

HEARTLAND EXPRESS INC
Form 10-Q
August 10, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
(Mark One)

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

For quarter ended June 30, 2015

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

For the transition period from _____ to _____

Commission file number 0-15087

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 No.)

901 North Kansas Avenue, North Liberty, Iowa
(Address of Principal Executive Offices)
319-626-3600
(Registrant's telephone number, including area code)

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, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

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Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

As of August 7, 2015 there were 87,862,138 shares of the Company's common stock (\$0.01 par value) outstanding.

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HEARTLAND EXPRESS, INC.
AND SUBSIDIARIES

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PART I
HEARTLAND EXPRESS, INC.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)
(unaudited)

ASSETS	June 30, 2015	December 31, 2014
CURRENT ASSETS		
Cash and cash equivalents	\$79,476	\$17,303
Trade receivables, net	70,460	77,034
Prepaid tires	9,399	10,160
Prepaid shop supplies	1,429	2,056
Other current assets	16,482	8,992
Income tax receivable	2,900	19,920
Deferred income taxes, net	16,536	14,767
Total current assets	196,682	150,232
PROPERTY AND EQUIPMENT		
Land and land improvements	24,787	22,463
Buildings	39,548	34,151
Leasehold improvements	6,509	8,033
Furniture and fixtures	2,096	2,096
Shop and service equipment	10,691	10,820
Revenue equipment	583,275	600,335
Construction in progress	341	668
	667,247	678,566
Less accumulated depreciation	208,124	198,007
Property and equipment, net	459,123	480,559
GOODWILL	100,212	100,212
OTHER INTANGIBLES, NET	15,148	16,380
OTHER ASSETS	10,929	12,611
	\$782,094	\$759,994
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$16,834	\$8,261
Compensation and benefits	28,262	26,303
Insurance accruals	19,353	19,249
Other accruals	13,475	14,475
Total current liabilities	77,924	68,288
LONG-TERM LIABILITIES		
Income taxes payable	15,498	18,296
Long-term debt	—	24,600
Deferred income taxes, net	101,311	101,605
Insurance accruals less current portion	60,998	59,300
Other long-term liabilities	11,653	11,318
Total long-term liabilities	189,460	215,119
COMMITMENTS AND CONTINGENCIES (Note 14)		
STOCKHOLDERS' EQUITY		

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Preferred stock, par value \$.01; authorized 5,000 shares; none issued	—	—
Capital stock, common, \$.01 par value; authorized 395,000 shares; issued 90,689 in 2015 and 2014; outstanding 87,862 in 2015 and 87,781 in 2014, respectively	907	907
Additional paid-in capital	3,734	4,058
Retained earnings	547,243	509,834
Treasury stock, at cost; 2,827 shares in 2015 and 2,908 in 2014, respectively	(37,174)	(38,212)
	514,710	476,587
	\$782,094	\$759,994

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

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HEARTLAND EXPRESS, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
OPERATING REVENUE	\$191,684	\$226,785	\$379,207	\$451,265
OPERATING EXPENSES				
Salaries, wages, and benefits	70,904	\$71,240	\$141,900	\$142,185
Rent and purchased transportation	9,211	13,741	18,537	28,252
Fuel	34,196	59,338	68,452	122,563
Operations and maintenance	8,379	9,776	16,512	19,897
Operating taxes and licenses	4,378	5,319	9,192	10,165
Insurance and claims	3,469	4,370	10,113	11,465
Communications and utilities	1,453	1,553	2,996	3,383
Depreciation and amortization	26,876	26,668	52,850	51,241
Other operating expenses	6,747	7,997	14,505	16,687
Gain on disposal of property and equipment	(9,668)	(13,859)	(19,849)	(15,903)
	155,945	186,143	315,208	389,935
Operating income	35,739	40,642	63,999	61,330
Interest income	61	106	93	142
Interest expense	—	(132)	(19)	(287)
Income before income taxes	35,800	40,616	64,073	61,185
Federal and state income taxes	12,484	14,144	23,145	20,634
Net income	\$23,316	\$26,472	\$40,928	\$40,551
Other comprehensive income, net of tax	—	—	—	—
Comprehensive income	\$23,316	\$26,472	\$40,928	\$40,551
Net income per share				
Basic	\$0.27	\$0.30	\$0.47	\$0.46
Diluted	\$0.27	\$0.30	\$0.47	\$0.46
Weighted average shares outstanding				
Basic	87,814	87,728	87,802	87,716
Diluted	87,967	87,900	87,966	87,908
Dividends declared per share	\$0.02	\$0.02	\$0.04	\$0.04

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

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HEARTLAND EXPRESS, INC
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except per share amounts)
(unaudited)

	Capital Stock, Common	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
Balance, December 31, 2014	\$907	\$4,058	\$509,834	\$(38,212)	\$476,587
Net income	—	—	40,928	—	40,928
Dividends on common stock, \$0.04 per share	—	—	(3,519)	—	(3,519)
Stock-based compensation, net of tax	—	(324)	—	1,038	714
Balance, June 30, 2015	\$907	\$3,734	\$547,243	\$(37,174)	\$514,710

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

HEARTLAND EXPRESS, INC.
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CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended June 30,	
	2015	2014
OPERATING ACTIVITIES		
Net income	\$40,928	\$40,551
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	53,375	51,779
Deferred income taxes	(2,063)	10,103
Amortization of stock-based compensation, net of tax	714	546
Gain on disposal of property and equipment	(19,849)	(15,903)
Changes in certain working capital items:		
Trade receivables	6,574	(3,758)
Prepaid expenses and other current assets	1,368	(2,237)
Accounts payable, accrued liabilities, and accrued expenses	6,441	(6,979)
Accrued income taxes	14,222	4,046
Net cash provided by operating activities	101,710	78,148
INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	57,349	29,432
Purchases of property and equipment, net of trades	(64,703)	(72,384)
Acquisition of business, net of cash acquired	—	(3,011)
Change in designated funds for equipment purchases	(5,741)	—
Change in other assets	1,682	(49)
Net cash used in investing activities	(11,413)	(46,012)
FINANCING ACTIVITIES		
Cash dividends	(1,759)	(1,757)
Contingent consideration related to acquisition	(1,765)	—
Borrowings on line of credit	—	3,000
Repayments on line of credit	(24,600)	(35,000)
Net cash used in financing activities	(28,124)	(33,757)
Net increase (decrease) in cash and cash equivalents	62,173	(1,621)
CASH AND CASH EQUIVALENTS		
Beginning of period	17,303	17,763
End of period	\$79,476	\$16,142
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	\$40	\$306
Cash paid during the period for income taxes, net of refunds	\$10,802	\$6,486
Noncash investing and financing activities:		
Fair value of revenue equipment traded	\$—	\$3,335
Purchased property and equipment in accounts payable	\$5,682	\$28,406
Sold property and equipment in other current assets	\$1,598	\$—
Common stock dividends declared in accounts payable	\$1,760	\$1,759

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

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HEARTLAND EXPRESS, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1. Basis of Presentation

Heartland Express, Inc., (the “Company,” “we,” “us,” or “our”) is a holding company incorporated in Nevada, which owns all of the stock of Heartland Express Inc. of Iowa, Gordon Trucking, Inc. (“GTI”), Heartland Express Services, Inc., Heartland Express Maintenance Services, Inc., and A & M Express, Inc. We, and our subsidiaries, operate as one segment. We, together with our subsidiaries, are a short-to-medium haul truckload carrier (predominately 500 miles or less per load) with corporate headquarters in North Liberty, Iowa. We primarily provide nationwide asset-based dry van truckload service for major shippers from Washington to Florida and New England to California.

The accompanying consolidated financial statements include the parent company, Heartland Express, Inc., and its subsidiaries, all of which are wholly owned. All material intercompany items and transactions have been eliminated in consolidation. The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) 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 notes to the financial statements 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, 2014 included in the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission on March 2, 2015. Interim results of operations are not necessarily indicative of the results to be expected for the full year or any other interim periods. There were no changes to the Company's significant accounting policies during the six month period ended June 30, 2015.

Note 2. Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP 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. There were no significant changes in estimates and assumptions used by management related to our critical accounting policies during the three and six months ended June 30, 2015.

Note 3. Segment Information

We provide multiple transportation services across the United States (U.S.) and parts of Canada. We offer primarily asset-based transportation services in the dry van truckload market and also offer truckload temperature-controlled transportation services and non-asset based brokerage services. None of our transportation services or geographical-based regional terminals individually meet the definition of a segment. Our Chief Operating Decision Maker oversees and manages all of our transportation services and regional terminals, on a combined basis, including the legacy transportation services of acquired entities. As a result of the foregoing, we have determined that we have one segment, consistent with the authoritative accounting guidance on disclosures about segments of an enterprise and related information.

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 at acquisition. At June 30, 2015, restricted and designated cash and investments totaled \$16.7 million with \$5.7 million included in other current assets and \$11.0 million included in other non-current assets in the consolidated balance sheet. Restricted and designated cash and investments totaled \$12.6 million at December 31, 2014, all of which was included in other non-current assets in the consolidated balance sheet. 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. Prepaid Tires, Property, Equipment, and Depreciation

Property and equipment are reported at cost, net of accumulated depreciation. Maintenance and repairs are charged to operations as incurred. Tires are capitalized separately from revenue equipment and are reported separately as "Prepaid tires" in the consolidated balance sheets and amortized over two years. Depreciation expense of \$0.3 million and \$0.3 million for the three

months ended June 30, 2015 and 2014 and \$0.5 million and \$0.5 million for the six months ended June 30, 2015 and 2014, respectively, have been included in communication and utilities in the consolidated statements of comprehensive income. Depreciation for financial statement purposes is computed by the straight-line method for all assets other than tractors. We recognize depreciation expense on tractors using the 125% declining balance method. New tractors are depreciated to salvage values of \$15,000 while new trailers are depreciated to salvage values of \$4,000.

Note 6. Other Intangibles, Net and Goodwill

All intangible assets determined to have finite lives are amortized over their estimated useful lives. The useful life of an intangible asset is the period over which the asset is expected to contribute directly or indirectly to future cash flows. There was no change in the gross amount of identifiable intangible assets during the three and six months ended June 30, 2015. Amortization expense of \$0.6 million, \$1.2 million and \$0.6 million, \$1.2 million for the three and six months ended June 30, 2015 and 2014, respectively, was included in depreciation and amortization in the consolidated statement of comprehensive income. Intangible assets subject to amortization consisted of the following at June 30, 2015:

	Amortization period (years)	Gross Amount (in thousands)	Accumulated Amortization	Net intangible assets
Customer relationships	20	\$7,600	\$618	\$6,982
Tradename	6	7,400	2,004	5,396
Covenants not to compete	10	3,100	507	2,593
Real estate options	2.2	942	765	177
		\$19,042	\$3,894	\$15,148

Carrying amounts of goodwill were as follows:

	(in thousands)
Balance at December 31, 2014	\$100,212
Acquisitions	—
Balance at June 30, 2015	\$100,212

Note 7. Earnings per Share

Basic earnings per share is based upon the weighted average common shares outstanding during each year. Diluted earnings per share is based on the basic weighted earnings per share with additional weighted common shares for common stock equivalents. During the three and six months ended June 30, 2015 and June 30, 2014, we had outstanding restricted shares of common stock to certain of our employees under the Company's 2011 Restricted Stock Award Plan. A reconciliation of the numerator (net income) and denominator (weighted average number of shares outstanding of the basic and diluted earnings per share ("EPS")) for the three and six months ended June 30, 2015 and June 30, 2014 is as follows (in thousands, except per share data):

	Three months ended June 30, 2015		
	Net Income (numerator)	Shares (denominator)	Per Share Amount
Basic EPS	\$23,316	87,814	\$0.27
Effect of restricted stock	—	153	
Diluted EPS	\$23,316	87,967	\$0.27

	Three months ended June 30, 2014		
	Net Income (numerator)	Shares (denominator)	Per Share Amount
Basic EPS	\$26,472	87,728	