

**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, 2005

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)

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

**3050 Highland Parkway, Suite 100**  
**Downers Grove, Illinois 60515**  
(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 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. Yes  No

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

Large Accelerated Filer                      Accelerated Filer                       Non-Accelerated Filer

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, 2005, based upon the last reported sale price on that date on the NASDAQ National Market of \$25.05 per share, was \$457,261,332.

On February 20, 2006, the Registrant had 19,948,043 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 11, 2006 (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.

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**PART I**

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**Item 1. BUSINESS****General**

Hub Group, Inc. (“we”, “us” or “our”) is a Delaware corporation that was incorporated on March 8, 1995. We are one of North America’s leading asset-light freight transportation management companies. We offer comprehensive intermodal, truck brokerage, logistics and distribution services. Since our founding in 1971, we have grown to become the largest intermodal marketing company (“IMC”) in the United States and one of the largest truck brokers.

We operate through a network of 22 operating centers throughout the United States and Canada. Each operating center is strategically located in a market with a significant concentration of shipping customers and one or more railheads. Through our network, we have the ability to move freight in and out of every major city in the United States, Canada and Mexico. We service a large and diversified customer base in a broad range of industries, including consumer products, retail, manufactured products and electronic equipment. We utilize an asset-light strategy in order to minimize our investment in equipment and facilities and reduce our working capital requirements. We arrange freight movement for our customers through transportation carriers and equipment providers.

We also operate Hub Group Distribution Services, LLC (“HGDS” or “Hub Distribution”). Hub Distribution performs certain specialized logistics services, predominately installation of point of purchase displays, and is responsible for its own operations, customer service, marketing and management information systems support. Unless the context otherwise requires, “we”, “us” or “our” includes the operating centers, Hub Distribution and our subsidiaries.

**Services Provided**

Our transportation services can be broadly placed into the following categories:

*Intermodal.* As an IMC, 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 and with local trucking companies, known as “drayage companies,” for pickup and delivery. In certain markets, we supplement third party drayage services with Company-owned drayage operations. As part of our intermodal services, we negotiate rail and drayage rates, electronically track shipments in transit, consolidate billing and handle claims for freight loss or damage on behalf of our customers.

We use our network to access containers and trailers owned by leasing companies, railroads and steamship lines. We are able to track trailers and containers entering a service area and reuse that equipment to fulfill the customers’ outbound shipping requirements. This effectively allows us to “capture” containers and trailers and keep them within our network. Through our Premier Service Network (“PSN”), we also have exclusive access to 6,600 rail-owned containers for our dedicated use on the Burlington Northern Santa Fe (“BNSF”) and the Norfolk Southern (“NS”) rail networks as of January 31, 2006. In addition to these containers, during 2005, we added 3,400 new 53’ containers to our PSN fleet. We financed these 3,400 containers with operating leases. These arrangements are included in Note 7 to the consolidated financial statements.

Our drayage services are provided by our subsidiary, Quality Services, LLC (“QS”). QS has terminals in Chicago, Kansas City, St. Louis, Atlanta, Stockton, Los Angeles, Jacksonville, Cleveland, Columbus and Evansville. QS assists us in providing reliable, cost effective intermodal services to our customers. At December 31, 2005, QS owned 46 tractors and leased 77 tractors and employed 182 drivers and contracted with 374 owner-operators.

On January 19, 2006, we entered into a definitive agreement to acquire Comtrak, Inc. Comtrak is a transportation company whose services include primarily rail and international drayage for the intermodal sector. Comtrak has terminals in Atlanta, Birmingham, Charleston, Charlotte, Chattanooga, Dallas, Houston, Huntsville, Jacksonville, Kansas City, Memphis, Nashville, Norfolk, Savannah and Tampa. At December 31, 2005, Comtrak owned 250 tractors and leased or owned 650 trailers and employed 253 drivers and contracted with 307 owner-operators.

*Truck Brokerage (Highway Services).* We are one of the largest truck brokers in the United States, providing customers with another option for their transportation needs. We match the customers' needs with carriers' capacity to provide the most effective service and price combinations. We have contracts with a substantial base of carriers allowing us to meet the varied needs of our customers. As part of the truck brokerage services, we negotiate rates, track shipments in transit and handle claims for freight loss and damage on behalf of our customers.

Our truck brokerage operation also provides customers with specialized programs. Through the Dedicated Trucking program, certain carriers have informally agreed to move freight for our customers on a continuous basis. This arrangement allows us to effectively meet our customer's needs without owning the equipment.

*Logistics.* In March of 2005, our logistics business began operating under the name of Unyson Logistics. Unyson Logistics is comprised of a national network of logistics professionals dedicated to developing, implementing and operating customized logistics solutions. Unyson 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 and railcar. Unyson Logistics operates throughout North America with offices strategically located in key market areas.

*Distribution Services.* Hub Distribution offers certain specialized services, predominately installation of point of purchase displays.

### **Hub Network**

Hub Group currently has operating centers in the following metropolitan areas:

Atlanta	Indianapolis	Minneapolis	San Francisco
Baltimore	Kansas City	New York City	Seattle
Boston	Laredo	Ontario	St. Louis
Chicago	Los Angeles	Pittsburgh	Toledo
Cleveland	Memphis	Salt Lake City	
Houston	Milwaukee	San Diego	

Our entire network is interactively connected through our proprietary Network Management System. This enables us to move freight into and out of every major city in the United States, Canada and Mexico.

Each operating center manages the freight originating in its service area. In a typical intermodal transaction, the customer contacts the local operating center to place an order. The operating center consults with the centralized pricing group, obtains the necessary intermodal equipment, arranges for it to be delivered to the customer by a drayage company and, after the freight is loaded, arranges for the transportation of the container or trailer to the rail ramp. Relevant information is entered into our Network Management System by the assigned operating center. Our predictive track and trace technology then monitors the shipment to ensure that it arrives as scheduled and alerts the customer service personnel if there are service delays. The assigned operating center then arranges for and confirms delivery by a drayage company at destination. After unloading, the empty equipment is made available for reloading by the local operating center in the delivery market.

We provide truck brokerage services to our customers in a similar manner. In a typical truck brokerage transaction, the customer contacts the local operating center to obtain a price quote for a particular freight movement. The customer then provides appropriate shipping information to the local operating center. The local operating center makes the delivery appointment and arranges with the appropriate carrier to pick up the freight. Once it receives confirmation that the freight has been picked up, the local operating center monitors the movement of the freight until it reaches its destination and the delivery has been confirmed. If the carrier notifies us that after delivering the load it will need additional freight, we may notify the operating center located nearest the destination of the carrier's availability. Although under no obligation to do so, the local operating center then may attempt to secure freight for the carrier.

### **Marketing and Customers**

We believe that fostering long-term customer relationships is critical to our success. Through these long-term relationships, we are able to better understand our customers' needs and tailor our transportation services to the specific customer, regardless of the customer's size or volume. We currently have full-time marketing representatives at each operating center and sales office with primary responsibility for servicing local, regional

and national accounts. These sales representatives directly or indirectly report to an Executive Vice President – Sales. This model allows us to provide our customers with both a local marketing contact and access to our competitive rates as a result of being a large, national transportation services provider.

Our marketing efforts have produced a large, diverse customer base, with no customer representing more than 5.0% of our total revenue in 2005. We service customers in a wide variety of industries, including consumer products, retail, manufactured products and electronic equipment.

We have a joint marketing relationship with TMM Logistics, a wholly owned subsidiary of Grupo TMM, a Mexican logistics and transportation company. TMM Logistics provides sales support and operating execution within Mexico, and we furnish the same capabilities in Canada and the United States for TMM Logistics.

### **Management Information Systems**

A primary component of our business strategy is the continued improvement of our Network Management System and other technology to ensure that we remain a leader among transportation providers in information processing for transportation services. Our Network Management System consists of proprietary software running on IBM iSeries computers located at a secure offsite data center. All of the operating centers are linked together with these i-series computers using a frame relay network. This configuration provides a real time environment for transmitting data among our operating centers and headquarters. We also make extensive use of electronic data interchange (“EDI”), allowing each operating center to communicate electronically with each railroad, many drayage companies, certain trucking companies and those customers with EDI capabilities.

Our Network Management System is the primary mechanism used in our operating centers to handle our intermodal and truck brokerage business. The Network Management System processes customer transportation requests, tenders and tracks shipments, prepares customer billing, establishes account profiles and retains critical information for analysis. The Network Management System provides connectivity with each of the major rail carriers. This enables us to electronically tender and track shipments in a real time environment. In addition, the Network Management System’s EDI features offer customers with EDI capability a completely paperless process, including load tendering, shipment tracking, billing and remittance processing. We aggressively pursue opportunities to establish EDI interfaces with our customers, railroads, trucking companies and drayage companies.

To manage our logistics business, we use specialized software that includes planning and execution solutions. This sophisticated transportation management software enables us to offer supply chain planning and logistics managing, modeling, optimizing and monitoring for our customers. We use this software when offering logistics management services to customers that ship via multiple modes, including intermodal, truckload, and less-than-truckload, allowing us to optimize mode and carrier selection and routing for our customers. This software is integrated with Hub Group’s Network Management System and our accounting system.

Our website, [www.hubgroup.com](http://www.hubgroup.com), is designed to allow our customers and vendors to easily do business with us online. Through Vendor Interface, we tender loads to our drayage partners using the Internet rather than phones or faxes. Vendor Interface also captures event status information, allows vendors to view outstanding paperwork requirements and helps facilitate paperless invoicing. We currently tender substantially all of our drayage loads using Vendor Interface or EDI. Through Trucker Advantage, Hub Group and our over-the-road partners exchange information on available Hub loads and available carrier capacity, and then carriers report event status information to Hub Group. Through Customer Advantage, customers receive immediate pricing, place orders, track shipments, and review historical shipping data through a variety of reports over the Internet. All of our Internet applications are integrated with the Network Management System.

### **Relationship with Railroads**

A key element of our business strategy is to strengthen our close working relationship with each of the major intermodal railroads in the United States. We view our relationship with the railroads as a partnership. Due to our size and relative importance, many 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. Several of our top executive officers are former railroad employees, which makes them well suited to understand the railroads’ service capabilities.

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

We also have relationships with each of the following major service providers: Mitsui O.S.K. Lines (America) Inc., Pacer International, K-Line America, Hanjin Shipping and Maersk Sea-Land.

These relationships govern the transportation services and payment terms pursuant to which our intermodal shipments are handled by the railroads. Transportation rates are market driven and we typically negotiate with the railroads or other major service providers on a route or customer specific basis. Consistent with industry practice, many of the rates we negotiate are special commodity quotations ("SCQs"), which provide discounts from published price lists based on competitive market factors and are designed by the railroads or major service providers to attract new business or to retain existing business. SCQ rates are generally issued for the account of a single IMC. SCQ rates apply to specific customers in specified shipping lanes for a specific period of time, usually six to 12 months.

Under agreements with both the BNSF and NS as part of our PSN, we managed, as of January 31, 2006, approximately 6,600 rail-owned containers. These containers are for Hub Group's dedicated use on the respective rail systems and are fully interchangeable across both rail networks. In addition to these containers, we added 3,400 new 53' containers to our PSN fleet during 2005. We financed these containers with operating leases.

#### **Relationship with Drayage Companies**

We have a "Quality Drayage Program," which consists of agreements and rules that govern the framework by which many drayage companies perform services for us. Participants in the program commit to provide high quality 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 supplement third-party drayage services with our own drayage operations, which we operate through our QS subsidiary. Our drayage operations employ their own drivers and also contract with owner-operators who supply their own trucks.

#### **Relationship with Trucking Companies**

Our truck brokerage operation has a large and growing number of active trucking companies that we use to transport freight. The local operating centers deal daily with these carriers on an operational level. Our corporate headquarters handles the administrative and regulatory aspects of the trucking company relationship. 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 drayage companies participating in the Quality Drayage Program to carry at least \$1.0 million in general liability insurance, \$1.0 million in truckman's auto liability insurance and a minimum of \$100,000 in cargo insurance. Railroads, which are self-insured, provide limited cargo protection, generally up to \$250,000 per shipment. 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 with a limit of \$1.0 million per container or trailer and a limit of \$20.0 million in the aggregate. We also carry general liability insurance with limits of \$1.0 million per occurrence and \$2.0 million in the aggregate with a companion \$25.0 million umbrella policy on this general liability insurance.

We maintain separate insurance policies to cover potential exposure from our company-owned drayage operations. We have general liability insurance with limits of \$1.0 million per occurrence and \$1.0 million in the aggregate, truckman's auto liability with limits of \$1.0 million and a companion \$20.0 million umbrella liability policy.

## Government Regulation

Hub Group, Inc. and various subsidiaries are licensed by the Department of Transportation as brokers in arranging for the transportation of general commodities by motor vehicle. To the extent that the operating centers perform truck brokerage services, they do so under these licenses. The Department of Transportation prescribes qualifications for acting in this capacity, including a \$10,000 surety bond that we have posted. 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.

## Competition

The transportation services industry is highly competitive. We compete against other IMCs, as well as logistics companies, third party brokers, trucking companies and railroads that market their own intermodal 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, have substantially greater financial and other resources than we do.

## General

*Employees:* As of December 31, 2005, we had approximately 1,184 employees. We are not a party to any collective bargaining agreement 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. None of our trademarks are believed to be material to us. Our business is seasonal to the extent that certain customer groups, such as retail, are seasonal. Our code of ethics can be found on our website at [www.hubgroup.com](http://www.hubgroup.com).

## Periodic Reports

Upon written request, our annual report to the Securities and Exchange Commission on Form 10-K for the fiscal year ended December 31, 2005, and our quarterly reports on Form 10-Q will be furnished to stockholders free of charge; write to: Public Relations Department, Hub Group, Inc., 3050 Highland Parkway, Suite 100, Downers Grove, Illinois 60515. Our filings are also accessible through our website at [www.hubgroup.com](http://www.hubgroup.com).

## Item 1A. RISK FACTORS

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

In 2005, 2004 and 2003, we derived 71%, 71% and 72%, respectively, of our revenue from our intermodal services. As a result, any decrease in demand for intermodal transportation services compared to other transportation services could have an adverse effect on our results of operations.

**Because we depend on railroads for our operations, our operating results and financial condition are likely to be adversely affected by any reduction or deterioration in rail service.**

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. In addition, the railroads are relatively free to adjust shipping rates up or down as market conditions permit. 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 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. In the past, there have been service issues when railroads have merged. As a result, we cannot predict what effect, if any, further consolidation among railroads may have on intermodal transportation services or our results of operations.

**Because our relationships with the major railroads are critical to our ability to provide intermodal transportation services, our business may be adversely affected by any change to those relationships.**

We have important relationships with each of the major U.S. railroads. To date, the railroads have chosen to rely on us, other IMCs 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 adversely affect our results of operations and financial condition.

**Because we rely on drayage companies in our intermodal operations, our ability to expand our business or maintain our profitability may be adversely affected by a shortage of drayage capacity.**

In many of the markets we serve, we use third-party drayage companies for pickup and delivery of intermodal containers. Most drayage companies operate relatively small fleets and have limited access to capital for fleet expansion. In some of our markets, there are a limited number of drayage companies that can meet our quality standards. This could limit our ability to expand our intermodal business or require us to establish our own drayage operations in some markets, which could increase our operating costs and could adversely affect our profitability and financial condition. Also, the trucking industry chronically experiences a shortage of available drivers, which may limit the ability of third-party drayage companies to expand their fleets. This shortage also may require them to increase drivers' compensation, thereby increasing our cost of providing drayage services to our customers. Therefore, the driver shortage could also adversely affect our profitability and limit our ability to expand our intermodal business.

**Because we depend on trucking companies for our truck brokerage services, our ability to maintain or expand our truck brokerage business may be adversely affected by a shortage of trucking capacity.**

In 2005, 2004 and 2003, we derived 17%, 16% and 15%, respectively, of our revenue from our truck brokerage services. We depend upon various third-party trucking companies for the transportation of our customers' loads. Particularly during periods of economic expansion, trucking companies may be unable to expand their fleets due to capital constraints or chronic driver shortages, and these trucking companies also may raise their rates. If we face insufficient capacity among our third-party trucking companies, we may be unable to maintain or expand our truck brokerage business. Also, we may be unable to pass rate increases on to our customers, which could adversely affect our profitability.

**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 containers and trailers, necessary for the operation of our business. Our industry has experienced equipment shortages in recent years, 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 has historically caused these equipment shortages to be most severe at or near these locations. 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. This could have an adverse effect on our business, results of operations and financial position.

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

There has been labor unrest, including work stoppages, among draymen. We could lose business from any significant work stoppage or slowdown and, if labor unrest results in increased rates for draymen, we may not be able to pass these cost increases on to our customers. In the Fall of 2002, all of the West Coast ports were shut down as a result of a dispute with the longshoremen. The ports remained closed for nearly two weeks, until reopened as the result of a court order under the Taft-Hartley Act. Our operations were adversely affected by the shutdown. In January 2003, a new six-year contract was agreed to by the International Longshoremen and Warehouse Union and the Pacific Maritime Association. 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 could adversely affect our business and results of operations. Any significant work stoppage, slowdown or other disruption involving ports, railroads, truckers or draymen could adversely affect our business and results of operations.

**Our results of operations are susceptible to changes in general economic conditions and cyclical fluctuations.**

Economic recession, customers' business cycles, changes in fuel prices and supply, interest rate fluctuations, increases in fuel or energy taxes and other general economic factors affect the demand for transportation services and the operating costs of railroads, trucking companies and drayage companies. We have little or no control over any of these factors or their effects on the transportation industry. Increases in the operating costs of railroads, trucking companies or drayage companies can be expected to result in higher freight rates. Our operating margins could be adversely affected if we were unable to pass through to our customers the full amount of higher freight rates. 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.

**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%, 87% and 87% of our consolidated revenue in 2005, 2004 and 2003, respectively. Because transportation costs represent such a significant portion of our costs, even relatively small increases in these transportation costs, if we are unable to pass them through to our customers, are likely to have a significant effect on our gross margin and operating income.

**The installation services provided by Hub Distribution are project-based and provided to only a few customers. The loss of any one of these customers or variability in the timing of these projects could significantly affect our results of operations.**

Our installation services business is a project-based business with significant customer concentration. Any decrease in the demand from these customers or our failure to secure new project business could have a material adverse effect on our results of operations. A prolonged downturn in Hub Distribution's business could adversely affect the value of its assets.

**Our business could be adversely affected by heightened security measures, actual or threatened terrorist attacks, efforts to combat terrorism, military action against a foreign state or other similar event.**

We cannot predict the effects on our business of heightened security measures, actual or threatened terrorist attacks, efforts to combat terrorism, military action against a foreign state or other similar events. It is possible that one or more of these events could be directed at U.S. or foreign ports, borders, railroads or highways. Heightened security measures or other events are likely to slow the movement of freight through U.S. or foreign ports, across borders or on U.S. or foreign railroads or highways and could adversely affect our business and results of operations. Any of these events could also negatively affect the economy and consumer confidence, which could cause a downturn in the transportation industry.

**If we fail to maintain and enhance our information technology systems, we may be at a competitive disadvantage and lose customers.**

Our information technology systems are critical to our operations and our ability to compete effectively as an IMC, truck broker and logistics provider. We expect our customers to continue to demand more sophisticated information technology applications from their suppliers. If we do not continue to enhance our Network Management System to meet the increasing demands of our customers, we may be placed at a competitive disadvantage and could lose customers.

**Our information technology systems are subject to risks that we cannot control and the inability to use our information technology systems could materially adversely affect our business.**

Our information technology systems are dependent upon global communications providers, web browsers, telephone systems and other aspects of the Internet infrastructure that have experienced significant system failures and electrical outages in the past. Our systems are susceptible to outages from fire, floods, power loss, telecommunications failures, break-ins and similar events. Our servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems. The occurrence of any of these events could disrupt or damage our information technology systems and inhibit our internal operations, our ability to provide services to our customers and the ability of our customers and vendors to access our information technology systems. This could result in our loss of customers or a reduction in demand for our services.



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

Hub Group, Inc. and various subsidiaries are licensed by the Department of Transportation as motor carrier freight brokers. The Department of Transportation prescribes qualifications for acting in this capacity, including surety-bonding requirements. 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. 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 adversely affect our business.

**Our operations are 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 are 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.

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

For 2005, our largest 20 customers accounted for approximately 36% of our revenue. A reduction in or termination of our services by several of our largest customers could have a material adverse effect on our revenue and business.

**Insurance and claims expenses could significantly reduce our earnings.**

Our future insurance 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. We maintain insurance with licensed insurance companies. Insurance carriers have recently raised premiums. As a result, our insurance and claims expenses could increase when our current coverage expires. If these expenses increase, and we are unable to offset the increase with higher freight rates, our earnings could be materially and adversely affected.

**Our success depends upon our ability to recruit and retain key personnel.**

Our success depends upon attracting and retaining the services of our management team as well as our ability to attract and retain a sufficient number of other qualified personnel to run our business. There is substantial competition for qualified personnel in the transportation services industry. As all key personnel devote their full time to our business, the loss of any member of our management team or other key person 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.

**We believe that future acquisitions or dispositions that we 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.**

In January 2006, we entered into a definitive agreement to acquire Comtrak, Inc. The closing is subject to certain customary closing conditions and approvals. Hub will pay \$38.0 million in cash at closing, which is expected to occur during the first quarter of 2006. The purchase price will be subject to adjustment based on Comtrak's working capital at closing. In addition, the agreement provides for an earn-out for 2006 and 2007, consisting of two cash payments, each of which will not exceed \$5 million. We expect this acquisition to increase revenue, gross margin, salaries and benefits, general and administrative expense, depreciation and also impact net income. If we do not close and successfully integrate this transaction or if Comtrak's future results do not approximate their projections, our earnings could be negatively impacted.

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**Item 2. PROPERTIES**

We directly, or indirectly through our subsidiaries, operate 32 offices throughout the United States and in Canada, including our headquarters in Downers Grove, Illinois and our Company-owned drayage operations. All of our office space 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, 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.

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

There were no matters submitted to a vote of our security holders during the fourth quarter of 2005.

**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, 2006 with respect to each person who is an executive officer of the Company.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Phillip C. Yeager	78	Chairman of the Board of Directors
David P. Yeager	52	Vice Chairman of the Board of Directors and Chief Executive Officer
Mark A. Yeager	41	President, Chief Operating Officer and Director
Thomas M. White	48	Senior Vice President, Chief Financial Officer and Treasurer
Stephen P. Cosgrove	46	Executive Vice President-Intermodal and Administration
James B. Gaw	55	Executive Vice President-Sales
Christopher R. Kravas	40	Executive Vice President-Strategy and Yield Management
Donald G. Maltby	51	Executive Vice President-Logistics
David L. Marsh	38	Executive Vice President-Highway
Dennis R. Polsen	52	Executive Vice President of Information Services
Terri A. Pizzuto	47	Vice President-Finance
David C. Zeilstra	36	Vice President, Secretary and General Counsel

Phillip C. Yeager, our founder, has been Chairman of the Board since October 1985. From April 1971 to October 1985, Mr. Yeager served as President of Hub City Terminals, Inc. ("Hub Chicago"). Mr. Yeager became involved in intermodal transportation in 1959, five years after the introduction of intermodal transportation in the United States, as an employee of the Pennsylvania and Pennsylvania Central Railroads. He spent 19 years with the Pennsylvania and Pennsylvania Central Railroads, 12 of which involved intermodal transportation. In 1991, Mr. Yeager was named Man of the Year by the Intermodal Transportation Association. In 1995, he received the Salzburg Practitioners Award from Syracuse University in recognition of his lifetime achievements in the transportation industry. In October 1996, Mr. Yeager was inducted into the Chicago Area Entrepreneurship Hall of Fame sponsored by the University of Illinois at Chicago. In March 1997, he received the Presidential Medal from Dowling College for his achievements in transportation services. In September 1998, he received the Silver Kingpin award from the Intermodal Association of North America and in February 1999, he was named Transportation Person of the Year by the New York Traffic Club. Mr. Yeager graduated from the University of Cincinnati in 1951 with a Bachelor of Arts degree in Economics. Mr. Yeager is the father of David P. Yeager and Mark A. Yeager.

David P. Yeager has served as our Vice Chairman of the Board since January 1992 and as Chief Executive Officer since March 1995. 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 son of Phillip C. Yeager and the brother of Mark A. Yeager.

Mark A. Yeager became the President of the Company effective in January 2005 and has been our Chief Operating Officer and a director since May 2004. From July 1999 to December 2004, Mr. Yeager was President-Field Operations. From November 1997 through June 1999 Mr. Yeager was Division President, Secretary and General Counsel. From March 1995 to November 1997, Mr. Yeager was Vice President, Secretary and General Counsel. From May 1992 to March 1995, Mr. Yeager served as our Vice President-Quality. Prior to joining us in 1992, Mr. Yeager was an associate at the law firm of Grippo & Elden from January 1991 through May 1992 and an associate at the law firm of Sidley & Austin from May 1989 through January 1991. Mr. Yeager received a Juris Doctor degree from Georgetown University in 1989 and a Bachelor of Arts degree from Indiana University in 1986. Mr. Yeager is the son of Phillip C. Yeager and the brother of David P. Yeager.

Thomas M. White has been our Senior Vice President, Chief Financial Officer and Treasurer since June 2002. Prior to joining us, Mr. White was a partner at Arthur Andersen, LLP where he worked for 23 years. Mr. White received a Masters in Science and Industrial Administration from Purdue University in 1985 and a Bachelor of Business Administration from Western Michigan University in 1979. Mr. White is a CPA and a member of the board of directors of FTD Group, Inc. and Landauer, Inc.

Stephen P. Cosgrove became our Executive Vice President-Intermodal and Administration in January 2005. Prior to this promotion, Mr. Cosgrove was Vice President- Intermodal and Administration for the Central Region from February 2004 through December 2004. Mr. Cosgrove served as Vice President of Hub Chicago from December 1996 through January 2004 and from September 1995 to November 1996 was General Manager of sales and marketing for Hub Chicago. Mr. Cosgrove worked for APL Stacktrain Services from 1986 through 1995 prior to coming to Hub Chicago.

James B. Gaw has been our Executive Vice President-Sales since February 2004. From December 1996 through January 2004, Mr. Gaw was President of Hub North Central, located in Milwaukee. From 1990 through late 1996, he was Vice President and General Manager of Hub Chicago. Mr. Gaw joined Hub Chicago as Sales Manager in 1988. Mr. Gaw's entire career has been spent in the transportation industry, including 13 years of progressive leadership positions at Itofca, an intermodal marketing company, and Flex Trans. Mr. Gaw received a Bachelor of Science degree from Elmhurst College in 1973.

Christopher R. Kravas has been our Executive Vice President -Strategy and Yield Management since December 2003. From February 2002 through November 2003, Mr. Kravas served as President of Hub Highway Services. From February 2001 through December 2001, Mr. Kravas was Vice President-Enron Freight Markets. Mr. Kravas joined Enron after it acquired Webmodal, an intermodal business he founded. Mr. Kravas was Chief Executive Officer of Webmodal from July 1999 through February 2001. From 1989 through June 1999 Mr. Kravas worked for the Burlington Northern Santa Fe Railway in various positions in the intermodal business unit and finance department. Mr. Kravas received a Bachelor of Arts degree in 1987 from Indiana University and a Masters in Business Administration in 1994 from the University of Chicago.

Donald G. Maltby has been our Executive Vice President – Logistics since February 2004. 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 their 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.

David L. Marsh has been our Executive Vice President – Highway since February 2004. Mr. Marsh previously served as President of Hub Ohio from January 2000 through January 2004. Mr. Marsh joined us in March 1991 and became General Manager with Hub Indianapolis in 1993, a position he held through December 1999. Prior to joining Hub Group, Mr. Marsh worked for Carolina Freight Corporation, an LTL carrier, starting in January 1990. Mr. Marsh received a Bachelor of Science degree in Marketing and Physical Distribution from Indiana University-Indianapolis in December 1989. Mr. Marsh has been a member of the American Society of Transportation and Logistics, the Indianapolis Traffic Club, the Council for Logistics Management and served as an advisor to the Indiana University-Indianapolis internship program for transportation and logistics. Mr. Marsh was honored as the Indiana Transportation Person of the Year for 1999.

Dennis R. Polsen has been our Executive Vice President of Information Services since February 2004. From September 2001 to January 2004, Mr. Polsen was Vice President - Chief Information Officer and from March 2000 through August 2001, Mr. Polsen was our Vice-President of Application Development. Prior to joining us, Mr. Polsen was Director of Applications for Humana, Inc. from September 1997 through February 2000 and spent 14 years prior to that developing, implementing, and directing transportation logistics applications at Schneider National, Inc. Mr. Polsen received a Masters in Business Administration in May of 1983 from the University of Wisconsin Graduate School of Business and a Bachelor of Business Administration in May of 1976 from the University of Wisconsin-Milwaukee. Mr. Polsen is a past member of the American Trucking Association.

Terri A. Pizzuto has been our Vice President of Finance since July 2002. 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.

David C. Zeilstra has been our Vice President, Secretary and General Counsel since July 1999. From December 1996 through June 1999, Mr. Zeilstra was our Assistant General Counsel. Prior to joining us, Mr. Zeilstra was an associate with the law firm of Mayer, Brown & Platt from September 1994 through November 1996. Mr. Zeilstra received a Juris Doctor degree from Duke University in 1994 and a Bachelor of Arts degree from Wheaton College in 1990.

#### Directors of the Registrant

In addition to Phillip C. Yeager, David P. Yeager and Mark A. Yeager, the following three individuals are also on our Board of Directors: Gary D. Eppen – currently retired and formerly the Ralph and Dorothy Keller Distinguished Service Professor of Operations Management and Deputy Dean for part-time Masters in Business Administration Programs at the Graduate School of Business at the University of Chicago; Charles R. Reaves- Chief Executive Officer of Reaves Enterprises, Inc., a real estate development company and Martin P. Slark – Vice Chairman and Chief Executive Officer of Molex, Incorporated, a manufacturer of electronic, electrical and fiber optic interconnection products and systems.

## 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 National Market tier of the NASDAQ Stock Market under the symbol “HUBG.” Set forth below are the high and low closing prices for shares of the Class A Common Stock for each full quarterly period in 2004 and 2005.

	<u>2004</u>		<u>2005</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First Quarter	\$15.33	\$10.71	\$32.92	\$24.60
Second Quarter	\$19.45	\$13.50	\$32.06	\$24.23
Third Quarter	\$18.88	\$13.26	\$36.93	\$25.08
Fourth Quarter	\$27.13	\$18.63	\$40.92	\$32.82

On February 20, 2006, there were approximately 247 stockholders of record of the Class A Common Stock and, in addition, there were an estimated 4,275 beneficial owners of the Class A Common Stock whose shares were held by brokers and other fiduciary institutions. On February 20, 2006, there were 11 holders of record of our Class B Common Stock (the "Class B Common Stock" together with the Class A Common Stock, the "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 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.

The Board of Directors approved a two-for-one stock split in the form of a stock dividend which was paid on May 11, 2005. All shares have been retroactively restated to give effect to the two-for-one stock split, which was affected in the form of a 100% stock dividend. Each of our Class A stockholders and Class B stockholders received one Class A share on each share of Class A Common Stock and each share of Class B Common Stock held by them on the record date in connection with the stock split. In accordance with the terms of our Certificate of Incorporation, the number of votes held by each share of Class B Common Stock was adjusted in connection with this stock dividend such that each share of Class B Common Stock now entitles its holder to approximately 40 votes. Each share of Class A Common Stock entitles its holder to one vote.

Note 13 of the Company's Notes to Consolidated Financial Statements is incorporated herein by reference.

#### Item 6. SELECTED FINANCIAL DATA

##### Selected Financial Data

(in thousands except per share data)

	Years Ended December 31,				
	2005	2004	2003	2002	2001 (1)
<b>Statement of Income Data:</b>					
Revenue	\$ 1,531,499	\$ 1,426,806	\$ 1,359,614	\$ 1,335,660	\$ 1,319,331
Gross margin	189,023	179,548	170,682	162,812	178,963
Operating income	54,380	40,598	24,295	11,141	10,548
Income before minority interest and taxes	55,187	29,998	16,895	2,015	902
Income before income taxes	55,187	29,998	16,895	2,539	751
Net income	32,946	17,279	8,430	1,498	443
Basic earnings per common share	\$ 1.65	\$ .98	\$ .55	\$ .10	\$ .03
Diluted earnings per common share	\$ 1.59	\$ .92	\$ .54	\$ .10	\$ .03
<b>As of December 31,</b>					
	2005	2004	2003	2002	2001
<b>Balance Sheet Data:</b>					
Working capital (deficiency)	\$ 51,145	\$ 23,173	\$ (9,631)	\$ (7,109)	\$ (5,380)
Total assets	444,418	410,845	388,527	399,262	416,024
Long-term debt, excluding current portion	-	-	67,017	94,027	96,059
Stockholders' equity	242,075	226,936	143,035	134,340	132,453

(1) As of January 1, 2002, we adopted Financial Accounting Standards Board Statement No. 142, "Goodwill and Other Intangible Assets" ("Statement 142"). Under Statement 142, goodwill is no longer amortized. Amortization expense for the year ended December 31, 2001 was \$5,741,000. The per share effect of amortization expense related to goodwill, net of tax was \$.22 for the year ended December 31, 2001.

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

**FORWARD LOOKING STATEMENTS**

The information contained in this annual report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "expects," "hopes," "believes," "intends," "estimates," "anticipates," and variations of these words and similar expressions are intended to identify these forward-looking statements. Forward-looking statements are inherently uncertain and subject to risks. Such statements should be viewed with caution. Actual results or experience could differ materially from the forward-looking statements as a result of many factors. We assume no liability to update any such forward-looking statements contained in this annual report. Factors that could cause our actual results to differ materially, in addition to those set forth under Items 1A "Risk Factors," include:

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

**CAPITAL STRUCTURE**

We have authorized common stock comprised of Class A Common Stock and Class B Common Stock. The rights of holders of Class A Common Stock and Class B Common Stock are identical, except each share of Class B Common Stock entitles its holder to approximately 40 votes, while each share of Class A Common Stock entitles its holder to one vote. We have authorized 2,000,000 shares of preferred stock.

**EXECUTIVE SUMMARY**

Hub Group, Inc. ("we", "us" or "our") is the largest intermodal marketing company ("IMC") in the United States and a full service transportation provider offering intermodal, truck brokerage and logistics services. These service offerings are referred to as the Core Transportation business. The Core Transportation business operates through a nationwide network of operating centers. We also operate Hub Group Distribution Services LLC ("HGDS" or "Hub Distribution"). Hub Distribution performs certain specialized services, predominately installation of point of purchase displays, and is responsible for its own operations, customer service, marketing and management information systems support.

As an IMC, we arrange for the movement of our customers' freight in containers and trailers over long distances. We contract with railroads to provide transportation for the long-haul portion of the shipment and with local trucking companies, known as "drayage companies," for local pickup and delivery. As part of the intermodal services, we negotiate rail and drayage rates, electronically track shipments in transit, consolidate billing and handle claims for freight loss or damage on behalf of our customers.

Our drayage services are provided by our subsidiary, Quality Services, LLC ("QS"). QS has terminals in Chicago, Kansas City, St. Louis, Atlanta, Stockton, Los Angeles, Jacksonville, Cleveland, Columbus and Evansville. QS assists us in providing reliable, cost effective intermodal services to our customers. At December 31, 2005, QS owned 46 tractors and leased 77 tractors and employed 182 drivers and contracted with 374 owner-operators.

On January 19, 2006, we entered into a definitive agreement to acquire Comtrak, Inc. Comtrak is a transportation company whose services include primarily rail and international drayage for the intermodal sector. Comtrak has terminals in Atlanta, Birmingham, Charleston, Charlotte, Chattanooga, Dallas, Houston, Huntsville, Jacksonville, Kansas City, Memphis, Nashville, Norfolk, Savannah and Tampa. At December 31, 2005, Comtrak owned 250 tractors and leased or owned 650 trailers and employed 253 drivers and contracted with 307 owner-operators.

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

Our logistics service consists of complex transportation management services, including load consolidation, mode optimization and carrier management. These service offerings are designed to take advantage of the increasing trend for shippers to outsource all or a greater portion of their transportation needs.

We have full time marketing representatives throughout North America who service local, regional and national accounts. We believe that fostering long-term customer relationships is critical to our success and allows us to better understand our customers' needs and specifically tailor our transportation services to them.

One of our primary goals is to grow our net income. We achieved this growth through an increase in revenue from our existing Core Transportation customers as well as from winning new customers. Our top 50 customers' revenue, which represents about 54% of our Core Transportation revenue, has increased by approximately 7.3% when comparing the year ended December 31, 2005 to December 31, 2004. During 2005 and 2004, we severed relationships with certain low profitability customers which impeded our intermodal revenue growth. Revenue growth resulted primarily from price increases, fuel surcharges and mix when comparing 2005 to 2004.

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

## RESULTS OF OPERATIONS

### *Year Ended December 31, 2005, Compared to Year Ended December 31, 2004*

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

	Twelve Months Ended		% Change
	2005	2004	
Revenue			
Core Transportation			
Intermodal	\$1,079,799	\$1,014,533	6.4%
Truck	266,546	225,466	18.2
Logistics	135,535	140,723	(3.7)
Total Core	1,481,880	1,380,722	7.3
Hub Distribution	49,619	46,084	7.7
Total Revenue	\$1,531,499	\$1,426,806	7.3%

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

	Twelve Months Ended December 31,	
	2005	2004
Revenue	100.0%	100.0%
Transportation costs	87.7	87.4
Gross margin	12.3	12.6
Costs and Expenses:		
Salaries and benefits	5.7	6.2
General and administrative	2.4	2.7
Depreciation and amortization of property and equipment	0.6	0.8
Total costs and expenses	8.7	9.7
Operating income	3.6	2.9
Other income (expense):		
Debt extinguishment expenses	-	(0.5)
Interest income	0.1	-
Other expense, net	-	(0.2)
Total other income (expense)	0.1	(0.7)
Income before provision for income taxes	3.7	2.2
Provision for income taxes	1.5	1.0
Net income	2.2%	1.2%

#### Revenue

Revenue increased 7.3% to \$1,531.5 million in 2005 from \$1,426.8 million in 2004. Intermodal revenue increased 6.4% to \$1,079.8 million from \$1,014.5 million due primarily to price increases, mix and fuel surcharges, offset by a 5.1% decrease in volume. However, during the fourth quarter of 2005, intermodal volume increased 1.3%. Truckload brokerage revenue increased 18.2% to \$266.5 million from \$225.5 million due primarily to price increases, mix and fuel surcharges and a 5.4% increase in volume. Logistics revenue decreased 3.7% to \$135.5 million from \$140.7 million due primarily to the loss of two customers in 2005. We expect logistics revenue to decrease between 5 and 10% in 2006 resulting from these lost customers and two other customers that we will no longer be servicing after the first quarter of 2006 offset by anticipated new customer additions. In addition, HGDS revenue increased 7.7% to \$49.6 million from \$46.1 million.

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

#### Gross Margin

Gross margin increased 5.3% to \$189.0 million in 2005 from \$179.5 million in 2004. Gross margin percentage decreased from 12.6% in 2004 to 12.3% in 2005 due partially to additional costs for repositioning equipment in 2005, accessorial cost increases, ramp up costs for certain new customers and start up costs associated with our new containers. We made a decision to reposition equipment to certain cities to expand the number of rail-controlled containers within our network in order to meet customer demand during the 2005 peak season. In addition, in 2005 some of our rail carriers changed accessorial pricing and there is often a lag time before we can pass along the increase to our customers. Further, in 2005 we incurred initial ramp up costs for several large customers and we had extra drayage costs associated with moving our new containers from the pier.



## **Salaries and Benefits**

Salaries and benefits remained constant at \$88.2 million year over year. As a percentage of revenue, salaries and benefits decreased to 5.7% in 2005 from 6.2% 2004 due primarily to an increase in revenue. Headcount as of December 31, 2005 and 2004 was 1,184 and 1,172 respectively.

## **General and Administrative**

General and administrative expenses decreased 6.0% to \$36.9 million in 2005 from \$39.2 million in 2004. As a percentage of revenue, these expenses decreased to 2.4% in 2005 from 2.7% in 2004. General and administrative expense decreased primarily due to reductions in outside services and equipment lease expense. Equipment lease expense decreased by approximately \$1.3 million due primarily to equipment lease buy-outs. Outside services decreased by \$0.6 million due primarily to lower professional service costs.

## **Depreciation and Amortization of Property and Equipment**

Depreciation and amortization decreased 16.7% to \$9.6 million from \$11.5 million in 2004. This expense as a percentage of revenue decreased to 0.6% from 0.8% The decrease in depreciation and amortization is due primarily to lower computer equipment and software depreciation.

## **Other Income (Expense)**

Interest expense decreased 85.1% to \$0.6 million from \$4.3 million in 2004. The decrease in interest expense is due primarily to carrying a lower average debt balance this year as compared to the prior year and the extinguishment of the private placement debt during the third quarter of 2004. The debt extinguishment expenses of \$7.3 million in 2004 includes a \$6.8 million pre-payment penalty associated with paying off the \$50 million of 9.14% debt and the \$0.5 million write off of the related deferred financing costs. In 2004 and 2005 other, net includes currency translation and gains on the sale of fixed assets. During 2004, other, net included a legal settlement.

## **Provision for Income Taxes**

The provision for income taxes increased to \$22.2 million in 2005 compared to \$12.7 million in 2004. We provided for income taxes using an effective rate of 40.3% in 2005 compared to 42.4% in 2004. The decrease in the effective rate in 2005 resulted primarily from a lower increase in reserves for 2005 and a lower state tax rate due to business restructuring.

## **Net Income**

Net income increased to \$32.9 million in 2005 from \$17.3 million in 2004 due primarily to an increase in our gross margin, lower general and administrative expenses and lower interest expense. Excluding the debt extinguishment expenses, adjusted net income for 2004 would have been \$21.5 million. A tabular reconciliation of the differences between the adjusted financial results for 2004 and our financial results determined in accordance with U.S. generally accepted accounting principles are contained in the table below.

## **Earnings Per Common Share**

Basic earnings per share increased to \$1.65 in 2005 from \$0.98 in 2004 and diluted earnings per share increased to \$1.59 in 2005 from \$0.92 in 2004. The weighted average diluted shares outstanding increased 10.2% from 18,778,000 at December 31, 2004 to 20,696,000 at December 31, 2005 due primarily to the 3,600,000 shares from our stock offering being outstanding the whole year in 2005 and the issuance of restricted stock. Excluding the debt extinguishment expenses, adjusted basic earnings per share would have been \$1.22 in 2004 and adjusted diluted earnings per share would have been \$1.15 in 2004.

RECONCILIATION OF "AS REPORTED" FINANCIAL RESULTS TO "AS ADJUSTED" FINANCIAL RESULTS  
(in thousands, except per share amounts)

	Year ended December 31, 2004		
	As reported	Adjustments	As adjusted
<b>Operating income</b>	\$ 40,598	\$ -	\$ 40,598
<b>Interest expense</b>	(4,276)	-	(4,276)
<b>Interest income</b>	260	-	260
<b>Debt extinguishment expenses</b>	(7,296)	(7,296) (a)	-
<b>Other, net</b>	712	-	712
<b>Income before provision for income taxes</b>	29,998	(7,296)	37,294
<b>Provision for income taxes</b>	12,719	(3,064) (b)	15,783
<b>Net income</b>	<u>\$ 17,279</u>	<u>\$ (4,232)</u>	<u>\$ 21,511</u>
<b>Basic earnings (loss) per common share</b>	<u>\$.98</u>	<u>\$.24</u>	<u>\$ 1.22</u>
<b>Diluted earnings (loss) per common share</b>	<u>\$.92</u>	<u>\$.23</u>	<u>\$ 1.15</u>
<b>Basic weighted average number of shares outstanding</b>	<u>17,600</u>	<u>17,600</u>	<u>17,600</u>
<b>Diluted weighted average number of shares outstanding</b>	<u>18,778</u>	<u>18,778</u>	<u>18,778</u>

a) Fees and expenses related to our early extinguishment of 9.14% debt

1) Pre-payment penalty of \$6,804

2) Write-off of related deferred financing costs of \$492

b) Income taxes at 42%

The purpose of this reconciliation is to reflect as adjusted earnings excluding the one time costs associated with prepaying our debt.

*Year Ended December 31, 2004, Compared to Year Ended December 31, 2003*

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

Revenue	Twelve Months Ended December 31,		
	2004	2003	% Change
Core Transportation			
Intermodal	\$1,014,533	\$976,723	3.9%
Truck	225,466	210,493	7.1
Logistics (1)	140,723	118,601	18.7
Total Core	1,380,722	1,305,817	5.7
Hub Distribution (1)	46,084	53,797	(14.3)
Total Revenue	<u>\$1,426,806</u>	<u>\$1,359,614</u>	4.9%

(1) HGDS transferred its pharmaceutical sample delivery business to logistics in August 2004, resulting in an increase in logistics revenue of \$4.3 million for the year ended December 31, 2004.

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

	Twelve Months Ended December 31,	
	2004	2003
Revenue	100.0%	100.0%
Transportation costs	87.4	87.4
Gross Margin	12.6	12.6
Costs and Expenses:		
Salaries and benefits	6.2	6.6
General and administrative	2.7	3.4
Depreciation and amortization of property and equipment	0.8	0.8
Total costs and expense	9.7	10.8
Operating Income	2.9	1.8
Other expense:		
Debt Extinguishment expenses	(0.5)	-
Interest income	-	-
Other expense, net	(0.2)	(0.5)
Total other expense	(0.7)	(0.5)
Income before provision for income taxes	2.2	1.3
Provision for income taxes	1.0	0.7
Net income	1.2%	0.6%

#### Revenue

Revenue increased 4.9% to \$1,426.8 million in 2004 from \$1,359.6 million in 2003. Intermodal revenue increased 3.9% to \$1,014.5 million from \$976.7 million due primarily to price increases, mix and fuel surcharges, offset by a 0.7% decrease in volume. Truckload brokerage revenue increased 7.1% to \$225.5 million from \$210.5 million due primarily to price increases, mix and fuel surcharges. Logistics revenue increased 18.7% to \$140.7 million from \$118.6 million due primarily to increased business from both new and existing customers including the transfer of the pharmaceutical sample delivery business from HGDS in mid-year. In addition, the revenue of HGDS decreased 14.3% to \$46.1 million from \$53.8 million in 2003 due primarily to a decrease in the installation business for a significant customer and transferring its pharmaceutical sample delivery business to our logistics division in August 2004. Pharmaceutical revenue included in logistics is approximately \$4.3 million for the year ended December 31, 2004.

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

#### Gross Margin

Gross margin increased 5.2% to \$179.5 million in 2004 from \$170.7 million in 2003. The increase relates solely to our Core Transportation business. We proactively passed along rate increases to our customers for fuel and increased costs from our transportation suppliers. We also increased our margins by eliminating business where we do not receive adequate returns. This has caused part of the decline in intermodal volume.

#### Salaries and Benefits

Salaries and benefits decreased 2.0% to \$88.2 million in 2004 from \$90.0 million in 2003. As a percentage of revenue, salaries and benefits decreased to 6.2% in 2004 from 6.6% 2003 due primarily to a decrease in headcount and an increase in revenue. Headcount as of December 31, 2004 and 2003 was 1,172 and 1,223 respectively, representing a 4% decrease. In late 2003, we stopped issuing stock options and began issuing restricted stock, which vests over three years. As a result, salaries and benefits include a \$2.1 million charge related to restricted stock in 2004 compared to \$0.2 million in 2003.

## **General and Administrative**

General and administrative expenses decreased 14.1% to \$39.2 million in 2004 from \$45.7 million in 2003. As a percentage of revenue, these expenses decreased to 2.7% in 2004 from 3.4% in 2003. Selling, general and administrative expense decreased primarily due to reductions in equipment lease expense, outside services, bad debts, telephone, automotive, office expense and meals and entertainment. Equipment lease expense decreased by approximately \$2.4 million due primarily to equipment lease buy-outs. Telephone and office expense decreased by \$0.9 million due to closed offices and cost savings initiatives. Outside services decreased by \$0.8 million due primarily to lower legal fees. Travel and meals and entertainment decreased by \$0.7 million due to closed offices, headcount reductions and cost savings initiatives. Automotive expense decreased by \$0.4 million due to changes in policies and cost reduction efforts.

## **Depreciation and Amortization of Property and Equipment**

Depreciation and amortization increased 7.3% to \$11.5 million from \$10.8 million in 2003. This expense as a percentage of revenue remained constant at 0.8%. The increase in depreciation and amortization is due primarily to more computer equipment being depreciated in 2004 as a result of lease buy-outs.

## **Other Income (Expense)**

Interest expense decreased 44.4% to \$4.3 million from \$7.7 million in 2003. The decrease in interest expense is due primarily to carrying a lower average debt balance this year as compared to the prior year and the extinguishment of the private placement debt during the 3rd quarter of 2004. The debt extinguishment expenses of \$7.3 million include a \$6.8 million pre-payment penalty associated with paying off the \$50 million of 9.14% debt and the \$0.5 million write off of the related deferred financing costs.

## **Provision for Income Taxes**

The provision for income taxes increased to \$12.7 million in 2004 compared to \$8.5 million in 2003. We provided for income taxes using an effective rate of 42.4% in 2004 compared to 50.1% in 2003. In 2003, we wrote off \$0.8 million of deferred tax assets related to the Illinois Research and Development credit as a result of Illinois legislation enacted in June of 2003. The decrease in the effective rate in 2004 also resulted partially from a business restructuring impacting the deferred state income tax rate offset by the establishment of a valuation allowance on state tax net operating losses.

## **Net Income**

Net income increased to \$17.3 million in 2004 from \$8.4 million in 2003 due primarily to higher gross margin and lower selling, general and administrative expenses, partially offset by the one time debt extinguishment expenses of \$7.3 million. Excluding the debt extinguishment expenses, adjusted net income for 2004 would have been \$21.5 million. A tabular reconciliation of the differences between the adjusted financial results for 2004 and our financial results determined in accordance with U.S. generally accepted accounting principles are contained in the table above.

## **Earnings Per Common Share**

Basic earnings per share increased to \$0.98 in 2004 from \$0.55 in 2003 and diluted earnings per share increased to \$0.92 in 2004 from \$0.54 in 2003. The weighted average diluted shares outstanding increased 19% from 15,730,000 at December 31, 2003 to 18,778,000 at December 31, 2004 due primarily to our sale of 3,600,000 shares of Class A Common Stock in July 2004 (in a follow-on offering). Excluding the debt extinguishment expenses, adjusted basic earnings per share would have been \$1.22 and adjusted diluted earnings per share would have been \$1.15.

## **LIQUIDITY AND CAPITAL RESOURCES**

We have funded our operations, capital expenditures and stock buy backs through cash flows from operations.

Cash provided by operating activities for the year ended December 31, 2005, was approximately \$51.6 million, which resulted primarily from net income from operations of \$32.9 million and non-cash charges relating to deferred taxes and depreciation offset by changes in working capital.

Net cash used in investing activities for the year ended December 31, 2005, was \$3.8 million and related primarily to capital expenditures made to enhance our information system capabilities. Assuming the Comtrak acquisition closes, we expect capital expenditures to be approximately \$7 to \$9 million in 2006. If the deal does not close, we expect capital expenditures to be between \$4 and \$6 million in 2006.

The net cash used in financing activities for the year ended December 31, 2005, was \$28.5 million. Uses of cash related to the purchase of \$33.2 million of treasury stock. We generated cash from stock options being exercised of approximately \$4.7 million.

On March 23, 2005, we entered into a revolving credit agreement that provides for unsecured borrowings of up to \$40.0 million. The interest rate ranges from LIBOR plus 0.75% to 1.25% or Prime plus 0.5%. The revolving line of credit expires on March 23, 2010. The financial covenants require a minimum net worth of \$175.0 million and a cash flow leverage ratio of not more than 2.0 to 1.0. The commitment fees charged on the unused line of credit are between 0.15% and 0.25% per annum.

In February 2006, we amended the revolving credit agreement to provide for unsecured borrowing up to \$50.0 million. No other terms of the credit agreement were amended.

Our unused and available borrowings under our bank revolving line of credit at December 31, 2005 and December 31, 2004 were \$39.0 million and \$34.1 million, respectively. We were in compliance with our debt covenants at December 31, 2005.

We have standby letters of credit that expire from 2006 to 2012. As of December 31, 2005 our letters of credit were \$1.0 million.

In 2005, we added 3,400 new 53' containers to our PSN fleet. We financed these 3,400 containers with operating leases. These arrangements are included in Note 7 to the consolidated financial statements.

## **CONTRACTUAL OBLIGATIONS**

Our contractual cash obligations as of December 31, 2005 are minimum rental commitments. Minimum annual rental commitments, at December 31, 2005, under noncancellable operating leases, principally for real estate, containers and equipment are payable as follows (in thousands):

2006	\$15,076
2007	13,983
2008	10,547
2009	8,752
2010	7,295
2011 and thereafter	12,343

## **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.

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

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

## Revenue Recognition

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

## Deferred Income Taxes

Deferred income taxes are recognized for the future tax effects of temporary differences between financial and income tax reporting using tax rates in effect for the years in which the differences are expected to reverse. We believe that it is more likely than not that our deferred tax assets will be realized with the exception of \$489,000 related to state tax net operating losses and other state credits for which valuation allowances have been established. In the event the probability of realizing the remaining deferred tax assets do not meet the more likely than not threshold in the future, a valuation allowance would be established for the deferred tax assets deemed unrecoverable.

## Valuation of Goodwill

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

## New Pronouncement

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

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

We will adopt Statement 123 (R) effective January 1, 2006 using the modified prospective method. We expect the 2006 impact of the adoption of Statement 123 (R) to be between \$.01 and \$.02 per share. Statement 123 (R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under the current literature. This requirement will reduce net operating cash flow and increase net financing cash flows in periods after adoption. While we cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the amount of operating cash flows recognized in prior periods for such excess tax deductions were \$8.5 million and \$5.3 million in 2005 and 2004, respectively.

## **OUTLOOK, RISKS AND UNCERTAINTIES**

### **Business Combinations/Divestitures**

We believe that future acquisitions or dispositions that we 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.

In January 2006, we entered into a definitive agreement to acquire Comtrak, Inc. The closing is subject to certain customary closing conditions and approvals. Hub will pay \$38.0 million in cash at closing, which is expected to occur during the first quarter of 2006. The purchase price will be subject to adjustment based on Comtrak's working capital at closing. In addition, the agreement provides for an earn-out for 2006 and 2007, consisting of two cash payments, each of which will not exceed \$5 million. We expect this acquisition to increase revenue, gross margin, salaries and benefits, general and administrative expense, depreciation and also impact net income. If we do not close this transaction or if Comtrak's future results do not approximate their projections, our earnings could be negatively impacted.

On November 11, 2004, we, along with our wholly owned subsidiary, Hub Group Distribution Services, LLC ("HGDS"), entered into the Purchase Option and Right of First Refusal Agreement pursuant to which HGDS granted an entity controlled by William J. McKenna the exclusive option to purchase all or substantially all of the assets of HGDS for a cash purchase price of \$11.3 million (subject to adjustment on the closing date), plus the assumption of certain HGDS liabilities. Mr. McKenna agreed to serve as President of HGDS effective December 1, 2004. McKenna's company may exercise the option during the period (the "Option Period") commencing on November 11, 2004, and ending on the earlier to occur of (i) March 31, 2007, and (ii) the date on which McKenna's employment with HGDS terminates; provided, however, that this period may be extended for up to 180 days depending on the circumstances of the termination of McKenna's employment. Additionally, HGDS granted McKenna's company a right of first refusal with respect to any acceptable third-party offers that we or HGDS receive during the Option Period for all or substantially all of the assets of HGDS. During the Option Period, we and HGDS agreed that, except as required by law, we would not solicit or initiate discussions or negotiations with any person other than McKenna's company relating to the sale of HGDS or its assets.

Excluding the Comtrak acquisition, financial results may be impacted by additional factors as discussed below.

### **Revenue**

We believe that the performance of the railroads 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. 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, the entry of new web-based competitors, customer retention, inadequate drayage service and inadequate equipment supply.

Our installation services business, HGDS, is a project-based business with significant customer concentration. Any decrease in the demand from these customers or our failure to secure new project business could have a material adverse effect on our revenue.

### **Gross Margin**

We expect fluctuations in the gross margin as a percentage of revenue from quarter-to-quarter caused by various factors including, but not limited to, changes in the core transportation business mix, trailer and container capacity, vendor pricing, fuel costs, intermodal industry growth, intermodal industry service levels, accessorial, competition and accounting estimates. Unlike other service offerings, our distribution services are comprised of certain higher margin projects. There can be no assurance these higher margin projects will continue in the future.

## **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 affect the percentage from staying 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 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 web-based business interfaces and the restructuring of our information systems and related platforms, we believe there could be significant expenses incurred, some of which would not be capitalized. Other factors that could cause selling, general and administrative expense to fluctuate include, but are not limited to, changes in insurance premiums and outside services expense.

## **Depreciation and Amortization of Property and Equipment**

We estimate that depreciation and amortization of property and equipment will remain relatively consistent in 2006 assuming we close the Comtrak acquisition. If we do not acquire Comtrak, depreciation and amortization expense will likely decrease in 2006.

## **Impairment of Property and Equipment and Goodwill**

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

## **Other Income (Expense)**

We estimate that interest income will likely decrease compared to 2005 since we have entered into an agreement to purchase Comtrak. Other factors that could cause a change include, but are not limited to funding working capital needs, funding capital expenditures and buying back stock.

## **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. We seek to minimize the risk from interest rate volatility through our regular operating and financing activities and when deemed appropriate, through the use of derivative financial instruments. No derivative financial instruments are outstanding at December 31, 2005. We do not use financial instruments for trading purposes.

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



**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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AND FINANCIAL STATEMENT SCHEDULE**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of Hub Group, Inc.:

We have audited the accompanying consolidated balance sheets of Hub Group, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the index at Item 15(a) for the years ended December 31, 2005, 2004 and 2003. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hub Group, Inc. at December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule referred to above for the years ended December 31, 2005, 2004, and 2003 when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of Treadway Commission and our report dated February 20, 2006 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Chicago, Illinois  
February 20, 2006

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

	December 31,	
	2005	2004
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 36,133	\$ 16,806
Restricted investments	1,387	—
Accounts receivable		
Trade, net	156,864	140,762
Other	10,603	8,313
Deferred taxes	—	4,667
Prepaid taxes	6,040	—
Prepaid expenses and other current assets	4,007	4,746
	215,034	175,294
PROPERTY AND EQUIPMENT, net	13,524	19,487
GOODWILL, net	215,175	215,175
OTHER ASSETS	685	889
	\$ 444,418	\$ 410,845
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Accounts payable		
Trade	\$ 117,712	\$ 115,819
Other	3,735	1,660
Accrued expenses		
Payroll	22,092	19,542
Other	19,390	15,100
Deferred taxes	960	—
	163,889	152,121
DEFERRED TAXES	38,454	31,788
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value, 2,000,000 shares authorized; no shares issued or outstanding in 2005 and 2004	—	—
Common stock		
Class A: \$.01 par value; 47,337,700 shares authorized; 20,281,248 shares issued and 19,650,094 shares outstanding in 2005; 19,933,610 shares issued and outstanding in 2004;	203	199
Class B: \$.01 par value; 662,300 shares authorized; 662,296 shares issued and outstanding in 2005 and 2004	7	7
Additional paid-in capital	183,733	182,262
Purchase price in excess of predecessor basis, net of tax benefit of \$10,306	(15,458)	(15,458)
Retained earnings	97,557	64,611
Unearned compensation	(6,259)	(4,685)
Treasury stock, at cost (631,154 shares in 2005)	(17,708)	—
	242,075	226,936
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 444,418	\$ 410,845

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

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

	<b>Years Ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Revenue	\$1,531,499	\$1,426,806	\$ 1,359,614
Transportation costs	<u>1,342,476</u>	<u>1,247,258</u>	<u>1,188,932</u>
Gross margin	189,023	179,548	170,682
Costs and expenses:			
Salaries and benefits	88,182	88,193	89,980
General and administrative	36,850	39,218	45,650
Depreciation and amortization of property and equipment	<u>9,611</u>	<u>11,539</u>	<u>10,757</u>
Total costs and expenses	134,643	138,950	146,387
Operating income	<u>54,380</u>	<u>40,598</u>	<u>24,295</u>
Other income (expense):			
Interest expense	(638)	(4,276)	(7,691)
Interest income	971	260	160
Debt extinguishment expenses	-	(7,296)	-
Other, net	<u>474</u>	<u>712</u>	<u>131</u>
Total other income (expense)	807	(10,600)	(7,400)
Income before provision for income taxes	<u>55,187</u>	<u>29,998</u>	<u>16,895</u>
Provision for income taxes	<u>22,241</u>	<u>12,719</u>	<u>8,465</u>
Net income	<u>\$ 32,946</u>	<u>\$ 17,279</u>	<u>\$ 8,430</u>
Basic earnings per common share	<u>\$ 1.65</u>	<u>\$ 0.98</u>	<u>\$ 0.55</u>
Diluted earnings per common share	<u>\$ 1.59</u>	<u>\$ 0.92</u>	<u>\$ 0.54</u>
Basic weighted average number of shares outstanding	<u>19,930</u>	<u>17,600</u>	<u>15,424</u>
Diluted weighted average number of shares outstanding	<u>20,696</u>	<u>18,778</u>	<u>15,730</u>

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)

	Years ended December 31,		
	2005	2004	2003
<b>Class A &amp; B Common Stock Shares Outstanding</b>			
Beginning of year	20,595,906	16,105,592	15,417,092
Exercise of non-qualified stock options	346,258	745,766	74,532
Issuance of restricted stock	1,380	104,148	654,368
Purchase of treasury shares	(1,189,356)	(256,480)	(40,400)
Stock offering	-	3,600,000	-
Treasury shares issued under restricted stock and stock option plan	558,202	296,880	-
Ending balance	<u>20,312,390</u>	<u>20,595,906</u>	<u>16,105,592</u>
<b>Class A &amp; B Common Stock Amount</b>			
Beginning of year	\$ 206	\$ 162	\$ 154
Issuance of restricted stock and exercise of stock options	4	8	8
Stock offering	-	36	-
Ending balance	<u>210</u>	<u>206</u>	<u>162</u>
<b>Additional Paid-in Capital</b>			
Beginning of year	182,262	115,739	110,742
Exercise of non-qualified stock options	(7,663)	3,045	232
Tax benefit of employee stock plans	8,523	5,319	145
Issuance of restricted stock awards	611	2,324	4,620
Stock offering	-	55,835	-
Ending balance	<u>183,733</u>	<u>182,262</u>	<u>115,739</u>
<b>Purchase Price in Excess of Predecessor Basis, Net of Tax</b>			
Beginning of year	(15,458)	(15,458)	(15,458)
Ending balance	<u>(15,458)</u>	<u>(15,458)</u>	<u>(15,458)</u>
<b>Retained Earnings</b>			
Beginning of year	64,611	47,332	38,902
Net income	32,946	17,279	8,430
Ending balance	<u>97,557</u>	<u>64,611</u>	<u>47,332</u>
<b>Unearned Compensation</b>			
Beginning of year	(4,685)	(4,448)	-
Issuance of restricted stock awards, net of forfeitures	(3,751)	(2,385)	(4,628)
Compensation expense related to restricted stock awards	2,177	2,148	180
Ending Balance	<u>(6,259)</u>	<u>(4,685)</u>	<u>(4,448)</u>
<b>Treasury Stock</b>			
Beginning of year	-	(292)	-
Purchase of treasury shares	(33,245)	(4,110)	(292)
Issuance of restricted stock and exercise of stock options	15,537	4,402	-
Ending balance	<u>(17,708)</u>	<u>-</u>	<u>(292)</u>
<b>Total stockholders' equity</b>	<u>\$242,075</u>	<u>\$226,936</u>	<u>\$143,035</u>

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

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

	<b>Years Ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
Cash flows from operating activities:			
Net income	\$32,946	\$17,279	\$ 8,430
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	10,025	11,828	10,797
Compensation expense related to restricted stock awards	2,177	2,148	180
Deferred taxes	20,816	12,752	7,672
Gain on sale of equipment	(271)	(294)	(59)
Other assets	204	128	457
Restricted investments	(1,387)	-	-
Changes in working capital:			
Accounts receivable, net	(18,392)	(13,849)	5,225
Prepaid taxes	(6,040)	-	-
Prepaid expenses and other current assets	739	(168)	154
Accounts payable	3,968	(2,866)	(7,861)
Accrued expenses	6,840	8,893	6,503
Net cash provided by operating activities	<u>51,625</u>	<u>35,851</u>	<u>31,498</u>
Cash flows from investing activities:			
Proceeds from sale of equipment	579	383	59
Purchases of property and equipment, net	(4,370)	(3,549)	(4,443)
Net cash used in investing activities	<u>(3,791)</u>	<u>(3,166)</u>	<u>(4,384)</u>
Cash flows from financing activities:			
Proceeds from stock offering	-	55,871	-
Proceeds from stock options exercised	4,738	7,394	232
Purchase of treasury stock	(33,245)	(4,110)	(292)
Net payments on revolver	-	(6,000)	(19,000)
Payments on long-term debt	-	(69,034)	(8,054)
Net cash used in financing activities	<u>(28,507)</u>	<u>(15,879)</u>	<u>(27,114)</u>
Net increase in cash and cash equivalents	19,327	16,806	-
Cash and cash equivalents beginning of period	16,806	-	-
Cash and cash equivalents end of period	<u>\$ 36,133</u>	<u>\$ 16,806</u>	<u>\$ -</u>
Supplemental disclosures of cash flow information			
Cash paid for:			
Interest	\$ 923	\$ 2,995	\$ 6,355
Income taxes	\$ 6,811	\$ 591	\$ 441

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

HUB GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 1. Description of Business and Summary of Significant Accounting Policies**

*Business:* Hub Group, Inc. (“we”, “us”, or “our”) provides intermodal transportation services utilizing primarily third party arrangements with railroads and drayage companies. We also arrange for transportation of freight by truck and perform logistics, drayage and installation services.

*Principles of Consolidation:* The consolidated financial statements include our accounts and all entities in which we have more than a 50% equity ownership or otherwise exercise unilateral control. All significant intercompany balances and transactions have been eliminated.

*Cash and Cash Equivalents:* We consider as cash equivalents all highly liquid instruments with an original maturity of three months or less.

*Accounts Receivable and Allowance for Uncollectible Accounts:* In the normal course of business, we extend credit to customers after a review of each customer’s credit history. An allowance for uncollectible trade accounts has been established through an analysis of the accounts receivable aging, an assessment of collectibility based on historical trends and an evaluation of the current economic conditions. To be more specific, we reserve every account balance that has aged over one year, certain customers in bankruptcy and account balances specifically identified as uncollectible. In addition, we provide a reserve for accounts not specifically identified as uncollectible based upon historical trends which are updated routinely. Our experience resulted in a decrease in the reserve of approximately \$1,200,000 in the fourth quarter of 2005. The allowance is reported on the balance sheet in net accounts receivable. Actual collections of accounts receivable could differ from management’s estimates due to changes in future economic, industry or customer financial conditions. Our reserve for uncollectible accounts was approximately \$7,008,000 and \$7,119,000 at December 31, 2005 and 2004, respectively. Recoveries of receivables previously charged off are recorded when received.

*Property and Equipment:* Property and equipment are stated at cost. Depreciation of property and equipment is computed using the straight-line and various accelerated methods at rates adequate to depreciate the cost of the applicable assets over their expected useful lives: leasehold improvements, the shorter of useful life or lease term; computer equipment and software, 3 to 5 years; furniture and equipment, 3 to 10 years; and transportation equipment and automobiles, 3 to 8 years. Direct costs related to internally developed software projects are capitalized and amortized over their expected useful life on a straight-line basis not to exceed five years. Interest is capitalized on qualifying assets under development for internal use. Maintenance and repairs are charged to operations as incurred and major improvements are capitalized. The cost of assets retired or otherwise disposed of and the accumulated depreciation thereon are removed from the accounts with any gain or loss realized upon sale or disposal charged or credited to operations. We review long-lived assets for impairment when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. In the event that the undiscounted future cash flows resulting from the use of the asset group is less than the carrying amount, an impairment loss equal to the excess of the assets carrying amount over its fair value is recorded.

*Goodwill:* Goodwill represents the excess of purchase price over the fair market value of net assets acquired in connection with our business combinations. Under Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets” (“Statement 142”), goodwill and intangible assets that have indefinite useful lives are not amortized but are subject to annual impairment tests. Accumulated goodwill amortization was \$21,517,000 as of December 31, 2005 and 2004.

We review goodwill for impairment on an annual basis as of November 1, or whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable. We utilize a third-party independent valuation firm to assist in performing the necessary valuations to be used in the impairment testing. These valuations are based on market capitalization, discounted cash flow analysis or a combination of both methodologies. The assumptions used in the valuations include expectations regarding future operating performance, discount rates, control premiums and other factors which are subjective in nature. Actual cash flows from operations could differ from management’s estimates due to changes in business conditions, operating performance and economic conditions. Should estimates differ materially from actual results, we may be required to record impairment charges in the future.

*Fair Value of Financial Instruments:* The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximates fair value at December 31, 2005 due to their short-term nature.

*Concentration of Credit Risk:* Our financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. We place our cash and temporary investments with high quality financial institutions. We primarily serve customers located throughout the United States with no significant concentration in any one region. No one customer accounted for more than 5% of revenue in 2005, 2004 or 2003. We review a customer's credit history before extending credit. In addition, we routinely assess the financial strength of our customers and, as a consequence, believe that our trade accounts receivable risk is limited.

*Revenue Recognition:* Revenue is recognized at the time 1) persuasive evidence of an arrangement exists, 2) services have been rendered, 3) the sales price is fixed and determinable and 4) collectibility is reasonably assured. In accordance with EITF 91-9, revenue and related transportation costs are recognized based on relative transit time. Further, we report our revenue on a gross basis in accordance with the criteria in EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent." We are the primary obligor 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. Services 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. Finally, we have credit risk for our receivables. These three factors, discretion in setting prices, discretion in selecting vendors and credit risk, further support reporting revenue on a gross basis.

*Deferred Income Taxes:* Deferred income taxes are recognized for the future tax effects of temporary differences between financial and income tax reporting using tax rates in effect for the years in which the differences are expected to reverse. We believe that it is more likely than not that our deferred tax assets will be realized with the exception of \$489,000 related to state tax net operating losses and other state credits for which a valuation allowance has been established. In the event the probability of realizing the deferred tax assets do not meet the more likely than not threshold in the future, a valuation allowance would be established for the deferred tax assets deemed unrecoverable.

*Earnings Per Common Share:* Basic earnings per common share are based on the average quarterly weighted average number of Class A and Class B shares of common stock outstanding. Diluted earnings per common share are adjusted for the assumed exercise of dilutive stock options and for restricted stock. In computing the per share effect of the assumed exercise of stock options, funds which would have been received from the exercise of options, including tax benefits assumed to be realized, are considered to have been used to purchase shares at current market prices, and the resulting net additional shares are included in the calculation of weighted average shares outstanding. The dilutive effect of restricted stock and stock options is computed using the treasury method.

*Stock Based Compensation:* Statement of Financial Accounting Standards No. 123 ("Statement 123"), "Accounting for Stock-Based Compensation," as amended by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. We have chosen to account for stock-based compensation for options using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25 (Opinion 25), "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, compensation expense for stock options is measured as the excess, if any, of the quoted market price of our stock at the date of the grant over the amount an employee must pay to acquire the stock. We grant options at fair market value and therefore recognize no compensation expense.



The following table illustrates the effect on the net income and net income per share if we had applied the fair value recognition provisions of Statement 123, to stock-based employee compensation (in thousands, except per share data):

	<b>Years Ended December 31,</b>		
	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2003</u></b>
Net income, as reported	\$ 32,946	\$ 17,279	\$ 8,430
Add: Total stock-based employee compensation included in reported net income, net of related tax effects	1,300	1,237	106
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<u>(1,600)</u>	<u>(1,820)</u>	<u>(818)</u>
Net income, pro forma	<u>\$ 32,646</u>	<u>\$ 16,696</u>	<u>\$ 7,718</u>
Earnings per share:			
Basic — as reported	<u>\$ 1.65</u>	<u>\$ .98</u>	<u>\$ .55</u>
Basic — pro forma	<u>\$ 1.64</u>	<u>\$ .95</u>	<u>\$ .50</u>
Diluted — as reported	<u>\$ 1.59</u>	<u>\$ .92</u>	<u>\$ .54</u>
Diluted — pro forma	<u>\$ 1.58</u>	<u>\$ .89</u>	<u>\$ .49</u>

The pro forma disclosure is not likely to be indicative of pro forma results which may be expected in future periods because of the fact that options vest over several years, pro forma compensation expense is recognized as the options vest and additional awards may also be granted. Our stock based compensation plans are further discussed in Note 8.

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

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

We will adopt Statement 123 (R) effective January 1, 2006 using the modified prospective method. We expect the 2006 impact of the adoption of Statement 123 (R) to be between \$.01 and \$.02 per share. Statement 123 (R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under the current literature. This requirement will reduce net operating cash flow and increase net financing cash flows in periods after adoption. While we cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the amount of operating cash flows recognized in prior periods for such excess tax deductions were \$8.5 million and \$5.3 million in 2005 and 2004, respectively.

*Use of Estimates:* The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Significant estimates include the allowance for doubtful accounts and cost of purchased transportation. Actual results could differ from those estimates.

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

**NOTE 2. Capital Structure**

We have authorized common stock comprised of Class A Common Stock and Class B Common Stock. The rights of holders of Class A Common Stock and Class B Common Stock are identical, except each share of Class B Common Stock entitles its holder to approximately 40 votes, while each share of Class A Common Stock entitles its holder to one vote. We have authorized 2,000,000 shares of preferred stock.

**NOTE 3. Earnings Per Share**

The following is a reconciliation of our earnings per share:

	<u>Year Ended December 31, 2005</u> (000's)			<u>Year Ended December 31, 2004</u> (000's)			<u>Year Ended December 31, 2003</u> (000's)		
	Per-Share		Income	Per-Share		Income	Per-Share		Income
	Shares	Amount		Shares	Amount		Shares	Amount	
<b>Basic EPS</b>									
Net income	<u>\$32,946</u>	<u>19,930</u>	<u>\$1.65</u>	<u>\$17,279</u>	<u>17,600</u>	<u>\$0.98</u>	<u>\$8,430</u>	<u>15,424</u>	<u>\$0.55</u>
<b>Effect of Dilutive Securities</b>									
Stock options and restricted stock	-	<u>766</u>	-	-	<u>1,178</u>	-	-	<u>306</u>	-
<b>Diluted EPS</b>									
Net income plus assumed exercises and restricted stock	<u>\$32,946</u>	<u>20,696</u>	<u>\$1.59</u>	<u>\$17,279</u>	<u>18,778</u>	<u>\$0.92</u>	<u>\$8,430</u>	<u>15,730</u>	<u>\$0.54</u>

There were no stock options that were not included in the calculation of diluted weighted average shares because they would have been anti-dilutive in 2005. Stock options not included in the calculation of diluted weighted average shares because they would have been anti-dilutive were 11,500 and 1,504,226 for the years ended December 31, 2004 and 2003, respectively.

**NOTE 4. Property and Equipment**

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

	<u>Years Ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
Building and improvements	\$ -	\$ 237
Leasehold improvements	913	942
Computer equipment and software	53,050	52,442
Furniture and equipment	6,851	7,188
Transportation equipment	2,180	1,461
	<u>62,994</u>	<u>62,270</u>
Less: Accumulated depreciation and amortization	<u>(49,470)</u>	<u>(42,783)</u>
Property and Equipment, net	<u>\$13,524</u>	<u>\$19,487</u>

Depreciation expense was \$10,025,000, \$11,828,000 and \$10,797,000 for 2005, 2004 and 2003, respectively.

**NOTE 5. Income Taxes**

The following is a reconciliation of our effective tax rate to the federal statutory tax rate:

	<u>Years Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
U.S. federal statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	3.3	4.1	4.5
Nondeductible expenses	1.1	1.2	1.9
Legislative elimination of Illinois Credits	-	-	4.7
State tax impact of business restructuring	-	(3.4)	-
Provision for valuation allowance	0.4	0.9	-
Other	0.5	4.6	4.0
Net effective rate	<u>40.3%</u>	<u>42.4%</u>	<u>50.1%</u>

We and our subsidiaries file both unitary and separate company state income tax returns.

The following is a summary of our provision for income taxes (in thousands):

	<u>Years Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current			
Federal	\$ 8,629	\$ 4,548	\$ 343
State and local	1,319	749	595
	<u>9,948</u>	<u>5,297</u>	<u>938</u>
Deferred			
Federal	11,301	6,318	6,565
State and local	992	1,104	962
	<u>12,293</u>	<u>7,422</u>	<u>7,527</u>
Total provision	<u>\$22,241</u>	<u>\$12,719</u>	<u>\$ 8,465</u>

The following is a summary of our deferred tax assets and liabilities (in thousands):

	<u>Years Ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
Reserve for uncollectible accounts receivable	\$ 2,320	\$ 2,336
Accrued compensation	2,883	3,445
Other reserves	1,272	1,184
Current deferred tax assets	<u>6,475</u>	<u>6,965</u>
Operating loss and tax credit carryforwards	1,376	4,225
Other	37	48
Income tax basis in excess of financial basis of goodwill	5,294	5,641
Less valuation allowance	<u>(489)</u>	<u>(271)</u>
Long-term deferred tax assets	<u>6,218</u>	<u>9,643</u>
Total deferred tax assets	<u>\$ 12,693</u>	<u>\$ 16,608</u>
Prepays	\$ (958)	\$ (977)
Receivables	<u>(6,477)</u>	<u>(1,321)</u>
Current deferred tax liabilities	<u>(7,435)</u>	<u>(2,298)</u>
Property and equipment	(4,750)	(7,082)
Goodwill	(39,922)	(34,349)
Long-term deferred tax liabilities	<u>(44,672)</u>	<u>(41,431)</u>
Total deferred tax liabilities	<u>\$ (52,107)</u>	<u>\$ (43,729)</u>

We had a federal net operating loss carryforward of approximately \$4,197,000 at December 31, 2004. This federal net operating loss carryforward was utilized in 2005.

Management believes it is more likely than not that the deferred tax assets will be realized with the exception of \$489,000 related to state net operating losses and other state credits for which a valuation allowance has been established.

We have federal tax credit carryforwards of approximately \$761,000 at December 31, 2005. The federal tax credits have expiration dates as follows:

(In thousands)	
2020	\$313
2021	448
Total	<u>\$761</u>

**NOTE 6. Long-Term Debt and Financing Arrangements**

On July 6, 2004, we used the net proceeds from our public offering (see Note 15) to prepay our \$50,000,000 of 9.14% debt as well as the majority of the make-whole penalty payment of \$6,804,000. As a result of the pre-payment, we recorded debt extinguishment expenses of \$7,296,000 (after-tax of approximately \$4,232,000) consisting of \$6,804,000 in pre-payment penalties and \$492,000 related to the write-off of the related deferred financing costs.

On March 23, 2005, we entered into a revolving credit agreement that provides for unsecured borrowings of up to \$40.0 million. The interest rate ranges from LIBOR plus 0.75% to 1.25% or Prime plus 0.5%. The revolving line of credit expires on March 23, 2010. The financial covenants require a minimum net worth of \$175.0 million and a cash flow leverage ratio of not more than 2.0 to 1.0. The commitment fees charged on the unused line of credit are between 0.15% and 0.25% per annum.

In February 2006, we amended the revolving credit agreement to provide for unsecured borrowing up to \$50.0 million. No other terms of the credit agreement were amended.

We had \$39.0 million of unused and available borrowings under our bank revolving line of credit at December 31, 2005. We were in compliance with our debt covenants at December 31, 2005.

We have standby letters of credit that expire from 2006 to 2012. As of December 31, 2005, the outstanding letters of credit were \$1.0 million.

**NOTE 7. Rental Expense, User Charges and Lease Commitments**

Minimum annual rental commitments, at December 31, 2005, under non-cancelable operating leases, principally for real estate, containers and equipment are payable as follows (in thousands):

2006	\$ 15,076
2007	13,983
2008	10,547
2009	8,752
2010	7,295
2011 and thereafter	<u>12,343</u>
	<u>\$ 67,996</u>

Total rental expense included in general and administrative expense was approximately \$7,981,000, \$9,697,000, and \$12,526,000 for 2005, 2004 and 2003, respectively. Additional rental expense of \$3,036,000, \$1,085,000 and \$1,694,000 was included in transportation costs for 2005, 2004 and 2003, respectively. Many of the real estate leases contain renewal options and escalation clauses which require payments of additional rent to the extent of increases in the related operating costs. We straight-line rental expense in accordance with Statement of Financial Accounting Standards No. 13, paragraph 15 and Financial Accounting Standards Board Technical Bulletin 85-3.

We incur charges for our use of a fleet of dedicated containers which are included in transportation costs. Such charges were \$33,830,000, \$31,063,000 and \$28,451,000 for the years ended December 31, 2005,

2004 and 2003, respectively. At December 31, 2005, under the agreements, we have the ability to return the containers. As a result, no minimum commitment has been included in the table above.

**NOTE 8. Stock-Based Compensation Plans**

In 1996, we adopted a Long-Term Incentive Plan (the "1996 Incentive Plan"). The number of shares of Class A Common Stock reserved for issuance under the 1996 Incentive Plan was 900,000. In 1997, we adopted a second Long-Term Incentive Plan (the "1997 Incentive Plan"). The number of shares of Class A Common Stock reserved for issuance under the 1997 Incentive Plan was 300,000. In 1999 we adopted a third Long-Term Incentive Plan (the "1999 Incentive Plan"). The number of shares of Class A Common Stock reserved for issuance under the 1999 Incentive Plan was 1,200,000. In 2002, we adopted a fourth Long-Term Incentive Plan (the "2002 Incentive Plan"). The number of shares of Class A Common Stock reserved for issuance under the 2002 Incentive Plan was 1,200,000. In 2003, we amended our 2002 Incentive Plan to add an additional 1,000,000 shares of Class A Common Stock. Under the 1996, 1997, 1999 and 2002 Incentive Plans, stock options, stock appreciation rights, restricted stock and performance units may be granted for the purpose of attracting and motivating our key employees and non-employee directors. The options granted to non-employee directors vest ratably over a three-year period and expire 10 years after the date of grant. The options granted to employees vest over a range of three to five years and expire 10 years after the date of grant.

Information regarding these option plans for 2005, 2004 and 2003 is as follows:

	<u>2005</u>		<u>2004</u>		<u>2003</u>	
	<u>Shares</u>	<u>Weighted Avg. Exercise Price</u>	<u>Shares</u>	<u>Weighted Avg. Exercise Price</u>	<u>Shares</u>	<u>Weighted Avg. Exercise Price</u>
Options outstanding, beginning of year	1,700,148	\$ 4.97	2,854,868	\$ 5.74	2,804,100	\$ 6.21
Options exercised	(802,034)	5.91	(1,046,986)	7.07	(74,532)	3.12
Options granted	--	--	--	--	387,000	2.92
Options forfeited	<u>(6,500)</u>	<u>7.04</u>	<u>(107,734)</u>	<u>4.86</u>	<u>(261,700)</u>	<u>7.43</u>
Options outstanding, end of year	<u>891,614</u>	\$ 4.12	<u>1,700,148</u>	\$ 4.97	<u>2,854,868</u>	\$ 5.74
Weighted average fair value of options granted during the year	\$ -	-	\$ -	-	\$ 1.29	1.29
Options exercisable at year end	736,481		1,121,689		1,594,143	
Option price range at end of year	\$2.43 to \$14.08		\$2.43 to \$14.08		\$2.43 to \$14.08	
Weighted average option price for exercised shares	\$ 5.91		\$ 7.07		\$ 3.12	
Options available for grant at end of year	791,232		904,158		896,232	

The following table summarizes information about options outstanding at December 31, 2005:

<u>Options Outstanding</u>				<u>Options Exercisable</u>	
<u>Range of Exercise Prices</u>	<u>Number of Shares</u>	<u>Weighted Avg. Remaining Contractual Life</u>	<u>Weighted Avg. Exercise Price</u>	<u>Number of Shares</u>	<u>Weighted Avg. Exercise Price</u>
\$ 2.43 to \$ 2.51	107,200	7.07	\$ 2.47	32,267	\$ 2.50
\$ 2.60 to \$ 2.83	458,665	6.96	\$ 2.63	458,665	\$ 2.63
\$ 2.92 to \$ 5.28	155,799	6.62	\$ 4.13	78,399	\$ 4.06
\$ 5.54 to \$ 14.08	169,950	3.29	\$ 9.16	167,150	\$ 9.22
<u>\$ 2.43 to \$ 14.08</u>	<u>891,614</u>	<u>6.21</u>	<u>\$ 4.12</u>	<u>736,481</u>	<u>\$ 4.27</u>

For purposes of determining the pro forma effect of these options as discussed in Note 1, the fair value of each option is estimated on the date of grant based on the Black-Scholes single-option pricing model assuming:

	<u>Year Ended December 31, 2003</u>
Dividend yield	0.00%
Risk-free interest rate	3.50%
Volatility factor	40.00%
Expected life in years	6.0

During 2005 and 2004, no stock options were granted.

#### **Restricted Stock**

During the fourth quarter of 2003, we granted 633,008 shares of restricted stock to certain employees and 21,360 shares of restricted stock to outside directors with a weighted average grant date fair value of \$7.05. The stock vests over a three year period. Compensation expense recorded related to the restricted stock was approximately \$180,000 during 2003.

During 2004, we granted 117,690 shares of restricted stock to certain employees and 6,948 shares of restricted stock to outside directors with a weighted average grant date fair value of \$20.80. The stock vests over a three year period. Compensation expense recorded related to the 2004 and 2003 restricted stock grants was approximately \$2,148,000 during 2004.

During 2005, we granted 111,730 shares of restricted stock to certain employees and 5,322 shares of restricted stock to outside directors with a weighted average grant date fair value of \$33.35. The stock vests over a three year period. Compensation expense recorded related to the 2005, 2004 and 2003 restricted stock grants was approximately \$2,177,000 during 2005.

#### **NOTE 9. Business Segment**

We have no separately reportable segments. Under the enterprise wide disclosure requirements, we report revenue (in thousands), for Intermodal Services, Truck Brokerage Services, Logistics Services and Distribution Services as follows:

	<u>Years Ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Intermodal Services	\$ 1,079,799	\$ 1,014,533	\$ 976,723
Truck Brokerage Services	266,546	225,466	210,493
Logistics Services	135,535	140,723	118,601
Distribution Services	49,619	46,084	53,797
Total Revenue	<u>\$ 1,531,499</u>	<u>\$ 1,426,806</u>	<u>\$ 1,359,614</u>

In August 2004, HGDS transferred its pharmaceutical sample delivery business to logistics, resulting in an increase in logistics revenue of \$4,315,000 for the year ended December 31, 2004.

#### **NOTE 10. Employee Benefit Plans**

We had one profit-sharing plan and trust in 2005, 2004 and 2003 under section 401(k) of the Internal Revenue Code. At our discretion, we partially match qualified contributions made by employees to the plan. We expensed approximately \$1,124,000, \$1,091,000 and \$1,148,000 related to these plans in 2005, 2004 and 2003, respectively.

In January 2005, we established the Hub Group, Inc. Nonqualified Deferred Compensation Plan (the "Plan") to provide added incentive for the retention of certain key employees. Under the Plan, participants can elect to defer certain compensation. Accounts will grow on a tax-deferred basis to the participant. Restricted investments included in the consolidated balance sheet represent the fair value of the mutual funds and other security investments related to the Plan at December 31, 2005. Both realized and unrealized gains and losses, which have not been material, are included in income and expense and offset the change in the deferred compensation liability. We provide a 50% match on the first 6% of employee compensation deferred under the Plan, with a maximum match equivalent to 3% of base salary. In addition, we have a legacy deferred compensation plan. There are no new contributions being made into this legacy plan. We expensed \$648,000, \$884,000, and \$742,000 related to these plans in 2005, 2004 and 2003, respectively. This expense includes interest of \$515,000, \$667,000 and \$556,000 in 2005, 2004 and 2003, respectively.

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#### **NOTE 11. Legal Matters**

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

#### **NOTE 12. Restructuring Charges**

During the year ended December 31, 2003, we recorded a liability of \$180,000 for the estimated remaining lease obligation and closing costs related to a facility in Detroit and a severance charge for 165 employees of \$876,000.

During the year ended December 31, 2004, we recorded a severance charge for 99 employees of \$661,000. We also recorded a liability of \$118,000 for the estimated remaining lease obligations and closing costs related to two facilities.

During the year ended December 31, 2005, we recorded a severance charge for 37 employees of \$249,000.

All severance charges are included in salaries and benefits in the statements of income and all lease obligation and closing costs are included in general and administrative in the statements of income.

The following table displays the activity and balances of the restructuring reserves in the consolidated balance sheets (in thousands):

	Headcount Reduction	Consolidation of Facilities	Total
Balance at December 31, 2002	\$ -	\$ 458	\$ 458
Additional restructuring expenses	876	180	1,056
Cash payments	(801)	(277)	(1,078)
Balance at December 31, 2003	75	361	436
Additional restructuring expenses	661	118	779
Cash payments	(736)	(333)	(1,069)
Balance at December 31, 2004	-	146	146
Additional restructuring expenses	249	-	249
Cash payments	(222)	(186)	(408)
Adjustments for previous estimate	-	40	40
Balance at December 31, 2005	\$ 27	\$ -	\$ 27

**NOTE 13. Stock Buy Back Plans**

During the fourth quarter of 2003, the Board of Directors authorized the purchase of up to 500,000 shares of our Class A Common Stock from time to time. The timing of the program was determined by financial and market conditions. During the fourth of quarter of 2003, we purchased 40,400 shares for \$292,000. We purchased an additional 193,000 shares for \$2,763,000 in 2004. During the first quarter of 2005, the Board of Directors terminated the prior buy back plan and authorized the purchase of up to \$30.0 million worth of our Class A Common Stock. During the second quarter of 2005, we completed the authorized purchase of \$30.0 million worth of our Class A Common Stock. We intend to hold the repurchased shares in treasury for future use.

On August 22, 2005, the Board of Directors authorized the purchase of up to \$45.0 million of its Class A Common Stock. This authorization expires on December 31, 2006. Hub intends to make purchases from time to time as market conditions warrant. Hub intends to hold the repurchased shares in treasury for future use. No purchases were made under this new plan during 2005.

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

	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plan</b>	<b>Maximum Value of Shares that May Yet Be Purchased Under the Plans (in 000's)</b>
January 1 to June 30	1,094,799	\$27.38	1,094,799	\$ -
July 1 to December 31	-	-	-	45,000
Total	<u>1,094,799</u>	<u>\$27.38</u>	<u>1,094,799</u>	<u>\$ 45,000</u>

**NOTE 14. Stock Split**

The Board of Directors approved a two-for-one stock split in the form of a stock dividend which was paid on May 11, 2005. All shares have been retroactively restated to give effect to the two-for-one stock split, which was affected in the form of a 100% stock dividend. Each of our Class A stockholders and Class B stockholders received one Class A share on each share of Class A Common Stock and each share of Class B Common Stock held by them on the record date in connection with the stock split. In accordance with the terms of our Certificate of Incorporation, the number of votes held by each share of Class B Common Stock was adjusted in connection with this stock dividend such that each share of Class B Common Stock now entitles its holder to approximately 40 votes. Each share of Class A Common Stock entitles its holder to one vote.

**NOTE 15. Public Equity Offering**

We completed a public offering of Class A Common Stock priced at \$16.50 per share, before underwriting discounts and commissions, on July 2, 2004. We sold 3,600,000 shares and selling stockholders sold 770,000 shares. The Company's net proceeds of \$55,871,000 were used to prepay the \$50,000,000 of 9.14% debt on July 6, 2004 as well as the majority of the make-whole payment of \$6,804,000 (see Note 6).

**NOTE 16. HGDS Purchase Option**

On November 11, 2004, we, along with our wholly owned subsidiary, Hub Group Distribution Services, LLC ("HGDS"), entered into the Purchase Option and Right of First Refusal Agreement pursuant to which HGDS granted an entity controlled by William J. McKenna the exclusive option to purchase all or substantially all of the assets of HGDS for a cash purchase price of \$11,300,000 (subject to adjustment on the closing date), plus the assumption of certain HGDS liabilities. Mr. McKenna agreed to serve as President of HGDS effective December 1, 2004. McKenna's company may exercise the option during the period (the "Option Period") commencing on November 11, 2004, and ending on the earlier to occur of (i) March 31, 2007, and (ii) the date on which McKenna's employment with HGDS terminates; provided, however, that this period may be extended for up to 180 days depending on the circumstances of the termination of McKenna's employment. Additionally, HGDS granted McKenna's company a right of first refusal with respect to any acceptable third-party offers that we or HGDS receive during the Option Period for all or substantially all of the assets of HGDS.

During the Option Period, we and HGDS agreed that, except as required by law, we would not solicit or initiate discussions or negotiations with any person other than McKenna's company relating to the sale of HGDS or its assets.

**NOTE 17. Subsequent Event**

On January 19, 2006, we entered into a definitive agreement to acquire Comtrak, Inc. Comtrak is a transportation company whose services include primarily rail and international drayage for the intermodal sector. The agreement states that we will pay \$38 million in cash at closing, which is expected to occur during the first quarter of 2006. The purchase price will be subject to adjustment based on Comtrak's working capital at closing. In addition, the agreement provides for an earn-out for 2006 and 2007, consisting of two cash payments, each of which will not exceed \$5 million. The closing is subject to certain customary closing conditions and approvals.



**NOTE 18. Selected Quarterly Financial Data (Unaudited)**

The following table sets forth selected quarterly financial data for each of the quarters in 2005 and 2004 (in thousands, except per share amounts):

	Quarters			
	First	Second	Third	Fourth
Year Ended December 31, 2005:				
Revenue	\$ 339,858	\$ 371,630	\$ 399,400	\$ 420,611
Gross margin	43,245	46,909	49,127	49,742
Operating income	9,135	13,464	15,430	16,351
Net income	5,348	7,925	9,610	10,063
Basic earnings per share	\$ .26	\$ .40	\$ .49	\$ .50
Diluted earnings per share	\$ .25	\$ .38	\$ .47	\$ .49

	Quarters			
	First	Second	Third	Fourth
Year Ended December 31, 2004:				
Revenue	\$ 328,302	\$ 348,971	\$ 362,105	\$ 387,428
Gross margin	41,804	43,665	48,028	46,051
Operating income	6,297	8,266	13,958	12,077
Net income	2,713	4,059	3,552	6,955
Basic earnings per share	\$ .18	\$ .26	\$ .18	\$ .35
Diluted earnings per share	\$ .17	\$ .24	\$ .17	\$ .33

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**Item 9A. CONTROLS AND PROCEDURES****MANAGEMENT'S REPORT ON DISCLOSURE CONTROLS AND PROCEDURES**

As of December 31, 2005, an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) and Rule 15d-15(f) under the Securities Exchange Act of 1934. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective.

No significant changes were made in our internal control over financial reporting during the fourth quarter of 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. As of December 31, 2005, management carried out an evaluation of the effectiveness of our internal controls and procedures. Management based their assessment on the framework of Internal Control – Integrated Framework issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO). Based upon this evaluation, management concluded that, as of December 31, 2005, our internal control over financial reporting was effective.

Management believes, however, that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

Ernst & Young LLP, an independent registered public accounting firm, who audited and reported on the consolidated financial statements, included in this report, has issued an attestation report on management's assessment of internal control over financial reporting.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Board of Directors and Shareholders  
Hub Group, Inc.

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that Hub Group, Inc. (the Company) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated balance sheets of Hub Group, Inc. as of December 31, 2005 and 2004, and the related Consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2005 of Hub Group, Inc. and our report dated February 20, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP

Chicago, Illinois  
February 20, 2006

**Item 9B. OTHER INFORMATION**

None.

**PART III****Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The sections entitled “Election of Directors” and “Ownership of the Capital Stock of the Company” appearing in our proxy statement for our annual meeting of stockholders to be held on May 11, 2006, sets forth certain information with respect to our directors and Section 16 compliance and is incorporated herein by reference. Certain information with respect to persons who are or may be deemed to be our executive officers is set forth under the caption “Executive Officers of the Registrant” in Part I of this report.

**Item 11. EXECUTIVE COMPENSATION**

The section entitled “Compensation of Directors and Executive Officers” appearing in our proxy statement for our annual meeting of stockholders to be held on May 11, 2006, sets forth certain information with respect to the compensation of our management and is incorporated herein by reference.

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The sections entitled “Ownership of the Capital Stock of the Company” appearing in our proxy statement for our annual meeting of stockholders to be held on May 11, 2006, sets forth certain information with respect to the ownership of our Common Stock and is incorporated herein by reference.

**Equity Compensation Plan Information**

The following chart contains certain information regarding the Company’s Long-Term Incentive Plans:

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>
Equity compensation plans approved by security holders	891,614	\$4.12	791,232
Equity compensation plans not approved by security holders	--	--	--
Total	891,614	\$4.12	791,232

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The section entitled “Certain Transactions” appearing in our proxy statement for the annual meeting of our stockholders to be held on May 11, 2006, sets forth certain information with respect to certain business relationships and transactions between us and our directors and officers and it is incorporated herein by reference.

**Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The section entitled “Principal Accountant Fees and Services” appearing in our proxy statement for our annual meeting of stockholders to be held on May 11, 2006, sets forth certain information with respect to certain fees we have paid to our principal accountant for services and it is incorporated herein by reference.

**Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**(a) Financial Statements**

The following consolidated financial statements of the Registrant are included under Item 8 of this Form 10-K:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets - December 31, 2005 and December 31, 2004

Consolidated Statements of Income - Years ended December 31, 2005, December 31, 2004 and December 31, 2003

Consolidated Statements of Stockholders' Equity - Years ended December 31, 2005, December 31, 2004 and December 31, 2003

Consolidated Statements of Cash Flows - Years ended December 31, 2005, December 31, 2004 and December 31, 2003

Notes to Consolidated Financial Statements

**(b) Financial Statement Schedules**

The following financial statement schedules of Hub Group, Inc. are filed as part of this report and should be read in conjunction with the consolidated financial statements of Hub Group, Inc.:

II. Valuation and qualifying accounts and reserves .....	<u>Page</u> S-1
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All other schedules are omitted because they are not required, are not applicable, or the required information is shown in the consolidated financial statements or notes thereto.

**(c) Exhibits**

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

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 22, 2006

HUB GROUP, INC.

By /s/ DAVID P. YEAGER

David P. Yeager

Chief Executive Officer and Vice Chairman

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the dates indicated:

	Title	Date
<u>/s/ Phillip C. Yeager</u> Phillip C. Yeager	Chairman and Director	February 22, 2006
<u>/s/ David P. Yeager</u> David P. Yeager	Vice Chairman, Chief Executive Officer and Director	February 22, 2006
<u>/s/ Mark A. Yeager</u> Mark A. Yeager	President, Chief Operating Officer and Director	February 22, 2006
<u>/s/ Thomas M. White</u> Thomas M. White	Senior Vice President-Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	February 22, 2006
<u>/s/ Charles R. Reaves</u> Charles R. Reaves	Director	February 22, 2006
<u>/s/ Martin P. Slark</u> Martin P. Slark	Director	February 22, 2006
<u>/s/ Gary D. Eppen</u> Gary D. Eppen	Director	February 22, 2006

**HUB GROUP, INC.**  
**VALUATION AND QUALIFYING ACCOUNTS**

Year Ended December 31:	Balance at Beginning of Year	Charged to Costs & Expenses	Deductions and Adjustments	Balance at End of Year
Allowance for uncollectible trade accounts				
2005	\$ 7,119,000	\$ 523,000	\$ (634,000)	\$ 7,008,000
2004	\$ 6,304,000	\$ 80,000	\$ 735,000	\$ 7,119,000
2003	\$ 6,272,000	\$ 722,000	\$ (690,000)	\$ 6,304,000
Deferred tax valuation allowance				
2005	\$ 271,000	\$ 218,000	\$ -	\$ 489,000
2004	\$ -	\$ 271,000	\$ -	\$ 271,000

## INDEX TO EXHIBITS

<u>Number</u>	<u>Exhibit</u>
3.1	Amended Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 and 3.3 to the Registrant's registration statement on Form S-1, File No. 33-90210)
3.2	By-Laws of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's registration statement on Form S-1, File No. 33-90210)
10.1	Amended and Restated Limited Partnership Agreement of Hub City Canada, L.P. (incorporated by reference to Exhibit 10.2 to the Registrants report on Form 10-K dated March 26, 1997 and filed March 27, 1997, File No 000-27754)
10.2	Stockholders' Agreement (incorporated by reference to Exhibit 10.7 to the Registrant's report on Form 10-K dated March 26, 1997 and filed March 27, 1997, File No. 000-27754)
10.3	Letter from the Registrant to Thomas M. White dated June 4, 2002 (incorporated by reference to Exhibit 10.28 to the Registrant's report on Form 10-K dated March 12, 2003 and filed on March 13, 2003, File No. 000-27754)
10.4	Hub Group's Nonqualified Deferred Compensation Plan Basic Plan Document (incorporated by reference to Exhibit 10.15 to the Registrant's report on Form 10-K dated February 25, 2005 and filed on February 28, 2005, File No. 000-27754)
10.5	Hub Group's Nonqualified Deferred Compensation Plan Adoption Agreement (incorporated by reference to Exhibit 10.16 to the Registrant's report on Form 10-K dated February 25, 2005 and filed on February 28, 2005, File No. 000-27754)
10.6	Hub Group's Nonqualified Deferred Compensation Plan, Amendment 1 (incorporated by reference to Exhibit 10.17 to the Registrant's report on Form 10-K dated February 25, 2005 and filed on February 28, 2005, File No. 000-27754)
10.7	Description of Executive Officer cash compensation for 2006
10.8	Director compensation for 2006
10.9	Hub Group's 2002 Long Term Incentive Plan (as amended and restated effective December 3, 2003) (incorporated by reference from Exhibit 4.1 from the Registrant's report on Form S-8 dated and filed May 17, 2004)
10.10	Purchase Option and Right of Refusal Agreement dated November 11, 2004 (incorporated by reference from Exhibit 10.1 to the Registrant's Report on Form 8-K dated and filed November 16, 2004)
10.11	Equipment Purchase Contract dated as of March 7, 2005 between Hub City Terminals, Inc., and Shanghai Jindo Container Co., Ltd. (incorporated by reference to Exhibit 10.1 to the Registrant's report on Form 8-K dated March 7, 2005 and filed March 8, 2005, File No. 000-27754)
10.12	\$40 million Credit Agreement dated as of March 23, 2005 among the Registrant, Hub City Terminals, Inc. and Harris Trust and Savings Bank (incorporated by reference to Exhibit 10.1 to the Registrant's report on Form 8-K dated March 23, 2005 and filed March 25, 2005, File No. 000-27754)
10.13	Lease Agreement dated as of May 10, 2005, between Banc of America Leasing & Capital, LLC and Hub City Terminals, Inc., with form of Schedule thereto (incorporated by reference to Exhibit 10.1 to the Registrant's report on Form 8-K dated May 10, 2005 and filed May 16, 2005, File No. 000-27754)
10.14	Guaranty of Corporation, dated as of May 10, 2005, made by Registrant to, and for the benefit of, Banc of America Leasing & Capital, LLC (incorporated by reference to Exhibit 10.2 to the Registrant's report on Form 8-K dated May 10, 2005 and filed May 16, 2005, File No. 000-27754)

- 10.15 Asset Purchase Agreement, dated January 19, 2006, by and among Hub Group, Inc., Comtrak, Inc. and Michael J. Bruns (incorporated by reference to Exhibit 10.1 to the Registrant's report on Form 8-K dated January 19, 2006 and filed January 25, 2006, File No. 000-27754)
- 10.16 Amendment to the \$40 million Credit Agreement among the Registrant, Hub City Terminals, Inc. and Harris Trust and Savings Bank dated February 21, 2006
- 14 Hub Group's Code of Business Conduct and Ethics (incorporated by reference from Exhibit 99.2 to the Registrant's report on Form 10-K dated March 12, 2003 and filed on March 13, 2003, File No. 000-27754)
- 16.1 Letter from Grant Thornton LLP to the Securities and Exchange Commission (incorporated by reference to Exhibit 16.1 to the Registrant's report on Form 8-K dated February 8, 2005 and filed May 23, 2005, File No. 000-27754)
- 21 Subsidiaries of the Registrant
- 23.1 Consent of Ernst & Young LLP
- 31.1 Certification of David P. Yeager, Vice Chairman and Chief Executive Officer, Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, filed under Exhibit of 31 of Item 601 of Regulation S-K
- 31.2 Certification of Thomas M. White, Senior Vice President - Chief Financial Officer, Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, filed under Exhibit of 31 of Item 601 of Regulation S-K
- 32.1 Certification of David P. Yeager and Thomas M. White, Chief Executive Officer and Chief Financial Officer, respectively, Pursuant to 18 U.S.C. Section 1350, filed under Exhibit 32 of Item 601 of Regulation S-K



**Hub Group, Inc.**  
**Description of Executive Officer Cash Compensation**  
**For 2006**

**Annual Cash Compensation**

**Base Salary**

Set forth below are the base salaries of the Chief Executive Officer and each of the four most highly compensated executive officers in 2005 effective January 1, 2006. The Company considers various factors in assigning executive officers to specific salary ranges, including job content, level of responsibility, accountability, and the competitive compensation market. On an annual basis, all executive officers' salaries are reviewed and adjusted to reflect individual performance and position within their respective ranges.

**Bonus Plan**

Executive officers are eligible for annual performance-based awards under the Company's bonus plan, as are all salaried employees. For 2005, goals were weighted upon achievement of targeted levels of earnings per share and, for some executives, upon achievement of personal goals. The goals for 2006 will also be weighted.

**Restricted Stock**

The Company makes periodic grants of restricted stock to executive officers. Grants of restricted stock have historically provided for vesting in three years after grant.

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**David P. Yeager**

**Vice Chairman and Chief Executive Officer**

	<u>Base</u>
2006	\$558,123

**Mark A. Yeager**

**President and Chief Operating Officer**

	<u>Base</u>
2006	\$387,853

**Thomas M. White**

**Sr. Vice President, Treasurer and Chief Financial Officer**

	<u>Base</u>
2006	\$349,211

**David Marsh**

**Executive Vice President Highway**

	<u>Base</u>
2006	\$270,375

**Christopher R. Kravas**

**Executive Vice President – Strategy and Yield Management**

	<u>Base</u>
2006	\$265,225

**Hub Group, Inc.**  
**Directors' Compensation For 2006**

**Directors' Compensation**

Non-employee directors receive an annual retainer fee of \$50,000 in 2006, paid in quarterly installments. In addition, expenses are paid for attendance at each Committee meeting. Directors who are also officers or employees of the Company receive no compensation for duties performed as a director or a committee chairman.

**Stock Plan**

The Company makes periodic grants of restricted stock to the directors.

**FIRST AMENDMENT TO CREDIT AGREEMENT**

This First Amendment to Credit Agreement (herein, the "*Amendment*") is entered into as of February 21, 2006 between Hub Group, Inc., a Delaware corporation (the "*Public Hub Company*"), and Hub City Terminals, Inc., a Delaware corporation ("*Hub Chicago*") (the Public Hub Company and Hub Chicago being hereinafter referred to collectively as the "*Borrowers*" and individually as a "*Borrower*"), and Harris N.A., successor by merger with Harris Trust and Savings Bank (the "*Bank*").

**PRELIMINARY STATEMENTS**

A. The Borrowers and the Bank entered into a certain Credit Agreement, dated as of March 23, 2005 (the "*Credit Agreement*"). All capitalized terms used herein without definition shall have the same meanings herein as such terms have in the Credit Agreement.

B. The Borrowers have requested that the Bank increase its Commitment from \$40,000,000 to \$50,000,000, and the Bank is willing to do so under the terms and conditions set forth in this Amendment.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

**SECTION 1. AMENDMENTS.**

Subject to the satisfaction of the conditions precedent set forth in Section 2 below, the Credit Agreement shall be and hereby is amended as follows:

1.1. Section 1.1 of the Credit Agreement shall be amended by striking the amount "\$40,000,000" appearing therein and substituting in lieu thereof the amount "\$50,000,000".

**SECTION 2. CONDITIONS PRECEDENT.**

The effectiveness of this Amendment is subject to the satisfaction of all of the following conditions precedent:

2.1. The Borrowers and the Bank shall have executed and delivered this Amendment.

2.2. The Borrowers shall have executed and delivered a new Revolving Note in the form attached hereto as Annex A (the "*New Revolving Note*").

2.3. The Bank shall have received copies (executed or certified, as may be appropriate) of resolutions of the Board of Directors of each Borrower authorizing the execution, delivery, and performance of this Amendment and the New Revolving Note.

2.4. Legal matters incident to the execution and delivery of this Amendment and the New Revolving Note shall be satisfactory to the Bank and its counsel.

**SECTION 3. REPRESENTATIONS.**

In order to induce the Bank to execute and deliver this Amendment, the Borrowers hereby represent to the Bank that as of the date hereof the representations and warranties set forth in Section 6 of the Credit Agreement and in the other Loan Documents are and shall be and remain true and correct in all material respects (except to the extent the same expressly relate to an earlier date) and no Default or Event of Default has occurred and is continuing under the Credit Agreement or shall result after giving effect to this Amendment.

SECTION 4. MISCELLANEOUS.

4.1. Except as specifically amended herein, the Credit Agreement shall continue in full force and effect in accordance with its original terms. Reference to this specific Amendment need not be made in the Credit Agreement, the Note, or any other instrument or document executed in connection therewith, or in any certificate, letter or communication issued or made pursuant to or with respect to the Credit Agreement, any reference in any of such items to the Credit Agreement being sufficient to refer to the Credit Agreement as amended hereby.

4.2. The Borrowers agree to pay on demand all reasonable and documented out-of-pocket costs and expenses of or incurred by the Bank in connection with the negotiation, preparation, execution and delivery of this Amendment, including the reasonable and documented fees and expenses of counsel for the Bank.

4.3. This Amendment may be executed in any number of counterparts, and by the different parties on different counterpart signature pages, all of which taken together shall constitute one and the same agreement. Any of the parties hereto may execute this Amendment by signing any such counterpart and each of such counterparts shall for all purposes be deemed to be an original. This Amendment shall be governed by the internal laws of the State of Illinois.

[SIGNATURE PAGE FOLLOWS.]

This First Amendment to Credit Agreement is entered into as of the date and year first above written.

HUB GROUP, INC.

By /s/ Mark A. Yeager  
Name Mark A Yeager  
Title President

HUB CITY TERMINALS, INC.

By /s/ Mark A. Yeager  
Name Mark A Yeager  
Title President

Accepted and agreed to.

HARRIS N.A., successor by merger with Harris Trust  
and Savings Bank

By

Name

Title

ANNEX A

REVOLVING NOTE

\$50,000,000.00

February 21, 2006

On the Termination Date, for value received, the undersigned, HUB GROUP, INC., a Delaware corporation (the "Public Hub Company"), and HUB CITY TERMINALS, INC., a Delaware corporation ("Hub Chicago") (the Public Hub Company and Hub Chicago being hereinafter referred to collectively as the "Borrowers" and individually as a "Borrower"), hereby jointly and severally promise to pay to the order of HARRIS N.A., SUCCESSOR BY MERGER WITH HARRIS TRUST AND SAVINGS BANK (the "Bank") at its office at 111 West Monroe Street, Chicago, Illinois, the principal sum of (i) FIFTY MILLION and no/100 DOLLARS (\$50,000,000.00), or (ii) such lesser amount as may at the time of the maturity hereof, whether by acceleration or otherwise, be the aggregate unpaid principal amount of all Loans owing from the Borrowers to the Bank under the Revolving Credit provided for in the Credit Agreement hereinafter mentioned.

This Note evidences Loans made and to be made to the Borrowers by the Bank under the Revolving Credit provided for under that certain Credit Agreement dated as of March 23, 2005 among the Borrowers and the Bank (said Credit Agreement, as the same may be amended, modified or restated from time to time, being referred to herein as the "Credit Agreement"), and the Borrowers hereby jointly and severally promise to pay interest at the office described above on such Loans evidenced hereby at the rates and at the times and in the manner specified therefor in the Credit Agreement.

This Note is issued by the Borrowers under the terms and provisions of the Credit Agreement and this Note and the holder hereof are entitled to all of the benefits and security provided for thereby or referred to therein, to which reference is hereby made for a statement thereof. This Note may be declared to be, or be and become, due prior to its expressed maturity, voluntary prepayments may be made hereon, all in the events, on the terms and with the effects provided in the Credit Agreement. All capitalized terms used herein without definition shall have the same meanings herein as such terms are defined in the Credit Agreement.

The Borrowers hereby jointly and severally promise to pay all costs and expenses (including attorneys' fees) suffered or incurred by the holder hereof in collecting this Note or enforcing any rights in any collateral therefor. The Borrowers hereby waive presentment for payment and demand.

This Note is issued in substitution and replacement for that certain Revolving Note of the Borrowers dated March 23, 2005 payable to the order of the Bank in the face principal amount of \$40,000,000.

THIS NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH, AND GOVERNED BY, THE INTERNAL LAWS OF THE STATE OF ILLINOIS WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS.

HUB GROUP, INC.

By \_\_\_\_\_  
Name  
Title

HUB CITY TERMINALS, INC.

By \_\_\_\_\_  
Name  
Title

Subsidiaries of Hub Group, Inc.

SUBSIDIARIES

JURISDICTION OF INCORPORATION/ORGANIZATION

Hub City Terminals, Inc.	Delaware
Hub Group Atlanta, L.L.C.	Delaware
Hub Group Canada L.P.	Delaware
Hub City Texas, L.P.	Delaware
Hub Group Associates, Inc.	Illinois
Hub Group Distribution Services, L.L.C.	Illinois
Quality Services L.L.C.	Missouri
Hub Chicago Holdings, Inc.	Delaware
Hub Group Transport, L.L.C.	Delaware
Hub Freight Services, Inc.	Delaware

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-3 No. 333-116304 and Forms S-8, Nos. 333-115576, 333-33006, 333-06327, 333-107745, 333-103845 and 333-48185) of Hub Group, Inc. and the related Prospectuses of our reports dated February 20, 2006, with respect to the consolidated financial statements and schedule of Hub Group, Inc., Hub Group, Inc. management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Hub Group, Inc. included in this Annual Report on Form 10-K for the year ended December 31, 2005.

/s/ Ernst & Young LLP

Chicago, Illinois  
February 20, 2006



## CERTIFICATION

I, David P. Yeager, certify that:

- 1) I have reviewed this report on Form 10-K of Hub Group, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2006

/s/ David P. Yeager  
Name: David P. Yeager  
Title: Vice Chairman and  
Chief Executive Officer

## CERTIFICATION

I, Thomas M. White, certify that:

- 1) I have reviewed this report on Form 10-K of Hub Group, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2006

/s/ Thomas M. White  
Name: Thomas M. White  
Title: Senior Vice President-  
Chief Financial Officer and Treasurer

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The following statement is provided by the undersigned to accompany the Annual Report on Form 10-K for the year ended December 31, 2005 of Hub Group, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) and shall not be deemed filed pursuant to any provision of the Exchange Act of 1934 or any other securities law.

Each of the undersigned certifies that the foregoing Report on Form 10-K fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m) and that the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Hub Group, Inc.

/s/David P. Yeager  
David P. Yeager

Vice Chairman and Chief Executive Officer  
Hub Group, Inc.

/s/Thomas M. White  
Thomas M. White  
Senior Vice President- Chief Financial  
Officer  
and Treasurer  
Hub Group, Inc.