

HUB GROUP INC
Form 10-Q
April 30, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015 or

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

For the transition period from _____ to _____

Commission file number: 0-27754

HUB GROUP, INC.

(Exact name of registrant as specified in its charter)

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

2000 Clearwater Drive

Oak Brook, Illinois 60523

(Address, including zip code, of principal executive offices)

(630) 271-3600

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(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

On April 24, 2015, the registrant had 36,081,600 outstanding shares of Class A common stock, par value \$.01 per share, and 662,296 outstanding shares of Class B common stock, par value \$.01 per share.

HUB GROUP, INC.

INDEX

	Page
PART I. Financial Information:	
<u>Consolidated Balance Sheets – March 31, 2015 (unaudited) and December 31, 2014</u>	3
<u>Unaudited Consolidated Statements of Income and Comprehensive Income- Three Months Ended March 31, 2015 and 2014</u>	4
<u>Unaudited Consolidated Statements of Cash Flows – Three Months Ended March 31, 2015 and 2014</u>	5
<u>Notes to Unaudited Consolidated Financial Statements</u>	6
<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	11
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	16
<u>Controls and Procedures</u>	17
<u>PART II. Other Information</u>	17

HUB GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	March 31 2015	December 31 2014
ASSETS	(unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	\$129,261	\$109,769
Accounts receivable trade, net	409,506	401,803
Accounts receivable other	14,299	24,886
Prepaid taxes	10,380	14,937
Deferred taxes	6,216	4,816
Prepaid expenses and other current assets	17,600	14,355
TOTAL CURRENT ASSETS	587,262	570,566
Restricted investments	21,846	21,944
Property and equipment, net	332,637	338,327
Other intangibles, net	14,110	14,434
Goodwill, net	262,759	262,813
Other assets	3,713	4,043
TOTAL ASSETS	\$1,222,327	\$1,212,127
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable trade	\$269,354	\$256,345
Accounts payable other	21,736	21,333
Accrued payroll	16,991	16,192
Accrued other	36,180	43,523
Current portion of capital lease	2,538	2,504
Current portion of long term debt	21,921	19,619
TOTAL CURRENT LIABILITIES	368,720	359,516
Long term debt	76,085	72,460
Non-current liabilities	21,885	22,929
Long term portion of capital lease	15,298	15,937
Deferred taxes	143,386	140,501
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value; 2,000,000 shares authorized; no shares issued or outstanding in 2015 and 2014	-	-
Common stock		
Class A: \$.01 par value; 97,337,700 shares authorized and 41,224,792 shares issued in 2015 and 2014; 36,062,587 shares outstanding in 2015 and 36,247,324 shares outstanding	412	412

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in 2014

Class B: \$.01 par value; 662,300 shares authorized; 662,296 shares issued and outstanding in 2015 and 2014	7	7
Additional paid-in capital	166,941	171,235
Purchase price in excess of predecessor basis, net of tax benefit of \$10,306	(15,458)	(15,458)
Retained earnings	600,085	589,809
Accumulated other comprehensive loss	(74)	(77)
Treasury stock; at cost, 5,162,205 shares in 2015 and 4,977,468 shares in 2014	(154,960)	(145,144)
TOTAL STOCKHOLDERS' EQUITY	596,953	600,784
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,222,327	\$1,212,127

See notes to unaudited consolidated financial statements.

HUB GROUP, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

AND COMPREHENSIVE INCOME

(in thousands, except per share amounts)

	Three Months Ended March 31,	
	2015	2014
Revenue	\$835,941	\$848,449
Transportation costs	746,813	759,705
Gross margin	89,128	88,744
Costs and expenses:		
Salaries and benefits	39,476	37,092
Agent fees and commissions	14,826	13,666
General and administrative	14,071	15,432
Depreciation and amortization	1,960	2,058
Total costs and expenses	70,333	68,248
Operating income	18,795	20,496
Other income (expense):		
Interest expense	(741)	(407)
Interest and dividend income	6	14
Other, net	(1,404)	(205)
Total other expense	(2,139)	(598)
Income before provision for income taxes	16,656	19,898
Provision for income taxes	6,380	7,863
Net income	\$10,276	\$12,035
Other comprehensive income (loss):		
Foreign currency translation adjustments	3	(13)
Total comprehensive income	\$10,279	\$12,022
Basic earnings per common share	\$0.28	\$0.33
Diluted earnings per common share	\$0.28	\$0.33
Basic weighted average number of shares outstanding	36,156	36,661

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Diluted weighted average number of shares outstanding 36,169 36,724

See notes to unaudited consolidated financial statements.

HUB GROUP, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net Income	\$ 10,276	\$ 12,035
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,731	6,779
Deferred taxes	1,593	1,991
Compensation expense related to share-based compensation plans	2,034	2,143
Gain on sale of assets	-	(6)
Excess tax benefits from share based compensation	(13)	-
Changes in operating assets and liabilities:		
Restricted investments	98	(117)
Accounts receivable, net	2,874	(31,471)
Prepaid taxes	4,557	86
Prepaid expenses and other current assets	(3,246)	(597)
Other assets	330	(837)
Accounts payable	13,414	29,286
Accrued expenses	5,733	1,128
Non-current liabilities	(1,052)	(1,839)
Net cash provided by operating activities	45,329	18,581
Cash flows from investing activities:		
Proceeds from sale of equipment	26	85
Purchases of property and equipment	(15,057)	(33,035)
Net cash used in investing activities	(15,031)	(32,950)
Cash flows from financing activities:		
Proceeds from issuance of debt	11,480	25,361
Repayments of long term debt	(5,553)	(1,124)
Stock tendered for payments of withholding taxes	(2,754)	(3,023)
Purchase of treasury stock	(13,419)	-
Capital lease payments	(605)	(616)
Excess tax benefits from share-based compensation	42	104
Net cash (used in) provided by financing activities	(10,809)	20,702
Effect of exchange rate changes on cash and cash equivalents	3	-
Net increase in cash and cash equivalents	19,492	6,333
Cash and cash equivalents beginning of the year	109,769	68,964

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Cash and cash equivalents end of the year	\$129,261	\$75,297
Supplemental disclosures of cash paid for:		
Interest	\$789	\$380
Income taxes	\$194	\$777

See notes to unaudited consolidated financial statements.

HUB GROUP, INC.

NOTES TO UNAUDITED

CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Interim Financial Statements

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

The financial statements reflect, in our opinion, all material adjustments (which include only normal recurring adjustments) necessary to fairly present our financial position as of March 31, 2015 and results of operations for the three months ended March 31, 2015 and 2014.

These unaudited consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014. Results of operations in interim periods are not necessarily indicative of results to be expected for a full year due partially to seasonality.

NOTE 2. Business Segments

We report two business segments, Hub and Mode, based on the way we manage, evaluate and internally report our business activities.

Hub offers comprehensive intermodal, truck brokerage and logistics services. Our employees operate the freight through a network of operating centers located in the United States, Canada and Mexico. Each operating center is strategically located in a market with a significant concentration of shipping customers and one or more railheads. Hub has full time employees located throughout the United States, Canada and Mexico.

Mode has independent business owners who sell and operate the business throughout North America, as well as sales only agents. Mode also has a company managed operation and corporate offices in Dallas, TX, a temperature protected services division, Temstar, located in Oak Brook, IL and corporate offices in Memphis, TN.

Mode markets and operates its freight transportation services, consisting of intermodal, truck brokerage and logistics, primarily through agents who enter into contractual arrangements with Mode.

The following is a summary of operating results and certain other financial data for our business segments (in thousands):

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	Three Months Ended March 31, 2015				Three Months Ended March 31, 2014			
	Hub	Mode	Inter- Segment Elims	Hub Group Total	Hub	Mode	Inter- Segment Elims	Hub Group Total
Revenue	\$643,443	\$213,522	\$(21,024)	\$835,941	\$653,409	\$208,906	\$(13,866)	\$848,449
Transportation costs	580,258	187,579	(21,024)	746,813	588,912	184,659	(13,866)	759,705
Gross margin	63,185	25,943	-	89,128	64,497	24,247	-	88,744
Costs and expenses:								
Salaries and benefits	35,660	3,816	-	39,476	33,337	3,755	-	37,092
Agent fees and commissions	15	14,811	-	14,826	11	13,655	-	13,666
General and administrative	12,198	1,873	-	14,071	13,739	1,693	-	15,432
Depreciation and amortization	1,618	342	-	1,960	1,517	541	-	2,058
Total costs and expenses	49,491	20,842	-	70,333	48,604	19,644	-	68,248
Operating income	\$13,694	\$5,101	\$-	\$18,795	\$15,893	\$4,603	\$-	\$20,496
Capital Expenditures	\$14,998	\$59	\$-	\$15,057	\$32,880	\$155	\$-	\$33,035

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	As of March 31, 2015				As of December 31, 2014			
	Hub	Mode	Inter-Segment Elims	Hub Group Total	Hub	Mode	Inter-Segment Elims	Hub Group Total
Total assets	\$1,050,296	\$178,407	\$(6,376)	\$1,222,327	\$1,030,722	\$189,787	\$(8,382)	\$1,212,127
Goodwill	233,370	29,389	-	262,759	233,424	29,389	-	262,813

The following tables summarize our revenue by segment and business line (in thousands):

	Three Months Ended March 31, 2015				Three Months Ended March 31, 2014			
	Hub	Mode	Inter-Segment Elims	Hub Group Total	Hub	Mode	Inter-Segment Elims	Hub Group Total
Intermodal	\$420,952	\$110,692	\$(20,409)	\$511,235	\$435,432	\$100,436	\$(13,202)	\$522,666
Truck brokerage	89,291	74,352	(165)	163,478	83,967	78,523	(445)	162,045
Logistics	133,200	28,478	(450)	161,228	134,010	29,947	(219)	163,738
Total revenue	\$643,443	\$213,522	\$(21,024)	\$835,941	\$653,409	\$208,906	\$(13,866)	\$848,449

NOTE 3. Earnings Per Share

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

	Three Months Ended, March 31,	
	2015	2014
Net income for basic and diluted earnings per share	\$10,276	\$12,035
Weighted average shares outstanding - basic	36,156	36,661
Dilutive effect of stock options and restricted stock	13	63
Weighted average shares outstanding - diluted	36,169	36,724
Earnings per share - basic	\$0.28	\$0.33
Earnings per share - diluted	\$0.28	\$0.33

NOTE 4. Fair Value Measurement

The carrying value of cash and cash equivalents, accounts receivable and accounts payable and long term debt approximated fair value as of March 31, 2015 and December 31, 2014.

We consider as cash equivalents all highly liquid instruments with an original maturity of three months or less. As of March 31, 2015 and December 31, 2014, our cash and temporary investments were with high quality financial institutions in Demand Deposit Accounts.

Restricted investments, as of March 31, 2015 of \$21.8 million and December 31, 2014 of \$21.9 million included mutual funds which are reported at fair value.

The fair value measurement of these securities is based on quoted prices in active markets for identical assets which are defined as "Level 1" of the fair value hierarchy in the Fair Value Measurements and Disclosures Topic of the Codification.

NOTE 5. Long-Term Debt and Financing Arrangements

We have standby letters of credit that expire at various dates in 2015. As of March 31, 2015, our letters of credit were \$6.1 million.

Our unused and available borrowings under our bank revolving line of credit were \$43.9 million as of both March 31, 2015 and December 31, 2014. We were in compliance with our debt covenants as of March 31, 2015.

We have entered into various Equipment Notes (“Notes”) for the purchase of tractors and containers. The Notes are secured by the underlying equipment financed in the agreements.

Our outstanding debt is as follows (in thousands):

	Period Ended	
	March 31, 2015	December 31, 2014
Secured Equipment Notes due in March 2020 with monthly principal and interest payments of \$0.04 million commencing in April 2015; interest is paid monthly at a fixed annual rate of 2.14%	\$2,333	\$ -
Secured Equipment Notes due in January 2020 with monthly principal and interest payments of \$0.2 million commencing in February 2015; interest is paid monthly at a fixed annual rate between 1.72% and 2.26%	8,855	-
Secured Equipment Notes due in December 2019 with monthly principal and interest payments of \$0.2 million commencing in January 2015; interest is paid monthly at a fixed annual rate of 2.24%	12,753	13,387
Secured Equipment Notes due in November 2019 with monthly principal and interest payments of \$0.5 million commencing in December 2014; interest is paid monthly at a fixed annual rate of 2.05%	26,623	28,429