

Capital Structure

Hub Group, Inc. was incorporated on March 8, 1995. On March 18, 1996, Hub Group, Inc. purchased Hub City Terminals, Inc. ("Hub Chicago") in a stock-for-stock acquisition through the issuance of 1,000,000 shares of Class A common stock and 662,296 shares of Class B common stock. Hub Chicago has been accounted for similar to the pooling of interests method of accounting and has been included in all periods presented on a historical cost basis. Concurrent with the acquisition of Hub Chicago in March 1996, Hub Group, Inc. completed the initial public offering of 4,261,250 shares of its Class A common stock. Coincident with the initial public offering, a selling stockholder sold 1,000,000 shares of Hub Group, Inc. Class A common stock through a secondary offering. In September 1997, Hub Group, Inc. (the "Company") completed a secondary offering of 1,725,000 shares of Hub Group, Inc.'s Class A common stock.

Business Combinations

On October 31, 1997, the Company acquired the 50% interest in its international joint venture, HLX Company, LLC ("HLX"), that it did not previously own. HLX offers point-to-point international transportation services with a focus on the North American movement of import and export freight.

On April 1, 1998, the Company acquired all of the outstanding stock of Quality Intermodal Corporation ("Quality"). Quality primarily offered intermodal and truckload brokerage services with offices in Houston, Dallas, Los Angeles, Chicago, Atlanta, and Philadelphia. The Company absorbed the Quality business directly into its existing operations.

On August 1, 1998, the Company acquired the rights to service the customers of Corporate Express Distribution Services ("CEDS") as well as certain fixed assets. The CEDS business is being operated by Hub Group Distribution Services ("Hub Distribution"), the Company's niche logistics services provider. CEDS was a provider of niche logistics services including a pharmaceutical sample delivery operation.

Call Options

On March 1, 1997, the Company exercised its option to purchase an approximate 44% minority interest in Hub Distribution. The Company paid \$1.6 million in cash.

On September 17, 1997, the Company exercised its call options to acquire the remaining 70% minority interests in Hub City Los Angeles, L.P. and Hub City Golden Gate, L.P. The Company paid \$59.4 million in cash.

On October 31, 1997, the Company exercised its call option to purchase the remaining 70% minority interest in Hub City New Orleans, L.P. for one dollar.

On April 1, 1998, the Company exercised its call options to acquire the remaining 70% minority interests in Hub City Rio Grande, L.P., Hub City Dallas, L.P., and Hub City Houston, L.P. ("Texas Hubs"). The Company paid \$6.2 million in cash.

On April 1, 1999, Hub Group, Inc. exercised its call options to acquire the remaining 70% minority interests in Hub City Alabama, L.P., Hub City Atlanta, L.P., Hub City Boston, L.P., Hub City Canada, L.P., Hub City Cleveland, L.P., Hub City Detroit, L.P., Hub City Florida, L.P., Hub City Indianapolis, L.P., Hub City Kansas City, L.P., Hub City Mid-Atlantic, L.P., Hub City New York/New Jersey, L.P., Hub City New York State, L.P., Hub City Ohio, L.P., Hub City Philadelphia, L.P., Hub City Pittsburgh, L.P., Hub City Portland, L.P., and Hub City St. Louis, L.P. (collectively referred to as the "April 1999 Purchase"). The Company paid \$108.7 million in cash.

Results of Operations

Year Ended December 31, 1999,

Compared to Year Ended December 31, 1998

Revenue

Revenue for the Company increased 13.2% to \$1,296.8 million in 1999 from \$1,145.9 million in 1998. Intermodal revenue increased 6.2% over 1998. Management believes that the service disruption from the split-up of Conrail which began on June 1, 1999 negatively impacted intermodal revenue growth. Truckload brokerage revenue increased 19.3% over 1998. The Company has successfully grown truckload brokerage by cross-selling to its intermodal customers and employing dedicated and experienced personnel in each Hub. Logistics revenue increased 88.3% compared to 1998. This increase was primarily due to the increase in revenue from the Company's niche logistic services performed by Hub Distribution.

Net Revenue

Net revenue increased 17.4% to \$162.4 million in 1999 from \$138.3 million in 1998. Net revenue as a percentage of revenue increased to 12.5% from 12.1% in 1998. Management believes the primary cause of this increase is the growth in niche logistic services which earns a higher net revenue percentage of revenue than does the Company's core intermodal and brokerage service offerings.

Salaries and Benefits

Salaries and benefits increased 16.0% to \$84.1 million in 1999 from \$72.5 million in 1998. As a percentage of revenue, salaries and benefits increased to 6.5% from 6.3% in 1998. The increase in the percentage is primarily attributed to the increased headcount supporting the Company's information technology initiatives and growth in niche logistic services. The Company's niche logistic services requires a higher level of salaries and benefits as compared to revenue than does the Company's core intermodal and brokerage service offerings.

Selling, General and Administrative

Selling, general and administrative expenses increased 16.3% to \$38.2 million in 1999 from \$32.9 million in 1998. These expenses as a percentage of revenue remained constant at 2.9%. While the percentage of revenue is consistent with the prior year, the \$5.3 million increase in expenses is primarily attributed to information systems, travel and outside services. The Company's increased information systems expenditures related to consulting, Year 2000 remediation and validation, and enhancements to the Company's operating system. Travel and related expenses increased due primarily to a national sales meeting held in 1999 that was not held in the previous year and increased expenditures to support growth in the Company's niche logistic services. Outside service expenditures relate to contracted temporary labor and other services to handle increased business for niche logistic services and outside sales commissions.

Depreciation and Amortization of Property and Equipment

Depreciation and amortization increased 9.5% to \$4.0 million in 1999 from \$3.7 million in 1998. This expense as a percentage of revenue remained constant at 0.3%.

Amortization of Goodwill

Amortization of goodwill increased 74.1% to \$5.1 million from \$2.9 million in 1998. The expense as a percentage of revenue increased to 0.4% from 0.3% in 1998. The increase in expense is primarily attributable to the amortization of the goodwill associated with the purchase of the remaining 70% minority interests in connection with the April 1999 Purchase.

Change in Estimate/Impairment of Property and Equipment

In the second quarter of 1999, a \$0.9 million pretax charge was recorded due to a change in estimate and an impairment loss relating to certain operating software applications. Specifically, \$0.7 million of this charge was attributable to a change in estimate of the useful life for the Visual Movement software previously used primarily for brokerage. The Visual Movement software is no longer being used by the Company and was replaced with enhancements to the Company's proprietary intermodal operating software during the second quarter of 1999. These enhancements allow for greater network visibility of loads in a year 2000 compliant program. The \$0.2 million impairment loss related to the write-down of a logistics software program. The fair value was determined based on the estimated future cash flows attributable to the single customer using this program. The Company has installed this software package and is currently preparing the software for its operational applications. This new software will provide enhanced functionality.

Other Income (Expense)

Interest expense increased to \$8.6 million in 1999 from \$2.5 million in 1998. The increase in interest expense is due primarily to the additional debt required to fund the purchases of the remaining 70% minority interests in connection with the April 1999 Purchase. In addition, debt increased as a result of the acquisition of Quality and the purchase of the minority interest in the Texas Hubs in April 1998.

Interest income decreased to \$0.9 million in 1999 from \$1.0 million in 1998. The primary cause for this decrease is the Company's increased concentration of its cash balances to reduce debt and minimize interest expense on borrowings.

Other income of \$1.2 million in 1999 is primarily due to non-recurring income recognized upon execution of an agreement with one of the Company's vendors.

Minority Interest

Minority interest decreased 47.9% to \$5.3 million in 1999 from \$10.1 million in 1998. Minority interest as a percentage of income before minority interest and provision for income taxes was 22.3% in 1999 compared to 40.0% in 1998. The decrease in the percentage is primarily attributed to the purchase of remaining 70% minority interest in connection with the April 1999 Purchase as well as the purchase of minority interest in the Texas Hubs in April 1998.

Provision for Income Taxes

The provision for income taxes increased 19.7% to \$7.5 million compared to \$6.3 million in 1998. The Company provided for income taxes using an effective rate of 41.0% in 1999 versus 41.4% in 1998.

Net Income

Historical net income increased 21.8% to \$10.8 million in 1999 from \$8.9 million in 1998. Historical net income as a percentage of revenue remained constant at 0.8%.

Earnings Per Common Share

Basic earnings per common share increased 21.6% to \$1.41 from \$1.16 in 1998. Diluted earnings per common share increased 21.7% to \$1.40 in 1999 from \$1.15 in 1998.

*Year Ended December 31, 1998,
Compared to Year Ended December 31, 1997*

Revenue

Revenue for the Company increased 7.6% to \$1,145.9 million in 1998 from \$1,064.5 million in 1997. Intermodal revenue increased 7.2% over 1997. Management believes that the well-publicized railroad service disruptions experienced by the intermodal industry during 1998 negatively impacted intermodal revenue growth. Truckload brokerage revenue increased 27.3% over 1997. The Company has successfully maintained its expansion into this service offering by employing dedicated and experienced personnel in each Hub. Logistics revenue decreased 17.4% over revenue for 1997. This decrease was due to the Company's cancellation of its contract to provide third-party logistics services to a significant customer in January 1998. This customer accounted for \$32.5 million of the Company's revenue in 1997.

Net Revenue

Net revenue increased 6.5% to \$138.3 million in 1998 from \$129.9 million in 1997. Net revenue as a percentage of revenue decreased slightly to 12.1% from 12.2% in 1997. Management believes the primary cause of this slight decrease is due to the increased transportation costs resulting from the service disruptions that were prevalent in 1998. At times the Company used higher cost alternative routing and incurred accessorial for detention and storage which were not passed on to the customer in an effort to maintain the long-term relationships the Company enjoys with many of its customers.

Salaries and Benefits

Salaries and benefits increased 12.7% to \$72.5 million in 1998 over \$64.3 million in 1997. As a percentage of revenue, salaries and benefits increased to 6.3% from 6.0% in 1997. The increase in the percentage is attributed to the increased number of personnel needed to handle the Company's intermodal business. Due to the service disruptions, personnel were required to spend significantly more time per load to operate and monitor the transit of freight.

Selling, General and Administrative

Selling, general and administrative expenses increased 19.7% to \$32.9 million in 1998 from \$27.5 million in 1997. Selling, general and administrative expenses as a percentage of revenue increased to 2.9% in 1998 from 2.6% in 1997. The increase in the percentage is principally attributable to increased spending related to information systems, rent and equipment leases. Expenditures for information systems included consulting costs related to the refinement of the Company's information systems strategy and costs for the Year 2000 project. Rent increased as many of the Company's Hubs were required to obtain larger office space to accommodate present operations and future growth.

Expenditures for equipment leases increased as the Company moved towards leasing, as opposed to purchasing, more of its office and computer equipment.

Depreciation and Amortization of Property and Equipment

Depreciation and amortization of property and equipment increased 19.1% to \$3.7 million in 1998 from \$3.1 million in 1997. This expense as a percentage of revenue remained constant at 0.3%.

Amortization of Goodwill

Amortization of goodwill increased 91.0% to \$2.9 million in 1998 from \$1.5 million in 1997. The expense as a percentage of revenue increased to 0.3% from 0.1% in 1997. This increase is attributed primarily to the increase in goodwill amortization related to the September 1997 purchase of the minority interest in Hub City Los Angeles, L.P. and Hub City Golden Gate, L.P., the April 1998 purchase of the minority interest in the Texas Hubs and the April 1998 acquisition of Quality.

Other Income (Expense)

Interest expense increased 11.5% to \$2.5 million in 1998 from \$2.2 million in 1997. The increase is primarily attributed to the use of cash and a note issued in conjunction with the acquisition of Quality and the purchase of the minority interest in the Texas Hubs in April 1998.

Interest income decreased 30.8% to \$1.0 million in 1998 from \$1.5 million in 1997. The primary cause of this decrease is the Company's increased concentration of its cash balances to reduce debt to minimize interest expense on borrowings.

Minority Interest

Minority interest decreased 40.5% to \$10.1 million in 1998 from \$17.0 million in 1997. Minority interest as a percentage of income before minority interest and provision for income taxes was 40.0% in 1998 as compared to 51.7% in 1997. The decrease in the percentage is attributed to purchases of minority interest in September 1997 and April 1998.

Provision for Income Taxes

Provision for income taxes was \$6.3 million in 1997 and 1998. The Company provided for income taxes at an effective rate of 41.4% in 1998 versus 40.0% in 1997. The increase in the effective rate was primarily the result of the purchases of minority interest in September 1997 and the Quality acquisition in April 1998. The goodwill related to the Quality acquisition is not tax deductible and therefore has the effect of increasing the Company's effective rate.

Consolidated Statements of Operations

(in thousands, except per share amounts)

Years Ended December 31,

	1999	1998	1997
Revenue	\$ 1,296,799	\$ 1,145,906	\$ 1,064,479
Transportation Costs	1,134,384	1,007,572	934,624
Net revenue	162,415	138,334	129,855
Costs and Expenses:			
Salaries and benefits	84,082	72,465	64,280
Selling, general and administrative	38,232	32,885	27,478
Depreciation and amortization of property and equipment	4,014	3,666	3,077
Amortization of goodwill	5,069	2,912	1,525
Change in estimate/impairment of property and equipment	884	—	—
Total costs and expenses	132,281	111,928	96,360
Operating income	30,134	26,406	33,495
Other Income (Expense):			
Interest expense	(8,592)	(2,480)	(2,225)
Interest income	926	1,014	1,466
Other, net	1,191	384	133
Total other expense	(6,475)	(1,082)	(626)
Income Before Minority Interest and Provision for Income Taxes	23,659	25,324	32,869
Minority Interest	5,275	10,119	16,995
Income Before Provision for Income Taxes	18,384	15,205	15,874
Provision for Income Taxes	7,538	6,297	6,349
Net Income	\$ 10,846	\$ 8,908	\$ 9,525
Basic Earnings Per Common Share	\$ 1.41	\$ 1.16	\$ 1.48
Diluted Earnings Per Common Share	\$ 1.40	\$ 1.15	\$ 1.46

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

Consolidated Balance Sheets

(in thousands)

December 31,	1999	1998
Assets		
<i>Current Assets:</i>		
Cash and cash equivalents	\$ 1,865	\$ 15,178
Accounts receivable, net	190,221	148,104
Prepaid expenses and other current assets	2,771	6,036
Total Current Assets	194,857	169,318
Property and Equipment, net	24,244	19,111
Goodwill, net	219,648	115,858
Deferred Taxes	898	—
Other Assets	1,962	504
Total Assets	\$ 441,609	\$ 304,791
Liabilities and Stockholders' Equity		
<i>Current Liabilities:</i>		
Accounts payable		
Trade	\$ 141,592	\$ 123,513
Other	11,246	7,909
Accrued expenses		
Payroll	7,936	6,339
Other	6,384	6,332
Deferred taxes	—	1,751
Current portion of long-term debt	6,195	3,161
Total Current Liabilities	173,353	149,005
Long-Term Debt, Excluding Current Portion	131,414	29,589
Deferred Taxes	4,959	556
Contingencies and Commitments		
Minority Interest	759	5,968
<i>Stockholders' Equity:</i>		
Preferred stock	—	—
Common stock	77	77
Additional paid-in capital	110,786	110,181
Purchase price in excess of predecessor basis	(25,764)	(25,764)
Tax benefit of purchase price in excess of predecessor basis	10,306	10,306
Retained earnings	35,719	24,873
Total Stockholders' Equity	131,124	119,673
Total Liabilities and Stockholders' Equity	\$ 441,609	\$ 304,791

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

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**Description of Business and Summary
of Significant Accounting Policies**

Business

Hub Group, Inc. (the "Company") provides intermodal transportation services utilizing primarily third party arrangements with railroads and drayage companies. The Company also arranges for transportation of freight by truck and performs logistics services.

Principles of Consolidation

The consolidated financial statements include the accounts of Hub Group, Inc. and all entities in which the Company has more than a 50% equity ownership or otherwise exercises unilateral control. All significant intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents

The Company considers as cash equivalents all highly liquid instruments with an original maturity of three months or less. Checks outstanding, net, of approximately \$13,638,000 and \$1,482,000 at December 31, 1999 and 1998, respectively, are included in accounts payable.

Receivables

The Company's reserve for uncollectible accounts receivable was approximately \$2,134,000 and \$691,000 at December 31, 1999 and 1998, respectively.

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 applicable assets over their expected useful lives: buildings and improvements, 15 to 40 years; 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 12 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, commencing when the asset is placed into service. 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.

Goodwill

Goodwill is amortized on the straight-line method over 40 years. On an ongoing basis, the Company estimates the future undiscounted cash flows before interest of the operating units to which goodwill relates in order to evaluate impairment. If impairment exists, the carrying amount of the goodwill is reduced by the estimated shortfall of cash flows. The Company has not experienced any impairment of goodwill. Accumulated goodwill amortization was \$10,032,000 and \$4,963,000 as of December 31, 1999 and 1998, respectively.

Concentration of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company places its cash and temporary investments with high quality financial institutions. At times, such investments may be in excess of the FDIC insurance limit. Temporary investments are valued at the lower of cost or market and at the balance sheet dates approximate fair market value. The Company primarily serves customers located throughout the United States with no significant concentration in any one region. No one customer accounted for more than 10% of revenue in 1997, 1998 or 1999. The Company reviews a customer's credit history before extending credit. In addition, the Company routinely assesses the financial strength of its customers and, as a consequence, believes that its trade accounts receivable risk is limited.

Revenue Recognition

Revenue represents sales of services to customers. Revenue is recognized based on relative transit time.

Income Taxes

The Company accounts for certain income and expense items differently for financial reporting and income tax purposes. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities applying enacted statutory tax rates in effect for the year in which the differences are expected to reverse.

Earnings Per Common Share

In accordance with Statement of Financial Accounting Standards No. 128 ("Statement 128"), "Earnings per 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. In computing the per share effect of assumed exercise, 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ("Statement 133"), "Accounting for Derivative Instruments and Hedging Activities". This standard requires that an entity recognize derivatives as either assets or liabilities on its balance sheet and measure those instruments at fair value. As a result of Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of Statement 133", the Company will adopt this standard in the first quarter of 2001. Based on current circumstances, the Company does not believe that the application of Statement 133 will have a material effect on the Company's financial condition or results of operations.

Reclassifications

Certain items previously reported have been reclassified to conform with the 1999 presentation.

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Capital Structure

On March 8, 1995, Hub Group, Inc. was incorporated and issued 100 shares of Class A common stock to the sole incorporator. On March 18, 1996, Hub Group, Inc. purchased Hub City Terminals, Inc. ("Hub Chicago") in a stock-for-stock acquisition through the issuance of 1,000,000 shares of the Company's Class A common stock and 662,296 shares of the Company's 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 20 votes, while each share of Class A common stock entitles its holder to one vote. Hub Chicago has been accounted for similar to the pooling of interests method of accounting.

In September 1997, the Company completed a secondary offering of 1,725,000 shares of its Class A common stock. The net proceeds of the offering were approximately \$54.8 million.

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Business Combinations

On October 31, 1997, the Company acquired the remaining 50% interest in its international logistics joint venture, HLX Company, LLC for \$300,000. The acquisition was recorded using the purchase method of accounting resulting in goodwill of \$466,000.

On April 1, 1998, the Company acquired all the outstanding stock of Quality Intermodal Corporation for \$4,080,000 in cash and a \$6,100,000 three-year note, bearing interest at an annual rate of 5.6%. The acquisition was recorded using the purchase method of accounting resulting in preliminary goodwill of \$9,458,000. The purchase price was subsequently adjusted resulting in goodwill of \$9,608,000.

On August 1, 1998, the Company acquired the rights to service the customers of Corporate Express Distribution Services as well as certain fixed assets for \$750,000 in cash. The acquisition was recorded using the purchase method of accounting resulting in goodwill of \$432,000.

Results of operations from acquisitions recorded under the purchase method of accounting are included in the Company's financial statements from their respective dates of acquisition. The 1998 purchase price allocations presented are preliminary.

Business acquisitions which involved the use of cash were accounted for as follows:

(000's)

Years Ended December 31,	1998	1997
Accounts receivable	\$ 8,453	\$ (115)
Prepaid expenses and other current assets	57	12
Property and equipment	398	79
Goodwill	9,890	466
Other assets	3	13
Accounts payable	(7,486)	(216)
Accrued expenses	(641)	(75)
Long-term debt	(6,685)	–
Cash used in acquisitions, net	\$ 3,989	\$ 164

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Earnings Per Share

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

	Year Ended December 31, 1999			Year Ended December 31, 1998			Year Ended December 31, 1997		
	(000's)		Per-Share	(000's)		Per-Share	(000's)		Per-Share
	Income	Shares	Amount	Income	Shares	Amount	Income	Shares	Amount
<i>Historical Basic EPS</i>									
Income available to common stockholders	\$ 10,846	7,693	\$ 1.41	\$ 8,908	7,657	\$ 1.16	\$ 9,525	6,420	\$ 1.48
<i>Effect of Dilutive Securities</i>									
Stock options	-	67	-	-	72	-	-	114	-
<i>Historical Diluted EPS</i>									
Income available to common stockholders plus assumed exercises	\$ 10,846	7,760	\$ 1.40	\$ 8,908	7,729	\$ 1.15	\$ 9,525	6,534	\$ 1.46

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Purchases of Minority Interest

On March 1, 1997, the Company purchased an approximate 44% minority interest in Hub Group Distribution Services ("Hub Distribution") for approximately \$1,576,000 in cash.

On September 17, 1997, the Company purchased the remaining 70% minority interests in Hub City Los Angeles, L.P. and Hub City Golden Gate, L.P. for approximately \$59,379,000 in cash.

On October 31, 1997, the Company purchased the remaining 70% minority interest in Hub City New Orleans, L.P. for one dollar.

On April 1, 1998, the Company purchased the remaining 70% minority interest in Hub City Dallas, L.P., Hub City Houston, L.P. and Hub City Rio Grande, L.P. for approximately \$6,152,000 in cash. The purchase price was subsequently adjusted, resulting in goodwill of \$6,730,000.

On April 1, 1999, the Company purchased the remaining 70% minority interests in Hub City Alabama, L.P., Hub City Atlanta, L.P., Hub City Boston, L.P., Hub City Canada, L.P., Hub City Cleveland, L.P., Hub City Detroit, L.P., Hub City Florida, L.P., Hub City Indianapolis, L.P., Hub City Kansas City, L.P., Hub City Mid-Atlantic, L.P., Hub City New York/New Jersey, L.P., Hub City New York State, L.P., Hub City Ohio, L.P., Hub City Philadelphia, L.P., Hub City Pittsburgh, L.P., Hub City Portland, L.P., and Hub City St. Louis, L.P. for approximately \$108,710,000 in cash (collectively referred to as the "April 1999 Purchase").

As the amount paid for each of the purchases of minority interest equaled the basis in excess of the fair market value of assets acquired and liabilities assumed, the amount paid was recorded as goodwill.

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Property and Equipment

Property and equipment consist of the following:
(000's)

Years Ended December 31,	1999	1998
Building and improvements	\$ 56	\$ 53
Leasehold improvements	1,526	1,206
Computer equipment and software	23,795	15,816
Furniture and equipment	6,365	5,722
Transportation equipment and automobiles	4,742	5,318
	36,484	28,115
Less: Accumulated depreciation and amortization	(12,240)	(9,004)
Property and Equipment, net	\$ 24,244	\$ 19,111

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Income Taxes

The following is a reconciliation of the Company's effective tax rate to the federal statutory tax rate:

Years Ended December 31,	1999	1998	1997
U.S. federal statutory rate	35.0%	34.4%	34.5%
State taxes, net of federal benefit	4.1	5.3	4.9
Goodwill amortization	0.5	0.5	-
Other	1.4	1.2	0.6
Net effective rate	41.0%	41.4%	40.0%

The following is a summary of the Company's provision for income taxes:
(000's)

Years Ended December 31,	1999	1998	1997
Current			
Federal	\$ 5,177	\$ 250	\$ —
State and local	607	39	—
	5,784	289	—
Deferred			
Federal	1,570	5,206	5,559
State and local	184	802	790
	1,754	6,008	6,349
Total provision	\$ 7,538	\$ 6,297	\$ 6,349

The following is a summary of the Company's deferred tax assets and liabilities:

Years Ended December 31,	1999	1998
Reserve for uncollectible		
accounts receivable	\$ 875	\$ 277
Accrued compensation	588	533
Current deferred tax asset	1,463	810
Property and equipment	—	861
Other	55	—
Income tax basis in excess of		
financial basis of goodwill	9,345	10,178
Long-term deferred tax asset	9,400	11,039
Total deferred tax asset	\$ 10,863	\$ 11,849
Prepays	\$ (170)	\$ (84)
Receivables	(395)	(2,477)
Current deferred tax liability	(565)	(2,561)
Property and equipment	(132)	—
Goodwill	(14,227)	(11,595)
Long-term deferred tax liability	(14,359)	(11,595)
Total deferred tax liability	\$ (14,792)	\$ (14,156)

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Long-Term Debt and Financing Arrangements

Fair value approximates book value at the balance sheet dates.

(000's)

Years Ended December 31,	1999	1998
Installment notes payable due through 2004,		
monthly installments ranging from \$441 to \$20,896, including interest ranging from 2.9% to 9.5%, collateralized by certain equipment	\$ 748	\$ 1,793
Bank lines of credit (see below)	34,000	20,550
Unsecured balloon notes, interest		
compounded annually at 5.45%, interest and principal due March 2001 (see Note 13)	—	2,260
Note payable due in three equal annual principal		
payments of \$2,000,000 beginning on May 2, 1997; interest is due at the time the principal is paid at 6% compounded annually	—	2,000
Unsecured term notes, with quarterly payments		
ranging from \$1,250,000 to \$2,000,000 with a balloon payment of \$19 million due March 31, 2004; interest is due quarterly at a floating rate based upon LIBOR (London Interbank Offered Rate) or Prime rate (see below). At December 31, 1999, interest rates range from 8.37% to 8.93%	47,500	—
Unsecured notes, mature on June 25, 2009		
with annual payments of \$10,000,000 commencing on June 25, 2005; interest is paid quarterly at 8.64%	50,000	—
Unsecured notes payable due in one balloon		
payment of \$5,225,000 on April 1, 2001; interest is due annually and is paid at 5.6%	5,225	5,950
Note payable due in nine equal monthly payments		
of \$71,160 beginning on July 1, 1998; interest is 5.9% compounded monthly	—	141
Capital lease obligations, collateralized		
by certain equipment	136	56
Total long-term debt	137,609	32,750
Less current portion	(6,195)	(3,161)
	\$ 131,414	\$ 29,589

Aggregate principal payments, in thousands, due subsequent to December 31, 1999, are as follows:

2000	\$ 6,195
2001	12,337
2002	8,032
2003	8,034
2004 and thereafter	103,011
	\$ 137,609

On March 18, 1996, the Company assumed a line of credit for \$5,000,000. This line of credit was not used at December 31, 1999. Advances on this line of credit at December 31, 1998, were \$2,050,000. At December 31, 1999 and December 31, 1998, the interest rate was 8.25% and 7.5%, respectively. The interest rate is established at the bank's discretion at a rate less than or equal to the bank's prime rate. Borrowings are secured by certain assets. The line of credit has no expiration date.

On April 30, 1999, the Company closed on an unsecured \$50.0 million five-year revolving line of credit with a bank. The Company can borrow at the prime rate or up to prime plus 1% on a day-to-day basis or may borrow for 30, 60, 90 or 180 day periods at LIBOR plus 1.25% to 2.50% based on the Company's funded debt to EBITDAM (earnings before interest expense, income taxes, depreciation, amortization and minority interest) ratio. The credit facility also contains certain financial covenants which, among others, requires that the Company maintain required levels of EBITDAM, funded debt to EBITDAM, fixed charge coverage and current assets to current liabilities. In addition, there are limitations on additional indebtedness as well as acquisitions and minority interest purchases. The Company was in compliance with these covenants at December 31, 1999. Advances on this line of credit at December 31, 1999 were \$34.0 million with interest rates ranging between 8.64% and 9.5% and are classified as long term debt. At December 31, 1999, there was \$16.0 million unused and available under the line of credit.

The unsecured term notes have a floating interest rate. The Company can borrow at the prime rate or up to prime plus 1.25% on a day-to-day basis or may borrow for 30, 60, 90 or 180 day periods at LIBOR plus 1.50% to 2.75% based on the Company's funded debt to EBITDAM ratio. The unsecured term notes share the same financial covenants as noted above for the line of credit.

On April 30, 1999, under the term notes and the \$50.0 million line of credit debt agreement, the Company was required to enter into an interest rate swap agreement designated as a hedge on a portion of the Company's variable rate debt. The purpose of the swap was to fix the interest rate on a portion of the variable rate debt and reduce certain exposures to interest rate fluctuations. At December 31, 1999, the Company had an interest rate swap with a notional amount of \$25.0 million, a weighted average pay rate of 8.37%, a weighted average receive rate of 8.26% and a maturity date of September 30, 2002. This swap agreement involves the exchange of amounts based on the variable interest rate for amounts based on the fixed interest rate over the life of the agreement, without an exchange of the notional amount upon which the payments are based. The differential to be paid or received as interest rates change is accrued and recognized as an adjustment of interest expense related to the debt.

On June 25, 1999, the Company closed on \$50.0 million of private placement debt. These notes are unsecured and have an eight-year average life with a coupon interest rate of 8.64% paid quarterly. The notes contain certain financial covenants which, among others, requires that the Company maintain required levels of funded debt to EBITDA (earnings before interest expense, income taxes, depreciation and amortization), fixed charge coverage and current assets to current liabilities. In addition, there are limitations on additional indebtedness as well as acquisitions and minority interest purchases. The Company was in compliance with these covenants at December 31, 1999.

On September 17, 1997, the Company closed on an unsecured \$36.0 million five-year revolving line of credit with a bank. The Company could borrow at the prime rate on a day-to-day basis or may borrow for 30, 60, 90 or 180 day periods at LIBOR (London Interbank Offered Rate) plus 0.80% to 1.25% based on the Company's funded debt to EBITDA ratio. The credit facility also contained certain financial covenants which, among others, required that the Company maintain required levels of EBITDA, funded debt to EBITDA, fixed charge coverage and current assets to current liabilities. In addition, there were limitations on additional indebtedness as well as acquisitions and minority interest purchases. The Company was in compliance with these covenants at December 31, 1998. Advances on this line of credit at December 31, 1998 were \$18,500,000 with interest rates ranging between 6.34% and 6.36%. This 1997 line of credit agreement was cancelled in April 1999 when the new \$50.0 million revolving line of credit described above was obtained.

In October 1996, the Company authorized the issuance of a standby letter of credit for \$1,000,000, which has no expiration date.

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Rental Expense and Lease Commitments

Minimum annual rental commitments, in thousands, at December 31, 1999, under noncancellable operating leases, principally for real estate and equipment, are payable as follows:

2000	\$ 7,759
2001	6,418
2002	4,157
2003	1,954
2004	710
2005	167
	\$ 21,165

Total rental expense was approximately \$8,840,000, \$7,487,000 and \$4,535,000 for 1999, 1998 and 1997, respectively. Many of the leases contain renewal options and escalation clauses which require payments of additional rent to the extent of increases in the related operating costs.

Stock-Based Compensation Plan

Concurrent with the initial public offering the Company 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 450,000. Concurrent with the secondary offering the Company 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 150,000.

For the purpose of attracting and retaining key executive and managerial employees, in 1999 the Company 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 600,000. Under the 1996, 1997 and 1999 Incentive Plans, stock options, stock appreciation rights, restricted stock and performance units may be granted for the purpose of attracting and motivating key employees and non-employee directors of the Company. 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.

The Company currently utilizes Accounting Principles Board Opinion No. 25 in its accounting for stock options. In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 ("Statement 123"), "Accounting for Stock-based Compensation." The accounting method as provided in the pronouncement is not required to be adopted; however, it is encouraged.

Information regarding these option plans for 1999, 1998 and 1997 is as follows:

	1999		1998		1997	
	Shares	Weighted Avg. Exercise Price	Shares	Weighted Avg. Exercise Price	Shares	Weighted Avg. Exercise Price
Options outstanding, beginning of year	469,300	\$ 16.58	401,800	\$ 15.86	357,500	\$ 14.00
Options exercised	(34,000)	14.00	(19,000)	14.00	(4,700)	14.00
Options granted	480,000	18.85	161,500	21.91	49,000	29.23
Options forfeited	(22,500)	17.97	(75,000)	24.85	—	—
Options outstanding, end of year	892,800	\$ 17.86	469,300	\$ 16.58	401,800	\$ 15.86
Weighted average fair value of options granted during the year	\$ 9.25		\$ 10.30		\$ 11.02	
Options exercisable at year end	220,400		137,200		71,600	
Option price range at end of year	\$ 14.00 to \$ 28.16		\$ 14.00 to \$ 28.16		\$ 14.00 to \$ 31.25	
Option price for exercised shares	\$ 14.00		\$ 14.00		\$ 14.00	
Options available for grant at end of year	249,500		107,000		193,500	

The Company provides the disclosure below in accordance with Statement 123. Had the Company accounted for its stock options in accordance with Statement 123, pro forma net income and pro forma earnings per share would have been:

Years Ended December 31,	1999	1998	1997
Net income as reported (000's)	10,846	8,908	9,525
Net income pro forma for Statement 123 (000's)	10,359	8,501	9,261
Historical basic earnings per common share pro forma for Statement 123	\$ 1.35	\$ 1.11	\$ 1.44
Historical diluted earnings per common share pro forma for Statement 123	\$ 1.33	\$ 1.10	\$ 1.42

The pro forma disclosure is not likely to be indicative of pro forma results which may be expected in future years 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.

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

Years Ended December 31,	1999	1998	1997
Dividend yield	0.00%	0.00%	0.00%
Risk-free interest rate	6.25%	5.10%	5.80%
Volatility factor	40.00%	40.00%	40.00%
Expected life in years	6.0	6.0	6.0