

Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

HEARTLAND EXPRESS INC  
Form 10-Q  
May 10, 2007

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 March 31, 2007 Commission File No. 0-15087  
-----

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

Nevada 93-0926999  
-----  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification Number)

2777 Heartland Drive, Coralville, Iowa 52241  
-----  
(Address of Principal Executive Office) (Zip Code)

Registrant's telephone number, including area code (319) 545-2728  
-----

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act).  
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 March 31, 2007, there were 98,251,889 shares of the Company's \$.01 par value common stock outstanding.

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

## HEARTLAND EXPRESS, INC. AND SUBSIDIARIES

### PART I

#### FINANCIAL INFORMATION

	Page Number
Item 1. Financial Statements (Unaudited)	
Consolidated Balance Sheets as of March 31, 2007 and December 31, 2006	1-2
Consolidated Statements of Income for the Three Months Ended March 31, 2007 and 2006	3
Consolidated Statements of Stockholders' Equity for the Three Months Ended March 31, 2007	4
Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2007 and 2006	5
Notes to Consolidated Financial Statements	6-9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	9-14
Item 3. Quantitative and Qualitative Disclosures about Market Risk	14
Item 4. Controls and Procedures	14

### PART II

#### OTHER INFORMATION

Item 1. Legal Proceedings	15
Item 2. Changes in Securities	15
Item 3. Defaults upon Senior Securities	15
Item 4. Submission of Matters to a Vote of Security Holders	15
Item 5. Other Information	15
Item 6. Exhibits and Reports on Form 8-K	15

## HEARTLAND EXPRESS, INC. AND SUBSIDIARIES

#### CONSOLIDATED BALANCE SHEETS

Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

ASSETS	March 31, 2007	December 31, 2006
	-----	-----
	(Unaudited)	
CURRENT ASSETS		
Cash and cash equivalents .....	\$ 11,417,039	\$ 8,458,882
Short-term investments .....	353,689,572	322,829,306
Trade receivables, net of allowance for doubtful accounts of \$775,000 .....	45,504,423	43,499,482
Prepaid tires and tubes .....	4,582,010	5,075,566
Other prepaid expenses .....	6,811,936	1,635,077
Deferred income taxes .....	28,614,000	29,177,000
	-----	-----
Total current assets .....	450,618,980	410,675,313
	-----	-----
PROPERTY AND EQUIPMENT		
Land and land improvements .....	10,017,251	12,016,344
Buildings .....	18,938,832	18,849,412
Furniture and fixtures .....	1,113,565	1,113,565
Shop and service equipment .....	2,817,027	2,838,934
Revenue equipment .....	311,846,053	309,505,597
	-----	-----
	344,732,728	344,323,852
Less accumulated depreciation .....	104,987,360	96,293,111
	-----	-----
Property and equipment, net .....	239,745,368	248,030,741
	-----	-----
GOODWILL .....	4,814,597	4,814,597
OTHER ASSETS .....	5,528,998	5,549,061
	-----	-----
	\$700,707,943	\$669,069,712
	=====	=====

Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

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

1

HEARTLAND EXPRESS, INC.  
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31, 2007	December 31, 2006
	----- (Unaudited)	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 15,887,364	\$ 15,075,647
Compensation and benefits .....	14,128,288	15,028,378
Income taxes payable .....	8,836,953	21,418,610
Insurance accruals .....	57,107,383	56,651,853
Other accruals .....	8,076,648	8,248,415
Total current liabilities .....	----- 104,036,636	----- 116,422,903
LONG-TERM LIABILITIES		
Income taxes payable .....	35,913,580	--
Deferred income taxes .....	49,881,000	57,623,000
Total long-term liabilities .....	----- 85,794,580	----- 57,623,000
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred, \$.01 par value; authorized 5,000,000 share; none issued .....	--	--
Common, \$.01 par value; authorized 395,000,000 shares; issued and outstanding: 98,251,889 shares .....	982,519	982,519

Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

Additional paid-in capital .....	438,701	376,029
Retained earnings .....	509,455,507	493,665,261
	-----	-----
	510,876,727	495,023,809
	-----	-----
	\$700,707,943	\$669,069,712
	=====	=====

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

2

HEARTLAND EXPRESS, INC.  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three months ended	
	March 31,	
	2007	2006
	-----	-----
OPERATING REVENUE .....	\$ 143,429,027	\$ 134,999,299
	-----	-----
OPERATING EXPENSES:		
Salaries, wages, and benefits .....	\$ 48,013,729	\$ 46,370,582
Rent and purchased transportation .....	5,221,764	6,199,672
Fuel .....	36,813,297	32,961,018
Operations and maintenance .....	3,204,050	2,946,733
Operating taxes and licenses .....	2,280,358	2,067,167

Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

Insurance and claims .....	5,589,831	4,086,849
Communications and utilities .....	855,918	952,339
Depreciation .....	11,703,756	10,177,659
Other operating expenses .....	4,125,123	4,197,629
Gain on disposal of property and equipment	(5,666,241)	(3,059,237)
	-----	-----
	112,141,585	106,900,411
	-----	-----
Operating income .....	31,287,442	28,098,888
Interest income .....	3,316,063	2,505,947
	-----	-----
Income before income taxes .....	34,603,505	30,604,835
Income taxes .....	12,050,204	10,864,684
	-----	-----
Net income .....	\$ 22,553,301	\$ 19,740,151
	=====	=====
Earnings per share .....	\$ 0.23	\$ 0.20
	=====	=====
Weighted average shares outstanding .....	98,251,889	98,428,589
	=====	=====
Dividends declared per share .....	\$ 0.020	\$ 0.015
	=====	=====

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

3

HEARTLAND EXPRESS, INC.  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(Unaudited)

	Capital Stock, Common	Additional Paid-In Capital	Retained Earnings	Total
	-----	-----	-----	-----
Balance, December 31, 2006	\$ 982,519	\$ 376,029	\$ 493,665,261	\$ 495,023,809
Adoption of FIN 48 .....	--	--	(4,798,017)	(4,798,017)
Net income .....	--	--	22,553,301	22,553,301

Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

Dividends on common stock, \$0.02 per share .....	--	--	(1,965,038)	(1,965,038)
Amortization of unearned compensation .....	--	62,672	--	62,672
Balance, March 31, 2007 ..	\$ 982,519	\$ 438,701	\$ 509,455,507	\$ 510,876,727

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

4

HEARTLAND EXPRESS, INC.  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,	
	2007	2006
	-----	-----
OPERATING ACTIVITIES		
Net income .....	\$22,553,301	\$19,740,151
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization .....	11,708,756	10,182,660

Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

Deferred income taxes .....	1,634,000	(658,000)
Amortization of unearned compensation .....	62,672	94,228
Gain on disposal of property and equipment ....	(5,666,241)	(3,059,237)
Changes in certain working capital items:		
Trade receivables .....	(2,004,941)	1,520,160
Prepaid expenses .....	(4,604,990)	(2,341,839)
Accounts payable, accrued		
liabilities and other accruals.....	783,213	3,187,857
Accrued income taxes .....	9,720,906	11,014,826
	-----	-----
Net cash provided by operating activities .....	34,186,676	39,680,806
	-----	-----
INVESTING ACTIVITIES		
Proceeds from sale of property		
and equipment .....	8,402,691	465,875
Purchases of property and equipment,		
net of trades .....	(6,821,652)	(4,587,572)
Net purchases of municipal bonds .....	(30,860,266)	(33,525,943)
Change in other assets .....	15,062	17,629
	-----	-----
Net cash used in investing activities .....	(29,264,165)	(37,630,011)
	-----	-----
FINANCING ACTIVITIES, cash dividend .....	(1,964,354)	(1,475,401)
	-----	-----
Net increase in cash and cash equivalents .....	2,958,157	575,394
	-----	-----
CASH AND CASH EQUIVALENTS		
Beginning of period .....	8,458,882	5,366,929
	-----	-----
End of period .....	\$11,417,039	\$ 5,942,323
	=====	=====
SUPPLEMENTAL DISCLOSURES OF		
CASH FLOW INFORMATION		
Cash paid during the period for:		
Income taxes .....	\$ 695,298	\$ 507,858
Non-cash investing activities:		
Fair value of revenue equipment traded .....	\$ --	\$ 6,316,600
Purchased revenue equipment in accounts payable	\$ 1,882,000	\$ 2,709,875

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



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

### 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 financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2006 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 or any other interim periods. There were no changes to the Company's significant accounting policies during the quarter.

### Note 2. Use of Estimates

The preparation of 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 ten operating divisions; 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. 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 March 31, 2007 and December 31, 2006 are included in other assets. The restricted funds represent those required for self-insurance purposes and designated funds represent those earmarked for a specific purpose not for general business use.

### Note 5. Short-term Investments

The Company investments are primarily in the form of tax free municipal bonds with interest reset provisions or short-term municipal bonds. The investments typically have a put option of 28 or 35 days. At the reset date the Company has the option to roll the investment over or sell. The Company receives the par value of the investment on the reset date if sold. The cost approximates fair value due to the nature of the investment. Therefore, accumulated other

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

comprehensive income (loss) has not been recognized as a separate component of stockholders' equity. Investment income received is generally exempt from federal income taxes.

### Note 6. Property, Equipment, and Depreciation

Property and equipment are stated at cost, while maintenance and repairs are charged to operations as incurred.

Effective July 1, 2005, gains from the trade of revenue equipment are being recognized in operating income in compliance with Statement of Financial Accounting Standards ("SFAS") No. 153, "Accounting for Non-monetary Transactions". Prior to July 1, 2005, gains from the trade-in of revenue equipment were deferred and presented as a reduction of the depreciable basis of new revenue equipment. Operating income for the three months ended March 31, 2007 was not effected by gains related to the trade of revenue equipment. First quarter 2006 was favorably impacted by \$2.7 million from gains on the trade-in of revenue equipment, net of the associated increase in depreciation expense as a result of the higher depreciable basis of traded revenue equipment acquired since July 1, 2005.

### Note 7. Earnings Per Share:

Earnings per share are based upon the weighted average common shares outstanding during each period. Heartland Express has no common stock equivalents; therefore, diluted earnings per share are equal to basic earnings per share.

### Note 8. Share Based Compensation

On March 7, 2002, the principal shareholder transferred 181,500 of his own shares establishing a restricted stock plan on behalf of key employees. The shares generally vest over a five year period or upon death or disability of the recipient. The shares were valued at the March 7, 2002 market value of approximately \$2.0 million. The market value of \$2.0 million was amortized over a five year period as compensation expense. Compensation expense of \$62,672 for the three month period ended March 31, 2007 and \$94,228 for the same period of 2006 is recorded in salaries, wages, and benefits on the consolidated statement of income. As of March 31, 2007, all unearned compensation cost related to the restricted stock granted was fully amortized. All unvested shares are included in the Company's 98.3 million outstanding shares.

A summary of the Company's non-vested restricted stock as of March 31, 2007, and changes during the three months ended March 31, 2007 is presented in the table below:

	Shares	Grant-date Fair Value
	-----	-----
Non-vested stock outstanding at January 1, 2007	34,200	\$ 11.00
Granted	-	-
Vested	(32,900)	11.00
Forfeited	-	-
	-----	-----
Non-vested stock outstanding at March 31, 2007	1,300	\$ 11.00
	=====	=====

The fair value of the shares vested was \$526,715 and \$560,289 for the three months ended March 31, 2007 and 2006, respectively.

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

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment," a revision of SFAS No. 123, which addresses the accounting for share-based payment transactions. SFAS No. 123(R) eliminates the ability to account for employee share-based compensation transactions using APB Opinion No. 25, "Accounting for Stock Issued to Employees," and generally requires instead that such transactions be accounted and recognized in the consolidated statement of income based on their fair value.

7

SFAS No. 123(R) also requires entities to estimate the number of forfeitures expected to occur and record expense based upon the number of awards expected to vest. The Company implemented SFAS No. 123(R) on January 1, 2006. The unamortized portion of unearned compensation was reclassified to retained earnings upon implementation. The amortization of unearned compensation is being recorded as additional paid-in capital effective January 1, 2006.

### Note 9. Income Taxes

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109 (FIN48). The Company was required to adopt the provisions of FIN 48, effective January 1, 2007. This interpretation was issued to clarify the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The Company recognized additional tax liabilities of \$4.8 million with a corresponding reduction to beginning retained earnings as of January 1, 2007 as a result of the adoption of FIN 48. The total amount of gross unrecognized tax benefits was \$35.6 million as of January 1, 2007, the date of adoption. At March 31, 2007, the Company had a total of \$35.9 million in gross unrecognized tax benefits. Of this amount, \$26.8 million represents the amount of unrecognized tax benefits that, if recognized, would impact our effective tax rate. These unrecognized tax benefits relate to the state income tax filing position for the Company's corporate subsidiaries. The Company does not expect the aggregate amount of unrecognized tax benefits to change significantly within the next twelve months. The Company cannot reasonably estimate when the unrecognized tax benefits will be realized. The total amount of accrued interest and penalties for such unrecognized tax benefits was \$10.4 million as of January 1, 2007, the date of adoption. Interest and penalties related to income taxes are classified as income tax expense in our financial statements.

The federal statute of limitations remains open for the years 2004 and forward. Tax years 1996 and forward are subject to audit by state tax authorities depending on the tax code of each state.

### Note 10. 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.

The Company had commitments at March 31, 2007 to acquire new revenue equipment for approximately \$34.8 million in 2007. These commitments are expected to be financed from existing cash and short-term investment balances and cash flows from operations and trade-in of existing equipment.

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

The Company announced on March 9, 2007 that our Board of Directors declared a regular quarterly dividend of \$.02 per common share, payable on April 2, 2007, to stockholders of record on March 22, 2007.

The Company announced on September 22, 2005 the planned construction of a new corporate headquarters and an adjacent shop facility. These new facilities will be funded with the proceeds from the sale of real estate and from existing cash and short-term investment balances and cash flows from operations. Total expenditures for the new building are expected to range from between \$12.0 million to \$15.0 million. Construction is expected to be completed in the second quarter of 2007. No depreciation expense has been recognized to date.

### Note 11. Related Party Transactions

The Company previously leased two office buildings and a storage building from its CEO under a lease that provided for monthly rentals of \$27,618 plus the

8

payment of all property taxes, insurance and maintenance. In the opinion of management, the rates paid were comparable to those that could be negotiated with a third party. The buildings were sold in February 2007 to an unrelated third party and the related party lease was canceled. Rent is being paid to the unrelated third party and will continue until the new corporate headquarters is occupied.

Rent expense paid to the Company's CEO totaled \$35,509 during the three months ended March 31, 2007 and \$82,854 for the 2006 period. As discussed above, the Company is currently constructing a new corporate headquarters which is expected to be ready for occupancy in 2007. The current lease will be canceled upon the occupancy of the new corporate headquarters and shop facility.

### Note 12. Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This Statement defines fair value, establishes a framework for measuring fair value in U.S. generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective as of the beginning of the first fiscal year that begins after November 15, 2007. As of March 31, 2007, management believes that SFAS No. 157 will have no effect on the financial position, results of operations, and cash flows of the Company.

In February 2007, the FASB issued SFAS No. 159. "The Fair Value Option for Financial Assets and Financial Liabilities--including an amendment of FASB Statement No. 115". This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option: 1) may be applied instrument by instrument, 2) is irrevocable (unless a new election date occurs), and 3) is applied only to entire instruments and not portions of instruments. The provisions of SFAS No. 159 are effective as of the beginning of the first fiscal year that begins after November 15, 2007. As of March 31, 2007, management believes that SFAS No. 159 will have no effect on the financial position, results of operations, and cash flows of the Company.

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

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

### 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

9

on the number of miles per load delivered. The Company provides regional dry van truckload services from eight regional operating centers plus its corporate headquarters. The Company's eight regional operating centers accounted for 63.1% of the first quarter 2007 operating revenues. The Company takes pride in the quality of the service that it provides to its customers. The 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. At March 31, 2007, the Company's tractor fleet had an average age of 1.5 years while the trailer fleet had an average age of 3.3 years. The Company has grown 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 of acquisition opportunities, and the availability of experienced drivers.

The Company ended the first quarter of 2007 with operating revenues of \$143.4 million, including fuel surcharges, net income of \$22.6 million, and earnings per share of \$0.23 on average outstanding shares of 98.3 million. The Company posted a 78.2% operating ratio (operating expenses as a percentage of operating revenues) and a 15.7% net margin. The Company ended the quarter with cash, cash equivalents, and short-term investments of \$365.1 million and a debt-free balance sheet. The Company had total assets of \$700.7 million at March 31, 2007. The Company achieved a return on assets of 13.7% and a return on

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

equity of 18.7% for the twelve months ended March 31, 2007, both improvements over the twelve months ended March 31, 2006 which were 13.2% and 17.9%, respectively. The Company's cash flow from operations for the first three months of \$34.2 million represented a 13.8% decrease from the same period of 2006. The Company's cash flow from operations was 23.8% of operating revenues for the quarter ended March 31, 2007.

The Company hires only experienced drivers with safe driving records. In order to attract and retain experienced drivers who understand the importance of customer service, the Company has increased driver pay in the past three consecutive years, 2004 through 2006. Effective October 2, 2004, the Company began paying all drivers an incremental amount for miles driven in the upper Northeastern United States. The Company does not plan a driver pay increase for 2007.

The Company has been recognized as one of the Forbes magazine's "200 Best Small Companies in America" fifteen times in the past twenty years and for the past five consecutive years. The Company has paid cash dividends over the past fourteen consecutive quarters. The Company became publicly traded in November, 1986 and is traded on the NASDAQ National Market under the symbol HTLD.

10

### Results of Operations:

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

	Three Months Ended	
	March 31,	
	2007	2006
	-----	-----
Operating revenue	100.0%	100.0%
	-----	-----
Operating expenses:		
Salaries, wages, and benefits	33.5%	34.4%
Rent and purchased transportation	3.6	4.6
Fuel	25.7	24.5
Operations and maintenance	2.2	2.2
Operating taxes and licenses	1.6	1.5
Insurance and claims	3.9	3.0
Communications and utilities	0.6	0.7
Depreciation	8.2	7.5
Other operating expenses	2.9	3.1

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

Gain on disposal of property and equipment	(4.0)	(2.3)
	-----	-----
Total operating expenses	78.2%	79.2%
	-----	-----
Operating income	21.8%	20.8%
Interest income	2.3	1.9
	-----	-----
Income before income taxes	24.1%	22.7%
Federal and state income taxes	8.4	8.1
	-----	-----
Net income	15.7%	14.6%
	=====	=====

The following is a discussion of the results of operations of the three month period ended March 31, 2007 compared with the same period in 2006.

### Three Months Ended March 2007 and 2006

Operating revenue increased \$8.4 million (6.2%), to \$143.4 million in the first quarter of 2007 from \$135.0 million in the first quarter of 2006. The increase in revenue resulted from the Company's expansion of its fleet and improved freight rates. Operating revenue for both periods was positively impacted by fuel surcharges assessed to customers. Fuel surcharge revenue increased \$.7 million, (4.2%) to \$18.1 million in the first quarter of 2007 from \$17.4 million in the first quarter of 2006.

Salaries, wages, and benefits increased \$1.6 million (3.5%), to \$48.0 million in the first quarter of 2007 from \$46.4 million in the first quarter of 2006. These increases were the result of increased reliance on employee drivers due to a decrease in the number of independent contractors utilized by the Company and driver pay increases. The Company increased driver pay by \$0.01 per mile in January 2006 for all drivers maintaining a valid hazardous materials endorsement on their commercial driver's license and implemented quarterly pay increases in 2006 for selected operating divisions. These increases to driver compensation resulted in a cost increase of approximately \$0.9 million in the first quarter of 2007. During the first quarter of 2007, employee drivers accounted for 95% and independent contractors for 5% of the total fleet miles, compared with 93% and 7%, respectively, in the first quarter of 2006. Workers' compensation expense decreased \$0.4 million (33.4%) to \$0.8 million in the quarter ended March 31, 2007 from \$1.2 million in for the same period in 2006 due to a decrease in frequency and severity of claims.

11

Health insurance expense decreased \$0.8 million (33.2%) to \$1.5 million in the first quarter of 2007 from \$2.3 million in first quarter of 2006 due to a decrease in frequency and severity of claims.

Rent and purchased transportation decreased \$1.0 million (15.8%), to \$5.2 million in the first quarter of 2007 from \$6.2 million in the first quarter of 2006. This reflects the Company's decreased reliance upon independent contractors. Rent and purchased transportation for both periods includes amounts paid to independent contractors under the Company's fuel stability program. In the first quarter of 2006, the Company increased the independent contractor base mileage pay by \$0.01 per mile for all independent contractors maintaining a hazardous materials endorsement on their commercial driver's license, and an additional \$0.01 per mile per quarter in 2006 beginning on April 1, 2006.

Fuel increased \$3.8 million (11.7%), to \$36.8 million for the three months ended March 31, 2007 from \$33.0 million for the same period of 2006. The

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

increase is the result of increased fuel prices, an increased reliance on company-owned tractors, and a decrease in fuel economy associated with the EPA-mandated clean air engines. The Company's fuel cost per company-owned tractor mile increased 5.3% in first quarter of 2007 compared to 2006. Fuel cost per mile, net of fuel surcharge, increased 10.7% in the first quarter of 2007 compared to 2006. The Company's first quarter fuel cost per gallon increased slightly by 0.9% in 2007 compared to 2006.

Operations and maintenance increased \$0.3 million (8.7%), to \$3.2 million in the first quarter of 2007 from \$2.9 million in the first quarter of 2006 due to an increase in preventative maintenance and parts replacement.

Insurance and claims increased \$1.5 million (36.8%), to \$5.6 million in the first quarter of 2007 from \$4.1 million in the first quarter of 2006 due to an increase in the frequency and severity of claims.

Depreciation increased \$1.5 million (15.0%), to \$11.7 million during the first quarter of 2007 from \$10.2 million in the first quarter of 2006. This increase is attributable to the growth of our company-owned tractor and trailer fleet, an increased cost of new tractors primarily associated with the EPA-mandated clean air engines, and the continued impact of SFAS No. 153. New tractors have a higher cost than the models being replaced due to EPA-mandated clean air standards. As of March 31, 2007, 100.0% of the Company's tractor fleet had the EPA clean air engine compared to 71.3% at March 31, 2006. For the quarter ended March 31, 2007, depreciation expense increased \$0.8 million due to a higher depreciable basis of revenue equipment acquired through trade-ins as a result of SFAS No. 153. For the same period of 2006, the additional depreciation attributable to SFAS No. 153 was \$0.4 million. In future periods, we expect depreciation will increase as we continue to upgrade our fleet in compliance with EPA-mandated engine changes and due to the continued impact of SFAS No. 153.

Other operating expenses decreased \$0.1 million (1.7%), to \$4.1 million in the first quarter of 2007 from \$4.2 million in the first quarter of 2006. Other operating expenses consists of costs incurred for advertising expense, freight handling, highway tolls, driver recruiting expenses, and administrative costs.

Gain on the disposal of property and equipment increased \$2.6 million (85.2%), to \$5.7 million during the first quarter of 2007 from \$3.1 million in the first quarter of 2006. The first quarter 2007 gain is primarily attributable to the sale of an idle facility in Columbus, Ohio and the sale of the current corporate headquarters facility in Coralville, Iowa. The proceeds received from these sales will be used in the financing the new corporate headquarters. In the first quarter 2006, \$3.0 million of gains on trade-ins of revenue equipment were recognized under SFAS No. 153.

Interest income increased \$.8 million (32.3%), to \$3.3 million in the first quarter of 2007 from \$2.5 million in the same period of 2006. The increase is the result of higher average balances of cash, cash equivalents, and short-term investments and higher yields than the same period in 2006.

The Company's effective tax rate was 34.8% and 35.5%, respectively, in the first quarter of 2007 and 2006.

As a result of the foregoing, the Company's operating ratio (operating expenses as a percentage of operating revenue) was 78.2% during the first quarter of 2007 compared with 79.2% during the first quarter of 2006. Net income increased \$2.8 million (14.3%), to \$22.6 million during the first quarter of 2007 from \$19.7 million during the first quarter of 2006.



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

### Liquidity and Capital Resources

The growth of the Company's business has required significant investments in new revenue equipment. Historically the Company has been debt-free, funding revenue equipment purchases with cash flow provided by operations. 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 three months ended March 31, 2007, was net cash provided by operating activities of \$34.2 million compared to \$39.7 million in the corresponding 2006 period primarily attributable to changes in working capital.

Capital expenditures for property and equipment, primarily revenue equipment net of trade-ins, totaled \$6.8 million for the first three months of 2007 compared to \$4.6 million for the same period in 2006. The Company anticipates new tractor and trailer purchases, net of trades, totaling approximately \$39.5 million in 2007. In addition, the Company began construction of a new facility in Phoenix, Arizona in 2006. This facility is expected to be completed in the second quarter of 2007 with additional capital expenditures of approximately \$0.7 million. These projected capital expenditures will be funded by cash flows from operations. Total expenditures for the new corporate headquarters and shop facility in North Liberty, Iowa are expected to be approximately \$12.0 million to \$15.0 million. Construction is expected to be completed in the second quarter of 2007.

The Company paid cash dividends of \$2.0 million and \$1.5 million during the first three months of 2007 and 2006, respectively. The Company began paying cash dividends in the third quarter of 2003 and has paid a quarterly dividend for fourteen consecutive quarters. The Company declared a \$2.0 million cash dividend in March 2007, payable on April 2, 2007.

Management believes the Company has adequate liquidity to meet its current and projected needs. The Company will continue to have significant capital requirements over the long term. Future capital expenditures are expected to be funded by cash flow provided by operations and from existing cash, cash equivalents, and short-term investments. The Company ended the quarter with \$365.1 million in cash, cash equivalents, and short-term investments and no debt. 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, 2006, 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.
- o Our growth may not continue at historic rates.
- o Increased prices, reduced productivity, and restricted availability of new revenue equipment may adversely affect our earnings and cash flow.
- 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 increased costs of compliance with, or liability for violation of, existing 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 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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company purchases only high quality, liquid investments. Primarily all investments as of March 31, 2007 have an original maturity or interest reset date of twelve months or less. Due to the short term nature of the investments, the Company is exposed to minimal market risk related to its cash equivalents and investments.

The Company had no debt outstanding as of March 31, 2007 and therefore, had no market risk related to debt.

As of March 31, 2007, the Company did not have any long-term fuel purchase contracts, and had not entered into any other hedging arrangements that protect against fuel price increases. Volatile fuel prices will continue to impact us significantly. A significant increase in fuel costs, or a shortage of diesel fuel, could materially and adversely affect our results of operations. In February 2007, the Board of Directors authorized the Company to begin hedging activities related to commodity fuels. In the event of hedging activities, the Company will implement the provisions of SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" and contract with an unrelated third party to transact the hedge.

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

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

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.

14

### 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.

Item 2. Changes in Securities

None

Item 3. Defaults upon Senior Securities

None

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

None

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 Certification of Chief Executive Officer and 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 January 25, 2007, announcing the Company's financial results for the quarter ended December 31, 2006.
- 2. Report on Form 8-K, dated March 9, 2007, announcing the declaration of a quarterly cash dividend.

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

15

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 undersigned thereunto duly authorized.

HEARTLAND EXPRESS, INC.

Date: May 9, 2007

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

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

16

Exhibit No. 31.1

Certification

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

I, Russell A. Gerdin, Chairman and Chief Executive Officer of Heartland Express, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Heartland Express, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or cause such disclosure controls and procedures to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2007

By: /s/ Russell A. Gerdin

-----  
Russell A. Gerdin  
Chairman and Chief Executive Officer

17

Exhibit No. 31.2

Certification

I, John P. Cosaert, Executive Vice President, Chief Financial Officer and Treasurer of Heartland Express, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Heartland Express, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) Designed such internal control over financial reporting, or cause such disclosure controls and procedures to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and

Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

procedures, as of the end of the period covered by this report based on such evaluation; and

- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
- (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2007

By: /s/ John P. Cosaert

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

18

Exhibit No. 32

CERTIFICATION OF  
CHIEF EXECUTIVE OFFICER  
AND  
CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Russell A. Gerdin, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Heartland Express, Inc., on Form 10-Q for the period ended March 31, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Heartland Express, Inc.

Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

Dated: May 9, 2007

By: /s/ Russell A. Gerdin  
-----

Russell A. Gerdin  
Chairman and Chief Executive Officer

I, John P. Cosaert, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Heartland Express, Inc., on Form 10-Q for the period ended March 31, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Heartland Express, Inc.

Dated: May 9, 2007

By: /s/ John P. Cosaert  
-----

John P. Cosaert  
Executive Vice President  
and Chief Financial Officer