HEARTLAND EXPRESS INC
Form 10-K
February 21, 2019

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**UNITED STATES**
**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, 2018

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

Commission file number 0-15087

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

| **Nevada** | **93-0926999** |
| --- | --- |
| (State or Other Jurisdiction 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 | No |
| --- | --- |
| [X] | [ ] |

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 | No |
|---|---|
| [ X ] | [ ] |

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

| Yes | No |
|---|---|
| [ X ] | [ ] |

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| Large accelerated filer [X] | Accelerated filer [ ] | Non-accelerated filer [ ] | Smaller reporting company [ ] |
|---|---|---|---|
| | | | Emerging growth company [ ] |

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

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

| Yes | No |
|---|---|
| [ ] | [ X |

]

The aggregate market value of voting common stock held by non-affiliates of the registrant as of June 30, 2018 was $0.9 billion. In making this calculation the registrant has assumed, without admitting for any purpose, that all of its executive officers and directors, and no other persons, are affiliates. As of February 15, 2019 there were 81,934,350 shares of the Company's common stock ($0.01 par value) outstanding, excluding 20,500 shares of unvested restricted stock.

Portions of the Proxy Statement for the annual shareholders' meeting to be held on May 16, 2019 are incorporated by reference in Part III of this report.

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**HEARTLAND EXPRESS, INC.**
**AND SUBSIDIARIES**

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## PART I

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

*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 those sections and the Private Securities Litigation Reform Act of 1995, as amended. All statements, other than statements of historical or current fact, are statements that could be deemed forward-looking statements, including without limitation: any projections of earnings, revenues, or other financial items; any statement of plans, strategies, and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; and any statements of belief and any statement of assumptions underlying any of the foregoing. In this Annual Report, statements relating to expected sources of working capital, liquidity and funds for meeting equipment purchase obligations, expected capital expenditures and incurrence of debt, future acquisitions and dispositions of and upgrades to revenue equipment, future market for used equipment, future trucking capacity, expected freight demand and volumes, future rates and prices, future depreciation and amortization, future asset utilization, expected tractor and trailer count, expected fleet age, future driver market, expected gains on sale of equipment, expected driver compensation, expected independent contractor usage, expected rent expense, expected changes to financial controls, planned allocation of capital, future equipment costs, future income taxes, future insurance and claims, future growth, expected regulatory action and the impact of regulatory changes, future compliance with law, future litigation, future goodwill impairment, future inflation, future share prices, dividends, and repurchases, if any, future fuel expense and the future effectiveness of fuel surcharge programs, among others, are forward-looking statements. Such statements may be identified by their use of terms or phrases such as "expects," "estimates," "projects," "believes," "anticipates," "intends," "may," "could," "plans," and similar 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. Known factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section entitled "Risk Factors," set forth below. Readers should review and consider the factors discussed in "Risk Factors" of this Annual Report, 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. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in the events, conditions, or circumstances on which any such statement is based.*

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

## ITEM 1. Business

### General

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. For the period November 11, 2013 to July 1, 2016, the Company also operated Gordon Trucking, Inc. ("GTI"), which was merged into Heartland Express, Inc. of Iowa effective July 1, 2016. On July 6th, 2017, Heartland Express, Inc. of Iowa acquired Interstate Distributor Co. ("IDC"), which was merged into Heartland Express, Inc. of

Iowa effective October 1, 2017. Further, effective December 31, 2018, A & M Express, Inc. was merged into Heartland Express, Inc. of Iowa.

We, together with our subsidiaries, are a short-to-medium haul truckload carrier (predominately 500 miles or less per load). We primarily provide nationwide asset-based dry van truckload service for major shippers from Washington to Florida and New England to California. We focus on providing quality service to targeted customers with a high density of freight in our regional operating areas. We also offer temperature-controlled truckload services, which are not significant to our operations. We exited our non-asset-based freight brokerage business in the first quarter of 2017, however due to the acquisition of IDC we acquired and again operated a non-asset-based freight brokerage business from the date of acquisition until the termination of this business during the fourth quarter of 2017, the impacts of these activities were immaterial to our total operating revenue during 2017. We generally earn revenue based on the number of miles per load delivered and the revenue per mile paid. We believe the keys to success are maintaining high levels of customer service and safety, which are predicated on the availability

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

Our headquarters is located in North Liberty, Iowa, in a low-cost environment with ready access to a skilled, educated, and industrious workforce. Our other terminals are located near major shipping corridors nationwide, affording proximity to customer locations, driver domiciles, and distribution centers. We believe our geographic reach and terminal locations assist us with driver recruiting and retention, efficient fleet maintenance, and consistent customer engagement.

We were founded by Russell A. Gerdin in 1978 and became publicly traded in November 1986. Over the thirty-two years from 1986 to 2018, we have grown our revenues to $610.8 million from $21.6 million and our net income has increased to $72.7 million from $3.0 million. Much of our growth has been attributable to expanding service for existing customers, acquiring new customers, and continued expansion of our operating regions. More information regarding our total assets, revenues and profits for the past three and five years can be found in our “Consolidated Statements of Comprehensive Income” and “Selected Financial Data” that are included in this report.

In addition to organic growth through the development of our regional operating areas, we have completed seven acquisitions since 1987, with the most recent and second largest, IDC, occurring on July 6, 2017. These seven acquisitions have enabled us to solidify our position within existing regions, expand into new operating regions, and pursue new customer relationships in new markets. We are highly selective about acquisitions, with our main criteria being (i) safe operations, (ii) high quality professional truck drivers, (iii) fleet profile that is compatible with our philosophy or can be replaced economically, and (iv) freight profile that will allow a path to a low-80s operating ratio upon full integration, application of our cost structure, and freight optimization, including exiting certain loads that fail to meet our operating profile. We expect to continue to evaluate acquisition candidates presented to us. We believe future growth depends upon several factors including the level of economic growth and the related customer demand, the available capacity in the trucking industry, our ability to identify and consummate future acquisitions, our ability to integrate operations of acquired companies to realize efficiencies, and our ability to attract and retain experienced drivers that meet our hiring standards.

**Operations**

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

Our customer service department is responsible for maintaining the continuity between the customer’s needs and our 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 developing customer relationships, ensuring service standards, coordinating proper freight-to-capacity balancing, trailer asset management, and daily tactical decisions to match customer demand with revenue equipment availability across our entire network. Fleet management assigns orders to drivers based on well-defined criteria, such as United States Department of Transportation (the “DOT”) hours of service ("HOS") compliance, customer requirements, equipment utilization, driver “home time”, limiting non-revenue miles, 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 our 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 permits us 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. Substantially all of our revenue is, and for the last three fiscal years has been, generated from within the United States ("U.S.") with immaterial revenue derived from Canada. We do not have, nor have we during the last three fiscal years had, any long-lived assets permanently located outside the U.S.

We operate twenty terminal facilities throughout the contiguous U.S. in addition to our terminal and corporate headquarters in North Liberty, Iowa. These terminal locations are strategically located to concentrate on regional freight movements generally within a 500-mile radius of the terminals. This allows us to meet the needs of our customers in those regions while allowing

our drivers to primarily stay within an operating region which provides them with more "home time." This also allows us to service and maintain revenue equipment at our facilities on a frequent basis.

Personnel at the individual terminal locations manage these operations based on the overall corporate operating and maintenance goals and objectives. We use a centralized computer network and regular communication to achieve enterprise-wide load coordination.

We emphasize customer satisfaction through on-time performance, dependable late-model equipment, and consistent equipment availability to meet the volume requirements of our customers. We also maintain a trailer to tractor ratio that allows us to position trailers at customer locations for convenient loading and unloading. Most of the freight we transport is non-perishable and predominantly does not require driver handling. These factors help minimize waiting time, which increases tractor utilization and promotes driver retention.

**Customers and Marketing**

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

We target customers with multiple, time-sensitive shipments, including those utilizing "just-in-time" manufacturing and inventory management. In seeking these customers, we have positioned our business as a provider of premium service at compensatory rates, rather than competing solely on the basis of price. We believe our reputation for quality service, reliable equipment, and equipment availability makes us a core carrier for many of our customers. This past year we once again were recognized for customer service by several of our customers as a testament to our service standards. These awards include:

•FedEx Express Core Carrier of the Year,
•FedEx Express Platinum Award (99.96% On-Time Delivery),
•FedEx Ground 100% Service Award for recognition of 100% on-time service,
•Lowe's - Carrier of the Year (West Outbound, One-Way),
•Quaker/Gatorade - Carrier of the Year (Central Region),
•United Sugars - National Dry Van Carrier of the Year,
•Transplace - 2018 Carrier of the Year - National Truckload.
•
During 2018, we were also recognized with the following safety, operational, diversity, community service, and environmental awards:

•BP Driving Safety Standards Award 2017,
•Logistics Management Quest for Quality Award,
•2020 Women on Boards Winning Company,
•Wreaths Across America - 2017 Honor Fleet,
•US EPA SmartWay Excellence Award 2017.

Our primary customers include retailers and manufacturers. Our 25, 10, and 5 largest customers accounted for approximately 75%, 55%, and 37% of our operating revenues, respectively, in 2018. During 2017, our 25, 10, and 5 largest customers were approximately 72%, 55%, and 38%, of our operating revenues respectively. During 2016, our 25, 10, and 5 largest customers were approximately 76%, 56%, and 40%, of our operating revenues respectively. Our broad capacity network and customer base has allowed us to remain appropriately diversified as only one customer, Walmart Inc., accounted for more than 10% of our operating revenues in 2018 at 12.5%, and the same one customer accounted for more than 10% of our operating revenues in 2017 and 2016.

**Seasonality**

The nature of our primary traffic (appliances, automotive parts, consumer products, paper products, packaged foodstuffs, and retail goods) generally causes it to be distributed with relative uniformity throughout the year. However, seasonal variations associated with the winter holiday season have historically resulted in increased shipment volumes by retail customers during the fourth quarter, followed by reduced shipment volumes by customers in several industries after the holiday season. In addition, our operating expenses historically have been higher during the winter months due to decreased fuel efficiency,

increased colder weather-related equipment maintenance and repairs, and increased claims and costs attributed to higher accident frequency from harsh weather.

**Drivers, Independent Contractors, and Other Employees**

We rely on our workforce in achieving our business objectives. Throughout the year ended December 31, 2018, we employed approximately 3,450 people compared to approximately 3,800 people throughout the year ended December 31, 2017. We also contracted with independent contractors to provide and operate tractors which provides us additional revenue equipment capacity. Independent contractors own their own tractors and are responsible for all associated expenses, including financing costs, fuel, maintenance, insurance, and highway use taxes. We historically have operated a combined fleet of company and independent contractor tractors. For the year ended December 31, 2018, independent contractors accounted for approximately 2.1% of our total miles compared to 3.3% in 2017.

Our strategy for both employee drivers and independent contractors is to (i) hire and engage safe and experienced drivers (the majority of drivers we hire and engage must have at least six months of qualifying over-the-road experience); (ii) promote retention with an industry-competitive compensation package, positive working conditions, and freight that requires little or no handling; and (iii) minimize safety problems through careful screening, mandatory drug testing, continuous training, the use of automatic onboard recording devices ("AOBRs"), and financial rewards for accident-free driving. We also seek to minimize turnover of our employee drivers by providing modern, comfortable equipment, and by regularly scheduling "home time." Our drivers are generally compensated on the basis of miles driven including empty miles. This provides an incentive for us to minimize empty miles and at the same time does not penalize drivers for inefficiencies of operations that are beyond their control.

We are not a party to a collective bargaining agreement. We believe that we have good relationships with our employees.

**Driver Compensation**

Our comprehensive driver compensation program rewards drivers for years of service and safe operating mileage benchmarks, which are critical to our operational and financial performance. Our driver pay package includes future pay increases based on years of continued service with us, increased rates for accident-free miles of operation, and detention pay to assist drivers with offsetting unproductive detention time. We believe that our driver compensation package is consistently among the best in the industry. We are committed to investing in our drivers and compensating them for safety as both are key to our operational and financial performance.

**Revenue Equipment**

Our tractor strategy is important to our goals and differs from the practices of many of our peers. We strive to operate a relatively new fleet to keep operating costs low, appeal to drivers, and enhance dependability. In addition, we seek the flexibility to buy and sell tractors (and trailers) opportunistically to capitalize on new and used equipment markets, size our fleet to the volume of attractive freight, and manage cash tax expense. One method we use to accomplish these goals is to depreciate our tractors for financial reporting purposes using the 125% declining balance method, in which depreciation is higher in early periods and tapers off in later periods. We believe this method more accurately reflects actual asset values and affords us the flexibility to sell tractors at most points during their life cycle without experiencing losses. In addition, the decline in depreciation during later periods is typically offset by increased repairs and maintenance expense as the tractors age, which keeps our total operating costs more uniform through fluctuations in average tractor fleet age. We believe our revenue equipment strategy is sound over the long term. However, it can contribute to volatility in gain on sale of equipment and quarterly earnings per share.

At December 31, 2018, nearly all of our over-the-road sleeper berth tractor fleet was equipped with idle management controls. All tractors are equipped with mobile communication systems. This technology allows for efficient communication with our drivers regarding freight and safety, and provides the ability to manage the needs of our customers based on real-time information on load status. Our mobile communication systems also allow us to obtain information regarding equipment for better planning and efficient maintenance time as well as information regarding driver performance.

As of December 31, 2018 the average age of our tractor fleet was 1.3 years compared to 1.8 years at December 31, 2017. We have historically operated the majority of our tractors while under warranty to minimize repair and maintenance cost and reduce service interruptions caused by breakdowns. The average age of our trailer fleet was 3.5 years at December 31, 2018 compared to 5.1 years at December 31, 2017.

We obtain additional tractor capacity through the use of independent contractors who own their own tractor equipment, although our use of independent contractors is not material to our overall operations. Independent contractors are responsible for the maintenance of their equipment. We utilized revenue equipment operating leases following our most recent acquisitions in 2013 and 2017 although not material to our operations at December 31, 2018.

The "Regulation" section in this Item 1 of Part I of this Annual Report discusses in detail several regulations that have impacted and could continue to affect our cost and use of revenue equipment.

**Fuel**

We purchase diesel fuel ("fuel") over-the-road through a network of fuel stops throughout the U.S. at which we have negotiated price discounts. In addition, bulk fuel sites are maintained at the majority of our twenty-one terminal locations. We strategically manage 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. We believe 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. We have fuel surcharge agreements with most customers that enable us to pass through most long-term price increases. For the years ended December 31, 2018, 2017, and 2016, fuel expense was $110.5 million, $104.4 million, and $91.5 million, or 21.2%, 19.2%, and 17.3% respectively, of our total operating expenses. For the years ended December 31, 2018, 2017, and 2016, fuel surcharge revenues were $85.3 million, $72.5 million, and $58.4 million, respectively. Department of Energy (“DOE”) average price of fuel increased 19.8% in 2018 compared to 2017 and decreased 15.0% in 2017 compared to 2016, which had a corresponding negative and positive impact on our net fuel cost, before the impacts of improved fleet efficiency, for the years ended December 31, 2018 and 2017, respectively. Additionally, overall fuel efficiency has improved during 2018 and 2017 due to adding more fuel-efficient late-model tractors to the operating fleet, which include various idle management technologies. 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 our operating results. The DOE average price of fuel has decreased 6.3% to $2.98 through February 18, 2019 as compared to the 2018 average price.

**Competition and Industry**

The truckload industry is highly competitive and fragmented with thousands of carriers of varying sizes. We compete 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, qualified drivers, service, and equipment availability.

The demand for freight services generally slowed throughout 2016 as industry capacity outpaced freight demand for the majority of the year. In 2016, shippers implemented significant bid activity, which resulted in pricing pressure throughout the year. The 2016 trends continued in the first half of 2017. The second half of 2017 saw a favorable improvement, with strong demand and tightening capacity through the end of the year. This trend picked up additional momentum with strong freight demand throughout the full year of 2018. Pricing is expected to be more favorable during periods of more rapid economic expansion or lack of effective industry-wide trucking capacity. In December 2017, federal regulations were implemented to mandate the use Electronic Logging Devices (“ELDs”) across our industry. Carriers such as us that were using AOBRs prior to December 2017 are allowed to continue using such devices in place of ELDs until December 2019. AOBRs and ELDs are both pieces of hardware that connect to a tractor’s engine to record movement and the driver’s HOS. However, ELDs capture and display more data than AOBRs. Most large carriers adopted ELDs or AOBRs in their fleet well before the December 2017 mandate. We have

used AOBRs in our entire fleet since 2011 and have adapted our network and customer base to the utilization constraints. Enforcement of the ELD mandate was phased in, as states did not begin putting tractors out of service for non-compliance until April 1, 2018. However, carriers were subject to citations, on a state-by-state basis, for non-compliance with the rule after the December 2017 compliance deadline. Leading up to the final enforcement date and following the initial implementation date and limited enforcement period in early 2018, freight demand has increased significantly as compared to 2016 and early months of 2017 as major shippers have moved to lock in trucking capacity and avoid the risk of fluctuating spot market freight rates.

**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 achieving and maintaining 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. We self-insure 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. We actively participate in the settlement of each claim incurred.

We act as a self-insurer for auto liability involving property damage, personal injury, or cargo based on defined insurance retention of $0.5 million or $2.0 million for any individual claim based on the insured party, accident date, and circumstances of the loss event. Liabilities in excess of these amounts, for any individual claim, are covered by insurance up to $100.0 million. We retain any liability in excess of $100.0 million. We act as a self-insurer for workers' compensation liability of $0.5 million or $1.0 million for any individual claim based on the insured party, accident date, and circumstances of the loss event. Liabilities in excess of this amount are covered by insurance. In addition, we maintain primary and excess coverage for employee health insurance and catastrophic physical damage coverage is carried to protect against natural disasters. Finally, we act as a self-insurer for any physical damage to our tractors and trailers.

**Regulation**

We are 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. Our Company drivers and independent contractors also must comply with the safety and fitness regulations of the DOT, including those relating to drug and alcohol testing and HOS. Such matters as weight and equipment dimensions are also subject to U.S. regulations. We also may become subject to new or more restrictive regulations relating to fuel emissions, drivers' HOS, ergonomics, or other matters affecting safety or operating methods. Other agencies, such as the Environmental Protection Agency ("EPA") and the Department of Homeland Security ("DHS") also regulate our equipment, operations, and drivers.

The DOT, through the Federal Motor Carrier Safety Administration ("FMCSA"), imposes safety and fitness regulations on us and our drivers, including rules that restrict driver HOS. Changes to such HOS rules can negatively impact our productivity and affect our operations and profitability by reducing the number of hours per day or week our drivers may operate and/or disrupting our network. While the FMCSA has proposed and implemented such changes in the past, no such changes are currently formally proposed. However, the FMCSA recently indicated it may soon be soliciting feedback from industry stakeholders regarding future HOS changes. Any future changes to HOS rules could materially and adversely affect our operations and profitability.

There are two methods of evaluating the safety and fitness of carriers. The first method is the application of a safety rating that is based on an onsite investigation and affects a carrier's ability to operate in interstate commerce. We currently have a satisfactory DOT safety rating under this method, which is the highest available rating under the current safety rating scale. If we received a conditional or unsatisfactory DOT safety rating, it could adversely affect our business, as some of our existing customer contracts require a satisfactory DOT safety rating. In January 2016, the FMCSA published a Notice of Proposed Rulemaking outlining a revised safety rating measurement system which would replace the current methodology. Under the proposed rule, the current three safety ratings of "satisfactory," "conditional," and "unsatisfactory" would be replaced with a single safety rating of "unfit." Thus, a carrier with no rating would be deemed fit. Moreover, data from roadside inspections and the results of all investigations would be used to determine a carrier's fitness on an ongoing basis. This would replace the current methodology of determining a carrier's fitness based solely on infrequent comprehensive onsite reviews. The proposed rule underwent a public comment period that ended in June 2016 and several industry groups and lawmakers expressed their disagreement with the proposed rule, arguing that it violates the requirements of the Fixing America's Surface Transportation Act ("FAST

Act") and that the FMCSA must first finalize its review of the CSA scoring system, described in further detail below. Based on this feedback and other concerns raised by industry stakeholders, in March 2017, the FMCSA withdrew the Notice of Proposed Rulemaking related to the new safety rating system. In its notice of withdrawal, the FMCSA noted that a new rulemaking related to a similar process may be initiated in the future. Therefore, it is uncertain if, when, or under what form any such rule could be implemented.

In addition to the safety rating system, the FMCSA has adopted the Compliance Safety Accountability program ("CSA") as an additional safety enforcement and compliance model that evaluates and ranks fleets on certain safety-related standards. The CSA program analyzes data from roadside inspections, moving violations, crash reports from the last two years, and investigation results. The data is organized into seven categories. Carriers are grouped by category with other carriers that have a similar number of safety events (e.g., crashes, inspections, or violations) and carriers are ranked and assigned a rating

percentile to prioritize them for interventions if they are above a certain threshold. Currently, these scores do not have a direct impact on a carrier's safety rating. However, the occurrence of unfavorable scores in one or more categories may (i) affect driver recruiting and retention by causing high-quality drivers to seek employment with other carriers, (ii) cause our customers to direct their business away from us and to carriers with higher fleet rankings (iii), subject us to an increase in compliance reviews and roadside inspections, or (iv) cause us to incur greater than expected expenses in our attempts to improve unfavorable scores, any of which could adversely affect our results of operations and profitability.

Under CSA, these scores were initially made available to the public in five of the seven categories. However, pursuant to the FAST Act, which was signed into law in December 2015, the FMCSA was required to remove from public view the previously available CSA scores while it reviews the reliability of the scoring system. During this period of review by the FMCSA, we will continue to have access to our own scores and will still be subject to intervention by the FMCSA when such scores are above the intervention thresholds. We will continue to monitor our 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. A study was conducted and delivered to the FMCSA in June 2017 with several recommendations to make the CSA program more fair, accurate, and reliable. In late June 2018, the FMCSA provided a report to Congress outlining the changes it may make to the CSA program in response to the study. Such changes include the testing and possible adoption of a revised risk modeling theory, potential collection and dissemination of additional carrier data, and revised measures for intervention thresholds. The adoption of such changes is contingent on the results of the new modeling theory and additional public feedback. Therefore, it is unclear if, when, and to what extent such changes to the CSA program will occur. However, any changes that increase the likelihood of us receiving unfavorable scores could adversely affect our results of operations and profitability.

The FMCSA published a final rule in December 2015 that required the use of ELDs or AOBRs by nearly all carriers by December 2017 (the "2015 ELD Rule"). Enforcement of the 2015 ELD Rule was phased in, as states did not begin putting tractors out of service for non-compliance until April 1, 2018. However, carriers were subject to citations, on a state-by-state basis, for non-compliance with the rule after the December 2017 compliance deadline. The use of AOBRs is permitted until December 2019, at which time the use of ELDs is required. Since we had proactively installed AOBRs on 100% of our tractor fleet, implementation of the 2015 ELD Rule did not impact our operations or profitability or our use of AOBRs. We expect to have ELDs (not AOBRs) installed on 100% of our fleet by the December 2019 deadline. We believe that more effective HOS enforcement under the 2015 ELD Rule may improve our competitive position by causing all carriers to adhere more closely to HOS requirements and may further reduce industry capacity.

In the aftermath of the September 11, 2001 terrorist attacks, the DHS and other federal, state, and municipal authorities implemented and continue to implement various security measures, including checkpoints and travel restrictions on large trucks. The U.S. Transportation Security Administration ("TSA") adopted regulations that require determination by the TSA that each driver who applies for or renews his or her license for carrying hazardous materials is not a security threat. This could reduce the pool of qualified drivers who are permitted to transport hazardous waste, which could require us to increase driver compensation, limit our fleet growth, or allow trucks to sit idle. These regulations also could complicate the matching of available equipment with hazardous material shipments, thereby increasing our response time on customer orders and our non-revenue miles. As a result, it is possible we could fail to meet the needs of our customers or could incur increased expenses to do so. While transporting hazardous materials subjects us to a wide array of regulations, the number of hazardous material shipments we make is insignificant relative to our total number of shipments.

In December 2016, the FMCSA issued a final rule establishing a national clearinghouse for drug and alcohol testing results and requiring motor carriers and medical review officers to provide records of violations by commercial drivers of FMCSA drug and alcohol testing requirements. Motor carriers will be required to query the clearinghouse to ensure drivers and driver applicants do not have violations of federal drug and alcohol testing regulations that prohibit them

from operating commercial motor vehicles. This rule is scheduled for implementation in early 2020 and may reduce the number of available drivers in an already constrained driver market.

In November 2015, the FMCSA published its final rule related to driver coercion, which took effect in January 2016. Under this rule, carriers, shippers, receivers, or transportation intermediaries that are found to have coerced drivers to violate certain FMCSA regulations (including HOS rules) may be fined up to $16,000 for each offense. In addition, other rules have been recently proposed or made final by the FMCSA, including (i) a rule requiring the use of speed limiting devices on heavy duty tractors to restrict maximum speeds, which was proposed in 2016, and (ii) a rule setting forth minimum driver training standards for new drivers applying for commercial driver's licenses for the first time and to experienced drivers upgrading their licenses or seeking a hazardous materials endorsement, which was made final in December 2016, with a compliance date in February 2020. In July 2017, the DOT announced that it would no longer pursue a speed limiter rule, but left open the possibility that it could resume such a pursuit in the future. The effect of these rules, to the extent they become effective, could result in a decrease in fleet production and driver availability, either of which could adversely affect our business or operations.

In March 2014, the Ninth Circuit Court of Appeals held that California state wage and hour laws are not preempted by federal law. The case was appealed to the Supreme Court of the United States, which in May 2015 refused to review the case, and accordingly, the Ninth Circuit Court of Appeals decision stood. However, in December 2018, the FMCSA granted a petition filed by the America Trucking Associations and in doing so determined that federal law does preempt California's wage and hour laws, and interstate truck drivers are not subject to such laws. The FMCSA's decision has been appealed by labor groups and multiple lawsuits have been filed in federal courts seeking to overturn the decision, and thus it's uncertain whether it will stand. Other current and future state and local laws, including laws related to employee meal breaks and rest periods, may also vary significantly from federal law. As a result, we, along with other companies in the industry, could become subject to an uneven patchwork of laws throughout the U.S. Federal legislation has been proposed in the past to preempt certain state and local laws; however, passage of such legislation is uncertain. If federal legislation is not passed, we will either need to comply with the most restrictive state and local laws across our entire network, or overhaul our management systems to comply with varying state and local laws. Either solution could result in increased compliance and labor costs, driver turnover, and decreased efficiency.

Tax and other regulatory authorities, as well as independent contractors themselves, have increasingly asserted that independent contractor drivers in the trucking industry are employees rather than independent contractors, for a variety of purposes, including income tax withholding, workers' compensation, wage and hour compensation, unemployment, and other issues. Federal legislators have introduced legislation in the past to make it easier for tax and other authorities to reclassify independent contractor drivers as employees, including legislation to increase the recordkeeping requirements for those that engage independent contractor drivers and to heighten the penalties of companies who misclassify their employees and are found to have violated employees' overtime and/or wage requirements. Additionally, federal legislators have sought to abolish the current safe harbor allowing taxpayers meeting certain criteria to treat individuals as independent contractors if they are following a long-standing, recognized practice, extend the Fair Labor Standards Act to independent contractors, and impose notice requirements based upon employment or independent contractor status and fines for failure to comply. Some states have put initiatives in place to increase their revenues from items such as unemployment, workers' compensation, and income taxes, and a reclassification of independent contractor drivers as employees would help states with these initiatives. Recently, courts in certain states have issued decisions that could result in a greater likelihood that independent contractors would be judicially classified as employees in such states. Further, class actions and other lawsuits have been filed against certain members of our industry seeking to reclassify independent contractors as employees for a variety of purposes, including workers' compensation and health care coverage. Taxing and other regulatory authorities and courts apply a variety of standards in their determination of independent contractor status. Our classification of independent contractors has been the subject of audits by such authorities from time to time. While we have been successful in continuing to classify our independent contractor drivers as independent contractors and not employees, we may be unsuccessful in defending that position in the future. If our independent contractor drivers are determined to be our employees, we would incur additional exposure under federal and state tax, workers' compensation, unemployment benefits, labor, employment, and tort laws, including for prior periods, as well as potential liability for employee benefits and tax withholdings. Our use of independent contractors is not significant to our total operations.

We are subject to various environmental laws and regulations dealing with the hauling and handling of hazardous materials, fuel storage tanks, air emissions from our vehicles and facilities, engine idling, and discharge and retention of storm water. Our truck terminals often are located in industrial areas where groundwater or other forms of environmental contamination could occur. Our operations involve the risks of fuel spillage or seepage, environmental damage, and hazardous waste disposal, among others. Certain facilities have waste oil or fuel storage tanks and fueling islands. We do not know of any environmental regulations that would have a material effect on our capital expenditures, earnings or competitive position. Additionally, increasing efforts to control emissions of greenhouse gases may have an adverse effect on us. Although we have instituted programs to monitor and control environmental risks and promote compliance with applicable environmental laws and regulations, if we are involved in a spill or other accident involving hazardous substances, if there are releases of hazardous substances we transport, if soil or

groundwater contamination is found at our facilities or results from our operations, or if we are found to be in violation of applicable laws or regulations, we could be subject to cleanup costs and liabilities, including substantial fines or penalties or civil and criminal liability, any of which could have a materially adverse effect on our business and operating results.

In August 2011, the National Highway Traffic Safety Administration ("NHTSA") and the EPA adopted final rules that established the first-ever fuel economy and greenhouse gas standards for medium-and heavy-duty vehicles, including the tractors we employ (the “Phase 1 Standards”). The Phase 1 Standards apply to tractor model years 2014 to 2018 and require the achievement of an approximate 20 percent reduction in fuel consumption by the 2018 model year, which equates to approximately four gallons of fuel for every 100 miles traveled. In addition, in February 2014, President Obama announced that his administration would begin developing the next phase of tighter fuel efficiency and greenhouse gas standards for medium-and heavy-duty tractors and trailers (the “Phase 2 Standards”). In October 2016, the EPA and NHTSA published the final rule mandating that the Phase 2 Standards will apply to trailers beginning with model year 2018 and tractors beginning with model

year 2021. The Phase 2 Standards require nine percent and 25 percent reductions in emissions and fuel consumption for trailers and tractors, respectively, by 2027. We believe these requirements will result in additional increases in new tractor and trailer prices and additional parts and maintenance costs incurred to retrofit our tractors and trailers with technology to achieve compliance with such standards, which could adversely affect our operating results and profitability, particularly if such costs are not offset by potential fuel savings. We cannot predict, however, the extent to which our operations and productivity will be impacted. In October 2017, the EPA announced a proposal to repeal the Phase 2 Standards as they relate to gliders (which mix refurbished older components, including transmissions and pre-emission-rule engines, with a new frame, cab, steer axle, wheels, and other standard equipment). The outcome of such proposal is still undetermined as the EPA continues to consider Congressionally requested investigations into the legality of the proposal and the merits of an anti-glider study that was published shortly after the proposal became official. Additionally, implementation of the Phase 2 Standards as they relate to trailers has been delayed due to a provisional stay granted in October 2017 by the U.S. Court of Appeals for the District of Columbia, which is overseeing a case against the EPA by the Truck Trailer Manufacturers Association, Inc. regarding the Phase 2 Standards.

The California Air Resources Board ("CARB") also adopted emission control regulations that will be applicable to all heavy-duty tractors that pull 53-foot or longer box-type trailers within the State of California. The tractors and trailers subject to these CARB regulations must be either EPA SmartWay certified or equipped with low-rolling resistance tires and retrofitted with SmartWay-approved aerodynamic technologies. Enforcement of these CARB regulations for model year 2011 equipment began in January 2010 and have been phased in over several years for older equipment. In addition, in February 2017 CARB proposed California Phase 2 standards that would generally align with the federal Phase 2 Standards, with some minor additional requirements, and as proposed would stay in place even if the federal Phase 2 Standards are affected by action from President Trump’s administration. In February 2019, the California Phase 2 standards became final. Thus, even if the trailer provisions of the Phase 2 Standards are permanently removed, we would still need to ensure the majority of our fleet is compliant with the California Phase 2 standards, which may result in increased equipment costs and could adversely affect our operating results and profitability. Federal and state lawmakers also are considering a variety of other climate-change proposals. Compliance with such regulations could increase the cost of new tractors and trailers, impair equipment productivity, and increase operating expenses. These effects, combined with the uncertainty as to the operating results that will be produced by the newly designed diesel engines and the residual values of these vehicles, could increase our costs or otherwise adversely affect our business or operations.

In order to reduce exhaust emissions, some states and municipalities have begun to restrict the locations and amount of time where diesel-powered tractors may idle. These restrictions could force us to purchase on-board power units that do not require the engine to idle or to alter our drivers' behavior, which could result in a decrease in productivity or increase in driver turnover.

The regulatory environment has changed under the administration of President Trump. In January 2017, the President signed an executive order requiring federal agencies to repeal two regulations for each new one they propose and imposing a regulatory budget, which would limit the amount of new regulatory costs federal agencies can impose on individuals and businesses each year. We do not believe the order has had a significant impact on our industry. However, the order, and other anti-regulatory action by the President and/or Congress, may inhibit future new regulations and/or lead to the repeal or delayed effectiveness of existing regulations. Therefore, it is uncertain how we may be impacted in the future by existing, proposed, or repealed regulations.

For further discussion regarding laws and regulations, refer to the "Risk Factors" section under Item 1A of Part I of this Annual Report.

**Available Information**

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act of 1934, as amended, are available to the public, free of charge, through our Internet website, at http://www.heartlandexpress.com, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC"). Information on our website is not incorporated by reference into this Annual Report. You may also access and read our filings with the SEC without charge through the SEC's website at www.sec.gov.

**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 "Cautionary Note Regarding Forward-Looking Statements" above. The following issues, uncertainties, and risks, among others, should be considered in evaluating our business and growth outlook. If any of the following risk factors, as well as other risks and uncertainties that are not currently known to us or that we

currently believe are not material, actually occur, our business, financial condition, and results of operations could be materially adversely affected and you may lose all or a significant part of your investment.

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

The truckload industry is highly cyclical, and 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. We believe that some of the most significant of these factors are economic changes that affect supply and demand in transportation markets, such as:

- recessionary economic cycles, such as the period from 2007 through 2009 and the 2016 freight environment, which were characterized by weak demand and downward pressure on freight rates;
- downturns in customers' business cycles, including as a result of declines in consumer spending;
- changes in customers' inventory levels and practices, including shrinking product/package size, and in the availability of funding for their working capital;
- excess tractor and trailer capacity in the trucking industry in

comparison with shipping demand;

- changes in the way our customers choose to source or utilize our services;
- the rate of unemployment and availability of and compensation for alternative jobs for truck drivers, which impact the pool of available drivers and our driver compensation costs;
- activity in key economic indicators such as manufacturing of automobiles and durable goods, and housing construction;
- supply chain disruptions due to factors such as weather and railroad or ports congestion;
- changes in interest rates;
- rising costs of healthcare;
-