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HEARTLAND EXPRESS INC

Form 10-Q

November 06, 2018

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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 September 30, 2018

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-15087

**HEARTLAND EXPRESS INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Nevada**

**93-0926999**

(State or Other Jurisdiction

(I.R.S. Employer

of Incorporation or organization)

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, every Interactive Data File required to be submitted 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 such files).

Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of October 31, 2018 there were 81,926,604 shares of the Company's common stock (\$0.01 par value) outstanding.



**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)

	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 120,000	\$ 75,378
Trade receivables, net of allowance of \$1.5 million and \$1.5 million	55,520	64,293
Prepaid tires	9,898	10,989
Other current assets	25,422	13,782
Income tax receivable	5,366	6,393
Total current assets	216,206	170,835
<b>PROPERTY AND EQUIPMENT</b>		
Land and land improvements	40,917	40,283
Buildings	50,637	48,657
Leasehold improvements	1,070	2,208
Furniture and fixtures	2,886	3,437
Shop and service equipment	10,043	12,202
Revenue equipment	521,007	555,980
Construction in progress	9,297	3,996
Property and equipment, gross	635,857	666,763
Less accumulated depreciation	210,569	223,901
Property and equipment, net	425,288	442,862
<b>GOODWILL</b>	132,410	132,410
<b>OTHER INTANGIBLES, NET</b>	15,096	17,022
<b>DEFERRED INCOME TAXES, NET</b>	4,424	1,737
<b>OTHER ASSETS</b>	20,091	24,261
	\$ 813,515	\$ 789,127
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 26,431	\$ 14,366
Compensation and benefits	24,200	26,752
Insurance accruals	19,022	21,368
Other accruals	11,811	12,835
Total current liabilities	81,464	75,321
<b>LONG-TERM LIABILITIES</b>		
Income taxes payable	5,220	8,147
Deferred income taxes, net	76,443	65,488
Insurance accruals less current portion	55,349	65,526
Total long-term liabilities	137,012	139,161
<b>COMMITMENTS AND CONTINGENCIES (Note 15)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, par value \$.01; authorized 5,000 shares; none issued	—	—
Capital stock, common, \$.01 par value; authorized 395,000 shares; issued 90,689 in 2018 and 2017; outstanding 81,927 in 2018 and 83,303 in 2017	907	907

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Additional paid-in capital	3,373	3,518
Retained earnings	739,461	694,174
Treasury stock, at cost; 8,762 shares in 2018 and 7,386 in 2017	(148,702)	(123,954)
	595,039	574,645
	\$ 813,515	\$ 789,127

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
OPERATING REVENUE	\$151,279	\$182,114	\$463,800	\$441,632
OPERATING EXPENSES				
Salaries, wages, and benefits	55,126	71,399	174,694	169,020
Rent and purchased transportation	4,067	16,619	15,652	21,301
Fuel	27,460	29,739	85,340	73,731
Operations and maintenance	6,469	9,122	20,970	21,951
Operating taxes and licenses	3,938	5,410	12,039	11,845
Insurance and claims	4,407	5,979	12,862	13,339
Communications and utilities	1,416	1,487	4,852	3,623
Depreciation and amortization	25,133	28,784	75,490	74,318
Other operating expenses	5,287	8,047	17,083	18,674
Gain on disposal of property and equipment	(7,156 )	(7,471 )	(15,410 )	(19,845 )
	126,147	169,115	403,572	387,957
Operating income	25,132	12,999	60,228	53,675
Interest income	586	238	1,351	950
Interest expense	—	(175 )	—	(175 )
Income before income taxes	25,718	13,062	61,579	54,450
Federal and state income taxes	6,662	5,146	11,342	17,882
Net income	\$19,056	\$7,916	\$50,237	\$36,568
Other comprehensive income, net of tax	—	—	—	—
Comprehensive income	\$19,056	\$7,916	\$50,237	\$36,568
Net income per share				
Basic	\$0.23	\$0.10	\$0.61	\$0.44
Diluted	\$0.23	\$0.09	\$0.61	\$0.44
Weighted average shares outstanding				
Basic	81,965	83,303	82,530	83,296
Diluted	81,992	83,333	82,564	83,336
Dividends declared per share	\$0.02	\$0.02	\$0.06	\$0.06

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, 2017	\$ 907	\$ 3,518	\$694,174	\$(123,954 )	\$574,645
Net income	—	—	50,237	—	50,237
Dividends on common stock, \$0.06 per share	—	—	(4,950 )	—	(4,950 )
Repurchases of common stock	—	—	—	(25,086 )	(25,086 )
Stock-based compensation, net of tax	—	(145 )	—	338	193
Balance, September 30, 2018	\$ 907	\$ 3,373	\$739,461	\$(148,702 )	\$595,039

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)**

	Nine Months Ended September 30, 2018	2017
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 50,237	\$ 36,568
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	76,086	74,379
Deferred income taxes	8,268	3,165
Stock-based compensation expense	374	340
Gain on disposal of property and equipment	(15,410 )	(19,845 )
Changes in certain working capital items (net of acquisition):		
Trade receivables	8,773	8,778
Prepaid expenses and other current assets	387	(5,914 )
Accounts payable, accrued liabilities, and accrued expenses	(18,168 )	(13,221 )
Accrued income taxes	(1,900 )	(7,035 )
Net cash provided by operating activities	108,647	77,215
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of property and equipment	84,910	78,046
Purchases of property and equipment, net of trades	(127,526 )	(104,883 )
Acquisition of business, net of cash acquired	—	(87,635 )
Change in other assets	563	(661 )
Net cash used in investing activities	(42,053 )	(115,133 )
<b>FINANCING ACTIVITIES</b>		
Payment of cash dividends	(4,950 )	(5,000 )
Shares withheld for employee taxes related to stock-based compensation	(181 )	(198 )
Repayments of debt assumed	—	(23,303 )
Repurchases of common stock	(25,086 )	—

Net cash used in financing activities	(30,217 )	(28,501 )
Net increase (decrease) in cash, cash equivalents and restricted cash	36,377	(66,419 )
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>		
Beginning of period	106,098	150,225
End of period	\$ 142,475	\$ 83,806
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the period for income taxes, net of refunds	\$ 4,974	\$ 21,753
Noncash investing and financing activities:		
Purchased property and equipment in accounts payable	\$ 16,977	\$ 7,000
Sold revenue equipment in other current assets	\$ 15,900	\$ 6,313
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>		
Cash and cash equivalents	\$ 120,000	\$ 51,291
Restricted cash included in other current assets	3,298	11,600
Restricted cash included in other assets	19,177	20,915
Total cash, cash equivalents and restricted cash	\$ 142,475	\$ 83,806

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

The accompanying consolidated financial statements include the parent company, Heartland Express, Inc., and its subsidiaries, all of which are wholly owned. The consolidated financial results for the three and nine months ended September 30, 2018, include the acquired assets and operating results of IDC while the consolidated financial results for the three and nine months ended September 30, 2017 include IDC results only for the period of July 6, 2017 to September 30, 2017. 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. GAAP for complete financial statements. In the opinion of management, all normal, recurring adjustments considered necessary for a fair presentation have been included. The consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2017 included in the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission (the "SEC") on March 1, 2018. Interim results of operations are not necessarily indicative of the results to be expected for the full year or any other interim periods. There were no changes to the Company's significant accounting policies during the nine month period ended September 30, 2018, except as noted below in regards to the accounting for stock-based compensation, cash flows, and revenue recognition.

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, "Disclosure Update and Simplification", streamlining certain disclosure requirements to reduce redundant, duplicative, or outdated disclosures. In addition, the amendments expand disclosures related to interim-period changes in stockholders' equity and noncontrolling interests. Management has evaluated the relevant provisions of the Final Rule and intends to adopt and present the expanded disclosures related to interim-period changes in stockholders' equity during the first applicable quarterly period of 2019.

In March 2018, the Financial Accounting Standards Boards (FASB) issued ASU 2018-05, "Income Taxes (Topic 740) which provides for amendments to the SEC issued Staff Accounting Bulletin ("SAB 118"), which provides guidance on accounting for tax effects of the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). ASU 2018-05 and SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with ASU 2018-05 and SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a

reasonable estimate, it must record a provisional estimate to be included in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provision of the tax laws that were in effect immediately before the enactment of the Tax Act. Management has evaluated the relevant provisions of the Tax Act to the Company and accounted for the federal and state impacts in the financial statements as of September 30, 2018 and have therefore finalized the accounting for the tax effects of the Tax Act.

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

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

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash," which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash. The provisions of this update are effective for fiscal years beginning after December 15, 2017 and we have adopted this standard using the required retrospective adoption method. The adoption of this standard impacted the consolidated statements of cash flows by increasing beginning and ending cash and cash equivalents presented to include our restricted cash balances. The changes in restricted cash are presented within investing activities eliminating the change in designated funds for equipment purchases and change in designated funds for claims liabilities line items. The overall impact of the change was an increase to investing cash flows \$10.8 million for the nine months ended September 30, 2017.

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

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

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". This update seeks to increase the transparency and comparability among entities by requiring public entities to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. To satisfy the standard's objective, a lessee will recognize a right-of-use asset representing its right to use the underlying asset for the lease term and a lease liability for the obligation to make lease payments. Both the right-of-use asset and lease liability will initially be measured at the present value of the lease payments, with subsequent measurement dependent on the classification of the lease as either a finance or an operating lease. For leases with a term of twelve months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term.

In July 2018, the FASB issued ASU 2018-10, "Leases (Topic 842) - Codification Improvements" which contains several FASB Codification improvements for ASC Topic 842, including several implementation issues and ASU 2018-11, "Leases (Topic 842) - Targeted Improvements" which provides entities with an additional transition method for implementing ASC Topic 842. Entities have the option to apply the new standard at the adoption date, recognizing a cumulative-effect adjustment to the opening balance of retained earnings along with the modified retrospective approach previously identified, both of which include a number of practical expedients that companies may elect to apply. Under the cumulative-effect adjustment comparative periods would not be restated, and would instead be

presented under the legacy ASC Topic 840 guidance. Under the modified retrospective approach leases are recognized and measured under the noted guidance at the beginning of the earliest period presented. The new standard is effective for public companies for annual periods beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. We continue to evaluate our declining portfolio of leases and based on expected further reductions in both terminal and revenue equipment leases during the remainder of 2018, we believe that the impact of this standard will not have a material impact on our financial statements at January 1, 2019. At this time, we have identified January 1, 2019 as our selected date of transition and we intend to apply the cumulative-effect transition method upon adoption of this guidance based on the available transition methods at this time.

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), which will replace numerous requirements in U.S. GAAP, including industry-specific requirements, and provide companies with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The two

permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. In July 2015, the FASB approved the deferral of the new standard's effective date by one year. The new standard is effective for annual reporting periods beginning after December 15, 2017. We have selected and have implemented the modified cumulative-effect transition method at January 1, 2018, our date of adoption. The effect of adoption was immaterial to retained earnings at January 1, 2018 and to net income for the three and nine month period ended September 30, 2018. See additional discussions on revenue recognition at Note 4.

## **Note 2. Use of Estimates**

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. There were no significant changes in estimates and assumptions used by management related to our critical accounting policies during the three and nine months ended September 30, 2018, except in relation to estimated revenue for in-process loads of freight in accordance with the adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606). See Note 4 for additional discussions.

## **Note 3. Segment Information**

We provide truckload services across the United States (U.S.) and parts of Canada. These truckload services are primarily asset-based transportation services in the dry van truckload market, and we also offer truckload temperature-controlled transportation services and have previously offered non-asset based brokerage services, neither of which are significant to our operations. We exited our non-asset-based freight brokerage business in the first quarter of 2017, then operated similar services following the acquisition of IDC until the fourth quarter of 2017. Our Chief Operating Decision Maker oversees and manages all of our transportation services, on a combined basis, including previously 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. Revenue Recognition**

The Company generates revenue from transportation services under contracts with customers, generally on a rate per mile or per shipment, based on origin and destination of the shipment. The Company's performance obligation arises when it accepts a shipment order to transport a customer's freight and is satisfied upon delivery of the shipment. The transaction price may be defined in a transportation services agreement or negotiated with the customer prior to accepting the shipment order. A customer may submit several shipment orders for transportation services at various times throughout a service agreement term, but each shipment represents a distinct service that is a separately identified performance obligation. The Company often provides additional accessorial and other services as part of the shipment (including but not limited to loading/unloading, stops in transit, and tractor and trailer detention) which are not distinct or are not material in the context of the contract; therefore the revenue for these services is recognized with the freight transaction price. Fuel surcharge revenue consists of additional fees earned by the Company in connection with the performance of line haul services to partially or completely offset the cost of fuel. The Company also provided non-asset based brokerage services recorded as other revenue during the three and nine months ended September 30, 2017 before these services were ended in late 2017.



Revenues are recognized over time as control of the promised services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those services. Revenue is estimated for multiple-stop loads based on miles run and estimated for single stop loads based on transit time, as the customer simultaneously receives and consumes the benefit provided. Revenue associated with loads delivered but not billed as of the end of an accounting period are also estimated as part of revenue for that period. Revenue recognition methods described align with the recognition of our associated expenses in the statement of comprehensive income.

Total revenues recorded were \$151.3 million and \$182.1 million for the three months ended September 30, 2018 and 2017, respectively. Fuel surcharge revenues were \$21.4 million and \$21.1 million for the three months ended September 30, 2018 and 2017, respectively. Accessorial and other revenues recorded in the consolidated statements of comprehensive income collectively represented \$3.2 million and \$10.7 million for the three months ended September 30, 2018 and 2017, respectively. Total revenues recorded were \$463.8 million and \$441.6 million for the nine months ended September 30, 2018 and 2017, respectively. Fuel surcharge revenues were \$65.3 million and \$50.7 million for the nine months ended September 30, 2018 and 2017, respectively. Accessorial and other revenues recorded in the consolidated statements of comprehensive income collectively represented \$11.1 million and \$18.5 million for the nine months ended September 30, 2018 and 2017, respectively.

**Note 5. 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 September 30, 2018, restricted and designated cash and investments totaled \$22.5 million, of which \$3.3 million was included in other current assets and \$19.2 million was included in other non-current assets in the consolidated balance sheet. Restricted and designated cash and investments totaled \$30.7 million at December 31, 2017, of which \$7.9 million was included in other current assets and \$22.8 million was included in other non-current assets in the consolidated balance sheet. The restricted funds represent deposits required by state agencies for self-insurance purposes and designated funds that are earmarked for a specific purpose and not for general business use.

**Note 6. 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. New 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 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. At September 30, 2018, there was \$15.9 million of amounts receivable related to equipment sales which was recorded in other current assets compared to \$0.9 million at December 31, 2017.

**Note 7. 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 nine months ended September 30, 2018. Amortization expense of \$0.6 million, and \$1.9 million for the three and nine months ended September 30, 2018 respectively, was included in depreciation and amortization in the consolidated statements of comprehensive income. Amortization expense was \$0.8 million, and \$1.8 million for the three and nine months ended September 30, 2017. Intangible assets subject to amortization consisted of the following at September 30, 2018:

	Amortization period (years)	Gross Amount	Accumulated Amortization	Net intangible assets
		(in thousands)		
Customer relationships	20	\$ 13,600	\$ 2,158	\$ 11,442
Tradename	0.5-6	8,100	6,712	1,388
Covenants not to compete	1-10	4,200	1,934	2,266
		\$25,900	\$ 10,804	\$ 15,096

Changes in carrying amount of goodwill were as follows:

	(in thousands)
Balance at December 31, 2017	\$ 132,410
Acquisition	—

Balance at September 30, 2018 \$ 132,410

**Note 8. 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 nine months ended September 30, 2018 and September 30, 2017, we had outstanding restricted shares of common stock to certain of our employees under the Company's 2011 Restricted Stock Award Plan (the "Plan"). A reconciliation of the numerator (net income) and denominator (weighted average number of shares outstanding of the basic and diluted earnings

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per share ("EPS")) for the three and nine months ended September 30, 2018 and September 30, 2017 is as follows (in thousands, except per share data):

<b>Three months ended September 30, 2018</b>			
	Net	Shares	Per
	Income	(denominator)	Share
	(numerator)		Amount
Basic EPS	\$ 19,056	81,965	\$ 0.23
Effect of restricted stock	—	27	
Diluted EPS	\$ 19,056	81,992	\$ 0.23

<b>Three months ended September 30, 2017</b>			
	Net	Shares	Per
	Income	(denominator)	Share
	(numerator)		Amount
Basic EPS	\$ 7,916	83,303	\$ 0.10
Effect of restricted stock	—	30	
Diluted EPS	\$ 7,916	83,333	\$ 0.09

<b>Nine months ended September 30, 2018</b>			
	Net	Shares	Per
	Income	(denominator)	Share
	(numerator)		Amount
Basic EPS	\$ 50,237	82,530	\$ 0.61
Effect of restricted stock	—	34	
Diluted EPS	\$ 50,237	82,564	\$ 0.61

<b>Nine months ended September 30, 2017</b>			
	Net	Shares	Per
	Income	(denominator)	Share
	(numerator)		Amount
Basic EPS	\$ 36,568	83,296	\$ 0.44
Effect of restricted stock	—	40	
Diluted EPS	\$ 36,568	83,336	\$ 0.44

## Note 9. Equity

We have a stock repurchase program with 6.9 million shares remaining authorized for repurchase as of September 30, 2018 following the additional authorization of 5.0 million shares by our Board of Directors on May 11, 2018. There were 0.2 million and 1.4 million shares repurchased in the open market during the three and nine months ended September 30, 2018 and there were no shares repurchased during the same periods in 2017. Repurchases are expected to continue from time to time, as determined by market conditions, cash flow requirements, securities law limitations, and other factors, until the number of shares authorized have been repurchased, or until the authorization is terminated. The share repurchase authorization is discretionary and has no expiration date.

During the three and nine months ended September 30, 2018 and 2017, our Board of Directors declared regular quarterly dividends totaling \$1.6 million, \$5.0 million and \$1.7 million, \$5.0 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 10. 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. Shares granted in 2014 through 2018 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. 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, ranged between \$17.06 and \$18.78 on the various grant dates during 2016, ranged between \$20.53 and \$23.37 on the various grant dates during 2017. The Company's market close price was \$19.03 for the grant date during the nine months ended September 30, 2018. 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 \$0.1 million and \$0.4 million respectively, for the three and nine months ended September 30, 2018. Compensation expense associated with restricted stock awards was \$0.1 million and \$0.3 million respectively, for the three and nine months ended September 30, 2017. Unrecognized compensation expense was \$0.3 million at September 30, 2018 which will be recognized over a weighted average period of 1.1 year.

The following tables summarize our restricted stock award activity for the three and nine months ended September 30, 2018 and 2017.

	<b>Three Months Ended September 30, 2018</b>	
	Number of Shares	Weighted Average Grant Date Fair Value (in thousands)
Unvested at beginning of period	35.0	\$ 20.29
Granted	—	—
Vested	(8.5)	17.11
Forfeited	—	—
Outstanding (unvested) at end of period	26.5	\$ 21.31
	<b>Nine Months Ended</b>	

**September 30,  
2018**

Number  
of  
Shares Weighted  
of Average  
Restricted Grant  
Stock Date Fair  
Awards Value  
(in  
thousands)

Unvested at beginning of period	53.7	\$ 21.82
Granted	5.0	19.03
Vested	(30.7)	22.03
Forfeited	(1.5 )	17.11
Outstanding (unvested) at end of period	26.5	\$ 21.31

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**Three Months  
Ended  
September 30,  
2017**

	Number of Shares	Weighted Average Grant Date Fair Award Value (in thousands)
Unvested at beginning of period	40.5	\$ 19.69
Granted	—	—
Vested	(9.7 )	17.11
Forfeited	—	—
Outstanding (unvested) at end of period	30.8	\$ 20.51

**Nine Months  
Ended  
September 30,  
2017**

	Number of Shares	Weighted Average Grant Date Fair Award Value (in thousands)
Unvested at beginning of period	53.0	\$ 21.53
Granted	3.0	20.53
Vested	(25.2 )	22.07
Forfeited	—	—
Outstanding (unvested) at end of period	30.8	\$ 20.51

**Note 11. Long-Term Debt**

In November 2013, Heartland Express, Inc. of Iowa, (the "Borrower"), a wholly owned subsidiary of the Company, 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 future working capital, equipment financing, and general corporate purposes. The Bank's original commitment decreased to \$175.0 million on November 1, 2016 through scheduled maturity on October 31, 2018. However, on August 31, 2018, Borrower and the Bank entered into the First Amendment to this Credit Agreement. The First Amendment (i) provides for a \$100.0 million unsecured revolving line of credit (the "Revolver"), which may be used for



working capital, equipment financing, permitted acquisitions, and general corporate purposes, (ii) provides an uncommitted accordion feature, which allows the Company a one-time request, at the discretion of the Bank, to increase the Revolver by up to an additional \$100.0 million, (iii) increases the letter of credit subfeature of the Credit Agreement from \$20.0 million to \$30.0 million, and (iv) extends the maturity of the Credit Agreement to August 31, 2021, subject to the Borrower's ability to terminate the commitment at any time at no additional cost to the Borrower.

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. Borrowings under the Credit Agreement can either be, at Borrower's election, (i) one-month or three-month LIBOR (Index) plus a spread between 0.700% and 0.900%, based on the Company's consolidated funded debt to adjusted EBITDA ratio or (ii) Prime (Index) plus 0.0%. There is a commitment fee on the unused portion of the Revolver between 0.0725% and 0.1750%, based on the Company's consolidated funded debt to adjusted EBITDA ratio.

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 \$250.0 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 September 30, 2018 and during the nine months then ended.

We had no outstanding long-term debt at September 30, 2018 or December 31, 2017. Outstanding letters of credit associated with the revolving line of credit at September 30, 2018 were \$9.2 million. As of September 30, 2018, the line of credit available for future borrowing was \$90.8 million.

**Note 12. 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 changes 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 September 30, 2018 and December 31, 2017. Our effective tax rate was 25.9% and 39.4% for the three months ended September 30, 2018 and 2017, respectively. Our effective tax rate was 18.4% and 32.8% for the nine months ended September 30, 2018 and 2017, respectively. The changes in effective tax rate are driven by a lower enacted federal tax rate as a result of the 2017 Tax Act, the timing 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, and a favorable provision to income tax return adjustment recorded.

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 September 30, 2018 and December 31, 2017, we had a total of \$4.3 million and \$5.8 million in gross unrecognized tax benefits, respectively included in long-term income taxes payable in the consolidated balance sheet. Of this amount, \$3.4 million and \$4.8 million represents the amount of unrecognized tax benefits that, if recognized, would impact our effective tax rate as of September 30, 2018 and December 31, 2017. The net increase in unrecognized tax benefits was \$0.3 million and a decrease of \$0.1 million during the three months ended September 30, 2018 and 2017, respectively. The net decrease in unrecognized tax benefits was \$1.6 million and a decrease of \$2.9 million during the nine months ended September 30, 2018 and 2017, respectively. The increase in the three months ended September 30, 2018 was due to the unrecognized tax benefits resulting from current year tax positions. The net decrease during the three months ended September 30, 2017 and the nine months ended September 30, 2018 and 2017, respectively, was mainly due to the expiration of certain statutes of limitation net of additions and settlements with respective states. These changes had the corresponding increasing or decreasing effects on the effective state tax rate during these same periods. The total net amount of accrued interest and penalties for such unrecognized tax benefits was \$0.9 million and \$2.3 million at September 30, 2018 and December 31, 2017 and is included in long-term 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 September 30, 2018 and 2017 was a net expense of approximately \$0.1 million and \$0.0 million, respectively. Net interest and penalties included in income tax expense for the nine month period ended September 30, 2018 and 2017 was a net benefit of approximately \$1.4 million and \$1.3 million, respectively. There was an unfavorable impact to income tax expense during the three months ended September 30, 2018. There was a favorable impact to income tax expense during the nine months ended September 30, 2018 and 2017 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:

	2018 (in thousands)
Balance at January 1, 2018	\$ 5,839
Additions based on tax positions related to current year	394
Additions for tax positions of prior years	—
Reductions for tax positions of prior years	—
Reductions due to lapse of applicable statute of limitations	(1,954 )
Settlements	—
Balance at September 30, 2018	\$ 4,279

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 income 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 \$0.2 million to a decrease of \$0.8 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 2015 and forward. Tax years 2008 and forward are subject to audit by state tax authorities depending on the tax code and administrative practice of each state.

### **Note 13. Operating Leases**

Rent expense for operating leases for revenue equipment that resulted from our IDC acquisition was \$0.9 million and \$4.5 million for the three and nine months ended September 30, 2018, and \$3.8 million and \$3.8 million for the three and nine months ended September 30, 2017. These expenses were included in rent and purchased transportation in the consolidated statements of comprehensive income.

We lease certain terminal facilities under operating leases. A portion of these leases are with limited liability companies, whose members include one of our board members and a commercial tractor dealership whose owners include one of our board members. The related-party rental payments were entered into as a result of a previous acquisition. Rent expenses for terminal facilities were \$1.2 million and \$3.8 million (including related-party rental payments totaling \$0.3 million and \$0.7 million), for the three and nine months ended September 30, 2018, respectively. Rent expenses for terminal facilities were \$1.5 million and \$2.5 million (including related-party rental payments totaling \$0.4 million and \$1.2 million), for the three and nine months ended September 30, 2017. These expenses were included in rent and purchased transportation in the consolidated statements of comprehensive income. The various leases expire between November 2018 and 2020. A portion of these leases contain purchase options and options to renew. We are responsible for all taxes, insurance, and utilities related to the terminal leases. See Note 14 for additional information regarding related party transactions.

### **Note 14. Related Party**

We lease certain terminal facilities for operations under operating leases from certain limited liability companies, whose members include one of our board members and a commercial tractor dealership whose owners include one of our board members. The terminal facility leases have initial five year terms, which began in November 2013, purchase options and options to renew.

We have sold trailers to and have purchased parts and services from the commercial tractor dealership noted above. We owed the commercial tractor dealership \$0.1 million and \$0.1 million, included in accounts payable and accrued liabilities in the consolidated balance sheets at September 30, 2018 and December 31, 2017, respectively.

The related payments (receipts) with related parties for the three and nine months ended September 30, 2018 and 2017 (in thousands) were as follows:

Three  
months  
ended

	September	
	30,	
	2018	2017
Payments for parts and services	\$65	\$172
Terminal lease payments	251	421
	\$316	\$593

	Nine months ended September 30,	
	2018	2017
Receipts for trailer sales	\$—	\$(12 )
Payments for parts and services	346	409
Terminal lease payments	712	1,227
	\$1,058	\$1,624

#### **Note 15. Commitments and Contingencies**

We are a party to ordinary, routine litigation and administrative proceedings incidental to our 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 as of September 30, 2018 was \$86.2 million.

#### **Note 16. Subsequent Events**

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 and the Private Securities Litigation Reform Act of 1995, as amended. All statements, other than statements of historical 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," and similar terms and phrases. In this Form 10-Q, statements relating to general trucking industry trends, including future demand and capacity, freight rates, operating ratio goals, anticipated revenue equipment sales and purchases, including revenue equipment gains and the used equipment market, future customer relationships, future growth and acquisitions, our ability to attract and retain drivers, future driver compensation, the impact of the adoption of new accounting standards, the impact of changes in interest rates and tire prices, expected fuel costs, including strategies for managing fuel costs, the impact of pending litigation, our dividend policy, capital spending, including our mix of leased versus owned revenue equipment, future depreciation expense, future repurchases of our shares, and our internal control remediation plan, among others, are forward-looking statements. 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. 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 2017 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 1, 2018, 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. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's 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, together with our subsidiaries, are a short-to-medium haul truckload carrier (predominately 500 miles or less per load). We primarily provide nationwide asset-based dry van truckload service for major shippers from Washington to Florida and New England to California. We focus on providing quality service to targeted customers with a high density of freight in our regional operating areas. We also offer primarily asset-based dry van service to our customers along with temperature-controlled truckload services, which are not significant to our operations. We exited our non-asset-based freight brokerage business in the first quarter of 2017, then operated similar services following the acquisition of IDC in July 2017 until the fourth quarter of 2017. We generally earn revenue based on the number of miles per load delivered and the revenue per mile paid. We believe the keys to success are maintaining high levels of

customer service and safety, which are predicated on the availability of experienced drivers and late-model equipment. We believe that our service standards, safety record, and equipment accessibility have made us a core carrier to many of our major customers, as well as allowed us to build solid, long-term relationships with customers and brand ourselves as an industry leader for on-time service.

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 and continue to experience 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 have implemented two driver pay increases within the past twelve months (October 1, 2017 and July 7, 2018). Our comprehensive driver compensation and benefits program rewards drivers for years of service and safe operating mileage benchmarks, which are critical to our operational and financial performance. Our driver pay package includes future pay increases based on years of continued service with us, increased rates for accident-free miles of operation, and



detention pay to assist drivers with offsetting unproductive detention time. We believe that our driver compensation and benefits package is consistently among the best in the industry. We are committed to investing in our drivers and compensating them for safety as both are key to our operational and financial performance.

Containment of fuel cost continues to be one of management's top priorities. Average DOE diesel fuel prices per gallon for the three months ended September 30, 2018 and 2017 were \$3.24 and \$2.63, respectively. The average price per gallon in 2018, through October 29, 2018, was \$3.36. We cannot predict what fuel prices will be for the remainder of 2018. 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 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 diesel and battery 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 September 30, 2018, all of our over-the-road sleeper berth tractor fleet was equipped with idle management controls. At September 30, 2018, the Company's tractor fleet had an average age of 1.3 years and the Company's trailer fleet had an average age of 4.2 years.

We continue to focus on providing quality service to targeted customers with a high density of freight in our regional operating areas. Organic growth has become increasingly difficult for traditional over-the-road truckload services given the current shortage of qualified drivers in the industry. We expect the driver hiring market to remain tight for the near future. We continue to evaluate and explore different driving options and offerings for our existing and potential new drivers. This includes increases to driver pay as well as different driving position offerings that allow us to offer more driver home time and flexibility. In addition to organic growth through the development of our regional operating areas, we have completed seven acquisitions since 1987 with the most recent, and second largest, occurring on July 6, 2017, with the acquisition of IDC. These seven acquisitions have enabled us to solidify our position within existing regions, expand into new operating regions, and pursue new customer relationships in new markets. We are highly selective about acquisitions, with our main criteria being (i) safe operations, (ii) high quality professional truck drivers, (iii) fleet profile that is compatible with our philosophy or can be replaced economically, and (iv) freight profile that will allow a path to a low-80s operating ratio upon full integration, application of our cost structure, and freight optimization, including exiting certain loads that fail to meet our operating profile. We expect to continue to evaluate acquisition candidates presented to us. We believe 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 nine months of 2018 with operating revenues of \$463.8 million, including fuel surcharges, net income of \$50.2 million, and basic net income per share of \$0.61 on basic weighted average outstanding shares of 82.5 million compared to operating revenues of \$441.6 million, including fuel surcharges, net income of \$36.6 million, and basic net income per share of \$0.44 on basic weighted average shares of 83.3 million in the first nine months of 2017. We posted an 87.0% operating ratio (operating expenses as a percentage of operating revenues) for the nine months ended September 30, 2018 compared to 87.8% for the same period of 2017. We posted an 84.9% non-GAAP adjusted operating ratio<sup>(1)</sup> (operating expenses as a percentage of operating revenues, net of fuel surcharge) for the nine months ended September 30, 2018 compared to 86.3% for the same period of 2017. We had total assets of \$813.5 million at September 30, 2018. We achieved a return on assets of 11.1% and a return on equity of 15.2% over the immediate past four quarters ended September 30, 2018, compared to 6.5% and 9.5%, respectively, for the immediate past four quarters ended September 30, 2017.

Our cash flow from operating activities for the nine months ended September 30, 2018 of \$108.6 million was 23.4% of operating revenues, compared to \$77.2 million and 17.5% in the same period of 2017. During 2018, our net investing cash flows used were \$42.1 million, which was mainly the result of cash used for revenue equipment purchases partially offset by proceeds received from sale of revenue equipment (\$42.6 million used, net), which was partially offset by \$0.6 million cash provided by the change in other assets. We used \$30.2 million in financing activities mostly related to repurchases of our common stock (\$25.1 million) and the payment of dividends (\$5.0 million). As a result, our cash, cash equivalents and restricted cash increased \$36.4 million during the nine months ended September 30, 2018. We ended the third quarter of 2018 with cash, cash equivalents and restricted cash of \$142.5 million.

(1)

**GAAP to Non-GAAP Reconciliation Schedule:**

Operating revenue, operating revenue excluding fuel surcharge revenue, operating income, operating ratio, and adjusted operating ratio reconciliation (a)

	<b>Three months ended September 30, 2018</b>		<b>Nine months ended September 30, 2018</b>	
	<b>2017</b>		<b>2017</b>	
	(Unaudited, in thousands)			
Operating revenue	\$ 151,279	\$ 182,114	\$ 463,800	\$ 441,632
Less: Fuel surcharge revenue	21,371	21,082	65,308	50,706
Operating revenue, excluding fuel surcharge revenue				