HEARTLAND EXPRESS INC
Form 10-K
March 01, 2013
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2012

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 0-15087

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

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

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

Securities Registered Pursuant to section 12(b) of the Act: None

Securities Registered Pursuant to section 12(g) of the Act: Common stock, $0.01 par value
The NASDAQ Stock Market LLC

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes [X] No [ ]
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the Act.
Yes [ ] No [X]
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [ X ] No [ ]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [ X ] No [ ]
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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 definitions of “large accelerated filer" "accelerated filer” and "smaller reporting company" in Rule 12b-2 of the Exchange Act:
Large accelerated filer [X]  Accelerated filer [ ]  Non-accelerated filer [ ]  Smaller reporting company [ ]
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ]  No [ X ]
The aggregate market value of voting common stock held by non-affiliates of the registrant as of June 30, 2012 was $655.8 million.  In making this calculation the registrant has assumed, without admitting for any purpose, that all executive officers, directors and no other persons, are affiliates.  As of February 27, 2013 there were 84,769,619 shares of the Company’s common stock ($0.01 par value) outstanding.

Portions of the Proxy Statement for the annual shareholders’ meeting to be held on May 9, 2013 are incorporated by reference in Part III of this report.

HEARTLAND EXPRESS, INC.
AND SUBSIDIARIES

TABLE OF CONTENTS

PART I

ITEM 1. Business

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

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

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

General

Heartland Express, Inc. is a short-to-medium haul truckload carrier with corporate headquarters in North Liberty, Iowa. The Company provides regional dry van truckload services through its regional terminals and its corporate headquarters. The Company transports freight for major shippers and generally earns revenue based on the number of miles per load delivered. The Company’s primary traffic lanes are between customer locations east of the Rocky Mountains. During 2005, the Company expanded to the Western United States with the opening of a terminal in Phoenix, Arizona and complemented this expansion into the Western United States with the purchase of a terminal location near Dallas, Texas during 2008. These western operations accounted for approximately 16% of the Company's business in 2012. The Company believes the keys to maintaining a high level of customer service are the availability of late-model equipment and experienced drivers. Management believes that the Company’s service standards and equipment accessibility have made it a core carrier to many of its major customers.

Heartland was founded by Russell A. Gerdin in 1978 and became publicly traded in November 1986. Over the twenty-six years from 1986 to 2012, Heartland has grown to $545.7 million in revenue from $21.6 million and net income has increased to approximately $62 million from $3 million. Much of this growth has been attributable to expanding service for existing customers, acquiring new customers, and continued expansion of the Company’s operating regions. More information regarding the Company's revenues and profits for the past three years can be found in our "Consolidated Statements of Comprehensive Income" that is included in this report.

In addition to internal growth, Heartland has completed five acquisitions since 1987 with the most recent in 2002. These five acquisitions have enabled Heartland to solidify its position within existing regions, expand into new operating regions, and to pursue new customer relationships in new markets. The Company will continue to evaluate acquisition candidates that meet its financial and operating objectives.

Heartland Express, Inc. is a holding company incorporated in Nevada, which owns all of the stock of Heartland Express Inc. of Iowa, Heartland Express Services, Inc., Heartland Express Maintenance Services, Inc., and A & M Express, Inc. The Company operates as one reportable operating segment (see Note 1 to the consolidated financial statements).

## Operations

Heartland's operations department focuses on the successful execution of customer expectations and providing consistent opportunities for the fleet of employee drivers and independent contractors, in conjunction with maximizing equipment utilization. These objectives require a combined effort of marketing, regional operations managers, and fleet management.

The Company's customer service department is responsible for maintaining the continuity between the customer's needs and Heartland's ability to meet those needs by communicating the customer's expectations to the fleet management group. Collectively, the operations group (customer service and fleet management) and marketing are charged with development of customer relationships, ensuring service standards, coordinating proper freight-to-capacity balancing, trailer asset management, and daily tactical decisions pertaining to matching the customer demand with the appropriate capacity within geographical service areas. They assign orders to drivers based on well-defined criteria, such as driver safety and United States Department of Transportation (the "DOT") compliance, customer needs and service requirements, on-time service, equipment utilization, driver "home time", operational efficiency, and equipment maintenance needs.

Fleet management employees are responsible for driver management and development. Additionally, they maximize the capacity that is available to meet the service needs of the Company's customers. Their responsibilities include meeting the needs of the drivers within the standards that have been set by the organization and communicating the requirements of the customers to the drivers on each order to ensure successful execution.

Serving the short-to-medium haul market (approximately 500 miles average length of haul in 2012 and 2011) permits the Company to use primarily single, rather than team drivers and dispatch most loads directly from origin to destination without an intermediate equipment change other than for driver scheduling purposes. All of the Company's revenue is generated from within the U.S. and the Company does not have any long-lived assets located outside the U.S.

Heartland operates nine specialized regional distribution operations in Atlanta, Georgia; Carlisle, Pennsylvania; Chester, Virginia; Columbus, Ohio; Jacksonville, Florida; Kingsport, Tennessee; Olive Branch, Mississippi; Phoenix, Arizona; and Seagoville, Texas (opened in January 2009) in addition to operations at our corporate headquarters in North Liberty, Iowa. The Company operates maintenance facilities at all regional distribution operating centers including the corporate headquarters along with two shop only locations in O'Fallon, Missouri and Denver, Colorado (opened in November 2012). The Company previously operated a shop only location in Ft. Smith, Arkansas but this facility was closed during 2011 and is currently used as a drop lot/relay location. These short-haul operations concentrate on freight movements generally within a 500-mile radius of the regional terminals and are designed to meet the needs of significant customers in those regions while allowing Company drivers to primarily stay within an operating region which provides them with more home time.

Personnel at the individual regional locations manage these operations, and the Company uses a centralized computer network and regular communication to achieve company-wide load coordination.

The Company emphasizes customer satisfaction through on-time performance, dependable late-model equipment, and consistent equipment availability to meet the volume requirements of its large customers. The Company also maintains a high trailer to tractor ratio, which facilitates the positioning of trailers at customer locations for convenient loading and unloading. This minimizes waiting time, which increases tractor utilization and promotes driver retention.

## Customers and Marketing

The Company targets customers in its operating area with multiple, time-sensitive shipments, including those utilizing "just-in-time" manufacturing and inventory management. In seeking these customers, Heartland has positioned itself as a provider of premium service at compensatory rates, rather than competing solely on the basis of price. Freight transported for the most part is non-perishable and predominantly does not require driver handling. Management believes Heartland's reputation for quality service, reliable equipment, and equipment availability makes it a core carrier for many of its customers. As a testament to the Company's premium service, the Company has received nineteen customer service awards and recognitions including the Quest for Quality Award for dry freight carriers from Logistics Management Magazine for the tenth consecutive year and the BP Lubricants USA safe driving award for the fifth consecutive year. The Company received the U.S. Environmental Protection Agency ("EPA") SmartWay® Excellence Award for 2012. The SmartWay® Award was received for the Company's commitment to environmental excellence which was largely attributable to the Company's efforts to operating quality, highly efficient equipment which has been achieved through the Company's operation of a late-model fleet of tractors and trailers and other Company initiatives that contribute to the Company's energy efficiency. The Company also received Fleet Owner Magazine's 2011 For-Hire Fleet of the Year award.

Heartland seeks to transport freight that will complement traffic in its existing service areas and remain consistent with the Company’s focus on short-to-medium haul and regional distribution markets. Management believes that building lane density in the Company’s primary traffic lanes will minimize empty miles and enhance driver "home time."

The Company’s 25, 10, and 5 largest customers accounted for 75.8%, 54.1%, and 38.9% of gross revenue, respectively, in 2012. The Company’s primary customers include retailers and manufacturers. During 2011 the Company's 25, 10, and 5 largest customers were 74.9%, 51.6%, and 38.0%, of gross revenues respectively. During 2010 the Company's 25, 10, and 5 largest customers were 73.1%, 51.4%, and 37.7%, of gross revenues respectively. One customer exceeded 10% and accounted for 11.1% of gross revenue during 2012, one customer exceeded 10% and accounted for approximately 13.1% of gross revenue in 2011, and one customer exceeded 10% in 2010 and accounted for 12.6% of gross revenue. No other customer accounted for as much as ten percent of revenue in 2012, 2011, or 2010.

Seasonality

The nature of the Company’s primary traffic (appliances, automotive parts, consumer products, paper products, packaged foodstuffs, and retail goods) causes it to be distributed with relative uniformity throughout the year. However, seasonal variations during and after the winter holiday season have historically resulted in reduced shipments by several industries. In addition, the Company’s operating expenses historically have been higher during the winter months due to increased operating costs and higher fuel consumption in colder weather due to idling of tractor equipment.

Drivers, Independent Contractors, and Other Employees

Heartland relies on its workforce in achieving its business objectives. As of December 31, 2012, Heartland employed 2,993 people compared to 2,862 people as of December 31, 2011. The Company also contracted with independent contractors to provide and operate tractors which provides the Company additional capacity. Independent contractors own their own tractors and are responsible for all associated expenses, including financing costs, fuel, maintenance, insurance, and highway use taxes. The Company historically has operated a combined fleet of company and independent contractor tractors. For the year ended December 31, 2012, independent contractors accounted for approximately 1.5% of the Company’s total miles compared to 1.8% in 2011.

Management’s strategy for both employee drivers and independent contractors is to (1) hire only safe and experienced drivers (at least one year of over-the-road experience required); (2) promote retention with an industry leading compensation package, positive working conditions, and targeting freight that requires little or no handling; and (3) minimize safety problems through careful screening, mandatory drug testing, continuous training, electronic logging system, and financial rewards for accident-free driving. Heartland also seeks to minimize turnover of its employee drivers by providing modern, comfortable equipment, and by regularly scheduling them to their homes. All drivers are generally compensated on the basis of miles driven including empty miles. This provides an incentive for the Company to minimize empty miles and at the same time does not penalize drivers for inefficiencies of operations that are beyond their control.

Heartland is not a party to a collective bargaining agreement. Management believes that the Company has good relationships with its employees.

Revenue Equipment

Heartland's management believes that operating high-quality, efficient equipment is an important part of providing excellent service to customers. All tractors are equipped with mobile communication systems. This technology allows for efficient communication with our drivers regarding freight and safety, provides an ability to manage the needs of our customers based on real-time information on load status, as well as a platform to obtain information regarding equipment and driver performance. During 2010 the Company converted the previous driver communication systems platform to a PeopleNet® platform which included electronic on-board recorders. During 2011 this change was completed and the Company's has been operating on a paperless log environment since early 2011. This on-board computing and communications system, including paperless logs, has improved and is expected to continue to improve safety, equipment utilization, and customer service.

Historically the Company has operated a uniform fleet of tractors and trailers in an effort to minimize maintenance costs and to standardize the Company's maintenance program. This has historically included tractors manufactured by Navistar International Corporation and 53' dry van trailers manufactured by Wabash National Corporation and Great Dane Limited Partnership. In late 2012 and into 2013 the Company has introduced Freightliner tractors manufactured by Daimler Trucks North America, LLC. Since 2009, the Company has been converting tractors to more aerodynamic models which include speed management and idle management controls.

Effective October 1, 2002, the EPA implemented engine requirements designed to reduce emissions over a period of time. These requirements have been implemented in multiple phases starting in 2002 and required progressively more restrictive emission requirements in 2007 and 2010. Compliance with the new emission standards has resulted in a significant increase in the cost of new tractors and higher maintenance costs. The Company experienced an approximate 37% increase in tractor costs from the period prior to the first phase of implementation in 2002 to the second phase of implementation in 2007. From the second phase of implementation in 2007 through the third and final phase of the EPA's required changes, the Company has experienced an additional 21% increase in tractor costs. As of December 31, 2012, approximately 51% of the Company's tractor fleet consisted of models with pre 2010 engine technology. The Company currently projects that 89% to 100% of the Company's tractor fleet will be tractors with post 2010 engine technology by December 31, 2013. Equipment prices may continue to increase as new emission standards released by the EPA are implemented.

As of December 31, 2012, 100% of the Company's tractor fleet was 2010 or newer model years. In the fourth quarter of 2012, the Company began a tractor fleet upgrade project that is currently projected to continue throughout the first half of 2013. This project includes International and Freightliner tractors manufactured by Navistar Inc. and Daimler Trucks North America, LLC, respectively. As of December 31, 2012 the average age of our tractor fleet was 2.4 years compared to 1.7 years at December 31, 2011. The Company operates the majority of its tractors while under warranty to minimize repair and maintenance cost and reduce service interruptions caused by breakdowns. The Company has aggressively been upgrading its fleet of trailers over the past three years. The average age of the Company's trailer fleet has been reduced from 5.6 years at December 31, 2009 to 3.1 years, at December 31, 2012. The Company’s preventive maintenance program is designed to minimize equipment downtime, facilitate customer service, and enhance trade value when revenue equipment is replaced. Factors considered when purchasing new equipment include fuel economy, price, technology, warranty terms, manufacturer support, driver comfort, and resale value. Independent contractor tractors are periodically inspected by the Company for compliance with operational and safety requirements of the Company and the DOT.

Fuel

The Company purchases over-the-road fuel through a network of fuel stops throughout the United States at which the Company has negotiated price discounts. In addition, bulk fuel sites are maintained at eleven Company owned locations which includes the nine regional terminal centers, the Company’s corporate headquarters, plus one of the service terminal locations in order to take advantage of volume pricing. The Company strategically manages fuel purchase decisions based on pricing of over-the-road fuel prices, bulk fuel prices, and the routing of equipment. Both above ground and underground storage tanks are utilized at the bulk fuel sites. Exposure to environmental cleanup costs is minimized by periodic inspection and monitoring of the tanks. Increases in fuel prices can have an adverse effect on the results of operations. The Company has fuel surcharge agreements with most customers enabling the pass through of long-term price increases. For the years ended December 31, 2012, 2011, and 2010, fuel expense, net of fuel surcharge revenue and fuel stabilization paid to independent contractor was $58.3 million, $56.2 million, and $53.2 million or 16.4%, 16.1%, and 15.3%, respectively, of the Company’s total operating expenses, net of fuel surcharge revenue and gains on sales of equipment. Fuel consumed by empty and out-of-route miles and by truck engine idling time is not recoverable and therefore any increases or decreases in fuel prices related to empty and out-of-route miles and idling time will directly impact the Company’s operating results.

During 2009 the Company contracted with an unrelated third party to hedge cash flows related to fuel purchases associated with fuel consumption not covered by fuel surcharge agreements. The hedging strategy was implemented mainly to reduce the Company’s exposure to significant upward movements in diesel fuel prices related to fuel consumed by empty and out-of-route miles and truck engine idling time which was not recoverable through fuel surcharge agreements. There were no outstanding hedging contracts for fuel as of or during the years ended December 31, 2012, 2011 or 2010. We may enter into contracts to hedge fuel costs in the future if market conditions warrant.

Competition

The truckload industry is highly competitive and fragmented with thousands of carriers of varying sizes. The Company competes with other truckload carriers; primarily those serving the regional, short-to-medium haul market. Logistics providers, railroads, less-than-truckload carriers, and private fleets provide additional competition but to a lesser extent. The industry is highly competitive based primarily upon freight rates, service, equipment availability, and qualified drivers. As the general economic conditions and credit market conditions deteriorated throughout 2008 which continued throughout 2009 and into early 2010, the industry became extremely competitive based on freight rates mainly due to excess tractor capacity. Shipper demand and industry tractor capacity remained relatively equal throughout 2011 and 2012. The Company believes it competes effectively by providing high-quality service and meeting the equipment needs of targeted shippers. Strong competition within the industry for the hiring of drivers and independent contractors will continue to challenge the Company and others in our industry.

Safety and Risk Management

We are committed to promoting and maintaining a safe operation. Our safety program is designed to minimize accidents and to conduct our business within governmental safety regulations. We communicate safety issues with drivers on a regular basis and emphasize safety through equipment specifications and regularly scheduled maintenance intervals. Our drivers are compensated and recognized for the achievement of a safe driving record.

The primary risks associated with our business include cargo loss and physical damage, personal injury, property damage, and workers' compensation claims. The Company self-insures a portion of the exposure related to all of the aforementioned risks. Insurance coverage, including self-insurance retention levels, is evaluated on an annual basis. The Company actively participates in the settlement of each claim incurred.

The Company self-insures auto liability (personal injury and property damage) claims up to $2.0 million per occurrence. Liabilities in excess of these amounts are covered by insurance up to $55.0 million in aggregate for the coverage period. The Company retains any liability in excess of $55.0 million. Catastrophic physical damage coverage is carried to protect against natural disasters. The Company self-insures workers' compensation claims up to $1.0 million per occurrence. All workers' compensation liabilities in excess of $1.0 million are covered by insurance. In addition, primary and excess coverage is maintained for employee health insurance.

Regulation

The Company is a common and contract motor carrier regulated by the DOT and various state and local agencies. The DOT generally governs matters such as safety requirements, registration to engage in motor carrier operations, insurance requirements, and periodic financial reporting. The Company currently has a satisfactory DOT safety rating, which is the highest available rating. A conditional or unsatisfactory DOT safety rating could have an adverse effect on the Company, as some of the Company's contracts with customers require a satisfactory rating. Such matters as weight and dimensions of equipment are also subject to federal, state, and international regulations.

During 2009, the Federal Motor Carrier Safety Administration ("FMCSA") introduced Compliance Safety Accountability, ("CSA"), which was a set of evaluation standards on the safety performance of motor carriers and drivers which the Company is currently measured. CSA enhances the measurement of a motor carrier's safety performance and adds innovative new tools designed to correct deficiencies. CSA is designed to impact the behavior of carriers and drivers, industry high-risk carriers and drivers, and apply a wider range of initiatives to reduce high risk behavior. Through CSA, the FMCSA along with its state partners includes a comprehensive measurement system of all safety-based violations found during roadside inspections and weighing such violations by their relationship to crash risk. Safety performance information is accumulated to assess the safety performance of both carriers and drivers. Since enforcement and measurement began on CSA in 2010 the Company has not exceeded any of the performance thresholds established by FMCSA's seven categories (unsafe driving, fatigued driving, driver fitness, controlled substances, vehicle maintenance, hazardous materials and crash rating). The Company monitors its CSA scores and compliance through results from roadside inspections and other data available to detect positive or negative trends in compliance issues on an ongoing basis. The Company does not yet know what long-term impacts this new program will have on its drivers and potential drivers but potential adverse effects to the Company's results of operations may include:

- Current and potential drivers may no longer be eligible to drive for us.
- The Company's fleet could be ranked poorly as compared to our peers which could cause our customers to direct their business away from us and to carriers with higher fleet rankings.
- A reduction in eligible drivers or a poor fleet ranking may result in difficulty attracting and retaining qualified drivers, which could cause the Company to have unmanned trucks.

- Competition for drivers with favorable safety ratings may increase and thus provide for increases in driver related compensation cost.
- From time to time we could exceed the FMCSA's established intervention thresholds under certain categories. If we exceed one or more of the thresholds, our drivers may be prioritized for intervention action or roadside inspection by regulatory authorities. We may incur greater than expected expenses in our attempts to improve our scores.
- The FMCSA also is considering revisions to the existing rating system and the safety labels assigned to motor carriers evaluated by the DOT. Under the revised rating system being considered by the FMCSA, our safety rating would be evaluated more regularly, and our safety rating would reflect a more in-depth assessment of safety-based violations.

The DOT, through the FMCSA, imposes safety and fitness regulations on the Company and our drivers. In December 2011, the FMCSA issued a final rule that placed additional limits on the amount of time drivers may operate a commercial motor vehicle, or hours-of-service ("HOS"). The FMCSA preserved the current 11-hour daily driving limit, but indicated that this daily limit may be revisited in the future. Several organizations have challenged these new HOS requirements and have asked for delays in the HOS rules effective date of July 1, 2013. The following table summarizes the changes set forth in the new rules and their respective effective dates without any court actions:

| Provision | Current Rules | Final Rules | Required Compliance Date |
|---|---|---|---|
| Limitations on minimum "34-hour restarts" | None | (1) Must include two periods between 1 a.m. - 5 a.m. home terminal time.<br>(2) May only be used once per week | July 1, 2013 |
| Rest breaks/consecutive drive time | None except as limited by other rule provisions | May drive only if 8 hours or less have passed since end of driver's last off-duty period of at least 30 minutes. | July 1, 2013 |
| On-duty time | Includes any time in commercial motor vehicle ("CMV") except sleeper-berth | Does not include any time resting in a parked vehicle. While a CMV is in motion, does not include up to 2 hours in passenger seat immediately before or after 8 consecutive hours in sleeper-berth. | February 27, 2012 |
| Penalties | "Egregious" hours of service violations not specifically defined. | Driving (or allowing a driver to drive) 3 or more hours beyond the driving-time limit may be considered an egregious violation and subject to the maximum civil penalties. | February 27, 2012 |

We are unable to predict at this time what impact these new rules will have on our operations. On the whole, however, we believe the modifications to the current rules will decrease productivity and cause some loss of efficiency, as drivers and shippers may need to be retrained, computer programming may require modifications, additional drivers may need to be employed or engaged, additional equipment may need to be acquired, and some shipping lanes may need to be reconfigured.

On January 31, 2011, the FMCSA issued a Notice of Proposed Rulemaking regarding electronic on-board recorders (“EOBR”) and HOS supporting documents. In August of 2011, the U.S. Court of Appeals vacated the rule and sent it back to the FMCSA. The FMCSA did not appeal the court decision. On February 13, 2012 the FMCSA issued a notice stating additional work will be conducted by the FMCSA regarding the proposed use of EOBR's.
In July 2012, Congress passed a federal transportation bill that requires promulgation of rules mandating the use of paperless logs by July 2013 with full adoption for all trucking companies no later than July 2015. It is uncertain if this adoption date will be challenged or extended. Although the Company is not currently required to install EOBR's in its tractors, the Company decided to install EOBR's in all of the Company's tractor models during 2011, which also includes electronic logs for our drivers. As of December 31, 2011, 100% of our tractors have EOBR's installed including electronic logs. The Company believes early adoption and implementation of EOBR's among the Company's fleet during 2011 has provided the Company cost savings by implementing EOBR's prior to any final rules by the FMCSA as well as positioning the Company for future rules mandating the use of EOBR's.
The Company may also become subject to new or more restrictive regulations relating to matters such as fuel emissions and ergonomics. Company drivers and independent contractors also must comply with the safety and fitness regulations promulgated by the DOT, including those relating to drug and alcohol testing. Additional changes in the laws and regulations governing our industry could affect the economics of the industry by requiring changes in operating practices or by influencing the demand for, and the costs of providing, services to shippers.

The California Air Resource Board also has adopted emission control regulations which will be applicable to all commercial vehicles traveling within the state of California. Beginning December 31, 2012, pre-2011 model year 53-foot or longer box-type trailers must meet the same requirements as 2011 model year and newer trailers or have prepared and submitted a compliance plan, based on fleet size, which allows them to phase in their compliance over time. Federal and state lawmakers also have proposed potential limits on carbon emissions under a variety of climate-change proposals. Compliance with such regulations has increased the cost of our new trailers, may increase the cost of any new trailers that will operate in California, requires us to retrofit certain of our pre-2011 model year trailers that will operate in California, and could impair equipment productivity and increase our operating expenses. These adverse effects, combined with the uncertainty as to the reliability of the newly-designed diesel engines and the residual value of these vehicles, could materially increase our costs or otherwise adversely affect our business or operations.

The Company's operations are subject to various federal, state, and local environmental laws and regulations, implemented principally by the EPA and similar state regulatory agencies. These laws and regulations include the management of underground fuel storage tanks, the transportation of hazardous materials, the discharge of pollutants into the air and surface and underground waters, and the disposal of hazardous waste. The Company transports an insignificant number of hazardous material shipments. Management believes that its operations are in compliance with current laws and regulations and does not know of any existing condition that would cause compliance with applicable environmental regulations to have a material effect on the Company's capital expenditures, earnings and competitive position. In the event the Company should fail to comply with applicable regulations, the Company could be subject to substantial fines or penalties and to civil or criminal liability.

Available Information

The Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Definitive Proxy Statements, Current Reports on Form 8-K and other information filed with the Securities and Exchange Commission are available to the public, free of charge, on the Company's Internet website, at http://www.heartlandexpress.com. Information on the Company's website is not incorporated by reference into this annual report on Form 10-K.

ITEM 1A. RISK FACTORS

Our future results may be affected by a number of factors over which we have little or no control. The following discussion of risk factors contains forward-looking statements as discussed in Item 1 above.

Our business is subject to general economic and business factors that are largely out of our control, any of which could have a materially adverse effect on our operating results.

Our business is dependent on a number of factors that may have a materially adverse effect on our results of operations, many of which are beyond our control. The most significant of these factors are recessionary economic cycles, changes in customers' inventory levels, excess tractor or trailer capacity in comparison with shipping demand, excess used tractors or trailers in comparison to used equipment demand at points we are selling used equipment, and downturns in customers' business cycles. Economic conditions, particularly in market segments and industries where we have a significant concentration of customers and in regions of the country where we have a significant amount of business, a decrease in shipping demand or an increase in the supply of tractors and trailers can exert downward pressure on rates or equipment utilization, thereby decreasing asset productivity. Adverse economic conditions also may harm our customers and their ability to pay for our services. Customers encountering adverse economic conditions represent a greater potential for loss, and we may be required to increase our allowance for doubtful accounts.

We are also subject to increases in costs that are outside of our control that could materially reduce our profitability if we are unable to increase our rates sufficiently. Such cost increases include, but are not limited to, fuel prices, costs of revenue equipment, tires, taxes, tolls, license and registration fees, insurance costs, driver pay to attract and retain drivers, driver recruitment costs, and healthcare for our employees. We could also be affected by strikes or other work stoppages at customer, port, border, or other shipping locations.

In addition, we cannot predict the effects on the economy or consumer confidence of actual or threatened armed conflicts or terrorist attacks, efforts to combat terrorism, military action against a foreign state or group located in a foreign state, or heightened security requirements. Enhanced security measures could negatively impact our operating efficiency and productivity and result in higher operating costs.

Our growth may not continue at historical rates.

Historically, we have experienced significant and rapid growth in revenue and profits. There can be no assurance that our business will continue to grow in a similar fashion in the future or that we can effectively adapt our management, administrative, and operational systems to respond to any future growth. Further, there can be no assurance that our operating margins will not be adversely affected by future changes in and expansion of our business or by changes in economic conditions.

If we are unable to retain our current customers at our current freight rates, our results of operations could be adversely affected.

We operate in a highly competitive and fragmented industry with thousands of carriers of varying sizes. The industry ma