HEARTLAND EXPRESS INC
Form 10-Q
May 10, 2012

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

FORM 10-Q
(Mark One)
[X] QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For quarter ended March 31, 2012
or

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

For the transition period from to

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 incorporation or Organization)	(I.R.S. Employer Identification Number)

901 North Kansas Avenue
North Liberty, Iowa
52317
(Address of Principal Executive Office)
(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 [X] 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 [X] 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:

Large accelerated filer [X] 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 [X]

At May 9, 2012, there were 86,466,085 shares of the Company's $.01 par value common stock outstanding.

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PART I

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

ASSETS	March 31 2012	December 31 2011
CURRENT ASSETS	(Unaudited)	
Cash and cash equivalents	$172,312	$139,770
Trade receivables, net	50,119	44,198
Prepaid tires	11,931	12,820
Other current assets	3,631	1,932
Income tax receivable	—	314
Deferred income taxes, net	15,211	14,401
Total current assets	$253,204	$213,435
PROPERTY AND EQUIPMENT		
Land and land improvements	17,451	17,451
Buildings	26,761	26,761
Furniture and fixtures	2,269	2,269
Shop and service equipment	7,324	7,324
Revenue equipment	348,223	355,905
	402,028	409,710
Less accumulated depreciation	168,381	161,269
Property and equipment, net	$233,647	$248,441
LONG-TERM INVESTMENTS	50,544	50,569
GOODWILL	4,815	4,815
OTHER ASSETS	8,457	8,406
	$550,667	$525,666
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$11,297	$9,088
Compensation and benefits	16,312	15,493
Insurance accruals	13,751	13,997
Income taxes payable	10,491	—
Other accruals	8,028	7,085
Total current liabilities	$59,879	$45,663
LONG-TERM LIABILITIES		
Income taxes payable	$22,395	$24,077
Deferred income taxes, net	55,417	57,661
Insurance accruals less current portion	56,451	57,494
Total long-term liabilities	$134,263	$139,232
COMMITMENTS AND CONTINGENCIES (Note 11)		
STOCKHOLDERS' EQUITY		
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 2012 and 2011, outstanding, 86,475 in 2012 and 2011	907	907
Additional paid-in capital	1,491	589

Retained earnings	413,558	398,706
Treasury stock, at cost; 4,214 shares in 2012 and 2011	(56,350)	(56,350)
Accumulated other comprehensive loss	(3,081)	(3,081)
	$356,525	$340,771
	$550,667	$525,666

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

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HEARTLAND EXPRESS, INC
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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31,	
	2012	2011
OPERATING REVENUE	$134,833	$127,692
OPERATING EXPENSES		
Salaries, wages and benefits	$41,996	$42,201
Rent and purchased transportation	1,662	1,937
Fuel	42,705	39,147
Operations and maintenance	5,652	5,097
Operating taxes and licenses	2,075	2,307
Insurance and claims	2,514	2,494
Communications and utilities	747	644
Depreciation	13,939	12,378
Other operating expenses	3,979	3,482
Gain on disposal of property and equipment	(4,214)	(3,868)
	111,055	105,819
Operating income	23,778	21,873
Interest income	142	237
Income before income taxes	23,920	22,110
Federal and state income taxes	7,332	7,231
Net income	$16,588	$14,879
Other comprehensive income	—	—
Comprehensive income	$16,588	$14,879
Net income per share		
Basic	$0.19	$0.16
Diluted	$0.19	$0.16
Weighted average shares outstanding		
Basic	86,475	90,689
Diluted	86,826	90,689
Dividends declared per share	$0.02	$0.02

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

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HEARTLAND EXPRESS, INC
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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(in thousands, except per share amounts)
(Unaudited)

	Capital Stock, Common	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2011	$907	$589	$398,706	$(56,350)	$(3,081)	$340,771
Comprehensive income:						
Net income	—	—	16,588	—	—	16,588
Other comprehensive income	—	—	—	—	—	—
Dividends on common stock, $0.02 per share	—	—	(1,736)	—	—	(1,736)
Stock-based compensation	—	902	—	—	—	902
Balance, March 31, 2012	$907	$1,491	$413,558	$(56,350)	$(3,081)	$356,525

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

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

	Three Months Ended March 31, 2012	2011
OPERATING ACTIVITIES		
Net income	$16,588	$14,879
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	14,105	12,531
Deferred income taxes	(3,054)	3,541
Amortization of stock-based compensation	902	—
Gain on disposal of property and equipment	(4,214)	(3,868)
Changes in certain working capital items:		
Trade receivables	(5,921)	(4,991)
Prepaid expenses and other current assets	(1,445)	(7,229)
Accounts payable, accrued liabilities, and accrued expenses	2,278	5,934
Accrued income taxes	9,123	3,145
Net cash provided by operating activities	28,362	23,942
INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	8,186	8,667
Purchases of property and equipment	(3,980)	(23,430)
Maturity and calls of investments	25	15,425
Change in other assets	(51)	8
Net cash provided by investing activities	4,180	670
FINANCING ACTIVITIES		
Net cash used in financing activities	—	—
Net increase in cash and cash equivalents	32,542	24,612
CASH AND CASH EQUIVALENTS		
Beginning of period	139,770	121,120
End of period	$172,312	$145,732
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for income taxes, net of refunds	$1,264	$545
Noncash investing and financing activities:		
Purchased property and equipment in accounts payable	$986	$3,358
Common stock dividends declared in accounts payable	$1,736	$1,814

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

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 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, 2011 included in the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission on February 28, 2012. 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 three month period ended March 31, 2012 other than detailed in the Recently Adopted Accounting Pronouncements below.

Recently Adopted Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued new accounting guidance which revises the manner in which companies present comprehensive income in their financial statements. The new guidance removes the presentation options previously allowed and requires companies to report components of comprehensive income as part of the consolidated statement of income or as a separate consolidated statement of comprehensive income. The revised guidance did not change the items that must be reported in other comprehensive income. The guidance was effective for the Company on January 1, 2012. Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) refers to revenues, expenses, gains and losses that are not included in net income, but rather are recorded directly in stockholders' equity. The Company adopted this guidance on January 1, 2012. During the three months ended March 31, 2012 and 2011 there were no amounts recorded directly in stockholders' equity and therefore there was no difference between net income and comprehensive income for these two respective periods.

In September 2011 the FASB issued amendments to the guidance on testing goodwill for impairment. The new guidance provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that this is the case, it is required to perform the currently prescribed two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for the reporting unit (if any). If an entity determines that the fair value of a reporting unit is greater than its carrying amount, the two-step goodwill impairment test is not required. Annual impairment tests are performed by the Company in the third quarter of each year. The adoption of this updated authoritative guidance is not expected to have an impact on the consolidated financial statements.

Note 2. Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (“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 months ended March 31, 2012.

Note 3. Segment Information

The Company has eleven regional operating divisions, in addition to operations at the Company's corporate headquarters; however, it has determined that it has one reportable segment. The operating divisions are operated out of our ten office locations including our corporate headquarters. 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 authoritative accounting guidance on disclosures about segments of an enterprise and related information. Accordingly, the Company has not presented separate segment financial 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. Restricted and designated cash and investments totaling $8.5 million at March 31, 2012 and $8.4 million at December 31, 2011 are included in other non-current assets per 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. Investments and Fair Value Measurements

All of the Company's short-term and long-term investment balances at March 31, 2012 and December 31, 2011 were invested in tax free, auction rate student ("ARS") loan educational bonds that are classified as available-for-sale. The investments typically have an interest reset provision of 35 days with contractual maturities that currently range from December 1, 2031 to May 1, 2040. 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. As of March 31, 2012, 100% of ARS holdings, at par, were backed by the U.S. government and held AAA (or equivalent) ratings from recognized rating agencies.

Municipal bonds are classified as held to maturity, are carried at amortized cost and are included in other assets per the consolidated balance sheet and were $1.3 million at March 31, 2012 and December 31, 2011. Differences between amortized cost and fair value of municipal bonds are not considered material. Auction rate securities are classified as available-for-sale and therefore are carried at fair value as estimated using Level 3 fair value inputs. The amortized cost and fair value of available-for-sale investments at March 31, 2012 and December 31, 2011 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
March 31, 2012				
Long-term:				
Auction rate student loan educational bonds	$53,625	$—	$3,081	$50,544
December 31, 2011				
Long-term:				
Auction rate student loan educational bonds	$53,650	$—	$3,081	$50,569

The contractual maturities and announced calls of available-for-sale securities at March 31, 2012 are detailed in the table below. The table is prepared based on information known to management as of March 31, 2012. As management receives intents to call from issuers, the associated securities are changed from their contractual maturities to the date received in the respective call notice.

	Fair Value	Amortized Cost
Due within one year	$—	$—
Due after one year through five years	—	—
Due after five years through ten years	—	—
Due after ten years through May 1, 2040	50,544	53,625

	$50,544	$53,625

The guidance under U.S. GAAP defines fair value, specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable, and requires disclosures about fair value measurements. The Company estimates the fair value of the auction rate securities applying the authoritative guidance on fair value measurements which

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establishes fair value as an estimate of what the Company could sell the investments for in an orderly transaction with a third party as of each measurement date. Observable inputs are inputs that reflect market data obtained from sources independent of the Company and unobservable inputs are inputs based on the Company's own assumptions derived from the best information available in the circumstances. These inputs are used in applying the following fair value hierarchy:

- Level 1 – quoted prices in active markets for identical assets or liabilities.
- Level 2 – quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; modeling with inputs that have observable inputs (i.e. interest rates observable at commonly quoted intervals.
- Level 3 – valuation is generated from model-based techniques that use significant assumptions not observable in the market.

Under the guidance, where applicable GAAP literature requires the use of fair value, the Company must value assets and liabilities at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additional authoritative literature provides guidance regarding the considerations necessary when markets are inactive. The guidance indicates that quotes from brokers or pricing services may be relevant inputs when measuring fair value, but are not necessarily determinative in the absence of an active market for the asset.

As of March 31, 2012, all of the Company's auction rate student loan bonds were associated with unsuccessful auctions. As such, the estimated fair value of the underlying investments had declined below amortized cost of the investments as a result of liquidity issues in the auction rate markets. To date, there have been no instances of delinquencies or non-payment of applicable interest from the issuers and all calls of securities by the issuers have been at par value plus accrued interest. Since the first auction failures in February 2008 when the Company had approximately $198.5 million ARS at par, the Company has received approximately $144.8 million of calls from issuers, at par, plus accrued interest at the time of the call. Amounts received during the first quarter of 2012 were not material. Accrued interest income is included in other current assets in the consolidated balance sheet.

Until auction failures began, the fair value of these investments were calculated using Level 1 observable inputs 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 March 31, 2012, there were no significant observable quoted prices or other relevant inputs for identical or similar securities. Estimated fair value of all auction rate security investments as of March 31, 2012 and December 31, 2011 was calculated using unobservable, Level 3 inputs, due to the lack of observable market inputs specifically related to student loan ARS. The fair value of these investments as of the March 31, 2012 and December 31, 2011 measurement dates could not be determined with precision based on lack of observable market data and could vary significantly in future measurement periods.

The Company performs an internal cash flow analysis on an individual investment basis to estimate fair value of ARS using inputs determined based on management's understanding of market conditions as well as information derived from other publicly available third party sources. This approach considers the anticipated estimated outstanding average life of the underlying student loans (range of 2 to 12 years) that are the collateral to the trusts, principal outstanding, expected rates of returns over the average life of the underlying student loans using forward rate curves, and payout formulas. Management also uses notices received of intent to call certain securities before their contractual maturities within the cash flow models. The range of estimated outstanding lives is based on call notices received by the Company, communications with trusts, and communications with third party financial institutions. These underlying cash flows, by individual investment, were discounted using interest rates consistent with instruments of similar quality and duration adjusted for a lack of liquidity in the market. The Company also obtains estimated fair value of ARS from third party financial advisors. The Company obtains an understanding of assumptions in models used by third party financial institutions to estimate fair value. All of this information is considered when determining the estimated fair value of these instruments as recorded in the consolidated financial statements. The Company's discounted cash flow approach requires the use of multiple input factors including an estimated rate of return, base discount rate, and a liquidity discount rate to reflect the current lack of liquidity of ARS in capital markets due to auction failures. We understand that models employed by the Company's third party financial advisors are also subject to changes in similar input factors. As such, the fair value of ARS is subject to change based on significant changes to the underlying input factors. The Company has analyzed the potential impact of a 50 basis point change to the rate of return, discount rate, and liquidity discount rate noting that this would not materially impact the recorded fair value.

The table below shows the inputs in the Company's cash flow models as of March 31, 2012 for the remaining ARS investments compared to the inputs used in cash flow models as of December 31, 2011. Inputs used in Company models of all securities held as of March 31, 2012 and December 31, 2011, excluding investments whose fair value is estimated to be par value as of the reporting period due to call notices being received by the Company were as follows:

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	March 31, 2012	December 31, 2011
Average life of underlying loans	2-12 years	2-12 years
Rate of return	0.55-2.93%	0.68-2.92%
Discount rate	0.38-1.21%	0.48-1.14%
Liquidity discount rate	0.35-1.01%	0.55-1.16%

The unrealized loss of $3.1 million is recorded as an adjustment to accumulated other comprehensive income. There were not any realized gains or losses related to these investments for the three month periods ended March 31, 2012 and 2011. 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 Company has evaluated the unrealized loss on these securities to determine whether the decline in fair value is other than temporary. Management has concluded the decline in fair value to be temporary based on the following considerations.

- Since auction failures began in February 2008, the Company has received approximately $144.8 million as the result of calls by issuers. The Company received par value for the amount of these calls plus accrued interest. There have not been any defaults on scheduled interest payments.
- Based on the Company's financial operating results, current cash balances, operating cash flows and debt free balance sheet, the Company does not have the intent to sell such securities at a discount and it is not more likely than not to be required to sell the securities before they recover their value.
- There have not been any significant changes in collateralization and ratings of the underlying securities since the first failed auction. All of the Company's auction rate security portfolio, as of March 31, 2012, is in senior positions of AAA (or equivalent) rated securities that are backed by the U.S. government.
- 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 negative 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.
- As trusts are no longer recycling underlying loan repayment money for new loans, excess funds are being used to pay down debt of the trust therefore potentially resulting in partial calls of securities held by the Company prior to contractual maturities.
- The Company is aware of recent transactions taking place in secondary markets as well as tender offers for ARS at sub par pricing. At this time, the Company does not intend to tender any holdings at sub par pricing. As ARS debt holders tender ARS debt back to trusts at sub par pricing, the overall equity of the trusts is strengthened.
- Current market activity and the lack of severity or extended decline do not warrant such action at this time.

Management will monitor its investments and ongoing market conditions in future periods to assess impairments considered to be other than temporary. Should fair value continue to remain below cost or decrease significantly from current levels due to credit related issues, the Company may be required to record an other than temporary impairment of these investments, through a charge in the consolidated statement of income although the factors currently do not warrant such a charge.

The table below presents a rollforward for all assets and liabilities, measured at fair value, on a recurring basis using significant unobservable inputs (Level 3) during the three months ended March 31, 2012 and 2011.

	Available-for-sale debt securities (in thousands)	
	2012	2011
Balance, January 1	$50,569	$88,694
Settlements	(25)	(15,425)
Purchases	—	—
Issuances	—	—
Sales	—	—
Transfers in to (out of) Level 3	—	—
Total gains or losses (realized/unrealized):	&	