

Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

HEARTLAND EXPRESS INC  
Form 10-Q  
August 07, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For quarter ended June 30, 2009  
-----

Commission File No. 0-15087  
-----

HEARTLAND EXPRESS, INC.  
(Exact Name of Registrant as Specified in Its Charter)

Nevada  
-----  
(State or Other Jurisdiction of  
Incorporation or Organization)

93-0926999  
-----  
(I.R.S. Employer  
Identification Number)

901 North Kansas Avenue, North Liberty, Iowa  
-----  
(Address of Principal Executive Office)

52317  
-----  
(Zip Code)

Registrant's telephone number, including area code (319) 626-3600  
-----

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

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

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

At June 30, 2009, there were 90,688,621 shares of the Company's \$0.01 par value

# Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

common stock outstanding.

## HEARTLAND EXPRESS, INC. AND SUBSIDIARIES

### PART I

#### FINANCIAL INFORMATION

	Page Number
Item 1. Financial Statements	
Consolidated Balance Sheets as of June 30, 2009 (unaudited) and December 31, 2008	1
Consolidated Statements of Income for the Three and Six Months Ended June 30, 2009 and 2008 (unaudited)	2
Consolidated Statement of Stockholders' Equity for the Six Months Ended June 30, 2009 (unaudited)	3
Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2009 and 2008 (unaudited)	4
Notes to Consolidated Financial Statements	5-12
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	12-20
Item 3. Quantitative and Qualitative Disclosures about Market Risk	21
Item 4. Controls and Procedures	21

### PART II

#### OTHER INFORMATION

Item 1. Legal Proceedings	22
Item 2. Changes in Securities	22
Item 3. Defaults upon Senior Securities	22
Item 4. Submission of Matters to a Vote of Security Holders	22
Item 5. Other Information	22
Item 6. Exhibits and Reports on Form 8-K	22
Signature	23

Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

HEARTLAND EXPRESS, INC.  
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(in thousands, except per share amounts)

ASSETS	June 30, 2009	December 31, 2008
	-----	-----
CURRENT ASSETS	(Unaudited)	
Cash and cash equivalents	\$ 44,580	\$ 56,651
Short-term investments	140	241
Trade receivables, net of allowance for doubtful accounts of \$775 at June 30, 2009 and December 31, 2008	36,884	36,803
Prepaid tires	6,051	6,449
Other current assets	6,205	2,834
Income tax receivable	2,025	-
Deferred income taxes	36,118	35,650
	-----	-----
Total current assets	\$ 132,003	\$ 138,628
	-----	-----
PROPERTY AND EQUIPMENT		
Land and land improvements	17,442	17,442
Buildings	26,761	26,761
Furniture and fixtures	2,269	2,269
Shop and service equipment	5,345	5,290
Revenue equipment	345,252	337,799
	-----	-----
	397,069	389,561
Less accumulated depreciation	156,695	151,881
	-----	-----
Property and equipment, net	240,374	237,680
	-----	-----
GOODWILL	4,815	4,815
OTHER ASSETS	5,514	5,469
LONG-TERM INVESTMENTS	160,322	171,122
	-----	-----
	\$ 543,028	\$ 557,714
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 14,139	\$ 10,338
Compensation and benefits	15,540	15,862
Income taxes payable	-	452
Insurance accruals	71,804	70,546
Other accruals	7,215	7,498
	-----	-----
Total current liabilities	108,698	104,696
	-----	-----
LONG-TERM LIABILITIES		
Income taxes payable	30,558	35,264
Deferred income taxes	60,966	57,715
	-----	-----
Total long-term liabilities	91,524	92,979

Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY

Preferred stock, par value \$.01; authorized 5,000 shares; none issued	-	-
Capital stock; common, \$.01 par value; authorized 395,000 shares; issued and outstanding 90,689 in 2009 and 94,229 in 2008	907	942
Additional paid-in capital	439	439
Retained earnings	350,083	367,281
Accumulated other comprehensive loss	(8,623)	(8,623)
	-----	-----
	342,806	360,039
	-----	-----
	\$ 543,028	\$ 557,714
	=====	=====

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

1

HEARTLAND EXPRESS, INC.  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME  
(in thousands, except per share amounts)  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	-----	-----	-----	-----
Operating revenue	\$ 116,974	\$ 164,592	\$ 231,953	\$ 313,641
Operating expenses:				
Salaries, wages, and benefits	42,938	48,591	86,997	97,183
Rent and purchased transportation	2,806	5,144	5,744	10,250
Fuel	25,086	60,495	49,644	110,993
Operations and maintenance	4,314	4,353	8,354	8,316
Operating taxes and licenses	2,433	2,343	4,716	4,585
Insurance and claims	4,625	7,012	8,139	10,795
Communications and utilities	906	931	1,902	1,936
Depreciation	13,160	10,663	24,974	21,076
Other operating expenses	3,188	4,139	6,591	8,471
(Gain) loss on disposal of property and equipment	(4,190)	11	(5,857)	(633)
Total operating expenses	95,266	143,682	191,204	272,972
Operating income	21,708	20,910	40,749	40,669
Interest income	563	2,236	1,434	5,099
Income before income taxes	22,271	23,146	42,183	45,768
Federal and state income taxes	4,656	5,915	10,427	13,874

Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

Net income	\$ 17,615	\$ 17,231	\$ 31,756	\$ 31,894
Earnings per share	\$ 0.19	\$ 0.18	\$ 0.35	\$ 0.33
Weighted average shares outstanding	90,689	96,158	91,582	96,186
Dividends declared per share	\$ 0.02	\$ 0.02	\$ 0.04	\$ 0.04

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

2

HEARTLAND EXPRESS, INC.  
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
(in thousands, except per share amounts)  
(Unaudited)

	Capital Stock, Common	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	-----	-----	-----	-----	-----
Balance, January 1, 2009	\$ 942	\$ 439	\$ 367,281	\$ (8,623)	\$ 360,039
Comprehensive income:					
Net income	-	-	31,756	-	31,756
Unrealized loss on available-for-sale securities, net of tax	-	-	-	-	-
Total comprehensive income					31,756
Dividends on common stock, \$0.04 per share	-	-	(3,629)	-	(3,629)
Stock repurchase	(35)	-	(45,325)	-	(45,360)
Balance, June 30, 2009	\$ 907	\$ 439	\$ 350,083	\$ (8,623)	\$ 342,806

=====

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

3

HEARTLAND EXPRESS, INC.  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(Unaudited)

	Six months ended June 30,	
	2009	2008
	-----	-----
OPERATING ACTIVITIES		
Net income	\$ 31,756	\$ 31,894
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	24,974	21,076
Deferred income taxes	2,783	(3,116)
Gain on disposal of property and equipment	(5,857)	(633)
Changes in certain working capital items:		
Trade receivables	(81)	(8,677)
Prepaid expenses and other current assets	(2,925)	(2,581)
Accounts payable, accrued liabilities, and accrued expenses	1,810	8,277
Accrued income taxes	(7,183)	(2,270)
	-----	-----
Net cash provided by operating activities	45,277	43,970
	-----	-----

## Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	4,436	1,828
Purchases of property and equipment, net of trades	(25,465)	(650)
Net sale (purchases) of investments	10,901	(10,943)
Change in other assets	(45)	72
	-----	-----
Net cash used in investing activities	(10,173)	(9,693)
	-----	-----
FINANCING ACTIVITIES		
Cash dividend	(1,815)	(3,862)
Stock repurchase	(45,360)	(10,622)
	-----	-----
Net cash used in financing activities	(47,175)	(14,484)
	-----	-----
Net (decrease) increase in cash and cash equivalents	(12,071)	19,793
CASH AND CASH EQUIVALENTS		
Beginning of period	56,651	7,960
	-----	-----
End of period	\$ 44,580	\$ 27,753
	=====	=====

### SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the period for income taxes, net	\$ 14,827	\$ 19,260
Noncash investing and financing activities:		
Fair value of revenue equipment traded	\$ 13,320	\$ 1,818
Purchased property and equipment in accounts payable	\$ 3,560	\$ 365
Common stock dividends declared in accounts payable	\$ 1,829	\$ 1,939

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

4

### HEARTLAND EXPRESS, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

#### Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Heartland Express, Inc. and subsidiaries (the "Company") have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all normal, recurring adjustments considered necessary for a fair presentation have been included. The consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2008 included in the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission. Interim results of operations are not necessarily indicative of the results to be expected for the full year

## Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

or any other interim periods. There were no changes to the Company's significant accounting policies during the six month period ended June 30, 2009, other than the adoption of Statement of Financial Accounting Standards ("SFAS") No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an Amendment of SFAS 133" ("SFAS 161") and Financial Accounting Standards Board ("FASB") Staff Positions and SFAS as further discussed in Note 13.

### Note 2. Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Note 3. Segment Information

The Company has eleven regional operating divisions located at nine different terminal locations in addition to our corporate headquarters; however, it has determined that it has one reportable segment. All of the divisions are managed based on similar economic characteristics. Each of the regional operating divisions provides short-to medium-haul truckload carrier services of general commodities to a similar class of customers. In addition, each division exhibits similar financial performance, including average revenue per mile and operating ratio. As a result of the foregoing, the Company has determined that it is appropriate to aggregate its operating divisions into one reportable segment, consistent with the guidance in SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". Accordingly, the Company has not presented separate financial information for each of its operating divisions as the Company's consolidated financial statements present its one reportable segment.

### Note 4. Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid investments with insignificant interest rate risk and original maturities of three months or less. Restricted and designated cash and short-term investments totaling \$5.5 million at June 30, 2009 and December 31, 2008, respectively, are included in non-current other assets. The restricted funds represent deposits required by state agencies for self-insurance purposes and designated funds that are earmarked for a specific purpose and not for general business use.

### Note 5. Investments

The Company's investments are primarily in the form of tax free, auction rate student loan educational bonds backed by the U.S. government and are classified as available-for-sale. As of June 30, 2009 and December 31, 2008, all of the Company's long-term investment balance was invested in auction rate student loan educational bonds. The investments typically have an interest reset provision of 35 days with contractual maturities that range from 5 to 38 years as of June 30,

2009. At the reset date, the Company has the option to roll the investments and reset the interest rate or sell the investments in an auction. The Company receives the par value of the investment plus accrued interest on the reset date if the underlying investment is sold. The majority, (approximately 97% at par) of the underlying investments are backed by the U.S. government. The remaining 3% of the student loan auction rate securities portfolio are insurance backed securities. As of June 30, 2009, approximately 95% of the underlying investments



## Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

of the total portfolio held AAA (or equivalent) ratings from recognized rating agencies. The remaining 5% are rated as investment grade by recognized rating agencies.

As of June 30, 2009, all of the Company's auction rate student loan bonds were associated with unsuccessful auctions. To date, there have been no instances of delinquencies or non-payment of applicable interest from the issuers and all partial calls of securities by the issuers have been at par value plus accrued interest. Investment income received is generally exempt from federal income taxes and is accrued as earned. Accrued interest income is included in other current assets in the consolidated balance sheet.

The Company estimates the fair value of the auction rate securities applying the guidance in SFAS No. 157 ("SFAS 157"). Fair value represents an estimate of what the Company could sell the investments for in an orderly transaction with a third party as of the June 30, 2009 measurement date; although, it is not the intent of the Company to sell such securities at discounted pricing. Historically, the fair value of such investments was reported based on amortized cost. Until auction failures began, the fair value of these investments were calculated using Level 1 observable inputs per SFAS 157 and fair value was deemed to be equivalent to amortized cost due to the short-term and regularly occurring auction process. Based on auction failures beginning in mid-February 2008 and continued failures through June 30, 2009, there were not any observable quoted prices or other relevant inputs for identical or similar securities. Estimated fair value of all auction rate security investments as of June 30, 2009 was calculated using unobservable, Level 3 inputs, as defined by SFAS 157 due to the lack of observable market inputs specifically related to student loan auction rate securities. The fair value of these investments as of the June 30, 2009 measurement date could not be determined with precision based on lack of observable market data and could significantly change in future measurement periods.

The estimated fair value of the underlying investments as of June 30, 2009 declined below amortized cost of the investments as a result of liquidity issues in the auction rate markets. With the assistance of the Company's financial advisors, fair values of the student loan auction rate securities were estimated, on an individual investment basis, using a discounted cash flow approach to value the underlying collateral of the trust issuing the debt securities considering an anticipated estimated outstanding average life of the underlying student loans (range of two to ten years) that are the collateral to the trusts, principal outstanding, expected rates of returns over the average life of the underlying student loans, and payout formulas. These underlying cash flows, by individual investment, were discounted using interest rates (range of 2.0%-8.7%) consistent with instruments of similar quality and duration with an adjustment for a higher required yield for lack of liquidity in the market for these auction rate securities. Calculated fair values did not materially change during the period ended June 30, 2009. The Company obtained an understanding of assumptions in models used by third party financial institutions to estimate fair value and considered these assumptions in the Company's cash flow models but did not exclusively use the fair values provided by financial institutions based on their internal modeling. The Company is aware that trading of student loan auction rate securities is occurring in secondary markets, which were considered in the Company's fair value assessment, although the Company has not listed any of its assets for sale on the secondary market. As a result of the fair value measurements, there were no changes to the unrealized loss and reduction to investments, of \$8.6 million, net of tax, during the period ended June 30, 2009. The unrealized loss of \$8.6 million, net of tax, is recorded as an adjustment to accumulated other comprehensive loss and the Company has not recognized any other than temporary impairments in the statement of income. There were not any realized gains or losses related to these investments for the period ended June 30, 2009.

## Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

During the third and fourth quarters of 2008, various financial institutions and respective regulatory authorities announced proposed settlement terms in response to various regulatory authorities alleging certain financial institutions misled investors regarding the liquidity risks associated with auction rate securities that the respective financial institutions underwrote, marketed and sold. Further, the respective regulatory authorities alleged the respective financial institutions misrepresented to customers that auction rate securities were safe, highly liquid investments that were comparable to money markets. Certain settlement agreements were finalized prior to December 31,

6

2008. Approximately 97% (based on par value) of our auction rate security investments were not covered by the terms of the above mentioned settlement agreements. The focus of the initial settlements was generally towards individuals, charities, and businesses with small investment balances, generally with holdings of \$25 million and less. As part of the general terms of the settlements, the respective financial institutions have agreed to provide their best efforts in providing liquidity to the auction rate securities market for investors not specifically covered by the terms of the respective settlements. Such liquidity solutions could be in the form of facilitating issuer redemptions, resecuritizations, or other means. The Company can not currently project when liquidity will be obtained from these investments and plans to continue to hold such securities until the securities are called, redeemed, or resecuritized by the debt issuers.

The remaining 3.0% (based on par value) was specifically covered by a settlement agreement which the Company signed during the fourth quarter of 2008. By signing the settlement agreement, the Company relinquished its rights to bring any claims against the financial institution, as well, as its right to serve as a class representative or receive benefits under any class action. Further, the Company no longer has the sole discretion and right to sell or otherwise dispose of, and/or enter orders in the auction process with respect to the underlying securities. As part of the settlement, the Company obtained a put option to sell the underlying securities to the financial institution, which is exercisable during the period starting on June 30, 2010 through July 2, 2012, plus accrued interest. Should the financial institution sell or otherwise dispose of our securities the Company will receive the par value of the securities plus accrued interest one business day after the transaction. Upon signing the settlement agreement, the Company no longer maintains the intent and ability to hold the underlying securities for recovery of the temporary decline in fair value. The Company also acquired an asset, a put option, which is valued as a stand alone financial instrument separate from the underlying securities. There was not any significant change in the value of the put option during the period ended June 30, 2009. The value of these securities is included in long-term investments per the consolidated balance sheet.

The Company has evaluated the unrealized loss on securities other than securities covered by the settlement agreement discussed above to determine whether this decline is other than temporary. Management has concluded the decline in fair value to be temporary based on the following considerations.

- o Current market activity and the lack of severity or extended decline do not warrant such action at this time.
- o Since auction failures began in February 2008, the Company has received approximately \$28.8 million as the result of partial calls by issuers. The Company received par value for the amount of these calls plus accrued interest.
- o Based on the Company's financial operating results, operating cash flows and debt free balance sheet, the Company has the

## Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

ability and intent to hold such securities until recovery of the unrealized loss.

- o There have not been any significant changes in collateralization and ratings of the underlying securities since the first failed auction. The Company continues to hold 95% of the auction rate security portfolio in senior positions of AAA (or equivalent) rated securities.
- o The Company is aware of recent increases in default rates of the underlying student loans that are the assets to the trusts issuing the auction rate security debt, which management believes is due to current overall economic conditions. As the underlying loans are guaranteed by the U.S. Government, defaults of the loans accelerate payment of the underlying loan to the trust. As trusts are no longer recycling repayment money for new loans, accelerated repayment of any student loan to the underlying trust would increase cash flows of the trust which would potentially result in partial calls by the underlying trusts.
- o Currently, there is legislative pressure to provide liquidity in student loan investments, providing liquidity to state student loan agencies, to continue to provide financial assistance to eligible students to enable higher educations as well as improve overall liquidity in the student loan auction rate market. This has the potential to impact existing securities with underlying student loans.
- o All of the auction rate securities are held with financial institutions that have agreed in principle to settlement agreements with various regulatory agencies to provide liquidity. Although the principles of the respective settlement agreements

7

focus mostly on small investors (generally companies and individual investors with auction rate security assets less than \$25 million) the respective settlements state the financial institutions will work with issuers and other interested parties to use their best efforts to provide liquidity solutions to companies not specifically covered by the principle terms of the respective settlements by the end of 2009 in certain settlement agreements. Regulatory agencies continue to monitor the progress of the respective financial institutions towards this goal.

Management will monitor its investments and ongoing market conditions in future periods to assess impairments considered to be other than temporary. Should estimated fair value continue to remain below cost or the fair value decrease significantly from current fair value due to credit related issues, the Company may be required to record an impairment of these investments through a charge in the consolidated statement of income.

The table below presents a reconciliation for all assets and liabilities, measured at fair value, on a recurring basis using significant unobservable inputs (Level 3) during the six month period ended June 30, 2009.

Level 3 Fair Value Measurements	Available-for-sale debt securities (in thousands)
Balance, December 31, 2008	\$ 171,122
Purchases, sales, issuances, and settlements	(10,800)
Transfers in to (out of) Level 3	-
Total gains or losses (realized/unrealized):	
Included in earnings	-

## Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

Included in other comprehensive loss		-
		-----
Balance, June 30, 2009	\$	160,322
		=====

The amortized cost and fair value of investments at June 30, 2009 and December 31, 2008 were as follows:

	Amortized Cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses	Fair Value
June 30, 2009:				
Current:				
Municipal bonds	\$ 140	-	\$ -	\$ 140
Long-term				
Auction rate student loan educational bonds	169,200	-	8,878	160,322
	-----	-----	-----	-----
	\$ 169,340	-	\$ 8,878	\$ 160,462
	=====	=====	=====	=====
December 31, 2008:				
Current:				
Municipal bonds	\$ 241	-	-	\$ 241
Long-term				
Auction rate student loan educational bonds	180,000	-	8,878	171,122
	-----	-----	-----	-----
	\$ 180,241	-	\$ 8,878	\$ 171,363
	=====	=====	=====	=====

### Note 6. Fuel Hedging

In February 2007, the Board of Directors authorized the Company to begin hedging activities related to projected future purchases of diesel fuel. During the quarter ended March 31, 2009, the Company contracted with an unrelated third party to hedge changes in forecasted future cash flows related to fuel purchases. The hedge of changes in forecasted future cash flows was transacted through the use of certain swap derivative financial instruments. The Company accounts for derivative instruments in accordance with the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", ("SFAS 133") as amended, and SFAS 161, and has designated such swaps as cash flow hedges. The cash flow hedging strategy was implemented mainly to reduce the Company's exposure to significant changes, including upward movements in diesel fuel prices related to fuel consumed by empty and out-of-route miles and truck engine idling time which is not recoverable through fuel surcharge agreements. Under SFAS 133, the Company was required to record an asset or liability for the fair value of any derivative instrument designated as a cash flow hedge with an offsetting amount recorded to accumulated other comprehensive income (loss) for the effective portion of the change in fair value as defined by SFAS 133 and an increase or decrease to fuel expense for the ineffective portion of the change in fair value as defined by SFAS 133. Any previous amounts included in other

## Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

comprehensive income (loss) are reclassified as increases (decreases) in fuel expense in the period the related contracts settle.

As of June 30, 2009 there were no open unsettled cash flow hedges. The Company has not hedged any amounts of fuel beyond June 30, 2009. As of June 30, 2009 there were not any assets or liabilities recorded in the consolidated balance other than a receivable for \$0.3 million from the hedge counterparty for payment due for the June contract settlement. As the contract expired on June 30, 2009, all amounts recorded in accumulated other comprehensive loss as of June 30, 2009 related to the cash flow hedge was reclassified into income during the quarter ended June 30, 2009 as a reduction to fuel expense. Based on favorable contract settlements of open hedge positions at March 31, 2009 fuel expense was reduced by \$0.6 million during the quarter ended June 30, 2009.

The following table details the effect of derivative financial instruments on the consolidated balance sheet and statements of income for the period ended June 30, 2009. There was not any derivative instruments outstanding as of December 31, 2008 or during the period ended June 30, 2008.

	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
(000's)					
Fuel contract	\$ -	Fuel expense	\$ 125	Fuel expense	\$

### Note 7. Property, Equipment, and Depreciation

Property and equipment are stated at cost, while maintenance and repairs are charged to operations as incurred. Depreciation for financial statement purposes is computed by the straight-line method for all assets other than tractors. Effective January 1, 2009, the Company changed its estimate of depreciation expense on tractors acquired subsequent to January 1, 2009, to 150% declining balance, to better reflect the estimated trade value of the tractors at the estimated trade date. The change was the result of current tractor trade values and the expected values in the trade market for the foreseeable future. Tractors acquired prior to December 31, 2008 will continue to be depreciated using the 125% declining balance method. The change in estimate increased depreciation expense by approximately \$0.3 million during the three and six month periods ended June 30, 2009. Tractors are depreciated to salvage values of \$15,000 while trailers are depreciated to salvage values of \$4,000.

9

### Note 8. Earnings Per Share:

Earnings per share are based upon the weighted average common shares outstanding during each period. The Company has no common stock equivalents; therefore,

## Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

diluted earnings per share are equal to basic earnings per share.

### Note 9. Dividends

On June 8, 2009, the Company's Board of Directors declared a regular quarterly dividend of \$0.02 per common share, approximately \$1.8 million, payable July 2, 2009 to shareholders of record at the close of business on June 19, 2009. On July 2, 2009, the Company paid the \$1.8 million dividend.

Future payment of cash dividends and the amount of such dividends will depend upon financial conditions, results of operations, cash requirements, tax treatment, and certain corporate law requirements, as well as factors deemed relevant by our Board of Directors.

### Note 10. Income Taxes

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-An Interpretation of FASB Statement No. 109" ("FIN48"). Beginning with the adoption of FIN 48, the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties related to unrecognized tax benefits in income tax expense.

At June 30, 2009 and December 31, 2008, the Company had a total of \$20.2 million and \$22.9 million in gross unrecognized tax benefits respectively. Of these amounts, \$13.2 million and \$14.9 million respectively, represented the amount of unrecognized tax benefits that, if recognized, would impact our effective tax rate. Unrecognized tax benefits were reduced by approximately \$2.4 million and \$2.2 million during the periods ended June 30, 2009 and 2008, respectively, due to the expiration of certain statute of limitations net of current period additions of \$0.2 million during the quarter ended June 30, 2009 and no additions during the quarter ended June 30, 2008. Unrecognized tax benefits were reduced by approximately \$2.7 million and \$3.2 million during the six month periods ended June 30, 2009 and 2008, respectively, due to the expiration of certain statute of limitations net of additions of \$1.0 million during the six month period ended June 30, 2009 and no additions during the six month period of June 30, 2008. The total amount of accrued interest and penalties for such unrecognized tax benefits was \$10.3 million at June 30, 2009 and \$12.3 million at December 31, 2008. Net interest and penalties included in income tax expense for the period ended June 30, 2009 and 2008 was a benefit of approximately \$1.4 million and \$0.4 million, respectively. Net interest and penalties included in income tax expense for the six month period ended June 30, 2009 and 2008 was a benefit of approximately \$1.9 million and \$0.2 million, respectively. These unrecognized tax benefits relate to risks associated with state income tax filing positions for the Company's corporate subsidiaries.

The Company's effective tax rate was 20.9% and 25.6%, respectively, in the three months ended June 30, 2009 and 2008 and 24.7% and 30.3% for the six months ended June 30, 2009. The decrease in the effective tax rate for the three and six month periods ending June 30, 2009 is primarily attributable to a favorable income tax expense adjustment as a result of the application of FASB Interpretation No. 48 ("FIN 48"), as discussed above, on less taxable income during the current year compared to the same period of 2008.

A number of years may elapse before an uncertain tax position is audited and ultimately settled. It is difficult to predict the ultimate outcome or the timing of resolution for uncertain tax positions. It is reasonably possible that the amount of unrecognized tax benefits could significantly increase or decrease within the next twelve months. These changes could result from the expiration of

## Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

the statute of limitations, examinations or other unforeseen circumstances. The

10

Company has closed the examination that was ongoing as of March 31, 2009 with no material impact and the Company does not have any outstanding litigation related to tax matters. At this time, management's best estimate of the reasonably possible net change in the amount of unrecognized tax benefits for the next twelve months to be a decrease of approximately \$2.6 to \$3.6 million mainly due to the expiration of certain statute of limitations.

The federal statute of limitations remains open for the years 2006 and forward. Tax years 1999 and forward are subject to audit by state tax authorities depending on the tax code and administrative practice of each state.

### Note 11. Share Repurchases

In September 2001, the Board of Directors of the Company authorized a program to repurchase 15.4 million shares, as adjusted for stock splits after the approval, of the Company's common stock in open market or negotiated transactions using available cash, cash equivalents, and investments. The authorization to repurchase remains open at June 30, 2009 and has no expiration date. The repurchase program may be suspended or discontinued at any time without prior notice. Approximately 6.5 million shares remain authorized for repurchase under the Board of Directors' approval.

The Company repurchased the following shares of common stock under the above-described repurchase plan:

	Six Months Ended June 30,	
	2009	2008
Shares of Common Stock Repurchased (in Millions)	3.5	0.8
Value of stock repurchased (in Millions)	\$ 45.4	\$ 10.6

### Note 12. Commitments and Contingencies

The Company is party to ordinary, routine litigation and administrative proceedings incidental to its business. In the opinion of management, the Company's potential exposure under pending legal proceedings is adequately provided for in the accompanying consolidated financial statements.

During 2008 the Company entered into a commitment for a tractor fleet upgrade. The commitment includes 1,600 trucks for delivery in 2009. The total estimated purchase commitment is \$115 million. The delivery of the equipment began during the third quarter of 2008 and is expected to continue throughout 2009. As of June 30, 2009 the Company had approximately \$62 million of this net commitment remaining of which the Company had approximately \$3.5 million of equipment purchases recorded in accounts payable and accrued liabilities.

### Note 13. Accounting Pronouncements

In April 2009, the FASB issued three related Staff Positions to clarify the application of SFAS 157 to fair value measurements in the current economic environment, modify the recognition of other-than-temporary impairments of debt securities, and require companies to disclose the fair values of financial instruments in interim periods ("SFAS 157 SOP's"). The SFAS 157 SOP's are

## Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted the SFAS 157 SOP's during the quarter ended June 30, 2009 and the SFAS 157 SOP's did not have any effect on the financial position, results of operations, and cash flows of the Company.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS 165") which became effective for interim or annual financial periods ending after June 15, 2009. The objective of SFAS 165 was to establish general standards of accounting for disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Management

11

has evaluated subsequent disclosure events through July 31, 2009, the date the financial statements were available to be issued. Events requiring subsequent event disclosure have been provided in the notes to the consolidated financial statements.

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

#### Forward Looking Statements

Except for certain historical information contained herein, this Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks, assumptions and uncertainties which are difficult to predict. All statements, other than statements of historical fact, are statements that could be deemed forward-looking statements, including any projections of earnings, revenues, or other financial items; any statements of plans, strategies, and objectives of management for future operations; any statements concerning proposed new strategies or developments; any statements regarding future economic conditions or performance; any statements of belief and any statement of assumptions underlying any of the foregoing. Words such as "believe," "may," "could," "expects," "anticipates," and "likely," and variations of these words or similar expressions, are intended to identify such forward-looking statements. The Company's actual results could differ materially from those discussed in the section entitled "Factors That May Affect Future Results," included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" set forth in the Company's Annual report on Form 10-K, which is by this reference incorporated herein. The Company does not assume, and specifically disclaims, any obligation to update any forward-looking statements contained in this Quarterly report.

#### Overview

Heartland Express, Inc. is a short-to-medium haul truckload carrier. The Company transports freight for major shippers and generally earns revenue based on the number of miles per load delivered. The Company operated eleven regional operating divisions that provided regional dry van truckload services from nine regional operating centers in addition to its corporate headquarters during the quarter ended June 30, 2009. The Company's eleven regional operating divisions, not including operations at the corporate headquarters, accounted for 72.6% and 73.4% of operating revenues for the second quarter of 2009 and 2008, respectively, and 72.9% and 73.5% of operating revenues for the six month period ended June 30, 2009 and 2008, respectively. The Company's newest regional operating center near Dallas, Texas opened in early January 2009. The Company takes pride in the quality of the service that it provides to its customers. The



## Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

keys to maintaining a high level of service are the availability of late-model equipment and experienced drivers.

Operating efficiencies and cost controls are achieved through equipment utilization, operating a fleet of late model equipment, maintaining an industry leading driver to non-driver employee ratio, and the effective management of fixed and variable operating costs. Fuel prices soared to historical highs through the first half of 2008 and declined throughout the second half of 2008. The trend in the decline of fuel prices continued in the first quarter of 2009 and remained relatively stable throughout the quarter ended June 30, 2009 with a slight increase late in the quarter. The industry experienced soft freight demand throughout 2008 which has continued to weaken during 2009. This continues to put downward pressure on freight rates. In addition, the decline in fuel prices from highs in 2008 has resulted in a decline in fuel surcharge revenues, which were lower during the second quarter of 2009. The industry continues to fight excess capacity in the market along with declining freight volumes due to the current economic downturn. During 2008, the Company initiated strategies to effectively manage fuel costs. These initiatives included encouraging fueling at terminal locations rather than over-the-road purchases to take advantage of bulk fuel purchases when cost effective to do so, reduction of tractor idle time, and controlling out-of-route miles. Fuel expense was reduced approximately \$35.4 million for the current quarter compared to the same quarter of prior year and \$61.3 million year to date mainly due to reduced price of fuel and lower volumes due to lower miles driven as well as the initiatives previously mentioned. At June 30, 2009, the Company's tractor fleet had an average age of 2.2 years while the trailer fleet had an average age of 5.1 years compared to 2.5 years average age of tractor fleet and 4.3 years average age of trailer fleet a year ago. The Company's average age of the tractor fleet is expected to continue to decrease throughout the remainder of 2009 as the Company continues with the current fleet

12

upgrade campaign. The Company continues to focus on growing internally by providing quality service to targeted customers with a high density of freight in the Company's regional operating areas. In addition to the development of its regional operating centers, the Company has made five acquisitions since 1987. Future growth is dependent upon several factors including the level of economic growth and the related customer demand, the available capacity in the trucking industry, potential acquisition opportunities, and the availability of experienced drivers.

The Company ended the second quarter of 2009 with operating revenues of \$117.0 million, including fuel surcharges, net income of \$17.6 million, and earnings per share of \$0.19 on average outstanding shares of 90.7 million. The Company posted an 81.4% operating ratio (operating expenses as a percentage of operating revenues) and a 15.1% net margin (net income as a percentage of operating revenues). The Company ended the quarter with cash, cash equivalents, short-term and long-term investments of \$205.0 million and a debt-free balance sheet. The Company had total assets of \$543.0 million at June 30, 2009. The Company achieved a return on assets of 12.9% and a return on equity of 20.2% for the twelve months ended June 30, 2009, compared to the twelve months ended June 30, 2008, which were 12.5% and 19.3%, respectively. The Company's cash flow from operations for the first six months of 2009 of \$45.3 million represented a 3.0% increase from the same period of 2008 mainly due to a \$4.5 million increase in net income adjusted for non-cash items offset by a decrease in cash flows from working capital items which were attributable to trade receivable cash collections, timing of certain accounts payable and accrued expense items, and income tax accrual reductions. The Company's cash flow from operations was 19.5% of operating revenues for the six months ended June 30, 2009 compared to 14.0% for the same period in 2008.

## Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

### Results of Operations:

The following table sets forth the percentage relationship of expense items to operating revenue for the periods indicated.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
	-----	-----	-----	-----
Operating revenue	100.0%	100.0%	100.0%	100.0%
	-----	-----	-----	-----
Operating expenses:				
Salaries, wages, and benefits	36.7%	29.5%	37.5%	31.0%
Rent and purchased transportation	2.4	3.1	2.5	3.3
Fuel	21.4	36.8	21.4	35.4
Operations and maintenance	3.7	2.6	3.6	2.7
Operating taxes and licenses	2.1	1.4	2.0	1.5
Insurance and claims	4.0	4.3	3.5	3.4
Communications and utilities	0.8	0.6	0.8	0.6
Depreciation	11.3	6.5	10.8	6.7
Other operating expenses	2.7	2.5	2.8	2.7
Gain on disposal of property and equipment	(3.6)	-	(2.5)	(0.2)
	-----	-----	-----	-----
Total operating expenses	81.4%	87.3%	82.4%	87.0%
	-----	-----	-----	-----
Operating income	18.6%	12.7%	17.6%	13.0%
Interest income	0.5	1.4	0.6	1.6
	-----	-----	-----	-----
Income before income taxes	19.0%	14.1%	18.2%	14.6%
Federal and state income taxes	4.0	3.6	4.5	4.4
	-----	-----	-----	-----
Net income	15.1%	10.5%	13.7%	10.2%
	=====	=====	=====	=====

The following is a discussion of the results of operations of the three and six month period ended June 30, 2009 compared with the same period in 2008.

13

### Three Months Ended June 2009 and 2008

Operating revenue decreased \$47.6 million (28.9%), to \$117.0 million in the second quarter of 2009 from \$164.6 million in the second quarter of 2008. The decrease in revenue resulted from a decrease in fuel surcharge revenue of \$26.4 million to \$12.0 million, further reduced by a decrease in line haul revenue of approximately \$21.2 million. The decrease in fuel surcharge revenue was a direct result of a decrease in average fuel costs during the period as further explained below. Fuel surcharge revenue was \$38.4 million in the second quarter of 2008. The decrease in line haul revenue was directly attributable to a reduction in fleet miles, \$19.5 million, as a direct result of an overall decline in market demand for freight, further reduced by line haul rates and other line haul related revenues, \$1.7 million.

Salaries, wages, and benefits decreased \$5.7 million (11.7%), to \$42.9 million

## Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

in the second quarter of 2009 from \$48.6 million in the second quarter of 2008. The decrease in salaries, wages and benefits was the direct result of decreases of company driver wages due to a decrease in total fleet miles as a direct result of an overall decline in market demand for freight. Other net compensation did not materially change. The mix of the number of employee drivers to independent contractors remained unchanged at a mix of 96% company drivers and 4% independent contractors during the quarters ended June 30, 2009 and 2008.

Rent and purchased transportation decreased \$2.3 million (45.1%), to \$2.8 million in the second quarter of 2009 from \$5.1 million in the second quarter of 2008. Rent and purchased transportation for both periods includes amounts paid to independent contractors under the Company's fuel stability program. The decrease reflects the decrease in miles driven by independent contractors (\$0.8 million) and a decrease of amounts paid under the Company's fuel stability program (\$1.2 million) due to decreases in fuel prices. Other equipment rental expenses decreased \$0.3 million.

Fuel decreased \$35.4 million (58.5%), to \$25.1 million for the three months ended June 30, 2009 from \$60.5 million for the same period of 2008. The decrease is the result of decreased fuel prices, decreased miles driven, and an increase in fuel economy as result of newer tractor fleet as well as our idle reduction initiatives. The Company's fuel cost per mile per company-owned tractor mile decreased 51.0% in second quarter of 2009 compared to 2008. Fuel cost per mile, net of fuel surcharge, decreased 33.1% in the second quarter of 2009 compared to 2008. The Company's second quarter fuel cost per gallon, \$2.10 per gallon, decreased by 50.1% in 2009 compared to the same period of 2008, \$4.21 per gallon. Fuel expense during the quarter ended June 30, 2009 was net of the benefit of the Company's fuel hedging efforts based on gains of \$0.6 million for settlements received on fuel derivative contracts.

Insurance and claims decreased \$2.4 million (34.3%), to \$4.6 million in the second quarter of 2009 from \$7.0 million in the second quarter of 2008 due to a decrease in the number of occurrences and severity of larger claims.

Depreciation increased \$2.5 million (23.4%), to \$13.2 million during the second quarter of 2009 from \$10.7 million in the second quarter of 2008. The increase is mainly attributable to an increase in tractor purchases for the twelve month periods leading up to and including the quarter ended June 30, 2009. As tractors are depreciated using the declining balance method, depreciation expense declines in years subsequent to the first year after initial purchase. Tractors purchased prior to January 1, 2009 are depreciated using the 125% declining balance method. Tractors purchased subsequent to January 1, 2009 are being depreciated using the 150% declining balance method, which increased tractor depreciation \$0.3 million during the quarter ended June 30, 2009 compared to the same period of 2008. During the second half of 2008 and the first six months of 2009 the Company has placed in service 1,036 new tractors which have a higher base cost than previous tractors purchased and are in the first year of depreciation. Tractor depreciation increased \$2.5 million to \$9.8 million in the quarter ended June 30, 2009 from \$7.3 million in the quarter ended June 30, 2008. The increase in tractor depreciation was offset by a decrease of \$0.1 million in trailer depreciation for the three months ended June 30, 2009 compared to the same period of 2008. The decrease in trailer depreciation was the direct result of a portion of our trailer fleet being depreciated to the estimated salvage value of the respective trailers.

Other operating expenses decreased \$0.9 million (22.0%), to \$3.2 million in the second quarter of 2009 from \$4.1 million in the second quarter of 2008. Other

## Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

operating expenses consists of costs incurred for advertising expense, freight handling, highway tolls, driver recruiting expenses, and administrative costs which have decreased mainly due to lower load counts, driver miles and less driver recruiting.

The Company recorded a gain on the disposal of property and equipment of \$4.2 million during the second quarter of 2009 as compared to a minimal loss in the second quarter of 2008. There were no tractor trades during the quarter ended June 30, 2008.

Interest income decreased \$1.6 million (72.7%) in the second quarter of 2009 compared to the 2008 period. The decrease is mainly the result of lower average returns due to the decline in interest rates applicable to short and long-term investments which the Company saw throughout 2008 and continued into 2009 as well as lower average balances of investments due to partial calls received on ARS.

The Company's effective tax rate was 20.9% and 25.6%, respectively, in the three months ended June 30, 2009 and 2008. The decrease in the effective tax rate for the three and six month periods ending June 30, 2009 is primarily attributable to a favorable income tax expense adjustment as a result of the application of FASB Interpretation No. 48 ("FIN 48"), as discussed above, on less taxable income during the current year compared to the same period of 2008.

As a result of the foregoing, the Company's operating ratio (operating expenses as a percentage of operating revenue) was 81.4% during the second quarter of 2009 compared with 87.3% during the second quarter of 2008. Net income increased \$0.4 million (2.3%), to \$17.6 million during the second quarter of 2009 from \$17.2 million during the second quarter of 2008.

### Six Months Ended June 2009 and 2008

Operating revenue decreased \$81.6 million (26.0%), to \$232.0 million in the six months ending June 30, 2009 from \$313.6 million in the 2008 period. The decrease in revenue resulted from a decrease in fuel surcharge revenue of \$42.8 million to \$23.4 million, further reduced by a decrease in line haul revenue of approximately \$38.8 million. The decrease in fuel surcharge revenue was a direct result of a decrease in average fuel costs during the period as further explained below. Fuel surcharge revenue was \$66.2 million for the six months ended June 30, 2008. The decrease in line haul revenue was directly attributable to a reduction in fleet miles, \$36.1 million, as a direct result of an overall decline in market demand for freight, further reduced by line haul rates and other line haul related revenues, \$2.7 million.

Salaries, wages, and benefits decreased \$10.2 million (10.5%), to \$87.0 million in the six months ended June 30, 2009 from \$97.2 million in the 2008 period. The decrease in salaries, wages and benefits was the direct result of decreases of company driver wages due to a decrease in total fleet miles as a direct result of an overall decline in market demand for freight. Other net compensation did not materially change. The mix of the number of employee drivers to independent contractors remained unchanged at a mix of 96% company drivers and 4% independent contractors during the periods ended June 30, 2009 and 2008.

Rent and purchased transportation decreased \$4.6 million (44.7%), to \$5.7 million in the first six months of 2009 from \$10.3 million in the compared period of 2008. Rent and purchased transportation for both periods includes amounts paid to independent contractors under the Company's fuel stability program. The decrease reflects the decrease in miles driven by independent contractors (\$1.9 million) and a decrease of amounts paid under the Company's fuel stability program (\$2.2 million) due to decreases in fuel prices. Other equipment rental expenses decreased \$0.5 million.

## Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

Fuel decreased \$61.4 million (55.3%), to \$49.6 million for the six months ended June 30, 2009 from \$111.0 million for the same period of 2008. The decrease is the net result of decreased fuel prices (\$45.5 million) and a decrease in miles driven and idle reduction initiatives (\$15.9 million). The Company's fuel cost per company-owned tractor mile decreased 47.8% in first six months of 2009 compared to the same period of 2008. Fuel cost per mile, net of fuel surcharge, decreased 34.1% in the first six months of 2009 compared to the same period of 2008. The Company's fuel cost per gallon for the first six months of 2009, \$2.04 per gallon, decreased by 46.3% in 2009 compared to the same period of 2008,

15

\$3.80 per gallon. Fuel expense during the six months ended June 30, 2009 was net of the benefit of the Company's fuel hedging efforts based on gains of \$0.6 million for settlements received on fuel derivative contracts.

Insurance and claims decreased \$2.7 million (25.0%), to \$8.1 million in the second quarter of 2009 from \$10.8 million in the second quarter of 2008 due to a decrease in the number of occurrences and severity of larger claims.

Depreciation increased \$3.9 million (18.5%), to \$25.0 million during the six months ended June 30, 2009 from \$21.1 million in the six months ended June 30, 2008. The increase is mainly attributable to an increase in tractor purchases for the twelve month periods leading up to and including the quarter ended June 30, 2009. As tractors are depreciated using the declining balance method, depreciation expense declines in years subsequent to the first year after initial purchase. Tractors purchased prior to January 1, 2009 are depreciated using the 125% declining balance method. Tractors purchased subsequent to January 1, 2009 are being depreciated using the 150% declining balance method, which increased tractor depreciation \$0.3 million during the six months ended June 30, 2009 compared to the same period of 2008. During the second half of 2008 and the first six months of 2009 the Company has placed in service 1,036 new tractors which have a higher base cost than previous tractors purchased and are in the first year of depreciation. Tractor depreciation increased \$4.0 million to \$18.2 million in the six months ended June 30, 2009 from \$14.2 million in the same period of 2008. The increase in tractor depreciation was offset by a decrease of \$0.3 million in trailer depreciation for six months ended June 30, 2009 compared to the same period of 2008. The decrease in trailer depreciation was the direct result of a portion of our trailer fleet being depreciated to the estimated salvage value of the respective trailers. Other depreciation increased \$0.2 million.

Other operating expenses decreased \$1.9 million (22.4%), to \$6.6 million during the six months ended June 30, 2009 from \$8.5 million in the same period of 2008. Other operating expenses consists of costs incurred for advertising expense, freight handling, highway tolls, driver recruiting expenses, and administrative costs which have decreased mainly due to lower load counts, driver miles and less driver recruiting.

Gain on the disposal of property and equipment increased \$5.3 million, to \$5.9 million during the six months ended June 30, 2009 from \$0.6 million in the same period of 2008. The gain increase is mainly attributable to an increase in the number of tractors traded or sold during the 2009 period compared to the 2008 period.

Interest income decreased \$3.7 million (72.5%), to \$1.4 million in the six months ended June 30, 2009 from \$5.1 million in the same period of 2008. The decrease is mainly the result of lower average returns due to the decline in interest rates applicable to short and long-term investments which the Company

## Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

saw throughout 2008, and continued into 2009 as well as lower average balances of investments due to partial calls received on ARS.

The Company's effective tax rate was 24.7% and 30.3% for the six months ended June 30, 2009. The decrease in the effective tax rate for the three and six month periods ending June 30, 2009 is primarily attributable to a favorable income tax expense adjustment as a result of the application of FASB Interpretation No. 48 ("FIN 48"), as discussed above, on less taxable income during the current year compared to the same period of 2008.

As a result of the foregoing, the Company's operating ratio (operating expenses as a percentage of operating revenue) was 82.4% during the first six months of 2009 compared with 87.0% during the first six months of 2008. Net income decreased \$0.1 million to \$31.8 million during the first six months of 2009 from \$31.9 million during the compared 2008 period.

### Liquidity and Capital Resources

The growth of the Company's business requires significant investments in new revenue equipment. Historically the Company has been debt-free, funding revenue equipment purchases with cash flow provided by operations, which was the case during 2008 and the six months ended June 30, 2009 with the purchase of 1,036 new tractors and 400 new trailers that were acquired during the third and fourth quarters of 2008 and the first and second quarters of 2009. The Company expects to purchase more tractors during the third and fourth quarters of 2009 to complete the current tractor upgrade campaign of 1,600 new tractor deliveries during 2009. The Company also obtains tractor capacity by utilizing independent contractors, who provide a tractor and bear all associated operating and financing expenses. The Company's primary source of liquidity for the six months

16

ended June 30, 2009, was net cash provided by operating activities of \$45.3 million compared to \$44.0 million in 2008. This was primarily a result of net income (excluding non-cash depreciation, deferred tax, and gains on disposal of equipment) being approximately \$4.5 million higher in 2009 compared to 2008 offset by a decrease in cash flow generated by operating assets and liabilities of approximately \$3.2 million. The net decrease in cash provided by operating assets and liabilities for the first six months of 2009 compared to the same period of 2008 was primarily the result of reductions in accounts receivable balances due to collections offset by reductions in accounts payable and accrued expenses. The increase in accident claims during the six month period ending June 30, 2008 did not recur in the six month period ending June 30, 2009. Additionally there were reductions in accrued income taxes mainly due to uncertain tax position accrual changes and certain net income taxes paid during the quarter. Cash flow from operating activities was 19.5% of operating revenues in 2009 compared with 14.0% in 2008.

Capital expenditures for property and equipment, net of trade-ins, totaled \$25.5 million for the six months ended June 30, 2009 compared to \$0.1 million during the same period of 2008. Investing cash flows during the first six months of 2009 were mainly attributable to the Company's tractor fleet upgrade program. There were not any significant capital expenditures during the first six months of 2008. The Company received \$10.9 million in cash during the six month period ended June 30, 2009 related to partial calls of ARS compared to \$10.9 million net investment in ARS's prior to auction failures in February 2008. The increase in proceeds from sale of property and equipment was directly related to cash received under the Company's tractor fleet upgrade program.

The Company paid \$1.8 million in dividends during the first six months of 2009

## Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

compared to cash dividends of \$3.9 million paid in six month period ended June 30, 2008. The dividend declared in the fourth quarter 2008 was paid in the fourth quarter of 2008 where as the dividend declared in the fourth quarter of 2007 was paid in the first quarter of 2008. The Company declared a \$1.8 million cash dividend in June 2009, included in accounts payable and accrued liabilities at June 30, 2009, which was paid on July 2, 2009.

In September, 2001, the Board of Directors of the Company authorized a program to repurchase 15.4 million shares, adjusted for stock splits, of the Company's Common Stock in open market or negotiated transactions using available cash and cash equivalents. The authorization to repurchase remains open at June 30, 2009 and has no expiration date. During the six months ended June 30, 2009, approximately 3.5 million shares of the Company's common stock were repurchased for approximately \$45.4 million at approximately \$12.81 per share. The repurchased shares were subsequently retired. There were approximately 0.8 million shares repurchased for \$10.6 million at approximately \$13.40 per share during the six month period ended June 30, 2008. At June 30, 2009, the Company has approximately 6.5 million shares remaining under the current Board of Director repurchase authorization. Future purchases are dependent upon market conditions.

The Company paid income taxes, net, of \$14.8 million in 2009 which was \$4.5 million lower than income taxes paid during the same period in 2008 of \$19.3 million. The decrease is mainly driven by lower estimated federal income tax payments based on expected taxable income for the year ending December 31, 2009.

Management believes the Company has adequate liquidity to meet its current and projected needs. Management believes the Company will continue to have significant capital requirements over the long-term which are expected to be funded from cash flows provided by operations and from existing cash, cash equivalents and investments. The Company's balance sheet remains debt free. The Company ended the quarter with \$205.0 million in cash, cash equivalents and investments a decrease of \$23.0 million from December 31, 2008. This decrease was mainly driven by stock repurchases and purchases of equipment totaling \$70.8 million, net of cash flows provided by operating activities.

The Company's investments are primarily in the form of tax free, auction rate student loan educational bonds backed by the U.S. government and are classified as available-for-sale. As of June 30, 2009 and December 31, 2008, all of the Company's long-term investment balance was invested in auction rate student loan educational bonds. The investments typically have an interest reset provision of 35 days with contractual maturities that range from 5 to 38 years as of June 30, 2009. At the reset date, the Company has the option to roll the investments and reset the interest rate or sell the investments in an auction. The Company receives the par value of the investment plus accrued interest on the reset date if the underlying investment is sold. The majority, (approximately 97% at par) of the underlying investments are backed by the U.S. government. The remaining 3% of the student loan auction rate securities portfolio are insurance backed

17

securities. As of June 30, 2009, approximately 95% of the underlying investments of the total portfolio held AAA (or equivalent) ratings from recognized rating agencies. The remaining 5% are rated as investment grade by recognized rating agencies.

As of June 30, 2009, all of the Company's auction rate student loan bonds were associated with unsuccessful auctions. To date, there have been no instances of delinquencies or non-payment of applicable interest from the issuers and all partial calls of securities by the issuers have been at par value plus accrued

## Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

interest. Investment income received is generally exempt from federal income taxes and is accrued as earned. Accrued interest income is included in other current assets in the consolidated balance sheet.

The Company estimates the fair value of the auction rate securities applying the guidance in SFAS No. 157 ("SFAS 157"). Fair value represents an estimate of what the Company could sell the investments for in an orderly transaction with a third party as of the June 30, 2009 measurement date; although, it is not the intent of the Company to sell such securities at discounted pricing. Historically, the fair value of such investments was reported based on amortized cost. Until auction failures began, the fair value of these investments were calculated using Level 1 observable inputs per SFAS 157 and fair value was deemed to be equivalent to amortized cost due to the short-term and regularly occurring auction process. Based on auction failures beginning in mid-February 2008 and continued failures through June 30, 2009, there were not any observable quoted prices or other relevant inputs for identical or similar securities. Estimated fair value of all auction rate security investments as of June 30, 2009 was calculated using unobservable, Level 3 inputs, as defined by SFAS 157 due to the lack of observable market inputs specifically related to student loan auction rate securities. The fair value of these investments as of the June 30, 2009 measurement date could not be determined with precision based on lack of observable market data and could significantly change in future measurement periods.

The estimated fair value of the underlying investments as of June 30, 2009 declined below amortized cost of the investments, as a result of liquidity issues in the auction rate markets. With the assistance of the Company's financial advisors, fair values of the student loan auction rate securities were estimated, on an individual investment basis, using a discounted cash flow approach to value the underlying collateral of the trust issuing the debt securities considering an anticipated estimated outstanding average life of the underlying student loans (range of two to ten years) that are the collateral to the trusts, principal outstanding, expected rates of returns over the average life of the underlying student loans, and payout formulas. These underlying cash flows, by individual investment, were discounted using interest rates (range of 2.0%-8.7%) consistent with instruments of similar quality and duration with an adjustment for a higher required yield for lack of liquidity in the market for these auction rate securities. Calculated fair values did not materially change during the period ended June 30, 2009. The Company obtained an understanding of assumptions in models used by third party financial institutions to estimate fair value and considered these assumptions in the Company's cash flow models but did not exclusively use the fair values provided by financial institutions based on their internal modeling. The Company is aware that trading of student loan auction rate securities is occurring in secondary markets, which were considered in the Company's fair value assessment, although the Company has not listed any of its assets for sale on the secondary market. As a result of the fair value measurements, there were no changes to the unrealized loss and reduction to investments, of \$8.6 million, net of tax, during the period ended June 30, 2009. The unrealized loss of \$8.6 million, net of tax, is recorded as an adjustment to accumulated other comprehensive loss and the Company has not recognized any other than temporary impairments in the statement of income. There were not any realized gains or losses related to these investments for the period ended June 30, 2009.

During the third and fourth quarters of 2008, various financial institutions and respective regulatory authorities announced proposed settlement terms in response to various regulatory authorities alleging certain financial institutions misled investors regarding the liquidity risks associated with auction rate securities that the respective financial institutions underwrote, marketed and sold. Further, the respective regulatory authorities alleged the respective financial institutions misrepresented to customers that auction rate securities were safe, highly liquid investments that were comparable to money



## Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

markets. Certain settlement agreements were finalized prior to December 31, 2008. Approximately 97% (based on par value) of our auction rate security investments were not covered by the terms of the above mentioned settlement agreements. The focus of the initial settlements was generally towards individuals, charities, and businesses with small investment balances, generally with holdings of \$25 million and less. As part of the general terms of the

18

settlements, the respective financial institutions have agreed to provide their best efforts in providing liquidity to the auction rate securities market for investors not specifically covered by the terms of the respective settlements. Such liquidity solutions could be in the form of facilitating issuer redemptions, resecuritizations, or other means. The Company can not currently project when liquidity will be obtained from these investments and plans to continue to hold such securities until the securities are called, redeemed, or resecuritized by the debt issuers.

The remaining 3.0% (based on par value) was specifically covered by a settlement agreement which the Company signed during the fourth quarter of 2008. By signing the settlement agreement, the Company relinquished its rights to bring any claims against the financial institution, as well, as its right to serve as a class representative or receive benefits under any class action. Further, the Company no longer has the sole discretion and right to sell or otherwise dispose of, and/or enter orders in the auction process with respect to the underlying securities. As part of the settlement, the Company obtained a put option to sell the underlying securities to the financial institution, which is exercisable during the period starting on June 30, 2010 through July 2, 2012, plus accrued interest. Should the financial institution sell or otherwise dispose of our securities the Company will receive the par value of the securities plus accrued interest one business day after the transaction. Upon signing the settlement agreement, the Company no longer maintains the intent and ability to hold the underlying securities for recovery of the temporary decline in fair value. The Company also acquired an asset, a put option that is valued as a stand alone financial instrument separate from the underlying securities. There was not any significant change in the value of the put option during the period ended June 30, 2009. The value of these securities is included in long-term investments per the consolidated balance sheet.

The Company has evaluated the unrealized loss on securities other than securities covered by the settlement agreement discussed above to determine whether this decline is other than temporary. Management has concluded the decline in fair value to be temporary based on the following considerations.

- o Current market activity and the lack of severity or extended decline do not warrant such action at this time.
- o Since auction failures began in February 2008, the Company has received approximately \$28.8 million as the result of partial calls by issuers. The Company received par value for the amount of these calls plus accrued interest.
- o Based on the Company's financial operating results, operating cash flows and debt free balance sheet, the Company has the ability and intent to hold such securities until recovery of the unrealized loss.
- o There have not been any significant changes in collateralization and ratings of the underlying securities since the first failed auction. The Company continues to hold 95% of the auction rate security portfolio in senior positions of AAA (or equivalent) rated securities.
- o The Company is aware of recent increases in default rates of the underlying student loans that are the assets to the trusts issuing the auction rate security debt, which management believes is due to

## Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

current overall economic conditions. As the underlying loans are guaranteed by the U.S. Government, defaults of the loans accelerate payment of the underlying loan to the trust. As trusts are no longer recycling repayment money for new loans, accelerated repayment of any student loan to the underlying trust would increase cash flows of the trust which would potentially result in partial calls by the underlying trusts.

- o Currently, there is legislative pressure to provide liquidity in student loan investments, providing liquidity to state student loan agencies, to continue to provide financial assistance to eligible students to enable higher educations as well as improve overall liquidity in the student loan auction rate market. This has the potential to impact existing securities with underlying student loans.
- o All of the auction rate securities are held with financial institutions that have agreed in principle to settlement agreements with various regulatory agencies to provide liquidity. Although the principles of the respective settlement agreements focus mostly on small investors (generally companies and individual investors with auction rate security assets less than \$25 million) the respective settlements state the financial institutions will work with issuers and other interested parties to use their best efforts to provide liquidity solutions to companies not specifically covered by the principle terms of the respective settlements by the end of 2009 in

19

certain settlement agreements. Regulatory agencies continue to monitor the progress of the respective financial institutions towards this goal.

Management will monitor its investments and ongoing market conditions in future periods to assess impairments considered to be other than temporary. Should estimated fair value continue to remain below cost or the fair value decrease significantly from current fair value due to credit related issues, the Company may be required to record an impairment of these investments through a charge in the consolidated statement of income.

Net working capital for the six months ended June 30, 2009 decreased by \$10.6 million over December 31, 2008 largely due to a decrease in cash and cash equivalents driven by share repurchases, cash paid for equipment purchases, less cash received from partial calls of ARS investments and increases in accounts payable due to equipment purchases. Based on the Company's strong financial position, management believes outside financing could be obtained, if necessary, to fund capital expenditures.

### Off-Balance Sheet Transactions

The Company's liquidity is not materially affected by off-balance sheet transactions.

### Risk Factors

You should refer to Item 1A of our annual report (Form 10-K) for the year ended December 31, 2008, under the caption "Risk Factors" for specific details on the following factors that are not within the control of the Company and could affect our financial results.

- o Our business is subject to general economic and business factors that are largely out of our control, any of which could have a materially adverse effect on our operating results.
- o Our growth may not continue at historic rates.

## Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

- o Increased prices, reduced productivity, and restricted availability of new revenue equipment may adversely affect our earnings and cash flows.
- o If fuel prices increase significantly, our results of operations could be adversely affected.
- o Difficulty in driver and independent contractor recruitment and retention may have a materially adverse effect on our business.
- o We operate in a highly regulated industry and changes in regulations could have a materially adverse effect on our business.
- o We operate in a highly regulated industry, and increased costs of compliance with, or liability for violation of, existing or future regulations could have a materially adverse effect on our business.
- o Our operations are subject to various environmental laws and regulations, the violations of which could result in substantial fines or penalties.
- o We may not make acquisitions in the future, or if we do, we may not be successful in integrating the acquired company, either of which could have a materially adverse effect on our business.
- o If we are unable to retain our key employees or find, develop, and retain service center managers, our business, financial condition, and results of operations could be adversely affected.
- o We are highly dependent on a few major customers, the loss of one or more of which could have a materially adverse effect on our business.
- o If the estimated fair value of auction rate securities continues to remain below cost or if the fair value decreases significantly from the current fair value, we may be required to record an impairment of these investments, through a charge in the consolidated statement of income, which could have a materially adverse effect on our earnings.
- o Seasonality and the impact of weather affect our operations profitability.
- o Ongoing insurance and claims expenses could significantly reduce our earnings.
- o We are dependent on computer and communications systems, and a systems failure could cause a significant disruption to our business.

20

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

Assuming we maintain our short-term and long-term investment balance consistent with balances as of June 30, 2009, (\$160.4 million amortized cost), and if market rates of interest on our investments decreased by 100 basis points, the estimated reduction in annual interest income would be approximately \$1.6 million.

The Company has no debt outstanding as of June 30, 2009 and, therefore, has no market risk related to debt.

Volatile fuel prices will continue to impact us significantly. Based on the Company's historical experience, the Company is not able to pass through to customers 100% of fuel price increases. For the quarter ended June 30, 2009 and 2008, fuel expense, net of fuel surcharge revenue and fuel stabilization paid to owner operators along with favorable fuel hedge settlements, was \$13.4 million and \$23.7 million or 15.2% and 22.2%, respectively, of the Company's total net operating expenses, net of fuel surcharge. For the six months ended June 30, 2009 and 2008, fuel expense, net of fuel surcharge revenue and fuel stabilization paid to owner operators along with favorable fuel hedge settlements, was \$27.0 million and \$47.8 million or 15.5% and 22.7%, respectively, of the Company's total net operating expenses, net of fuel surcharge. A significant increase in fuel costs, or a shortage of diesel fuel, could materially and adversely affect our results of operations. In February

## Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

2007, the Board of Directors authorized the Company to begin hedging activities related to projected future purchases of diesel fuel to reduce its exposure to diesel fuel price fluctuations. During the quarter ended March 31, 2009, the Company contracted with an unrelated third party to hedge forecasted future cash flows related to fuel purchases for the quarter ended June 30, 2009. The hedge of forecasted future cash flow was transacted through the use of certain swap contracts. The Company has implemented the provisions of SFAS No. 133 and SFAS No. 161, and has designated such hedges as cash flow hedges. The cash flow hedging strategy was implemented mainly to reduce the Company's exposure to significant upward movements in diesel fuel prices related to fuel consumed by empty and out-of-route miles and truck engine idling time, which is not recoverable through fuel surcharge agreements. The contracted hedge expired on June 30, 2009 and favorably impacted fuel expense \$0.6 million for the quarter ended June 30, 2009. There were no open hedging contracts at June 30, 2009.

### Item 4. Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operations of the Company's disclosure controls and procedures, and as defined in Exchange Act Rule 15d-15(e). Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in enabling the Company to record, process, summarize and report information required to be included in the Company's periodic SEC filings within the required time period. There have been no changes in the Company's internal controls over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II

### OTHER INFORMATION

#### Item 1. Legal Proceedings

The Company is a party to ordinary, routine litigation and administrative proceedings incidental to its business. These proceedings primarily involve claims for personal injury, property damage, and workers' compensation incurred in connection with the transportation of freight. The Company maintains insurance to cover liabilities arising from the transportation of freight for amounts in excess of certain self-insured retentions.

## Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

Item 2. Changes in Securities

None

Item 3. Defaults upon Senior Securities

None

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

The Company's Annual Meeting of Shareholders was held on May 7, 2009. At the Annual Meeting, the shareholders elected Russell A. Gerdin, Michael J. Gerdin, Richard O. Jacobson, Dr. Benjamin J. Allen, Lawrence D. Crouse, and James G. Pratt to serve as directors for a one year term (86,070,041 for, 0 against, 391,488 withheld,) and ratified the appointment of KPMG, LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2009 (86,223,975 for, 230,672 against, 6,882 withheld). Shareholders representing 86,461,529 shares, or approximately 95.3% of the Company's outstanding Common Stock as of the record date, were present in person or by proxy at the Annual Meeting.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit

- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

- 1. Report on Form 8-K, dated April 17, 2009, announcing the Company's financial results for the quarter ended March 31, 2008.
- 2. Report on Form 8-K, dated June 11, 2009, announcing the declaration of a quarterly cash dividend.

No other information is required to be filed under Part II of the form.

### SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the

Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

undersigned thereunto duly authorized.

HEARTLAND EXPRESS, INC.

Date: August 7, 2009

BY: /S/ John P. Cosaert  
-----

John P. Cosaert  
Executive Vice President-Finance,  
Chief Financial Officer and Treasurer  
(Principal accounting and financial  
officer)