

GENERAL MILLS INC
Form 10-Q
January 05, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED NOVEMBER 26, 2006**
- 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: 1-1185

GENERAL MILLS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

Number One General Mills Boulevard

Minneapolis, MN

(Mail: P.O. Box 1113)

(Address of principal executive offices)

41-0274440

(I.R.S. Employer
Identification No.)

55426

(Mail: 55440)

(Zip Code)

(763) 764-7600

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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 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

As of December 29, 2006, General Mills had 345,149,869 shares of its \$.10 par value common stock outstanding (excluding 157,156,795 shares held in treasury).

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

GENERAL MILLS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited) (In Millions, Except per Share Data)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	Nov. 26, 2006	Nov. 27, 2005	Nov. 26, 2006	Nov. 27, 2005
Net Sales	\$ 3,467	\$ 3,293	\$ 6,327	\$ 5,972
Cost of sales	2,188	2,090	3,984	3,776
Selling, general and administrative	605	559	1,180	1,091
Restructuring and other exit costs (income)	(1)	2	(3)	11
	675	642	1,166	1,094
Operating Profit				
Interest expense, net	110	104	215	194

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	Thirteen Weeks Ended		Twenty-six Weeks Ended	
Earnings before Income Taxes and After-tax Earnings from Joint Ventures	565	538	951	900
Income Taxes	203	190	341	319
After-tax Earnings from Joint Ventures	23	22	42	41
Net Earnings	\$ 385	\$ 370	\$ 652	\$ 622
Earnings per Share Basic	\$ 1.12	\$ 1.04	\$ 1.87	\$ 1.73
Earnings per Share Diluted	\$ 1.08	\$.97	\$ 1.81	\$ 1.60
Dividends per Share	\$.35	\$.33	\$.70	\$.66

See accompanying notes to consolidated financial statements.

Page 2

GENERAL MILLS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Millions)

	Nov. 26, 2006	May 28, 2006
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 492	\$ 647
Receivables	1,291	1,076
Inventories	1,359	1,055
Prepaid expenses and other current assets	209	216
Deferred income taxes	148	182
Total Current Assets	3,499	3,176
Land, Buildings and Equipment, at Cost	5,892	5,806
Less accumulated depreciation	(2,974)	(2,809)

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	Nov. 26, 2006	May 28, 2006
Net Land, Buildings and Equipment	2,918	2,997
Goodwill	6,636	6,652
Other Intangible Assets	3,665	3,607
Other Assets	2,045	1,775
	<hr/>	<hr/>
Total Assets	\$ 18,763	\$ 18,207
	<hr/>	<hr/>
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	\$ 738	\$ 708
Current portion of long-term debt	1,739	2,131
Notes payable	2,678	1,503
Other current liabilities	1,901	1,796
	<hr/>	<hr/>
Total Current Liabilities	7,056	6,138
Long-term Debt	2,241	2,415
Deferred Income Taxes	1,801	1,822
Other Liabilities	982	924
	<hr/>	<hr/>
Total Liabilities	12,080	11,299
	<hr/>	<hr/>
Minority Interests	1,137	1,136
	<hr/>	<hr/>
Stockholders' Equity:		
Cumulative preference stock, none issued		
Common stock, 502 shares issued, \$.10 par value	50	50
Additional paid-in capital	5,763	5,653
Retained earnings	5,512	5,107
Common stock in treasury, at cost, shares of 158 and 146, respectively	(5,875)	(5,163)
Accumulated other comprehensive income	96	125
	<hr/>	<hr/>
Total Stockholders' Equity	5,546	5,772
	<hr/>	<hr/>
Total Liabilities and Equity	\$ 18,763	\$ 18,207
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.

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	Twenty-six Weeks Ended	
	Nov. 26, 2006	Nov. 27, 2005
	<hr/>	<hr/>
Cash Flows Operating Activities		
Net earnings	\$ 652	\$ 622
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	209	211
Stock-based compensation	81	22
After-tax earnings from joint ventures	(42)	(41)
Tax benefit on exercised options		15
Deferred income taxes	12	(3)
Changes in current assets and liabilities	(359)	(77)
Distributions of joint venture earnings	10	24
Pension and other postretirement costs	(28)	(28)
Restructuring and other exit costs	(3)	11
Other, net	33	31
	<hr/>	<hr/>
Net Cash Provided by Operating Activities	565	787
	<hr/>	<hr/>
Cash Flows Investing Activities		
Purchases of land, buildings and equipment	(149)	(113)
Acquisitions	(58)	
Investments in affiliates, net	(112)	4
Proceeds from sale of marketable securities		1
Proceeds from divestitures	12	
Proceeds from disposal of land, buildings and equipment	12	2
Other, net	(13)	(29)
	<hr/>	<hr/>
Net Cash Used by Investing Activities	(308)	(135)
	<hr/>	<hr/>
Cash Flows Financing Activities		
Change in notes payable	1,159	1,780
Payment of long-term debt	(582)	(1,333)
Common stock issued	147	53
Tax benefit on exercised options	33	
Purchases of common stock for treasury	(890)	(752)
Dividends paid	(247)	(241)
Other, net	(32)	(2)
	<hr/>	<hr/>
Net Cash Used by Financing Activities	(412)	(495)
	<hr/>	<hr/>
Increase (decrease) in Cash and Cash Equivalents	(155)	157
Cash and Cash Equivalents Beginning of Year	647	573
	<hr/>	<hr/>
Cash and Cash Equivalents End of Period	\$ 492	\$ 730
	<hr/>	<hr/>
Cash Flows from Changes in Current Assets and Liabilities:		
Receivables	\$ (214)	\$ (151)
Inventories	(309)	(219)
Prepaid expenses and other current assets	10	25

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	<u>Twenty-six Weeks Ended</u>	
Accounts payable	29	(56)
Other current liabilities	125	324
Changes in Current Assets and Liabilities	<u>\$ (359)</u>	<u>\$ (77)</u>

See accompanying notes to consolidated financial statements.

Page 4

GENERAL MILLS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Background

The accompanying Consolidated Financial Statements of General Mills, Inc. (we, us, our, or the Company) and subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the rules and regulations for reporting on Form 10-Q. Accordingly, they do not include certain information and disclosures required for comprehensive financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. Operating results for the thirteen and twenty-six weeks ended November 26, 2006, are not necessarily indicative of the results that may be expected for the fiscal year ending May 27, 2007.

These statements should be read in conjunction with the Consolidated Financial Statements and footnotes included in our Annual Report on Form 10-K for the year ended May 28, 2006. The accounting policies used in preparing these Consolidated Financial Statements are the same as those described in Note 1 to the Consolidated Financial Statements in that Form 10-K, except as disclosed in Notes 2 and 3 below. Certain prior years amounts have also been reclassified to conform to the current year presentation as disclosed in Note 3 below.

In addition, at the beginning of fiscal 2007, we shifted responsibility for several customers from our Bakeries and Foodservice segment to our U.S. Retail segment. All prior year amounts have been reclassified for comparative purposes. See Notes 6 and 15 below.

(2) Stock-Based Compensation

We have various stock-based compensation programs under which awards, including stock options, restricted stock, and restricted stock units, may be granted to employees and non-employee directors.

Options may be priced at 100 percent or more of the fair market value of our stock on the date of grant, and generally vest four years after the date of grant. Options generally expire in 10 years and one month after the date of grant. The 2006 Compensation Plan for Non-Employee Directors (2006 Director Plan) allows each non-employee director to receive upon election and re-election to the Board of Directors options to purchase shares of common stock that generally vest one year, and expire 10 years, after the date of grant.

Stock and units settled in stock subject to a restricted period and a purchase price, if any (as determined by the Compensation Committee of the Board of Directors), may be granted to key employees under the 2005 Stock Compensation Plan. Restricted shares and restricted stock units, up to 50 percent of the value of an individual's cash incentive award, may also be granted under the Executive Incentive Plan. Certain restricted share and restricted stock unit awards require the employee to deposit personally owned shares with a broker (on a one-for-one basis) during the restricted period. Restricted shares and restricted stock units generally vest and become unrestricted four years after the date of grant. Participants are entitled to cash dividends on such awarded shares and units, but the sale or transfer of these shares and units is restricted during the vesting period. Participants holding restricted shares, but not restricted stock units, are also entitled to vote on matters submitted to holders of common stock for a vote. The 2006 Director Plan allows each non-employee director to receive upon election and re-election to the Board restricted stock units that generally vest one year after the date of grant.

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We issue shares from treasury stock upon the exercise of stock options and the vesting of restricted stock units.

Page 5

Prior to May 29, 2006, we applied Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), and related interpretations in accounting for stock-based compensation. No compensation expense for stock options was recognized in our Consolidated Statements of Earnings prior to fiscal 2007, as the exercise price was equal to the market price of our stock at the date of grant. Expense attributable to other types of share-based awards was recognized in our results under Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123).

Effective May 29, 2006, we adopted Statement of Financial Accounting Standards No. 123(Revised) Share-Based Payment (SFAS 123R), which changed the accounting for compensation expense associated with stock options, restricted stock awards, and other forms of equity compensation. We elected the modified prospective transition method as permitted by SFAS 123R; accordingly, results from prior periods have not been restated. Under this method, stock-based compensation expense for the thirteen and twenty-six weeks ended November 26, 2006, includes quarterly amortization related to the remaining unvested portion of all equity compensation awards granted prior to May 29, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and quarterly amortization related to all equity compensation awards granted on or subsequent to May 29, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R.

Prior to the adoption of SFAS 123R, we made pro forma disclosures in accordance with SFAS 123, in which we calculated compensation expense for stock option awards on a straight-line basis over their vesting periods. This treatment differs from the requirements of SFAS 123R, which requires that a stock-based award be considered vested for expense attribution purposes when the award recipient's retention of the award is no longer contingent on providing subsequent service. Accordingly, beginning in fiscal 2007, we have prospectively revised our expense attribution method so that the compensation expense is recognized immediately for awards granted to retirement-eligible individuals or over the lesser of the award's vesting period or the period from the grant date of the award to the recipient's retirement eligibility date.

The compensation expense related to share-based payments recognized in selling, general and administrative expense in the Consolidated Statements of Earnings for the thirteen and twenty-six weeks ended November 26, 2006, was \$28 million and \$81 million, respectively. The impact of adoption of SFAS 123R was an incremental expense of \$12 million (\$8 million after-tax or \$0.02 cents per diluted share) in the thirteen weeks ended November 26, 2006 and \$52 million (\$32 million after-tax or \$0.09 cents per diluted share) in the twenty-six weeks ended November 26, 2006.

Amounts for the thirteen and twenty-six weeks ended November 27, 2005, are presented in the table below in accordance with SFAS 123. Stock-based employee compensation expense is principally related to restricted stock unit awards; stock-based employee compensation expense included in pro forma amounts also reflects expenses related to stock option grants.

In Millions, except per share data	Thirteen Weeks Ended Nov. 27, 2005	Twenty-six Weeks Ended Nov. 27, 2005
Net earnings, as reported	\$ 370	\$ 622
Add: Stock-based employee compensation expense included in reported net earnings, net of related tax effects	7	14
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(13)	(25)
Pro forma net earnings	\$ 364	\$ 611

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In Millions, except per share data	Thirteen Weeks Ended Nov. 27, 2005	Twenty-six Weeks Ended Nov. 27, 2005
Earnings per share:		
Basic as reported	\$ 1.04	\$ 1.73
Basic pro forma	\$ 1.03	\$ 1.70
Diluted as reported	\$.97	\$ 1.60
Diluted pro forma	\$.96	\$ 1.57

Page 6

Prior to the adoption of SFAS 123R, we reported all tax benefits resulting from the exercise of stock options as operating cash flows in our Consolidated Statements of Cash Flows. In accordance with SFAS 123R, the presentation of our consolidated statements of cash flows beginning in fiscal 2007 has changed to report the excess tax benefits from the exercise of the stock options as financing cash flows. This amount totaled \$33 million for the twenty-six weeks ended November 26, 2006.

Net cash proceeds from the exercise of stock options were \$76 million for the thirteen weeks ended November 26, 2006, and \$18 million for the thirteen weeks ended November 27, 2005. Net cash proceeds from the exercise of stock options were \$151 million for the twenty-six weeks ended November 26, 2006, and \$56 million for the twenty-six weeks ended November 27, 2005.

The weighted-average grant-date fair values of stock options granted during the twenty-six weeks ended November 26, 2006, were estimated at \$10.74 per share, and during the twenty-six weeks ended November 27, 2005, were estimated at \$7.82 per share using the Black-Scholes option-pricing model with the following assumptions:

Twenty-six Weeks Ended	Nov. 26, 2006	Nov. 27, 2005
Risk-free interest rate	5.3%	4.3%
Expected term	8 years	7 years
Expected volatility	19.7%	20.0%
Expected dividend growth rate	9.2%	10.2%

Information on stock option activity follows:

	Shares (thousands)	Weighted- average exercise price	Weighted- average remaining contractual term (years)	Aggregate intrinsic value (millions)
Outstanding at May 28, 2006	58,203	\$ 41.45		
Granted	5,285	\$ 51.34		
Exercised	(4,816)	\$ 35.98		
Forfeited or expired	(169)	\$ 46.10		

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	Shares (thousands)	Weighted- average exercise price	Weighted- average remaining contractual term (years)	Aggregate intrinsic value (millions)
Outstanding at Nov. 26, 2006	58,503	\$ 42.78	5.01	\$ 811
Exercisable at Nov. 26, 2006	37,459	\$ 40.47	3.52	\$ 606

The intrinsic value of options exercised was \$47 million during the thirteen weeks ended November 26, 2006, and \$85 million during the twenty-six weeks ended November 26, 2006. The intrinsic value of options exercised was \$14 million during the thirteen weeks ended November 27, 2005, and \$38 million during the twenty-six weeks ended November 27, 2005.

Information on restricted stock unit activity follows:

	Shares (thousands)	Weighted- average grant-date fair value
Non-vested at May 28, 2006	3,672	\$ 46.87
Granted	1,634	51.39
Vested	(346)	44.82
Forfeited	(82)	47.67
Non-vested at Nov. 26, 2006	4,878	\$ 48.52

The total grant-date fair value of restricted stock unit awards which vested in the first twenty-six weeks of fiscal 2007 was \$15 million. The total grant-date fair value of restricted stock unit awards which vested in the first twenty-six weeks of fiscal 2006 was \$10 million.

At November 26, 2006, compensation costs related to non-vested stock options and restricted stock units was \$188 million. This cost will be recognized over 35 months, on average.

(3) Reclassifications

At the beginning of fiscal 2007, we made certain changes in the classifications of revenues and expenses, balance sheet liabilities, and cash flows from joint ventures. We have reclassified previously reported Consolidated Statements of Earnings, Consolidated Balance Sheets and Consolidated Statements of Cash Flows to conform to the current year presentation. These reclassifications had no effect on previously reported net earnings.

We made a change in accounting principle to classify shipping costs associated with the distribution of finished products to our customers as cost of sales (previously recorded in selling, general and administrative expense). We made the change in principle because we believe the classification of these shipping costs in cost of sales better reflects the cost of producing and distributing our products and aligns our external financial reporting with the results we use internally to evaluate segment operating performance. The impact of this change in principle was an increase to cost of sales of \$136 million in the thirteen weeks ended November 27, 2005 and \$240 million in the twenty-six weeks ended

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November 27, 2005.

We also reclassified certain trade-related costs and customer allowances as cost of sales or selling, general and administrative expense (previously recorded as reductions of net sales). The impact of these reclassifications in the thirteen weeks ended November 27, 2005, was an increase to net sales of \$21 million, an increase in cost of sales of \$27 million, a decrease in selling, general and administrative expense of \$5 million and an increase in earnings of joint ventures before taxes of \$2 million. The impact of these reclassifications in the twenty-six weeks ended November 27, 2005, was an increase to net sales of \$37 million, an increase in cost of sales of \$51 million, a decrease in selling, general and administrative expense of \$11 million and an increase in earnings of joint ventures before taxes of \$3 million.

We also reclassified certain liabilities, including trade and consumer promotion accruals, from accounts payable to other current liabilities, and we classified certain distributions from joint ventures as operating cash flows (previously reported as investing cash flows). The impact of this reclassification was a decrease to accounts payable of \$443 million at May 28, 2006, and an increase to cash flows from operations of \$27 million in the twenty-six weeks ended November 27, 2005.

(4) Acquisitions

During the first quarter of fiscal 2007, Cereal Partners Worldwide (CPW), our joint venture with Nestlé, completed the acquisition of the Uncle Tobys cereal business in Australia. We funded our 50 percent share of the purchase price by making additional advances to and equity contributions in CPW totaling \$135 million (classified as investments in affiliates, net on the Consolidated Statements of Cash Flows) and by acquiring a 50 percent beneficial interest in certain intellectual property for \$58 million (classified as acquisitions on the Consolidated Statements of Cash Flows).

(5) Restructuring and Other Exit Costs

In the second quarter of fiscal 2007, we recorded income related to restructuring and other exit costs of \$1 million associated with adjustments to restructuring actions previously announced.

In the second quarter of fiscal 2006 we recorded restructuring and other exit costs of \$2 million primarily associated with an asset impairment recognized at our Swedesboro, New Jersey production plant.

In the first twenty-six weeks of fiscal 2007, we recorded income related to restructuring and other exit activities of \$3 million. We sold our previously closed plant in San Adrian, Spain, resulting in a gain of \$9 million. We incurred a \$6 million loss associated with the divestiture of our par-baked bread product line, including its plants in Chelsea, Massachusetts and Tempe, Arizona. Net proceeds received for the par-baked product line were \$12 million.

In the first twenty-six weeks of fiscal 2006, we recorded restructuring and other exit costs of \$11 million, consisting of \$10 million of charges related to an asset impairment recognized at our Swedesboro, New Jersey production plant and \$1 million of charges associated with restructuring activities previously announced.

(6) Goodwill and Other Intangible Assets

At the beginning of fiscal 2007, we shifted selling responsibility for several customers from our Bakeries and Foodservice segment to our U.S. Retail segment. Goodwill of \$216 million previously reported in our Bakeries and Foodservice segment as of May 28, 2006, has now been recorded in the U.S. Retail segment. The changes in our carrying amount of goodwill for the twenty-six weeks ended November 26, 2006, were as follows:

In Millions	U.S. Retail	International	Bakeries and Foodservice	Total
Balance at May 28, 2006	\$ 4,960	\$ 491	\$ 1,201	\$ 6,652
Reclassification for customer shift	216		(216)	
Divestiture			(6)	(6)
Other activity, including foreign currency translation		(10)		(10)
Balance at Nov. 26, 2006	\$ 5,176	\$ 481	\$ 979	\$ 6,636

The changes in our carrying amount of other intangible assets for the twenty-six weeks ended November 26, 2006, were as follows:

In Millions	U.S. Retail	International	Other	Total
Balance at May 28, 2006	\$ 3,175	\$ 420	\$ 12	\$ 3,607
Acquisition of Uncle Tobys			58	58
Balance at Nov. 26, 2006	\$ 3,175	\$ 420	\$ 70	\$ 3,665

(7) Inventories

The components of inventories are as follows:

In Millions	Nov. 26, 2006	May 28, 2006
Raw materials, work in process and supplies	\$ 268	\$ 226
Finished goods	1,016	813
Grain	150	78
Reserve for LIFO valuation method	(75)	(62)
Total Inventories	\$ 1,359	\$ 1,055

(8) Stockholders' Equity

The following table provides detail of total comprehensive income:

In Millions	Thirteen Weeks Ended Nov. 26, 2006			Thirteen Weeks Ended Nov. 27, 2005		
	Pretax	Tax	Net	Pretax	Tax	Net
Net Earnings			\$ 385			\$ 370
Other Comprehensive Income (Loss):						
Foreign currency translation adjustments	\$ (25)	\$	\$ (25)	\$ (28)	\$	\$ (28)
Other fair value changes:						
Hedge derivatives	4	(2)	2	(9)	3	(6)
Minimum pension liability Reclassification to						

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In Millions	Thirteen Weeks Ended Nov. 26, 2006			Thirteen Weeks Ended Nov. 27, 2005		
hedge derivatives	6	(3)	3			
Other comprehensive income (loss)	\$ (15)	\$ (5)	\$ (20)	\$ (37)	\$ 3	\$ (34)
Total Comprehensive Income			\$ 365			\$ 336

In Millions	Twenty-six Weeks Ended Nov. 26, 2006			Twenty-six Weeks Ended Nov. 27, 2005		
	Pretax	Tax	Net	Pretax	Tax	Net
Net Earnings			\$ 652			\$ 622
Other Comprehensive Income (Loss):						
Foreign currency translation adjustments	\$ (27)	\$	\$ (27)	\$ (10)	\$	\$ (10)
Other fair value changes:						
Hedge derivatives	(15)	5	(10)	(11)	4	(7)
Minimum pension liability	(5)	2	(3)			
Reclassification to hedge derivatives	18	(7)	11	8	(4)	4
Other comprehensive income (loss)	\$ (29)	\$	\$ (29)	\$ (13)	\$	\$ (13)
Total Comprehensive Income			\$ 623			\$ 609

Page 9

The changes in Other Comprehensive Income are primarily non-cash items.

Accumulated Other Comprehensive Income balances, net of tax effects, were as follows:

In Millions	Nov. 26, 2006	May 28, 2006
Foreign currency translation adjustments	\$ 181	\$ 208
Unrealized gain (loss) from:		
Securities	3	2
Hedge derivatives	(57)	(57)
Pension plan minimum liability	(31)	(28)

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In Millions	Nov. 26, 2006	May 28, 2006
Accumulated Other Comprehensive Income	\$ 96	\$ 125

(9) Earnings Per Share

Basic and diluted earnings per share (EPS) were calculated using the following:

In Millions, except per share data	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	Nov. 26, 2006	Nov. 27, 2005	Nov. 26, 2006	Nov. 27, 2005
Net earnings as reported	\$ 385	\$ 370	\$ 652	\$ 622
Interest on contingently convertible debentures, after tax (c)		3		8
Net earnings for diluted EPS calculation	\$ 385	\$ 373	\$ 652	\$ 630
Average number of common shares basic EPS	344	355	348	360
Incremental share effect from:				
Stock options (a)	10	5	10	6
Restricted stock and restricted stock units (a)	2	2	1	2
Forward purchase contract (b)	1		1	
Contingently convertible debentures (c)		22		25
Average number of common shares diluted EPS	357	384	360	393
Earnings per Share Basic	\$ 1.12	\$ 1.04	\$ 1.87	\$ 1.73
Earnings per Share Diluted	\$ 1.08	\$.97	\$ 1.81	\$ 1.60

- (a) Incremental shares from stock options, restricted stock and restricted stock units are computed by the treasury stock method. Fiscal 2007 incremental shares have been calculated in accordance with SFAS 123R; fiscal 2006 shares were calculated in accordance with APB 25. At November 26, 2006, five million shares from stock options and restricted stock units were excluded from our computation of diluted EPS for the thirteen weeks ended November 26, 2006, because they were not dilutive. As of the same date, seven million shares from stock options and restricted stock units were excluded from our computation of diluted EPS for the twenty-six weeks ended November 26, 2006, because they were not dilutive.
- (b) In October 2004, Lehman Brothers Holdings Inc. issued \$750 million of notes which are mandatorily exchangeable for shares of our common stock. In connection with the issuance of those notes, an affiliate of Lehman Brothers entered into a forward purchase contract with us, under which we are obligated to deliver to such affiliate between 14 million and 17 million shares of our common stock, subject to adjustment under certain circumstances. These shares will be deliverable by us in October 2007, in exchange for the \$750 million in cash or, in certain circumstances, securities of an affiliate of Lehman Brothers.
- (c) Shares from contingently convertible debentures are reflected using the if-converted method. On December 12, 2005, we completed a consent solicitation and entered into a supplemental indenture related to our zero coupon convertible debentures. We also made an irrevocable election: (i) to satisfy all future obligations to repurchase debentures solely in cash and (ii) to satisfy all future conversions of debentures (a) solely in cash up to an amount equal to the accreted value of the debentures and (b) at our discretion, in cash, stock or a combination of cash and stock to the extent the conversion value of the debentures exceeds the accreted value. As a result of these actions, no shares of common stock underlying the debentures will be considered outstanding after December 12, 2005, for purposes of

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calculating our diluted EPS unless our average share price for the period is above the accreted value of the debentures.

Page 10

(10) Notes Payable and Current Portion of Long-Term Debt

The components of notes payable at the end of the respective periods were as follows:

In Millions	Nov. 26, 2006	May 28, 2006
U.S. commercial paper	\$ 1,529	\$ 713
European commercial paper	979	462
Financial institutions	170	328
Total Notes Payable	\$ 2,678	\$ 1,503

To ensure availability of funds, we maintain bank credit lines sufficient to cover our outstanding short-term borrowings. During the thirteen weeks ended November 26, 2006, a \$1.1 billion 364-day credit facility, which was scheduled to expire in October 2006, was renewed on substantially the same terms for an additional 364-day period, expiring in October 2007.

As of November 26, 2006, our zero coupon convertible debentures are included in the current portion of long-term debt based on the put rights of the holders.

(11) Share Repurchases

During the thirteen weeks ended November 26, 2006, we repurchased 3 million shares of common stock for an aggregate purchase price of \$153 million. During the thirteen weeks ended November 27, 2005, we repurchased a minimal number of shares of common stock for an aggregate purchase price of \$3 million.

During the first twenty-six weeks of fiscal 2007, we repurchased 17 million shares of common stock for an aggregate purchase price of \$890 million. During the first twenty-six weeks of fiscal 2006, we repurchased 16 million shares of common stock for an aggregate purchase price of \$752 million.

(12) Interest Expense, Net

The components of interest, including distributions to minority interest holders, net were as follows:

In Millions	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	Nov. 26, 2006	Nov. 27, 2005	Nov. 26, 2006	Nov. 27, 2005
Interest expense	\$ 100	\$ 98	\$ 196	\$ 179
Distributions paid on preferred stock and interests in subsidiaries	16	15	32	29
Capitalized interest		(1)	(1)	(1)
Interest income	(6)	(8)	(12)	(13)

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	Thirteen Weeks Ended		Twenty-six Weeks Ended	
Interest Expense, Net	\$ 110	\$ 104	\$ 215	\$ 194

During the twenty-six weeks ended November 26, 2006, we entered into \$600 million of pay-fixed, forward-starting interest rate swaps with an average fixed rate of 5.7 percent in anticipation of fixed-rate debt refinancing that we expect to occur later in fiscal 2007.

(13) Statements of Cash Flows

During the first twenty-six weeks of fiscal 2007, we made cash interest payments of \$211 million, versus \$182 million in the same period last year. During the first twenty-six weeks of fiscal 2007, we made income tax payments of \$230 million, versus \$146 million in the same period last year.

Page 11

(14) Retirement and Other Postretirement Benefit Plans

Components of net pension and postretirement (income) expense for each fiscal period are as follows:

In Millions	Pension Plans		Postretirement Benefit Plans	
	Thirteen Weeks Ended		Thirteen Weeks Ended	
	Nov. 26, 2006	Nov. 27, 2005	Nov. 26, 2006	Nov. 27, 2005
	Service cost	\$ 17	\$ 19	\$ 4
Interest cost	45	41	15	13
Expected return on plan assets	(83)	(81)	(7)	(6)
Amortization of losses	3	10	4	4
Amortization of prior service costs	2	2		(1)
Net (income) expense	\$ (16)	\$ (9)	\$ 16	\$ 15

In Millions	Pension Plans		Postretirement Benefit Plans	
	Twenty-six Weeks Ended		Twenty-six Weeks Ended	
	Nov. 26, 2006	Nov. 27, 2005	Nov. 26, 2006	Nov. 27, 2005
	Service cost	\$ 35	\$ 38	\$ 8
Interest cost	91	83	30	26
Expected return on plan assets	(166)	(162)	(14)	(12)

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	Pension Plans		Postretirement Benefit Plans	
Amortization of losses	6	19	8	9
Amortization of prior service costs	4	3		(1)
Net (income) expense	\$ (30)	\$ (19)	\$ 32	\$ 31

(15) Operating Segments

We operate exclusively in the consumer foods industry, with multiple operating segments organized generally by product categories. We aggregate our operating segments into three reportable segments by type of customer and geographic region as follows: U.S. Retail; International; and Bakeries and Foodservice.

U.S. Retail reflects business with a wide variety of grocery stores, mass merchandisers, club stores, specialty stores, and drug, dollar and discount chains operating throughout the United States. Our major product categories in this business segment are ready-to-eat cereals, meals, refrigerated and frozen dough products, baking products, snacks, yogurt, and organic foods. Our International segment is made up of retail businesses outside of the United States, including a retail business in Canada that largely mirrors our U.S. Retail product mix, and foodservice businesses outside of the United States and Canada. Our Bakeries and Foodservice segment consists of products marketed throughout the United States and Canada to retail and wholesale bakeries, commercial and noncommercial foodservice distributors and operators, restaurants, and convenience stores.

Our management reviews operating results to evaluate segment performance. Segment operating profit excludes general corporate expenses and stock-based compensation costs, as they are centrally managed at the corporate level and are excluded from the measure of segment profitability reviewed by management. Under our supply chain organization, our manufacturing, warehouse, distribution and sales activities are substantially integrated across our operations in order to maximize efficiency and productivity. As a result, fixed assets, capital expenditures, and depreciation and amortization expenses are neither maintained nor available by operating segment. Intercompany transactions between reportable operating segments were not material in the periods presented.

At the beginning of fiscal 2007, we shifted selling responsibility for several customers from our Bakeries and Foodservice segment to U.S. Retail. All prior year amounts have been restated for comparative purposes. For the thirteen weeks ended November 27, 2005, net sales of \$17 million and operating profit of \$7 million previously reported in our Bakeries and Foodservice segment have now been recorded in the U.S. Retail segment. For the first twenty-six weeks of fiscal 2006, net sales of \$30 million and operating profit of \$12 million previously reported in our Bakeries and Foodservice segment have now been recorded in the U.S. Retail segment.

Page 12

In Millions	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	Nov. 26, 2006	Nov. 27, 2005	Nov. 26, 2006	Nov 27, 2005
Net Sales:				
U.S. Retail	\$ 2,442	\$ 2,369	\$ 4,352	\$ 4,195
International	545	472	1,050	918
Bakeries and Foodservice	480	452	925	859
Total	\$ 3,467	\$ 3,293	\$ 6,327	\$ 5,972
Operating Profit:				

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	Thirteen Weeks Ended		Twenty-six Weeks Ended	
U.S. Retail	\$ 596	\$ 552	\$ 1,043	\$ 964
International	62	54	118	113
Bakeries and Foodservice	56	40	85	67
Total Segment Operating Profit	714	646	1,246	1,144
Corporate unallocated expense	40	2	83	39
Restructuring and other exit costs (income)	(1)	2	(3)	11
Operating Profit	\$ 675	\$ 642	\$ 1,166	\$ 1,094

(16) New Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 151, Inventory Costs – An Amendment of ARB No. 43, Chapter 4 (SFAS 151). SFAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS 151 is effective for the fiscal year beginning after June 15, 2005, and was effective for us in the first quarter of fiscal 2007. The adoption of SFAS 151 did not have any impact on our results of operations or financial condition.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

INTRODUCTION

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the MD&A included in our Annual Report on Form 10-K for the year ended May 28, 2006, for important background regarding, among other things, our key business drivers. Significant trademarks and service marks used in our business are set forth in *italics* herein.

RESULTS OF OPERATIONS

Thirteen-Week Results

For the quarter ended November 26, 2006, we reported diluted earnings per share of \$1.08, up 11 percent from \$0.97 per share earned in the same period last year. Earnings after tax were \$385 million in the second quarter of fiscal 2007, up 4 percent from \$370 million last year. Net sales for the thirteen weeks ended November 26, 2006 grew 5 percent to \$3.47 billion and total segment operating profit increased 11 percent to \$714 million (see page 23 for a discussion of this measure not defined by generally accepted accounting principles (GAAP)).

Net sales growth during the second quarter of fiscal 2007 was the result of 3 points of volume growth and 2 points of growth from price increases and a product mix that included higher priced items. Volume growth was recorded in all of our operating segments.

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Components of Net Sales Growth 2 nd Quarter Fiscal 2007 vs. Fiscal 2006	U.S. Retail	International	Bakeries and Foodservice	Total
Unit Volume Growth	+2 pts	+7 pts	+1 pts	+3 pts
Price/Product Mix	-1 pts	+7 pts	+8 pts	+2 pts
Trade and Coupon Promotion Expense	+2 pts	-2 pts	-3 pts	Flat
Foreign Currency Exchange	NA	+3 pts	NA	Flat
Net Sales Growth	3%	15%	6%	5%

Gross margins (defined as net sales less cost of sales) increased nearly 40 basis points from the second quarter last year to 36.9 percent of sales. Gross margins improved despite higher input costs, reflecting favorable product mix, pricing and productivity.

Selling, general and administrative expense (SG&A) increased \$46 million in the quarter versus the same period a year ago. SG&A as a percent of net sales in the quarter increased 50 basis points from last year to 17.5 percent. This increase was driven primarily by a \$17 million increase in stock-based compensation expense (\$12 million of which was an incremental effect from the adoption of SFAS 123R).

In the second quarter of fiscal 2007, we recorded income related to restructuring and other exit activities of \$1 million associated with adjustments to restructuring actions previously announced. In the second quarter of fiscal 2006, we recorded restructuring and other exit costs of \$2 million, primarily associated with an asset impairment recognized at our Swedesboro, New Jersey plant.

As a result of the factors discussed above, our operating profit increased \$33 million to \$675 million, or 5 percent, from the second quarter last year.

Interest expense for the quarter totaled \$110 million, a \$6 million increase from the second quarter last year. The increase primarily reflects higher interest rates versus last year.

The effective tax rate was 35.9 percent for the second quarter of fiscal 2007, compared to 35.3 percent for the second quarter of fiscal 2006.

Earnings after tax from joint ventures totaled \$23 million in the second quarter, compared to \$22 million from a year earlier. Net sales for CPW were up 20 percent. This included contributions from the Uncle Tobys business in Australia acquired by CPW in the first quarter of fiscal 2007. The fiscal 2007 second quarter also included a \$1 million after-tax reduction in CPW's net earnings as a result of its previously announced restructuring project in the United Kingdom. Net sales for our Häagen-Dazs ice cream joint ventures in Asia increased 3 percent from the 2006 second quarter. 8th Continent, our soy products joint venture with DuPont, also recorded a 3 percent net sales increase in the quarter.

Average diluted shares outstanding decreased by 27 million from the second quarter of fiscal 2006 due primarily to the repurchase of a significant portion of our contingently convertible debentures in October 2005 and the completion of a consent solicitation related to the remaining convertible debentures in December 2005. As a result of these actions, no shares of common stock underlying the debentures will be considered outstanding after December 12, 2005, for purposes of calculating our diluted earnings per share, unless our average share price for the period is above the accreted value of the debentures. In addition we have repurchased 20 million shares of our stock since the second quarter of fiscal 2006, 3 million of which were repurchased in the second quarter of fiscal 2007. The repurchases were partially offset by the issuance of shares upon stock option exercises and the vesting of restricted stock units.

Twenty-six Week Results

For the twenty-six weeks ended November 26, 2006, we reported diluted earnings per share of \$1.81, up 13 percent from \$1.60 per share earned in the same period last year. Earnings after tax were \$652 million for the first twenty-six weeks of fiscal 2007, up 5 percent from \$622 million last year. Net sales for the twenty-six weeks ended November 26, 2006 grew 6 percent to \$6.33 billion and total segment operating profit

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increased 9 percent to \$1.25 billion (see page 23 for a discussion of this measure not defined by GAAP).

Net sales growth during the first twenty-six weeks of fiscal 2007 was the result of 3 points of volume growth, 2 points of growth from price increases and a product mix that included higher priced items, and 1 point of favorable foreign currency exchange. Volume growth was recorded in all of our operating segments.

Components of Net Sales Growth First Twenty-six weeks Fiscal 2007 vs. Fiscal 2006	U.S. Retail	International	Bakeries and Foodservice	Total
Unit Volume Growth	+3 pts	+7 pts	+3 pts	+3 pts
Price/Product Mix	Flat	+6 pts	+7 pts	+2 pts
Trade and Coupon Promotion Expense	+1 pts	-3 pts	-2 pts	Flat
Foreign Currency Exchange	NA	+4 pts	NA	+1 pts
Net Sales Growth	4%	14%	8%	6%

Gross margins for the first twenty-six weeks increased 20 basis points compared to the first twenty-six weeks last year, to 37.0 percent of sales. Gross margins improved despite higher input costs, reflecting favorable product mix, pricing and productivity.

SG&A was up \$89 million in the first twenty-six weeks versus the same period a year ago. SG&A as a percent of net sales in the first twenty-six weeks increased 40 basis points from last year to 18.7 percent. This increase was driven primarily by a \$59 million increase in stock-based compensation expense (\$52 million of which was an incremental effect from the adoption of SFAS 123R) and a 4 percent increase in consumer marketing expense.

Page 15

In the first twenty-six weeks of fiscal 2007, we recorded income related to restructuring and other exit activities of \$3 million. We sold our previously closed plant in San Adrian, Spain, resulting in a gain of \$9 million. We incurred a \$6 million loss associated with the divestiture of our par-baked bread product line, including its plants in Chelsea, Massachusetts and Tempe, Arizona. The carrying value of the par-baked assets sold, including goodwill, was \$18 million.

In the first twenty-six weeks of fiscal 2006, we recorded restructuring and other exit costs of \$11 million, consisting of \$10 million of charges related to an asset impairment recognized at our Swedesboro, New Jersey plant and \$1 million of charges associated with restructuring actions previously announced. The restructuring actions previously announced also resulted in certain associated expenses, primarily adjustments to the depreciable life of the assets necessary to reflect the shortened asset lives which coincided with final production dates. These associated expenses were recorded as a cost of sales and totaled \$2 million in the first twenty-six weeks of fiscal 2006.

As a result of the factors discussed above, our operating profit increased \$72 million or 7 percent, to \$1.16 billion in the first twenty-six weeks of fiscal 2007.

Interest expense for the first twenty-six weeks totaled \$215 million, a \$21 million increase from the first twenty-six weeks last year. The increase primarily reflects higher interest rates versus last year.

The effective tax rate was 35.9 percent for the first twenty-six weeks of fiscal 2007, compared to an effective tax rate of 35.4 percent for the first twenty-six weeks of fiscal 2006.

Earnings after tax from joint ventures totaled \$42 million in the first twenty-six weeks, compared to \$41 million a year earlier. Net sales for CPW were up 13 percent. This included contributions from the Uncle Tobys business in Australia acquired by CPW in the first quarter of fiscal 2007. The first twenty-six weeks of fiscal 2007 also included a \$3 million after-tax reduction in CPW's net earnings as a result of its previously announced restructuring project under way in the United Kingdom. Net sales for our Häagen-Dazs ice cream joint ventures in Asia declined 1

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percent from the first twenty-six weeks of fiscal 2006. 8th Continent, our soy products joint venture with DuPont, recorded a 3 percent net sales increase in the first twenty-six weeks of fiscal 2007.

Average diluted shares outstanding decreased by 33 million from the second quarter of fiscal 2006 due primarily to the repurchase of a significant portion of our contingently convertible debentures in October 2005 and the completion of a consent solicitation related to the remaining convertible debentures in December 2005. As a result of these actions, no shares of common stock underlying the debentures will be considered outstanding after December 12, 2005, for purposes of calculating our diluted earnings per share, unless our average share price for the period is above the accreted value of the debentures. In addition we have repurchased 20 million shares of our stock since the second quarter of fiscal 2006, 17 million of which were repurchased in the first twenty-six weeks of fiscal 2007. The repurchases were partially offset by the issuance of shares upon stock option exercises and the vesting of restricted stock units.

U.S. Retail Segment Results

Net sales for our U.S. Retail operations were up 3 percent in the second quarter of fiscal 2007 to \$2.44 billion, driven by 2 percent volume growth and a 2 percent decline in trade promotion spending, partially offset by a 1 point decline in pricing/product mix. Operating profits for the quarter improved 8 percent from \$552 million last year to \$596 million this year.

Page 16

For the first twenty-six weeks of fiscal 2007, net sales for our U.S. Retail operations were \$4.35 billion, up 4 percent from last year, driven by 3 point volume growth and a 1 point decline in trade promotion spending. Operating profits for the period improved 8 percent from \$964 million last year to \$1.04 billion this year.

U.S. Retail Net Sales Growth Fiscal 2007 vs. 2006

	2 nd Quarter	26 Weeks
	Net Sales	Net Sales
Yoplait	6%	7%
Snacks	7	7
Meals	4	5
Big G Cereals	2	3
Pillsbury USA	4	2
Baking Products	-4	-2
Small Planet Foods	19	25
Total U.S. Retail	3%	4%

For the second quarter, Snacks net sales grew 7 percent driven by *Caribou Coffee* Bars and new varieties of *Nature Valley* Sweet and Salty Nut bars and *Chex Mix*. Yoplait net sales grew 6 percent in the second quarter, reflecting strong performance from core product lines. Meals recorded a 4 percent net sales increase including good contributions from *Progresso* soup, *Old El Paso* Mexican foods and *Hamburger Helper* Microwave Singles products. Pillsbury USA net sales grew 4 percent reflecting gains on core refrigerated dough products, including *Pillsbury* Crescent Rolls, *Pillsbury* Toaster Strudel and *Totino's* Pizza Rolls. Big G Cereals recorded a 2 percent net sales increase with contributions from new products such as *Fruity Cheerios* and by established brands including *Cocoa Puffs* and *Fiber One*. Baking Products net sales were 4 percent below strong prior-year levels.

International Segment Results

Net sales for our consolidated international businesses were up 15 percent in the second quarter of fiscal 2007 to \$545 million. This increase was primarily the result of a 7 percent unit volume increase and a 7 point contribution from pricing and product mix. Favorable foreign currency

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effects contributed 3 points of sales growth, partially offset by a 2 point increase in trade promotion spending. Operating profits of \$62 million for the quarter were 15 percent above last year. Operating profits also reflected increased marketing expense to support new product introductions.

For the first twenty-six weeks of fiscal 2007, net sales for our International segment were \$1.05 billion, up 14 percent. Unit volume for the first twenty-six weeks was up 7 points over the prior year, and pricing/product mix contributed an additional 6 points to net sales growth. Favorable foreign currency effects contributed 4 points of sales growth, partially offset by a 3 point increase in trade promotion spending. Operating profits for twenty-six weeks grew to \$118 million in fiscal 2007, up 4 percent from \$113 million last year.

Page 17

Bakeries and Foodservice Segment Results

At the beginning of fiscal 2007, we shifted selling responsibility for several customers from our Bakeries and Foodservice segment to U.S. Retail. All prior year amounts have been restated for comparative purposes. Second quarter net sales for our Bakeries and Foodservice segment increased 6 percent to \$480 million, driven by 8 points of favorable pricing/product mix and 1 point of volume growth, partially offset by a 3 point increase in trade promotion spending. Operating profits for the segment reached \$56 million, up 40 percent from \$40 million in last year's second quarter as favorable net pricing realization (defined as the impact of list and promoted price increases net of trade and other promotion costs) and higher volumes were partially offset by higher commodity and fuel costs.

For first twenty-six weeks of fiscal 2007, net sales for our Bakeries and Foodservice segment increased 8 percent to \$925 million, driven primarily by a 7 point increase in pricing/product mix and 3 points of volume growth, offset partially by a 2 point increase in trade promotion spending. Operating profits for the segment were \$85 million, up 27 percent from \$67 million last year.

Corporate Unallocated Expense

Corporate unallocated expense increased from \$2 million in the second quarter of fiscal 2006 to \$40 million in the second quarter of fiscal 2007, primarily the result of a \$17 million increase in stock compensation costs (\$12 million associated with the adoption of SFAS 123R).

In the first twenty-six weeks of fiscal 2007, corporate unallocated expense was \$83 million, an increase of \$44 million from the same period a year ago. The increase is primarily the result of increased stock compensation costs of \$59 million (\$52 million associated with the adoption of SFAS 123R) offset by variances in actual administrative and employee benefit costs versus the amount we allocate to our operations.

LIQUIDITY AND CAPITAL RESOURCES

During the first twenty-six weeks of fiscal 2007, operating activities provided cash of \$565 million. This compares to cash provided by operations in the first twenty-six weeks of fiscal 2006 of \$787 million. The decrease in cash provided by operations in the first twenty-six weeks of fiscal 2007 compared to last year is primarily the result of a \$282 million higher use of working capital partially offset by increased non-cash stock compensation expense of \$59 million. The higher use of working capital resulted from increases in inventories versus the same period a year ago because of commodity market conditions, primarily in the grain markets; increases in receivables resulting from higher sales levels; and smaller increases in other current liabilities primarily related to accrued taxes and accrued trade and consumer promotion expense at the end of the second quarter in fiscal 2007. Our grain inventories increased from \$78 million at May 28, 2006 to \$150 million at November 26, 2006, compared to an increase from \$73 million to \$90 million over the same period in fiscal 2006.

During the first twenty-six weeks of fiscal 2007, investments for land, buildings and equipment totaled \$149 million compared to \$113 million in the first twenty-six weeks last year. We expect to spend approximately \$425 to \$450 million for capital projects in fiscal 2007.

During the first twenty-six weeks of fiscal 2007, CPW completed the acquisition of the Uncle Tobys cereal business in Australia. We funded our 50 percent share of the purchase price by making additional advances to and equity contributions in CPW totaling \$135 million (classified as investments in affiliates, net, on the Consolidated Statements of Cash Flows) and by acquiring a 50 percent beneficial interest in certain intellectual property for \$58 million (classified as acquisitions on the Consolidated Statements of Cash Flows).

During the first twenty-six weeks of fiscal 2007, we repurchased 17 million shares of common stock for \$890 million. This compares to our repurchase of 16 million shares of common stock for \$752 million in the first twenty-six weeks of fiscal 2006.

Our total debt balances were as follows:

In Millions	Nov. 26, 2006	May 28, 2006
Notes payable	\$ 2,678	\$ 1,503
Current portion of long-term debt	1,739	2,131
Long-term debt	2,241	2,415
Total Debt	\$ 6,658	\$ 6,049

Our notes payable balance increased \$1,175 million from May 28, 2006 to November 26, 2006, primarily to refinance the payment at maturity of \$500 million of our long-term debt in October 2006, share repurchases and our higher level of working capital during the first twenty-six weeks of fiscal 2007. Notes payable increased \$1,782 million to \$2,081 million in the first twenty-six weeks of fiscal 2006. As of November 26, 2006, our zero coupon convertible debentures are included in the current portion of long-term debt based on the put rights of the holders.

Commercial paper is a continuing source of short-term financing. We issue commercial paper in the United States, Canada and Europe. Our commercial paper borrowings are supported by fee-paid committed credit lines consisting of a \$1.1 billion facility expiring in October 2007, a \$750 million facility expiring in January 2009, and a \$1.1 billion facility expiring in October 2010. As of November 26, 2006, we had no outstanding borrowings under these facilities.

During the first twenty-six weeks of fiscal 2007, we entered into \$600 million of pay-fixed, forward-starting interest rate swaps with an average fixed-rate of 5.7 percent in anticipation of fixed-rate debt refinancing that we expect to occur later in fiscal 2007.

We have \$1.7 billion of long-term debt maturing in the next 12 months and classified as current. We believe that cash flows from operations, together with available short- and long-term debt financing, will be adequate to meet our liquidity and capital needs for at least the next 12 months.

In October 2004, Lehman Brothers Holdings Inc. issued \$750 million of notes which are mandatorily exchangeable for shares of our common stock. In connection with the issuance of those notes, an affiliate of Lehman Brothers entered into a forward purchase contract with us, under which we are obligated to deliver to such affiliate between 14 million and 17 million shares of our common stock, subject to adjustment under certain circumstances. These shares will be deliverable by us in October 2007, in exchange for the \$750 million in cash or, in certain circumstances, securities of an affiliate of Lehman Brothers.

There were no material changes outside the ordinary course of our business in our contractual obligations or off-balance-sheet arrangements during the twenty-six week period ended November 26, 2006.

On December 11, 2006, our Board of Directors approved an increase in our quarterly dividend to 37 cents per share, payable on February 1, 2007, to shareholders of record on January 10, 2007. The previous quarterly dividend rate of 35 cents per share was established with the August 1, 2006 payment. During the first twenty-six weeks of fiscal 2007, we paid \$247 million in dividends.

On December 11, 2006, our Board of Directors also approved a new authorization for us to repurchase up to 75 million shares of our common stock. This replaces the prior authorization which permitted us to repurchase shares up to a treasury share balance of 170 million. Purchases under the new authorization can be made in the open market or in privately negotiated transactions, including the use of call options and other derivative instruments, Rule 10b5-1 trading plans and accelerated repurchase programs. The authorization has no pre-established termination date.

SIGNIFICANT ACCOUNTING ESTIMATES

Our significant accounting estimates are described in Note 1 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended May 28, 2006. The accounting policies used in preparing our interim fiscal 2007 Consolidated Financial Statements are the same as those described in our Form 10-K, except for the change in accounting principle for stock-based compensation as discussed in Note 2 to the Consolidated Financial Statements included in this Form 10-Q, the change in accounting principle for certain shipping costs as discussed in Note 3 to the Consolidated Financial Statements included in this Form 10-Q, and the reclassifications also discussed in Note 3 to the Consolidated Financial Statements included in this Form 10-Q. In addition, at the beginning of fiscal 2007, we shifted responsibility for several customers from our Bakeries and Foodservice segment to our U.S. Retail segment. All prior year amounts have been reclassified for comparative purposes. See Notes 6 and 15.

Our significant accounting estimates are those that have meaningful impact on the reporting of our financial condition and results of operations. These estimates include our accounting for trade and consumer promotion activities; valuation of stock-based compensation awards; goodwill and other intangible asset impairments; income taxes; and pension and other postretirement benefits.

Trade and Consumer Promotion Activities

We report sales net of certain coupon and trade promotion costs. The consumer coupon costs recorded as a reduction of sales are based on the estimated redemption value of those coupons, as determined by historical patterns of coupon redemption and consideration of current market conditions such as competitive activity in those product categories. The trade promotion costs include payments to customers to perform merchandising activities on our behalf, such as advertising or in-store displays, discounts to our list prices to lower retail shelf prices, and payments to gain distribution of new products. The cost of these activities is recognized as the related revenue is recorded, which generally precedes the actual cash expenditure. The recognition of these costs requires estimation of customer participation and performance levels. These estimates are made based on the quantity of customer sales, the timing and forecasted costs of promotional activities, and other factors. Differences between estimated expenses and actual costs are normally insignificant and are recognized as a change in management estimate in a subsequent period.

Our unit volume in the last week of each quarter is consistently higher than the average for the preceding weeks of the quarter. In comparison to the average daily shipments in the first 12 weeks of a quarter, the final week of each quarter has approximately two to four days' worth of incremental shipments (based on a five-day week), reflecting increased promotional activity at the end of the quarter. This increased activity includes promotions to assure that our customers have sufficient inventory on hand to support major marketing events or increased seasonal demand early in the next quarter, as well as promotions intended to help achieve interim unit volume targets. If, due to quarter-end promotions or other reasons, our customers purchase more product in any reporting period than end-consumer demand will require in future periods, our sales level in future reporting periods could be adversely affected.

Valuation of Stock-Based Compensation Awards

We have various stock-based compensation programs under which awards, including stock options, restricted stock, and restricted stock units, may be granted to employees and non-employee directors. Stock option grants are made at 100 percent or more of the fair market value of our stock at the date of grant. These awards generally vest over four years and have a ten-year and one-month term. The expense recorded in our Consolidated Financial Statements beginning in fiscal 2007 is based on the fair value of the awards.

We estimate the fair value of each option on the grant date using the Black-Scholes option-pricing model, which requires us to make predictive assumptions regarding future stock price volatility, employee exercise behavior, and dividend yield. We estimate our future stock price volatility using the historical volatility over the term of the option. If all other assumptions were held constant, a one percentage point increase or decrease in our current period volatility assumption would increase or decrease the grant-date fair value of our option grants by approximately 4 percent, or \$1 million, in the twenty-six weeks ended November 26, 2006.

Goodwill and Other Intangible Assets

Goodwill represents the difference between the purchase prices of acquired companies and the related fair values of net assets acquired. Goodwill is not subject to amortization and is tested for impairment annually and whenever events or changes in circumstances indicate that impairment may have occurred. Impairment testing is performed for each of our reporting units. We compare the carrying amount of goodwill for a reporting unit with its fair value and if the carrying amount of goodwill exceeds its fair value, impairment has occurred. Our estimates of fair value are determined based on a discounted cash flow model using inputs from our annual long-range planning process. We also make estimates of discount rates, perpetuity growth assumptions and other factors.

Finite and indefinite-lived assets, primarily intangible assets associated with the *Pillsbury*, *Totino's*, *Progresso*, *Green Giant*, *Old El Paso* and *Häagen-Dazs* brands, are also tested for impairment annually and whenever events or changes in circumstances indicate that their carrying value may not be recoverable. In December 2006, we completed our fiscal 2007 assessment of our brand intangibles as of December 1, 2006. Our estimate of the fair value of the brands was based on a discounted cash flow model using inputs which included: (1) projected revenues from our annual long-range plan, (2) assumed royalty rates which could be payable if we did not own the brands, and (3) a discount rate. All brand intangibles had fair values in excess of their carrying values by at least 20 percent, except for the *Pillsbury* brand, which we estimated had a fair value less than three percent higher than its carrying value. This brand comprises nearly one-half of our total indefinite-lived intangible assets.

If the growth rate for the global revenue from all uses of the *Pillsbury* brand decreases 50 basis points from the current planned growth rate, fair value would be reduced by approximately \$165 million, assuming all other components of the fair value estimate remain unchanged. If the assumed royalty rate for all uses of the *Pillsbury* brand decreases by 50 basis points, fair value would be reduced by approximately \$130 million, assuming all other components of the fair value estimate remain unchanged. If the applicable discount rate increases by 50 basis points, fair value of the *Pillsbury* brand would be reduced by approximately \$175 million, assuming all other components of the fair value estimate remain unchanged.

Income Taxes

Our consolidated effective income tax rate is influenced by tax planning opportunities available to us in the various jurisdictions in which we operate and involves management judgment as to the ultimate resolution of any tax issues. We accrue liabilities in current income taxes payable for potential assessments related to uncertain tax positions in a variety of taxing jurisdictions. Historically, our assessments of the ultimate resolution of tax issues have been reasonably accurate. The current open tax issues are not dissimilar in size or substance from historical items, except for the accounting for losses recorded as part of our acquisition of The Pillsbury Company. Management currently believes that the ultimate resolution of these matters, including the accounting for losses recorded as part of our acquisition of The Pillsbury Company, will not have a material effect on our business, financial condition, results of operations, or liquidity.

Pension and Other Postretirement Benefits

The accounting for pension and other postretirement liabilities requires the estimation of several critical factors. The assumptions used in the determination of those liabilities are described on pages 22 and 23 of our Annual Report on Form 10-K for the year ended May 28, 2006.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans* (an amendment of FASB Statements No. 87, 88, 106, and 132R) (SFAS 158). SFAS 158 requires an employer to recognize in its statement of financial position an asset for a plan's over-funded status or a liability for a plan's under-funded status, measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions), and recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in our comprehensive income and as a separate component of stockholders' equity. SFAS 158 is effective for us in the fourth quarter of fiscal 2007. We are evaluating the impact of SFAS 158 on our results of operations and financial condition and estimate that we will record a reduction of accumulated other comprehensive income of approximately \$600 million after-tax associated with our domestic defined benefit plans, assuming a discount rate of 6 percent and a rate of return on plan assets of 9.6 percent. We have no restrictive covenants that will be affected by this charge.

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In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). This statement provides a single definition of fair value, a framework for measuring fair value, and expanded disclosures concerning fair value. Previously, different definitions of fair value were contained in various accounting pronouncements creating inconsistencies in measurement and disclosures. SFAS No. 157 applies under those previously issued pronouncements that prescribe fair value as the relevant measure of value, except SFAS No. 123R and related interpretations and pronouncements that require or permit measurement similar to fair value but are not intended to measure fair value. This pronouncement is effective for fiscal years beginning after November 15, 2007, which for us is the first quarter of fiscal 2009. We are evaluating the impact of SFAS 157 on our results of operations and financial condition.

In September 2006, the Securities and Exchange Commission (SEC) released Staff Accounting Bulletin No. 108 Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 provides interpretive guidance on the process and diversity in practice of quantifying financial statement misstatements resulting in the potential carryover of improper amounts on the balance sheet. The SEC staff believes that registrants should quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 is effective for us in the first quarter of fiscal 2008. We do not believe that the adoption of SAB 108 will have a material impact on our results of operations or financial condition.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies when tax benefits should be recorded in financial statements, requires certain disclosures of uncertain tax matters and indicates how any tax reserves should be classified in a balance sheet. FIN 48 is effective for us in the first quarter of fiscal 2008. We are evaluating the impact of FIN 48 on our results of operations and financial condition.

Page 22

NON-GAAP MEASURES

We have included in this MD&A a measure of financial performance that is not defined by GAAP. This non-GAAP measure should be viewed in addition to, and not in lieu of, the comparable GAAP measure.

Total Segment Operating Profit

This non-GAAP measure is used in internal management reporting and as a component of the Board of Directors rating of our performance for management and employee incentive compensation. Management and the Board of Directors believe that this measure provides useful information to investors because it is the profitability measure we use to evaluate segment performance. A reconciliation of this measure to the relevant GAAP measure, operating profit, is included in Note 15 to the Consolidated Financial Statements included in this Form 10-Q.

CAUTIONARY STATEMENT RELEVANT TO FORWARD-LOOKING INFORMATION FOR THE PURPOSE OF SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This report contains or incorporates by reference forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are based on our management's current expectations and assumptions. We and our representatives also may from time to time make written or oral forward-looking statements, including statements contained in our filings with the SEC and in our reports to stockholders.

The words or phrases will likely result, are expected to, will continue, is anticipated, estimate, plan, project or similar expressions identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results and those currently anticipated or projected. We wish to caution you not to place undue reliance on any such forward-looking statements, which speak only as of the date made.

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we are identifying important factors that could affect our financial performance and could cause our actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

Our future results could be affected by a variety of factors, such as:

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Competitive dynamics in the consumer foods industry and the markets for our products, including new product introductions, advertising activities, pricing actions and promotional activities of our competitors;

Economic conditions, including changes in inflation rates, interest rates or tax rates;

Product development and innovation;

Consumer acceptance of new products and product improvements;

Consumer reaction to pricing actions and changes in promotion levels;

Acquisitions or dispositions of businesses or assets;

Changes in capital structure;

Page 23

Changes in laws and regulations, including labeling and advertising regulations;

Impairments in the carrying value of goodwill or other intangibles;

Changes in accounting standards and the impact of significant accounting estimates;

Product quality and safety issues, including recalls and product liability;

Changes in customer demand for our products;

Effectiveness of advertising, marketing and promotional programs;

Changes in consumer behavior, trends and preferences, including weight loss trends;

Consumer perception of health-related issues, including obesity;

Consolidation in the retail environment;

Changes in purchasing and inventory levels of significant customers;

Fluctuations in the cost and availability of supply chain resources, including raw materials, packaging and energy;

Disruptions or inefficiencies in the supply chain;

Benefit plan expenses due to changes in plan asset values and discount rates used to determine plan liabilities;

Resolution of uncertain income tax matters;

Foreign economic conditions, including currency rate fluctuations; and

Political unrest in foreign markets and economic uncertainty due to terrorism or war.

You should also consider the risk factors that we identify on pages 7 through 10 of our Annual Report on Form 10-K for the year ended May 28, 2006, which could also affect our future results.

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We undertake no obligation to publicly revise any forward-looking statements to reflect future events or circumstances.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in our market risk during the twenty-six weeks ended November 26, 2006, except for interest rate instruments which increased by \$2 million during the quarter as a result of increases in our forward starting interest rate swaps hedging future debt issuances. For additional information, see Item 7A of our Annual Report on Form 10-K for the year ended May 28, 2006.

Page 24

Item 4. Controls and Procedures.

We, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). We have determined that our policies and procedures requiring an annual impairment assessment of goodwill and other indefinite-lived intangible assets on a combined basis were ineffective for the separate annual impairment assessment of our brand intangibles, as required by Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*. Accordingly, we concluded that we had a material weakness in our internal control over financial reporting as of November 26, 2006. Solely as a result of the aforementioned material weakness, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of November 26, 2006. As of January 4, 2007, we believe we have remediated the material weakness by changing our policies and procedures to require the performance of a separate annual impairment assessment of the brand intangibles, and we have completed that assessment. Our assessments for fiscal years 2004, 2005, 2006 and 2007 have confirmed that the fair value of brand intangibles exceeded their carrying value in all years. Therefore, there were no changes to our consolidated financial statements presented in this report, in our Quarterly Report on Form 10-Q for the period ended August 27, 2006, or in our Annual Report on Form 10-K for the fiscal year ended May 28, 2006.

Except as specifically discussed in the preceding paragraph, there were no changes in our internal control over financial reporting during our fiscal quarter ended November 26, 2006, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table sets forth information with respect to shares of our common stock that we purchased during the three fiscal months ended November 26, 2006.

Period	Total Number of Shares Purchased(a)	Average Price Paid Per Share	Total Number of Shares Purchased as a Part of Publicly Announced Programs	Maximum Number of Shares that may yet be Purchased under the Programs (b)
Aug. 28, 2006 Oct. 1, 2006	2,881,075	\$ 52.87		
Oct. 2, 2006 Oct. 29, 2006	22,896	\$ 55.57		
Oct. 30, 2006 No. 26, 2006	18,300	\$ 55.57		
Total	2,922,271	\$ 52.91		75,000,000

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- (a) The total number of shares purchased includes: (i) 55,700 shares purchased from the ESOP fund of our 401(k) savings plan, (ii) 15,071 shares of restricted stock withheld for the payment of withholding taxes upon vesting of restricted stock, and (iii) 2,851,500 shares purchased on the open market.
- (b) On December 11, 2006, our Board of Directors approved and we announced a new authorization for the repurchase of up to 75 million shares of our common stock. This replaces the prior authorization which permitted us to repurchase shares up to a treasury share balance of 170 million. Purchases under the new authorization can be made in the open market or in privately negotiated transactions, including the use of call options, other derivative instruments, Rule 10b5-1 trading plans and accelerated repurchase programs. The Board did not specify a time period or an expiration date for the authorization.

Page 25

Item 4. Submission of Matters to a Vote of Security Holders.

- (a) The Annual Meeting of Stockholders was held on September 25, 2006.
- (b) All 13 directors nominated were elected at the Annual Meeting.
- (c) For the election of directors, the results were as follows:

Paul Danos		For	299,831,397						
		Withheld	4,595,046						
William T. Esrey		For	277,518,393						
		Withheld							
Restricted Stock	1/2/2016		—	—	—	—	—	—	20,000(1) — — 659,000
Annual Cash Incentive			—	392,000	784,000				
James J. Damman									
Restricted Stock	1/2/2016		—	—	—	—	—	—	15,000(1) — — 494,250
Annual Cash Incentive			—	280,000	541,333				
David L. Marsh									
Restricted Stock	1/2/2016		—	—	—	—	—	—	15,000(1) — — 494,250
Annual Cash Incentive			—	252,000	504,000				

- (1) Restricted stock that vests ratably annually on the date of grant over five years.

Narrative Description for Summary Compensation and Grants of Plan-Based Awards Tables

As part of the annual compensation package, our Compensation Committee grants restricted Class A Common Stock to our executive officers. Generally, these awards are based on merit and the Hay Group survey and vest over five years. The Company has historically made an annual grant of restricted stock to its executive officers. Our Compensation Committee reviews management's recommendation and approves the restricted stock awards for each Section 16 officer. These restricted shares are entitled to dividends to the same extent as ordinary shares, but the dividends are restricted to the same extent as the underlying security. Once the restricted stock vests, any dividends paid on that stock also vest. We do not have employment agreements with our executive officers.

OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2016

Name	Option Awards					Stock Awards		Equity Incentive Plan Awards:	
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Exercisable Options (#)	Number of Securities Underlying Unexercised Options (#)	Exercise Price (\$)	Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Number of Shares, Units or Other Rights That Have Vested (#)	Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
David P. Yeager	—	—	—	—	—	30,000(1)	1,312,500	—	—
						19,360(2)	847,000		
						13,200(3)	577,500		
						8,800 (4)	385,000		
						4,400 (5)	192,500		
Terri A. Pizzuto	—	—	—	—	—	18,000(1)	787,500	—	—
						13,200(2)	577,500		
						9,000 (3)	393,750		
						6,000 (4)	262,500		
						3,000 (5)	131,250		
Donald G. Maltby	—	—	—	—	—	20,000(1)	875,000	—	—
						12,000(6)	525,000		
James J. Damman	—	—	—	—	—	15,000(1)	656,250	—	—
						10,560(2)	462,000		
						6,000 (3)	262,500		
						4,000 (4)	175,000		
						2,000 (5)	87,500		
						2,989 (7)	130,769		
						2,117 (8)	92,619		
						564 (9)	24,675		
						15,000(1)	656,250		
David L. Marsh	—	—	—	—	—	10,560(2)	462,000	—	—
						7,200 (3)	315,000		
						4,800 (4)	210,000		
						2,400 (5)	105,000		

- (1) Restricted stock remaining from a grant made on January 2, 2016 that vests ratably annually on the date of grant over five years.
- (2) Restricted stock remaining from a grant made on January 2, 2015 that vests ratably annually on the date of grant over five years.
- (3) Restricted stock remaining from a grant made on January 2, 2014 that vests ratably annually on the date of grant over five years.
- (4) Restricted stock remaining from a grant made on January 2, 2013 that vests ratably annually on the date of grant over five years.
- (5) Restricted stock remaining from a grant made on January 2, 2012 that vests ratably annually on the date of grant over five years.
- (6) Restricted stock remaining from a grant made on September 16, 2015 that vests ratably annually on the date of grant over three years.
- (7) Restricted stock remaining from a grant made on February 22, 2014 that vests ratably annually on the date of grant over five years.
- (8) Restricted stock remaining from a grant made on February 22, 2013 that vests ratably annually on the date of grant over five years.
- (9) Restricted stock remaining from a grant made on February 22, 2012 that vests ratably annually on the date of grant over five years.

2016 OPTION EXERCISES AND STOCK VESTED

Name	Option Awards		Stock Awards	
	Number of Shares	Acquired Value Realized on Exercise	Number of Shares	Acquired Value Realized on Vesting
	(#)	(\$)	(#)	(\$)
David P. Yeager	—	—	21,742	716,399
Terri A. Pizzuto	—	—	14,506	478,803
Donald G. Maltby	—	—	6,000	244,020
James J. Damman	—	—	12,926	447,293
David L. Marsh	—	—	11,506	379,123

2016 NONQUALIFIED DEFERRED COMPENSATION

Name	Executive Contributions in Last FY \$(1)	Registrant Contributions in Last FY \$(2)	Aggregate Earnings in Last FY \$(3)	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at Last FYE \$(4)
David P. Yeager	560,218	24,000	80,797	477,661	3,205,445
Terri A. Pizzuto	45,000	13,500	38,730	—	707,884
Donald G. Maltby	61,000	16,800	6,640	27,871	189,302
James J. Damman (5)	—	—	14,863	—	405,936
David L. Marsh	217,359	10,800	2,228	111,204	617,003

(1) Executive contributions are included in Salary in the Summary Compensation Table.

(2) Our Company contributions are a match made subject to a cliff vesting requirement as more fully explained below. Our Company contributions are included in All Other Compensation in the Summary Compensation Table.

(3) None of these earnings are included in the Summary Compensation Table as these are earnings on investments made in various commonly available investment vehicles.

The amount of compensation in the aggregate balance that was reported as compensation in the 2016 Summary Compensation Table is \$584,218 for Mr. Yeager, \$58,500 for Ms. Pizzuto, \$32,850 for Mr. Maltby and \$228,159 for Mr. Marsh. The amount of compensation in the aggregate balance that was reported as compensation in the (4) 2015 Summary Compensation Table is \$171,495 for Mr. Yeager, \$54,607 for Ms. Pizzuto and \$95,925 for Mr. Maltby and \$187,416 for Mr. Marsh. The amount of compensation in the aggregate balance that was reported as compensation in the 2014 Summary Compensation Table is \$173,438 for Mr. Yeager, \$49,407 for Ms. Pizzuto and \$109,802 for Mr. Maltby.

(5) Mr. Damman participates in the Mode Plan (as defined below).

We adopted our current Deferred Compensation Plan effective January 1, 2005. We allow a select group of management and highly compensated employees to make contributions to our Deferred Compensation Plan. We also adopted a non-qualified deferred compensation plan effective April 1, 2011 in connection with the Mode acquisition (the "Mode Plan"). The Mode Plan was created to allow certain key Mode employees to continue deferring into a non-qualified plan for the remainder of 2011. Of our current named executive officers, only Mr. Damman participates in the Mode Plan. On December 31, 2011, the Mode Plan was closed and there will be no new contributions made into the Mode Plan.

Our Deferred Compensation Plan is funded and does not provide for a fixed rate of return. Each participating employee selects from a range of investment options. We then provide an investment return equal to the return from the selected investment options. The investment options which may be selected by the participating employees track commonly available investment vehicles, including mutual funds, bond funds and money market funds. Participating employees can contribute up to 50% of their base salary and up to 90% of their annual cash incentive under the Deferred Compensation Plan.

The Deferred Compensation Plan also includes a match by our Company. The match is equal to 50% of the first 6% of contributions to the plan with a maximum match equivalent to 3% of base salary. The match vests over three years on a cliff basis. The Company match, if vested, and earnings thereon are paid out seven months after separation from service in either a lump sum or over a period of up to ten years, at the employee's election. The employee's contributions and earnings thereon are paid out upon separation from service or at a predetermined date and may be paid out in a lump sum or over a period of up to ten years. The match is subject to forfeiture if the participant leaves the Company and goes to work for a competitor.

Our Mode Plan is also funded and does not provide for a fixed rate of return. Each participating employee selects from a range of investment options. We then provide an investment return equal to the return from the selected investment options. The investment options which may be selected by the participating employees track commonly available investment vehicles, including mutual funds, bond funds and money market funds. The Mode Plan included a match by our Company equal to 50% of the first 10% of contributions to the plan with a maximum match equivalent to 5% of compensation. The match was fully vested once made. The Company match and earnings thereon are paid out seven months after separation from service in either a lump sum or over a period of up to fifteen years, at the employee's election. The employee's contributions and earnings thereon are paid out upon separation from service or at a predetermined date and may be paid out in a lump sum or over a period of up to fifteen years.

Potential Payouts Upon Termination or Change of Control

As required, in the following section we disclose the amount that would have been earned by our named executive officers assuming a change of control on December 31, 2016.

David P. Yeager, Chairman and Chief Executive Officer

Change of Control

Mr. Yeager has been granted various awards of restricted stock under our Long-Term Incentive Plans. Pursuant to his award agreements, this restricted stock vests upon a change of control. As of December 31, 2016, Mr. Yeager owned 75,760 shares of restricted stock subject to vesting requirements. Assuming the triggering event took place on the last business day of 2016, the value of the restricted stock would have been \$3,314,500.

Mr. Yeager is a participant in our Deferred Compensation Plan. Our Deferred Compensation Plan provides for the vesting of the Company match and any earnings thereon upon a change of control. Assuming a change of control as defined under this plan occurred on December 31, 2016, a total of \$47,417 worth of Company matching contributions and interest or earnings thereon would have vested.

Terri A. Pizzuto, Executive Vice President, Treasurer and Chief Financial Officer

Change of Control

Ms. Pizzuto has been granted various awards of restricted stock under our Long-Term Incentive Plans. Pursuant to her award agreements, this restricted stock vests upon a change of control. As of December 31, 2016, Ms. Pizzuto owned 49,200 shares of restricted stock subject to vesting requirements. Assuming the triggering event took place on the last business day of 2016, the value of the restricted stock would have been \$2,152,500.

Ms. Pizzuto is a participant in our Deferred Compensation Plan. Our Deferred Compensation Plan provides for the vesting of the Company match and any earnings thereon upon a change of control. Assuming a change of control as defined under this plan occurred on December 31, 2016, a total of \$27,614 worth of Company matching contributions and interest or earnings thereon would have vested.

Donald G. Maltby, President and Chief Operating Officer

Change of Control

Mr. Maltby has been granted various awards of restricted stock under our Long-Term Incentive Plans. Pursuant to his award agreements, this restricted stock vests upon a change of control. As of December 31, 2016, Mr. Maltby owned 32,000 shares of restricted stock subject to vesting requirements. Assuming the triggering event took place on the last business day of 2016, the value of the restricted stock would have been \$1,400,000.

Mr. Maltby is a participant in our Deferred Compensation Plan. Our Deferred Compensation Plan provides for the vesting of the Company match and any earnings thereon upon a change of control. Assuming a change of control as defined under this plan occurred on December 31, 2016, a total of \$34,407 worth of Company matching contributions and interest or earnings thereon would have vested.

James J. Damman, President Mode Transportation

Change of Control

Mr. Damman has been granted various awards of restricted stock under our Long-Term Incentive Plans. Pursuant to his award agreements, this restricted stock vests upon a change of control. As of December 31, 2016, Mr. Damman owned 43,230 shares of restricted stock subject to vesting requirements. Assuming the triggering event took place on the last business day of 2016, the value of the restricted stock would have been \$1,891,313.

David L. Marsh, Chief Highway Solutions Officer

Change of Control

Mr. Marsh has been granted various awards of restricted stock under our Long-Term Incentive Plans. Pursuant to his award agreements, this restricted stock vests upon a change of control. As of December 31, 2016, Mr. Marsh owned 39,960 shares of restricted stock subject to vesting requirements. Assuming the triggering event took place on the last business day of 2016, the value of the restricted stock would have been \$1,748,250.

Mr. Marsh is a participant in our Deferred Compensation Plan. Our Deferred Compensation Plan provides for the vesting of the Company match and any earnings thereon upon a change of control. Assuming a change of control as defined under this plan occurred on December 31, 2016, a total of \$21,149 worth of Company matching contributions and interest or earnings thereon would have vested.

Definition of “Change of Control”

For purposes of the foregoing discussion, a change of control is defined as a change in the beneficial ownership of the Company’s voting stock or a change in the composition of the Board which occurs as follows: (i) Any “person” (as such term is used in Section 13(d) and 14(d)(2) of the Exchange Act) who is not as of the date of this grant but later becomes a beneficial owner, directly or indirectly, of stock of the Company representing 30 percent or more of the total voting power of the Company’s then outstanding stock; or (ii) A tender offer (for which a filing has been made with the SEC which purports to comply with the requirements of Section 14(d) of the Exchange Act and the corresponding SEC rules) is made for the stock of the Company, which has not been negotiated and approved by the Board. In case of a tender offer described in this paragraph, the change in control will be deemed to have occurred upon the first to occur of (A) any time during the offer when the person (using the definition in (i) above) making the offer owns or has accepted for payment stock of the Company with 25 percent or more of the total voting power of the Company’s stock, or (B) three business days before the offer is to terminate unless the offer is withdrawn first, if the person making the offer could own, by the terms of the offer plus any shares owned by this person, stock with 50 percent or more of the total voting power of the Company’s stock when the offer terminates; or (iii) Individuals who were the Board’s nominees for election as directors of the Company immediately prior to a meeting of the stockholders of the Company involving a contest for the election of directors shall not constitute a majority of the Board following the election.

DIRECTOR COMPENSATION

The following table sets forth a summary of the compensation for services rendered to the Company for the fiscal year ended December 31, 2016 for the Company's independent directors.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)(1)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension		All Other Compensation (\$)	Total (\$)
					Value and Nonqualified Deferred Compensation	Earnings		
Gary D. Eppen	90,000	181,225	—	—	—	2,700	(2)	273,925
Charles R. Reaves	90,000	181,225	—	—	—	—		271,225
Martin P. Slark	90,000	181,225	—	—	—	—		271,225
Jonathan P. Ward	90,000	181,225	—	—	—	—		271,225
James C. Kenny (3)	60,000	160,586	—	—	—	—		220,586

(1) Consists of the aggregate grant date fair value of restricted stock awards made by our Company in 2016 in accordance with FASB ASC Topic 718. The amounts expensed in 2016 in accordance with FASB ASC Topic 718 with respect to restricted stock awards made by our Company each with a vesting period of three years are \$194,360 for Messrs. Eppen, Reaves, Slark and Ward, and \$35,686 for Mr. Kenny.

(2) Mr. Eppen contributed to our Deferred Compensation Plan in 2016 and received a match of \$2,700 for 2016.

(3) Mr. Kenny's compensation was pro-rated to reflect his appointment in May 2016.

As of December 31, 2016, Messrs. Eppen, Reaves, Slark and Ward each had 5,500 shares of restricted stock remaining from a grant made on January 2, 2016 that vests ratably over three years, 3,666 shares of restricted stock remaining from a grant made on January 2, 2015 that vests ratably over three years and 1,666 shares of restricted stock remaining from a grant made on January 2, 2014 that vests ratably over three years. Mr. Kenny had 4,125 shares remaining from a grant made on May 20, 2016 that vests ratably over three years. No directors have options.

Directors who are not our employees received \$90,000 for serving as a director during 2016. Directors who are our employees do not receive additional compensation for such services. Both employee and non-employee directors are reimbursed for their travel and other expenses incurred in connection with attending meetings of the Board of Directors or committees thereof. In connection with their 2016 compensation package, on January 2, 2016, Messrs. Eppen, Reaves, Slark and Ward each received a grant of 5,500 shares of restricted Class A Common Stock with a value on the date of grant of \$181,225. In connection with Mr. Kenny's 2016 compensation package, on May 20, 2016, he received a grant of 4,125 shares of restricted Class A Common Stock with a value on the date of grant of \$160,586. The restricted stock vests ratably over a three-year period.

Share Ownership Requirements for Non-Employee Directors

To directly align the interests of our non-employee directors with the interests of the stockholders, our Board adopted a policy that requires each non-employee director to maintain a minimum ownership interest in the Company. The policy was amended in February 2017 to increase each director's ownership requirement of Company stock to a value of at least three times his annual retainer. Each director has five years to meet this requirement. Until they do, directors must retain a minimum of 25% of the stock granted to them in any one year.

Compensation Committee Interlocks and Insider Participation

None.

Audit Committee Report

Management has primary responsibility for the Company's internal control and financial reporting process, and for making an assessment of the effectiveness of the Company's internal control over financial reporting. Ernst & Young LLP is responsible for performing an independent audit of the Company's (i) consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board ("PCAOB") and (ii) the Company's internal control over financial reporting and to issue an opinion on those financial statements and internal control over financial reporting. The Audit Committee's responsibility is to monitor and oversee these processes.

The Audit Committee has reviewed and discussed the Company's quarterly and annual audited financial statements with management. The Company has also discussed with Ernst & Young LLP the matters required to be discussed by Auditing Standard No. 16, Communication with Audit Committees, as amended, as adopted by the PCAOB. The Audit Committee has also received from Ernst & Young LLP the written communication and the letter required by applicable requirements of the PCAOB regarding Ernst & Young LLP's communication with the Audit Committee concerning independence. The Audit Committee has discussed with Ernst & Young LLP their independence. Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the December 31, 2016 audited financial statements be included in the Company's Annual Report on Form 10-K for 2016.

AUDIT COMMITTEE

Gary D. Eppen, Chairman
Charles R. Reaves
Martin P. Slark
Jonathan P. Ward

James C. Kenny

INDEPENDENT PUBLIC ACCOUNTANTS

The Audit Committee has selected Ernst & Young LLP as the independent accountant of the Company. Representatives of Ernst & Young LLP will be present at the Annual Meeting and will be given the opportunity to make a statement if they desire to do so. They will also be available to respond to appropriate questions.

The fees billed by Ernst & Young in 2016 and 2015 for services provided to us were as follows:

	2016	2015
Audit Fees (1)	\$1,392,757	\$1,340,000
Audit-Related Fees (2)	\$397,180	—
Tax Fees (3)	\$37,259	\$21,869
All Other Fees (4)	—	—
TOTAL	\$1,827,196	\$1,361,869

(1) “Audit Fees” are the aggregate fees billed by Ernst & Young for professional services rendered for the audit of the Company’s annual financial statements for the years ended December 31, 2016 and December 31, 2015, the audit of the effectiveness of the Company’s internal control over financial reporting as of December 31, 2016 and December 31, 2015, the reviews of the financial statements included in the Company’s quarterly reports on Form 10-Q during 2016 and 2015, and consultation with respect to various accounting and financial reporting matters during 2016 and 2015.

(2) “Audit-Related Fees” include fees billed for assurance and related services that are reasonably related to the performance of the audit and not included in the “audit fees” described above. The 2016 Audit-Related Fees relate to assistance with financial due-diligence for a potential acquisition.

(3) “Tax Fees” are fees for tax services billed by Ernst & Young.

(4) There were no non-audit services in 2016 and 2015.

The Audit Committee must pre-approve any audit or any permissible non-audit services to be provided by the Company’s independent auditors, and has established pre-approval policies and procedures for such services. Permissible non-audit services are those allowed under the regulations of the SEC. The Audit Committee may approve certain specific categories of permissible non-audit services within an aggregated budgeted dollar limit. The Audit Committee must approve on a project-by-project basis any permissible non-audit services that do not fall within a pre-approved category, or pre-approved permissible non-audit services that exceed the previously approved fees. All

services provided by Ernst & Young during 2016 were approved by the Audit Committee and were permissible under applicable laws and regulations and will continue to be pre-approved by the Audit Committee.

PROPOSAL 2: ADVISORY VOTE ON EXECUTIVE COMPENSATION

At last year's annual meeting, the Company provided stockholders with the opportunity to cast an advisory vote regarding the compensation of our named executive officers as disclosed in the proxy statement for the 2016 Annual Meeting. At our 2016 Annual Meeting, our stockholders overwhelmingly approved the proposal, with more than 98% of the votes cast voting in favor of the proposal. In light of the high level of approval that we received in 2016, we concluded that no changes to our compensation policies and practices were warranted. Our Board has elected to hold a stockholder say on pay vote annually. Accordingly, this year the Company again seeks your advisory vote on our executive compensation programs. The Company asks that you support the compensation of our named executive officers as disclosed in the Compensation Discussion and Analysis section and the accompanying tables contained in this Proxy Statement. Because your vote is advisory, it will not be binding on the Board or the Company. However, the Board will review the voting results and take them into consideration when making future decisions regarding executive compensation.

We encourage stockholders to review the Compensation Discussion and Analysis and related executive compensation tables. We believe our compensation program strikes the appropriate balance between using responsible pay practices and appropriately incentivizing our executives to create value for our stockholders. This balance is evidenced by the following:

A meaningful part of executive compensation is performance based, including our annual cash incentive, which is based primarily on EPS.

We have a five year vesting period for our annual restricted stock grants to executive officers.

We respond to economic conditions appropriately, such as freezing various base salaries during an economic downturn.

We do not make it a practice to provide tax gross-ups to our named executive officers.

We have no employment, severance or golden parachute agreements with any of our named executive officers and therefore, no excise tax gross-ups.

The Board strongly endorses the Company's executive compensation program and unanimously recommends that the stockholders vote in favor of the following resolution:

RESOLVED, that the stockholders approve the compensation of the Company's named executive officers as described in this proxy statement under "Executive Compensation," including the Compensation Discussion and Analysis and the tabular and narrative disclosure contained in this proxy statement.

The advisory vote on executive compensation will be approved if it receives a majority of votes cast by shares represented in person or by proxy and entitled to vote at such Annual Meeting, provided a quorum is present. Abstentions and broker non-votes will have no effect on the outcome of the vote, provided a quorum is present.

The Board of Directors unanimously recommends a vote FOR Proposal 2.

PROPOSAL 3: ADVISORY VOTE ON THE FREQUENCY OF THE ADVISORY VOTE ON EXECUTIVE COMPENSATION

Section 14A of the Securities Exchange Act requires us to submit a non-binding, advisory resolution to stockholders at least once every six years to determine whether advisory votes on executive compensation (commonly referred to as “say-on-pay”) should be held every one, two or three years. This non-binding, advisory resolution is commonly referred to as “say-on-frequency.” We last submitted a say-on-frequency resolution for a stockholder vote in 2011. At that time, our Board recommended, and our stockholders voted in favor of, including a non-binding advisory vote on executive compensation in our proxy statement for our annual meeting of stockholders every year.

After careful consideration of this proposal, our Board has determined that an advisory vote on executive compensation that occurs annually is the most appropriate alternative for the Company, and therefore our Board recommends that you vote for a one-year interval for the advisory vote on executive compensation.

In formulating its recommendation, our Board considered that an advisory vote on executive compensation every year will allow our stockholders to provide us with their direct input on our compensation philosophy, policies and practices as disclosed in the proxy statement every year. Setting a one year period for holding this stockholder vote will enhance stockholder communication by providing a clear, simple means for the Company to obtain information on investor sentiment about our executive compensation philosophy.

You may cast your vote on your preferred voting frequency by choosing the option of one year, two years, three years or abstain from voting when you vote in response to the resolution set forth below.

“RESOLVED, on an advisory basis, that the stockholders’ preferred frequency as to which the Company is to hold a stockholder advisory vote to approve the compensation of the named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, shall either be once every year, once every two years or once every three years, as determined by whichever frequency-option receives the highest number of votes cast.”

The option of one year, two years or three years that receives the highest number of votes cast by stockholders will be the frequency for the advisory vote on executive compensation that has been selected by stockholders. However, because this vote is advisory and not binding on the Board in any way, the Board may decide that it is in the best interests of our stockholders and the Company to hold an advisory vote on executive compensation more or less frequently than the option approved by our stockholders.

The Board unanimously recommends a vote for “1 YEAR”.

PROPOSAL 4: RATIFICATION OF THE SELECTION OF ERNST & YOUNG LLP AS HUB GROUP'S INDEPENDENT REGISTERED ACCOUNTING FIRM

The Board is asking our stockholders to ratify the Audit Committee's appointment of Ernst & Young, LLP ("EY") as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2017. EY has been the Company's auditors since 2002. Although we are not required to obtain stockholder ratification of the selection of EY, our Board believes that the selection of an independent registered public accounting firm is an important matter and in the best interests of stockholders. For additional information regarding the Company's relationship with EY, please refer to the Audit Committee Report and the Independent Public Accountants information contained above.

If the appointment of EY as our independent registered public accounting firm for 2017 is not ratified by our stockholders, the adverse vote will be considered a direction to the Audit Committee to consider other auditors for next year. However, because of the difficulty in making any substitution of auditors after the beginning of the current year, the appointment for 2017 will stand, unless the Audit Committee finds other good reason for making a change.

Representatives of EY will be present at the Annual Meeting and will have the opportunity to make a statement if they desire to do so.

The Board unanimously recommends a vote "FOR" Proposal 4.

PROPOSAL 5: APPROVAL OF THE HUB GROUP, INC. 2017 LONG-TERM INCENTIVE PLAN

The Board recommends approval of the Company's 2017 Long-Term Incentive Plan (the "Plan"). The following summary of the Plan is qualified in its entirety by the complete text of the Plan contained in Exhibit A.

Background

We previously maintained the Hub Group, Inc. 2002 Long-Term Incentive Plan (the "Prior Plan"). The Board adopted the Plan effective as of March 15, 2017 in order to have in place a plan that included provisions that are currently common in the market and to enable us to grant a broader spectrum of awards, including awards that are performance-based for purposes of section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code").

Section 162(m) of the Code provides that certain compensation in excess of \$1 million that is paid to the chief executive officer and the next three most highly paid officers of a public company (other than the chief financial officer) is not deductible. Compensation which constitutes "performance-based compensation" within the meaning of Section 162(m) generally is not subject to the foregoing limitations. In order to constitute "performance-based compensation," our stockholders must approve the material terms of the plan pursuant to which the compensation is granted and certain other requirements must be met. Generally, such stockholder approval is required every five years after initial approval. The Plan includes terms that will enable us to grant "performance-based compensation" within the meaning of Section 162(m) provided that our stockholders approve the Plan.

A total of 707,273 shares of our Class A common stock ("Common Stock") remain available to be issued upon exercise or settlement of outstanding awards under the Prior Plan as of the date of this proxy statement. If the Plan is approved by our stockholders, no future grants will be made under the Prior Plan. Any awards made under the Plan before approval by our stockholders will not vest or be exercisable prior to such approval and any awards granted before such approval will be forfeited if such approval is not obtained. As of the date of this proxy statement, Cash Incentive Awards (as more fully described below) have been granted under the Plan to our named executive officers and other persons who we believe may be or become covered employees for purposes of Section 162(m) of the Code. These awards will be forfeited in their entirety in the event the Plan is not approved by our shareholders.

The Plan authorizes a broad range of awards including stock options ("Options"), stock appreciation rights ("SARs"), Full Value Awards (as more fully described below, including restricted stock, restricted stock units ("RSUs"), performance shares or units and other stock-based awards) and Cash Incentive Awards. A person who has been granted an award under the Plan is referred to herein as a "Participant" in the Plan.

The Plan is not qualified under Section 401(a) of the Code, or, except for the deferred delivery of shares of Common Stock, subject to any provision of the Employee Retirement Income Security Act of 1974, as amended.

On March 15, 2017, the last reported sale price of our Common Stock on the NASDAQ stock market was \$48.20 per share.

Purpose and Overview

The purpose of the Plan is to:

attract and retain persons who are eligible to participate in the Plan;

advance our interests and the interests of our stockholders by providing persons who are eligible to participate in the Plan, upon whose judgment, initiative and efforts we largely depend, with appropriate incentives to perform in a superior manner and achieve long-range goals, and

to further align the interests of Participants with those of our stockholders, and to thereby promote the growth and long-term financial interests of us and our related companies and long-term stockholder return.

Restriction on Repricing

The Plan includes a restriction providing that, without stockholder approval or other than as a result of adjustments in connection with corporate transactions, we cannot decrease the exercise price of an Option or SAR after the date of grant or permit any Option or SAR to be surrendered to us as consideration for the grant of a replacement Option or SAR with a lower exercise price or a Full Value Award. In addition, in no event may an Option or SAR granted under the Plan be surrendered to us in consideration for a cash payment if, at the time of such surrender, the exercise price of the Option or SAR is greater than the then current fair market value of a share of Common Stock.

Description of Plan

Administration

The Plan requires that it be administered by a committee of not fewer than two directors (or a greater number if required for compliance with certain securities laws) who are independent for purposes of stock exchange listing requirements and are non-employee directors for purposes of Rule 16b-3 under the Securities Exchange Act of 1934 (the “Exchange Act”). If an award is intended to constitute “performance-based compensation” for purposes of section 162(m) of the Code, including Options and SARs, the Committee will consist solely of two or more outside directors within the meaning of section 162(m) of the Code and applicable regulations. In the case of awards to outside directors, the Committee is the Board. Except as provided in the preceding sentence, the Plan will be administered by the Compensation Committee of the Board (the “Committee”). The Committee selects award recipients under the Plan who will thereby become Participants, the types of awards to be granted and the applicable terms, conditions, performance criteria, restrictions and other provisions of such awards. The Committee also has the authority to conclusively interpret the Plan and to adopt rules and procedures relating to the Plan and awards made thereunder. Subject to stock exchange listing rules and applicable law, the Committee may delegate all or any portion of its responsibilities or powers under the Plan to persons selected by it.

Eligibility

All officers, directors or other employees of us or a related company, consultants, independent contractors or agents of us or a related company, and persons who are expected to become officers, employees, directors, consultants, independent contractors or agents of us or a related company including, in each case, directors who are not employees of us or any related company (“Outside Directors”), are eligible to receive awards under the Plan and thereby become Participants in the Plan. Awards to a person who is expected to become a service provider to us or a related company cannot be effective prior to the date on which such person’s service begins. Incentive stock options (“ISOs”) may only be granted to employees of us and our corporate related companies which satisfy certain Code requirements. Generally, a company is a related company to us for any period during which (i) it owns, directly or indirectly, at least 30% of the voting power of all classes of our stock (or any successor to us) entitled to vote or (ii) it is effectively controlled by, or at least 30% of its voting or profits interest is owned, directly or indirectly, by us (or any successor to us) or a other related company.

Approximately 2,760 employees and directors were eligible on an annual basis to receive awards under the Prior Plan, and in 2016, we granted equity awards under the Prior Plan of the type authorized in the Plan to approximately 211 persons.

Shares of Common Stock Available for Awards

Awards may be made under the Plan with respect to Common Stock currently authorized but unissued or, as permitted by applicable law, currently held or acquired by us as treasury shares, including shares of Common Stock purchased in the open market or in private transactions. At the discretion of the Committee, an award under the Plan may be settled in cash rather than Common Stock.

Substitute Awards will not reduce the number of shares of Common Stock that may be issued under the Plan or that may be covered by awards granted to any one Participant during any period as described below. Generally, a “substitute award” is an award that is granted or shares of Common Stock issued by us in assumption of, or in substitution or exchange for, an award previously granted, or the right or obligation to make a future award, in all cases by a company acquired by us or a related company or with which we or a related company combines.

The maximum number of shares of Common Stock that may be delivered under the Plan is equal to the sum of (i) 1,300,000 shares, plus (ii) the number of shares of Common Stock available for issuance under the Prior Plan as of the date the Plan is approved by our stockholders (the “Approval Date”), plus (iii) shares of Common Stock that are represented by awards outstanding under the Prior Plan as of the Approval Date that are not delivered to a Participant or beneficiary because (A) the award expires, is forfeited or is cancelled, (B) the award is terminated without issuance of shares of Common Stock (including shares that are attributable to awards under the Prior Plan that are settled in cash), or (C) the award is tendered or withheld in payment of the exercise price or the taxes payable with respect to the exercise, vesting or settlement of the award under the Prior Plan.

The following additional limits apply to awards under the Plan:

the maximum number of shares of Common Stock that may be delivered to Participants and their beneficiaries with respect to ISOs under the Plan will be equal to the overall number of shares reserved for issuance under the Plan; provided that to the extent that shares not delivered must be counted against this limit as a condition of satisfying the rules applicable to ISOs, such rules shall apply to the limit on ISOs granted under the Plan;

in the case of Options and SARs that are intended to be “performance-based compensation,” the maximum number of shares of Common Stock that may be covered by such awards granted to any one Participant in any one of our fiscal years may not exceed 1,000,000 shares of Common Stock;

in the case of Full Value Awards that are intended to be “performance-based compensation,” the maximum number of shares of Common Stock that may be delivered pursuant to any such award granted to any one Participant during any one of our fiscal years, regardless of whether settlement of the award is to occur prior to, at the time of, or after the time of vesting, may not exceed 1,000,000 shares of Common Stock; provided, however, that if the Full Value Award is denominated in cash, no more than \$10,000,000 may be subject to any such Full Value Award granted to any individual during any one of our fiscal years;

in the case of Cash Incentive Awards that are intended to be “performance-based compensation,” the maximum amount payable to any one Participant with respect to any performance period of twelve months (prorated for performance periods of greater or lesser than 12 months) is \$10,000,000; and

in the case of any award to an Outside Director, in no event shall the dollar value of the award granted to any Director for any calendar year (determined as of the date of grant) exceed \$1,000,000.

In the case of Full Value Awards and Cash Incentive Awards that are intended to be “performance-based compensation,” if the award is denominated in shares but an equivalent amount of cash is delivered (or vice versa), the foregoing limitations will be applied based on the methodology used by the Committee to convert shares of Common Stock to cash (or vice versa). If delivery of cash or shares of Common Stock is deferred until after the cash or shares of Common Stock are earned, any adjustment in the amount delivered to reflect actual or deemed investment experience after the cash or shares of Common Stock are earned will be disregarded.

In the event of a corporate transaction, including a stock dividend, stock split, reverse stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, exchange of shares, sale of assets or subsidiaries, combination or other corporate transaction, that affects the Common Stock such that the Committee determines that an adjustment is warranted in order to preserve the benefits or prevent the enlargement of benefits of awards under the Plan, the Committee will make the following adjustments to awards in the manner that it determines

to be equitable in its sole discretion:

adjustment of the number and kind of shares (or the amount of cash) which may be delivered under the Plan (including adjustments to the individual limitations described above);

adjustment of the number and kind of shares (and the amount of cash) subject to outstanding awards;

adjustment of the exercise price of outstanding Options and SARs; and

any other adjustments that the Committee determines to be equitable, which may include, without limitation,

replacement of awards with other awards which the Committee determines have comparable value and which are based on stock of a company resulting from the transaction; and

cancellation of the award in return for cash payment of the current value of the award, determined as though the award is fully vested at the time of payment, provided that in the case of an Option or SAR, the amount of such payment may be the excess of the value of the shares of Common Stock subject to the Option or SAR at the time of the transaction over the exercise price.

Types of Awards

Options

The Committee may grant Options to purchase shares of Common Stock, which Options may be either ISOs or non-qualified stock options (“NQOs”). The exercise price of an Option must be no less than the fair market value of a share of Common Stock on the date the Option is granted. ISOs may only be granted to employees of us or our permitted corporate subsidiaries and must satisfy other requirements of section 422 of the Code. An Option that does not satisfy the requirements for an ISO will be treated as a NQO. Except for reductions approved by our stockholders or adjustment for corporate transactions, the exercise price of an Option may not be decreased after the date of grant nor may an Option be surrendered to us as consideration for the grant of a replacement Option or SAR with a lower exercise price or a Full Value Award. In addition, except as approved by our stockholders, no Option granted under the Plan may be surrendered to us in consideration of a cash payment if, at the time of such surrender, the exercise price of the Option is greater than the then fair market value of a share of Common Stock. Options will be exercisable in accordance with the terms established by the Committee. The full exercise price of each share of Common Stock purchased upon the exercise of any Option must be paid at the time of exercise of the Option (except that if the exercise price is payable through the use of a cashless exercise arrangement approved by the Committee, the exercise price may be paid as soon as practicable after exercise). Subject to applicable law, the exercise price of an Option may be payable in cash, shares of Common Stock (valued at fair market value as of the day of exercise and including net exercise), or a combination thereof. The Committee may also authorize a third party cashless exercise program.

The Committee, in its discretion, may impose such conditions, restrictions, and contingencies on the shares of Common Stock acquired pursuant to the exercise of an Option as the Committee determines to be desirable, including conformity with our recoupment or clawback policies as in effect from time to time.

Except as provided by the Committee, an Option will expire on the earliest to occur of the following:

if the Participant’s termination date occurs by reason of retirement (as defined in the Plan), death or disability (as defined in the Plan), the one-year anniversary of such Date of Termination;

if the Participant’s termination date occurs for reasons other than retirement, death or disability and is not a termination by us or a related company for cause, 90 days following such termination date; or

if the Participant’s termination date occurs by reason of termination by us or a related company for cause, the termination date.

In any event, an Option will expire no later than the 10th anniversary of the date on which it is granted (or such shorter period required by the rules of any stock exchange on which the Common Stock is listed).

Stock Appreciation Rights

A SAR entitles the Participant to receive the amount (in cash or shares of Common Stock) by which the fair market value of a specified number of shares of Common Stock on the exercise date exceeds an exercise price established by the Committee, which exercise price may not be less than the fair market value of the shares of Common Stock at the time the SAR is granted. Generally, a SAR will be exercisable in accordance with the terms established by the Committee and SARs are generally subject to the same terms and restrictions as apply to Options as described above (except for matters, such as payment of the exercise price, which do not apply to SARs), including the prohibition on lowering of the exercise price, exchanges of the SAR for cash or other awards, the expiration date provisions, and the minimum vesting period.

Full Value Awards

A Full Value Award is a grant of one or more shares of Common Stock or a right to receive one or more shares of Common Stock in the future (including restricted stock, restricted stock units, deferred stock units, performance stock and performance stock units). Such grants may be subject to such conditions, restrictions and contingencies as determined by the Committee, including provisions relating to dividend or dividend equivalent rights and deferred payment or settlement. Notwithstanding the foregoing, no dividends or dividend equivalent rights will be paid or settled on awards that have not been earned or vested.

Cash Incentive Awards

A “Cash Incentive Award” is the grant of a right to receive a payment of cash (or in the discretion of the Committee, shares of Common Stock having value equivalent to the cash otherwise payable) that is contingent on achievement of performance objectives over a specified period established by the Committee. The grant of Cash Incentive Awards may also be subject to such other conditions, restrictions and contingencies as determined by the Committee, including provisions relating to deferred payment.

Special Vesting Rules for Full Value Awards, Options and SARs

Except for (a) awards granted in lieu of other compensation, (b) grants to new hires, and (c) grants that are a form of payment of earned performance awards or other incentive compensation, if (I) an employee’s right to become vested in a Full Value Award is conditioned on the completion of a specified period of service with us or a related company, without achievement of performance targets or other performance objectives (whether or not related the award is intended to be “performance-based compensation”) being required as a condition of vesting, then the required period of service for full vesting shall be not less than three years and (II) if an employee’s right to become vested in a Full Value Award is conditioned upon the achievement of performance targets or other performance objectives (whether or not related the award is intended to be “performance-based compensation”) being required as a condition of vesting, then the required vesting period shall be at least one year, subject, to the extent provided by the Committee, to pro rate vesting over the course of such three or one year period, as applicable, and to acceleration of vesting in the event of the Participant’s death, disability, involuntary termination, retirement or in connection with a change in control.

No Option or SAR may be exercised by a Participant: (i) prior to the date on which the Participant completes one continuous year of employment or service with us or any related company after the date as of which the Option is granted (provided, however, that the Committee may permit earlier exercise following the Participant’s termination date occurring by reason of death or disability).

Performance-Based Compensation

Performance awards granted to employees under the Plan that are intended to qualify as “performance-based compensation” for purposes of section 162(m) of the Code will be paid, vested or otherwise deliverable solely on account of the attainment of one or more pre-established, objective performance targets established by the Committee in accordance with the requirements of section 162(m). The performance targets established by the Committee may be with respect to corporate performance, operating group or sub-group performance, individual company performance, other group or individual performance, or division performance, and shall be based on one or more of the following

performance criteria:

earnings (e.g., earnings before income taxes, or “EBIT”; earnings before income taxes, depreciation and amortization, or “EBITDA”; earnings per share, or “EPS”);

financial return ratios (e.g., return on investment, or “ROI”, return on invested capital, or “ROIC”, return on equity, or “ROE”, or return on assets, or “ROA”);

revenue;

operating or net cash flows;

cash flow return on investment;

total shareholder return;

market share;

net operating income;

operating income or net income;

debt load reduction;

cost improvement or containment;

expense management;

economic value added;

stock price;

profit;

margin;

operating expenses;

free cash flow;

implementation or completion of significant projects or processes;

economic value created;

cost targets, reductions and savings, productivity and efficiencies;

strategic business criteria, consisting of one or more objectives based on meeting specified market penetration, geographic business expansion, customer satisfaction, employee satisfaction, human resources management, supervision of litigation and other legal and compliance matters, information technology, and goals relating to contributions, dispositions, acquisitions, development and development related activity, capital markets activity and credit ratings, joint ventures and other private capital activity including generating incentive and other fees and raising equity commitments, and other transactions, and budget comparisons; or

personal professional objectives, including any of the foregoing performance targets, the implementation of policies and plans, the negotiation of transactions, the development of long term business goals, formation and reorganization of joint ventures and other private capital activity including generating incentive and other fees and raising equity commitments, research or development collaborations, and the completion of other corporate transactions.

The Committee is not prohibited from granting Full Value Awards or Cash Incentive Awards under the Plan and the Committee or any related company may grant any Cash Incentive Awards outside of the Plan that are not intended to be “performance-based compensation.” Options and SARs granted under the Plan are assumed to constitute “performance-based compensation” provided that the requirements of section 162(m) of the Code are met with respect thereto and provided that the Committee does not make a determination to the contrary.

Change in Control

Except as provided by the Committee or otherwise in the Plan (or an agreement reflecting an applicable award), upon the occurrence of a Change in Control as defined in the Plan:

All outstanding Options and SARs (regardless of whether in tandem) shall become fully exercisable.

All Full Value Awards and Cash Incentive Awards shall become fully vested; provided, however, that the treatment of any Full Value Award that is performance-based shall become vested as determined by the Committee.

To the extent any provision of the Plan or an award agreement would cause a payment of deferred compensation that is subject to section 409A of the Code to be made upon the occurrence of a Change in Control, then such payment shall not be made unless such Change in Control also constitutes a “change in ownership,” “change in effective control” or “change in ownership of a substantial portion of the Company’s assets” within the meaning of section 409A of the Code. In addition, if an award does not remain outstanding following a Change in Control, the Committee shall determine the vesting and other terms and conditions of the award in connection with the Change in Control in accordance with the terms of the Plan.

Non-U.S. Employees

The Committee may grant awards to eligible persons who are foreign nationals on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable to foster and promote achievement of the purposes of the Plan. In furtherance of such purposes, the Committee may make such modifications, amendments, procedures and subplans as may be necessary or advisable to comply with provisions of laws in other countries or jurisdictions in which we or a related company operates or has employees. The foregoing cannot be applied to increase the share limitations under the Plan or to otherwise change any provision of the Plan that would otherwise require the approval of our stockholders.

Other Plan Information

Awards under the Plan are not transferable except as designated by the Participant by will or by laws of descent and distribution. The Committee, however, may permit Awards (other than an ISO) to be transferred to or for the benefit of the Participant’s family (including, without limitation, to a trust or partnership for the benefit of a Participant’s family or in connection with a qualified domestic relations order) in accordance with rules established by the Committee.

All distributions under the Plan are subject to withholding of all applicable taxes, and the Committee may condition the delivery of any shares of Common Stock or other benefits under the Plan on satisfaction of the applicable withholding obligations. The Committee, in its discretion, and subject to such requirements as the Committee may impose prior to the occurrence of such withholding, may permit such withholding obligations to be satisfied through cash payment by the Participant, through the surrender of shares of Common Stock that the Participant already owns, or through the surrender of shares of Common Stock to which the Participant is otherwise entitled under the Plan. Previously-owned shares of Common Stock that have been held by the Participant or Common Stock to which the Participant is entitled under the Plan may only be used to satisfy the minimum tax withholding required by applicable law (or other rates that will not have a negative accounting impact).

The Board may, at any time, amend or terminate the Plan, and the Board or the Committee may amend any award agreement, provided that no amendment or termination may, in the absence of written consent to the change by the affected Participant (or, if the Participant is not then living, the affected beneficiary), adversely affect the rights of any Participant or beneficiary under any award granted under the Plan prior to the date such amendment is adopted by the Board (or the Committee, if applicable). The provisions of the Plan that prohibit repricing of Options and SARs cannot be amended unless the amendment is approved by our stockholders and no other amendment shall be made to the Plan without the approval of our stockholders if such approval is required by law or the rules of any stock exchange on which the Common Stock is listed. Adjustment to awards made in connection with corporate transactions are not subject to the foregoing restrictions.

U.S. Federal Income Tax Considerations

The discussion which follows is a summary, based on current law, of some significant U.S. federal income tax considerations relating to awards under the Plan. The following is based on U.S. federal tax laws and regulations presently in effect, which are subject to change, and the discussion does not purport to be a complete description of the federal income tax aspects of the Plan.

Non-qualified Stock Options

The grant of an NQO will not result in taxable income to the Participant. Generally, the Participant will realize ordinary income at the time of exercise in an amount equal to the excess of the fair market value of the shares of Common Stock acquired over the exercise price for those shares of Common Stock, and we will be entitled to a corresponding deduction.

The exercise of an NQO through the delivery of previously acquired Common Stock will generally be treated as a non-taxable, like-kind exchange as to the number of shares of Common Stock surrendered and the identical number of shares of Common Stock received under the Option. That number of shares of Common Stock will take the same basis and, for capital gains purposes, the same holding period as the shares of Common Stock that are given up. The value of the shares of Common Stock received upon such an exchange that are in excess of the number given up will be includible as ordinary income to the Participant at the time of the exercise. The excess shares of Common Stock will have a new holding period for capital gain purposes and a basis equal to the value of such shares of Common Stock determined at the time of exercise.

Incentive Stock Options

The grant of an ISO will not result in taxable income to the Participant. The exercise of an ISO will not result in taxable income to the Participant provided that the Participant was, without a break in service, an employee of us or a corporate subsidiary during the period beginning on the date of the grant of the Option and ending on the date three months prior to the date of exercise (one year prior to the date of exercise if the Participant is disabled, as that term is defined in the Code).

If the Participant does not sell or otherwise dispose of the shares of Common Stock within two years from the date of the grant of the ISO or within one year after receiving the transfer of such shares of Common Stock, then, upon disposition of such shares of Common Stock, any amount realized in excess of the exercise price will be taxed to the Participant as capital gain, and we will not be entitled to any deduction for Federal income tax purposes. A capital loss will be recognized to the extent that the amount realized is less than the exercise price.

If the foregoing holding period requirements are not met, the Participant will generally realize ordinary income, and a corresponding deduction will be allowed to us, at the time of the disposition of the shares of Common Stock, in an amount equal to the lesser of (a) the excess of the fair market value of the shares of Common Stock on the date of exercise over the exercise price, or (b) the excess, if any, of the amount realized upon disposition of the shares of Common Stock over the exercise price. If the amount realized exceeds the value of the shares of Common Stock on the date of exercise, any additional amount will be capital gain. If the amount realized is less than the exercise price, the Participant will recognize no income, and a capital loss will be recognized equal to the excess of the exercise price over the amount realized upon the disposition of the shares of Common Stock.

The exercise of an ISO through the exchange of previously acquired stock will generally be treated in the same manner as such an exchange would be treated in connection with the exercise of an NQO; that is, as a non-taxable, like-kind exchange as to the number of shares of Common Stock given up and the identical number of shares of Common Stock received under the Option. That number of shares of Common Stock will take the same basis and, for capital gain purposes, the same holding period as the shares of Common Stock that are given up. However, such holding period will not be credited for purposes of the one-year holding period required for the new shares of Common Stock to receive ISO treatment. Common shares received in excess of the number of shares of Common Stock given up will have a new holding period and will have a basis of zero or, if any cash was paid as part of the exercise price, the excess shares of Common Stock received will have a basis equal to the amount of the cash. If a disqualifying disposition (a disposition before the end of the applicable holding period) occurs with respect to any of the shares of Common Stock received from the exchange, it will be treated as a disqualifying disposition of the shares of Common Stock with the lowest basis.

Stock Appreciation Rights

A Participant generally will not realize any taxable income upon the grant of a SAR. Upon the exercise of the SAR, the Participant will recognize ordinary income in an amount equal to the amount of cash and/or the fair market value, at the date of such exercise, of the shares of Common Stock received by the Participant as a result of such exercise. We will generally be entitled to a deduction in the same amount as the ordinary income realized by the Participant.

Full Value Awards

The federal income tax consequences of a Full Value Award will depend on the type of award. The tax treatment of the grant of shares of Common Stock depends on whether the shares are subject to a substantial risk of forfeiture (determined under Code rules) at the time of the grant. If the shares are subject to a substantial risk of forfeiture, the Participant will not recognize taxable income at the time of the grant and when the restrictions on the shares lapse (that is, when the shares are no longer subject to a substantial risk of forfeiture), the Participant will recognize ordinary taxable income in an amount equal to the fair market value of the shares at that time. If the shares are not subject to a substantial risk of forfeiture or if the Participant elects to be taxed at the time of the grant of such shares under section 83(b) of the Code, the Participant will recognize taxable income at the time of the grant of shares in an amount equal to the fair market value of such shares at that time, determined without regard to any of the restrictions. If the shares are forfeited before the restrictions lapse, the Participant will be entitled to no deduction on account thereof. The Participant's tax basis in the shares is the amount recognized by him or her as income attributable to such shares. Gain or loss recognized by the Participant on a subsequent disposition of any such shares is capital gain or loss if the shares are otherwise capital assets.

In the case of other Full Value Awards, such as restricted stock units or performance stock units, the Participant generally will not have taxable income upon the grant of the award provided that there are restrictions on such awards that constitute a substantial risk of forfeiture under applicable Code rules. Participants will generally recognize ordinary income when the restrictions on awards lapse, on the date of grant if there are no such restrictions or, in certain cases, when the award is settled. At that time, the Participant will recognize taxable income equal to the cash or the then fair market value of the shares issuable in payment of such award, and such amount will be the tax basis for any shares received. In the case of an award which does not constitute property at the time of grant (such as an award of units), Participants will generally recognize ordinary income when the award is paid or settled.

We generally will be entitled to a tax deduction in the same amount, and at the same time, as the income is recognized by the Participant.

Performance-Based Compensation

A tax deduction will generally be unavailable for annual compensation in excess of \$1 million paid to any of the most highly compensated officers of a public corporation (not more than five). However, amounts that constitute “performance-based compensation” are not counted toward the \$1 million limit. To preserve the deduction, we have designed the Plan to enable awards thereunder to constitute “performance-based compensation” and not be counted toward the \$1 million limit although we reserve the right to make awards under the Plan that do not constitute “performance-based compensation”.

Parachute Payments

Any acceleration of the vesting or payment of awards under the Plan in the event of a change in control in the Company may cause part or all of the consideration involved to be treated as an “excess parachute payment” under the Code, which may subject the Participant to a 20 percent excise tax and preclude deduction by the Company.

Equity Compensation Plan Information

The table below sets forth the following information as of March 22, 2017 for (i) all compensation plans previously approved by our shareholders and (ii) all compensation plans not previously approved by our shareholders:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	—	\$	— 707,273
Equity compensation plans not approved by security holders	—		—
Total	—	\$	— 707,273

Other Information

Approval of the Plan will require the affirmative vote of the holders of shares having a majority of the votes present in person or represented by proxy at the Annual Meeting, provided a quorum is present, with the result that shares that abstain from voting would count as votes against the Plan and broker non-votes would have no effect on the outcome.

The Board of Directors recommends that you vote FOR Proposal 5.

PROXY SOLICITATION EXPENSE

The Company will pay the expense of any proxy solicitation. We have hired Alliance Advisors, LLC ('Alliance Advisors') to assist in the solicitation of proxies. Alliance Advisors' fees for its assistance in the solicitation of proxies are estimated to be \$7,500, plus out-of-pocket expenses. In addition to the solicitation of proxies by use of the mail, solicitation also may be made by telephone or personal interview by directors, officers, and regular employees of the Company, none of whom will receive additional compensation for any such solicitation. The Company will, upon request, reimburse brokers, banks, and similar organizations for out-of-pocket and reasonable clerical expenses incurred in forwarding proxy material to their principals.

STOCKHOLDER PROPOSALS

Proposals of stockholders must be received in writing by the Secretary of the Company at the principal executive offices of the Company no later than November 22, 2017, in order to be considered for inclusion in the Company's proxy statement and form of proxy relating to the next annual meeting of stockholders.

The Company anticipates that its next annual meeting of stockholders will be held in May 2018. If a stockholder desires to submit a proposal for consideration at the next annual meeting of stockholders, written notice of such stockholder's intent to make such a proposal must be given and received by the Secretary of the Company at the principal executive offices of the Company either by personal delivery or by United States mail no earlier than February 9, 2018 nor later than March 11, 2018. Each notice must describe the proposal in sufficient detail for the proposal to be summarized on the agenda for the annual meeting of stockholders and must set forth: (i) the name and address, as it appears on the books of the Company, of the stockholder who intends to make the proposal; (ii) a representation that the stockholder is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at such meeting to present such proposal; and (iii) the class and number of shares of the Company which are beneficially owned by the stockholder. In addition, the notice must set forth the reasons for conducting such proposed business at the annual meeting of stockholders and any material interest of the stockholder in such business. The presiding officer of the annual meeting of stockholders will, if the facts warrant, refuse to acknowledge a proposal not made in compliance with the foregoing procedure, and any such proposal not properly brought before the annual meeting of stockholders will not be considered.

By order of the Board of
Directors,

DOUGLAS G. BECK
Secretary

Oak Brook, Illinois
March 22, 2017

Each stockholder, whether or not he or she expects to be present in person at the Annual Meeting, is requested to please vote your proxy either by mail, telephone or over the Internet as promptly as possible. A stockholder may revoke his or her proxy at any time prior to voting.

EXHIBIT A

HUB GROUP, INC.

2017 LONG-TERM INCENTIVE PLAN

SECTION 1 GENERAL.

1.1 **Purpose.** The Hub Group, Inc. 2017 Long-Term Incentive Plan (the “Plan”) has been established by Hub Group, Inc. (the “Company”) to (a) attract and retain employees, directors and other persons providing services to the Company and its Related Companies (as defined herein); (b) advance the interests of the Company and its shareholders by providing employees, directors and other persons providing services to the Company and its Related Companies, upon whose judgment, initiative and efforts the Company largely depend, with appropriate incentives to perform in a superior manner and achieve long-range goals, and (c) to further align the interests of Participants with those of the Company’s shareholders, and to thereby promote the growth and long-term financial interests of the Company and the Related Companies and long-term shareholder return.

1.2 **Defined Terms.** Capitalized terms used herein which are not otherwise defined in the Plan shall have the meaning set forth in Section 9 hereof.

SECTION 2 ELIGIBILITY AND PARTICIPATION.

Subject to the terms and conditions of the Plan, the Committee shall determine and designate, from time to time, from among the Eligible Individuals who will be granted one or more Awards under the Plan, and thereby become “Participants” in the Plan. In the discretion of the Committee, and subject to the terms of the Plan, a Participant may be granted any Award permitted under the provisions of the Plan, and more than one Award may be granted to a Participant. Except as otherwise provided by the Committee, or except as otherwise provided in the Plan or Award Agreement, an Award under the Plan shall not affect any previous Award under the Plan or an award under any other plan maintained by the Company or the Related Companies.

SECTION 3 ADMINISTRATION.

3.1 **General.** The authority to control and manage the operation and administration of the Plan shall be vested in the committee described in subsection 3.2 (the “Committee”) in accordance with this Section 3. If the Committee does

not exist, or for any other reason determined by the Board, the Board may take any action under the Plan that would otherwise be the responsibility of the Committee.

3.2 Selection of Committee. So long as the Company is subject to Section 16 of the Exchange Act, the Committee shall be selected by the Board and shall consist of not fewer than two members of the Board or such greater number as may be required for compliance with Rule 16b-3 issued under the Exchange Act and shall be comprised of persons who are independent for purposes of applicable stock exchange listing requirements. Any Award granted under the Plan which is intended to constitute Performance-Based Compensation (including Options and SARs) shall be granted by a Committee consisting solely of two or more “outside directors” within the meaning of section 162(m) of the Code and applicable regulations. Notwithstanding any other provision of the Plan to the contrary, with respect to any Awards to Outside Directors, the Committee shall be the Board.

3.3 Powers of Committee. The authority to manage and control the operation and administration of the Plan shall be vested in the Committee, subject to the following:

Subject to the provisions of the Plan, the Committee will have the authority and discretion to (i) select Eligible Individuals who will receive Awards under the Plan, (ii) determine the time or times of receipt of Awards, (iii) determine the types of Awards and the number of shares of Stock covered by the Awards, (iv) establish the terms, conditions, performance targets, restrictions, and other provisions of Awards, (v) modify the terms of, cancel or (a) suspend Awards, (vi) reissue or repurchase Awards, and (vii) accelerate the exercisability or vesting of any Award. In making such Award determinations, the Committee may take into account the nature of services rendered by the respective individual, the individual’s present and potential contribution to the Company’s or a Related Company’s success and such other factors as the Committee deems relevant.

Subject to the provisions of the Plan, the Committee will have authority and discretion to determine the extent to (b) which Awards under the Plan will be structured to conform to the requirements applicable to Performance-Based Compensation, and to take such action, establish such procedures, and impose such restrictions with respect to such Awards as the Committee determines to be necessary or appropriate to conform to such requirements.

(c) The Committee will have the authority and discretion to conclusively interpret the Plan, to establish, amend, and rescind any rules and regulations relating to the Plan, to determine the terms and provisions of any agreements made pursuant to the Plan, and to make all other determinations that may be necessary or advisable for the administration of the Plan.

(d) Any interpretation of the Plan by the Committee and any decision made by it under the Plan is final and binding on all persons.

3.4 Delegation by Committee. Except to the extent prohibited by the provisions of Rule 16b-3, the rules relating to Performance-Based Compensation, applicable state law, the applicable rules of any stock exchange, or any other applicable laws, rules, or regulations (“Applicable Law”), the Committee may allocate all or any portion of its responsibilities and powers to any one or more of its members and may delegate all or any part of its responsibilities and powers to any person or persons selected by it. Any such allocation or delegation may be revoked by the Committee at any time.

3.5 Information to be Furnished to Committee. The Employer shall furnish the Committee with such data and information as may be required for it to discharge its duties. The records of the Employer as to an employee’s or Participant’s employment or service, termination of employment or service, leave of absence, reemployment and compensation shall be conclusive on all persons unless determined by the Committee to be incorrect. Participants and other persons entitled to benefits under the Plan must furnish the Committee such evidence, data or information as the Committee considers desirable to carry out the terms of the Plan.

3.6 Liability and Indemnification of Committee. No member or authorized delegate of the Committee shall be liable to any person for any action taken or omitted in connection with the administration of the Plan unless attributable to his own fraud or willful misconduct; nor shall the Employer be liable to any person for any such action unless attributable to fraud or willful misconduct on the part of a director or employee of the Employer. The Committee, the individual members thereof, and persons acting as the authorized delegates of the Committee under the Plan shall be indemnified by the Employer against any and all liabilities, losses, costs and expenses (including legal fees and expenses) of whatsoever kind and nature which may be imposed on, incurred by or asserted against the Committee or its members or authorized delegates by reason of the performance of a Committee function if the Committee or its members or authorized delegates did not act dishonestly or in willful violation of the law or regulation under which such liability, loss, cost or expense arises. This indemnification shall not duplicate but may supplement any coverage available under any applicable insurance.

SECTION 4 SHARES SUBJECT TO PLAN AND OTHER LIMITATIONS.

4.1 Shares and Other Amounts Subject to the Plan. The shares of Stock for which Awards may be granted under the Plan shall be subject to the following:

The shares of Stock with respect to which Awards may be made under the Plan shall be shares of Stock currently (a) authorized but unissued or currently held or, to the extent permitted by Applicable Law, subsequently acquired by the Company as treasury shares, including shares of Stock purchased in the open market or in private transactions.

Subject to the provisions of subsection 4.3, the maximum number of shares of Stock which may be issued with respect to Awards under the Plan shall be equal to the sum of (i) 1,300,000, plus (ii) the number of shares of Stock available for issuance under the Prior Plan as of the Approval Date (and immediately prior to Approval, plus (iii) (b) shares of Stock that are represented by awards outstanding under the Prior Plan as of the Approval Date that are not delivered to a Participant or beneficiary because (A) the award expires, is forfeited or is cancelled, (B) the award is terminated without issuance of shares of Stock (including shares that are attributable to awards under the Prior Plan that are settled in cash), or (C) the award is tendered or withheld in payment of the exercise price or the taxes payable with respect to the exercise, vesting or settlement of the award under the Prior Plan.

Except as otherwise provided herein, any shares of Stock subject to an Award under the Plan which for any reason is forfeited, cancelled, expires or is terminated without issuance of shares of Stock (including shares that are (c) attributable to Awards that are settled in cash) or is tendered or withheld in payment of the Exercise Price or the taxes payable with respect to the exercise, vesting or settlement of the Award, shall thereafter be available for further grants under the Plan.

A - 2

(d) Subject to the terms and conditions of the Plan, the maximum number of shares of Stock that may be delivered to Participants and their beneficiaries with respect to Incentive Stock Options under the Plan shall be equal to the number determined under paragraph 4.1(b); provided, however, that to the extent that shares not delivered must be counted against this limit as a condition of satisfying the rules applicable to Incentive Stock Options, such rules shall apply to the limit on Incentive Stock Options granted under the Plan.

(e) Substitute Awards shall not reduce the number of shares of Stock that may be issued under the Plan or that may be covered by Awards granted to any one Participant during any period pursuant to subsection 4.2.

(f) Except as expressly provided by the terms of this Plan, the issue by the Company of stock of any class, or securities convertible into shares of stock of any class, for cash or property or for labor or services, either upon direct sale, upon the exercise of rights or warrants to subscribe therefor or upon conversion of stock or obligations of the Company convertible into such stock or other securities, shall not affect, and no adjustment by reason thereof, shall be made with respect to Awards then outstanding hereunder.

(g) To the extent provided by the Committee, any Award may be settled in cash rather than in Stock.

4.2 Individual Limitations. Subject to the terms and conditions of the Plan:

The maximum number of shares of Stock that may be covered by Awards granted to any one Participant during any one Company fiscal year period pursuant to Section 5 (relating to Options and SARs) shall be 1,000,000 shares if such awards are intended to constitute Performance-Based Compensation. For purposes of this paragraph 4.2(a), if an Option is in tandem with an SAR, such that the exercise of the Option or SAR with respect to a share of Stock (a) cancels the tandem SAR or Option right, respectively, with respect to such share, the tandem Option and SAR rights with respect to each share of Stock shall be counted as covering only one share of Stock for purposes of applying the limitations of this paragraph 4.2(a). For purposes of the Plan, it will be assumed that the grant of any Option or SAR is intended to constitute Performance-Based Compensation unless the Committee specifies otherwise.

(b) For Full Value Awards that are intended to be Performance-Based Compensation, no more than 1,000,000 shares of Stock may be delivered pursuant to such Awards granted to any one Participant during any one Company fiscal year period (regardless of whether settlement of the Award is to occur prior to, at the time of, or after the time of vesting); provided, however, that if the Award is denominated in cash, no more than \$10,000,000 may be subject to such Awards granted to any one individual during such Company fiscal year period; and provided further that, Awards described in this paragraph 4.2(b) shall be subject to the following:

(i) If the Awards are denominated in Stock but an equivalent amount of cash is delivered in lieu of delivery of shares of Stock, the foregoing limit shall be applied based on the methodology used by the Committee to convert the number of shares of Stock into cash.

- (ii) If delivery of Stock or cash is deferred until after the Stock has been earned, any adjustment in the amount delivered to reflect actual or deemed investment experience after the date the Stock is earned shall be disregarded.

- (c) For Cash Incentive Awards that are intended to be Performance-Based Compensation, the maximum amount payable to any Participant with respect to any twelve (12) month performance period shall equal \$10,000,000 (pro-rated for performance periods that are greater or lesser than twelve (12) months); provided that Awards described in this paragraph 4.2(c), shall be subject to the following:

- (i) If the Awards are denominated in cash but an equivalent amount of Stock is delivered in lieu of delivery of cash, the foregoing limit shall be applied to the cash based on the methodology used by the Committee to convert the cash into Stock.

- (ii) If delivery of Stock or cash is deferred until after cash has been earned, any adjustment in the amount delivered to reflect actual or deemed investment experience after the date the cash is earned shall be disregarded.

- (d) In the case of any Award to an Outside Director, in no event shall the dollar value of the Award granted to any Director for any calendar year (determined as of the date of grant) exceed \$1,000,000.

A - 3

4.3 Adjustments. In the event of a stock dividend, stock split, reverse stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, exchange of shares, sale of assets or subsidiaries, combination, or other corporate transaction that affects the Stock such that the Committee determines, in its sole discretion, that an adjustment is warranted in order to preserve the benefits or prevent the enlargement of benefits of Awards under the Plan, the Committee shall, in the manner it determines equitable in its sole discretion, (a) adjust the number and kind of shares which may be delivered under the Plan; (b) adjust the number and kind of shares (or the amount of cash) that may be granted to an individual during any specified time as described in subsection 4.2; (c) adjust the number and kind of shares (and the amount of cash) subject to outstanding Awards; (d) adjust the Exercise Price of outstanding Options and SARs; and (e) make any other adjustments that the Committee determines to be equitable (which may include, without limitation, (i) replacement of Awards with other awards which the Committee determines have comparable value and which are based on stock of a company resulting from the transaction, and (ii) cancellation of the Award in return for cash payment of the current value of the Award, determined as though the Award is fully vested at the time of payment, provided that in the case of an Option or SAR, the amount of such payment may be equal to the value of the shares of Stock subject to the Option or SAR at the time of the transaction less the Exercise Price).

SECTION 5 OPTIONS AND STOCK APPRECIATION RIGHTS.

5.1 Definitions.

The grant of an “Option” under the Plan entitles the Participant to purchase shares of Stock at an Exercise Price established by the Committee at the time the Option is granted. Options granted under this Section 5 may be either Incentive Stock Options or Non-Qualified Stock Options, as determined in the discretion of the Committee; (a) provided, however, that Incentive Stock Options may only be granted to employees of the Company or an Affiliate. An Option will be deemed to be a Non-Qualified Stock Option unless it is specifically designated by the Committee as an Incentive Stock Option.

A grant of a “Stock Appreciation Right” or “SAR” entitles the Participant to receive, in cash or shares of Stock (as determined in accordance with the terms of the Plan) value equal to: (i) the Fair Market Value of a specified (b) number of shares of Stock at the time of exercise; less (ii) an Exercise Price established by the Committee at the time of grant.

5.2 Eligibility. The Committee shall designate the Participants to whom Options or SARs are to be granted under this Section 5 and shall determine the number of shares of Stock subject to each such Option or SAR and the other terms and conditions thereof, not inconsistent with the Plan. Without limiting the generality of the foregoing, the Committee may not grant dividend or dividend equivalent rights (current or deferred) with respect to any Option or SAR granted under the Plan.

5.3 Limits on Incentive Stock Options. If the Committee grants Incentive Stock Options, then to the extent that the aggregate fair market value of shares of Stock with respect to which Incentive Stock Options are exercisable for the first time by any individual during any calendar year (under all plans of the Company and all Affiliates) exceeds \$100,000, such Options shall be treated as Non-Qualified Stock Options to the extent required by section 422 of the Code. Any Option that is intended to constitute an Incentive Stock Option shall satisfy any other requirements of section 422 of the Code and, to the extent such Option does not satisfy such requirements, the Option shall be treated as a Non-Qualified Stock Option.

5.4 Tandem Grants of Options and SARs. An Option may but need not be in tandem with an SAR, and an SAR may but need not be in tandem with an Option (in either case, regardless of whether the original award was granted under this Plan or another plan or arrangement). If an Option is in tandem with an SAR, the exercise price of both the Option and SAR shall be the same, and the exercise of the corresponding tandem SAR or Option shall cancel the corresponding tandem SAR or Option with respect to such share. If an SAR is in tandem with an Option but is granted after the grant of the Option, or if an Option is in tandem with an SAR but is granted after the grant of the SAR, the later granted tandem Award shall have the same exercise price as the earlier granted Award, but in no event less than the Fair Market Value of a share of Stock at the time of such grant.

5.5 Exercise Price. The "Exercise Price" of an Option or SAR shall be established by the Committee at the time the Option or SAR is granted; provided, however, that in no event shall such price be less than 100% of the Fair Market Value of a share of Stock on such date (or, if greater, the par value of a share of Stock on such date); provided, however, that in the case of an Incentive Stock Option granted to a Ten Percent Shareholder, the Exercise Price may not be less than 110% of the Fair Market Value of a share of Stock on the date of grant.

5.6 Exercisability/Vesting. An Option or SAR granted under the Plan shall be exercisable in accordance with the following:

(a) The terms and conditions relating to exercise and vesting of an Option or SAR shall be established by the Committee to the extent not inconsistent with the Plan, and may include, without limitation, conditions relating to completion of a specified period of service, achievement of performance standards prior to exercise or the achievement of stock ownership guidelines by the Participant.

(b) No Option may be exercised by a Participant: (i) prior to the date on which the Participant completes one continuous year of employment or service with the Company or any Related Company after the date as of which the Option is granted (provided, however, that the Committee may permit earlier exercise following the Participant's Date of Termination by reason of death or Disability.

(c) No Option or SAR may be exercised by a Participant prior to the date on which it is exercisable (or vested) or after the Expiration Date applicable thereto.

5.7 Payment of Option Exercise Price. The payment of the Exercise Price of an Option granted under this Section 5 shall be subject to the following:

(a) Subject to the following provisions of this subsection 5.7, the full Exercise Price of each share of Stock purchased upon the exercise of any Option shall be paid at the time of such exercise (except that, in the case of a cashless exercise arrangement described in paragraph 5.7(c), payment may be made as soon as practicable after the exercise) and, as soon as practicable thereafter, a certificate representing the shares of Stock so purchased shall be delivered to the person entitled thereto or shares of Stock so purchased shall otherwise be registered in the name of the Participant on the records of the Company's transfer agent and credited to the Participant's account.

(b) Subject to Applicable Law, the Exercise Price may be paid in cash or by tendering (including by way of a net exercise), by either actual delivery of shares or by attestation, shares of Stock acceptable to the Committee, and valued at Fair Market Value as of the day of exercise, or in any combination thereof, as determined by the Committee;

(c) The Committee may permit a Participant to elect to pay the Exercise Price upon the exercise of an Option by irrevocably authorizing a third party to sell shares of Stock (or a sufficient portion of the shares) acquired upon exercise of the Option and remit to the Company a sufficient portion of the sale proceeds to pay the entire Exercise Price and any required tax withholding resulting from such exercise.

5.8 No Repricing. Except for either adjustments pursuant to subsection 4.3 (relating to the adjustment of shares), or reductions of the Exercise Price approved by the Company's shareholders, the Exercise Price for any outstanding Option or SAR may not be decreased after the date of grant nor may an outstanding Option or SAR granted under the Plan be surrendered to the Company as consideration for the grant of a replacement Option or SAR with a lower exercise price or a Full Value Award. Except as approved by the Company's shareholders, in no event shall any Option or SAR granted under the Plan be surrendered to the Company in consideration for a cash payment if, at the time of such surrender, the Exercise Price of the Option or SAR is greater than the then current Fair Market Value of a share of Stock.

5.9 Expiration Date. The "Expiration Date" with respect to an Option or SAR means the date established as the Expiration Date by the Committee at the time of the grant (as the same may be modified in accordance with the terms of the Plan); provided, however, that the Expiration Date with respect to any Option or SAR shall not be later than the earliest to occur of the ten-year anniversary of the date on which the Option or SAR is granted (the five-year anniversary in the case of an Incentive Stock Option granted to a Ten Percent Shareholder) or the following dates, unless the following dates are determined otherwise by the Committee:

- (a) if the Participant's Date of Termination occurs by reason of Retirement, death or Disability, the one-year anniversary of such Date of Termination;
- (b) if the Participant's Date of Termination, occurs for reasons other than Retirement, death or Disability and is not a termination by the Employer for cause, 90 days following such Date of Termination; or
- (c) if the Participant's Date of Termination occurs by reason of termination by the Employer for cause, the Date of Termination.

SECTION 6 FULL VALUE AWARDS AND CASH INCENTIVE AWARDS.

6.1 Definitions.

A “Full Value Award” is a grant of one or more shares of Stock or a right to receive one or more shares of Stock in the future (including restricted stock, restricted stock units, performance shares, and performance units) which is contingent on continuing service, the achievement of performance objectives during a specified performance period, or other restrictions as determined by the Committee. The grant of Full Value Awards may also be subject (a) to such other conditions, restrictions and contingencies as determined by the Committee, including provisions relating to dividend or dividend equivalent rights and deferred payment or settlement. Notwithstanding the foregoing, no dividends or dividend equivalent rights will be paid or settled on Full Value Awards that have not been earned or vested.

A “Cash Incentive Award” is the grant of a right to receive a payment of cash (or in the discretion of the Committee, shares of Stock having value equivalent to the cash otherwise payable) that is contingent on achievement of (b) performance objectives over a specified period established by the Committee. The grant of Cash Incentive Awards may also be subject to such other conditions, restrictions and contingencies, as determined by the Committee, including provisions relating to deferred payment.

6.2 Special Vesting Rules. Except for (a) awards granted in lieu of other compensation, (b) grants to new hires, and (c) grants that are a form of payment of earned performance awards or other incentive compensation, if (I) an employee’s right to become vested in a Full Value Award is conditioned on the completion of a specified period of service with the Company or the Related Companies, without achievement of performance targets or other performance objectives (whether or not related to Performance Criteria) being required as a condition of vesting, then the required period of service for full vesting shall be not less than three years and (II) if an employee’s right to become vested in a Full Value Award is conditioned upon the achievement of performance targets or other performance objectives (whether or not related to performance measures) being required as a condition of vesting, then the required vesting period shall be at least one year, subject, to the extent provided by the Committee, to pro rated vesting over the course of such three or one year period, as applicable, and to acceleration of vesting in the event of the Participant’s death, Disability, involuntary termination, Retirement or in connection with a change in control.

6.3 Performance-Based Compensation. The Committee may designate a Full Value Award or Cash Incentive Award granted to any Participant as Performance-Based Compensation. To the extent required by section 162(m) of the Code, any Full Value Award or Cash Incentive Award so designated shall be conditioned on the achievement of one or more performance targets as determined by the Committee and the following additional requirements shall apply:

(a) The performance targets established for the performance period established by the Committee shall be objective (as that term is described in regulations under section 162(m) of the Code), and shall be established in writing by the

Committee not later than ninety (90) days after the beginning of the performance period (but in no event after 25% of the performance period has elapsed), and while the outcome as to the performance targets is substantially uncertain. The performance targets established by the Committee may be with respect to corporate performance, operating group or sub-group performance, individual company performance, other group or individual performance, or division performance, and shall be based on one or more of the Performance Criteria.

A Participant otherwise entitled to receive a Full Value Award or Cash Incentive Award for any performance period shall not receive a settlement or payment of the Award until the Committee has determined that the (b) applicable performance target(s) have been attained. To the extent that the Committee exercises discretion in making the determination required by this paragraph 6.3(b), such exercise of discretion may not result in an increase in the amount of the payment.

Nothing in this Section 6 shall preclude the Committee from granting Full Value Awards or Cash Incentive Awards under the Plan or the Committee, the Company or any Related Company from granting any Cash Incentive Awards outside of the Plan that are not intended to be Performance-Based Compensation; provided, however, that, at the time of grant of Full Value Awards or Cash Incentive Awards by the Committee, the Committee shall designate whether such Awards are intended to constitute Performance-Based Compensation. To the extent that the provisions of this Section 6 reflect the requirements applicable to Performance-Based Compensation, such provisions shall not apply to the portion of the Full Value Award or Cash Incentive Award, if any, that is not intended to constitute Performance-Based Compensation.

SECTION 7 CHANGE IN CONTROL.

Subject to the provisions of subsection 4.3 (relating to the adjustment of shares), and except as otherwise provided in the Plan or the Award Agreement reflecting the applicable Award, upon the occurrence of a Change in Control:

- (a) All outstanding Options and SARs (regardless of whether in tandem) shall become fully exercisable.

All Full Value Awards and Cash Incentive Awards shall become fully vested; provided, however, that the (b) treatment of any Full Value Award that is performance-based shall become vested as determined by the Committee.

To the extent any provision of the Plan or an Award Agreement would cause a payment of deferred compensation that is subject to section 409A of the Code to be made upon the occurrence of a Change in Control, then such payment shall not be made unless such Change in Control also constitutes a “change in ownership”, “change in effective control” or “change in ownership of a substantial portion of the Company’s assets” within the meaning of section 409A of the Code. In addition, if an Award does not remain outstanding following a Change in Control, the Committee shall determine the vesting and other terms and conditions of the award in connection with the Change in Control in accordance with the terms of the Plan.

SECTION 8 OPERATION AND ADMINISTRATION.

8.1 Effective Date. The Plan was adopted by the Board effective March 15, 2017 (the “Effective Date”). Any awards made under the Plan prior to the Approval Date will not vest or be exercisable prior to the Approval Date and any awards granted prior to the Approval Date will be forfeited if the Approval Date does not occur by December 31, 2017. From and after the Approval Date, no awards shall be made under the Prior Plan. The Plan shall be unlimited in duration and, in the event of Plan termination, shall remain in effect as long as any Awards under it are outstanding; provided, however, that no Awards may be granted under the Plan after the tenth anniversary of the Effective Date.

8.2 Limit on Distribution. Distribution of shares of Stock or other amounts under the Plan shall be subject to the following:

- (a) Notwithstanding any other provision of the Plan, the Company shall have no liability to deliver any shares of Stock under the Plan or make any other distribution of benefits under the Plan unless such delivery or distribution would comply with all Applicable Law and the applicable requirements of any securities exchange or similar entity.

In the case of a Participant who is subject to Section 16(a) and 16(b) of the Exchange Act, the Committee may, at any time, add such conditions and limitations to any Award to such Participant, or any feature of any such Award, (b) as the Committee, in its sole discretion, deems necessary or desirable to comply with Section 16(a) or 16(b) and the rules and regulations thereunder or to obtain any exemption therefrom.

To the extent that the Plan provides for issuance of certificates to reflect the transfer of Stock, the transfer of such (c) Stock may be effected on a non-certificated basis, to the extent not prohibited by Applicable Law or the rules of any stock exchange on which the Stock is listed.

8.3 Settlements and Payments. Awards may be settled through cash payments, the delivery of shares of Stock, the granting of replacement Awards, or combination thereof as the Committee shall determine. Any Award settlement, including payment deferrals, may be subject to such conditions, restrictions and contingencies as the Committee shall determine. The Committee may permit or require the deferral of any Award payment (other than Option or SAR other than to the extent permitted by section 409A of the Code), subject to such rules and procedures as it may establish, which may include provisions for the payment or crediting of interest, or dividend equivalents, including converting such credits into deferred Stock equivalents. Each Subsidiary shall be liable for payment of cash due under the Plan with respect to any Participant to the extent that such benefits are attributable to the services rendered for that Subsidiary by the Participant. Any disputes relating to liability of a Subsidiary for cash payments shall be resolved by the Committee.

8.4 Restrictions on Shares and Awards. The Committee, in its discretion, may impose such restrictions on shares of Stock acquired pursuant to the Plan, whether pursuant to the exercise of an Option or SAR, settlement of a Full Value Award or otherwise, as it determines to be desirable, including, without limitation, restrictions relating to disposition of the shares and forfeiture restrictions based on service, performance, Stock ownership by the Participant, conformity with the Company's recoupment, compensation recovery, or clawback policies and such other factors as the Committee determines to be appropriate. Without limiting the generality of the foregoing, unless otherwise specified by the Committee, any Awards under the Plan and any shares of Stock issued pursuant to the Plan shall be subject to the Company's compensation recovery, clawback, and recoupment policies as in effect from time to time.

8.5 Withholding. All Awards and distributions under the Plan are subject to withholding of all applicable taxes, and the Committee may condition the delivery of any shares or other benefits under the Plan on satisfaction of the applicable withholding obligations. The Committee, in its discretion, and subject to such requirements as the Committee may impose prior to the occurrence of such withholding, may permit such withholding obligations to be satisfied through cash payment by the Participant, through the surrender of shares of Stock which the Participant already owns, or through the surrender of shares of Stock to which the Participant is otherwise entitled under the Plan; provided, however, previously-owned Stock that has been held by the Participant or Stock to which the Participant is entitled under the Plan may only be used to satisfy the minimum tax withholding required by Applicable Law (or other rates that will not have a negative accounting impact).

8.6 Transferability. Awards under the Plan are not transferable except as designated by the Participant by will or by the laws of descent and distribution. To the extent that the Participant who receives an Award under the Plan has the right to exercise such Award, the Award may be exercised during the lifetime of the Participant only by the Participant. Notwithstanding the foregoing provisions of this subsection 8.6 the Committee may permit awards under the Plan to be transferred to or for the benefit of the Participant's family (including, without limitation, to a trust or partnership for the benefit of a Participant's family or in connection with a qualified domestic relations order), in accordance with rules established by the Committee.

8.7 Notices. Any notice or document required to be filed with the Committee under the Plan will be properly filed if delivered or mailed by registered mail, postage prepaid, to the Committee, in care of the Company, at its principal executive offices. The Committee may, by advance written notice to affected persons, revise such notice procedure from time to time. Any notice required under the Plan (other than a notice of election) may be waived by the person entitled to notice.

8.8 Form and Time of Elections. Unless otherwise specified herein, each election required or permitted to be made by any Participant or other person entitled to benefits under the Plan, and any permitted modification or revocation thereof, shall be in writing filed with the Committee at such times, in such form, and subject to such restrictions and limitations, not inconsistent with the terms of the Plan, as the Committee shall require.

8.9 Agreement With Company. At the time of an Award to a Participant under the Plan, the Committee may require a Participant to enter into an "Award Agreement" with the Company in a form specified by the Committee, evidencing the Award under the Plan, agreeing to the terms and conditions of the Plan and agreeing to such additional terms and conditions, not inconsistent with the Plan, as the Committee may, in its sole discretion, prescribe.

8.10 Limitation of Implied Rights.

Neither a Participant nor any other person shall, by reason of the Plan, acquire any right in or title to any assets, funds or property of the Employer whatsoever, including, without limitation, any specific funds, assets, or other property which the Company or any Related Company, in their sole discretion, may set aside in anticipation of a (a) liability under the Plan. A Participant shall have only a contractual right to the amounts, if any, payable under the Plan, unsecured by any assets of the Employer. Nothing contained in the Plan shall constitute a guarantee by the Company or any Related Company that the assets of the Employer shall be sufficient to pay any benefits to any person.

(b) The Plan does not constitute a contract of employment or continued service, and selection as a Participant will not give any employee the right to be retained in the employ or service of the Company or any Related Company, nor any right or claim to any benefit under the Plan, unless such right or claim has specifically accrued under the terms of the Plan. Except as otherwise provided in the Plan, no Award under the Plan shall confer upon the holder thereof any right as a shareholder of the Company prior to the date on which he fulfills all service requirements and other conditions for receipt of such rights and shares of Stock are registered in his name.

8.11 Evidence. Evidence required of anyone under the Plan may be by certificate, affidavit, document or other information which the person acting on it considers pertinent and reliable, and signed, made or presented by the proper party or parties.

8.12 Gender and Number. Where the context admits, words in any gender shall include any other gender, words in the singular shall include the plural and the plural shall include the singular.

8.13 Applicable Law. The provisions of the Plan shall be construed in accordance with the laws of the State of Illinois, without giving effect to choice of law principles.

8.14 Foreign Employees. Notwithstanding any other provision of the Plan to the contrary, the Committee may grant Awards to eligible persons who are foreign nationals on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable to foster and promote achievement of the purposes of the Plan. In furtherance of such purposes, the Committee may make such modifications, amendments, procedures and subplans as may be necessary or advisable to comply with provisions of laws in other countries or jurisdictions in which the Company or a Related Company operates or has employees. The foregoing provisions of this subsection 8.14 shall not be applied to increase the share limitations of Section 4 or to otherwise change any provision of the Plan that would otherwise require the approval of the Company's shareholders.

SECTION 9 DEFINED TERMS. For purposes of the Plan, the terms listed below shall be defined as follows:

- (a) Affiliate. The term "Affiliate" means any entity which is a parent corporation (as defined in section 424(e) of the Code) or a subsidiary corporation (as defined in section 424(f) of the Code).
- (b) Applicable Law. The term "Applicable Law" is defined in subsection 3.4.
- (c) Approval Date. The term "Approval Date" means the date on which the Plan is approved by the Company's shareholders.
- (d) Award. The term "Award" means any award or benefit granted to any Participant under the Plan, including, without limitation, the grant of Options, Stock Appreciation Rights, or Full Value Awards or Cash Incentive Awards.
- (e) Award Agreement. The term "Award Agreement" means an agreement evidencing the grant of an Award hereunder as described in subsection 8.9 of the Plan.
- (f) Board. The term "Board" means the Board of Directors of the Company.
- (g) Cash Incentive Award. The term "Cash incentive Award" is defined in paragraph 6.1(b).
- (h) Change in Control. For purposes of the Plan, the term "Change in Control" means a change in the beneficial ownership of the voting Stock or a change in the composition of the Board which occurs as follows:

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Any “person” (as such term is used in Section 13(d) and 14(d)(2) of the Exchange Act is or becomes a beneficial (i) owner, directly or indirectly, of Stock representing 50 percent or more of the total voting power of the then outstanding Stock.

A tender offer (for which a filing has been made with the SEC which purports to comply with the requirements of Section 14(d) of the Exchange Act and the corresponding SEC rules) is made for the Stock, which has not been negotiated and approved by the Board. In case of a tender offer described in this clause (ii), the Change in Control (ii) will be deemed to have occurred upon the first to occur of (A) any time during the offer when the person (using the definition in clause (i) above) making the offer owns or has accepted for payment Stock with 25 percent or more of the total voting power of the Stock, or (B) three business days before the offer is to terminate unless the offer is withdrawn first, if the person making the offer could own, by the terms of the offer plus any shares owned by this person, Stock with 50 percent or more of the total voting power of the Stock when the offer terminates.

Individuals who were the Board’s nominees for election as directors of the Company immediately prior to a (iii) meeting of the shareholders of the Company involving a contest for the election of directors shall not constitute a majority of the Board following the election.

(i) Code. The term “Code” means the Internal Revenue Code of 1986, as amended. A reference to any provision of the Code shall include reference to any successor provision of the Code.

(j) Committee. The term “Committee” is defined in subsection 3.1.

(k) Company. The term “Company” means Hub Group, Inc.

Date of Termination. A Participant’s “Date of Termination” shall be the date that his service with the Company and the Related Companies terminates for any reason; provided that a Date of Termination shall not be deemed to occur by reason of a transfer of the Participant between the Company and a Related Company or between two Related Companies; and further provided that a Participant’s employment shall not be considered terminated while the Participant is on a leave of absence from the Employer approved by the Participant’s employer. In the case of an Outside Director, the “Date of Termination” means the date on which an individual ceases to be a member of the Board.

(m) Disability. A Participant shall be considered to have a “Disability” during the period in which he is unable, by reason of a medically determinable physical or mental impairment, to engage in any substantial gainful activity, which condition, in the opinion of a physician selected by the Committee, is expected to have a duration of not less than 120 days.

(n) Effective Date. The term “Effective Date” is defined in subsection 8.1 of the Plan.

(o) Eligible Individual. The term “Eligible Individual” means any officer, director or other employee of the Company or a Related Company, consultants, independent contractors or agents of the Company or a Related Company, and persons who are expected to become officers, employees, directors, consultants, independent contractors or agents of the Company or a Related Company (but effective no earlier than the date on which such Person begins to provide services to the Company or a Related Company), including, in each case, Outside Directors.

(p) Employer. The term “Employer” means, collectively, the Company and all Related Companies.

(q) Exchange Act. The term “Exchange Act” means the Securities Exchange Act of 1934, as amended.

(r) Exercise Price. The term “Exercise Price” is defined in subsection 5.5 of the Plan.

(s) Expiration Date. The term “Expiration Date” is defined in subsection 5.9 of the Plan.

(t) Fair Market Value. The term “Fair Market Value” of a share of Stock as of any date means the closing market composite price for such Stock as reported for the NASDAQ Stock Exchange on that date or, if Stock is not traded on that date, on the next preceding date on which Stock was traded. If the Stock is not at the time listed or admitted to trading on a stock exchange, the Fair Market Value shall be the closing average of the closing bid and asked price of a share of Stock on the date in question in the over-the-counter market, as such price is reported in a publication of general circulation selected by the Committee and regularly reporting the market price of Stock in such market. If the Stock is not listed or admitted to trading on any stock exchange or traded in the over-the-counter

market, the Fair Market Value shall be as determined by the Committee in good faith.

(u) Full Value Award. The term “Full Value Award” is defined in paragraph 6(a) of the Plan.

(v) Incentive Stock Option. The term “Incentive Stock Option” means an Option that is intended to satisfy the requirements applicable to an “incentive stock option” described in section 422(b) of the Code.

(w) Non-Qualified Option. The term “Non-Qualified Option” means an Option that is not intended to be an Incentive Stock Option.

(x) Option. The term “Option” is defined in paragraph 5.1(a) of the Plan.

(y) Outside Director. The term “Outside Director” means each member of the Board who is not an employee of the Company or any Related Company.

(z) Participant. The term “Participant” is defined in Section 2 of the Plan.

(aa) Performance-Based Compensation. The term “Performance-Based Compensation” means compensation that satisfies the requirements for qualified performance-based compensation within the meaning of section 162(m) of the Code and regulations thereunder.

Performance Criteria. The term “Performance Criteria” means any one or more of the following: (i) earnings (e.g., earnings before income taxes, or “EBIT”; earnings before income taxes, depreciation and amortization, or “EBITDA”; earnings per share, or “EPS”), (ii) financial return ratios (e.g., return on investment, or “ROI”; return on invested capital, or “ROIC”; return on equity, or “ROE”; return on assets, or “ROA”), (iii) revenue, (iv) operating or net cash flows, (v) cash flow return on investment, (vi) total shareholder return, (vii) market share, (viii) net operating income, operating income or net income, (ix) debt load reduction, (x) cost improvement or containment, (xi) expense management, (xii) economic value added, (xiii) stock price, (xiv) profit, (xv) margin, (xvi) operating expenses, (xvii) free cash flow, (xviii) implementation or completion of significant projects or processes; (xix) economic value created; (xx) cost targets, reductions and savings, productivity and efficiencies; (xxi) strategic (bb) business criteria, consisting of one or more objectives based on meeting specified market penetration, geographic business expansion, customer satisfaction, employee satisfaction, human resources management, supervision of litigation and other legal and compliance matters, information technology, and goals relating to contributions, dispositions, acquisitions, development and development related activity, capital markets activity and credit ratings, joint ventures and other private capital activity including generating incentive and other fees and raising equity commitments, and other transactions, and budget comparisons; and (xxii) personal professional objectives, including any of the foregoing performance targets, the implementation of policies and plans, the negotiation of transactions, the development of long term business goals, formation and reorganization of joint ventures and other private capital activity including generating incentive and other fees and raising equity commitments, research or development collaborations, and the completion of other corporate transactions.

(cc) Plan. The term “Plan” means this Hub Group, Inc. 2017 Long-Term Incentive Plan, as defined in subsection 1.1.

(dd) Prior Plan. The term “Prior Plan” means the Hub Group, Inc. 2002 Long-Term Incentive Plan.

Related Companies. The term “Related Company” means (i) any corporation, partnership, joint venture or other entity during any period in which it owns, directly or indirectly, at least thirty percent of the voting power of all classes of stock of the Company (or successor to the Company) entitled to vote; and (ii) any corporation, (ee) partnership, joint venture or other entity during any period in which either (A) it is effectively controlled by, or (B) at least thirty percent of its voting or profits interest is owned, directly or indirectly, by, the Company, any entity that is a successor to the Company or any entity that is a Related Company by reason of clause (i) next above.

Retirement. The term “Retirement” means, except as provided by the Committee, (i) in the case of a Participant who is not an Outside Director, the occurrence of the Participant’s Date of Termination for reasons other than death or Disability or termination by the Employer for cause on or after the date on which the Participant (A) attains age (ff) 55, or (B) attains age 50 and has completed at least 10 continuous years of service with the Employer, and (ii) in the case of a Participant who is an Outside Director, the occurrence of the Outside Director’s Termination of Service on or after his attainment of age 65 for reasons other than death or Disability (and not removal for cause).

(gg) SEC. The term “SEC” means the Securities and Exchange Commission.

(hh) Stock. The term “Stock” means shares of Class A common stock of the Company.

(ii) Stock Appreciation Right or SAR. The term “Stock Appreciation Right” or SAR” is defined in paragraph 5.1(b) of the Plan.

(jj) Substitute Award. The term “Substitute Award” means an Award granted or shares of Stock issued by the Company in assumption of, or in substitution or exchange for, an award previously granted, or the right or obligation to make a future award, in all cases by a company acquired by the Company or any Related Company or with which the Company or any Related Company combines. In no event shall the issuance of Substitute Awards change the terms of such previously granted awards such that the change, if applied to a current Award, would be prohibited under subsection 5.8 (related to Options and SAR repricing).

(kk) Ten Percent Shareholder. The term “Ten Percent Shareholder” means an employee of the Company or any of its Affiliates who, as of the date of grant of an Incentive Stock Option to such Eligible Individual, owns stock possessing more than 10 percent of the combined voting power of all classes of stock of the Company and all of its Affiliates.

SECTION 10 AMENDMENT AND TERMINATION.

The Board may, at any time, amend or terminate the Plan, and the Board or the Committee may amend any Award Agreement, provided that no amendment or termination may, in the absence of written consent to the change by the affected Participant (or, if the Participant is not then living, the affected beneficiary), adversely affect the rights of any Participant or beneficiary under any Award granted under the Plan prior to the date such amendment is adopted by the Board (or the Committee, if applicable); and further provided that adjustments pursuant to subsection 4.3 shall not be subject to the foregoing limitations of this Section 10; and further provided that the provisions of subsection 5.8 (relating to Option and SAR repricing) cannot be amended unless the amendment is approved by the Company's shareholders; and provided further that, no other amendment shall be made to the Plan without the approval of the Company's shareholders if such approval is required by law or the rules of any stock exchange on which the Stock is listed. It is the intention of the Company that, to the extent that any provisions of this Plan or any Awards granted hereunder are subject to section 409A of the Code, the Plan and the Awards comply with the requirements of section 409A of the Code and that the Board shall have the authority to amend the Plan as it deems necessary or desirable to conform to section 409A of the Code. Notwithstanding the foregoing, the Company does not guarantee that Awards under the Plan will comply with section 409A of the Code and the Committee is under no obligation to make any changes to any Award to cause such compliance.

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

**HUB GROUP,
INC.
2000
CLEARWATER
DRIVE
OAK BROOK, IL
60523**

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 p.m. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE
OR BLACK INK AS FOLLOWS:

E23414-P89871-Z69672

KEEP THIS PORTION FOR
YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

HUB GROUP, INC.

For All Withhold All For All Except

The Board of Directors recommends you vote FOR ALL the following:

1. Election of Directors

Nominees:

- | | |
|----------------------|-----------------------|
| 01) David P. Yeager | 05) Charles R. Reaves |
| 02) Donald G. Maltby | 06) Martin P. Slark |
| 03) Gary D. Eppen | 07) Jonathan P. Ward |
| 04) James C. Kenny | 08) Peter B. McNitt |

The Board of Directors recommends you vote FOR the following proposal: For Against Abstain

2. Advisory vote on executive compensation.

The Board of Directors recommends you vote 1 year for the following proposal:

1 Year 2 Years 3 Years Abstain

3. Advisory vote on the frequency of the advisory vote on executive compensation.

The Board of Directors recommends you vote FOR the following proposal: For Against Abstain

4. Ratification of the selection of Ernst & Young LLP as Hub Group's independent registered accounting firm.

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer.

Signature [PLEASE SIGN WITHIN BOX] Date

To withhold authority to vote for any individual nominee(s), mark “For All Except” and write the number(s) of the nominee(s) on the line below.

The Board of Directors recommends you vote FOR the following proposal:

For Against Abstain

5. Approval of the Hub Group, Inc. 2017 Long-Term Incentive Plan.

NOTE: Such other business as may properly come before the meeting or any adjournment thereof.

Signature (Joint Owners) Date
V.1.2

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:
The Notice and Proxy Statement and Annual Report are available at www.proxyvote.com.

E23415-P89871-Z69672

HUB GROUP, INC.
Annual Meeting of Stockholders
May 10, 2017 10:00 AM CDT
This proxy is solicited by the Board of Directors

The stockholder(s) hereby appoint(s) David P. Yeager, as proxy, with the power to appoint his substitute, and hereby authorize(s) him to represent and to vote, as designated on the reverse side of this ballot, all of the shares of common stock of HUB GROUP, INC. that the stockholder(s) is/are entitled to vote at the Annual Meeting of Stockholders to be held at 10:00 AM CDT on May 10, 2017 at 2000 Clearwater Drive, Oak Brook, IL 60523, and any adjournment or postponement thereof.

This proxy, when properly executed, will be voted in the manner directed herein. If no such direction is made, this proxy will be voted in accordance with the Board of Directors' recommendations.

Continued and to be signed on reverse side

V.1.2