DICKS SPORTING GOODS INC
Form 10-Q
November 27, 2013

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

FORM 10-Q

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

For the Quarterly Period Ended November 2, 2013

OR

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

For the transition period from to .

Commission File No. 001-31463

DICK'S SPORTING GOODS, INC.
(Exact name of registrant as specified in its charter)

Delaware	16-1241537
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

345 Court Street, Coraopolis, Pennsylvania 15108
(Address of Principal Executive Offices)

(724) 273-3400
(Registrant's Telephone Number, including Area Code)

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No ¨

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

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a smaller reporting company)

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

The number of shares of common stock, par value $0.01 per share, and Class B common stock, par value $0.01 per share, outstanding as of November 22, 2013, was 100,887,137 and 24,900,870, respectively.

Table of Contents

INDEX TO FORM 10-Q

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DICK'S SPORTING GOODS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME - UNAUDITED
(Amounts in thousands, except per share data)

	13 Weeks Ended		39 Weeks Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Net sales	$1,400,623	$1,312,072	$4,265,755	$4,030,818
Cost of goods sold, including occupancy and distribution costs	975,724	905,948	2,949,872	2,782,306
GROSS PROFIT	424,899	406,124	1,315,883	1,248,512
Selling, general and administrative expenses	333,724	314,637	983,382	921,631
Pre-opening expenses	12,122	9,294	18,736	14,311
INCOME FROM OPERATIONS	79,053	82,193	313,765	312,570
Impairment of available-for-sale investments	—	—	—	32,370
Interest expense	696	860	2,081	5,309
Other income	(2,735)	(1,113)	(10,675)	(2,923)
INCOME BEFORE INCOME TAXES	81,092	82,446	322,359	277,814
Provision for income taxes	31,115	32,307	123,398	116,855
NET INCOME	$49,977	$50,139	$198,961	$160,959
EARNINGS PER COMMON SHARE:				
Basic	$0.41	$0.41	$1.62	$1.33
Diluted	$0.40	$0.40	$1.58	$1.28
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	123,221	122,103	122,942	121,181
Diluted	125,842	125,938	125,766	125,825
Cash dividends declared per share	$0.125	$0.125	$0.375	$0.375

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

DICK'S SPORTING GOODS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME - UNAUDITED
(Dollars in thousands)

	13 Weeks Ended		39 Weeks Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
NET INCOME	$49,977	$50,139	$198,961	$160,959
OTHER COMPREHENSIVE (LOSS) INCOME:				
Unrealized loss on securities available-for-sale, net of tax	—	—	—	(27,636)
Reclassification adjustment for impairment of securities available-for-sale, net of tax	—	—	—	27,636
Foreign currency translation adjustment, net of tax	(3)	8	(34)	(4)
COMPREHENSIVE INCOME	$49,974	$50,147	$198,927	$160,955

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

DICK'S SPORTING GOODS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - UNAUDITED
(Dollars in thousands)

	November 2, 2013	February 2, 2013	October 27, 2012
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$65,647	$345,214	$294,493
Accounts receivable, net	81,389	34,625	57,212
Income taxes receivable	34,635	15,737	2,779
Inventories, net	1,570,034	1,096,186	1,382,684
Prepaid expenses and other current assets	104,806	73,838	35,367
Deferred income taxes	48,414	30,289	26,755
Total current assets	1,904,925	1,595,889	1,799,290
Property and equipment, net	1,059,865	840,135	851,302
Intangible assets, net	98,792	98,903	99,033
Goodwill	200,594	200,594	200,594
Other assets:			
Deferred income taxes	3,286	4,382	8,269
Other	80,433	147,904	111,093
Total other assets	83,719	152,286	119,362
TOTAL ASSETS	$3,347,895	$2,887,807	$3,069,581
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable	$738,196	$507,247	$665,608
Accrued expenses	316,421	269,900	296,232
Deferred revenue and other liabilities	106,847	146,362	96,233
Income taxes payable	—	68,746	—
Current portion of other long-term debt and leasing obligations	7,540	8,513	8,584
Total current liabilities	1,169,004	1,000,768	1,066,657
LONG-TERM LIABILITIES:			
Revolving credit borrowings	116,400	—	—
Other long-term debt and leasing obligations	6,596	7,762	14,157
Deferred income taxes	29,160	7,413	—
Deferred revenue and other liabilities	328,712	284,540	283,835
Total long-term liabilities	480,868	299,715	297,992
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS' EQUITY:			
Common stock	982	981	977
Class B common stock	249	249	250
Additional paid-in capital	937,742	874,236	855,881
Retained earnings	1,064,511	911,704	1,047,668
Accumulated other comprehensive income	78	112	114
Treasury stock, at cost	(305,539)	(199,958)	(199,958)
Total stockholders' equity	1,698,023	1,587,324	1,704,932
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$3,347,895	$2,887,807	$3,069,581

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

DICK'S SPORTING GOODS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY - UNAUDITED
(Dollars in thousands)

	Common Stock		Class B Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	Treasury	
	Shares	Dollars	Shares	Dollars	Capital	Earnings	Income	Stock	Total
BALANCE, February 2, 2013	98,104,692	$981	24,900,870	$249	$874,236	$911,704	$112	$(199,958)	$1,587,324
Exercise of stock options	1,665,162	17	—	—	34,903	—	—	—	34,920
Restricted stock vested	907,180	9	—	—	(9)	—	—	—	—
Minimum tax withholding requirements	(280,346)	(3)	—	—	(13,087)	—	—	—	(13,090)
Net income	—	—	—	—	—	198,961	—	—	198,961
Stock-based compensation	—	—	—	—	20,610	—	—	—	20,610
Total tax benefit from exercise of stock options	—	—	—	—	21,089	—	—	—	21,089
Foreign currency translation adjustment, net of taxes of $20	—	—	—	—	—	—	(34)	—	(34)
Purchase of shares for treasury	(2,179,943)	(22)	—	—	—	—	—	(105,581)	(105,603)
Cash dividends declared	—	—	—	—	—	(46,154)	—	—	(46,154)
BALANCE, November 2, 2013	98,216,745	$982	24,900,870	$249	$937,742	$1,064,511	$78	$(305,539)	$1,698,023

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

DICK'S SPORTING GOODS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED
(Dollars in thousands)

	39 Weeks Ended	
	November 2, 2013	October 27, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$198,961	$160,959
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	113,437	88,627
Impairment of available-for-sale investments	—	32,370
Deferred income taxes	4,718	(10,128)
Stock-based compensation	20,610	23,643
Excess tax benefit from exercise of stock options	(20,966)	(61,461)
Tax benefit from exercise of stock options	125	4,761
Other non-cash items	435	227
Changes in assets and liabilities:		
Accounts receivable	(28,850)	(17,374)
Inventories	(473,848)	(367,687)
Prepaid expenses and other assets	(9,752)	31,599
Accounts payable	209,346	178,700
Accrued expenses	3,440	18
Income taxes payable / receivable	(66,680)	33,260
Deferred construction allowances	37,125	21,744
Deferred revenue and other liabilities	(45,804)	(35,922)
Net cash (used in) provided by operating activities	(57,703)	83,336
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(196,862)	(157,448)
Purchase of JJB Sports convertible notes and equity securities	—	(31,986)
Proceeds from sale of other assets	11,000	—
Deposits and purchases of other assets	(60,048)	(54,819)
Net cash used in investing activities	(245,910)	(244,253)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Revolving credit borrowings, net	116,400	—
Payments on other long-term debt and leasing obligations	(2,139)	(138,856)
Construction allowance receipts	—	—
Proceeds from exercise of stock options	34,920	71,683
Excess tax benefit from exercise of stock options	20,966	61,461
Minimum tax withholding requirements	(13,090)	(5,329)
Cash paid for treasury stock	(105,603)	(198,774)
Cash dividends paid to stockholders	(48,977)	(45,668)
Increase (decrease) in bank overdraft	21,603	(23,505)
Net cash provided by (used in) financing activities	24,080	(278,988)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(34)	(4)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(279,567)	(439,909)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	345,214	734,402

CASH AND CASH EQUIVALENTS, END OF PERIOD	$65,647	$294,493
Supplemental disclosure of cash flow information:		
Accrued property and equipment	$81,025	$44,568
Accrued deposits and purchases of other assets	$—	$14,500
Cash paid for interest	$1,595	$4,697
Cash paid for income taxes	$192,725	$100,939

See accompanying notes to unaudited consolidated financial statements.

DICK'S SPORTING GOODS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Dick's Sporting Goods, Inc. (together with its subsidiaries, the "Company") is an authentic full-line sports and fitness specialty omni-channel retailer offering a broad assortment of high quality, competitively-priced brand name sporting goods equipment, apparel and footwear in a specialty store environment. When used in this Quarterly Report on Form 10-Q, unless the context otherwise requires or unless otherwise specified, any reference to "year" is to our fiscal year and the terms "we", "us", "the Company" and "our" refer to Dick's Sporting Goods, Inc. and its wholly-owned subsidiaries.

The accompanying unaudited consolidated financial statements have been prepared by us in accordance with the requirements for Quarterly Reports on Form 10-Q and do not include all the disclosures normally required in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The interim consolidated financial statements are unaudited and have been prepared on the same basis as the annual audited consolidated financial statements. In the opinion of management, such unaudited consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the interim financial information. This unaudited interim financial information should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended February 2, 2013 as filed with the Securities and Exchange Commission on March 22, 2013. Operating results for the 13 and 39 weeks ended November 2, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending February 1, 2014 or any other period.

Recently Adopted Accounting Pronouncements

Reclassifications Out of Accumulated Other Comprehensive Income

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-02, "Comprehensive Income – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." This update requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes to the financial statements, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, entities are required to cross-reference to the related note to the financial statements where additional details about the effect of the reclassifications are disclosed. This ASU is effective prospectively for reporting periods beginning after December 15, 2012. The Company adopted ASU 2013-02 during the first quarter of 2013. The adoption of this guidance did not impact the Company's Consolidated Financial Statements.

Indefinite-Lived Intangible Assets Impairment

In July 2012, the FASB issued ASU 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment." This update amended the procedures for testing the impairment of indefinite-lived intangible assets by permitting an entity to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible assets are impaired. An entity's assessment of the totality of events and circumstances and their impact on the entity's indefinite-lived intangible assets will then be used as a basis for determining whether it is necessary to perform the quantitative impairment test as described in Accounting

Standard Codification ("ASC") 350-30, "Intangibles – Goodwill and Other – General Intangibles Other than Goodwill." ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company adopted ASU 2012-02 during the first quarter of 2013. The adoption of this guidance did not impact the Company's Consolidated Financial Statements.

2. Store Closings

The calculation of accrued store closing and relocation reserves primarily includes future minimum lease payments, maintenance costs and taxes from the date of closure or relocation to the end of the remaining lease term, net of contractual or estimated sublease income. The liability is discounted using a credit-adjusted risk-free rate of interest. The assumptions used in the calculation of the accrued store closing and relocation reserves are evaluated each quarter.

Table of Contents

The following table summarizes the activity in fiscal 2013 and 2012 (in thousands):

	39 Weeks Ended	
	November 2, 2013	October 27, 2012
Accrued store closing and relocation reserves, beginning of period	$31,785	$36,121
Expense charged to earnings	—	2,234
Cash payments	(8,998)	(7,511)
Interest accretion and other changes in assumptions	(3,550)	1,548
Accrued store closing and relocation reserves, end of period	19,237	32,392
Less: current portion of accrued store closing and relocation reserves	(6,874)	(7,447)
Long-term portion of accrued store closing and relocation reserves	$12,363	$24,945

The current portion of accrued store closing and relocation reserves is included within accrued expenses and the long-term portion is included within long-term deferred revenue and other liabilities on the unaudited Consolidated Balance Sheets. The related expense is recorded within selling, general and administrative expenses on the unaudited Consolidated Statements of Income.

3. Earnings Per Common Share

Basic earnings per common share is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share is computed based on the weighted average number of shares of common stock, plus the effect of dilutive potential common shares outstanding during the period, using the treasury stock method. Dilutive potential common shares include outstanding stock options, restricted stock and warrants.

The computations for basic and diluted earnings per common share are as follows (in thousands, except per share data):

	13 Weeks Ended		39 Weeks Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Net income	$49,977	$50,139	$198,961	$160,959
Weighted average common shares outstanding (for basic calculation)	123,221	122,103	122,942	121,181
Dilutive effect of stock-based awards	2,621	3,835	2,824	4,644
Weighted average common shares outstanding (for diluted calculation)	125,842	125,938	125,766	125,825
Earnings per common share - basic	$0.41	$0.41	$1.62	$1.33
Earnings per common share - diluted	$0.40	$0.40	$1.58	$1.28
Anti-dilutive stock-based awards excluded from diluted calculation	1,086	546	977	833

4. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). ASC 820, "Fair Value Measurement and Disclosures", outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures, and prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets measured at fair value on a recurring basis as of November 2, 2013 and February 2, 2013 are set forth in the table below (in thousands):

Description	Level 1	Level 2	Level 3
As of November 2, 2013			
Assets:			
Deferred compensation plan assets held in trust (1)	$48,559	$—	$—
Total assets	$48,559	$—	$—
As of February 2, 2013			
Assets:			
Deferred compensation plan assets held in trust (1)	$36,871	$—	$—
Total assets	$36,871	$—	$—

(1) Consists of investments in various mutual funds made by eligible individuals as part of the Company's deferred compensation plan.

The fair value of cash and cash equivalents, accounts receivable, accounts payable, revolving credit borrowings and certain other liabilities approximated book value due to the short-term nature of these instruments at both November 2, 2013 and February 2, 2013.

The Company uses quoted prices in active markets to determine the fair value of the aforementioned assets determined to be Level 1 instruments. The Company's policy for recognition of transfers between levels of the fair value hierarchy is to recognize any transfer at the end of the fiscal quarter in which the determination to transfer was made. There were no transfers between Levels 1 and 2 during the 39 weeks ended November 2, 2013. The Company did not hold any Level 3 financial assets or liabilities as of November 2, 2013 and February 2, 2013.

The following table provides a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using Level 3 inputs (in thousands):

	13 Weeks Ended October 27, 2012	39 Weeks Ended October 27, 2012
Beginning balance	$—	$—
Transfers in	—	32,370
Total realized losses included in net income	—	(32,370)
Ending balance	$—	$—

Fiscal 2012 activity reflected the Company's impairment of its available-for-sale investment in JJB Sports Plc ("JJB Sports"). Due to the use of discounted expected future cash flows to derive the fair value of the investment, the Company reclassified the investment as a Level 3 investment during the fiscal quarter ended July 28, 2012. Realized losses are included within impairment of available-for-sale investments on the unaudited Consolidated Statement of Income.

5. Income Taxes

During the first quarter of 2013, the Company determined that it would recover $4.3 million of its investment in JJB Sports, which it had previously fully impaired. There is no related tax expense for this recovery as the Company reversed a portion of the deferred tax valuation allowance it had previously recorded for net capital loss carryforwards it did not expect to realize at the time its investment in JJB Sports was fully impaired.

6. Related Party Transaction

On July 17, 2013, the Company entered into a purchase agreement (the "Purchase Agreement") with SP Aviation, LLC, an entity 50% owned by our Chairman and Chief Executive Officer. Pursuant to the Purchase Agreement, the Company sold a Gulfstream G200 corporate aircraft to SP Aviation, LLC for $11.0 million, paid in cash, representing the Company's carrying

Table of Contents

value of the asset at the time of sale. The transaction was approved pursuant to the Company's Related Party Transaction Policy.

7. Subsequent Event

On November 14, 2013, our Board of Directors declared a quarterly cash dividend in the amount of $0.125 per share of common stock and Class B common stock payable on December 27, 2013 to stockholders of record as of the close of business on December 6, 2013.

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

FORWARD-LOOKING STATEMENTS

We caution that any forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) contained in this Quarterly Report on Form 10-Q or made by our management involve risks and uncertainties and are subject to change based on various important factors, many of which may be beyond our control. Accordingly, our future performance and financial results may differ materially from those expressed or implied in any such forward-looking statements. Investors should not place undue reliance on forward-looking statements as a prediction of actual results. These statements can be identified as those that may predict, forecast, indicate or imply future results, performance or advancements and by forward-looking words such as "believe", "anticipate", "expect", "estimate", "predict", "intend", "plan", "project", "goal", "will", "will be", "will continue", "will result", "could", "may", "might" or any variations of such words or other words with similar meanings. Forward-looking statements address, among other things, our expectations, our growth strategies, including our plans to open new stores, our efforts to increase profit margins and return on invested capital, plans to grow our private brand and eCommerce businesses, projections of our future profitability, results of operations, capital expenditures, plans to return capital to stockholders through dividends or share repurchases, our financial condition or other "forward-looking" information and include statements about revenues, earnings, spending, margins, costs, liquidity, store openings, eCommerce, operations, inventory, private brand products, investments, or our actions, plans or strategies.

The following factors, among others, in some cases have affected and in the future could affect our financial performance and actual results, and could cause actual results for some or all of fiscal 2013 and beyond to differ materially from those expressed or implied in any forward-looking statements included in this Quarterly Report on Form 10-Q or otherwise made by our management:

Our business is dependent on general economic conditions in our markets and ongoing economic and financial uncertainties may cause a decline in consumer spending;

Intense competition in the sporting goods industry;

Our ability to predict or effectively react to changes in consumer demand or shopping patterns;

Lack of available retail store sites on terms acceptable to us, rising real estate prices and other costs and risks relating to our ability to open new stores;

Unauthorized disclosure of sensitive or confidential customer information;

Risks associated with our private brand offerings, including product recalls and protection of proprietary rights;

Our ability to access adequate capital to operate and expand our business and to respond to changing business and economic conditions;

Risks and costs relating to changing laws and regulations affecting our business, including: consumer products; product liability; product recalls; and the regulation of and other hazards associated with certain products we sell, such as firearms and ammunition;

Disruptions in our or our vendors' supply chain that could be caused by foreign trade issues, currency exchange rate fluctuations, increasing prices for raw materials and foreign political instability;

Litigation risks for which we may not have sufficient insurance or other coverage, including risks relating to the sale of firearms and ammunition;

Our relationships with our vendors, including potential increases in the costs of their products and our ability to pass those cost increases on to our customers, their ability to maintain their inventory and production levels and their ability or willingness to provide us with sufficient quantities of products at acceptable prices;

The loss of our key executives, especially Edward W. Stack, our Chairman and Chief Executive Officer;

Our ability to secure and protect our trademarks and other intellectual property and defend claims of intellectual property infringement;

Disruption of or other problems with the services provided by our primary eCommerce services provider;

Disruption of or other problems with our information systems;

Any serious disruption at our distribution facilities;

Performance of professional sports teams, professional team lockouts or strikes, or retirement or scandal involving sports superstars;

The seasonality of our business and the impact of unseasonable weather;

Regional risks because our stores are generally concentrated in the eastern half of the United States;

Our pursuit of strategic investments or acquisitions, including costs and uncertainties associated with combining businesses and / or assimilating acquired companies;

Our ability to meet our labor needs;

We are controlled by our Chairman and Chief Executive Officer and his relatives, whose interests may differ from those of our other stockholders;

Our current anti-takeover provisions, which could prevent or delay a change in control of the Company;

Our current intention to issue quarterly cash dividends; and

Our repurchase activity, if any, pursuant to our share repurchase program.

The foregoing and additional risk factors are described in more detail in other reports or filings filed or furnished by us with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended February 2, 2013. In addition, we operate in a highly competitive and rapidly changing environment; therefore, new risk factors can arise, and it is not possible for management to predict all such risk factors, nor to assess the impact of all such risk factors on our business or the extent to which any individual risk factor, or combination of risk factors, may cause results to differ materially from those contained in any forward-looking statement. The forward-looking statements included in this Quarterly Report on Form 10-Q are made as of the date hereof. We do not assume any obligation and do not intend to update or revise any forward-looking statements whether as a result of new information, future developments or otherwise except as may be required by the securities laws.

OVERVIEW

Dick's Sporting Goods, Inc. (together with its subsidiaries, the "Company") is an authentic full-line sports and fitness specialty omni-channel retailer offering a broad assortment of high quality, competitively-priced brand name sporting goods equipment, apparel and footwear in a specialty store environment. When used in this Quarterly Report on Form 10-Q, unless the context otherwise requires or unless otherwise specified, any reference to "year" is to our fiscal year and the terms "we", "us", "the Company" and "our" refer to Dick's Sporting Goods, Inc. and its wholly-owned subsidiaries.

Table of Contents

As of November 2, 2013, we operated 552 Dick's Sporting Goods stores in 45 states and 82 Golf Galaxy stores in 30 states, with approximately 31.4 million square feet on a consolidated basis, the majority of which are located throughout the eastern half of the United States.

Due to the seasonal nature of our business, interim results are not necessarily indicative of results for any period within, or the entire, fiscal year. Our revenue and earnings are typically greater during our fiscal fourth quarter, which includes the majority of the holiday selling season.

The primary factors that historically have influenced the Company's profitability and success have been the growth in its number of stores and selling square footage, positive same store sales and its strong gross profit margins. In the last five years, the Company has grown from 398 Dick's Sporting Goods stores as of November 1, 2008 to 552 Dick's Sporting Goods stores as of November 2, 2013. The Company continues to expand its presence through the opening of new stores and believes it has the potential to reach approximately 1,100 Dick's Sporting Goods locations, including smaller-market locations across the United States.

In order to monitor the Company's success, the Company's senior management monitors certain key performance indicators, including:

Consolidated same store sales – Same store sales provide a measure of sales growth for stores open at least one year over the comparable prior year period, as well as the corresponding eCommerce sales. A store is included in the same store sales calculation in the same fiscal period that it commences its 14th full month of operations. Stores that were closed or relocated during the applicable period have been excluded from same store sales. Each relocated store is returned to the same store base in the fiscal period that it commences its 14th full month of operations at that new location. Our management considers same store sales to be an important indicator of our current performance. Same store sales results are important to leverage our costs, including occupancy costs, store payroll and other store expenses. Same store sales also have a direct impact on our total net sales, cash and working capital. See further discussion of the Company's same store sales in the "Results of Operations and Other Selected Data" section herein.

Operating cash flow – Cash flow generation supports the general operating needs of the Company and funds capital expenditures related to its store network, distribution and administrative facilities, costs associated with continued improvement of information technology tools, costs associated with potential strategic acquisitions or investments that may arise from time to time and stockholder return initiatives, including cash dividends and share repurchases. We typically generate significant positive operating cash flows in our fiscal fourth quarter in connection with the holiday selling season and proportionately higher net income levels. See further discussion of the Company's cash flows in the "Liquidity and Capital Resources and Changes in Financial Condition" section herein.

Quality of merchandise offerings – To monitor and maintain acceptance of its merchandise offerings, the Company monitors sell-throughs, inventory turns, gross margins and markdown rates on a department and style level. This analysis helps the Company manage inventory levels to reduce cash flow requirements and deliver optimal gross margins by improving merchandise flow and establishing appropriate price points to minimize markdowns.

Store productivity – To assess store-level performance, the Company monitors various indicators, including new store productivity, sales per square foot, store operating contribution margin and store cash flow. New store productivity compares the sales increase for all stores not included in the same store sales calculation with the increase in square footage.

CRITICAL ACCOUNTING POLICIES

As discussed in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2013, the Company considers its policies on inventory valuation, vendor allowances, goodwill and intangible assets, impairment of long-lived assets and closed store reserves, self-insurance reserves, stock-based compensation and uncertain tax positions to be the most critical in understanding the judgments that are involved in preparing its consolidated financial statements. There have been no changes in the Company's critical accounting policies during the period ended November 2, 2013.

Table of Contents

RESULTS OF OPERATIONS AND OTHER SELECTED DATA

Executive Summary

Net income for the current quarter was $50.0 million, or $0.40 per diluted share, as compared to net income of $50.1 million, or $0.40 per diluted share, for the 13 weeks ended October 27, 2012.

Net sales increased 7% to $1.4 billion in the current quarter due primarily to the growth of our store network and a 0.3% increase in consolidated same store sales. Due to the 53rd week in fiscal 2012, there is a one-week shift in fiscal 2013 results as compared to fiscal 2012. The seasonal timing change resulting from this shift unfavorably impacted net sales comparisons to the same period in the prior year by approximately $36 million. Consolidated same store sales, adjusted for the shifted retail calendar, increased 3.3% in the current quarter. eCommerce sales penetration in the third quarter of 2013 was 6.5% of total sales.

Gross profit decreased 61 basis points to 30.34% as a percentage of net sales for the 13 weeks ended November 2, 2013 as compared to the 13 weeks ended October 27, 2012, due primarily to increased occupancy and shipping costs.

In the third quarter of 2013, the Company:

Declared and paid a quarterly cash dividend of $0.125 per common share and Class B common share.

Repurchased approximately 0.5 million shares of common stock for $25.0 million.

We ended the third quarter with $116.4 million of borrowings under our current senior secured credit agreement.

3.3

2.7

Gain on disposal of property and equipment

(3.8
)

(5.7
)

(2.8
)

84.9
%

80.7
%

82.6

%
Operating income

15.1
%

19.3
%

17.4
%
Interest income

0.0
%

0.0
%

0.1
%
Interest expense

0.0
%

0.0
%

0.0
%
Income before income taxes

15.1
%

19.3
%

17.5
%
Income taxes

5.4

7.2

6.2

Net income

9.7
%

12.1
%

11.3
%

Year Ended December 31, 2014 Compared With the Year Ended December 31, 2013

We acquired 100% of the outstanding stock of GTI on November 11, 2013 and therefore our operating results for year ended December 31, 2014 include the operating results of GTI for the full year, while our operating results for the year ended December 31, 2013 include the operating results of GTI only for the period of November, 11, 2013 to December 31, 2013. GTI's operations in 2014 impacted operating revenues, salaries, wages and benefits, rent and purchased transportation, fuel expense, operating and maintenance expense, and depreciation and amortization compared to 2013, as further explained below. Per authoritative guidance on segment reporting, we have included GTI's operating results in our single segment. See Note 1 of the consolidated financial statements for additional information on segment reporting.

Operating revenue increased $289.1 million (49.7%), to $871.4 million for the year ended December 31, 2014 from $582.3 million for the year ended December 31, 2013. The increase in revenue was the result of an increase in trucking revenues of $237.1 million (51.1%) and a $52.0 million (43.9%) increase in fuel surcharge revenue from $118.4 million in 2013 to $170.4 million in 2014. Operating revenues (the total of trucking and fuel surcharge revenue) are primarily earned based on loaded miles driven in providing truckload transportation services. The number of loaded miles is affected by general freight supply and demand trends and the number of revenue earning equipment vehicles (tractors). The number of revenue earning equipment vehicles (tractors) is directly affected by the number of available company drivers and independent contractors providing capacity to us. Our operating revenues are reviewed regularly on a combined basis across the United States due to the similar nature of our services offerings and related similar base pricing structure. The net trucking revenue increase was the result of a 44.7% increase in loaded miles due to an increase in drivers, primarily driven by the GTI acquisition, combined with an increase in the rate per loaded mile compared to 2013. We expect revenue to be positively impacted through increases in rate per loaded mile due to current market conditions, including a lack of qualified drivers in the industry, and continued integration of legacy GTI freight to our pricing model.

Fuel surcharge revenues represent fuel costs passed on to customers based on customer specific fuel charge recovery rates and billed loaded miles. Fuel surcharge revenues increased primarily as a result of increased loaded miles during 2014 compared to 2013, offset by a 2.8% decrease in the average DOE diesel fuel prices during 2014 compared to 2013, as reported by the DOE.

Salaries, wages, and benefits increased $99.4 million (55.6%), to $278.1 million for the year ended December 31, 2014 from $178.7 million in the 2013 period. Salaries, wages, and benefits increased $56.9 million (44.9%) due to an increase in driver wages, which was attributable to increases in driver miles directly related to the GTI acquisition, as discussed above, and an increase in our driver compensation toward the end of 2014, offset by a decrease in the number of driver employees. We currently expect that our expenses relating to driver wages, as a percentage of operating revenues, will increase in 2015 as compared to 2014, with or without changes in driver miles, due to increases in average driver wages paid per mile implemented in late 2014. The increases in driver wages per mile are due to current market conditions caused by a lack of qualified drivers in the industry. Another $20.4 million (86.1%) of the increase in salaries, wages, and benefits was due to non-driver wages, which was directly attributable to a 119% increase in the average number of non-driver employees period over period, primarily as a result of the GTI acquisition. Salaries, wages and benefits increased $10.7 million due to health insurance expense, $6.7 million increase due to increased payroll taxes, associated with the increase in driver and non-driver wages, and $4.5 million due to increased workers' compensation claims. Health insurance and workers compensation expense also increased slightly, mainly due to an increase in the number of covered participants resulting from additional employees gained from the GTI acquisition, and an associated increase in the amount of claims.

Rent and purchased transportation increased $39.1 million (305.6%), to $52.0 million for the year ended December 31, 2014 from $12.8 million in the comparable period of 2013. The increase was attributable to an increase in amounts paid to third party carriers on brokered loads of $16.7 million, an increase in amounts paid to independent contractors of $11.6 million, an increase in amounts paid for operating leases of revenue equipment of $7.0 million, and an increase in leased property expense of $4.0 million. The increases in third party broker expense, operating leases of revenue equipment, and leased property expense were due to the fact we did not incur these types of expenses prior to the GTI acquisition. The increase in amounts paid to independent contractors was due to an increase in the miles driven by independent contractors during 2014 as compared to 2013. During the year ended December 31, 2014, independent contractors accounted for 3.6% of the total fleet miles compared to 1.7% for the same period of 2013.

Fuel increased $46.9 million (27.2%), to $219.3 million for the year ended December 31, 2014 from $172.3 million for the same period of 2013. The increase was primarily the result of increased miles, offset by cost savings attributable to decreased fuel prices, increased fuel economy on our tractor fleet, and operational efficiencies. Fuel cost per mile, net of fuel surcharge, decreased 31.5% in 2014 compared to 2013, due in part to a 2.8% decrease in the average diesel price per gallon as reported by the DOE. Other factors contributing to the decrease in fuel cost per mile, net of fuel surcharge, included increased fuel economy due to newer, more fuel efficient, revenue equipment, increases in fuel surcharge revenues as a percentage of fuel costs due to prices in effect at fuel purchase compared to revenues collected, idle management controls, and a reduction of non-revenue miles as a result of improved network efficiencies. Although the average price per gallon in 2015 is the lowest it has been since 2010, we currently anticipate that fuel prices will increase throughout 2015.

Depreciation and amortization increased $39.7 million (57.6%), to $108.6 million during the year ended December 31, 2014 from $68.9 million in the same period of 2013. The increase is mainly attributable to an increase in the number of revenue equipment units (tractors and trailers) being depreciated. Tractor depreciation increased $26.8 million, giving effect to the change in depreciation method for tractors further discussed below, on a 42.9% increase in the number of tractor units depreciated during the year ended December 31, 2014, compared to the same period of 2013. As tractors are depreciated using the declining balance method, depreciation expense is highest in the first year of use and declines in subsequent years. Effective July 2013, we changed our estimate of depreciation expense on tractors to the 125% declining balance method from the 150% declining balance method because a stable used equipment market supported a return to our historical estimate of depreciation on tractor equipment over its expected useful life. Changing to the 125% declining balance method from the 150% declining balance method increased operating income and decreased depreciation expense by $3.3 million during the year ended December 31, 2014 compared to the same period of 2013. Compared to 2013, trailer depreciation increased $9.4 million on an 61.5% increase in the number of trailer units depreciated during the year ended December 31, 2014. Increases in all other depreciation and amortization totaled $3.6 million, mainly related to amortization of intangible assets and depreciation associated with leasehold improvements of leased terminal facilities. We currently expect this cost to increase in 2015 as we upgrade our tractor and trailer fleets and discontinue use of leases for revenue equipment.

Operating and maintenance expense increased $16.7 million (74.8%), to $39.1 million during the year ended December 31, 2014, from $22.3 million in the same period of 2013. Operating and maintenance costs increased mainly due to an increase in the number of revenue equipment units in the fleet period over period as discussed above. There were additional increases due to costs associated with preparing equipment for sale as we continue to upgrade our tractor and trailer fleets. We expect these costs to fluctuate in 2015 based on revenue equipment trading activity and overall fleet reliability.

Operating taxes and licenses expense increased $9.9 million (93.7%), to $20.4 million during the year ended December 31, 2014 from $10.5 million in 2013, due to an increase in the number of revenue equipment units (tractors and trailers) being licensed and fuel taxes due to additional fuel purchases and an increase in miles driven. Insurance and claims expense increased $3.1 million (20.5%), to $17.9 million during the year ended December 31, 2014 from $14.9 million in 2013, due to increased severity and frequency of claims offset by an actuarial adjustment to reduce the overall reserve for expected future payments. Other operating expenses increased $12.1 million (63.2%), to $31.3 million, during the year ended December 31, 2014 from $19.2 million in 2013, due to an increase in miles driven.

Gains on the disposal of property and equipment increased $0.3 million (0.8%), to $33.5 million during the year ended December 31, 2014, from $33.3 million in the same period of 2013. The increase was mainly the combined effect of a decrease in gains on sales of tractor equipment of $2.6 million and an increase in gains on trailer equipment sales of $3.1 million. The decrease in gains on tractor sales was the net effect of selling 11% more tractors during 2014, offset by lower gains per unit as certain units sold were GTI units that were adjusted to market value at the time of the GTI acquisition. The increase in gains on trailer sales was due to a 137% increase in the number of units sold with an offsetting gain per unit decrease of 41%, due to certain units being GTI units that were adjusted to market value at the time of the GTI acquisition. We currently anticipate tractor and trailer equipment sale activity during 2015 to increase from 2014 levels, although total gains are expected to be generally lower due to lower gains per unit.

Interest expense increased $0.2 million, to $0.4 million in the year ended December 31, 2014 due to our outstanding borrowings, on our line of credit during 2014, which were directly attributable to the GTI acquisition.

Our effective tax rate was 35.5% and 37.3% for years ended December 31, 2014 and 2013, respectively. The decrease in the effective tax rate for 2014 is primarily attributable to an increase in favorable income tax expense adjustments resulting from the roll off of certain state tax contingencies and a provision to return adjustment.

As a result of the foregoing, our operating ratio (operating expenses as a percentage of operating revenue) was 84.9% during the year ended December 31, 2014, compared to 80.7% during the year ended December 31, 2013. Net income increased $14.3 million (20.2%), to $84.8 million for the year ended December 31, 2014, from $70.6 million during the 2013 period as a result of the net effects discussed above.

Year Ended December 31, 2013 Compared With the Year Ended December 31, 2012

Our operating results for the year ended December 31, 2013 includes the operating results of GTI for only the period of November, 11, 2013 to December 31, 2013. GTI's operations for this fifty-one day period impacted the change in operating revenues, salaries, wages and benefits, rent and purchased transportation, fuel expense, and depreciation and amortization in 2013 compared to 2012, as further explained below.

Operating revenue increased $36.5 million (6.7%), to $582.3 million for the year ended December 31, 2013, from $545.7 million for the year ended December 31, 2012. The increase in revenue was the result of a $30.5 million

(7.0%) increase in trucking and other revenues, and a $6.0 million (5.4%) increase in fuel surcharge revenue from $112.4 million in 2012 to $118.4 million in 2013. Fuel surcharge revenues increased primarily as a result of increased miles during 2013 compared to 2012 offset by a 1.2% decrease in average diesel fuel prices during the year ended December 31, 2013 compared to the same period of 2012, as reported by the DOE. Trucking and other revenues increased mainly as a result of an increase in loaded miles.

Salaries, wages, and benefits increased $11.7 million (7.0%), to $178.7 million for the year ended December 31, 2013 from $167.1 million in the 2012 period. Salaries, wages, and benefits increased $6.3 million (5.3,%) due to an increase in driver wages, $3.8 million (18.9%) due to an increase in office and shop wages, $0.9 million due to health insurance expense, and $0.8 million due to payroll taxes associated with the increase in driver and office and shop wages. The increase in driver wages was attributable to an increase in miles driven, and the office and shop wages increase was directly attributable to an increase in the number of employees. Health insurance increased due to an increase in the number of covered participants, as a result of the increase in the number of employees.

Rent and purchased transportation increased $6.5 million (104.2%), to $12.8 million for the year ended December 31, 2013, from $6.3 million in the 2012 period. The increase was attributable to an increase in amounts paid for operating leases of revenue equipment of $1.3 million, an increase in amounts paid to third party carriers on brokered loads of $3.2 million, an increase in amounts paid to independent contractors, of $1.0 million, and an increase in leased property expense of $0.8 million. The increases in operating leases of revenue equipment, third party broker expense and leased property expense were due to the fact that we did not incur these types of expenses prior to the GTI acquisition. The increase in independent contractors was due to an increase in the miles driven by independent contractors during 2013 as compared to 2012.

Fuel increased $3.3 million (2.0%), to $172.3 million for the year ended December 31, 2013, from $169.0 million for the same period of 2012. Fuel expense increased $8.4 million primarily as the result of increased miles, which was offset by cost savings of $5.1 million due to decreased fuel prices. Fuel cost per mile, net of fuel surcharge, decreased 9.9% in 2013 compared to 2012, partly as the result of a 1.2% decrease in the average diesel price per gallon in 2013 as reported by the DOE. Other factors that contributed to the decrease in fuel cost per mile, net of fuel surcharge included increased fuel economy due to newer, more fuel efficient, revenue equipment, increases in fuel surcharge revenues, idle management controls, and a slight reduction of out of route miles.

Depreciation and amortization increased $11.8 million (20.6%), to $68.9 million during the year ended December 31, 2013, from $57.2 million in the same period of 2012. The increase is mainly attributable to an increase in the number of revenue equipment units being depreciated. Tractor depreciation increased $8.1 million, giving effect to the change in depreciation method for tractors further discussed below, on a 48.7% increase in the number of tractor units depreciated during the year ended December 31, 2013. Trailer depreciation increased $3.1 million on a 100% increase in the number of trailer units depreciated during the year ended December 31, 2013. The increase in the number of tractors and trailers was primarily a result of the GTI acquisition. As tractors are depreciated using the declining balance method, depreciation expense is highest in the first year of use and declines in subsequent years. Effective July, 2013, we changed our estimate of depreciation expense on tractors to the 125% declining balance method from the 150% declining balance method because a stable used equipment market supported a return to our historical estimate of depreciation on tractor equipment over its expected useful life. Changing to the 125% declining balance method from the 150% declining balance method increased operating income and decreased depreciation expense by $4.4 million during the year ended December 31, 2013. Increases in all other depreciation and amortization totaled $0.7 million, which was mainly related to amortization of intangible assets and depreciation associated with leasehold improvements of leased terminal facilities.

Operating and maintenance expense decreased $2.9 million (11.6%), to $22.3 million during the year ended December 31, 2013, from $25.3 million in the 2012 period mainly due to decreased revenue equipment parts and maintenance costs primarily attributable to reduced tire costs.

Gains on the disposal of property and equipment increased $18.2 million (120.2%), to $33.3 million during the year ended December 31, 2013, from $15.1 million in the 2012 period. The increase was mainly the combined effect of increases in gains on sales of tractor equipment of $17.1 million and an increase in gains on trailer equipment sales of $1.0 million. The increase in gains on tractor sales was largely due to selling approximately five times more tractors during 2013 compared to 2012. The increase in gains on trailer sales was due to a 24.7% decline in the number of trailer units sold offset by an increase in the gains per unit sold during 2013 compared to 2012.

Interest expense increased $0.2 million, to $0.2 million in the year ended December 31, 2013, due to borrowings under our credit facility in 2013, which were directly attributable to the GTI acquisition in November, 2013.

Our effective tax rate was 37.3% and 35.6% for year ended December 31, 2013 and 2012, respectively. The increase in the effective tax rate for 2013 was primarily attributable to a decrease in favorable income tax expense adjustments during 2013 compared to 2012 as a result of the roll off of certain state tax contingencies.

As a result of the foregoing, our operating ratio (operating expenses as a percentage of operating revenue) was 80.7% during the year ended December 31, 2013 compared to 82.6% during the year ended December 31, 2012. Net income increased $9.0 million (14.7%), to $70.6 million for the year ended December 31, 2013 from $61.5 million during the compared 2012 period as a result of the net effects discussed above.

Inflation and Fuel Cost

Most of our operating expenses are inflation-sensitive, with inflation generally producing increased costs of operations. During the past three years, inflation has been fairly modest with its impacts mostly related to revenue equipment prices, tire prices and compensation paid to drivers. Innovations in equipment technology, EPA mandated new engine emission requirements and driver comfort have resulted in higher tractor prices. We historically have limited the effects of inflation through increases in freight rates and certain cost control efforts. We also continue to update our fleet with more fuel-efficient, EPA emission-compliant late-model engines which are more expensive than tractors that were previously purchased with engines meeting 2010 EPA requirements. General improvement of economic conditions and the imbalance of industry supply and demand for freight services in recent years have allowed certain rate increases, although the rate increases received have significantly lagged the increases in depreciation expense per year due to increased prices paid for new revenue equipment over the same period.

In addition to inflation, significant fluctuations in fuel prices can adversely affect our operating results and profitability. We have attempted to limit the effects of increases in fuel prices through certain cost control efforts and our fuel surcharge program. We impose fuel surcharges on substantially all accounts. Although we historically have been able to pass through most long-term increases in fuel prices and operating taxes to customers in the form of surcharges and higher rates, these arrangements generally do not fully protect us from short-term fuel price increases and also may prevent us from receiving the full benefit of any fuel price decreases. Additionally, we are not able to recover fuel surcharge on empty miles, out of route miles, or fuel used in idling.

Liquidity and Capital Resources

The growth of our business requires significant investments in new revenue equipment. Historically, prior to the GTI acquisition, we have been debt-free, funding revenue equipment purchases with cash flow provided by operating activities and sales of equipment. Our primary source of liquidity prior to the GTI acquisition in 2013 was cash flow provided by operating activities. We entered into a line of credit during the fourth quarter of 2013, described below, to partially finance the GTI acquisition, including the payoff of debt we assumed. Our primary source of liquidity during 2014 remains cash flow generated from operating activities, although we maintain our line of credit to provide assistance with additional cash requirements to fund capital expenditures. During 2014, we were able to fund revenue equipment purchases with cash flows provided by operating activities and sales of equipment as well as reduce the outstanding balance on our line of credit to $24.6 million at year end. In January 2015, we fully repaid borrowings on our line of credit and currently have no outstanding borrowings.

On November 11, 2013, we entered into a Credit Agreement with Wells Fargo Bank, National Association, (the “Bank”). Pursuant to the Credit Agreement, the Bank provided a five-year, $250.0 million unsecured revolving line of credit, which was used to assist in the repayment of all debt acquired at the time of the GTI acquisition, and which may be used for future working capital, equipment financing, and general corporate purposes. The Bank's commitment decreased to $225.0 million on November 1, 2014 and will further decrease to $200.0 million on November 1, 2015, and to $175.0 million on November 1, 2016 through October 31, 2018.

The Credit Agreement is unsecured, with a negative pledge against all assets of our consolidated group, except for debt associated with permitted acquisitions, new purchase-money debt and capital lease obligations as described in the Credit Agreement. The Credit Agreement matures on October 31, 2018, subject to the ability of Heartland Express, Inc. of Iowa (the “Borrower”) to terminate the commitment at any time at no additional cost to the Borrower. Borrowings under the Credit Agreement can either be, at the Borrower's election, (i) one-month or three-month LIBOR (Index) plus 0.625%, floating, or (ii) Prime (Index) plus 0%, floating. The weighted average variable annual percentage rate for amounts borrowed and outstanding at December 31, 2014 was 0.787%. There is a commitment fee on the unused portion of the line of credit under the Credit Agreement at 0.0625%, due quarterly.

The Credit Agreement contains customary financial covenants including, but not limited to, (i) a maximum adjusted leverage ratio of 2:1, measured quarterly, (ii) required minimum net income of $1.00, measured quarterly, (iii) required minimum tangible net worth of $200 million, measured quarterly, and (iv) limitations on other indebtedness and liens. The Credit Agreement also includes customary events of default, conditions, representations and warranties, and indemnification provisions. We were in compliance with the respective financial covenants at December 31, 2014.

Operating cash flow for 2014 was $172.5 million compared to $111.2 million during the same period of 2013. This was primarily a result of net income (excluding non-cash depreciation, changes in deferred taxes, stock-based compensation, loss on sale of investments and gains on disposal of equipment) being approximately $82.5 million higher during 2014 compared to 2013, offset by a decrease in cash flow generated by operating assets and liabilities of approximately $21.3 million. The net decrease in cash provided by operating assets and liabilities was mainly attributable to a decrease in accounts payable and other accrued expenses, primarily due to timing of revenue equipment payments. Additionally, decreases in self-insurance reserves and an increase in our income tax receivable position at the end of 2014 had an unfavorable impact on operating cash flows. Cash flows from operating activities during 2013 was $111.2 million compared to $102.2 million during the same period of 2012. This was primarily a result of net income (excluding non-cash depreciation, changes in deferred taxes, stock-based compensation, loss on sale of investments and gains on disposal of equipment) being approximately $17.7 million higher during 2013 compared to 2012 offset by a decrease in cash flow generated by operating assets and liabilities of approximately $8.7 million. Cash flow from operating activities was 19.8% of operating revenues for the year ended December 31, 2014, compared to 19.1% and 18.7%, respectively, for the same periods of 2013 and 2012.

Cash flows used in investing activities was $115.5 million during 2014, a decrease in cash used of $18.0 million compared to cash flows used in investing activities of $133.5 million during 2013. The decrease in cash used in investing activities was mainly the result of a $107.9 million decrease in amounts paid for acquisition activity, offset by increases in net capital expenditures (cash used in equipment purchases less cash provided from equipment sales) of $70.8 million and a decrease in calls of investments in auction rate security investments of $21.1 million compared to 2013. Cash flows used in investing activities was $133.5 million during 2013 compared to cash flows used in investing activities of $6.0 million during 2012 or an increase in cash used of $127.5 million. The increase in cash used in investing activities was mainly the result of the acquisition of GTI using $110.9 million and an increase in net capital expenditures (cash used in equipment purchases less cash provided from equipment sales) of $5.3 million. These increases in cash used for the GTI acquisition and net capital expenditures was offset by a decrease in calls of investments in auction rate security investments of $11.3 million to $21.1 million compared to 2012. We currently anticipate net capital expenditures to be approximately $107 million to $117 million for 2015, most of which relates to upgrading our tractor and trailer fleet throughout 2015. Although, we expect to sell trailers during 2015 to partially offset the price of new trailers, there are no guaranteed commitments from third parties to buy trailers during 2015, and therefore these estimated trailer proceeds have not been used to reduce our estimated net capital expenditures for 2015.

Cash flows used in financing activities decreased $22.4 million in 2014 compared to 2013. During 2014, we had borrowings of $19.1 million and repayments of $69.5 million, resulting in net repayments of $50.4 million on the Credit Agreement during 2014 compared to $75.0 million net borrowings of debt mainly used to refinance acquired debt during 2013. In addition, we declared and paid $7.0 million of dividends to our shareholders in 2014 compared to $6.9 million in 2013. Cash flows used in financing activities decreased $36.3 million in 2013 compared to 2012. During 2012 the Company paid a special dividend of $85.0 million, had no borrowings, and paid $24.2 million for repurchase of our common stock.

In 2001, our Board of Directors authorized a program to repurchase 15.4 million shares, adjusted for stock splits, of our common stock in open market or negotiated transactions using available cash, cash equivalents and investments which was subsequently amended in February 2012 to increase the remaining number of authorized shares for repurchase to 5 million. Approximately 3.2 million shares remained authorized for repurchase under the program as of December 31, 2014 and the program has no expiration date. There were no shares repurchased in the open market during the years ended December 31, 2014 and 2013 and 1.8 million shares repurchased during 2012. Shares repurchased during 2012 were accounted for as treasury stock. Shares purchased under the program prior to 2012 were retired. Repurchases will continue from time to time, as conditions permit, until the number of shares authorized to be repurchased have been bought, or until the authorization to repurchase is terminated, whichever occurs first. The share repurchase authorization is discretionary and has no expiration date. The repurchase program may be suspended, modified, or discontinued at any time without prior notice.

We paid income taxes, net of refunds, of $23.7 million in 2014, which was $14.4 million lower than income taxes paid during 2013 of $38.1 million and lower than the $42.8 million paid in 2012. The decrease was mainly due to a decrease in taxable income driven by higher tax depreciation on revenue equipment purchases. The higher tax depreciation resulted from a 50% bonus depreciation for tax purposes on new tractor and trailer equipment purchases and accelerated tax methods on the remaining depreciable basis after the effects of bonus depreciation. Taxable income was further reduced by higher tax depreciation on revalued assets and amortization expense related to intangible assets resulting from the GTI acquisition.

Management believes we have adequate liquidity to meet our current and projected needs in the foreseeable future. Management believes we will continue to have significant capital requirements over the long-term, which we expect to fund with cash flows provided by operating activities, proceeds from the sale of used equipment and available capacity on the Credit Agreement. At December 31, 2014, we had $17.3 million in cash and cash equivalents, outstanding debt of $24.6 million, and $196.0 million, available borrowing capacity on the Credit Agreement.

Off-Balance Sheet Transactions

The Company's liquidity and financial condition is not materially affected by off-balance sheet transactions. In conjunction with the GTI acquisition, we became party to certain operating leases to finance a portion of our revenue equipment and terminal facilities. Operating lease expense during 2014 was $12.5 million compared to $2.0 million in 2013. The future operating lease obligations are detailed in the Contractual Obligations and Commercial Commitments table below.

Contractual Obligations and Commercial Commitments

The following sets forth our contractual obligations and commercial commitments at December 31, 2014.

	Payments due by period (in millions)				
Contractual Obligations	Total	Less than 1 year	1–3 years	3–5 years	More than 5 years
Purchase obligation (1)	$85.9	$85.9	$—	$—	$—
Long-term debt (2)	24.6	—	—	24.6	—
Operating lease obligations	19.6	7.1	9.1	3.4	—
Obligations for unrecognized tax benefits (3)	18.3	—	—	—	18.3
	$148.4	$93.0	$9.1	$28.0	$18.3

(1) Relates mainly to our commitment on revenue equipment purchases, net of estimated sale values of tractor equipment where we have contracted values for used equipment.

(2) As of January 31, 2015, we had repaid the $24.6 million outstanding long-term debt.

(3) Obligations for unrecognized tax benefits represent potential liabilities and include interest and penalties of $5.7 million. We are unable to reasonably determine when these amounts will be settled.

At December 31, 2014, we had a total of $12.6 million in gross unrecognized tax benefits. Of this amount, $8.0 million represents the amount of unrecognized tax benefits that, if recognized, would impact our effective tax rate as of December 31, 2014. The total net amount of accrued interest and penalties for such unrecognized tax benefits was $5.7 million at December 31, 2014, and is included in income taxes payable per the consolidated balance sheet. 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. These unrecognized tax benefits relate to risks associated with state income tax filing positions for our corporate subsidiaries. A reconciliation of the obligations for unrecognized tax benefits is as follows:

	December 31, 2014 (in thousands)
Gross unrecognized tax benefits	$12,632
Accrued penalties and interest associated with the unrecognized tax benefits (net of benefit of interest deduction)	5,664
Obligations for unrecognized tax benefits	$18,296

A number of years may elapse before an uncertain tax position is audited and ultimately settled. It is difficult to predict the ultimate outcome or the timing of resolution for uncertain tax positions. It is reasonably possible that the amount of unrecognized tax benefits could significantly increase or decrease within the next twelve months. These changes could result from the expiration of the statute of limitations, examinations or other unforeseen circumstances. We do not have any outstanding litigation related to tax matters. At this time, management's best estimate of the reasonably possible change in the amount of gross unrecognized tax benefits to be a decrease of approximately $0.7 million to an decrease of $1.7 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 2011 and forward. Tax years 2004 and forward may be subject to audit by state tax authorities depending on the tax code and administrative practice of each state.

As of December 31, 2014, we did not have any capital lease obligations.

Critical Accounting Policies

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Management routinely makes judgments and estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the probable future resolution of the uncertainties increase, these judgments become even more subjective and complex. We have identified certain accounting policies, described below, that are the most important to the portrayal of our current financial condition and results of operations.

The most significant accounting policies and estimates that affect the financial statements include the following:

Revenue and cost recognition

Revenue is generally recognized when freight is delivered. Revenue is estimated for multiple-stop loads based on the number of miles run prior to the end of the accounting period. Revenue associated with loads delivered but not billed as of the end of an accounting period are estimated as part of revenue for that period. Revenue associated with freight brokerage services is recognized on a gross basis and as freight is delivered, as the Company is the primary obligor, although revenues are not material to the Company's consolidated operations. Driver wages and other direct operating expenses are recognized when freight is delivered and are estimated for multiple-stop loads at the end of an accounting period.

Property, plant, and equipment

Management estimates the useful lives of revenue equipment based on estimated use of the asset. For tractors, it has been our historical practice to buy new tractor and trailer equipment directly from manufacturers. Tractors and trailers are depreciated using the 125% declining balance method and straight-line method, respectively, as management believes this is the best matching of depreciation expense with the decline in estimated tractor and trailer values based on the use of the tractor and trailers. Depreciable lives of tractors and trailers are 5 and 7 years, respectively, when purchased new. Management estimates the useful lives on tractors based on average miles per truck per year as well as manufacturer warranty periods. We have not historically run tractors outside of manufacturer warranty periods. Management estimates the useful lives of trailers based on manufacturer warranty periods as well as our internal maintenance programs. Estimates of salvage value are based upon the expected market values of equipment at the end of the expected useful life. A key component to expected market values of equipment is our historical maintenance programs which in management's opinion are critical to the resale value of equipment. Management selects depreciation methods that it believes most accurately reflects the timing of benefit received from the applicable assets.

Management estimated the remaining useful lives of revenue equipment and other assets acquired from GTI during 2013 based on the original purchase date, estimated life of the asset, the estimated remaining life of the asset as of the acquisition date, and estimated holding period of the asset.

We periodically evaluate property and equipment for impairment upon the occurrence of events or changes in circumstances that indicate the carrying amount of assets may not be recoverable. Recoverability of assets to be held and used is evaluated by a comparison of the carrying amount of an asset group to future net undiscounted cash flows expected to be generated by the group. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount over which the carrying amount of the assets exceeds the fair value of the assets. There were no impairment charges recognized during the years ended December 31, 2014, 2013, and 2012.

Goodwill and other intangibles

We perform an annual impairment test on goodwill. This annual assessment is conducted at the end of September unless events or circumstances indicate that it is more likely than not that impairment has occurred prior to that date or from the assessment date through our year end, December 31st.

We periodically evaluate other intangibles that are amortizable for impairment when the occurrence of events or changes in circumstances that indicate the carrying amount of assets may not be recoverable. Recoverability of assets to be held and used is evaluated by a comparison of the carrying amount of an asset group to future net undiscounted cash flows expected to be generated by the group. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount over which the carrying amount of the assets exceeds the fair value of the assets. There were no impairment charges recognized during the years ended December 31, 2014, 2013, and 2012.

Self-insurance accruals

Management estimates accruals for the self-insured portion of pending accident liability, workers' compensation, physical damage and cargo damage claims. These accruals are based upon individual case estimates, including reserve development, and estimates of incurred-but-not-reported losses based upon past experience. Industry development as well as our historical case results are used to determine development of individual case claims. These liabilities are undiscounted and represent management's best estimate of our ultimate obligations.

Stock-based compensation
Compensation expense is recognized over the underlying service period required for an employee to become vested in a respective restricted stock award. The amount of the associated compensation expense is based on the fair value of the awards on the date of grant and reduced by estimated forfeitures and recognized over the required service period.

Income taxes
Significant management judgment is required to determine the provision for income taxes and to determine whether deferred income taxes will be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. Recent tax law changes have not significantly affected our expectation of tax rates. A valuation allowance is required to be established for the amount of deferred income tax assets that are determined not to be realizable. We have not recorded a valuation allowance against deferred tax assets as it is management's opinion that it is more likely than not we will be able to utilize the remaining deferred tax assets based on our history of profitability and taxable income.

Management judgment is required in the accounting for uncertainty in income taxes recognized in the financial statements based on recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The unrecognized tax benefits relate to risks associated with state income filing positions and not federal income tax filing positions. Measurement of uncertain income tax positions is based on statutes of limitations, penalty rates, and interest rates on a state by state and year by year basis.

New Accounting Pronouncements

In May, 2014, the Financial Accounting Standards Board issued new accounting guidance, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The guidance will replace most existing revenue recognition in GAAP when it becomes effective. The new standard is effective for us on January 1, 2017. Early application is not permitted. The new guidance permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that the new guidance will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

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

Interest Rate Risk

We had $24.6 million of debt outstanding at December 31, 2014. Borrowings under the Credit Agreement can either be, at our election, (i) one-month or three-month LIBOR (Index) plus 0.625%, floating, or (ii) Prime (Index) plus 0%, floating. All outstanding borrowings at December 31, 2014 were under the one-month LIBOR (Index) plus 0.625% option. Increases in interest rates could impact our annual interest expense on future borrowings. Assuming the level of borrowings at December 31, 2014, a hypothetical one-percentage point increase in the LIBOR interest rate would increase our annual expense by $0.2 million, resulting in a decrease in earnings.

Commodity Price Risk

We are subject to commodity price risk primarily with respect to purchases of diesel fuel and rubber. We have fuel surcharge agreements with most customers that enable us to pass through most long-term price increases therefore limiting our exposure to commodity price risk. Fuel surcharges that can be collected do not always fully offset an increase in the cost of diesel fuel as we are not able to pass through fuel costs associated with out-of-route miles, empty miles, and tractor idle time. Based on our actual fuel purchases for 2014, assuming miles driven, fuel surcharges as a percentage of revenue, percentage of unproductive miles, and miles per gallon remained consistent with 2014 amounts, a $1.00 increase in the average price of fuel, year over year, would decrease our earnings by approximately $7.9 million. We use a significant amount of tires to maintain our revenue equipment. We are not able to pass through 100% of price increases from tire suppliers due to the severity and timing of increases and current rate environment. Historically, we have sought to minimize tire price increases through bulk tire purchases from our suppliers. Based on our expected tire purchases for 2015, a 10% increase in the price of tires would increase our tire purchase expense by $1.4 million, resulting in a corresponding decrease in earnings.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The report of KPMG LLP, our independent registered public accounting firm, our consolidated financial statements, and the notes thereto, and the financial statement schedule are included beginning on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

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

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

Management's Annual Report on Internal Control Over Financial Reporting – Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f) of the Exchange Act. This is a process designed by, or under the supervision of the principal executive and principal financial officers and effected by the board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

- prescribe the maintenance of records that in reasonable detail accurately and fairly reflect our transactions;
- provide reasonable assurance that transactions are recorded as necessary for preparation of our financial statements;
- provide reasonable assurance that receipts and expenditures of company assets are made in accordance with management authorization; and
- provide reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control– Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as of December 31, 2014. Based on our evaluation under the framework in Internal Control– Integrated Framework (1992), our management concluded that our internal control over financial reporting was effective as of December 31, 2014.

Our auditor, KPMG LLP, an independent registered public accounting firm, has issued their audit report on the effectiveness of our internal control over financial reporting, which is included in this Annual Report beginning on page F-1.

Changes in Internal Control Over Financial Reporting – As a result of the Company's acquisition of GTI in the fourth quarter of 2013, the Company has expanded its internal controls over financial reporting to include GTI. These controls have been incorporated into the Company's Section 404 assessment for 2014. There were no other changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information required by Item 10 of Part III, with the exception of the Code of Ethics discussed below, is incorporated herein by reference to our Proxy Statement for the annual shareholders' meeting to be held on May 14, 2015 (the "Proxy Statement").

Code of Ethics

We have adopted a code of ethics known as the "Code of Business Conduct and Ethics" that applies to our employees including the principal executive officer, principal financial officer, and controller. In addition, we have adopted a code of ethics known as "Code of Ethics for Senior Financial Officers." We make these codes available on its website at www.heartlandexpress.com (and in print to any shareholder who requests them). Information on our website is not incorporated by reference into this Annual Report.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 of Part III is incorporated herein by reference to our Proxy Statement and is included within the Proxy Statement under the heading Compensation Discussion and Analysis.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT, AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 of Part III is incorporated herein by reference to the Proxy Statement and is included within the Proxy Statement under the heading Security Ownership of Principal Stockholders and Management.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 of Part III is incorporated herein by reference to the Proxy Statement and is included within the Proxy Statement under the headings Certain Relationships and Related Transactions and Corporate Governance and Board of Directors.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 of Part III is incorporated herein by reference to the Proxy Statement and is included within the Proxy Statement under the heading Relationship with Independent Registered Public Accounting Firm.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements and Schedules.

2. Financial Statements Schedule

Schedules not listed have been omitted because they are not applicable or are not required or the information required to be set forth therein is included in the Consolidated Financial Statements or Notes thereto.

3. Exhibits–The exhibits required by Item 601 of Regulation S-K are listed at paragraph (b) below.

(b) Exhibits. The following exhibits are filed with this form 10-K or incorporated herein by reference to the document set forth next to the exhibit listed below:

EXHIBIT INDEX

2.1	Stock Purchase Agreement, dated November 11, 2013, by and among Gordon Trucking, Inc., the Stockholders of Gordon Trucking, Inc., Heartland Express, Inc. of Iowa, Heartland Express, Inc. in its capacity as guarantor and Larry Gordon, in his capacity as Sellers' Representative. Incorporated by reference to Exhibit 2.1 to the Company's Form 10-K, for the year ended December 31, 2013. Commission file no. 0-15087.
3.1	Articles of Incorporation. Incorporated by reference to the Company's registration statement on Form S-1, Registration No. 33-8165, effective November 5, 1986.
3.2	Amended and Restated Bylaws. Incorporated by reference to Exhibit 3.2 to the Company's Form 10-K, for the year ended December 31, 2007, dated February 28, 2008.
3.3	Certificate of Amendment to Articles of Incorporation. Incorporated by reference to Exhibit 3.3 to the Company's Form 10-QA, for the quarter ended June 30, 1997, dated March 20, 1998.
4.1	Articles of Incorporation. Incorporated by reference to the Company's registration statement on Form S-1, Registration No. 33-8165, effective November 5, 1986.
4.2	Amended and Restated Bylaws. Incorporated by reference to Exhibit 3.2 to the Company's Form 10-K, for the year ended December 31, 2007, dated February 28, 2008.
4.3	Certificate of Amendment to Articles of Incorporation. Incorporated by reference to Exhibit 3.3 to the Company's Form 10-QA, for the quarter ended June 30, 1997, dated March 20, 1998.
9.1	Voting Trust Agreement dated June 6, 1997 between Larry Crouse, as trustee under the Gerdin Educational Trusts, and Lawrence D. Crouse, voting trustee. Incorporated by reference to Exhibit 9.1 to the Company’s Form 10-K for the year ended December 31, 1997. Commission file no. 0-15087.
10.1*	Heartland Express, Inc. 2011 Restricted Stock Award Plan. Incorporated by reference to Appendix A to the Company’s Schedule 14-A filed June 13, 2011. Commission file no. 0-15087.
10.2*	Nonqualified Deferred Compensation Plan. Incorporated by reference to Exhibit 10.3 to the Company’s Form 10-K for the year ended December 31, 2006. Commission file no. 0-15087.
10.3*	Form Award Notice under the 2011 Restricted Stock Award Plan. Incorporated by reference to Exhibit 10.3 to the Company's Form 10-K for the year ended December 31, 2011. Commission file no. 0-15087.
10.4	Credit Agreement, dated November 11, 2013, by and between Wells Fargo Bank, National Association and Heartland Express, Inc. of Iowa, Heartland Express, Inc., A&M Express Express, Inc., Heartland Express, Maintenance Services, Inc., Heartland Express Services, Inc., and Gordon Trucking Inc. Incorporated by reference to Exhibit 10.4 to the Company’s Form 10-K for the year ended December 31, 2013. Commission file no. 0-15087.
21	Subsidiaries of the Registrant. Filed herewith.
31.1**	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
31.2**	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
32.1**	Certification of Principal Executive Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of the Principal Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS***	XBRL Instance Document.

101.SCH***	XBRL Taxonomy Extension Schema Document
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF***	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB***	XBRL Taxonomy Extension Label Linkbase Document
101.PRE***	XBRL Taxonomy Extension Presentation Linkbase Document

* Management contract or compensatory plan or arrangement.

** Filed with the Company's Annual Report on Form 10-K for the period ended December 31, 2014, filed with the Securities and Exchange Commission on March 2, 2015.

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

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

SIGNATURES

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

HEARTLAND EXPRESS, INC.

Date: February 27, 2015

By: /s/ Michael J. Gerdin
Michael J. Gerdin
Chairman, President, and Chief Executive Officer
(Principal Executive Officer)

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

Pursuant to the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Michael J. Gerdin Michael J. Gerdin	Chairman, President, Chief Executive Officer and Director (Principal Executive Officer)	February 27, 2015
/s/ John P. Cosaert John P. Cosaert	Executive Vice President of Finance, Treasurer and Chief Financial Officer (Principal Accounting and Financial Officer)	February 27, 2015
/s/ Benjamin J. Allen Benjamin J. Allen	Director	February 27, 2015
/s/ Lawrence D. Crouse Lawrence D. Crouse	Director	February 27, 2015
/s/ James G. Pratt James G. Pratt	Director	February 27, 2015
/s/ Tahira K. Hira Tahira K. Hira	Director	February 27, 2015
/s/ Larry J. Gordon Larry J. Gordon	Director	February 27, 2015

38

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Heartland Express, Inc.:

We have audited the accompanying consolidated balance sheets of Heartland Express, Inc. and subsidiaries (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014. In connection with our audits of the consolidated financial statements, we also have audited the related financial statement schedule II. We also have audited the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting included in Item 9A. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Heartland Express, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ KPMG LLP

Des Moines, Iowa
February 27, 2015

F- 1

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

ASSETS	December 31, 2014	December 31, 2013
CURRENT ASSETS		
Cash and cash equivalents	$17,303	$17,763
Trade receivables, net	77,034	84,400
Prepaid tires	10,160	6,999
Prepaid shop supplies	2,056	4,194
Other current assets	8,992	11,061
Income tax receivable	19,920	5,706
Deferred income taxes, net	14,767	14,177
Total current assets	150,232	144,300
PROPERTY AND EQUIPMENT		
Land and land improvements	22,463	17,069
Buildings	34,151	27,347
Leasehold improvements	8,033	16,134
Furniture and fixtures	2,096	1,829
Shop and service equipment	10,820	10,604
Revenue equipment	600,335	549,415
Construction in progress	668	466
	678,566	622,864
Less accumulated depreciation	198,007	173,605
Property and equipment, net	480,559	449,259
GOODWILL	100,212	98,686
OTHER INTANGIBLES, NET	16,380	18,746
OTHER ASSETS	12,611	13,850
	$759,994	$724,841
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$8,261	$26,912
Compensation and benefits	26,303	28,084
Insurance accruals	19,249	20,945
Other accruals	14,475	12,627
Total current liabilities	68,288	88,568
LONG-TERM LIABILITIES		
Income taxes payable	18,296	20,089
Long-term debt	24,600	75,000
Deferred income taxes, net	101,605	61,948
Insurance accruals less current portion	59,300	67,965
Other long-term liabilities	11,318	13,618
Total long-term liabilities	215,119	238,620
COMMITMENTS AND CONTINGENCIES (Note 13)		
STOCKHOLDERS' EQUITY		
Preferred stock, par value $.01; authorized 5,000 shares; none issued	—	—
	907	907

Capital stock, common, $.01 par value; authorized 395,000 shares; issued 90,689 in 2014 and 2013; outstanding 87,781 and 87,705 in 2014 and 2013, respectively		
Additional paid-in capital	4,058	5,897
Retained earnings	509,834	432,034
Treasury stock, at cost; 2,908 and 2,984 shares in 2014 and 2013, respectively	(38,212)	(41,185)
	476,587	397,653
	$759,994	$724,841

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)

	Year Ended December 31,		
	2014	2013	2012
OPERATING REVENUE	$871,355	$582,257	$545,745
OPERATING EXPENSES			
Salaries, wages and benefits	278,126	178,736	167,073
Rent and purchased transportation	51,950	12,808	6,273
Fuel	219,261	172,315	168,981
Operations and maintenance	39,052	22,345	25,282
Operating taxes and licenses	20,370	10,516	8,694
Insurance and claims	17,946	14,888	14,906
Communications and utilities	6,494	3,552	2,953
Depreciation and amortization	108,566	68,908	57,158
Other operating expenses	31,266	19,157	14,633
Gain on disposal of property and equipment	(33,544)	(33,270)	(15,109)
	739,487	469,955	450,844
Operating income	131,868	112,302	94,901
Interest income	195	462	674
Interest expense	(446)	(208)	—
Income before income taxes	131,617	112,556	95,575
Federal and state income taxes	46,783	41,974	34,034
Net income	$84,834	$70,582	$61,541
Other comprehensive income, net of tax	—	1,284	1,797
Comprehensive income	$84,834	$71,866	$63,338
Net income per share			
Basic	$0.97	$0.83	$0.72
Diluted	$0.96	$0.83	$0.71
Weighted average shares outstanding			
Basic	87,748	85,209	85,892
Diluted	87,923	85,441	86,201
Dividends declared per share	$0.08	$0.08	$1.08

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

F- 3

HEARTLAND EXPRESS, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except per share amounts)

	Capital Stock, Common	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2012	$907	$589	$398,706	$(56,350)	$(3,081)	$340,771
Net income	—	—	61,541	—	—	61,541
Other comprehensive income, net of tax	—	—	—	—	1,797	1,797
Dividends on common stock, $1.08 per share	—	—	(91,934)	—	—	(91,934)
Repurchases of common stock	—	—	—	(24,190)	—	(24,190)
Stock-based compensation	—	2,379	—	—	—	2,379
Balance, December 31, 2012	907	2,968	368,313	(80,540)	(1,284)	290,364
Net income	—	—	70,582	—	—	70,582
Other comprehensive income, net of tax	—	—	—	—	1,284	1,284
Dividends on common stock, $0.08 per share	—	—	(6,861)	—	—	(6,861)
Issuance of common stock	—	1,745	—	39,355	—	41,100
Stock-based compensation	—	1,184	—	—	—	1,184
Balance, December 31, 2013	907	5,897	432,034	(41,185)	—	397,653
Net income	—	—	84,834	—	—	84,834
Dividends on common stock, $0.08 per share	—	—	(7,034)	—	—	(7,034)
Stock-based compensation	—	(1,839)	—	2,973	—	1,134
Balance, December 31, 2014	$907	$4,058	$509,834	$(38,212)	$—	$476,587

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

F- 4

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

	Year Ended December 31,		
OPERATING ACTIVITIES	2014	2013	2012
Net income	$84,834	$70,582	$61,541
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	109,629	69,649	57,821
Deferred income taxes	39,067	10,262	(5,751)
Loss on sale of investments	—	200	—
Amortization of stock-based compensation	1,134	1,184	2,379
Gain on disposal of property and equipment	(33,544)	(33,270)	(15,109)
Changes in certain working capital items (net of acquisition):			
Trade receivables	7,366	7,834	(2,357)
Prepaid expenses and other current assets	(1,009)	904	5,688
Accounts payable, accrued liabilities, and accrued expenses	(19,017)	(9,722)	953
Accrued income taxes	(16,007)	(6,388)	(2,992)
Net cash provided by operating activities	172,453	111,235	102,173
INVESTING ACTIVITIES			
Proceeds from sale of property and equipment	91,266	92,313	29,184
Purchases of property and equipment, net of trades	(204,973)	(135,195)	(66,811)
Maturity, calls and sales of investments	—	21,100	32,350
Acquisition of business, net of cash acquired	(3,011)	(110,900)	—
Change in other assets	1,239	(825)	(704)
Net cash used in investing activities	(115,479)	(133,507)	(5,981)
FINANCING ACTIVITIES			
Cash dividends paid	(7,034)	(6,861)	(91,934)
Borrowings on line of credit	19,100	75,000	—
Repayments on line of credit	(69,500)	—	—
Repayments on debt assumed	—	(147,942)	—
Repurchases of common stock	—	—	(24,190)
Net cash used in financing activities	(57,434)	(79,803)	(116,124)
Net (decrease) increase in cash and cash equivalents	(460)	(102,075)	(19,932)
CASH AND CASH EQUIVALENTS			
Beginning of period	17,763	119,838	139,770
End of period	$17,303	$17,763	$119,838
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Interest paid	$484	$4	$—
Cash paid during the period for income taxes, net of refunds	$23,723	$38,101	$42,776
Noncash investing and financing activities:			
Fair value of revenue equipment traded	$3,393	$2,138	$—
Purchased property and equipment in accounts payable	$230	$11,191	$698
Issuance of common stock in acquisition of business	$—	$41,100	$—

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

F- 5

HEARTLAND EXPRESS, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Nature of Business

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

Principles of Consolidation

The accompanying consolidated financial statements include the parent company, Heartland Express, Inc., and its subsidiaries, all of which are wholly owned. All material intercompany items and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (“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.

Segment Information

We provide multiple transportation services across the United States (U.S.) and parts of Canada. We offer primarily asset-based transportation services in the dry van truckload market and also offer truckload temperature-controlled transportation services and non-asset based brokerage services. None of our transportation services individually meet the definition of a segment. Our Chief Operating Decision Maker oversees and manages all of our transportation services, on a combined basis, including the legacy transportation services of GTI, which was acquired on November 11, 2013. 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.

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 December 31, 2014, restricted and designated cash and investments totaled \$12.6 million, and all of which was included in other non-current assets in the consolidated balance sheets. Restricted and designated cash and investments totaled \$10.6 million at December 31, 2013 and \$0.1 million was included in other current assets and \$10.5 million was included in non-current assets in the consolidated balance sheets. The restricted and designated funds represent deposits required by state agencies for self-insurance purposes and funds that are earmarked for a specific purpose and not for general business use.

Investments

Municipal bonds of $1.4 million and $1.4 million at December 31, 2014 and 2013, respectively, are stated at amortized cost, are classified as held-to-maturity and are included in restricted cash in other non-current assets. Investment income received on held-to-maturity investments is generally exempt from federal income taxes and is accrued as earned.

Trade Receivables and Allowance for Doubtful Accounts

Revenue is recognized when freight is delivered, creating a credit sale and an account receivable. Credit terms for customer accounts are typically on a net 30 day basis. We use a percentage of aged receivable method and our write off history in estimating the allowance for bad debts. We review the adequacy of our allowance for doubtful accounts on a monthly basis. We are aggressive in our collection efforts resulting in a low number of write-offs annually. Conditions that would lead an account to be considered uncollectible include customers filing bankruptcy and the exhaustion of all practical collection efforts. We will use the necessary legal recourse to recover as much of the receivable as is practical under the law. Allowance for doubtful accounts was $1.3 million and $1.0 million at December 31, 2014 and 2013, respectively.

Prepaid Shop Supplies

Prepaid shop supplies consist mainly of parts for revenue equipment and are valued at the lower of average cost or market.

Prepaid Tires, Property, Equipment, and Depreciation

Property and equipment are reported at cost, net of accumulated depreciation. Maintenance and repairs are charged to operations as incurred. Tires are capitalized separately from revenue equipment and are reported separately as “Prepaid tires” in the consolidated balance sheets and amortized over two years. Depreciation expense of $1.1 million and $0.7 million for the years ended December 31, 2014 and 2013, respectively, has been included in communications and utilities in the consolidated statements of comprehensive income. Depreciation for financial statement purposes is computed by the straight-line method for all assets other than tractors. We recognize depreciation expense on tractors at 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.

We changed to 150% declining balance depreciation from the historical 125% declining balance depreciation for tractors in 2009 due to lower used truck values, higher prices for new equipment, and uncertainty surrounding the reliability and resale value of tractors with 2010 emission-compliant engines. Effective July 1, 2013, we changed depreciation for tractors back to the historical 125% declining balance method as a stable used equipment market supported a return to our historical estimate of depreciation on tractor equipment over its expected useful life. Under the declining balance method, depreciation for each tractor is highest in the first year and declines in each year throughout the useful life. Changing to the 125% declining balance method from the 150% declining balance method increased operating income and decreased depreciation expense by $3.3 million ($0.02 per share, net of tax effect) during the year ended December 31, 2014.

Lives of the assets are as follows:

	Years
Land improvements and buildings	5-30
Leasehold improvements	5-25
Furniture and fixtures	3-5
Shop and service equipment	3-10
Revenue equipment	5-7

Impairment of Long-Lived Assets

We periodically evaluate property and equipment and amortizable intangible assets for impairment upon the occurrence of events or changes in circumstances that indicate the carrying amount of assets may not be recoverable. Recoverability of assets to be held and used is evaluated by a comparison of the carrying amount of an asset group to future net undiscounted cash flows expected to be generated by the group. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount over which the carrying amount of the assets exceeds the fair value of the assets. There were no impairment charges recognized during the years ended December 31, 2014, 2013, and 2012.

Fair Value of Financial Instruments

The fair values of cash and cash equivalents, trade receivables, held-to-maturity investments and accounts payable, which are recorded at cost, approximate fair value based on the short-term nature and high credit quality of these financial instruments. The fair value of long-term debt is equal to the carrying amount as all of the debt is variable rate debt at current market rates.

Advertising Costs

We expense all advertising costs as incurred. Advertising costs are included in other operating expenses in the consolidated statements of comprehensive income. Advertising expense was $2.7 million, $0.9 million, and $1.0 million for the years ended December 31, 2014, 2013, and 2012, respectively.

Goodwill

Goodwill is tested at least annually for impairment by applying a fair value based analysis in accordance with the authoritative accounting guidance on goodwill and other intangible assets. Our annual assessment is conducted as of the end of September each year and no indicators requiring assessment were identified during the period from this assessment through year-end. Management determined that no impairment charge was required for the years ended December 31, 2014, 2013, and 2012.

Other Intangibles, Net

Other intangibles, net consists primarily of a tradename, covenants not to compete, customer relationships, and real estate purchase options. 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. See Notes 3 and 4 for additional information regarding intangible assets.

Contingent Consideration

We estimate and record the acquisition date estimated fair value of contingent consideration as part of purchase price consideration for acquisitions. Additionally, each reporting period, we estimate changes in the fair value of contingent consideration, and any change in fair value is recognized in the consolidated statements of comprehensive income. An increase in the earn-out expected to be paid in connection with the GTI acquisition will result in a charge to operations in the year that the anticipated fair value of contingent consideration increases, while a decrease in the earn-out expected to be paid will result in a credit to operations in the year that the anticipated fair value of contingent consideration decreases. The estimate of the fair value of contingent consideration requires subjective assumptions to be made of future operating results, discount rates, and probabilities assigned to various potential operating result scenarios. Future revisions to these assumptions could materially change the estimate of the fair value of contingent consideration and, therefore, materially affect our future financial results.

Insurance Accruals

We are self-insured for auto liability, cargo loss and damage, bodily injury and property damage (BI/PD), and workers' compensation. Insurance accruals reflect the estimated cost of claims, including estimated loss and loss adjustment expenses incurred but not reported, and not covered by insurance. Accident and workers' compensation accruals are based upon individual case estimates, including reserve development, and estimates of incurred-but-not-reported losses based upon our own historical experience and industry claim trends. Insurance accruals are not discounted. The cost of cargo and BI/PD insurance and claims are included in insurance and claims expense, while the costs of workers' compensation insurance and claims are included in salaries, wages, and benefits in the consolidated statements of comprehensive income. Insurance accruals are presented as either current or non-current in the consolidated balance sheets based on our expectation of when payment will occur.

Health insurance accruals reflect the estimated cost of health related claims, including estimated expenses incurred but not reported. The cost of health insurance and claims are included in salaries, wages and benefits in the consolidated statements of comprehensive income. Health insurance accruals of $6.7 million and $6.1 million are included in other accruals in the consolidated balance sheets as of December 31, 2014 and 2013, respectively.

Revenue and Expense Recognition

Revenue is generally recognized when freight is delivered. Revenue is estimated for multiple-stop loads based on the number of miles run prior to the end of the accounting period. Revenue associated with loads delivered but not billed as of the end of an accounting period are estimated as part of revenue for that period. Fuel surcharge revenue charged to customers and freight brokerage services on freight brokered to third party carriers are earned consistent with the timing of freight revenues and included in operating revenue in the consolidated statements of comprehensive income. Fuel surcharge revenues were $170.4 million, $118.4 million, and $112.4 million for the years ended December 31, 2014, 2013, and 2012, respectively, and are included in operating revenue in the consolidated statement of comprehensive income. Revenue associated with freight brokerage services is recognized on a gross basis and as freight is delivered, as the Company is the primary obligor, although revenues are not material to the Company's consolidated operations. Driver wages and other direct operating expenses are recognized when freight is delivered and are estimated for multiple-stop loads at the end of an accounting period.

Stock-Based Compensation

We have a stock-based compensation plan that provides for the grants of restricted stock awards to our employees. We account for restricted stock awards using the fair value method of accounting for stock-based compensation. Issuances of stock upon vesting of restricted stock are made from treasury stock. Compensation expense for restricted stock grants is recognized over the requisite service period of each award and is included in salaries, wages and benefits in the consolidated statements of comprehensive income. Total compensation of $6.5 million is being amortized over the requisite service period for each separate vesting period as if the award is, in substance, multiple awards.

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 years ended December 31, 2012, 2013 and 2014, we granted shares of common stock to certain of our employees under the Company's 2011 Restricted Stock Award Plan. A reconciliation of the numerator (net income) and denominator (weighted average number of shares outstanding of the basic and diluted earnings per share ("EPS") for 2014, 2013, and 2012 is as follows (in thousands, except per share data):

	2014 Net Income (numerator)	Shares (denominator)	Per Share Amount
Basic EPS	$84,834	87,748	$0.97
Effect of restricted stock	—	175	
Diluted EPS	$84,834	87,923	$0.96

	2013 Net Income (numerator)	Shares (denominator)	Per Share Amount
Basic EPS	$70,582	85,209	$0.83
Effect of restricted stock	—	232	
Diluted EPS	$70,582	85,441	$0.83

	2012 Net Income (numerator)	Shares (denominator)	Per Share Amount
Basic EPS	$61,541	85,892	$0.72
Effect of restricted stock	—	309	
Diluted EPS	$61,541	86,201	$0.71

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 statements 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 the temporary differences reverse. The effect of a change in tax rates on deferred taxes is recognized in the period that the change in enacted. A valuation allowance is recorded to reduce our deferred tax assets to the amount that is more likely than not to be realized.

Pursuant to the authoritative accounting guidance on income taxes, when establishing a valuation allowance, we consider future sources of taxable income such as "future reversals of existing taxable temporary differences and carry-forwards" and "tax planning strategies". In the event we determine that the deferred tax assets will not be realized in the future, the valuation adjustment to the deferred tax assets is charged to earnings or accumulated other comprehensive loss based on the nature of the asset giving rise to the deferred tax asset and the facts and circumstances resulting in that conclusion.

We calculate our current and deferred tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed in subsequent years. Adjustments based on filed returns are recorded when identified.

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.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income refers to revenues, expenses, gains and losses that are not included in net income, but rather are recorded directly in stockholders' equity. For the years ended December 31, 2013 and 2012, comprehensive income consists of net income and unrealized gains on available-for-sale securities. For the year ended December 31, 2014, comprehensive income consisted of net income.

During the years ended December 31, 2013 and 2012, there was $0.0 million, $1.3 million, and $1.8 million, respectively, of income recorded directly in stockholders' equity related entirely to an unrealized gain on available for sale securities due to the reversal of a previously recorded reserve to adjust certain investments to estimated fair value based on calls of investments at par.

Note 2. Concentrations of Credit Risk and Major Customers

Our major customers represent primarily the consumer goods, appliances, food products and automotive industries. Credit is granted to customers on an unsecured basis. Our five largest customers accounted for approximately 32%, 32%, and 39% of operating revenues for the years ended December 31, 2014, 2013 and 2012, respectively. Our five largest customers accounted for approximately 28% and 20% of gross accounts receivable as of December 31, 2014 and 2013, respectively.

There was no single customer that accounted for more than 10% of operating revenues for the year ended December 31, 2014 and 2013. During the year ended December 31, 2012, one customer exceeded 10% of operating revenues.

Note 3. Acquisition of Gordon Trucking, Inc.

On November 11, 2013, Heartland Express, Inc. of Iowa (the "Buyer"), our wholly owned subsidiary, entered into a Stock Purchase Agreement, dated November 11, 2013 (the "Stock Purchase Agreement"), with GTI, the stockholders of GTI (the "Sellers"), and Mr. Larry Gordon, in his capacity as Sellers' Representative. GTI is a truckload carrier headquartered near Seattle, Washington, offering primarily asset-based transportation services in the dry van truckload market.

Pursuant to the Stock Purchase Agreement, the Buyer purchased 100% of GTI's issued and outstanding common stock (the "Transaction"). The Buyer paid $285.0 million of total consideration, for the issued and outstanding common stock of GTI, which was paid in cash, restricted shares of our common stock, and the assumption of certain indebtedness of GTI. The purchase price was adjusted in the first quarter of 2014 when a post-closing true-up of working capital that was finalized. Up to an additional $20.0 million is payable in an earn-out for performance through 2017 with certain maximum amounts payable each year, as described below. The Stock Purchase Agreement included an election under

Internal Revenue Code Section 338(h)(10). In addition, the Buyer purchased the personal goodwill of Mr. Gordon for $15.0 million pursuant to an Asset Purchase Agreement.

The Stock Purchase Agreement contains customary representations, warranties, covenants, and indemnification provisions. At closing, $24.0 million of the purchase price in the form of our common stock was placed in escrow to secure payment of any post-closing adjustments to the purchase price and to secure the Sellers' indemnification obligations to the Buyer, and $6.0 million of the purchase price in cash was placed in escrow to secure the post-closing working capital adjustment, which was released when the post-closing working capital adjustment was finalized in the first quarter of 2014.

The funds to pay the cash consideration payable to the Sellers and Mr. Gordon were funded out of our available cash at the time of the acquisition. The shares issued as part of the purchase price were issued from treasury shares. In connection with the Transaction, the Buyer, as the borrower, as well as the Company, GTI, and the other members of our consolidated group entered into an unsecured revolving credit facility, initially in the amount of up to $250.0 million (the “Financing”). Proceeds of the Financing were used in part to repay all of GTI's debt assumed in the Transaction. See Note 5 for further details of the Financing.

GTI's results have been included in the consolidated financial statements since the date of acquisition and represented 48.6% of consolidated total assets as of December 31, 2013 and 9.6% of operating revenue for 2013. Acquisition related expenses of $2.2 million are included in the consolidated statement of comprehensive income for the year ended December 31, 2013.

The following unaudited pro forma consolidated results of operations for the years ended December 31, 2013 and 2012 assume that the acquisition of GTI occurred as of January 1, 2012.

	Year ended December 31, 2013	December 31, 2012
	(in thousands)	
Operating revenue	$961,525	$972,340
Net income	90,821	64,769

These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisition had occurred at the beginning of the periods presented or that may be obtained in the future.

The allocation of the purchase price is detailed in the tables below. The goodwill recognized represents expected synergies from combining our operations with those of GTI, as well as other intangible assets that did not meet the criteria for separate recognition. All tax goodwill recognized in the Transaction is deductible for tax purposes over 15 years.

ALLOCATION OF PURCHASE PRICE	(in thousands)	
Cash paid (before netting $20 million cash acquired)		$130,900
Value of common stock issued (2.86 million shares)		41,100
Total fair value of consideration transferred (before netting $20 million cash acquired), excluding debt assumed		172,000
Allocated to:		
Historical book value of GTI's assets and liabilities	$92,125	
Adjustments to recognize assets and liabilities at acquisition-date fair value:		
Property, plant, and equipment	(17,912)	
Other assets	3,450	
Liabilities	(18,576)	
Fair value of tangible net assets acquired		59,087
Identifiable intangibles at acquisition-date fair value		19,042
Excess of consideration transferred over the net amount of assets and liabilities recognized, including $13.6 million attributable to the fair value of a potential earn-out obligation (goodwill)		$93,871

Excess of consideration transferred over the net amount of assets and liabilities recognized, (goodwill), was still subject to final purchase price consideration related to post closing working capital adjustment as of December 31, 2013. The post-closing net working capital amount was finalized in the first quarter of 2014, see Note 4 for further discussion.

The assets and liabilities associated with GTI were recorded at their fair values as of the acquisition date and the amounts are as follows:

	(in thousands)
Cash and cash equivalents	$21,485
Accounts receivable	45,679
Other current assets	14,371
Property and equipment	189,409
Other non-current assets	3,916
Intangible assets	19,042
Goodwill	93,871
Total assets	387,773
Accounts payable and accrued expenses	(29,165)
Insurance accruals	(23,821)
Long-term debt	(147,942)
Other accruals	(14,845)
Total consideration transferred	$172,000

TOTAL PURCHASE PRICE CONSIDERATION	(in thousands)
Cash paid pursuant to Stock Purchase Agreement	$115,900
Cash paid pursuant to an Asset Purchase Agreement	15,000
Cash acquired included in historical book value of GTI assets and liabilities	(20,000)
Net cash paid at closing	$110,900
Common stock issued (par value of $0.01)	$41,100
Debt assumption	148,000
	$300,000

Included in adjustments to recognize assets and liabilities at acquisition-date fair values was a liability of $1.5 million, which was included in accounts payable and accrued liabilities as of December 31, 2013, and which represented a working capital adjustment for additional amounts owed to the Sellers for the amount by which the cash balance actually delivered at closing exceeded the estimated cash balance of $20.0 million to be paid at closing and the amount by which the debt balance actually delivered at closing was less than the estimated debt balance of $148.0 million used in calculating the total purchase price consideration paid at closing.

As part of the Stock Purchase Agreement, we entered into a contingent consideration agreement with certain stockholders of the Sellers. The contingent consideration agreement includes various earn-out targets tied to certain operational metrics of GTI as well as consolidated operational performance over the period of 2014 through 2017. The total potential earn-out is $20.0 million with maximum amounts payable each year as follows:

	(in thousands)
2014	$6,000
2015	6,000
2016-2017	8,000
	$20,000

Per the terms of the Stock Purchase Agreement, the Sellers will be entitled to any unearned earn-out amounts for 2014 and 2015 if the maximum earn-out target is achieved in either the 2016 or 2017 earn-out period, but in no event will the earn-out exceed $20.0 million in the aggregate for all earn-out periods. The contingent liability was estimated as of the acquisition date and has been included in the adjustments to liabilities at acquisition-date fair value recorded. Estimated fair value of this contingent liability as of the acquisition date was calculated using unobservable, Level 3 inputs, due to lack of observable market inputs. The original valuation of the contingent liability was generated by third party valuation personnel using a Monte Carlo, assuming Geometric Brownian Motion, simulation model to hypothetically replicate our future performance, which model was based on techniques that use significant assumptions not observable in the market including our estimated future operating performance, a risk-free rate, volatility rate, and the underlying time period. As such, the fair value of the contingent liability is subject to change based on actual results of GTI and us in future years. We may be required to record an operating expense in a future period

F- 12

for any difference in the recorded liability, at December 31, 2014, and the potential earn-out maximum payment of $20.0 million based on actual results. At December 31, 2014, the Company estimated the potential earn-out of $13.6 million, of which $2.3 million was included in other current liabilities and $11.3 million was included in other long-term liabilities at December 31, 2014. At December 31, 2013, the liability for the potential earn-out was $13.6 million, all of which were included in other long-term liabilities.

Note 4. Intangible Assets and Goodwill

The following tables summarize the intangible assets subject to amortization for the years ended December 31, 2014 and December 31, 2013.

	2014 Amortization period (years)	Gross Amount	Accumulated Amortization	Net intangible assets
		(in thousands)		
Customer relationships	20	$ 7,600	$ 428	$ 7,172
Tradename	6	7,400	1,388	6,012
Covenants not to compete	10	3,100	351	2,749
Real estate options	2.2	942	495	447
		$ 19,042	$ 2,662	$ 16,380

	2013 Amortization period (years)	Gross Amount	Accumulated Amortization	Net intangible assets
		(in thousands)		
Customer relationships	20	$ 7,600	$ 48	$ 7,552
Tradename	6	7,400	154	7,246
Covenants not to compete	10	3,100	39	3,061
Real estate options	2.2	942	55	887
		$ 19,042	$ 296	$ 18,746

Amortization expense associated with identifiable intangible assets at acquisition-date fair values from the date of acquisition to December 31, 2013 and for the twelve months ended December 31, 2014 was $0.3 million and $2.4 million, respectively, and was included in depreciation and amortization in the consolidated statements of comprehensive income. Future amortization expense for intangible assets is estimated at $2.4 million the year ending December, 31, 2015, $1.9 million for 2016, $1.9 million for 2017, $1.9 million for 2018, and $1.8 million for 2019.

Changes in carrying amount of goodwill were as follows:

	(in thousands)
Balance at January 1, 2013	4,815
Acquisitions	93,871
Balance at December 31, 2013	98,686
Acquisition adjustments	1,526
Balance at December 31, 2014	100,212

Included in the carrying amount of goodwill at December 31, 2013 was $1.5 million, which was included in accounts payable and accrued liabilities as of December 31, 2013, representing a working capital adjustment for additional amounts owed to the sellers of GTI for the amount by which the cash balance actually delivered at closing exceeded the estimated cash balance of $20.0 million to be paid at closing on November 11, 2013. The final consideration transferred over the net amount of assets and liabilities

recognized on November 11, 2013 (goodwill) was still subject to post closing working capital adjustments at December 31, 2013. The working capital adjustments were finalized in March 2014 resulting in an additional payment of $3.0 million, which included the$1.5 million liability recorded at December 31, 2013.
Goodwill and identifiable intangible assets are tested at least annually for impairment by applying a fair value based analysis in accordance with the authoritative accounting guidance on goodwill and other intangible assets. We perform an annual impairment test as of the end of September each year or any other time when indicators requiring further assessment are identified. There were no indicators requiring further assessment that were identified during the twelve month period ended December 31, 2014 and our 2014 annual impairment test resulted in no impairment.

Note 5. Long-Term Debt

In November 2013, we entered into a credit agreement (the “Credit Agreement”) by and among Wells Fargo Bank, National Association, (the “Bank”), Heartland Express, Inc. of Iowa as the borrower (the “Borrower”), us, GTI, and the other members of our consolidated group, as Guarantors. Pursuant to the Credit Agreement, the Bank provided a five-year, $250.0 million unsecured revolving line of credit, which was used to finance the Transaction, including the payoff of debt assumed as part of the Transaction. We may also use the line of credit in the future for working capital, equipment financing, and general corporate purposes. The Bank's commitment decreased to $225.0 million on November 1, 2014, and will decrease to $200.0 million on November 1, 2015, and to $175.0 million on November 1, 2016 through October 31, 2018.

The Credit Agreement is unsecured, with a negative pledge against all assets of our consolidated group, except for debt associated with permitted acquisitions, new purchase-money debt and capital lease obligations as described in the Credit Agreement. The Credit Agreement matures on October 31, 2018. The Borrower has the ability to terminate the commitment at any time at no additional cost to the Borrower. Borrowings under the Credit Agreement can either be, at Borrower's election, (i) one-month or three-month LIBOR (Index) plus 0.625%, floating, or (ii) Prime (Index) plus 0.0%, floating. There is a commitment fee on the unused portion of the revolving line of credit at 0.625%, due quarterly.

The Credit Agreement contains customary financial covenants including, but not limited to, (i) a maximum adjusted leverage ratio of 2:1, measured quarterly, (ii) a minimum net income requirement of $1.00, measured quarterly, (iii) a minimum tangible net worth of $200 million requirement, measured quarterly, and (iv) limitations on other indebtedness and liens. The Credit Agreement also includes customary events of default, conditions, representations and warranties, and indemnification provisions. We were in compliance with the financial covenants at December 31, 2014.

Long term debt consisted of the following at December 31 (in thousands):

	December 31, 2014	December 31, 2013
Long-term debt	$24,600	$75,000

The weighted average variable annual percentage rate (“APR”) for amounts borrowed and outstanding at December 31, 2014 and December 31, 2013 was 0.787% and 0.793%, respectively. Borrowing under the line of credit is recorded in “Long-term debt” in the consolidated balance sheets. Outstanding letters of credit associated with the revolving line of credit at December 31, 2014 were $4.4 million compared to $5.5 million at December 31, 2013. As of December 31, 2014, the line of credit available for future borrowing was $196.0 million compared to $169.5 million at December 31, 2013.

Note 6. Accident and Workers’ Compensation Insurance Accruals

We act as a self-insurer for auto liability involving property damage, personal injury, or cargo based on defined insurance retention amounts ranging from $0.5 million to $2.0 million for any individual claim based on the insured party and circumstances of the loss event. Liabilities in excess of these amounts are covered by insurance up to $75.0 million. We retain any liability in excess of $75.0 million. We act as a self-insurer for property damage to our tractors and trailers.

We act as a self-insurer for workers' compensation liability ranging from $0.5 million to $1.0 million for any individual claim based on the insured party and circumstances of the loss event. Liabilities in excess of this amount are covered by insurance. The State of Iowa initially required us to deposit $0.7 million into a trust fund as part of the self-insurance program. Earnings on this account become part of the required deposit and as of December 31, 2014 and December 31, 2013 total deposits in this account were $1.4 million. This deposit is in municipal bonds classified as held-to-maturity and is recorded in other non-current assets on the consolidated balance sheets. The State of Washington required us to deposit $0.7 million into a trust fund as part of the self insurance program. As of December 31, 2014, $0.7 million of deposits was recorded in other non-current assets on the consolidated balance sheets. As of December 31, 2013, $0.6 million of deposits was recorded in other non-current assets and $0.1 million was included in other current assets.

In addition, we have provided insurance carriers with letters of credit totaling approximately $7.5 million in connection with our liability and workers' compensation insurance arrangements and self-insurance requirements of the Federal Motor Carrier Safety Administration. There were no outstanding balances due on any letters of credit at December 31, 2014 or 2013.

Accident and workers' compensation accruals include the estimated settlements, settlement expenses and an estimate for claims incurred but not yet reported for property damage, personal injury and public liability losses from vehicle accidents and cargo losses as well as workers' compensation claims for amounts not covered by insurance. Accident and workers' compensation accruals are based upon individual case estimates, including reserve development, and estimates of incurred-but-not-reported losses based upon our own historical experience and industry claim trends. Since the reported liability is an estimate, the ultimate liability may be more or less than reported. If adjustments to previously established accruals are required, such amounts are included in operating expenses in the current period. These accruals are recorded on an undiscounted basis. Estimated claim payments to be made within one year of the balance sheet date have been classified as insurance accruals within current liabilities as of December 31, 2014 and 2013.

Note 7. Income Taxes

Deferred tax assets and liabilities as of December 31 are as follows:

	2014	2013
	(in thousands)	
Deferred income tax assets:		
Allowance for doubtful accounts	$478	$291
Accrued expenses	8,969	6,980
Stock-based compensation	677	648
Insurance accruals	25,395	26,000
State net operating loss carryforward	3,241	682
Indirect tax benefits of unrecognized tax benefits	4,595	4,846
Other	772	1,207
Total gross deferred tax assets	44,127	40,654
Less valuation allowance	—	—
Net deferred tax assets	44,127	40,654
Deferred income tax liabilities:		
Property and equipment	(125,611)	(85,849)
Goodwill	(2,385)	(1,835)
Prepaid expenses	(2,969)	(741)
	(130,965)	(88,425)
Net deferred tax liability	$(86,838)	$(47,771)

The deferred tax amounts above have been classified in the accompanying consolidated balance sheets at December 31, 2014 and 2013 as follows:

	2014	2013
	(in thousands)	
Current assets, net	$14,767	$14,177
Long-term liabilities, net	(101,605)	(61,948)

	$(86,838)	$(47,771)

We have not recorded a valuation allowance against any deferred tax assets at December 31, 2014 and 2013. In management's opinion, it is more likely than not that we will be able to utilize these deferred tax assets in future periods as a result of our history of profitability, taxable income, and reversal of deferred tax liabilities.

F- 15

Income tax expense consists of the following:

	2014	2013	2012
	(in thousands)		
Current income taxes:			
Federal	$6,860	$30,560	38,148
State	855	1,152	1,636
	7,715	31,712	39,784
Deferred income taxes:			
Federal	36,706	7,192	(5,890)
State	2,362	3,070	140
	39,068	10,262	(5,750)
Total	$46,783	$41,974	$34,034

The income tax provision differs from the amount determined by applying the U.S. federal tax rate as follows:

	2014	2013	2012
	(in thousands)		
Federal tax at statutory rate (35%)	$46,066	$39,395	33,451
State taxes, net of federal benefit	2,737	3,242	1,554
Non-taxable interest income	(7)	(20)	(48)
Uncertain income tax penalties and interest, net	(993)	(766)	(616)
Other	(1,020)	123	(307)
	$46,783	$41,974	$34,034

At December 31, 2014 and December 31, 2013, we had a total of $12.6 million and $13.4 million in gross unrecognized tax benefits, respectively. Of this amount, $8.0 million and $8.6 million represents the amount of unrecognized tax benefits that, if recognized, would impact our effective tax rate as of December 31, 2014 and December 31, 2013, respectively. Unrecognized tax benefits were a net decrease of $0.8 million and $2.3 million during the years ended December 31, 2014 and 2013, respectively, due mainly to the expiration of certain statutes of limitation net of additions and settlements with respective states. This had the effect of reducing the effective state tax rate during these respective periods. The total net amount of accrued interest and penalties for such unrecognized tax benefits was $5.7 million and $6.7 million at December 31, 2014 and December 31, 2013, respectively, and is included in income taxes payable in the consolidated balance sheets. Net interest and penalties included in income tax expense for the years ended December 31, 2014, 2013 and 2012 was a benefit of approximately $1.0 million, $0.7 million, and $0.6 million respectively. 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. Income tax expense was reduced during the years ended December 31, 2014, 2013 and 2012 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:

	2014	2013
	(in thousands)	
Balance at January 1,	$13,432	$15,723
Additions based on tax positions related to current year	983	843
Additions for tax positions of prior years	277	616
Reductions for tax positions of prior years	—	(300)
Reductions due to lapse of applicable statute of limitations	(2,060)	(1,984)
Settlements	—	(1,466)
Balance at December 31,	$12,632	$13,432

A number of years may elapse before an uncertain tax position is audited and ultimately settled. It is difficult to predict the ultimate outcome or the timing of resolution for uncertain tax positions. It is reasonably possible that the amount of unrecognized tax benefits could significantly increase or decrease within the next twelve months. These changes could result from the expiration of the statute of limitations, examinations or other unforeseen circumstances. We do not have any outstanding litigation related to tax matters. At this time, management's best estimate of the reasonably possible change in the amount of gross unrecognized tax benefits is a decrease of approximately $0.7 million to a decrease of $1.7 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 2011 and forward. Tax years 2004 and forward are subject to audit by state tax authorities depending on the tax code and administrative practice of each state.

Note 8. Operating Leases

We have operating leases for certain revenue equipment. A portion of these leases are with a commercial tractor dealership, which is owned by a board member and certain of our employees. Rent expense for these leases was $8.3 million and $1.3 million, (including related-party rental payments totaling $6.8 million and $0.9 million), for the year ended December 31, 2014 and 2013, respectively, and were included in rent and purchased transportation in the consolidated statements of comprehensive income. The various leases expire from 2015 through 2016.

We lease certain terminal facilities under operating leases. A portion of these leases are with limited liability companies, whose members include a board member and certain of our employees and a commercial tractor dealership owned by a board member and certain of our employees. The related-party rental payments were entered into as a result of the Transaction. Rent expense for terminal facilities were $4.2 million and $0.7 million, (including related-party rental payments totaling $3.9 million and $0.6 million), for the years ended December 31, 2014 and 2013, respectively, and was included in rent and purchased transportation in the consolidated statements of comprehensive income. The various leases expire from 2015 through 2018 and contain options to renew. We have purchase options on the majority of these facilities. We exercised our purchase option on the Lathrop, California terminal and finalized this purchase during the second quarter of 2014. We paid $2.8 million to a limited liability company, whose members include a board member and certain of our employees, as a result of this transaction. We have a right of first refusal on the sale of the Pacific, Washington location property by the owners. We are responsible for all taxes, insurance, and utilities related to the terminal leases. See Note 4 for acquisition-date fair value of the "Real estate options".

As of December 31, 2014, we did not have any capital lease obligations. Future minimum lease payments related to the operating leases described above, as of December 31, 2014, are as follows:

	Amounts (in thousands)		
	Related Party	Non-Related Party	Total
2015	$6,580	$507	$7,087

2016	5,010	206	5,216
2017	3,718	135	3,853
2018	3,408	—	3,408
Thereafter	—	—	—
Total	$18,716	$848	$19,564

See Note 12 for additional information regarding related party transactions.

Note 9. Equity

In 2001, our Board of Directors authorized a program to repurchase 15.4 million shares, adjusted for stock splits, of our common stock in open market or negotiated transactions using available cash, cash equivalents and investments which was subsequently amended in February 2012 to increase the remaining number of authorized shares for repurchase to 5 million. Approximately 3.2 million shares remaining authorized for repurchase under the program as of December 31, 2014 and has no expiration date. There were no shares repurchased in the open market during the years ended December 31, 2014 and 2013 and 1.8 million shares repurchased during 2012. Shares repurchased during 2012 were accounted for as treasury stock. Shares purchased under the repurchase program prior to 2012 were retired. The share repurchase authorization is discretionary, and may be suspended or discontinued at any time without prior notice.

During the years ended December 31, 2014, 2013 and 2012 our Board of Directors declared regular quarterly dividends totaling $7.0 million, $6.9 million, and $6.9 million for each year, respectively. We paid a special dividend of $85.0 million during the fourth quarter of 2012. 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. During December 2011, 0.4 million shares were granted to employees and no additional shares were granted during 2012. There were 0.05 million shares granted during 2014 and 0.02 million shares were granted in 2013. The shares granted under the Plan during 2011 are service based awards beginning December 14, 2011 and 20% of the awards vest each June 1st through 2016. The shares issued in 2014 and 2013 are also service based awards and generally vest evenly from the date of grant through the fifth anniversary date of the grant. Once vested, there are no other restrictions on the awards. Compensation expense associated with these awards is based on the market value of our stock on the grant date. Our market closing price on December 14, 2011, grant date, was $13.57 and ranged between $13.86 and $18.18 on the various grant dates for the shares issued in 2013. The Company's market close price ranged between $21.72 and $27.47 on the various grant dates during 2014. 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 $1.1 million, $1.2 million, and $2.4 million for the years ended December 31, 2014, 2013, and 2012 respectively. Unrecognized compensation expense was $1.3 million at December 31, 2014 which will be recognized over a weighted average period of 1.5 years.

The following table summarizes our restricted stock award activity for the years ended December 31, 2014, 2013 and 2012. The vesting date for the majority of awards vested in 2014 was June 1, 2014. The fair value of awards vested during 2014, 2013 and 2012 was $1.1 million, $1.1 million and $1.0 million, respectively.

2014

	Number of Shares of Restricted Stock Awards (in thousands)	Weighted Average Grant Date Fair Value
Unvested at beginning of year	211.5	$13.81
Granted	52.2	25.40
Vested	(75.6)	14.34
Forfeited	(5.0)	13.57
Outstanding (unvested) at end of year	183.1	$16.78

	2013 Number of Shares of Restricted Stock Awards (in thousands)	Weighted Average Grant Date Fair Value
Unvested at beginning of year	276.8	$13.57
Granted	23.0	17.28
Vested	(75.3)	14.04
Forfeited	(13.0)	13.57
Outstanding (unvested) at end of year	211.5	$13.81

	2012 Number of Shares of Restricted Stock Awards (in thousands)	Weighted Average Grant Date Fair Value
Unvested at beginning of year	351.0	$13.57
Granted	—	—
Vested	(70.2)	13.57
Forfeited	(4.0)	13.57
Outstanding (unvested) at end of year	276.8	$13.57

Note 11. Profit Sharing Plan and Retirement Plan

We have retirement savings plans (the "Plans") for substantially all employees who have completed one year of service and are 19 years of age or older. Employees may make 401(k) contributions subject to Internal Revenue Code limitations. The Plans provide for a discretionary profit sharing contribution to non-driver employees and a matching contribution of a discretionary percentage to driver employees (Heartland Plan) and discretionary matching contributions to driver and non-driver employees (GTI Plan). Our profit sharing contributions totaled approximately $2.1 million, $0.4 million, and $0.7 million, for the years ended December 31, 2014, 2013 and 2012, respectively.

Note 12. Related Party

We lease terminal facilities for operations under operating leases from certain limited liability companies, whose members include a board member and certain of our employees, and a commercial tractor dealership owned by a board member and certain of our employees. The terminal facility leases have initial five year terms with options to renew and options to purchase with the exception of the Pacific, Washington location which contains a right of first refusal on any sale of the property.

We purchased tractors from and sold tractors to the commercial tractor dealership noted above. We also have operating leases for certain revenue equipment with the commercial tractor dealership and we also purchased parts and services from the same commercial tractor dealership. We owed this commercial tractor dealership $0.1 million and $1.3 million, which were included in accounts payable and accrued liabilities in the consolidated balance sheet at December 31, 2014 and 2013, for parts and service and tractors delivered but not paid for prior to December 31, 2014 and 2013, respectively. We also provide certain administrative services to this commercial tractor dealership.

The related payments (receipts) with related parties for the period after the close of the Transaction, November 11, 2013 through December 31, 2013 and for the year ended December 31, 2014 were as follows:

	December 31, 2014	November 11, 2013 to December 31, 2013
	(in thousands)	
Payments for tractor purchases	$46,562	$6,884
Receipts for tractor sales	(15,564)	(2,138)
Receipts for trailer sales	(103)	—
Revenue equipment lease payments	6,842	930
Payments for parts and services	5,906	1,058
Terminal lease payments	3,930	572
Terminal lease purchase option payment	2,825	—
Administrative services receipts	(516)	(98)
	$49,882	$7,208

Note 13. 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, at December 31, 2014, was $85.9 million.

Note 14. Quarterly Financial Information (Unaudited)

	First	Second	Third	Fourth
	(In Thousands, Except Per Share Data)			
Year ended December 31, 2014				
Operating revenue	$224,481	$226,785	$217,092	$202,997
Operating income	20,688	40,642	36,290	34,247
Income before income taxes	20,569	40,616	36,214	34,216
Net income	14,079	26,472	22,737	21,544
Net income per share, basic	0.16	0.30	0.26	0.25
Net income per share, diluted	0.16	0.30	0.26	0.25
Year ended December 31, 2013[(1)]				
Operating revenue	$134,273	$133,992	$130,645	$183,348
Operating income	30,207	29,375	26,000	26,720
Income before income taxes	30,330	29,504	26,126	26,596
Net income	19,734	19,138	15,868	15,842
Net income per share, basic	0.23	0.23	0.19	0.18
Net income per share, diluted	0.23	0.23	0.19	0.18

(1) We acquired 100% of the outstanding stock of GTI on November 11, 2013 and therefore our operating results for the fourth quarter of 2013 includes the operating results of GTI for the period of November, 11, 2013 to December 31, 2013.

Note 15. Subsequent Events

We have evaluated events occurring subsequent to December 31, 2014 through the filing date of this Annual Report on Form 10-K for disclosure. As of January 31, 2015, we had no outstanding borrowings on our line of credit. No other events occurred requiring disclosure.

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(In Thousands, Except Per Share Data)

Column A	Column B	Column C		Column D	Column E
Description	Balance At Beginning of Period	Charges To Cost And Expense	Other Accounts (1)	Deductions	Balance At End of Period
Allowance for doubtful accounts:					
Year ended December 31, 2014	$1,028	$466	$—	$232	$1,262
Year ended December 31, 2013	829	(27)	238	12	1,028
Year ended December 31, 2012	791	205	—	167	829

(1) Addition to allowance for doubtful accounts following acquisition of GTI.

See accompanying Report of Independent Registered Public Accounting Firm.

S 1