HEARTLAND EXPRESS INC
Form 10-Q
August 06, 2007

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For quarter ended June 30, 2007 Commission File No. 0-15087

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

Nevada	93-0926999
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
901 North Kansas Avenue, North Liberty, Iowa	52317
(Address of Principal Executive Office)	(Zip Code)

Registrant's telephone number, including area code (319) 626-3600

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act). Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

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

At June 30, 2007, there were 98,251,889 shares of the Company's $0.01 par value common stock outstanding.

HEARTLAND EXPRESS, INC.

AND SUBSIDIARIES

PART I

FINANCIAL INFORMATION

PART II

OTHER INFORMATION

HEARTLAND EXPRESS, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS	June 30,	December 31,

	2007	2006
	(Unaudited)	
CURRENT ASSETS		
Cash and cash equivalents	$ 10,579,024	$ 8,458,882
Short-term investments	162,240,604	322,829,306
Trade receivables, net of allowance for doubtful accounts of $775,000	48,741,950	43,499,482
Prepaid tires and tubes	5,050,605	5,075,566
Other prepaid expenses	4,804,333	1,635,077
Deferred income taxes	29,712,000	29,177,000
Total current assets	261,128,516	410,675,313
PROPERTY AND EQUIPMENT		
Land and land improvements	11,765,172	12,016,344
Buildings	16,434,010	18,849,412
Furniture and fixtures	1,633,170	1,113,565
Shop and service equipment	3,536,732	2,838,934
Revenue equipment	318,302,924	309,505,597
	351,672,008	344,323,852
Less accumulated depreciation	109,607,867	96,293,111
Property and equipment, net	242,064,141	248,030,741
GOODWILL	4,814,597	4,814,597
OTHER ASSETS	5,740,817	5,549,061
	$513,748,071	$669,069,712

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

HEARTLAND EXPRESS, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30, 2007 (Unaudited)	December 31, 2006
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 12,188,502	$ 15,075,647
Compensation and benefits	14,655,039	15,028,378
Income taxes payable	470,127	21,418,610
Insurance accruals	58,986,754	56,651,853
Other accruals	8,269,890	8,248,415
Total current liabilities	94,570,312	116,422,903
LONG-TERM LIABILITIES		
Income taxes payable	35,537,701	--
Deferred income taxes	51,391,000	57,623,000
Total long-term liabilities	86,928,701	57,623,000
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred, $0.01 par value; authorized 5,000,000 share; none issued	--	--
Common, $0.01 par value; authorized 395,000,000 shares; issued and outstanding: 98,251,889 shares	982,519	982,519
Additional paid-in capital	438,701	376,029

Retained earnings	330,827,838	493,665,261
	332,249,058	495,023,809
	$513,748,071	$669,069,712

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

HEARTLAND EXPRESS, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three months ended June 30,		
	2007	2006	
Operating revenue	$ 149,103,425	$ 143,058,628	$ 2
Operating expenses:			
Salaries, wages, and benefits	$ 50,950,587	$ 46,040,770	$
Rent and purchased transportation	5,643,406	6,772,305	
Fuel	39,696,911	37,789,391	
Operations and maintenance	3,499,310	3,358,967	
Operating taxes and licenses	2,338,260	2,203,726	
Insurance and claims	5,687,899	4,835,933	
Communications and utilities	1,013,024	943,092	
Depreciation	11,876,953	11,181,612	
Other operating expenses	4,439,034	4,158,378	
Gain on disposal of property and equipment...........	(4,111,910)	(9,724,303)	

	121,033,474	107,559,871	2
Operating income	28,069,951	35,498,757	
Interest income	2,905,704	2,906,972	
Income before income taxes	30,975,655	38,405,729	
Income taxes	11,134,509	13,634,068	
Net income	$ 19,841,146	$ 24,771,661	$
Earnings per share	$ 0.20	$ 0.25	$
Weighted average shares outstanding	98,251,889	98,428,589	
Dividends declared per share	$ 2.020	$ 0.020	$

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

HEARTLAND EXPRESS, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Capital Stock, Common	Additional Paid-In Capital	Retained Earnings	
Balance, December 31, 2006	$ 982,519	$ 376,029	$ 493,665,261	$
Adoption of FIN 48	--	--	(4,798,017)	
Net income	--	--	42,394,447	
Dividends on common stock, $2.04 per share	--	--	(200,433,853)	
Amortization of unearned compensation	--	62,672	--	
Balance, June 30, 2007	$ 982,519	$ 438,701	$ 330,827,838	$

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

HEARTLAND EXPRESS, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended June 30, 2007	2006
OPERATING ACTIVITIES		
Net income	$ 42,394,447	$ 44,511,812
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,589,024	21,369,273

Deferred income taxes	2,046,000	2,504,000
Amortization of unearned compensation	62,672	188,454
Gain on disposal of property and equipment	(9,778,152)	(12,783,540)
Changes in certain working capital items:		
Trade receivables	(5,242,468)	(1,169,456)
Prepaid expenses	(3,233,982)	(3,649,696)
Accounts payable, accrued liabilities, and accrued expenses	3,638,071	3,862,295
Accrued income taxes	978,201	1,087,217
Net cash provided by operating activities	54,453,813	55,920,359
INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	11,613,694	1,398,531
Purchases of property and equipment, net of trades	(21,939,625)	(20,774,103)
Net sale (purchases) of municipal bonds	160,588,702	(34,238,630)
Change in other assets	(200,070)	52,983
Net cash provided by (used in) investing activities	150,062,701	(53,561,219)
FINANCING ACTIVITIES		
Cash dividends	(202,396,372)	(2,952,769)
Net cash used in financing activities	(202,396,372)	(2,952,769)
Net increase (decrease) in cash and cash equivalents	2,120,142	(593,629)
CASH AND CASH EQUIVALENTS		
Beginning of period	8,458,882	5,366,929
End of period	$ 10,579,024	$ 4,773,300
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Income taxes, net	$ 20,160,513	$ 20,907,535
Non-cash investing activities:		
Fair value of revenue equipment traded	$ 6,429,000	$ 28,783,500
Purchased revenue equipment in accounts payable	$ --	$ 5,245,447

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

The accompanying unaudited consolidated financial statements of Heartland Express, Inc. and subsidiaries (the "Company") have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all normal, recurring adjustments considered necessary for a fair presentation have been included. The financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2006 included in the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission. Interim results of operations are not necessarily indicative of the results to be expected for the full year or any other interim periods. There were no changes to the Company's significant accounting policies during the quarter.

Note 2. Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3. Segment Information

The Company has ten operating divisions; however, it has determined that it has one reportable segment. All of the divisions are managed based on similar economic characteristics. Each of the regional operating divisions provides short-to medium-haul truckload carrier services of general commodities to a similar class of customers. In addition, each division exhibits similar financial performance, including average revenue per mile and operating ratio. As a result of the foregoing, the Company has determined that it is appropriate to aggregate its operating divisions into one reportable segment, consistent with the guidance in SFAS No. 131. Accordingly, the Company has not presented separate financial information for each of its operating divisions as the Company's consolidated financial statements present its one reportable segment.

Note 4. Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid investments with insignificant interest rate risk and original maturities of three months or less. Restricted and designated cash and short-term investments totaling $5.7 million at June 30, 2007 and $5.5 million at December 31, 2006 are included in other assets. The restricted funds represent those required for self-insurance purposes and designated funds represent those earmarked for a specific purpose not for general business use.

Note 5. Short-term Investments

The Company investments are primarily in the form of tax free municipal bonds with interest reset provisions or short-term municipal bonds. The investments typically have a put option of 28 or 35 days. At the reset date the Company has the option to roll the investment over or sell. The Company receives the par value of the investment on the reset date if sold. The cost approximates fair value due to the nature of the investment. Therefore, accumulated other comprehensive income (loss) has not been recognized as a separate component of stockholders' equity. Investment income received is generally exempt from federal income taxes.

Note 6. Property, Equipment, and Depreciation

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

Note 7. Earnings Per Share

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

Note 8. Dividends

The Company announced on May 14, 2007 that our Board of Directors declared a regular quarterly dividend of $0.02 per common share, approximately $2.0 million, paid May 30, 2007, to stockholders of record on May 24, 2007. In addition to the quarterly dividend announcement of May 14, 2007, the Company announced a one-time special dividend of $2.00 per common share, approximately $196.5 million, paid May 30, 2007 to stockholders of record on May 24, 2007. Future payment of cash dividends and the amount of such dividends will depend upon financial conditions, results of operations, cash requirements, tax treatment, and certain corporate law requirements, as well as factors deemed relevant by our Board of Directors.

Note 9. Share Based Compensation

On March 7, 2002, the principal shareholder transferred 181,500 of his own shares establishing a restricted stock plan on behalf of key employees. The shares generally vest over a five year period or upon death or disability of the recipient. The shares were valued at the March 7, 2002 market value of approximately $2.0 million. The market value of $2.0 million was amortized over a five year period as compensation expense. All unearned compensation cost related to the restricted stock granted became fully amortized in the first quarter of 2007. For the three months ended June 30, 2006, compensation expense of $94,228 was recorded in salaries, wages and benefits on the consolidated statement of income. Compensation expense of $62,672 for the six month period ended June 30, 2007 and $188,454 for the same period of 2006 is recorded in salaries, wages, and benefits on the consolidated statement of income. All unvested shares are included in the Company's 98.3 million outstanding shares.

A summary of the Company's non-vested restricted stock as of June 30, 2007, and changes during the six months ended June 30, 2007 is presented in the table below:

	Shares	Grant-date Fair Value
Non-vested stock outstanding at January 1, 2007	34,200	$ 11.00
Granted	-	-
Vested	(33,100)	11.00
Forfeited	-	-
Non-vested stock outstanding at June 30, 2007	1,100	$ 11.00

The fair value of the shares vested was $529,911 and $563,607 for the six months ended June 30, 2007 and 2006, respectively.

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Note 10. Income Taxes

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

The Company recognized additional tax liabilities of $4.8 million with a corresponding reduction to beginning retained earnings as of January 1, 2007 as a result of the adoption of FIN 48. The total amount of gross unrecognized tax benefits was $25.2 million as of January 1, 2007, the date of adoption. At June 30, 2007, the Company had a total of $24.9 million in gross unrecognized tax benefits. Of this amount, $16.2 million represents the amount of unrecognized tax benefits that, if recognized, would impact our effective tax rate. These unrecognized tax benefits relate to the state income tax filing position for the Company's corporate subsidiaries. The Company does not expect the aggregate amount of unrecognized tax benefits to change significantly within the next twelve months. The Company cannot reasonably estimate when the unrecognized tax benefits will be realized. The total amount of accrued interest and penalties for such unrecognized tax benefits was $10.4 million as of January 1, 2007, the date of adoption. Interest and penalties related to income taxes are classified as income tax expense in our financial statements.

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

Note 11. Commitments and Contingencies

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

The Company had commitments at June 30, 2007 to acquire new revenue equipment for approximately $14.8 million, net of trade-ins, for the remainder of 2007. These commitments are expected to be financed from existing cash and short-term investment balances and cash flows from operations and trade-in of existing equipment.

The Company announced on September 22, 2005 the planned construction of a new corporate headquarters and an adjacent shop facility. These new facilities will be funded with the proceeds from the sale of real estate and from existing cash and short-term investment balances and cash flows from operations. Total expenditures for the new building are expected to be $16.7 million, including the cost of land. Of the $16.7 million, $15.4 will be capitalized in 2007. The building will be acquired in the third quarter of 2007. No depreciation expense has been recognized to date.

Note 12. Related Party Transactions

The Company previously leased two office buildings and a storage building from its Chief Executive Officer (CEO) under a lease that provided for monthly rentals of $27,618 plus the payment of all property taxes, insurance and maintenance. In the opinion of management, the rates paid were comparable to those that could be negotiated with a third party. The buildings were sold in February 2007 to an unrelated third party and the related party lease was canceled. Rent is being paid to the unrelated third party and will continue until the new corporate headquarters is occupied.

Rent expense paid to the Company's CEO totaled $82,854 for the three months ended June 30, 2006. Rent expense paid to the Company's CEO totaled $35,509 and $165,708 for the six months ended June 30, 2007 and 2006, respectively.

Note 13. Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This Statement defines fair value, establishes a framework for measuring fair value in U.S. generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective as of the beginning of the first fiscal year that begins after November 15, 2007. As of June 30, 2007, management believes that SFAS No. 157 will have no effect on the financial position, results of operations, and cash flows of the Company.

In February 2007, the FASB issued SFAS No. 159. "The Fair Value Option for Financial Assets and Financial Liabilities--including an amendment of FASB Statement No. 115". This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option: 1) may be applied instrument by Instrument, 2) is irrevocable (unless a new election date occurs), and 3) is applied only to entire instruments and not portions of instruments. The provisions of SFAS No. 159 are effective as of the beginning of the first fiscal year that begins after November 15, 2007. As of June 30, 2007, management believes that SFAS No. 159 will have no effect on the financial position, results of operations, and cash flows of the Company.

Note 14. Subsequent Event

In September 2001, the Board of Directors of the Company authorized a program to repurchase 6.3 million shares of the Company's common stock in open market or negotiated transactions using available cash, cash equivalents, and short-term investments. In July 2007, the Company purchased 172,200 shares for $2.5 million at approximately $14.49 per share. The authorization to repurchase remains open and has no expiration date.

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

Forward Looking Statements

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

Overview

Heartland Express, Inc. is a short-to-medium haul truckload carrier. The Company transports freight for major shippers and generally earns revenue based on the number of miles per load delivered. The Company provides regional dry van

truckload services from eight regional operating centers plus its corporate headquarters. The Company's eight regional operating centers accounted for 64.1% of the second quarter 2007 operating revenues. The Company takes pride in the quality of the service that it provides to its customers. The keys to maintaining a high level of service are the availability of late-model equipment and experienced drivers.

Operating efficiencies and cost controls are achieved through equipment utilization, operating a fleet of late model equipment, maintaining an industry leading driver to non-driver employee ratio, and the effective management of fixed and variable operating costs. At June 30, 2007, the Company's tractor fleet had an average age of 1.6 years while the trailer fleet had an average age of 3.4 years. The Company has grown internally by providing quality service to targeted customers with a high density of freight in the Company's regional operating areas. In addition to the development of its regional operating centers, the Company has made five acquisitions since 1987. Future growth is dependent upon several factors including the level of economic growth and the related customer demand, the available capacity in the trucking industry, potential of acquisition opportunities, and the availability of experienced drivers.

The Company ended the second quarter of 2007 with operating revenues of $149.1 million, including fuel surcharges, net income of $19.8 million, and earnings per share of $0.20 on average outstanding shares of 98.3 million. The Company posted an 81.2% operating ratio (operating expenses as a percentage of operating revenues) and a 13.3% net margin. The Company ended the quarter with cash, cash equivalents, and short-term investments of $172.8 million and a debt-free balance sheet. The Company had total assets of $513.7 million at June 30, 2007. The Company achieved a return on assets of 14.9% and a return on equity of 21.1% for the twelve months ended June 30, 2007, both improvements over the twelve months ended June 30, 2006 which were 14.4% and 19.2%, respectively. The Company's cash flow from operations for the first six months of $54.5 million represented a 2.6% decrease from the same period of 2006. The Company's cash flow from operations was 18.6% of operating revenues for the six months ended June 30, 2007 compared to 20.1% for the 2006 period.

The Company hires only experienced drivers with safe driving records. In order to attract and retain experienced drivers who understand the importance of customer service, the Company increased pay for all drivers by $0.03 per mile during both the first quarters of 2004 and 2005. Effective October 2, 2004, the Company began paying all drivers an incremental amount for miles driven in the upper Northeastern United States. In 2006, the Company implemented additional pay increases for drivers in selected operations groups and a fleet-wide incentive for all drivers maintaining a valid hazardous materials endorsement on their commercial driver's license. The Company has solidified its position as an industry leader in driver compensation with these aforementioned increases.

The Company has been recognized as one of the Forbes magazine's "200 Best Small Companies in America" fifteen times in the past twenty years and for the past five consecutive years. The Company has paid cash dividends over the past sixteen consecutive quarters including a special dividend of $196.5 million in May, 2007. The Company became publicly traded in November, 1986 and is traded on the NASDAQ National Market under the symbol HTLD.

Results of Operations:

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Operating revenue	100.0%	100.0%	100.0%	100.0%
Operating expenses:				
Salaries, wages, and benefits	34.2%	32.2%	33.8%	33.2%
Rent and purchased transportation	3.8	4.7	3.7	4.7
Fuel	26.6	26.4	26.2	25.4
Operations and maintenance	2.3	2.4	2.3	2.3
Operating taxes and licenses	1.6	1.5	1.6	1.5
Insurance and claims	3.8	3.4	3.9	3.2
Communications and utilities	0.7	0.7	0.6	0.7
Depreciation	8.0	7.8	8.1	7.7
Other operating expenses	3.0	2.9	2.9	3.0
Gain on disposal of property and equipment	(2.8)	(6.8)	(3.3)	(4.6)
Total operating expenses	81.2%	75.2%	79.8%	77.1%
Operating income	18.8%	24.8%	20.2%	22.9%
Interest income	1.9	2.0	2.1	1.9

Income before income taxes	20.7%	26.8%	22.3%	24.8%
Federal and state income taxes	7.4	9.5	7.8	8.8
Net income	13.3%	17.3%	14.5%	16.0%

The following is a discussion of the results of operations of the three and six month period ended June 30, 2007 compared with the same period in 2006.

Three Months Ended June 2007 and 2006

Operating revenue increased $6.0 million (4.2%), to $149.1 million in the second quarter of 2007 from $143.1 million in the second quarter of 2006. The increase in revenue resulted from the Company's expansion of its fleet and improved freight rates. Operating revenue for both periods was positively impacted by fuel surcharges assessed to customers. Fuel surcharge revenue decreased $.3 million, (1.3%) to $21.1 million in the second quarter of 2007 from $21.4 million in the second quarter of 2006.

Salaries, wages, and benefits increased $4.9 million (10.7%), to $50.9 million in the second quarter of 2007 from $46.0 million in the second quarter of 2006. These increases were the result of increased reliance on employee drivers due to a decrease in the number of independent contractors utilized by the Company and driver pay increases. The Company increased driver pay by $0.01 per mile in January 2006 for all drivers maintaining a valid hazardous materials endorsement on their commercial driver's license and implemented quarterly pay increases in 2006 for selected operating divisions. These increases to driver compensation resulted in a cost increase of approximately $0.7 million in the second quarter of 2007. During the second quarter of 2007, employee drivers accounted for 95% and independent contractors for 5% of the total fleet miles, compared with 93% and 7%, respectively, in the second quarter of 2006. Workers' compensation expense increased $1.3 million (117.4%) to $2.4 million in the quarter ended June 30, 2007 from $1.1 million in for the same period in 2006 due to an increase in frequency and severity of claims. Health insurance expense increased $0.6 million (28.8%) to $2.5 million in the second quarter of 2007 from $1.9 million in second quarter of 2006 due to an increase in frequency and severity of claims.

Rent and purchased transportation decreased $1.2 million (16.7%), to $5.6 million in the second quarter of 2007 from $6.8 million in the second quarter of 2006. This reflects the Company's decreased reliance upon independent contractors. Rent and purchased transportation for both periods includes amounts paid to independent contractors under the Company's fuel stability program. In the first quarter of 2006, the Company increased the independent contractor base mileage pay by $0.01 per mile for all independent contractors maintaining a hazardous materials endorsement on their commercial driver's license, and an additional $0.01 per mile per quarter in 2006 beginning on April 1, 2006.

Fuel increased $1.9 million (5.0%), to $39.7 million for the three months ended June 30, 2007 from $37.8 million for the same period of 2006. The increase is the result of an increased reliance on company-owned tractors and a decrease in fuel economy associated with the EPA mandated clean air engines. The Company's fuel cost per company-owned tractor mile decreased 0.4% in second quarter of 2007 compared to 2006. Fuel cost per mile, net of fuel surcharge, increased 4.5% in the second quarter of 2007 compared to 2006. The Company's second quarter fuel cost per gallon decreased by 2.7% in 2007 compared to 2006.

Operations and maintenance increased $0.1 million (4.2%), to $3.5 million in the second quarter of 2007 from $3.4 million in the second quarter of 2006 due to an increase in preventative maintenance and parts replacement.

Insurance and claims increased $0.9 million (17.6%), to $5.7 million in the second quarter of 2007 from $4.8 million in the second quarter of 2006 due to an increase in the frequency of larger claims and development increases on existing liability claims.

Depreciation increased $0.7 million (6.2%), to $11.9 million during the second quarter of 2007 from $11.2 million in the second quarter of 2006. This increase is attributable to the growth of our company-owned tractor and trailer fleet, and an increased cost of new tractors and trailers relative to the costs of those units being replaced. Our tractor and trailer fleet have grown approximately 18.0% and 5.0%, respectively, in comparison to the same period in 2006. The cost of new tractors is approximately 15.0% higher than replaced units while the cost of new trailers is approximately 10.0% more than units purchased in 2006.

Other operating expenses increased $0.2 million (6.7%), to $4.4 million in the second quarter of 2007 from $4.2 million in the second quarter of 2006. Other operating expenses consists of costs incurred for advertising expense, freight handling, highway tolls, driver recruiting expenses, and administrative costs.

Gain on the disposal of property and equipment decreased $5.6 million (57.7%), to $4.1 million during the second quarter of 2007 from $9.7 million in the second quarter of 2006. The decline is attributable to a substantial decrease in the number of tractors and trailers traded during the 2007 period. A tractor fleet upgrade was completed in December 2006. In the second quarter 2007, $1.9 million of gains on trade-ins of revenue equipment were recognized while for the same period of 2006 these gains totaled $9.4 million. In the second quarter of 2007, the Company sold real estate in Dubois, Pennsylvania property that was being leased to an unrelated third party and recorded a gain of approximately $1.9 million. The proceeds received from the sale will be used in the financing the new corporate headquarters.

Interest income decreased slightly in the second quarter of 2007 compared to the 2006 period because of the decrease in cash, cash equivalents, and investments associated with the payment of the special dividend.

The Company's effective tax rate was 35.9% and 35.5%, respectively, in the second quarter of 2007 and 2006.

As a result of the foregoing, the Company's operating ratio (operating expenses as a percentage of operating revenue) was 81.2% during the second

quarter of 2007 compared with 75.2% during the second quarter of 2006. Net income decreased $5.0 million (19.9%), to $19.8 million during the second quarter of 2007 from $24.8 million during the second quarter of 2006.

Six Months Ended June 2007 and 2006

Operating revenue increased $14.4 million (5.2%), to $292.5 million in the six months ending June 30, 2007 from $278.1 million in the 2006 period. The increase in revenue resulted from the Company's expansion of its fleet and improved freight rates. Operating revenue for both periods was positively impacted by fuel surcharges assessed to customers. Fuel surcharge revenue increased $0.5 million, (1.2%) to $39.2 million in the six months ended June 30, 2007 from $38.7 million in the compared 2006 period.

Salaries, wages, and benefits increased $6.6 million (7.1%), to $99.0 million in the six months ended June 30, 2007 from $92.4 million in the 2006 period. These increases were the result of increased reliance on employee drivers due to a decrease in the number of independent contractors utilized by the Company and driver pay increases. The Company increased driver pay by $0.01 per mile in January 2006 for all drivers maintaining a valid hazardous materials endorsement on their commercial driver's license and implemented quarterly pay increases in 2006 for selected operating divisions. These increases to driver compensation resulted in a cost increase of approximately $1.7 million in the six months ended June 30, 2007. During the first six months of 2007, employee drivers accounted for 95% and independent contractors for 5% of the total fleet miles, compared with 93% and 7%, respectively, in the first six months of 2006. Workers' compensation expense increased $0.9 million (39.8%) to $3.1 million in the six months ended June 30, 2007 from $2.2 million in for the same period in 2006 due to an increase in frequency and severity of claims. Health insurance expense decreased $0.2 million (4.7%) to $4.0 million in the six months ended June 30, 2007 from $4.2 million in the same period of 2006 due to a decrease in frequency and severity of claims.

Rent and purchased transportation decreased $2.1 million (16.2%), to $10.9 million in the first six months of 2007 from $13.0 million in the compared period of 2006. This reflects the Company's decreased reliance upon independent contractors. Rent and purchased transportation for both periods includes amounts paid to independent contractors under the Company's fuel stability program. In the first quarter of 2006, the Company increased the independent contractor base mileage pay by $0.01 per mile for all independent contractors maintaining a hazardous materials endorsement on their commercial driver's license, and an additional $0.01 per mile per quarter in 2006 beginning on April 1, 2006.

Fuel increased $5.7 million (8.1%), to $76.5 million for the first six months of 2007 from $70.8 million for the same period of 2006. The increase is the result of an increased reliance on company-owned tractors and a decrease in fuel economy associated with the EPA mandated clean air engines. The Company's fuel cost per company-owned tractor mile increased 2.2% in first six months of 2007 compared to 2006. Fuel cost per mile, net of fuel surcharge, increased 7.5% in the first six months of 2007 compared to 2006. The Company's fuel cost per gallon decreased slightly by 1.1% in 2007 compared to 2006.

Operations and maintenance increased $0.4 million (6.3%), to $6.7 million in the six months ended June 30, 2007 from $6.3 million for the compared 2006 period due to an increase in preventative maintenance and parts replacement.

Insurance and claims increased $2.4 million (26.4%), to $11.3 million in the six months ended June 30, 2007 from $8.9 million in the same period of 2006 due to an increase in the frequency of larger claims and development increases on existing liability claims.

Depreciation increased $2.2 million (10.4%), to $23.6 million during the first six months of 2007 from $21.4 million in the compared 2006 period. This increase is attributable to the growth of our company-owned tractor and trailer fleet, and an increased cost of new tractors and trailers relative to the costs of those units being replaced. Our tractor and trailer fleet have grown approximately 18.0% and 5.0% respectively in comparison to the same period in

2006. The cost of new tractor units are approximately 15.0% higher than replaced units while new trailers are approximately 10.0% more costly than units purchased in 2006.

Other operating expenses increased $0.2 million (2.5%), to $8.6 million during the six months ended June 30, 2007 from $8.4 million in the same period of 2006. Other operating expenses consists of costs incurred for advertising expense, freight handling, highway tolls, driver recruiting expenses, and administrative costs.

Gain on the disposal of property and equipment decreased $3.0 million (23.5%), to $9.8 million during the six months ended June 30, 2007 from $12.8 million in the same period of 2006. The decline is attributable to a substantial decrease in the number of tractors and trailers traded during the 2007 period. A tractor fleet upgrade was completed in December 2006. In the six months ended June 30, 2007, $2.0 million of gains on trade-ins of revenue equipment were recognized while for the same period of 2006 these gains totaled $12.4 million. During 2007 the Company sold real estate in Columbus, Ohio, Coralville, Iowa and Dubois, Pennsylvania recording total gains of approximately $6.8 million. The proceeds received from these sales will be used in the financing the new corporate headquarters.

Interest income increased $0.8 million (14.9%), to $6.2 million in the six months ended June 30, 2007 from $5.4 million in the same period of 2006. The increase is due to higher average cash balances and better rates than prior year. Due to the special one-time dividend discussed in Note 8 above, the Company expects interest income to decline in comparison to prior year in future comparisons.

The Company's effective tax rate was 35.4% and 35.5%, respectively, in the six months ended June 30, 2007 and 2006.

As a result of the foregoing, the Company's operating ratio (operating expenses as a percentage of operating revenue) was 79.8% during the first six months of 2007 compared with 77.1% during the first six months of 2006. Net income decreased $2.1 million (4.8%), to $42.4 million during the first six months of 2007 from $44.5 million during the compared 2006 period.

Liquidity and Capital Resources

The growth of the Company's business has required significant investments in new revenue equipment. Historically the Company has been debt-free, funding revenue equipment purchases with cash flow provided by operations. The Company also obtains tractor capacity by utilizing independent contractors, who provide a tractor and bear all associated operating and financing expenses. The Company's primary source of liquidity for the six months ended June 30, 2007, was net cash provided by operating activities of $54.5 million compared to $55.9 million in the corresponding 2006 period primarily attributable to changes in working capital.

Capital expenditures for property and equipment, primarily revenue equipment net of trade-ins, totaled $21.9 million for the first six months of 2007 compared to $20.8 million for the same period in 2006. The Company anticipates new tractor and trailer purchases, net of trades, totaling approximately $31.4 million for all of 2007. The Company completed the construction and began operations from the new Phoenix terminal in the second quarter of 2007. The total capitalized cost of the construction, including the cost of land, was $6.2 million of which $4.9 million was capitalized in 2007. These capital expenditures are currently funded by cash flows from operations. Total 2007 expenditures for the new corporate headquarters and shop facility in North Liberty, Iowa are expected to be $15.4 million. The building will be acquired in the third quarter of 2007.

The Company paid regular cash dividends of $5.9 million and $3.0 million during the first six months of 2007 and 2006, respectively. In addition to the quarterly cash dividend, the Company paid a special dividend of $2.00 per share, $196.5 million, on May 30, 2007 to shareholders' of record at May 24, 2007. The special dividend was funded from the sale of short-term investments and from

cash flow from operations. The Company began paying cash dividends in the third quarter of 2003 and has paid a quarterly dividend for sixteen consecutive quarters.

Management believes the Company has adequate liquidity to meet its current and projected needs. The Company will continue to have significant capital requirements over the long term. Future capital expenditures are expected to be funded by cash flow provided by operations and from existing cash, cash equivalents, and short-term investments. The Company ended the quarter with $172.8 million in cash, cash equivalents, and short-term investments and no debt. Based on the Company's strong financial position, management believes outside financing could be obtained, if necessary, to fund capital expenditures.

Off-Balance Sheet Transactions

The Company's liquidity is not materially affected by off-balance sheet transactions.

Risk Factors

You should refer to Item 1A of our annual report (Form 10-K) for the year ended December 31, 2006, under the caption "Risk Factors" for specific details on the following factors that are not within the control of the Company and could affect our financial results.

- Our business is subject to general economic and business factors that are largely out of our control.
- Our growth may not continue at historic rates.
- Increased prices, reduced productivity, and restricted availability of new revenue equipment may adversely affect our earnings and cash flow.
- If fuel prices increase significantly, our results of operations could be adversely affected.
- Difficulty in driver and independent contractor recruitment and retention may have a materially adverse effect on our business.
- We operate in a highly regulated industry, and increased costs of compliance with, or liability for violation of, existing regulations could have a materially adverse effect on our business.
- Our operations are subject to various environmental laws and regulations, the violations of which could result in substantial fines or penalties.
- 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 service center managers, our business, financial condition, and results of operations could be adversely affected.
- 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.
- Seasonality and the impact of weather affect our operations profitability. o Ongoing insurance and claims expenses could significantly reduce our earnings.
- We are dependent on computer and communications systems, and a systems failure could cause a significant disruption to our business.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company purchases only high quality, liquid investments. The large majority of investments as of June 30, 2007 have an original maturity or interest reset date of twelve months or less. Due to the short term nature of the investments, the Company is exposed to minimal market risk related to its cash equivalents and investments.

The Company had no debt outstanding as of June 30, 2007 and therefore, had no market risk related to debt.

Volatile fuel prices will continue to impact us significantly. A significant increase in fuel costs, or a shortage of diesel fuel, could materially and adversely affect our results of operations. In February 2007, the Board of Directors authorized the Company to begin hedging activities related to commodity fuels. In the event of hedging activities, the Company will implement the provisions of SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" and contract with an unrelated third party to transact the hedge. It is expected any such transactions will be accounted for on a mark-to-market with changes reflected in the statement of income as a component of fuel costs. As of June 30, 2007, the Company did not have any long-term fuel purchase contracts, and had not entered into any other hedging arrangements that protect against fuel price increases. As of June 30, 2007, the Company has entered into short-term fuel contracts to facilitate a fixed fuel surcharge agreement with a customer. These contracts have no material effect on the Company's operating results and financial position.

Item 4. Controls and Procedures

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

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 2. Changes in Securities

None

Item 3. Defaults upon Senior Securities

None

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

The Company's Annual Meeting of Shareholders was held on May 10, 2007. At the Annual Meeting, the shareholders elected Russell A. Gerdin, Michael J. Gerdin, Richard O. Jacobson, Dr. Benjamin J. Allen, Lawrence D. Crouse, and James G. Pratt to serve as directors for a one year term. Shareholders representing 94,210,125 shares, or approximately 96% of the Company's outstanding Common Stock as of the record date, were present in person or by proxy at the Annual Meeting.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit

- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
- 32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

1. Report on Form 8-K, dated April 19, 2007, announcing the Company's financial results for the quarter ended March 31, 2007.
2. Report on Form 8-K, dated May 14, 2007, announcing the declaration of a quarterly cash dividend and a special dividend.

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

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

HEARTLAND EXPRESS, INC.

Date: August 3, 2007

BY: /S/ John P Cosaert

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

Exhibit No. 31.1

Certification

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

1. I have reviewed this quarterly report on Form 10-Q of Heartland Express, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or cause such disclosure controls and procedures to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent calendar quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial

reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: August 3, 2007

By: /s/ Russell A. Gerdin

Russell A. Gerdin
Chairman and Chief Executive Officer

Exhibit No. 31.2

Certification

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

1. I have reviewed this quarterly report on Form 10-Q of Heartland Express, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Designed such internal control over financial reporting, or cause such disclosure controls and procedures to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent calendar quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Date: August 3, 2007

By: /s/ John P. Cosaert

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

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Exhibit No. 32

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

I, Russell A. Gerdin, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Heartland Express, Inc., on Form 10-Q for the period ended June 30, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Heartland Express, Inc.

Dated: August 3, 2007

By: /s/ Russell A. Gerdin

Russell A. Gerdin
Chairman and Chief Executive Officer

I, John P. Cosaert, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Heartland Express, Inc., on Form 10-Q for the period ended June 30, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Heartland Express, Inc.

Dated: August 3, 2007

By: /s/ John P. Cosaert

John P. Cosaert
Executive Vice President
and Chief Financial Officer