

Hub Group, Inc.  
Form 10-Q  
August 03, 2018

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 June 30, 2018 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

(Registrant's telephone number, including area code)

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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, a smaller reporting company or an emerging growth company. See definition of “large accelerated filer”, “accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

On July 27, 2018, the registrant had 33,719,269 outstanding shares of Class A common stock, par value \$.01 per share, and 662,296 outstanding shares of Class B common stock, par value \$.01 per share.

HUB GROUP, INC.

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## HUB GROUP, INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	June 30, 2018	December 31, 2017
(unaudited)		
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$26,753	\$28,557
Accounts receivable trade, net	615,690	583,994
Accounts receivable other	3,851	5,722
Prepaid taxes	5,268	12,088
Prepaid expenses and other current assets	15,763	25,697
<b>TOTAL CURRENT ASSETS</b>	<b>667,325</b>	<b>656,058</b>
Restricted investments	24,107	24,181
Property and equipment, net	618,931	562,150
Other intangibles, net	71,501	74,348
Goodwill, net	348,106	348,661
Other assets	3,534	5,543
<b>TOTAL ASSETS</b>	<b>\$1,733,504</b>	<b>\$1,670,941</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable trade	\$348,222	\$338,933
Accounts payable other	12,418	12,268
Accrued payroll	36,487	28,994
Accrued other	78,598	59,305
Current portion of capital lease	2,794	2,777
Current portion of long term debt	86,740	77,266
<b>TOTAL CURRENT LIABILITIES</b>	<b>565,259</b>	<b>519,543</b>
Long term debt	179,444	214,808
Non-current liabilities	39,083	37,927
Long term portion of capital lease	6,196	7,696
Deferred taxes	132,463	121,095
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$.01 par value; 2,000,000 shares authorized; no shares issued or outstanding in 2018 and 2017	-	-
Common stock		
Class A: \$.01 par value; 97,337,700 shares authorized and 41,224,792 shares issued in 2018 and 2017; 33,717,169 shares outstanding in 2018 and 33,447,070 shares outstanding in 2017	412	412

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Class B: \$.01 par value; 662,300 shares authorized; 662,296 shares issued and outstanding in 2018 and 2017

	7	7
Additional paid-in capital	168,614	173,011
Purchase price in excess of predecessor basis, net of tax benefit of \$10,306	(15,458 )	(15,458 )
Retained earnings	908,934	870,716
Accumulated other comprehensive loss	(190 )	(194 )
Treasury stock; at cost, 7,507,623 shares in 2018 and 7,777,722 shares in 2017	(251,260 )	(258,622 )
TOTAL STOCKHOLDERS' EQUITY	811,059	769,872
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,733,504	\$1,670,941

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue	\$1,179,093	\$923,596	\$2,275,064	\$1,816,352
Transportation costs	1,042,903	822,279	2,016,083	1,613,450
Gross margin	136,190	101,317	258,981	202,902
Costs and expenses:				
Salaries and benefits	58,092	45,038	114,099	88,217
Agent fees and commissions	21,969	17,038	41,111	35,031
General and administrative	20,216	20,114	40,720	40,938
Depreciation and amortization	3,960	2,549	7,965	4,961
Total costs and expenses	104,237	84,739	203,895	169,147
Operating income	31,953	16,578	55,086	33,755
Other income (expense):				
Interest expense	(2,187 )	(1,032 )	(4,291 )	(2,130 )
Interest and dividend income	22	200	44	330
Other, net	(189 )	-	(244 )	194
Total other expense	(2,354 )	(832 )	(4,491 )	(1,606 )
Income before provision for income taxes	29,599	15,746	50,595	32,149
Provision for income taxes	7,548	6,204	12,377	12,273
Net income	\$22,051	\$9,542	\$38,218	\$19,876
Other comprehensive income:				
Foreign currency translation adjustments	(25 )	28	4	92
Total comprehensive income	\$22,026	\$9,570	\$38,222	\$19,968
Basic earnings per common share	\$0.66	\$0.29	\$1.14	\$0.60
Diluted earnings per common share	\$0.66	\$0.29	\$1.14	\$0.60
Basic weighted average number of shares outstanding	33,389	33,220	33,382	33,213

Diluted weighted average number of shares outstanding	33,562	33,262	33,520	33,318
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See notes to unaudited consolidated financial statements.

## HUB GROUP, INC.

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net Income	\$38,218	\$19,876
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	38,251	25,288
Deferred taxes	11,767	7,713
Compensation expense related to share-based compensation plans	6,982	4,972
Contingent consideration adjustment	(3,571 )	-
(Gain) loss on sale of assets	(90 )	307
Changes in operating assets and liabilities:		
Restricted investments	74	(2,408 )
Accounts receivable, net	(29,748)	26,240
Prepaid taxes	6,820	(3,352 )
Prepaid expenses and other current assets	9,935	4,493
Other assets	1,869	(2,653 )
Accounts payable	9,878	307
Accrued expenses	4,857	(18,013 )
Non-current liabilities	2,382	368
Net cash provided by operating activities	97,624	63,138
Cash flows from investing activities:		
Proceeds from sale of equipment	1,234	2,356
Purchases of property and equipment	(69,261)	(29,593 )
Net cash used in investing activities	(68,027)	(27,237 )
Cash flows from financing activities:		
Proceeds from issuance of debt	58,161	16,149
Repayments of long term debt	(84,051)	(23,118 )
Stock tendered for payments of withholding taxes	(4,017 )	(3,293 )
Capital lease payments	(1,483 )	(1,399 )
Net cash used in financing activities	(31,390)	(11,661 )
Effect of exchange rate changes on cash and cash equivalents	(11 )	95
Net (decrease) increase in cash and cash equivalents	(1,804 )	24,335
Cash and cash equivalents beginning of the period	28,557	127,404
Cash and cash equivalents end of the period	\$26,753	\$151,739



Supplemental disclosures of cash paid for:

Interest	\$4,182	\$2,176
Income taxes	\$752	\$10,743

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”, “our” or “Company”) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements have been 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 June 30, 2018 and results of operations for the six months ended June 30, 2018 and 2017. Certain amounts in prior periods have been reclassified to conform with current period presentation.

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, 2017. Results of operations in interim periods are not necessarily indicative of results to be expected for a full year due partially to seasonality.

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

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

The Company capitalizes commissions incurred in connection with obtaining a contract. The Company capitalized commissions associated with dedicated services of \$0.4 million at June 30, 2018. Capitalized commission fees are amortized based on the transfer of services to which the assets relate and are included in selling, general and administrative expenses. In 2018, the amount of amortization was approximately \$30,000.

Costs incurred to fulfill an intermodal, truck brokerage or logistics contract are expensed as incurred according to the practical expedient that allows contract acquisition costs to be recognized immediately if the deferral period is one year or less.

The Company applied Topic 606 retrospectively using the practical expedient in paragraph 606-10-65-1(f)(3), under which the Company does not disclose the amount of consideration allocated to the remaining performance obligations or an explanation of when the Company expects to recognize that amount as revenue for all reporting periods presented before January 1, 2018. We do not generally have a remaining performance obligation due to revenue generally being recognized using relevant transit time. We only had one significant accounting policy change that is disclosed below.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by Hub Group from a customer were previously recorded on a gross basis. Under Topic 606, these taxes are excluded from revenue. This change had an effect of \$0.9 million and \$1.6 million on revenue and transportation costs for the three and six months ending June 30, 2017, respectively.

**NOTE 2. Acquisition**

Hub Group Trucking (HGT), a wholly owned subsidiary of Hub Group, Inc., acquired all of the outstanding equity interests of Estenson Logistics, LLC (“Estenson”) on July 1, 2017 (the “Estenson Acquisition”). Estenson is now our wholly owned subsidiary, operating under the name Hub Group Dedicated (“HGD”). As a result of the Estenson Acquisition, HGT acquired substantially all of the assets of Estenson, which include tractors and trailers, as well as assumed certain liabilities, including equipment debt. HGD is included in the Hub segment.

The following unaudited pro forma consolidated results of operations for 2017 assume that the acquisition of Estenson was completed as of January 1, 2017 (in thousands, except for per share amounts):

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Revenue	\$983,029	\$1,930,373
Net income	\$12,450	\$24,053
Earnings per share		
Basic	\$0.38	\$0.73
Diluted	\$0.38	\$0.72

The unaudited pro forma consolidated results for the three and six month periods were prepared using the acquisition method of accounting and are based on the historical financial information of Hub Group and HGD. The historical financial information has been adjusted to give effect to the pro forma adjustments that are: (i) directly attributable to the acquisition, (ii) factually supportable and (iii) expected to have a continuing impact on the combined results. The unaudited pro forma consolidated results are not necessarily indicative of what our consolidated results of operations actually would have been had we completed the acquisition on January 1, 2017.

**NOTE 3. Business Segments**

We report two distinct business segments. The first segment is Mode, which includes the Mode Transportation, LLC (“Mode LLC”) business only. The second segment is Hub, which is all business other than Mode.

Hub offers comprehensive multimodal solutions including intermodal, truck brokerage, logistics and dedicated services. Our employees operate the freight through a network of operating centers and terminals 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 LLC has Independent Business Owners (“IBOs”) who sell and operate the business throughout North America, as well as sales only agents. Mode LLC also has a corporate offices in Dallas, TX, a temperature protected services division, Temstar, located in Oak Brook, IL and a corporate office in Memphis, TN.

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

Our transportation services for both Hub and Mode segments can be broadly placed into the following categories:

Intermodal. As an intermodal provider, we arrange for the movement of our customers’ freight in containers and trailers, typically over long distances of 750 miles or more. We contract with railroads to provide transportation for the long-haul portion of the shipment and with local trucking companies, known as “drayage companies,” for pickup and delivery. 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.

Truck Brokerage (Highway Services). We are one of the largest truck brokers in the United States, providing customers with a highway service option for their transportation needs. We match the customers' needs with carriers' capacity to provide the most effective service and price combination. We have contracts with a substantial base of carriers allowing us to meet the varied needs of our customers. 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.

Logistics and Other Services. Hub's logistics business operates under the name of Unyson Logistics. Unyson Logistics is comprised of a network of logistics professionals dedicated to developing, implementing and operating customized logistics solutions for customers. Unyson Logistics offers a wide range of transportation management services and technology solutions including shipment optimization, load consolidation, mode selection, carrier management, load planning and execution and web-based shipment visibility. Unyson Logistics operates throughout North America, providing services through its main operating location in St. Louis with additional support locations in the Boston and Chicago metro areas. In addition, certain Mode LLC agents also provide logistics services. Our multi-modal transportation capabilities for both the Hub and Mode segments include small parcel, heavyweight, expedited, less-than-truckload, truckload, intermodal, railcar and international shipping.

Dedicated: Our dedicated service line, HGD, contracts with customers who wish to outsource a portion of their transportation needs. We offer a dedicated fleet of equipment and drivers to each customer, as well as the management and infrastructure to operate according to the customer's high service expectations.

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

	Three Months Ended June 30, 2018				Three Months Ended June 30, 2017			
	Hub	Mode	Inter-Segment Elims	Hub Group Total	Hub	Mode	Inter-Segment Elims	Hub Group Total
Revenue	\$888,238	\$314,078	\$(23,223)	\$1,179,093	\$704,344	\$242,998	\$(23,746)	\$923,596
Transportation costs	788,087	278,039	(23,223)	1,042,903	631,787	214,238	(23,746)	822,279
Gross margin	100,151	36,039	-	136,190	72,557	28,760	-	101,317
Costs and expenses:								
Salaries and benefits	53,839	4,253	-	58,092	41,569	3,469	-	45,038
Agent fees and commissions	11	21,958	-	21,969	14	17,024	-	17,038
General and administrative	17,768	2,448	-	20,216	18,331	1,783	-	20,114
Depreciation and amortization	3,719	241	-	3,960	2,249	300	-	2,549
Total costs and expenses	75,337	28,900	-	104,237	62,163	22,576	-	84,739
Operating income	\$24,814	\$7,139	\$-	\$31,953	\$10,395	\$6,184	\$-	\$16,578
Capital Expenditures	\$46,337	\$745	\$-	\$47,082	\$22,937	\$31	\$-	\$22,968

Six Months  
Ended June 30, 2018

Inter- Hub

Six Months  
Ended June 30, 2017

Inter- Hub

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	Hub	Mode	Segment Elims	Group Total	Hub	Mode	Segment Elims	Group Total
Revenue	\$1,719,823	\$601,977	\$(46,736)	\$2,275,064	\$1,380,824	\$484,832	\$(49,304)	\$1,816,352
Transportation costs	1,529,297	533,522	(46,736)	2,016,083	1,236,462	426,292	(49,304)	1,613,450
Gross margin	190,526	68,455	-	258,981	144,362	58,540	-	202,902
Costs and expenses:								
Salaries and benefits	105,909	8,190	-	114,099	81,164	7,053	-	88,217
Agent fees and commissions	25	41,086	-	41,111	31	35,000	-	35,031
General and administrative	36,170	4,550	-	40,720	36,810	4,128	-	40,938
Depreciation and amortization	7,478	487	-	7,965	4,357	604	-	4,961
Total costs and expenses	149,582	54,313	-	203,895	122,362	46,785	-	169,147
Operating income	\$40,944	\$14,142	\$-	\$55,086	\$22,000	\$11,755	\$-	\$33,755
Capital Expenditures	\$67,874	\$1,387	\$-	\$69,261	\$29,562	\$31	\$-	\$29,593

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As of June 30, 2018					As of December 31, 2017				
	Hub	Mode	Inter-Segment Elims	Hub Group Total		Hub	Mode	Inter-Segment Elims	Hub Group Total
Total assets	\$1,513,130	\$227,425	\$(7,051 )	\$1,733,504	\$1,470,792	\$210,088	\$(9,939 )	\$1,670,941	
Goodwill	\$318,717	\$29,389	\$-	\$348,106	\$319,272	\$29,389	\$-	\$348,661	

On January 1, 2018, the Company adopted ASC Topic 606 using the modified retrospective method applied to those contracts that were not completed as of January 1, 2018. Segment revenues were not significantly impacted under ASC Topic 606. The tables below represent disaggregated revenue from contracts with customers.

The following tables summarize our revenue by segment and business line (in thousands) for the quarter ended June 30:

	Three Months Ended June 30, 2018				Three Months Ended June 30, 2017			
	Hub	Mode	Inter-Segment Elims	Hub Group Total	Hub	Mode	Inter-Segment Elims	Hub Group Total
Intermodal	\$526,028	\$141,221	\$(6,559)	\$660,690	\$451,420	\$112,089	\$(12,866)	\$550,643
Truck brokerage	114,936	103,168	(84)	218,020	104,289	82,869	(310)	186,848
Logistics	173,421	69,689	(16,580)	226,530	148,635	48,040	(10,570)	186,105
Dedicated	73,853	-	-	73,853	-	-	-	-
Total revenue	\$888,238	\$314,078	\$(23,223)	\$1,179,093	\$704,344	\$242,998	\$(23,746)	\$923,596

The following tables summarize our revenue by segment and business line (in thousands) for the six months ended June 30:

	Six Months Ended June 30, 2018				Six Months Ended June 30, 2017			
	Hub	Mode	Inter-Segment Elims	Hub Group Total	Hub	Mode	Inter-Segment Elims	Hub Group Total
Intermodal	\$1,008,522	\$270,995	\$(17,829)	\$1,261,688	\$875,843	\$234,269	\$(28,103)	\$1,082,009
Truck brokerage	234,955	203,889	(442)	438,402	210,473	161,031	(695)	370,809
Logistics	342,098	127,093	(28,450)	440,741	294,508	89,532	(20,506)	363,534
Dedicated	134,248	-	(15)	134,233	-	-	-	-



Total revenue	\$1,719,823	\$601,977	\$(46,736)	\$2,275,064	\$1,380,824	\$484,832	\$(49,304)	\$1,816,352
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NOTE 4. Earnings Per Share

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

	Three Months Ended, June 30,		Six Months Ended, June 30,	
	2018	2017	2018	2017
Net income for basic and diluted earnings per share	\$22,051	\$9,542	\$38,218	\$19,876
Weighted average shares outstanding - basic	33,389	33,220	33,382	33,213
Dilutive effect of stock options and restricted stock	173	42	138	105
Weighted average shares outstanding - diluted	33,562	33,262	33,520	33,318
Earnings per share - basic	\$0.66	\$0.29	\$1.14	\$0.60
Earnings per share - diluted	\$0.66	\$0.29	\$1.14	\$0.60

**NOTE 5. Fair Value Measurement**

The carrying value of cash, accounts receivable and accounts payable approximated fair value as of June 30, 2018 and December 31, 2017. At June 30, 2018 and December 31, 2017 the fair value of the Company's fixed-rate borrowings was \$3.6 million and \$2.4 million less than the historical carrying value of \$266.2 million and \$247.1 million. The fair value of the fixed-rate borrowings was estimated using an income approach based on current interest rates available to the Company for borrowings on similar terms and maturities.

We consider as cash equivalents all highly liquid instruments with an original maturity of three months or less. As of June 30, 2018 and December 31, 2017, our cash and temporary investments were with high quality financial institutions in Demand Deposit Accounts (DDAs) and Savings Accounts.

Restricted investments, as of June 30, 2018 of \$24.1 million and December 31, 2017 of \$24.2 million, consisted of mutual funds which are reported at fair value and are related to the liabilities of our nonqualified deferred compensation plan.

The fair value of the contingent consideration related to the 2017 acquisition of Estenson was \$1.1 million at June 30, 2018. This valuation was based on significant inputs that are not observable in the market, which are referred to as Level 3 inputs. Key assumptions include the likelihood of the acquired business achieving target levels of EBITDA using a probability-weighted expected return method ("PWERM"). The following table sets forth a reconciliation of changes in the fair value of the contingent consideration:

Balance at December 31, 2017	\$4,703
Change in fair value (1)	(3,571)
Balance at June 30, 2018	\$1,132

(1) We recorded an adjustment to the contingent consideration liability in the second quarter of 2018, resulting in an increase in income from operations. The income was recorded under "General and Administrative" in the Consolidated Statement of Income. The adjustment was the result of a change in the fair value of the contingent liability, which reflected two year EBITDA targets established prior to the close of the acquisition.

Our assets and liabilities measured at fair value are based on valuation techniques which consider prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. These valuation methods are based on either quoted market prices (Level 1) inputs, other than quoted prices in active markets, that are observable either directly or indirectly (Level 2), or unobservable inputs (Level 3). Cash, accounts receivable and accounts payable are defined as "Level 1", long term debt is defined as "Level 2", and the Estenson contingent consideration is defined as "Level 3" of the fair value hierarchy in the Fair Value Measurements and Disclosures Topic of the Codification.

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

At June 30, 2018, we were authorized to borrow up to \$350 million under a revolving line of credit. As of June 30, 2018, we had no borrowings under our bank revolving line of credit and our unused and available borrowings were \$327.0 million. As of December 31, 2017, we had \$45.0 million of borrowings under our bank revolving line of credit and our unused and available borrowings were \$284.9 million. We were in compliance with our debt covenants as of June 30, 2018.

We have standby letters of credit that expire at various dates in 2018 and 2019. As of June 30, 2018, our letters of credit were \$23.0 million.



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

	June 30, 2018 (in thousands except principal and interest payments)	December 31, 2017
Revolving line of credit	\$-	\$45,000
Secured Equipment Notes due on various dates in 2024 with monthly principal and interest payments between \$403 and \$83,000 commencing on various dates in 2017; interest is paid monthly at a fixed annual rate between 2.85% and 3.41%	12,691	13,586
Secured Equipment Notes due on various dates in 2023 with monthly principal and interest payments between \$669 and \$341,341 commencing on various dates in 2016, 2017 and 2018; interest is paid monthly at a fixed annual rate between 2.23% and 3.91%	91,077	36,981
Secured Equipment Notes due on various dates in 2022 with monthly principal and interest payments between \$3,030 and \$254,190 commencing on various dates from 2015 to 2017; interest is paid monthly at a fixed annual rate of between 2.16% and 2.87%	27,435	30,301
Secured Equipment Notes due on various dates in 2021 with monthly principal and interest payments between \$1,940 and \$352,655 commencing on various dates from 2014 to 2017; interest is paid monthly at a fixed annual rate between 2.04% and 2.96%	66,863	76,885
Secured Equipment Notes due on various dates in 2020 with monthly principal and interest payments between \$3,614 and \$398,496 commencing on various dates from 2013 to 2016; interest is paid monthly at a fixed annual rate between 1.72% and 2.78%	42,960	50,737
Secured Equipment Notes due on various dates in 2019 with monthly principal and interest payments between \$1,594 and \$325,050 commencing on various dates from 2013 to 2015; interest is paid monthly at a fixed annual rate between 1.79% and 2.62%	25,158	36,178
Secured Equipment Notes due on various dates in 2018 with monthly principal and interest payments between \$6,480 and \$163,428 commencing on various dates in 2013 and 2014; interest is paid monthly at a fixed annual rate between 2.05% and 2.7%	-	2,406
	266,184	292,074
Less current portion	(86,740 )	(77,266 )
Total long-term debt	\$ 179,444	\$ 214,808

NOTE 7. Commitments and Contingencies

In November 2016, we committed to acquire 4,000 53' containers, which were received by July 31, 2018. In the second quarter of 2018, we placed an order for 3,670 containers and we expect delivery between July 2018 and November 2018. We expect to finance these units with debt.

Since January 1, 2018 we have committed to acquire 869 tractors for \$107.2 million. As of June 30, 2018 we received 380 tractors, which are being financed with debt, and we expect to receive the remaining 489 tractors from July to December of 2018. We expect to finance these tractors with debt.

Since January 1, 2018 we have committed to acquire 760 trailers for \$24.2 million. As of June 30, 2018 we received 217 trailers, which will be financed with debt, and we expect to receive the remaining 543 trailers from July to December of 2018. We expect to finance these trailers with debt.