HEARTLAND EXPRESS INC
Form 10-Q
May 10, 2018
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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, 2018

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

For the transition period from to

Commission file number 0-15087

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

Nevada	**93-0926999**
(State or Other Jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)
901 North Kansas Avenue, North Liberty, Iowa	**52317**
(Address of Principal Executive Offices)	(Zip Code)

319-626-3600
(Registrant's telephone number, including area 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, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer [X] Accelerated filer [ ]
Non-accelerated filer [ ] Smaller reporting company [ ] Emerging growth company [ ]

If an emerging company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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

As of May 4, 2018 there were 82,311,996 shares of the Company's common stock ($0.01 par value) outstanding.

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HEARTLAND EXPRESS, INC.
AND SUBSIDIARIES

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

ASSETS	**March 31, 2018**	**December 31, 2017**
CURRENT ASSETS		
Cash and cash equivalents	$ 105,019	$ 75,378
Trade receivables, net of allowance of $1.5 million and $1.5 million	61,571	64,293
Prepaid tires	11,045	10,989
Other current assets	21,923	13,782
Income tax receivable	9,691	6,393
Total current assets	209,249	170,835
PROPERTY AND EQUIPMENT		
Land and land improvements	40,973	40,283
Buildings	49,957	48,657
Leasehold improvements	1,097	2,208
Furniture and fixtures	3,290	3,437
Shop and service equipment	12,904	12,202
Revenue equipment	550,193	555,980
Construction in progress	4,060	3,996
Property and equipment, gross	662,474	666,763
Less accumulated depreciation	223,331	223,901
Property and equipment, net	439,143	442,862
GOODWILL	132,410	132,410
OTHER INTANGIBLES, NET	16,352	17,022
DEFERRED INCOME TAXES, NET	3,237	1,737
OTHER ASSETS	22,825	24,261
	$ 823,216	$ 789,127
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 38,771	$ 14,366
Compensation and benefits	27,324	26,752
Insurance accruals	19,991	21,368
Other accruals	12,284	12,835
Total current liabilities	98,370	75,321
LONG-TERM LIABILITIES		
Income taxes payable	6,124	8,147
Deferred income taxes, net	72,172	65,488
Insurance accruals less current portion	61,461	65,526
Total long-term liabilities	139,757	139,161
COMMITMENTS AND CONTINGENCIES (Note 15)		
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 2018 and 2017; outstanding 83,240 in 2018 and 83,303 in 2017	907	907

Additional paid-in capital	3,414	3,518
Retained earnings	705,885	694,174
Treasury stock, at cost; 7,449 shares in 2018 and 7,386 in 2017	(125,117)	(123,954)
	585,089	574,645
	$ 823,216	$ 789,127

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

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

	Three Months Ended March 31,	
	2018	2017
OPERATING REVENUE	$156,695	$129,903
OPERATING EXPENSES		
Salaries, wages, and benefits	62,009	48,979
Rent and purchased transportation	6,125	2,863
Fuel	28,940	22,702
Operations and maintenance	7,865	5,869
Operating taxes and licenses	3,952	3,292
Insurance and claims	4,224	3,779
Communications and utilities	1,870	1,098
Depreciation and amortization	25,601	22,930
Other operating expenses	6,030	5,103
Gain on disposal of property and equipment	(2,869)	(6,075)
	143,747	110,540
Operating income	12,948	19,363
Interest income	342	288
Income before income taxes	13,290	19,651
Federal and state income taxes	(88)	5,615
Net income	$13,378	$14,036
Other comprehensive income, net of tax	—	—
Comprehensive income	$13,378	$14,036
Net income per share		
Basic	$0.16	$0.17
Diluted	$0.16	$0.17
Weighted average shares outstanding		
Basic	83,309	83,292
Diluted	83,349	83,337
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
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except per share amounts)
(unaudited)

	Capital Stock, Common	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
Balance, December 31, 2017	$ 907	$ 3,518	$694,174	$(123,954)	$574,645
Net income	—	—	13,378	—	13,378
Dividends on common stock, $0.02 per share	—	—	(1,667)	—	(1,667)
Repurchases of common stock	—	—	—	(1,293)	(1,293)
Stock-based compensation, net of tax	—	(104)	—	130	26
Balance, March 31, 2018	$ 907	$ 3,414	$705,885	$(125,117)	$585,089

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

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

	Three Months Ended March 31,	
	2018	2017
OPERATING ACTIVITIES		
Net income	$13,378	$14,036
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,783	22,940
Deferred income taxes	5,184	53
Stock-based compensation expense	123	113
Gain on disposal of property and equipment	(2,869)	(6,075)
Changes in certain working capital items (net of acquisition):		
Trade receivables	2,722	623
Prepaid expenses and other current assets	(667)	(3,351)
Accounts payable, accrued liabilities, and accrued expenses	(6,106)	(1,814)
Accrued income taxes	(5,321)	5,574
Net cash provided by operating activities	32,227	32,099
INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	26,126	21,542
Purchases of property and equipment, net of trades	(32,018)	(17,617)
Change in other assets	436	—
Net cash (used in) provided by investing activities	(5,456)	3,925
FINANCING ACTIVITIES		
Payment of cash dividends	(1,667)	(1,667)
Shares withheld for employee taxes related to stock-based compensation	(97)	(63)
Repurchases of common stock	(1,293)	—
Net cash used in financing activities	(3,057)	(1,730)
Net increase in cash, cash equivalents and restricted cash	23,714	34,294
CASH, CASH EQUIVALENTS AND RESTRICTED CASH		
Beginning of period	106,098	150,225
End of period	$129,812	$184,519
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid (received) during the period for income taxes, net of refunds	$46	$(12)
Noncash investing and financing activities:		
Purchased property and equipment in accounts payable	$27,355	$3,406
Sold revenue equipment in other current assets	$11,746	$2,602
RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH		
Cash and cash equivalents	$105,019	$159,170
Restricted cash included in other current assets	3,009	13,159
Restricted cash included in other assets	21,784	12,190
Total cash, cash equivalents and restricted cash	$129,812	$184,519

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

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HEARTLAND EXPRESS, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1. Basis of Presentation and New Accounting Pronouncements

Heartland Express, Inc. (the “Company,” “we,” “us,” or “our”), is a holding company incorporated in Nevada, which owns all of the stock of Heartland Express Inc., of Iowa, Heartland Express Services, Inc., Heartland Express Maintenance Services, Inc., and A & M Express, Inc. Following the acquisition of Interstate Distributor Co. ("IDC") on July 6, 2017, IDC was subsequently merged into Heartland Express Inc., of Iowa effective October 1, 2017 as was Gordon Trucking, Inc. ("GTI") effective July 1, 2016. We, and our subsidiaries, operate as one segment. We, together with our subsidiaries, are a short-to-medium haul truckload carrier (predominately 500 miles or less per load) with corporate headquarters in North Liberty, Iowa. We primarily provide nationwide asset-based dry van truckload service for major shippers from Washington to Florida and New England to California.

The accompanying consolidated financial statements include the parent company, Heartland Express, Inc., and its subsidiaries, all of which are wholly owned. The consolidated financial results for the three months ended March 31, 2018, include the acquired assets and operating results of IDC while the consolidated financial results for the three months ended March 31, 2017 do not. All material intercompany items and transactions have been eliminated in consolidation. The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and notes to the financial statements required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all normal, recurring adjustments considered necessary for a fair presentation have been included. The consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2017 included in the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission on March 1, 2018. 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, 2018, except as noted below in regards to the accounting for stock-based compensation, cash flows, and revenue recognition.

In March 2018, the Financial Accounting Standards Boards (FASB) issued ASU 2018-05, "Income Taxes (Topic 740) which provides for amendments to the SEC issued Staff Accounting Bulletin (“SAB 118”), which provides guidance on accounting for tax effects of the Tax Act. ASU 2018-05 and SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with ASU 2018-05 and SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company’s accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate to be included in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provision of the tax laws that were in effect immediately before the enactment of the Tax Act. Management has evaluated the relevant provisions of the Tax Act to the Company and accounted for the impacts on a provisional basis in the financial statements as of March 31, 2018. The provisional amount is subject to change based on how states conform to the Tax Act, as that information is not readily available for many states at this time. Any revisions to the estimated impacts of the Tax Act will be recorded quarterly until the computations are complete, which is expected to be no later than the fourth quarter of 2018.

In May 2017, the FASB issued ASU 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting," to provide clarity and reduce diversity and complexity of applying the accounting guidance in Topic 718 to a change in the terms or conditions of a share-based payment award. An entity should account for the effects of a modification unless certain criteria are met. The provisions of this update are effective for interim and annual periods beginning after December 15, 2017. We have adopted this standard prospectively for interim and annual periods beginning January 1, 2018. The adoption of this standard did not have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, “Simplifying the Test for Goodwill Impairment,” which continues to require an entity to review indicators for impairment, perform qualitative assessments, and analyze the fair value of a reporting unit as compared to the carrying value of goodwill for potential impairment, but eliminates or replaces additional tests and assessments within the prior guidance. The provisions of this update are effective for fiscal years beginning after December 15, 2019, with early adoption permitted for impairment measurement tests occurring after January 1, 2017. Based on our initial assessment, we believe the impact of adoption of the standard will not have a material impact on our financial statements but we have not determined our date of adoption at this time.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash,” which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash. The provisions of this update are effective for fiscal years beginning after December 15, 2017 and we have adopted this standard using the required retrospective adoption method. The adoption of this standard impacted the consolidated statements of cash flows by increasing beginning and ending cash and cash equivalents presented to include our restricted cash balances. The changes in restricted cash are presented within investing activities eliminating the change in designated funds for equipment purchases and change in designated funds for claims liabilities line items. The overall impact of the change was a decrease to investing cash flows $5.9 million for the three months ended March 31, 2018 and an increase to investing cash flows $3.6 million for the three months ended March 31, 2017.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,” which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The provisions of this update are effective for fiscal years beginning after December 15, 2017 and we have adopted this standard prospectively for interim and annual periods beginning January 1, 2018. The adoption of this standard did not have any impact on our consolidated statement of cash flows.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". This update requires measurement and recognition of expected versus incurred credit losses for financial assets held. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, and interim periods therein. Based on our initial assessment, we believe the impact of adoption of the standard will not have a material impact on our financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases". This update seeks to increase the transparency and comparability among entities by requiring public entities to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. To satisfy the standard’s objective, a lessee will recognize a right-of-use asset representing its right to use the underlying asset for the lease term and a lease liability for the obligation to make lease payments. Both the right-of-use asset and lease liability will initially be measured at the present value of the lease payments, with subsequent measurement dependent on the classification of the lease as either a finance or an operating lease. For leases with a term of twelve months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term.

In transition, lessees are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that companies may elect to apply. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date, and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. The transition guidance also provides specific guidance for sale and leaseback transactions, build-to-suit leases, leveraged leases, and amounts previously recognized in accordance with the business combinations guidance for leases. The new standard is effective for public companies for annual periods beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. We continue to evaluate our changing portfolio of leases as we expect to complete an updated assessment and select a transition method by January 1, 2019, our selected date of transition.

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), which will replace numerous requirements in U.S. GAAP, including industry-specific requirements, and provide companies with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. In July 2015, the FASB approved the deferral of the new standard's effective date by one year. The new standard is effective for annual reporting periods beginning after December 15, 2017. We have selected and have implemented the modified cumulative-effect transition method at January 1, 2018, our date of adoption. The effect of adoption was immaterial to retained earnings at January 1, 2018 and to net income for the three month period ended March 31, 2018. See additional discussions on revenue recognition at Note 4.

Note 2. Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. There were no significant changes in estimates and assumptions used by management related to our critical accounting policies during the three months ended March 31, 2018, except in relation to estimated revenue for in-process loads of freight in accordance with the adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606), see Note 4 for additional discussions.

Note 3.