

Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

HEARTLAND EXPRESS INC  
Form 10-Q  
May 08, 2006

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, 2006

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)

2777 Heartland Drive, Coralville, Iowa  
(Address of Principal Executive Office)

52241  
(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, 2006, there were 73,821,500 shares of the Company's \$.01 par value common stock outstanding.

HEARTLAND EXPRESS, INC.

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

## AND SUBSIDIARIES

### PART I

#### FINANCIAL INFORMATION

	Page Number
Item 1. Financial Statements (Unaudited)	
Consolidated Balance Sheets March 31, 2006 and December 31, 2005	1-2
Consolidated Statements of Income for the Three Months Ended March 31, 2006 and 2005	3
Consolidated Statements of Stockholders' Equity For the Three Months Ended March 31, 2006	
Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2006 and 2005	4 5
Notes to Consolidated Financial Statements	6-8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	9-13
Item 3. Quantitative and Qualitative Disclosures About Market Risk	13
Item 4. Controls and Procedures	13

### PART II

#### OTHER INFORMATION

Item 1. Legal Proceedings	14
Item 2. Changes in Securities	14
Item 3. Defaults Upon Senior Securities	14
Item 4. Submission of Matters to a Vote of Security Holders	14
Item 5. Other Information	14
Item 6. Exhibits and Reports on Form 8-K	14

HEARTLAND EXPRESS, INC.  
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

ASSETS	March 31, 2006	December 31, 2005
	-----	-----
	(Unaudited)	
CURRENT ASSETS		
Cash and cash equivalents .....	\$ 5,942,323	\$ 5,366,929
Short-term investments .....	315,781,320	282,255,377
Trade receivables, net of allowance for doubtful accounts of \$775,000 ..	41,340,251	42,860,411
Prepaid tires and tubes .....	3,847,890	3,998,430
Other prepaid expenses .....	3,467,847	304,667
Deferred income taxes .....	29,258,000	28,721,000
	-----	-----
Total current assets .....	399,637,631	363,506,814
	-----	-----
PROPERTY AND EQUIPMENT		
Land and land improvements .....	11,893,135	10,643,135
Buildings .....	16,925,821	16,925,821
Furniture and fixtures .....	1,042,131	1,042,131
Shop and service equipment .....	2,632,750	2,620,031
Revenue equipment .....	255,666,568	250,479,838
	-----	-----
	288,160,405	281,710,956
Less accumulated depreciation .....	88,008,975	81,204,416
	-----	-----
Property and equipment, net .....	200,151,430	200,506,540
	-----	-----
GOODWILL .....	4,814,597	4,814,597
OTHER ASSETS .....	4,657,344	4,679,974
	-----	-----
	\$609,261,002	\$573,507,925
	=====	=====

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

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

## CONSOLIDATED BALANCE SHEETS

	March 31, 2006	December 31, 2005
	-----	-----
	(Unaudited)	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 15,388,124	\$ 10,572,525
Compensation and benefits .....	13,521,323	12,629,831
Income taxes payable .....	19,079,773	8,064,947
Insurance accruals .....	54,183,611	53,631,471
Other accruals .....	7,587,570	7,345,499
	-----	-----
Total current liabilities .....	109,760,401	92,244,273
	-----	-----
DEFERRED INCOME TAXES .....	47,891,000	48,012,000
	-----	-----
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred, \$.01 par value; authorized 5,000,000 share; none issued .....	--	--
Common, \$.01 par value; authorized 395,000,000 shares; issued and outstanding: 73,821,500 .....	738,215	738,215
Additional paid-in capital .....	94,228	--
Retained earnings .....	450,777,158	432,952,138
	-----	-----
	451,609,601	433,690,353
Less unearned compensation .....	--	(438,701)
	-----	-----
	451,609,601	433,251,652
	-----	-----
	\$ 609,261,002	\$ 573,507,925
	=====	=====

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

Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

HEARTLAND EXPRESS, INC.  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

	Three months ended March 31,	
	2006	2005
OPERATING REVENUE .....	\$ 134,999,299	\$ 118,677,472
	-----	-----
OPERATING EXPENSES:		
Salaries, wages, and benefits .....	\$ 46,370,582	\$ 42,716,841
Rent and purchased transportation .....	6,199,672	7,712,212
Fuel .....	32,961,018	25,561,638
Operations and maintenance .....	2,946,733	2,572,310
Operating taxes and licenses .....	2,067,167	2,075,290
Insurance and claims .....	4,086,849	2,832,265
Communications and utilities .....	952,339	698,877
Depreciation .....	10,177,659	8,388,684
Other operating expenses .....	4,197,629	4,234,394
Gain on disposal of property and equipment	(3,059,237)	(181,342)
	-----	-----
	106,900,411	96,611,169
	-----	-----
Operating income .....	28,098,888	22,066,303
Interest income .....	2,505,947	1,335,225
	-----	-----
Income before income taxes .....	30,604,835	23,401,528
Income taxes .....	10,864,684	8,307,543
	-----	-----
Net income .....	\$ 19,740,151	\$ 15,093,985
	=====	=====
Earnings per share .....	\$ 0.27	\$ 0.20
	=====	=====
Weighted average shares outstanding .....	73,821,500	75,000,000
	=====	=====
Dividends declared per share .....	\$ 0.02	\$ 0.02
	=====	=====

The accompanying notes are an integral part of these consolidated financial

Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

statements.

3

HEARTLAND EXPRESS, INC.  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(Unaudited)

	Capital Stock, Common	Additional Paid-In Capital	Retained Earnings	Unearned Compen- sation
	-----	-----	-----	-----
Balance, December 31, 2005 .....	\$ 738,215	\$ --	\$432,952,138	\$ (438,701)
Net income .....	--	--	19,740,151	--
Dividends on common stock, \$0.02 per share	--	--	(1,476,430)	--
Reclassification of unearned compensation	--	--	(438,701)	438,701
Amortization of unearned compensation ....	--	94,228	--	--
Balance, March 31, 2006 .....	\$ 738,215	\$ 94,228	\$450,777,158	\$ --
	=====	=====	=====	=====

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

4

HEARTLAND EXPRESS, INC.  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

Three months ended  
March 31,  
2006                      2005

-----

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

### OPERATING ACTIVITIES

Net income .....	\$ 19,740,151	\$ 15,093,985
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization .....	10,182,660	8,393,685
Deferred income taxes .....	(658,000)	(2,745,000)
Amortization of unearned compensation ....	94,228	95,107
Gain on disposal of property and equipment	(3,059,237)	(181,342)
Changes in certain working capital items:		
Trade receivables .....	1,520,160	(1,180,864)
Prepaid expenses .....	(2,341,839)	(2,542,660)
Accounts payable, accrued liabilities and other accruals.....	3,187,857	6,093,226
Accrued income taxes .....	11,014,826	9,848,372
	-----	-----
Net cash provided by operating activities	39,680,806	32,874,509
	-----	-----

### INVESTING ACTIVITIES

Proceeds from sale of property and equipment .	465,875	421,000
Purchases of property and equipment, net of trades .....	(4,587,572)	(2,012,417)
Net purchases of municipal bonds .....	(33,525,943)	(30,456,261)
Change in other assets .....	17,629	55,128
	-----	-----
Net cash used in investing activities .....	(37,630,011)	(31,992,550)
	-----	-----

### FINANCING ACTIVITIES, cash dividend .....

	(1,475,401)	(1,498,432)
	-----	-----
Net increase (decrease) in cash and cash equivalents .....	575,394	(616,473)

### CASH AND CASH EQUIVALENTS

Beginning of period .....	5,366,929	1,610,543
	-----	-----
End of period .....	\$ 5,942,323	\$ 994,070
	=====	=====

### SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the period for:		
Income taxes .....	\$ 507,858	\$ 1,204,171
Noncash investing activities:		
Book value of revenue equipment traded ...	\$ 3,330,305	\$ --

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

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

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

#### Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Heartland Express, Inc. and subsidiaries (the "Company") have been prepared in accordance with 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 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, 2005 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 \$4.6 million at March 31, 2006 and \$4.7 million at December 31, 2005 are included in other assets. The restricted funds represent those required for self-insurance purpose and designated funds that are 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

6

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 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 results for the quarter were 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 year. 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 Company president transferred 136,125 of his own shares establishing a restricted stock plan on behalf of key employees. The shares 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 is being amortized over a five year period as compensation expense. Compensation expense of \$94,228 and \$95,107 for the three month periods ended March 31, 2006 and 2005 is recorded in salaries, wages, and benefits on the consolidated statement of income. As of March 31, 2006, there was \$344,473 of unearned compensation cost related to the restricted stock granted. This cost will be recognized over the next two years. All unvested shares are included in the Company's 73.8 million outstanding shares.

A summary of the Company's non-vested restricted stock as of March 31, 2006, and changes during the three months ended March 31, 2006 is presented in the table below:

	Shares	Grant-date Fair Value
	-----	-----
Non-vested stock outstanding at January 1, 2006	51,150	\$ 14.66
Granted	-	-
Vested	(24,675)	14.66
Forfeited	-	-
	-----	-----
Non-vested stock outstanding at March 31, 2006	26,475	\$ 14.66
	=====	=====

The fair value of the shares vested awards was \$560,289 and \$530,075 for the three months ended March 31, 2006 and 2005, 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. SFAS No. 123(R) also requires entities to estimate the number of forfeitures expected to occur and record expense based upon the

7

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. The implementation of SFAS No. 123(R) had no effect on the Company's results of operations for the three months ended March 31, 2006.

### Note 9. 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, 2006 to acquire new revenue equipment for approximately \$50.3 million in 2006. These commitments are expected to be financed from existing cash and investment balances and cash flows from operations.

The Company announced on March 10, 2006 that our Board of Directors declared a regular quarterly dividend of \$.02 per common share, payable on April 3, 2006, to stockholders of record on March 23, 2006.

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 the current corporate headquarters. Construction is expected to be completed in the spring of 2007.

### Note 10. Related Party Transactions

The Company leases two office buildings and a storage building from its president under a lease which provides for monthly rentals of \$27,618 plus the payment of all property taxes, insurance and maintenance. The lease was renewed for a five year term on June 1, 2005 increasing the monthly rental from \$24,969 to \$27,618. In the opinion of management, the rates paid are comparable to those that could be negotiated with a third party.

Rent expense paid to the Company's president totaled \$82,854 and \$74,906 for the three months ended March 31, 2006 and 2005, respectively. In 2005, the Company announced the construction of a new corporate headquarters which is expected to be ready for occupancy in 2007. The lease will be canceled upon the occupancy of the new corporate headquarters and shop facility.

During the quarter ended March 31, 2006, the Company purchased 16.7 acres of land in North Liberty from the Company's president for \$1,250,000. The purchase price was based on the fair market value that could be obtained from an unrelated third party on an arm's length basis. The transaction was approved by

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

the Board of Directors.

### Note 11. Reclassifications

Certain reclassifications have been made to the prior period financial statements to conform to the March 31, 2006 presentation.

### Note 12. Subsequent Event

The Company's board of directors approved a four-for-three stock split payable in the form of a 33 percent stock dividend. The stock dividend will be paid on May 15, 2006 to stockholders of record as of May 5, 2006. The Company's issued and outstanding shares of common stock will increase from 73.8 million to 98.4 million upon effect of the stock dividend.

8

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

### Forward Looking Statements

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

### Overview

Heartland Express, Inc. is a short-to-medium haul truckload carrier. The Company transports freight for major shippers and generally earns revenue based on the number of miles per load delivered. The Company provides regional dry van truckload services from eight regional operating centers plus its corporate headquarters. The Company's eight regional operating centers accounted for 63.4% of the first quarter 2006 operating revenues. The Company expanded to the Western United States in the second quarter of 2005 with the opening of a regional operating center in Phoenix, Arizona. 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

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

fixed and variable operating costs. At March 31, 2006, the Company's tractor fleet had an average age of 1.6 years while the trailer fleet had an average age of 3.2 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 2006 with operating revenues of \$135.0 million, including fuel surcharges, net income of \$19.7 million, and earnings per share of \$0.27 on average outstanding shares of 73.8 million. The Company posted a 79.2% operating ratio (operating expenses as a percentage of operating revenues) and a 14.6% net margin. The Company ended the quarter with cash, cash equivalents, and short-term investments of \$321.7 million and a debt-free balance sheet. The Company had total assets of \$609.3 million at March 31, 2006. The Company achieved a return on assets of 13.2% and a return on equity of 17.9%, both improvements over the first quarter of 2005. The Company's cash flow from operations for the quarter of \$39.7 million represented a 20.7% increase over the first quarter of 2005.

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 increased pay for all drivers in the past three consecutive years including an increase in 2006. Effective October 2, 2004, the Company began paying all drivers an incremental amount for miles driven in the

9

upper Northeastern United States. The Company has solidified its position as an industry leader in driver compensation with these aforementioned increases. The driver pay increases in 2006 are for selected regional operations including a fleet-wide incentive to maintain a hazardous materials endorsement on their commercial driver's license.

The Company has been recognized as one of the Forbes magazine's "200 Best Small Companies in America" fourteen times in the past nineteen years and for the past four consecutive years including 2005. The Company has paid cash dividends over the past eleven consecutive quarters. The Company became publicly traded in November, 1986 and is traded on the NASDAQ National Market under the symbol HTLD.

### 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,	
	2006	2005
	-----	-----
Operating revenue	100.0%	100.0%
	-----	-----
Operating expenses:		
Salaries, wages, and benefits	34.4%	36.0%
Rent and purchased transportation	4.6	6.5
Fuel	24.5	21.5
Operations and maintenance	2.2	2.2

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

Other taxes and licenses	1.5	1.7
Insurance and claims	3.0	2.4
Communications and utilities	0.7	0.6
Depreciation	7.5	7.1
Other operating expenses	3.1	3.6
Gain on disposal of property and equipment	(2.3)	(0.2)
	-----	-----
Total operating expenses	79.2%	81.4%
	-----	-----
Operating income	20.8%	18.6%
Interest income	1.9	1.1
	-----	-----
Income before income taxes	22.7%	19.7%
Federal and state income taxes	8.1	7.0
	-----	-----
Net income	14.6%	12.7%
	=====	=====

The following is a discussion of the results of operations of the quarter ended March 31, 2006 compared with the same period in 2005 and the changes in financial condition through the first quarter of 2006.

Operating revenue increased \$16.3 million (13.8%), to \$135.0 million in the first quarter of 2006 from \$118.7 million in the first quarter of 2005. The increase in revenue resulted from the Company's expansion of its fleet, improved freight rates, and improved utilization of fleet capacity. Operating revenue for both periods was positively impacted by fuel surcharges assessed to customers. Fuel surcharge revenue increased \$6.8 million to \$16.9 million in the first quarter of 2006 from \$10.1 million in the first quarter of 2005.

Salaries, wages, and benefits increased \$3.7 million (8.6%), to \$46.4 million in the first quarter of 2006 from \$42.7 million in the first quarter of 2005. 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 a driver pay increase. During the first quarter of 2006, employee drivers accounted for 93% and independent contractors 7% of the total fleet miles, compared with 90% and 10%, respectively, in the first quarter of 2005.

10

The Company implemented an increase in driver pay during the first quarter of 2006. All drivers maintaining a valid hazardous materials endorsement on their commercial driver's license received a \$0.01 per mile increase in January 2006. Additional increases were given to drivers in selected regional operations. Workers' compensation expense decreased \$0.2 million (15.4%) to \$1.1 million in the quarter ended March 31, 2006 from \$1.3 million in for the same period in 2005 due to a decrease in frequency and severity of claims. Health insurance expense increased \$0.3 million (15.0%) to \$2.3 million in the first quarter of 2006 from \$2.0 million in first quarter of 2005 due to an increase in frequency and severity of claims and increased reliance on employee drivers.

Rent and purchased transportation decreased \$1.5 million (19.6%), to \$6.2 million in the first quarter of 2006 from \$7.7 million in the first quarter of 2005. 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. The Company increased the independent contractor base mileage pay by \$.01 per mile in the first quarter of 2006 for all independent contractors maintaining a hazardous materials endorsement on their commercial driver's license.

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

Fuel increased \$7.4 million (28.9%) to \$33.0 million in 2006 from \$25.6 million in 2005. The 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 22.1% in first quarter of 2006 compared to 2005. Fuel cost per mile, net of fuel surcharge, decreased 1.6% in the first quarter of 2006 compared to 2005. The Company's fuel cost per gallon increased 21.6% in 2006 compared to 2005. In the quarter ended March 31, 2006, tractors with the EPA-mandated clean air engine accounted for 70.0% of the miles generated by the company-owned fleet compared to 32.5% of the company-owned fleet in the 2005 period. Fuel economy for tractors with EPA-mandated clean air engines decreased 5.4%.

Operations and maintenance increased \$0.4 million (14.6%) to \$2.9 million in the first quarter of 2006 from \$2.5 million in the first quarter of 2005. The increase is primarily attributable to the growth of the company-owned tractor and trailer fleets and the associated costs to maintain revenue equipment.

Insurance and claims increased \$1.3 million (44.3%), to \$4.1 million in the first quarter of 2006 from \$2.8 million in the first quarter of 2005 due to an increase in the frequency and severity of claims.

Depreciation increased \$1.8 million (21.3%), to \$10.2 million during the first quarter of 2006 from \$8.4 million in the first quarter of 2005. 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 implementation 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, 2006, 71.3% of the Company's tractor fleet had the EPA clean air engine compared to 34.1% at March 31, 2005. For the quarter ended March 31, 2006, implementation of SFAS No. 153 resulted in approximately \$0.4 million of additional depreciation as a result of higher depreciable basis of revenue equipment acquired through trade-ins. 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 impact of SFAS No. 153.

Other operating expenses were flat at \$4.2 million in the first quarter of 2006 and 2005. 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 \$2.9 million (1587.0%) to \$3.1 million during the first quarter of 2006 from \$0.2 million in the first quarter of 2005. For 2006, \$3.0 million represents gains on trade-ins of revenue equipment which are recognized currently under of SFAS No. 153. These gains were previously deferred as a reduction of the depreciable basis of new revenue equipment.

11

Interest income increased \$1.2 million (87.7%), to \$2.5 million in the first quarter of 2006 from \$1.3 million in the same period of 2005. The increase is the result of higher average balances of cash, cash equivalents, and short-term investments and higher yields than 2005.

The Company's effective tax rate was 35.5% in the first quarter of 2006 and 2005.

As a result of the foregoing, the Company's operating ratio (operating expenses as a percentage of operating revenue) was 79.2% during the first

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

quarter of 2006 compared with 81.4% during the first quarter of 2005. Net income increased \$4.6 million (30.8%), to \$19.7 million during the first quarter of 2006 from \$15.1 million during the first quarter of 2005.

### 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, 2006, was net cash provided by operating activities of \$39.7 million compared to \$32.9 million in the corresponding 2005 period.

Capital expenditures for property and equipment, primarily revenue equipment net of trade-ins, totaled \$4.6 million for the first three months of 2006 compared to \$2.0 million for the same period in 2005. The Company anticipates new tractor and trailer purchases, net of trades, totaling approximately \$57.3 million in 2006. In addition, the Company may buy additional tractors prior to phase two of the federally mandated engine emissions standards that will become effective in January 2007. In addition, the Company expects to begin construction of a new facility in Phoenix, Arizona during the second quarter of 2006.

The Company paid cash dividends of \$1.5 million in the first quarter 2006 and 2005. The Company began paying cash dividends in the third quarter of 2003. The Company declared a \$1.5 million cash dividend in March 2006, payable on April 3, 2006.

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 \$321.7 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, 2005, 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, 2006 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, 2006 and therefore, had no market risk related to debt.

As of March 31, 2006, 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.

Item 4. Controls and Procedures

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



PART II

OTHER INFORMATION

Item 1. Legal Proceedings

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

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 19, 2006, announcing the Company's financial results for the quarter ended December 31, 2005.
- 2. Report on Form 8-K, dated March 13, 2006, announcing the declaration of a quarterly cash dividend.

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

Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

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 6, 2006

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

15

Exhibit No. 31.1

Certification

I, Russell A. Gerdin, Chairman, President 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

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

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
  - 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 6, 2006

By: /s/ Russell A. Gerdin  
Russell A. Gerdin  
Chairman, President and  
Chief Executive Officer

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

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 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):

Edgar Filing: HEARTLAND EXPRESS INC - Form 10-Q

- (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 6, 2006

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

17

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, 2006 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 6, 2006

By: /s/ Russell A. Gerdin  
Russell A. Gerdin  
Chairman, President 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, 2006 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 6, 2006

By: /s/ John P. Cosaert  
John P. Cosaert  
Executive Vice President  
and Chief Financial Officer