

HEARTLAND EXPRESS INC
Form 10-Q
August 09, 2016

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

FORM 10-Q
(Mark One)

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

For quarter ended June 30, 2016

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

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

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

As of August 5, 2016 there were 83,286,495 shares of the Company's common stock (\$0.01 par value) outstanding.

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HEARTLAND EXPRESS, INC.
AND SUBSIDIARIES

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

ASSETS	June 30, 2016	December 31, 2015
CURRENT ASSETS		
Cash and cash equivalents	\$77,607	\$ 33,232
Trade receivables, net	57,009	61,009
Prepaid tires	8,793	9,584
Other current assets	11,468	8,316
Income tax receivable	7,773	7,641
Deferred income taxes, net	—	16,662
Total current assets	162,650	136,444
PROPERTY AND EQUIPMENT		
Land and land improvements	39,258	37,899
Buildings	48,372	47,837
Leasehold improvements	1,703	1,703
Furniture and fixtures	2,096	2,096
Shop and service equipment	10,717	10,917
Revenue equipment	573,994	571,281
Construction in progress	30	213
	676,170	671,946
Less accumulated depreciation	225,482	197,948
Property and equipment, net	450,688	473,998
GOODWILL	100,212	100,212
OTHER INTANGIBLES, NET	13,051	14,013
DEFERRED INCOME TAXES, NET	4,222	—
OTHER ASSETS	11,266	11,363
	\$742,089	\$ 736,030
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$21,535	\$ 7,516
Compensation and benefits	25,667	24,636
Insurance accruals	22,330	21,573
Other accruals	13,040	12,443
Total current liabilities	82,572	66,168
LONG-TERM LIABILITIES		
Income taxes payable	12,433	16,228
Deferred income taxes, net	94,337	112,118
Insurance accruals less current portion	61,420	59,435
Other long-term liabilities	8,000	12,153
Total long-term liabilities	176,190	199,934
COMMITMENTS AND CONTINGENCIES (Note 14)		
STOCKHOLDERS' EQUITY		
Preferred stock, par value \$.01; authorized 5,000 shares; none issued	—	—

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Capital stock, common, \$.01 par value; authorized 395,000 shares; issued 90,689 in 2016 and 2015; outstanding 83,279 in 2016 and 84,115 in 2015, respectively	907	907
Additional paid-in capital	3,378	4,126
Retained earnings	603,361	575,948
Treasury stock, at cost; 7,410 shares in 2016 and 6,574 in 2015, respectively	(124,319)	(111,053)
	483,327	469,928
	\$742,089	\$ 736,030

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		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
OPERATING REVENUE	\$ 160,791	\$ 191,684	\$ 323,577	\$ 379,207
OPERATING EXPENSES				
Salaries, wages, and benefits	61,524	70,904	126,990	141,900
Rent and purchased transportation	6,181	9,211	12,881	18,537
Fuel	24,394	34,196	45,588	68,452
Operations and maintenance	6,969	8,379	13,607	16,512
Operating taxes and licenses	3,943	4,378	7,834	9,192
Insurance and claims	4,979	3,469	13,072	10,113
Communications and utilities	1,060	1,453	2,265	2,996
Depreciation and amortization	25,847	26,876	51,552	52,850
Other operating expenses	5,898	6,747	10,831	14,505
Gain on disposal of property and equipment	(4,511)	(9,668)	(5,800)	(19,849)
	136,284	155,945	278,820	315,208
Operating income	24,507	35,739	44,757	63,999
Interest income	109	61	184	93
Interest expense	—	—	—	(19)
Income before income taxes	24,616	35,800	44,941	64,073
Federal and state income taxes	8,248	12,484	14,196	23,145
Net income	\$ 16,368	\$ 23,316	\$ 30,745	\$ 40,928
Other comprehensive income, net of tax	—	—	—	—
Comprehensive income	\$ 16,368	\$ 23,316	\$ 30,745	\$ 40,928
Net income per share				
Basic	\$0.20	\$0.27	\$0.37	\$0.47
Diluted	\$0.20	\$0.27	\$0.37	\$0.47
Weighted average shares outstanding				
Basic	83,248	87,814	83,308	87,802
Diluted	83,319	87,967	83,390	87,966
Dividends declared per share	\$0.02	\$0.02	\$0.04	\$0.04

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

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, 2015	\$ 907	\$ 4,126	\$575,948	\$(111,053)	\$469,928
Net income	—	—	30,745	—	30,745
Dividends on common stock, \$0.04 per share	—	—	(3,332)	—	(3,332)
Repurchases of common stock	—	—	—	(14,678)	(14,678)
Stock-based compensation, net of tax	—	(748)	—	1,412	664
Balance, June 30, 2016	\$ 907	\$ 3,378	\$603,361	\$(124,319)	\$483,327

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)

	Six Months Ended June 30,	
	2016	2015
OPERATING ACTIVITIES		
Net income	\$30,745	\$40,928
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	51,552	53,375
Deferred income taxes	(5,341)	(2,063)
Amortization of stock-based compensation, net of tax	664	714
Gain on disposal of property and equipment	(5,800)	(19,849)
Changes in certain working capital items:		
Trade receivables	4,000	6,574
Prepaid expenses and other current assets	308	1,368
Accounts payable, accrued liabilities, and accrued expenses	5,696	6,441
Accrued income taxes	(3,927)	14,222
Net cash provided by operating activities	77,897	101,710
INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	26,744	57,349
Purchases of property and equipment, net of trades	(42,353)	(64,703)
Change in designated funds for equipment purchases	—	(5,741)
Change in other assets	97	1,682
Net cash used in investing activities	(15,512)	(11,413)
FINANCING ACTIVITIES		
Payments of cash dividends	(3,332)	(1,759)
Contingent consideration related to acquisition	—	(1,765)
Repayments on line of credit	—	(24,600)
Repurchases of common stock	(14,678)	—
Net cash used in financing activities	(18,010)	(28,124)
Net increase in cash and cash equivalents	44,375	62,173
CASH AND CASH EQUIVALENTS		
Beginning of period	33,232	17,303
End of period	\$77,607	\$79,476
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	\$—	\$40
Cash paid during the period for income taxes, net of refunds	\$23,384	\$10,802
Noncash investing and financing activities:		
Purchased property and equipment in accounts payable	\$9,334	\$5,682
Sold property and equipment in other current assets	\$2,501	\$1,598
Common stock dividends declared in accounts payable	\$—	\$1,760

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

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, Gordon Trucking, Inc. ("GTI"), Heartland Express Services, Inc., Heartland Express Maintenance Services, Inc., and A & M Express, Inc. We, and our subsidiaries, operate as one segment. We, together with our subsidiaries, are a short-to-medium haul truckload carrier (predominately 500 miles or less per load) with corporate headquarters in North Liberty, Iowa. We primarily provide nationwide asset-based dry van truckload service for major shippers from Washington to Florida and New England to California.

The accompanying consolidated financial statements include the parent company, Heartland Express, Inc., and its subsidiaries, all of which are wholly owned. All material intercompany items and transactions have been eliminated in consolidation. The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and notes to the financial statements required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all normal, recurring adjustments considered necessary for a fair presentation have been included. The consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2015 included in the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission on February 29, 2016. Interim results of operations are not necessarily indicative of the results to be expected for the full year or any other interim periods. There were no changes to the Company's significant accounting policies during the six month period ended June 30, 2016, except as noted below in regards to the balance sheet classification of deferred taxes.

In March, 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting". This update seeks to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This update becomes effective for the company beginning January 1, 2017 with early adoption permitted. The Company is currently evaluating the impact of ASU 2016-09.

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 12 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. The Company is currently evaluating the effect that adopting this standard will have on our consolidated financial statements. In November, 2015, the FASB issued Accounting Standards Update (ASU) 2015-17, "Balance Sheet Classification of Deferred Taxes". The ASU simplifies the current guidance, which requires entities to separately present deferred tax assets and liabilities as current and non-current in a classified balance sheet. The ASU will be effective for annual periods beginning after December 15, 2016, and interim periods within those years (with early adoption allowed). The Company adopted this guidance prospectively and classified deferred tax asset and deferred tax liability amounts, by tax jurisdiction, as non-current within our balance sheet beginning March 31, 2016 and for future periods. Prior periods presented have not been adjusted.

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In May, 2014, the FASB issued ASU 2014-09 which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The guidance will replace most existing revenue recognition in GAAP when it becomes effective. The original guidance was to be effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. In July 2015, the FASB issued ASU 2015-14 and agreed to defer the effective date of this guidance by one year, with early adoption permitted on the original effective date. The new guidance permits the use of either the retrospective or cumulative effect transition method. In March 2016, the FASB issued ASU 2016-08 which amends the guidance around principal versus agent and clarifies the control principle of goods and services. We are evaluating the effect that the new guidance will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

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 accounting policies during the three and six months ended June 30, 2016, except for a change in the assumptions related to the likelihood of future payouts which reduced the potential earn-out liability recorded related to an acquisition.

Note 3. Segment Information

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

Note 4. Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid investments with insignificant interest rate risk and original maturities of three months or less at acquisition. At June 30, 2016, restricted and designated cash and investments totaled \$11.3 million and \$11.4 million at December 31, 2015, all of which was included in other non-current assets in the consolidated balance sheets. The restricted funds represent deposits required by state agencies for self-insurance purposes and designated funds that are earmarked for a specific purpose and not for general business use.

Note 5. Prepaid Tires, Property, Equipment, and Depreciation

Property and equipment are reported at cost, net of accumulated depreciation. Maintenance and repairs are charged to operations as incurred. Tires are capitalized separately from revenue equipment and are reported separately as "Prepaid tires" in the consolidated balance sheets and amortized over two years. Depreciation expense of \$0.0 million and \$0.3 million for the three months ended June 30, 2016 and 2015 and \$0.0 million and \$0.5 million for the six months ended June 30, 2016 and 2015, respectively, have been included in communication and utilities in the consolidated statements of comprehensive income. Depreciation for financial statement purposes is computed by the straight-line

method for all assets other than tractors. We recognize depreciation expense on tractors using the 125% declining balance method. New tractors are depreciated to salvage values of \$15,000 while new trailers are depreciated to salvage values of \$4,000.

Note 6. Other Intangibles, Net and Goodwill

All intangible assets determined to have finite lives are amortized over their estimated useful lives. The useful life of an intangible asset is the period over which the asset is expected to contribute directly or indirectly to future cash flows. There was no change in the gross amount of identifiable intangible assets during the three and six months ended June 30, 2016. Amortization expense of \$0.5 million, \$1.0 million and \$0.6 million, \$1.2 million for the three and six months ended June 30, 2016 and 2015, respectively, was included in depreciation and amortization in the consolidated statement of comprehensive income. Intangible assets subject to amortization consisted of the following at June 30, 2016:

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	Amortization period (years)	Gross Amount	Accumulated Amortization	Net intangible assets
		(in thousands)		
Customer relationships	20	\$7,600	\$ 997	\$ 6,603
Tradename	6	7,400	3,236	4,164
Covenants not to compete	10	3,100	816	2,284
Real estate options	2.2	942	942	—
		\$19,042	\$ 5,991	\$ 13,051

Carrying amounts of goodwill were as follows:

	(in thousands)
Balance at December 31, 2015	\$ 100,212
Acquisitions	—
Balance at June 30, 2016	\$ 100,212

Note 7. Earnings per Share

Basic earnings per share is based upon the weighted average common shares outstanding during each year. Diluted earnings per share is based on the basic weighted earnings per share with additional weighted common shares for common stock equivalents. During the three and six months ended June 30, 2016 and June 30, 2015, we had unvested shares of common stock to certain of our employees under the Company's 2011 Restricted Stock Award Plan. A reconciliation of the numerator (net income) and denominator (weighted average number of shares outstanding of the basic and diluted earnings per share ("EPS")) for the three and six months ended June 30, 2016 and 2015 is as follows (in thousands, except per share data):

	Three months ended June 30, 2016		
	Net Income (numerator)	Shares (denominator)	Per Share Amount
Basic EPS	\$16,368	83,248	\$ 0.20
Effect of restricted stock	—	71	
Diluted EPS	\$16,368	83,319	\$ 0.20

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

	Six Months Ended June 30, 2016		
	Net Income	Shares (denominator)	Per Share

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	(numerator)	Amount
Basic EPS	\$30,745 83,308	\$ 0.37
Effect of restricted stock	— 82	
Diluted EPS	\$30,745 83,390	\$ 0.37

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	Six Months Ended June 30, 2015		
	Net	Shares	Per
	Income	(denominator)	Share
	(numerator)		Amount
Basic EPS	\$40,928	87,802	\$ 0.47
Effect of restricted stock	—	164	
Diluted EPS	\$40,928	87,966	\$ 0.47

Note 8. Equity

In September 2001, our Board of Directors authorized a program to repurchase 15.4 million shares, adjusted for stock splits, of our common stock in open market or negotiated transactions using available cash, cash equivalents and investments which was subsequently amended in February, 2012. Upon completing the prior authorizations, the Board approved new authorizations of 4.8 million shares in November, 2015. Approximately 3.3 million shares remain authorized for repurchase under the program as of June 30, 2016. There were 0.0 million and 0.9 million shares repurchased in the open market during the three and six months ended June 30, 2016, respectively. There were no shares repurchased during the same periods in 2015. The authorization remains open at June 30, 2016 and has no expiration date. Shares repurchased during 2016 were accounted for as treasury stock. We account for treasury stock using the average cost method. The specific timing and amount of repurchases will be determined by market conditions, cash flow requirements, securities law limitations, and other factors. Repurchases are expected to continue from time to time, as conditions permit, until the number of shares authorized to be repurchased have been bought, or until the authorization to repurchase is terminated, whichever occurs first. The repurchase program may be suspended, modified, or discontinued at any time without prior notice.

During the three and six months ended June 30, 2016 and 2015, our Board of Directors declared regular quarterly dividends totaling \$1.7 million, \$3.3 million, and \$1.8 million, \$3.5 million respectively. Future payment of cash dividends and the amount of such dividends will depend upon our financial conditions, our results of operations, our cash requirements, our tax treatment, and certain corporate law requirements, as well as factors deemed relevant by our Board of Directors.

Note 9. Stock-Based Compensation

In July 2011, a Special Meeting of Stockholders of Heartland Express, Inc. was held, at which meeting the approval of the Heartland Express, Inc. 2011 Restricted Stock Award Plan (the "Plan") was ratified. The Plan is administered by the Compensation Committee of our Board of Directors. Per the terms of the awards, employees receiving awards will have all of the rights of a stockholder with respect to the unvested restricted shares including, but not limited to, the right to receive such cash dividends, if any, as may be declared on such shares from time to time and the right to vote such shares at any meeting of our stockholders.

The Plan made available up to 0.9 million shares for the purpose of making restricted stock grants to our eligible officers and employees. As of June 30, 2016, there were 0.5 million shares that had been granted to employees. During December 2011, 0.4 million shares were granted to employees and no additional shares were granted during 2012. The shares granted in 2013 through 2016 have various vesting terms that range from immediate to four years from the date of grant. Once vested, there are no other restrictions on the awards. Compensation expense associated with these awards is based on the market value of our stock on the grant date. Our market closing price on December 14, 2011, grant date, was \$13.57 and ranged between \$13.86 and \$18.18 on the various grant dates for the shares issued in 2013. The Company's market close price ranged between \$21.72 and \$27.47 on the various grant dates

during 2014, ranged between \$19.93 and \$27.29 on the various grant dates during 2015, and ranged between \$17.06 and \$18.78 on the various grant dates during the six months ended June 30, 2016. There were no significant assumptions made in determining the fair value. Compensation expense associated with restricted stock awards is included in salaries, wages and benefits in the consolidated statements of comprehensive income. Compensation expense associated with restricted stock awards was \$0.3 million and \$1.0 million for the three and six months ended June 30, 2016, respectively. Compensation expense associated with restricted stock awards was \$0.3 million and \$0.6 million for the three and six months ended June 30, 2015, respectively. Unrecognized compensation expense was \$0.8 million at June 30, 2016 which will be recognized over a weighted average period of 1.4 years.

The following tables summarizes our restricted stock award activity for the three and six months ended June 30, 2016 and 2015.

	Three Months Ended June 30, 2016	
	Number of Shares Weighted of Average Restricted Grant Stock Date Fair Awards Value	
	(in thousands)	
Unvested at beginning of period	89.0	\$ 17.68
Granted	41.0	17.11
Vested	(63.2)	14.27
Forfeited	—	—
Outstanding (unvested) at end of period	66.8	\$ 20.55

	Six Months Ended June 30, 2016	
	Number of Shares Weighted of Average Restricted Grant Stock Date Fair Awards Value	
	(in thousands)	
Unvested at beginning of period	102.4	\$ 18.36
Granted	74.0	17.27
Vested	(109.6)	16.06
Forfeited	—	—
Outstanding (unvested) at end of period	66.8	\$ 20.55

Three Months
Ended June 30,
2015
Number Weighted
of Average
Shares Grant
of Date Fair
Restricted Value
Stock

	Awards (in thousands)	
Unvested at beginning of period	175.1	\$ 16.49
Granted	2.2	21.19
Vested	(72.7)	14.30
Forfeited	—	—
Outstanding (unvested) at end of period	104.6	\$ 18.04

	Six Months Ended June 30, 2015 Number of Shares Weighted of Average Restricted Grant Stock Date Fair Awards Value (in thousands)	
Unvested at beginning of period	183.1	\$ 16.78
Granted	4.2	24.06
Vested	(82.7)	15.73
Forfeited	—	—
Outstanding (unvested) at end of period	104.6	\$ 18.04

Note 10. Long-Term Debt

In November 2013, we entered into a credit agreement (the "Credit Agreement") by and among Wells Fargo Bank, National Association, (the "Bank"), Heartland Express, Inc. of Iowa as the borrower (the "Borrower"), us, GTI, and the other members of our consolidated group, as Guarantors. Pursuant to the Credit Agreement, the Bank provided a five-year, \$250.0 million unsecured revolving line of credit. The line of credit is available for working capital, equipment financing, and general corporate purposes. The Bank's commitment decreased to \$200.0 million on November 1, 2015, and decreases to \$175.0 million from November 1, 2016 through October 31, 2018.

The Credit Agreement is unsecured, with a negative pledge against all assets of our consolidated group, except for debt associated with permitted acquisitions, new purchase-money debt and capital lease obligations as described in the Credit Agreement. The Credit Agreement matures on October 31, 2018. The Borrower has the ability to terminate the commitment at any time at no additional cost to the Borrower. Borrowings under the Credit Agreement can either be, at Borrower's election, (i) one-month or three-month LIBOR (Index) plus 0.625%, floating, or (ii) Prime (Index) plus 0%, floating. There is a commitment fee on the unused portion of the Revolver at 0.0625%, due monthly.

The Credit Agreement contains customary financial covenants including, but not limited to, (i) a maximum adjusted leverage ratio of 2:1, measured quarterly on a trailing twelve month basis, (ii) a minimum net income requirement of \$1.00, measured quarterly on a trailing twelve month basis, (iii) a minimum tangible net worth of \$200 million requirement, measured quarterly, and (iv) limitations on other indebtedness and liens. The Credit Agreement also includes customary events of default, conditions, representations and warranties, and indemnification provisions. We were in compliance with the respective financial covenants at June 30, 2016 and had no outstanding long-term debt at June 30, 2016 or December 31, 2015. Outstanding letters of credit associated with the revolving line of credit at June 30, 2016 were \$5.5 million. As of June 30, 2016, the line of credit available for future borrowing was \$194.5 million.

Note 11. Income Taxes

We use the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amount of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Such amounts are adjusted, as appropriate, to reflect changes in tax rates expected to be in effect when temporary differences reverse. The effect of a change in tax rates on deferred taxes is recognized in the period that the change is enacted. A valuation allowance is recorded to reduce the Company's deferred tax assets to the amount that is more likely than not to be realized. We had no recorded valuation allowance at June 30, 2016 and December 31, 2015.

Our effective tax rate was 33.5% and 34.9% for the three months ended and 31.6%, and 36.1% for the six months ended June 30, 2016 and 2015, respectively. The decrease in the effective tax rate for 2016 is primarily attributable to the favorable impact of the reversal of previously recorded accruals for penalties and interest related to uncertain tax positions where the applicable statute of limitations have now lapsed.

We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. We record interest and penalties related to unrecognized tax benefits in income tax expense.

At June 30, 2016 and December 31, 2015, we had a total of \$9.4 million and \$11.6 million in gross unrecognized tax benefits, respectively. Of this amount, \$5.9 million and \$7.3 million represents the amount of unrecognized tax benefits that, if recognized, would impact our effective tax rate as of June 30, 2016 and December 31, 2015. Unrecognized tax benefits were a net decrease of \$1.3 million and \$1.1 million during the three months ended June 30, 2016 and 2015, respectively. Unrecognized tax benefits were a net decrease of \$2.2 million and \$1.6 million during the six months ended June 30, 2016 and 2015, respectively. The net decreases during the three month periods of 2016 and 2015 were due mainly to the expiration of certain statutes of limitation net of additions with respective states. This had the effect of decreasing the effective state tax rate during these respective periods. The total net amount of accrued interest and penalties for such unrecognized tax benefits was \$3.0 million and \$4.7 million at June 30, 2016 and December 31, 2015 and is included in income taxes payable in the consolidated balance sheets. Income tax expense is increased each period for the accrual of interest on outstanding positions and penalties when the uncertain tax position is initially recorded. Income tax expense is reduced in periods by the amount of accrued interest and penalties associated with reversed uncertain tax positions due to lapse of applicable statute of limitations, when applicable or when a position is settled.

Net interest and penalties included in income tax expense for the three month period ended June 30, 2016 and 2015 was a benefit of approximately \$0.9 million and \$0.7 million, respectively. Net interest and penalties included in income tax expense for the six month period ended June 30, 2016 and 2015 was a benefit of approximately \$1.6 million and \$1.2 million, respectively. Income tax expense was reduced during the three and six months ended June 30, 2016 and 2015 due to reversals of interest and penalties due to lapse of applicable statute of limitations and settlements, net of additions for interest and penalty accruals during the same period. These unrecognized tax benefits relate to risks associated with state income tax filing positions for our corporate subsidiaries.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2016
	(in thousands)
Balance at January 1, 2016	\$ 11,569
Additions based on tax positions related to current year	328
Additions for tax positions of prior years	—
Reductions for tax positions of prior years	(108)
Reductions due to lapse of applicable statute of limitations	(2,374)
Settlements	—
Balance at June 30, 2016	\$ 9,415

A number of years may elapse before an uncertain tax position is audited and ultimately settled. It is difficult to predict the ultimate outcome or the timing of resolution for uncertain tax positions. It is reasonably possible that the amount of unrecognized tax benefits could significantly increase or decrease within the next twelve months. These changes could result from the expiration of the statute of limitations, examinations or other unforeseen circumstances. We do not have any outstanding litigation related to tax matters. At this time, management's best estimate of the reasonably possible change in the amount of gross unrecognized tax benefits to be a decrease of approximately \$1.2 million to a decrease of \$2.2 million during the next twelve months mainly due to the expiration of certain statute of limitations, net of additions. The federal statute of limitations remains open for the years 2013 and forward. Tax years 2005 and forward are subject to audit by state tax authorities depending on the tax code and administrative practice of each state.

Note 12. Operating Leases

We have operating leases for certain revenue equipment. During 2016, the majority of these leases are with a commercial tractor dealership, whose owners include a board member. During 2015, a portion of our operating leases were with the noted commercial tractor dealership. Rent expense for these leases were \$0.3 million and \$0.8 million (including related-party rental payments totaling \$0.3 million and \$0.8 million) for the three and six months ended June 30, 2016, respectively. Rent expense for these leases were \$0.9 million and \$2.1 million (including related-party rental payments totaling \$0.8 million, and \$1.9 million), for the three and six months ended 2015, respectively. These expenses were included in rent and purchased transportation in the consolidated statements of comprehensive income. The various leases were terminated in June 2016.

We lease certain terminal facilities under operating leases. A portion of these leases are with limited liability companies, whose members include a board member and a commercial tractor dealership whose owners include a board member. Rent expenses for terminal facilities were \$0.5 million and \$1.1 million (including related-party rental payments totaling \$0.5 million and \$0.9 million), for the three and six months ended June 30, 2016, respectively. Rent expenses for terminal facilities were \$1.0 million and \$2.1 million (including related-party rental payments totaling \$1.0 million and \$1.9 million), for the three and six months ended June 30, 2015, respectively. These expenses were

included in rent and purchased transportation in the consolidated statements of comprehensive income. The various leases expire from 2016 through 2018 and contain purchase options and options to renew, except the Pacific, Washington location. We have renewal options and a right of first refusal on the sale of the Pacific, Washington location property. We are responsible for all taxes, insurance, and utilities related to the terminal leases. See Note 13 for additional information regarding related party transactions.

Note 13. Related Party

We lease certain terminal facilities for operations under operating leases from certain limited liability companies, whose members include a board member and a commercial tractor dealership whose owners include a board member. These terminal facility leases started in November 2013 and have initial five year terms, purchase options, and options to renew excluding the Pacific, Washington location. The Pacific, Washington locations contains lease renewal options and a right of first refusal on any sale of the property.

We purchased tractors from and sold tractors to the commercial tractor dealership noted above. We have operating leases for certain revenue equipment with the commercial tractor dealership and we also purchased parts and services from the same commercial tractor dealership. We owed the commercial tractor dealership \$0.0 million and \$0.1 million, included in accounts payable and accrued liabilities in the consolidated balance sheets at June 30, 2016 and December 31, 2015, respectively, for tractors delivered but not paid for prior to these dates and outstanding parts and services.

The related payments (receipts) with related parties for the three and six months ended June 30, 2016 and 2015 (in thousands) were as follows:

	Three months ended June 30,	
	2016	2015
Payments for tractor purchases	\$4,300	22,795
Receipts for tractor sales	—	(11,041)
Revenue equipment lease payments	265	799
Payments for parts and services	246	1,065
Terminal lease payments	466	963
Terminal lease purchase option payment	—	4,875
	\$5,277	\$19,456
	Six months ended June 30,	
	2016	2015
Payments for tractor purchases	\$4,300	24,895
Receipts for tractor sales	—	(19,567)
Receipts for trailer sales	(108)	—
Revenue equipment lease payments	813	1,884
Payments for parts and services	783	2,426
Terminal lease payments	931	1,919
Terminal lease purchase option payment	—	4,875
	\$6,719	\$16,432

Note 14. Commitments and Contingencies

We are a party to ordinary, routine litigation and administrative proceedings incidental to its business. In the opinion of management, our potential exposure under pending legal proceedings is adequately provided for in the accompanying consolidated financial statements.

The total estimated purchase commitments for tractors, net of tractor sale commitments, and trailer equipment, to be delivered through the remainder of 2016 was \$22.4 million at June 30, 2016.

Note 15. Subsequent Events

We have evaluated events occurring subsequent to June 30, 2016. No events occurred requiring disclosure.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Item 2 contains certain statements that may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and such statements are subject to the safe harbor created by such sections. All statements, other than statements of historical or current fact, are statements that could be deemed forward-looking statements, including without limitation: any projections of earnings, revenues, or other financial items; any statement of plans, strategies, and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; and any statements of belief and any statement of assumptions underlying any of the foregoing. Such statements may be identified by their use of terms or phrases such as "expects," "estimates," "projects," "believes," "anticipates," "intends," "may," "could," "plans," and similar and phrases. Forward-looking statements are based on currently available operating, financial, and competitive information. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, which could cause future events and actual results to differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Known factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section entitled "Item 1A. Risk Factors," set forth in the Company's 2015 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 29, 2016, which is by this reference incorporated herein. Readers should review and consider the factors discussed in "Risk Factors" of the Company's Annual Report on Form 10-K, along with various disclosures in our press releases, stockholder reports, and other filings with the Securities and Exchange Commission.

All such forward-looking statements speak only as of the date of this Quarterly Report. You are cautioned not to place undue reliance on such forward-looking statements. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in the events, conditions, or circumstances on which any such statement is based.

References in this Quarterly Report to "we," "us," "our," "Heartland," or the "Company" or similar terms refer to Heartland Express, Inc. and its subsidiaries.

Overview

We are a short-to-medium haul truckload carrier of general commodities with corporate headquarters in North Liberty, Iowa. We provide nationwide transportation services to major shippers spanning from Washington to Florida and New England to California as well as parts of Canada. We offer primarily asset-based transportation services in the dry van truckload market and also offer temperature-controlled transportation services and non asset-based freight brokerage services although such temperature-controlled and non asset-based services are not material sources of revenue. We provide these transportation services using predominately company-owned and leased revenue equipment. We also obtain additional capacity through the use of independent contractor tractors, although this source of capacity is not significant to our overall operations. We generally earn revenue based on the number of miles per load delivered. We believe the keys to success are maintaining high levels of customer service and safety. Management believes achieving high levels of customer service and safety is predicated on the availability of late-model equipment and experienced drivers. Management believes that our service standards, safety record, and equipment availability have made us a core carrier for many of our major customers.

We achieve operating efficiencies and cost controls through equipment utilization, which is optimized by a common information system platform, a fleet of late model equipment, industry-leading driver to non-driver employee ratio, and effective management of fixed and variable operating costs. The demand for freight services was strong in 2014

as demand for freight services generally outpaced industry capacity in 2014 and into early 2015. The demand for freight services generally slowed in the later months of 2015 and to date in 2016 compared to 2014 levels. Industry capacity continues to be hindered by an insufficient quantity of qualified drivers, which is further challenged by various regulations that reduce drivers' utilization and availability. Further, conformity to the electronic logging device (ELD) requirement will continue to reduce overall industry capacity and driver availability. We cannot predict how future regulations will impact driver utilization. An industry shortage of qualified drivers, in conjunction with reduced driver utilization, creates a favorable rate environment, although the rate environment during 2016 has been intense due to industry capacity outpacing general demand for freight services. We cannot currently predict how long this volatility will continue or its future impact.

Competition for drivers, which has historically been intense, has recently escalated due to the decreasing numbers of qualified drivers in the industry, and we have experienced increased difficulties attracting and retaining qualified drivers. We continue to explore new strategies to attract and retain qualified drivers. We hire the majority of our drivers with at least six to nine months of over-the-road experience and safe driving records. In order to attract and retain experienced drivers who understand the importance of customer service, we have sought to solidify our position as an industry leader in driver compensation in our operating markets. We implemented increases to our driver pay package, in late 2014 and early 2015, raising driver compensation, on average, by approximately 13%. Our driver pay package includes future pay increases based on years of continued service to us and increased rates for accident-free miles of operation. We believe our current compensation package supports our leadership position in terms of driver pay within the industry and rewards our drivers for years of service with safe operating mileage benchmarks which are critical to our operational and financial performance.

Containment of fuel cost continues to be one of management's top priorities as fuel expenses, at 14.1% of operating revenues at June 30, 2016, is our highest cost after salaries, wages and benefits to our drivers and other employees, and depreciation and amortization. The average price so far in 2016 has been \$2.32 with the latest average Department of Energy ("DOE") price decreasing to \$2.22 compared to an average DOE price of \$2.85 during the quarter ended June 30, 2015. Although the average price per gallon in 2016 is the lowest it has been since 2010, we currently cannot predict what fuel prices will be throughout the remainder of 2016. We are not able to pass through all fuel price increases through fuel surcharge agreements with customers due to tractor idling time, along with empty and out-of-route miles. Therefore, our operating income is negatively impacted with increased net fuel costs (fuel expense less fuel surcharge revenue) in a rising fuel environment and is positively impacted in a declining fuel environment. We continue to manage and implement fuel initiative strategies that we believe will effectively manage fuel costs. These initiatives include strategic fueling of our trucks, whether it be terminal fuel or over-the-road fuel, reducing tractor idle time, controlling out-of-route miles, controlling empty miles, utilizing on-board power units to minimize idling, educating drivers to save energy, trailer skirting, and increasing fuel economy through the purchase of newer, more fuel efficient tractors. At June 30, 2016, 99% of our over-the-road sleeper berth tractor fleet was equipped with idle management controls. At June 30, 2016, the Company's tractor fleet had an average age of 1.5 years and the Company's trailer fleet had an average age of 4.7 years.

We continue to focus on growing organically by providing quality service to targeted customers with a high density of freight in our regional operating areas. In addition to the development of our regional operating areas, we have made six acquisitions since 1987. Future growth depends upon several factors including the level of economic growth and the related customer demand, the available capacity in the trucking industry, our ability to identify and consummate future acquisitions, our ability to integrate operations of acquired companies to realize efficiencies, and our ability to attract and retain experienced drivers that meet our hiring standards.

We ended the first six months of 2016 with operating revenues of \$323.6 million, including fuel surcharges, net income of \$30.7 million, and basic net income per share of \$0.37 on basic weighted average outstanding shares of 83.3 million compared to operating revenues of \$379.2 million, including fuel surcharges, net income of \$40.9 million, and basic net income per share of \$0.47 on basic weighted average shares of 87.8 million during the first six months of 2015. We posted an 86.2% operating ratio (operating expenses as a percentage of operating revenues) for the six months ended June 30, 2016 compared to 83.1% for the same period of 2015 and a 9.5% net margin (net income as a percentage of operating revenues) for the six months ended June 30, 2016 compared to 10.8% in the same period of 2015. We posted an 84.8% non-GAAP adjusted operating ratio⁽¹⁾ (operating expenses as a percentage of operating revenues, net of fuel surcharge) for the six months ended June 30, 2016 compared to 80.5% for the same period of 2015. We had total assets of \$742.1 million and net stockholders equity of \$483.3 million at June 30, 2016. We achieved a return on assets of 8.5% and a return on equity of 13.1% over the immediate past four quarters ended June 30, 2016, compared to 11.1% and 17.6%, respectively, for the immediate past four quarters ended June 30, 2015.

(1)

GAAP to Non-GAAP Reconciliation Schedule:

Operating income, operating ratio, and adjusted operating ratio reconciliation

(a)

(In thousands)

(unaudited)

	Three Months Ended June 30,			
	2016	2015		
Operating revenue	\$160,791	\$191,684		
Less: Fuel surcharge revenue	15,341	25,705		
Operating revenue, excluding fuel surcharge revenue	145,450	165,979		
Operating expenses	136,284	155,945		
Less: Fuel surcharge revenue	15,341	25,705		
Adjusted operating expenses	120,943	130,240		
Operating income	\$24,507	\$35,739		
Operating ratio	84.8	% 81.4	%	
Adjusted operating ratio (a)	83.2	% 78.5	%	

	Six Months Ended June 30,			
	2016	2015		
Operating revenue	\$323,577	\$379,207		
Less: Fuel surcharge revenue	28,434	51,809		
Operating revenue, excluding fuel surcharge revenue	295,143	327,398		
Operating expenses	278,820	315,208		
Less: Fuel surcharge revenue	28,434	51,809		
Adjusted operating expenses	250,386	263,399		
Operating income	\$44,757	\$63,999		
Operating ratio	86.2	% 83.1	%	
Adjusted operating ratio (a)	84.8	% 80.5	%	

(a) Adjusted operating ratio as reported in this Form 10-Q is based upon total operating expenses, net of fuel surcharge revenue, as a percentage of operating revenue excluding fuel surcharge revenue. We feel that this measure is more representative of our underlying operations by excluding the volatility of fuel prices which we cannot control.

Our cash flow from operating activities for the six months ended June 30, 2016 of \$77.9 million was 24.1% of operating revenues, compared to \$101.7 million and 26.8% in the same period of 2015. During 2016, we used \$15.5 million in net investing cash flows, which was the result of net cash used for revenue equipment purchases. We used \$18.0 million in financing activities directly related to repurchases of our common stock and payment of dividends. As a result, our cash and cash equivalents increased \$44.4 million during the six months ended June 30, 2016. We ended the second quarter of 2016 with cash and cash equivalents of \$77.6 million.

Results of Operations

The following table sets forth the percentage relationships of expense items to total operating revenue for the periods indicated:

	Three Months		Six months ended	
	Ended June 30,		June 30,	
	2016	2015	2016	2015
Operating revenue	100.0 %	100.0 %	100.0 %	100.0 %
Operating expenses:				
Salaries, wages, and benefits	38.3 %	37.0 %	39.2 %	37.4 %
Rent and purchased transportation	3.8 %	4.8 %	4.0 %	4.9 %
Fuel	15.2 %	17.8 %	14.1 %	18.1 %
Operations and maintenance	4.3 %	4.4 %	4.2 %	4.4 %
Operating taxes and licenses	2.5 %	2.3 %	2.4 %	2.4 %
Insurance and claims	3.1 %	1.8 %	4.0 %	2.7 %
Communications and utilities	0.7 %	0.8 %	0.7 %	0.8 %
Depreciation and amortization	16.1 %	14.0 %	15.9 %	13.9 %
Other operating expenses	3.7 %	3.5 %	3.3 %	3.8 %
Gain on disposal of property and equipment	(2.8)%	(5.0)%	(1.8)%	(5.2)%
	84.8 %	81.4 %	86.2 %	83.1 %
Operating income	15.2 %	18.6 %	13.8 %	16.9 %
Interest income	0.07 %	0.03 %	0.06 %	0.02 %
Interest expense	— %	— %	— %	(0.01)%
Income before income taxes	15.3 %	18.7 %	13.9 %	16.9 %
Income taxes	5.1 %	6.5 %	4.4 %	6.1 %
Net income	10.2 %	12.2 %	9.5 %	10.8 %

Three Months Ended June 30, 2016 Compared With the Three Months Ended June 30, 2015

Operating revenue decreased \$30.9 million (16.1%), to \$160.8 million for the three months ended June 30, 2016 from \$191.7 million for the three months ended June 30, 2015. The decrease in revenue was the result of a \$10.4 million (40.3%) decrease in fuel surcharge revenue from \$25.7 million in 2015 to \$15.3 million in 2016 and a decrease in trucking and other revenues of \$20.5 million (12.4%). Operating revenues (the total of trucking and fuel surcharge revenue) are primarily earned based on loaded miles driven in providing truckload transportation services. The number of loaded miles is affected by general freight supply and demand trends and the number of revenue earning equipment vehicles (tractors). The number of revenue earning equipment vehicles (tractors) is directly affected by the number of available company drivers and independent contractors providing capacity to us. Our operating revenues are reviewed regularly on a combined basis across the United States due to the similar nature of our service offerings and related similar base pricing structure. The net trucking revenue decrease was the result of a decrease in loaded miles due to a decrease in drivers and slowing freight demand in the 2016 period compared to the 2015 period, slightly offset by an increase in the rate per loaded mile compared to the three months ended June 30, 2015.

Fuel surcharge revenues represent fuel costs passed on to customers based on customer specific fuel surcharge recovery rates and billed loaded miles. Fuel surcharge revenues decreased primarily as a result of an 18.6% decrease in the average Department of Energy ("DOE") diesel fuel prices during the three months ended June 30, 2016 compared to June 30, 2015, as reported by the DOE, along with a decrease in loaded miles.

Salaries, wages, and benefits decreased \$9.4 million (13.2%), to \$61.5 million for the three months ended June 30, 2016 from \$70.9 million in the 2015 period. Salaries, wages and benefits decreased period over period due to decreases in driver and non-driver wages and lower health insurance and workers compensation costs as compared to the same period in 2015. Reduction in expense period over period is due mainly to less miles driven and lower overall non-driving headcount.

Rent and purchased transportation decreased \$3.0 million (32.9%), to \$6.2 million for the three months ended June 30, 2016 from \$9.2 million in the comparable period of 2015. The decrease was attributable to amounts paid for operating leases of terminal

locations and revenue equipment (decreased \$1.4 million), amounts paid to third party carriers on brokered loads (decreased \$1.3 million), and amounts paid to independent contractors (decreased \$0.3 million). The decrease in amounts paid were due to a decrease in loads brokered with third party carriers, a decrease in miles driven by independent contractors, and a reduction in leased revenue equipment units during the 2016 period as compared to 2015. During the three months ended June 30, 2016, independent contractors accounted for 2.3% of the total fleet miles compared to approximately 3.2% for the same period of 2015.

Fuel decreased \$9.8 million (28.7%), to \$24.4 million for the three months ended June 30, 2016 from \$34.2 million for the same period of 2015. The decrease was primarily the result of a (18.6%) decrease in the average diesel price per gallon as reported by the DOE and lower miles driven. Fuel cost per mile, net of fuel surcharge revenues, increased 12.1% in the 2016 period compared to the same period of 2015, due mainly to fuel surcharge revenues declining at an increased rate (40.3%), as compared to the decline in overall fuel cost.

Depreciation decreased \$1.1 million (3.9%), to \$25.8 million during the three months ended June 30, 2016 from \$26.9 million in the same period of 2015. The decrease is mainly attributable to a decrease in the number of units being depreciated, partially offset by higher average depreciation expense per revenue equipment unit. Tractor depreciation decreased \$0.6 million, on a 7.6% decrease in the number of tractor units depreciated, partially offset by 4.6% higher depreciation recognized per unit during the three months ended June 30, 2016 compared to the 2015 period. Compared to the same period in 2015, trailer and other depreciation decreased \$0.5 million on an 13.4% decrease in the number of trailer units depreciated during the three months ended June 30, 2016, partially offset by 8.5% higher depreciation recognized per unit.

Operating and maintenance expense decreased \$1.4 million (16.8%), to \$7.0 million during the three months ended June 30, 2016 from \$8.4 million in the same period of 2015. The decrease is mainly due to a decrease in the number of revenue equipment units in the fleet, a decrease in miles driven, and the age of our fleet of revenue equipment.

Operating taxes and licenses expense decreased \$0.5 million (10.3%), to \$3.9 million during the three months ended June 30, 2016 from \$4.4 million in 2015, due to a decrease in the number of revenue equipment units (tractors and trailers) being licensed and reduced fuel taxes due to less miles driven. Insurance and claims expense increased \$1.5 million (43.5%), to \$5.0 million during the three months ended June 30, 2016 from \$3.5 million in 2015, due to increased severity and frequency of claims in 2016.

Gains on the disposal of property and equipment decreased \$5.2 million (53.3%), to \$4.5 million during the three months ended June 30, 2016 from \$9.7 million in the same period of 2015. The decrease resulted from the net effect of a decrease in gains on sales of trailer equipment of \$7.0 million, a decrease in gains on sale of other property of \$1.5 million, offset by an increase in gains on tractor equipment sales of \$3.4 million. The decrease in gains on trailer sales was the net effect of selling 81% less trailers during 2016, at minimal gains per unit. The increase in gains on tractor sales was due to a 42% increase in the number of units sold along with a gain per unit increase of 172%. We currently anticipate tractor and trailer equipment sale activity during 2016 to decrease significantly compared to 2015 levels with total estimated gains of approximately \$7.5 to \$8.5 million.

Our effective tax rate declined to 33.5% from 34.9% for the three months ended June 30, 2016 and 2015, respectively. The decrease in the effective tax rate for 2016 is primarily attributable to the favorable impact of the reversal of previously recorded accruals for penalties and interest related to uncertain tax positions where the applicable statute of limitations have now lapsed.

As a result of the foregoing, our operating ratio (operating expenses as a percentage of operating revenue) was 84.8% during the three months ended June 30, 2016, compared to 81.4% during the three months ended June 30, 2015. Our non-GAAP adjusted operating ratio⁽¹⁾ (operating expenses as a percentage of operating revenues, net of fuel surcharge) was 83.2% during the three months ended June 30, 2016, compared to 78.5% during the three months

ended June 30, 2015. Net income decreased \$6.9 million (29.8%), to \$16.4 million for the three months ended June 30, 2016, from \$23.3 million during the same period in 2015 as a result of the net effects discussed above.

Six Months Ended June 30, 2016 Compared With the Six Months Ended June 30, 2015

Operating revenue decreased \$55.6 million (14.7%), to \$323.6 million for the six months ended June 30, 2016 from \$379.2 million for the six months ended June 30, 2015. The decrease in revenue was the result of a \$23.4 million (45.1%) decrease in fuel surcharge revenue from \$51.8 million in 2015 to \$28.4 million in 2016 and a decrease in trucking and other revenues of \$32.2 million (9.9%). Operating revenues (the total of trucking and fuel surcharge revenue) are primarily earned based on loaded miles driven in providing truckload transportation services. The number of loaded miles is affected by general freight supply and demand trends and the number of revenue earning equipment vehicles (tractors). The number of revenue earning equipment vehicles (tractors) is directly affected by the number of available company drivers and independent contractors providing capacity to us. Our operating revenues are reviewed regularly on a combined basis across the United States due to the similar nature of our service offerings and related similar base pricing structure. The net trucking revenue decrease was the result of a decrease in loaded miles due to a decrease in drivers and slowing freight demand in the 2016 period compared to the 2015 period, partially offset by an increase in the rate per loaded mile compared to the three months ended June 30, 2016.

Fuel surcharge revenues represent fuel costs passed on to customers based on customer specific fuel surcharge recovery rates and billed loaded miles. Fuel surcharge revenues decreased primarily as a result of a 22.8% decrease in the average Department of Energy ("DOE") diesel fuel prices during the six months ended June 30, 2016 compared to June 30, 2015, as reported by the DOE, along with decreased loaded miles during the same period.

Salaries, wages, and benefits decreased \$14.9 million (10.5%), to \$127.0 million for the six months ended June 30, 2016 from \$141.9 million in the 2015 period. Salaries, wages and benefits decreased period over period due mainly to decreases in driver and non-driver wages and lower health insurance and workers compensation costs as compared to the same period in 2015. Reduction in expense period over period is due mainly to less miles driven and lower overall non-driving headcount.

Rent and purchased transportation decreased \$5.6 million (30.5%), to \$12.9 million for the six months ended June 30, 2016 from \$18.5 million in the comparable period of 2015. The decrease was attributable to amounts paid to third party carriers on brokered loads (decreased \$2.1 million), amounts paid for operating leases of terminal locations and revenue equipment (decreased \$2.6 million), and amounts paid to independent contractors (decreased \$0.9 million). The decrease in amounts paid were due to a decrease in loads brokered with third party carriers, a decrease in miles driven by independent contractors, and a reduction in leased revenue equipment units during the 2016 period as compared to 2015. During the six months ended June 30, 2016, independent contractors accounted for 2.4% of the total fleet miles compared to approximately 3.3% for the same period of 2015.

Fuel decreased \$22.9 million (33.4%), to \$45.6 million for the six months ended June 30, 2016 from \$68.5 million for the same period of 2015. The decrease was primarily the result of a 22.8% decrease in the average diesel price per gallon as reported by the DOE and lower miles driven. Fuel cost per mile, net of fuel surcharge revenues, increased 5.6% in the 2016 period compared to the same period of 2015, due mainly to fuel surcharge revenues declining at an increased rate (45.1%), as compared to the decline in overall fuel cost.

Depreciation and amortization decreased \$1.3 million (2.5%), to \$51.6 million during the six months ended June 30, 2016 from \$52.9 million in the same period of 2015. The decrease is mainly attributable to a decrease in the number of units being depreciated, partially offset by higher average depreciation expense per revenue equipment unit. Tractor depreciation decreased \$0.6 million, on an 8.7% decrease in the number of tractor units depreciated, partially offset by 7.7% higher depreciation recognized per unit during the six months ended June 30, 2016 compared to the 2015 period. Compared to the same period in 2015, trailer and other depreciation decreased \$0.7 million on an 15.9% decrease in the number of trailer units depreciated during the six months ended June 30, 2016, partially offset by 12.8% higher depreciation recognized per unit.

Operating and maintenance expense decreased \$2.9 million (17.6%), to \$13.6 million during the six months ended June 30, 2016 from \$16.5 million in the same period of 2015. The decrease is mainly due to a decrease in the number of revenue equipment units in the fleet, a decrease in miles driven, and the age of our fleet of revenue equipment.

Operating taxes and licenses expense decreased \$1.4 million (14.8%), to \$7.8 million during the six months ended June 30, 2016 from \$9.2 million in 2015, due to a decrease in the number of revenue equipment units (tractors and trailers) being licensed and reduced fuel taxes due to less miles driven. Insurance and claims expense increased \$3.0 million (29.3%), to \$13.1 million during the six months ended June 30, 2016 from \$10.1 million in 2015, due to increased severity and frequency of claims in 2016. Other operating expenses decreased \$3.7 million (25.3%), to \$10.8 million, during the six months ended June 30, 2016 from \$14.5 million in 2015, due to the net effect of a reduction in the potential earn-out liability recorded resulting from a change in our assumptions on the likelihood of future payments, an increase in legal employment-related matters, and a reduction in other operating costs due to a decrease in miles driven and reduced number of employees.

Gains on the disposal of property and equipment decreased \$14.0 million (70.8)%, to \$5.8 million during the six months ended June 30, 2016 from \$19.8 million in the same period of 2015. The decrease resulted from a decrease in gains on sales of trailer equipment of \$12.1 million, a decrease in gains on sale of other property of \$1.4 million, and a decrease in gains on tractor equipment sales of \$0.6 million. The decrease in gains on trailer sales was the net effect of selling 79% less trailers during 2016, at 66% lower gains per unit. The decrease in gains on tractor sales was due to a 47% decrease in the number of units sold offset with a gain per unit increase of 68%. We currently anticipate tractor and trailer equipment sale activity during 2016 to decrease significantly compared to 2015 levels with total estimated gains of approximately \$7.5 to \$8.5 million.

The Company's effective tax rate was 31.6% and 36.1% for the six months ended June 30, 2016 and 2015, respectively. The decrease in the effective tax rate for 2016 is primarily attributable to an increase in favorable income tax expense adjustments in 2016 when compared to the same period in 2015. The favorable income tax expense adjustments are mainly due to the expiration of statute of limitations on unrecognized tax benefits and favorable adjustments recognized upon finalization of annual income tax returns.

As a result of the foregoing, the Company's operating ratio (operating expenses as a percentage of operating revenue) was 86.2% during the six months ended June 30, 2016 compared with 83.1% during the six months ended June 30, 2015. Our non-GAAP adjusted operating ratio⁽¹⁾ (operating expenses as a percentage of operating revenues, net of fuel surcharge) was 84.8% during the six months ended June 30, 2016, compared to 80.5% during the six months ended June 30, 2015. Net income decreased \$10.2 million (24.9)%, to \$30.7 million for the six months ended June 30, 2016 from \$40.9 million during the compared 2015 period as a result of the net effects discussed above.

Liquidity and Capital Resources

The growth of our business requires significant investments in new revenue equipment. Historically, we have been debt-free, funding revenue equipment purchases with cash flow provided by operating activities and sales of equipment. Our primary source of liquidity has been cash flow provided by operating activities. Our primary source of liquidity during 2016 remains cash flow generated from operating activities, although we maintain our line of credit to provide assistance with additional cash requirements to fund capital expenditures. During the six months ended June 30, 2016, we were able to fund revenue equipment purchases with cash flows provided by operating activities and sales of equipment. We currently have no outstanding borrowings on our line of credit.

On November 11, 2013, we entered into a Credit Agreement with Wells Fargo Bank, National Association, (the "Bank"). Pursuant to the Credit Agreement, the Bank provided a five-year, \$250.0 million unsecured revolving line of credit which may be used for working capital, equipment financing, and general corporate purposes. The Bank's commitment decreased to \$200.0 million on November 1, 2015, and will decrease to \$175.0 million for the period November 1, 2016 through October 31, 2018.

The Credit Agreement is unsecured, with a negative pledge against all assets of our consolidated group, except for debt associated with permitted acquisitions, new purchase-money debt and capital lease obligations as described in the Credit Agreement. The Credit Agreement matures on October 31, 2018, subject to the ability of Heartland Express, Inc. of Iowa (the "Borrower") to terminate the commitment at any time at no additional cost to the Borrower. Borrowings under the Credit Agreement can either be, at the Borrower's election, (i) one-month or three-month LIBOR (Index) plus 0.625%, floating, or (ii) Prime (Index) plus 0%, floating. There is a commitment fee on the unused portion of the line of credit under the Credit Agreement at 0.0625%, due monthly.

The Credit Agreement contains customary financial covenants including, but not limited to, (i) a maximum adjusted leverage ratio of 2:1, measured quarterly, (ii) required minimum net income of \$1.00, measured quarterly, (iii) required minimum tangible net worth of \$200 million, measured quarterly, and (iv) limitations on other indebtedness

and liens. The Credit Agreement also includes customary events of default, conditions, representations and warranties, and indemnification provisions. We were in compliance with the respective financial covenants at June 30, 2016.

Operating cash flow during the six months ended June 30, 2016 was \$77.9 million compared to \$101.7 million during the same period of 2015. This was primarily a result of net income (excluding non-cash depreciation and amortization, changes in deferred taxes, and gains on disposal of equipment) being approximately \$1.3 million lower during 2016 compared to 2015 and a decrease in cash flow generated by operating assets and liabilities of approximately \$22.5 million. The net decrease in cash provided by operating assets and liabilities for 2016 compared to the same period of 2015 was primarily attributable to the timing of income tax payments and the associated net income tax payable position comparing the two periods. Cash flow from operating activities was 24.1% of operating revenues for the six months ended June 30, 2016 compared with 26.8% for the same period of 2015.

Cash flows used by investing activities was \$15.5 million during the six months ended June 30, 2016 compared to cash flows used in investing activities of \$11.4 million during the comparative 2015 period or a decrease in cash of \$4.1 million. The increase in cash used for investing activities was primarily the net result of a decrease in proceeds from sale of property and equipment, net of trades, with an increase in equipment purchases, \$8.2 million, change in other assets of \$1.6 million, partially offset by the change in designated funds for equipment purchases of \$5.7 million. We currently estimate a total of approximately \$30 to \$40 million in net capital expenditures for the calendar year 2016.

Cash used in financing activities decreased \$10.1 million during the six months ended June 30, 2016 compared to the same period of 2015 due mainly to \$14.7 million used for repurchases of common stock and \$1.6 million paid for dividends during 2016 compared to \$24.6 million cash used for repayments of borrowings on the Credit Agreement during 2015. There were no borrowings on the Credit Agreement during the six months ended June 30, 2016.

In 2001, our Board of Directors authorized a program to repurchase 15.4 million shares, adjusted for stock splits, of our common stock in open market or negotiated transactions using available cash, cash equivalents and investments which was subsequently amended in February 2012. Upon completing prior authorizations, the Board approved new authorizations of 4.8 million shares in November, 2015. Approximately 3.3 million shares remained authorized for repurchase under the program as of June 30, 2016 and the program has no expiration date. There were 0.9 million shares repurchased in the open market during the six months ended June 30, 2016 and no shares were repurchased during the six months ended June 30, 2015. Shares repurchased were accounted for as treasury stock. The specific timing and amount of repurchases will be determined by market conditions, cash flow requirements, securities law limitations, and other factors. Repurchases are expected to continue from time to time, as conditions permit, until the number of shares authorized to be repurchased have been bought, or until the authorization to repurchase is terminated, whichever occurs first. The share repurchase authorization is discretionary and has no expiration date. The repurchase program may be suspended, modified, or discontinued at any time without prior notice.

We paid income taxes, net of refunds, of \$23.4 million and \$10.8 million in the six months ended June 30, 2016 and June 30, 2015. The decrease was mainly attributable to the amount of current tax receivable at the end of 2014 which lowered estimated payments in the first half of 2015. Management believes we have adequate liquidity to meet our current and projected needs in the foreseeable future. Management believes we will continue to have significant capital requirements over the long-term, which we expect to fund with cash flows provided by operating activities, proceeds from the sale of used equipment and available capacity on the Credit Agreement. At June 30, 2016, the Company had \$77.6 million in cash and cash equivalents and \$194.5 million available borrowing capacity on the Credit Agreement.

Off-Balance Sheet Transactions

Our liquidity or financial condition is not materially affected by off-balance sheet transactions. We are a party to certain operating leases to finance a portion of our revenue equipment requirements and terminal facilities. Operating lease expense during the six months ended June 30, 2016 was \$1.1 million.

Risk Factors

You should refer to Item 1A of our Annual Report (Form 10-K) for the year ended December 31, 2015, 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.

- Our business is subject to general economic and business factors affecting the trucking industry that are largely out of our control, any of which could have a materially adverse effect on our operating results.
- Our growth may not continue at historical rates, if at all, and any decrease in revenues or profits may impair our ability to implement our business strategy, which could have a materially adverse effect on our results of operations.

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.

Indebtedness under our Credit Agreement could have adverse consequences on our future operations.

- We have significant ongoing capital requirements that could affect our profitability if we are unable to generate sufficient cash from operations and obtain financing on favorable terms.

Increased prices, reduced productivity, and restricted availability of new revenue equipment and decreased demand and value of used equipment may adversely affect our earnings and cash flows.

If diesel fuel prices increase significantly, our results of operations could be adversely affected.

Difficulty in attracting and retaining drivers, including independent contractors, may have a materially adverse effect on our business.

If our independent contractors are deemed by regulators or judicial process to be employees, our business and results of operations could be adversely affected.

• We operate in a highly regulated industry, and increased costs of compliance with, or liability for violation of, existing or future regulations could have a materially adverse effect on our business.

• Safety-related evaluations and rankings under Compliance, Safety, Accountability (CSA) could adversely affect our profitability and operations, our ability to maintain or grow our fleet, and our customer relationships.

• Our operations are subject to various environmental laws and regulations, the violations of which could result in substantial fines or penalties.

• We are exposed to risks related to our acquisition of Gordon Trucking, Inc. ("GTI") and we may not be able to achieve the benefits we expected at the time of the acquisition. Any failure to implement our business strategy with respect to the GTI acquisition could negatively impact our business, financial condition and results of operations.

• 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.

• If we are unable to retain our key employees or find, develop, and retain terminal managers, our business, financial condition, and results of operations could be adversely affected.

• Seasonality and the impact of weather affect our operations profitability.

• We self-insure for a significant portion of our claims exposure, which could significantly increase the volatility of, and decrease the amount of, our earnings.

• We are dependent on computer and communications systems, and a systems failure could cause a significant disruption to our business.

• Concentrated ownership of our stock can influence shareholder decisions, may discourage a change in control, and may have an adverse effect on the share price of our stock.

• Efforts by labor unions could divert management's attention and could have a materially adverse effect on our operating results.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

We are exposed to market risk changes in interest rates on our long-term debt and from changes in commodity prices, primarily fuel and rubber. We do not currently use derivative financial instruments for risk management purposes, although we have used instruments in the past for fuel price risk management, and do not use them for either speculation or trading. Because the majority of our operations are confined to the United States, we are not subject to a material foreign currency risk.

Interest Rate Risk

We had no debt outstanding at June 30, 2016 although we had \$194.5 million in available borrowings on our Credit Agreement. Borrowings under the Credit Agreement can either be, at our election, (i) one-month or three-month LIBOR (Index) plus 0.625%, floating, or (ii) Prime (Index) plus 0%, floating. The current borrowing rate available on the Credit Agreement was 1.119%. Increases in interest rates could impact our interest expense on future borrowings.

Commodity Price Risk

We are subject to commodity price risk primarily with respect to purchases of fuel and rubber. We have fuel surcharge agreements with most customers that enable us to pass through most long-term price increases therefore limiting our exposure to commodity price risk. Fuel surcharges that can be collected do not always fully offset an increase in the cost of fuel as we are not able to pass through fuel costs associated with out-of-route miles, empty miles, and tractor idle time. Based on our actual fuel purchases for 2015, assuming miles driven, fuel surcharges as a percentage of revenue, percentage of unproductive miles, and miles per gallon remained consistent with 2015 amounts, a \$1.00 increase in the average price of fuel, year over year, would decrease our income before income taxes by approximately

\$7.8 million. We use a significant amount of tires to maintain our revenue equipment. We are not able to pass through 100% of price increases from tire suppliers due to the severity and timing of increases and current rate environment. Historically, we have sought to minimize tire price increases through bulk tire purchases from our suppliers. Based on our expected tire purchases for 2016, a 10% increase in the price of tires would increase our tire purchase expense by \$1.4 million, resulting in a corresponding decrease in income before income taxes.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures— We have established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) to ensure that material information relating to us, including our consolidated subsidiaries, is made known to the officers who certify our financial reports and to other members of senior management and the Board of Directors.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Accounting and Financial Officer), of the effectiveness of the design and operations of our disclosure controls and procedures, as defined in Exchange Act Rule 15d-15(e). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in enabling us to record, process, summarize and report information required to be included in our periodic SEC filings within the required time period.

Changes in Internal Control Over Financial Reporting – There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 2. CHANGE IN SECURITIES

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 3.1 Articles of Incorporation. Incorporated by reference to the Company's registration statement on Form S-1, Registration No. 33-8165, effective November 5, 1986.
- 3.2 Amended and Restated Bylaws. Incorporated by reference to the Company's Form 10-K, for the year ended December 31, 2007, dated February 28, 2008
- 3.3 Certificate of Amendment to Articles of Incorporation. Incorporated by reference to the Company's Form 10-QA, for the quarter ended June 30, 1997, dated March 20, 1998.
- 4.1 Articles of Incorporation. Incorporated by reference to the Company's registration statement on Form S-1, Registration No. 33-8165, effective November 5, 1986.
- 4.2 Amended and Restated Bylaws. Incorporated by reference to the Company's Form 10-K, for the year ended December 31, 2007, dated February 28, 2008.
- 4.3 Certificate of Amendment to Articles of Incorporation. Incorporated by reference to the Company's Form 10-QA, for the quarter ended June 30, 1997, dated March 20, 1998.
- 31.1* Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
- 31.2* Certification of Principal Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
- 32.1* Certification of Principal Executive Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2* Certification of the Principal Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS** XBRL Instance Document.

101.SCH** XBRL Taxonomy Extension Schema Document

101.CAL** XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF** XBRL Taxonomy Extension Definition Linkbase Document

101.LAB** XBRL Taxonomy Extension Label Linkbase Document

101.PRE** XBRL Taxonomy Extension Presentation Linkbase Document

*Filed with the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2016, filed with the Securities and Exchange Commission on August 9, 2016.

** In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 shall be deemed to be "furnished" and not "filed."

(b) Reports on Form 8-K

None.

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

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Act of 1934, the registrant has duly caused the report to be signed on its behalf by the undersigned thereunto duly authorized.

HEARTLAND EXPRESS, INC.

Date: August 9, 2016 By: /s/ John P. Cosaert
John P. Cosaert
Executive Vice President of Finance
and Chief Financial Officer
(Principal Accounting and Financial Officer)