reported on the balance sheet in net accounts receivable. Recoveries of receivables previously charged off are recorded when received.

New Pronouncements

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805) Clarifying the Definition of a Business. This ASU clarifies the definition of a business when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. This standard was adopted on January 1, 2018.

In 2016, the FASB issued new guidance that requires credit losses on financial assets measured at amortized cost basis to be presented at the net amount expected to be collected, not based on incurred losses. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 is permitted. We plan to adopt this standard on January 1, 2020, as required. We are evaluating the impact of adopting this new accounting guidance on our financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which requires lessees to recognize a right-of-use asset ("ROU") and a lease obligation for all leases. We adopted the standard as of January 1, 2019, as required. The standard also provides an additional transition method to assist entities with the implementation. Entities that elect this option would adopt the new standard using a modified retrospective transition method, but they would recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than in the earliest period presented. We elected to apply a package of practical expedients and did not reassess at the date of initial adoption (1) whether any expired or existing contracts are or contain leases, (2) the lease classification for any expired or existing leases, or (3) initial direct costs for existing leases. Lessees can also make an accounting policy election to not recognize an asset and liability for leases with a term of twelve months or less which we elected.

In January 2017, the FASB issued ASU No. 2017-04 Intangibles – Goodwill and other (Topic 350): simplifying the test for goodwill impairment. This ASU

In August 2018, the FASB issued ASU No. 2018-15, Intangibles – Goodwill and Other – Internal-Use Software, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing (Hosting) Arrangement That Is a Service Contract. The amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendment is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, for all entities and should be applied either retrospectively or prospectively. We early adopted the amendment in the fourth quarter of 2018 and applied prospectively to all implementation costs incurred after the date of adoption. In accordance with this ASU, capitalized implementation costs are classified as Other assets and related amortization of capitalized implementation costs are classified as general and administrative expense in the same line item as the expense for fees for the associated hosting arrangement. In addition, the cash flows from capitalized implementation costs are classified as a change in other assets in the same manner as the cash flows for the fees for the associated hosting arrangement.

As a result of the early adoption of this ASU, capitalized implementation costs of $10.6 million incurred in our hosting arrangements for various corporate software services that were previously presented as part of property and equipment are included in Other assets in our consolidated balance sheet as of December 31, 2018.

The corresponding cash flows from capitalized implementation costs incurred in our hosting arrangements of $7.1 million for the year ended December 31, 2018 is classified as a change in other assets in cash flows from operating activities. The capitalized implementation costs incurred in our hosting arrangements are amortized, once ready for intended use, over the term of the associated hosting arrangement of 3 to 10 years, representing the fixed non-cancelable term of each of the hosting arrangements plus the periods covered by the options to extend that the Company is reasonably certain to exercise.

OUTLOOK, RISKS AND UNCERTAINTIES

Business Combinations/Divestitures

We believe that any future acquisitions or divestitures that we may make could significantly impact financial results. Financial results most likely to be impacted include, but are not limited to, revenue, gross margin, salaries and benefits, selling general and administrative expenses, depreciation and amortization, interest expense, net income and our debt level.

Revenue

We believe that the performance of our railroad vendors and a severe or prolonged slow-down of the economy are the most significant factors that could negatively influence our revenue growth rate. Should there be further consolidation in the rail industry causing a service disruption, we believe our intermodal business would likely be negatively impacted. Should there be a significant service disruption, we expect that there may be some customers who would switch from using our intermodal service to other transportation services that may not be provided by Hub. We expect that these customers may choose to continue to utilize other services even when intermodal service levels are restored. Other factors that could negatively influence our growth rate include, but are not limited to, the elimination of fuel surcharges, lower fuel prices, the entry of new competitors, poor customer retention, inadequate drayage and intermodal service and inadequate equipment supply.

Gross Margin

We expect fluctuations in gross margin as a percentage of revenue from quarter-to-quarter caused by various factors including, but not limited to, changes in the transportation business mix, start-up costs for new business, changes in logistics services between transactional business and management fee business, changes in truck brokerage services between spot, committed and special, insurance and claim costs, driver recruiting costs, driver compensation changes, impact of regulations on drayage costs, trailer and container capacity, vendor cost increases, fuel costs, equipment utilization, intermodal industry growth, intermodal industry service levels, accessorials, competitive pricing and accounting estimates.

Salaries and Benefits

We estimate that salaries and benefits as a percentage of revenue could fluctuate from quarter-to-quarter as there are timing differences between volume increases and changes in levels of staffing. Factors that could cause the percentage not to stay in the recent historical range include, but are not limited to, revenue growth rates significantly higher or lower than forecasted, a management decision to invest in additional personnel to stimulate new or existing businesses, changes in customer requirements, changes in our operating structure, severance, how well we perform against our EPS and other bonus goals, and changes in railroad intermodal service levels which could result in a lower or higher cost of labor per move.

General and Administrative

We believe there are several factors that could cause general and administrative expenses to fluctuate as a percentage of revenue. As customer expectations and the competitive environment require the development of new technology interfaces and the restructuring of our information systems and related platforms, we believe there could be significant expenses incurred. Other factors that could cause general and administrative expense to fluctuate include, but are not limited to, changes in insurance premiums, technology expense related to software and services, claim expense, bad debt expense, professional services expense and costs related to acquisitions or divestitures.

Equipment, Depreciation and Amortization

We operate tractors and utilize containers, trailers and chassis in connection with our business. This equipment may be purchased or leased as part of an operating or capital lease. In addition, we rent equipment from third parties and various railroads under short term rental arrangements. Equipment which is purchased is depreciated on the straight-line method over the estimated useful life. Our equipment leases have five to ten-year terms and, in some cases, contain renewal options.

We estimate that depreciation and amortization of property and equipment will increase significantly due to technology related investments and equipment investments for replacement and growth, as well as intangible assets acquired in connection with the acquisition of CaseStack.

Impairment of Property and Equipment, Goodwill and Indefinite-Lived Intangibles

On an ongoing basis, we assess the realizability of our assets. If, at any point during the year, we determine that an impairment exists, the carrying amount of the asset is reduced by the estimated impairment with a corresponding charge to earnings which could have a material adverse impact on earnings.

Other Income (Expense)

We expect interest expense to increase in 2019 because we financed our 2018 tractor and container purchases with debt. Factors that could cause a change in interest expense include, but are not limited to, change in interest rates, change in investments, funding working capital needs, funding capital expenditures, funding an acquisition and purchase of treasury stock.

Provision for Income Taxes

Based on current tax legislation, we estimate that our effective tax rate will be between 25% and 26% in 2019.

Leasing on Owner-Operators

Our HGT drivers are comprised of 50% independent contractors and 50% employees. Dedicated drivers are comprised of 100% employees. In 2017 and 2018 we encountered difficulties in recruiting and retaining owner-operators and we were more successful recruiting and retaining employee drivers. Owner-operator retention and recruiting has been showing improvement in 2019.

Item 7A. 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.

The Company has both fixed and variable rate debt as described in Note 11 to the Consolidated Financial Statements. Any material increase in market interest rates would not have a material impact on the results of operations for the year ended December 31, 2018.

We have standby letters of credit that expire in 2019. As of December 31, 2018, our letters of credit were $27.0 million.

As of December 31, 2018, we had no borrowings under our bank revolving line of credit and our unused and available borrowings were $323.0 million. We were in compliance with our debt covenants as of December 31, 2018.

Although we conduct business in foreign countries, international operations are not material to our consolidated financial position, results of operations, or cash flows. Additionally, foreign currency transaction gains and losses were not material to our results of operations for the year ended December 31, 2018. Accordingly, we are not currently subject to material foreign currency exchange rate risks from the effects that exchange rate movements of foreign currencies would have on our future costs or on future cash flows we would receive from our foreign investment. To date, we have not entered into any foreign currency forward exchange contracts or other derivative financial instruments to hedge the effects of adverse fluctuations in foreign currency exchange rates. We do not use financial instruments for trading purposes.

Item 8.FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

AND FINANCIAL STATEMENT SCHEDULE

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Hub Group, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Hub Group, Inc. (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(b) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated March 1, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ ERNST & YOUNG LLP

We have served as the Company's auditor since 2002.

Chicago, Illinois

March 1, 2019

HUB GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	December 31, 2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$61,435	$28,557
Accounts receivable trade, net	477,088	424,679
Other receivables	22,021	5,704
Prepaid taxes	616	12,088
Prepaid expenses and other current assets	27,533	25,414
Current assets held for sale	-	159,616
TOTAL CURRENT ASSETS	588,693	656,058
Restricted investments	19,236	20,143
Property and equipment, net	681,859	561,214
Other intangibles, net	134,788	64,747
Goodwill, net	483,584	319,272
Other assets	16,738	5,491
Non-current assets held for sale	-	44,016
TOTAL ASSETS	$1,924,898	$1,670,941
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable trade	$272,859	$238,230
Accounts payable other	10,906	13,903
Accrued payroll	55,535	26,674
Accrued other	82,900	53,508
Current portion of capital lease	2,845	2,777
Current portion of long-term debt	101,713	77,266
Current liabilities held for sale	-	107,185
TOTAL CURRENT LIABILITIES	526,758	519,543
Long-term debt	229,071	214,808
Non-current liabilities	29,619	33,599
Long-term portion of capital lease	4,739	7,696
Deferred taxes	153,877	121,095
Non-current liabilities held for sale	-	4,328
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value; 2,000,000 shares authorized; no shares issued or outstanding in 2018 and 2017	-	-
Common stock		

Class A: $.01 par value; 97,337,700 shares authorized and 41,224,792 shares issued in 2018 and 2017; 33,793,709 shares outstanding in 2018 and 33,447,070 shares outstanding in 2017	412	412
Class B: $.01 par value; 662,300 shares authorized; 662,296 shares issued and outstanding in 2018 and 2017	7	7
Additional paid-in capital	172,220	173,011
Purchase price in excess of predecessor basis, net of tax benefit of $10,306	(15,458)	(15,458)
Retained earnings	1,072,456	870,716
Accumulated other comprehensive loss	(182)	(194)
Treasury stock; at cost, 7,431,083 shares in 2018 and 7,777,722 shares in 2017	(248,621)	(258,622)
TOTAL STOCKHOLDERS' EQUITY	980,834	769,872
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,924,898	$1,670,941

The accompanying notes to consolidated financial statements are an integral part of these statements.

30

HUB GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME

AND COMPREHENSIVE INCOME

(in thousands, except per share amounts).

	Years Ended December 31,		
	2018	2017	2016
Revenue	$3,683,593	$3,123,063	$2,750,449
Transportation costs	3,237,992	2,785,433	2,419,130
Gross margin	445,601	337,630	331,319
Costs and expenses:			
Salaries and benefits	222,786	175,567	166,118
General and administrative	81,272	77,239	60,932
Depreciation and amortization	16,624	12,155	7,712
Total costs and expenses	320,682	264,961	234,762
Operating income	124,919	72,669	96,557
Other income (expense):			
Interest expense	(9,611)	(6,754)	(3,625)
Interest income	1,359	349	346
Other, net	58	667	749
Total other income (expense)	(8,194)	(5,738)	(2,530)
Income from continuing operations before income taxes	116,725	66,931	94,027
Income tax expense (benefit)	29,064	(53,083)	36,381
Income from continuing operations	87,661	120,014	57,646
Income from discontinued operations, net of income taxes	$114,079	$15,139	$17,159
Net income	$201,740	$135,153	$74,805
Other comprehensive income (loss):			
Foreign currency translation adjustments	12	79	(95)
Total comprehensive income	$201,752	$135,232	$74,710
Earnings per share from continuing operations			
Basic	$2.62	$3.61	$1.70
Diluted	$2.61	$3.60	$1.70

Earnings per share from discontinued operations			
Basic	$3.42	$0.46	$0.51
Diluted	$3.40	$0.45	$0.51
Earnings per share net income			
Basic	$6.04	$4.07	$2.21
Diluted	$6.01	$4.05	$2.20
Basic weighted average number of shares outstanding	33,393	33,220	33,841
Diluted weighted average number of shares outstanding	33,560	33,350	33,949

The accompanying notes to consolidated financial statements are an integral part of these statements.

HUB GROUP, INC

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except shares)

	Class A & B Common Stock Shares Issued	Class A & B Common Stock Amount	Additional Paid-in Capital	Purchase Price of Excess of Predecessor Basis, Net of Tax	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock Shares	Treasury Stock Amount	Total
Balance December 31, 2015	41,887,088	$419	$174,285	$(15,458)	$660,758	$(178)	(5,590,831)	$(171,986)	$647,840
Purchase of treasury shares	-	-	-	-	-	-	(2,672,227)	(100,000)	(100,000)
Stock tendered for payments of withholding taxes	-	-	-	-	-	-	(73,546)	(2,489)	(2,489)
Issuance of restricted stock awards, net of forfeitures	-	-	(8,838)	-	-	-	304,794	8,838	-
Share-based compensation expense	-	-	8,479	-	-	-	-	-	8,479
Tax benefit of share-based compensation plans	-	-	(361)	-	-	-	-	-	(361)
Net income	-	-	-	-	74,805	-	-	-	74,805
Foreign currency translation adjustment	-	-	-	-	-	(95)	-	-	(95)
Balance December 31, 2016	41,887,088	$419	$173,565	$(15,458)	$735,563	$(273)	(8,031,810)	$(265,637)	$628,179
Stock tendered for payments of withholding	-	-	-	-	-	-	(77,988)	(3,412)	(3,412)

taxes									
Issuance of restricted stock awards, net of forfeitures	-	-	(10,427)	-	-	-	332,076	10,427	-
Share-based compensation expense	-	-	9,873	-	-	-	-	-	9,873
Net income	-	-	-	-	135,153	-	-	-	135,153
Foreign currency translation adjustment	-	-	-	-	-	79	-	-	79
Balance December 31, 2017	41,887,088	$419	$173,011	$(15,458)	$870,716	$(194)	(7,777,722)	$(258,622)	$769,872
Stock tendered for payments of withholding taxes	-	-	-	-	-	-	(87,381)	(4,270)	(4,270)
Issuance of restricted stock awards, net of forfeitures	-	-	(14,271)	-	-	-	434,020	14,271	-
Share-based compensation expense	-	-	13,480	-	-	-	-	-	13,480
Net income	-	-	-	-	201,740	-	-	-	201,740
Foreign currency translation adjustment	-	-	-	-	-	12	-	-	12
Balance December 31, 2018	41,887,088	$419	$172,220	$(15,458)	$1,072,456	$(182)	(7,431,083)	$(248,621)	$980,834

The accompanying notes to consolidated financial statements are an integral part of these statements.

HUB GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net Income	$201,740	$135,153	$74,805
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	83,910	62,173	44,712
Deferred taxes	39,499	(41,351)	13,801
Compensation expense related to share-based compensation plans	13,480	9,873	8,479
Contingent consideration adjustment	(4,703)	-	-
(Gain) loss on sale of assets	(1,007)	441	(573)
Excess tax benefits from share based compensation	-	-	(733)
Gain on Disposition	(132,448)	-	-
Transaction costs for Disposition	(5,798)	-	-
Changes in operating assets and liabilities:			
Restricted investments	827	(3,304)	231
Accounts receivable, net	(31,475)	(84,775)	(87,629)
Prepaid taxes	11,472	(11,794)	66
Prepaid expenses and other current assets	(1,750)	(7,543)	1,099
Other assets	(8,029)	56	570
Accounts payable	5,521	59,037	35,709
Accrued expenses	43,476	(2,931)	9,238
Non-current liabilities	(3,876)	10,185	2,698
Net cash provided by operating activities	210,839	125,220	102,473
Cash flows from investing activities:			
Proceeds from sale of equipment	10,975	5,327	2,061
Purchases of property and equipment	(199,791)	(74,541)	(107,409)
Acquisitions, net of cash acquired	(248,656)	(165,933)	-
Proceeds from the disposition of discontinued operations	227,986	-	-
Net cash used in investing activities	(209,486)	(235,147)	(105,348)
Cash flows from financing activities:			
Proceeds from issuance of debt	172,146	98,544	62,155
Repayments of long-term debt	(133,436)	(79,869)	(34,767)
Stock tendered for payments of withholding taxes	(4,270)	(3,412)	(2,489)
Purchase of treasury stock	-	-	(100,000)
Capital lease payments	(2,889)	(2,800)	(2,634)
Excess tax benefits from share based compensation	-	-	372
Payment of debt issuance costs	-	(1,397)	-
Net cash provided by (used in) financing activities	31,551	11,066	(77,363)

Effect of exchange rate changes on cash and cash equivalents	(26)	14	(107)
Net increase (decrease) in cash and cash equivalents	32,878	(98,847	