

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

WERNER ENTERPRISES INC
Form 10-Q
August 04, 2008

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

FORM 10-Q

[Mark one]

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

For the quarterly period ended June 30, 2008

OR

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

Commission file number 0-14690

WERNER ENTERPRISES, INC.
(Exact name of registrant as specified in its charter)

NEBRASKA 47-0648386
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

14507 FRONTIER ROAD
POST OFFICE BOX 45308
OMAHA, NEBRASKA 68145-0308
(Address of principal (Zip Code)
executive offices)

Registrant's telephone number, including area code: (402) 895-6640

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act
of 1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to
such filing requirements for the past 90 days.

Yes X No
--- ---

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

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

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

Yes No X
--- ---

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

As of July 31, 2008, 70,957,350 shares of the registrant's common stock, par value \$.01 per share, were outstanding.

| WERNER ENTERPRISES, INC. | | |
|---|--|------|
| INDEX | | |
| ----- | | PAGE |
| | | ---- |
| PART I - FINANCIAL INFORMATION | | |
| Item 1. Financial Statements: | | |
| Consolidated Statements of Income for the Three Months Ended June 30, 2008 and 2007 | | 4 |
| Consolidated Statements of Income for the Six Months Ended June 30, 2008 and 2007 | | 5 |
| Consolidated Condensed Balance Sheets as of June 30, 2008 and December 31, 2007 | | 6 |
| Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2008 and 2007 | | 7 |
| Notes to Consolidated Financial Statements (Unaudited) as of June 30, 2008 | | 8 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | | 12 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | | 29 |
| Item 4. Controls and Procedures | | 30 |
| PART II - OTHER INFORMATION | | |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | | 31 |
| Item 4. Submission of Matters to a Vote of Security Holders | | 31 |
| Item 6. Exhibits | | 32 |

PART I

FINANCIAL INFORMATION

Cautionary Note Regarding Forward-Looking Statements:

This Quarterly Report on Form 10-Q contains historical information and forward-looking statements based on information currently available to our management. The forward-looking statements in this report, including those made in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended. These safe harbor provisions encourage reporting companies to provide prospective information to investors. Forward-looking statements can be identified by the use of certain words, such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project" and other similar terms and language. We believe the forward-looking statements are reasonable based on currently

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

available information. However, forward-looking statements involve risks, uncertainties and assumptions, whether known or unknown, that could cause actual results to differ materially from the anticipated results expressed in the forward-looking statements. A discussion of important factors relating to forward-looking statements is included in Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the year ended December 31, 2007. Readers should not unduly rely on the forward-looking statements included in this Form 10-Q because such statements speak only to the date they were made. Unless otherwise required by applicable securities laws, we assume no obligation or duty to update or revise forward-looking statements to reflect subsequent events or circumstances.

2

Item 1. Financial Statements.

The interim consolidated financial statements contained herein reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the financial condition, results of operations and cash flows for the periods presented. The interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and were also prepared without audit. The interim consolidated financial statements do not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements; although in management's opinion, the disclosures are adequate so that the information presented is not misleading.

Operating results for the three-month and six-month periods ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. In the opinion of management, the information set forth in the accompanying consolidated condensed balance sheets is fairly stated in all material respects in relation to the consolidated balance sheets from which it has been derived.

These interim consolidated financial statements and notes thereto should be read in conjunction with the financial statements and accompanying notes contained in our Annual Report on Form 10-K for the year ended December 31, 2007.

3

WERNER ENTERPRISES, INC. CONSOLIDATED STATEMENTS OF INCOME

| (In thousands, except per share amounts) | Three Months Ended June 30, | |
|--|--------------------------------|------------|
| | 2008 | 2007 |
| | (Unaudited) | |
| Operating revenues | \$ 578,181 | \$ 531,286 |
| Operating expenses: | | |
| Salaries, wages and benefits | 148,588 | 150,335 |

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

| | | |
|---|-----------|-----------|
| Fuel | 154,963 | 99,918 |
| Supplies and maintenance | 41,261 | 40,077 |
| Taxes and licenses | 27,886 | 29,317 |
| Insurance and claims | 23,907 | 23,922 |
| Depreciation | 41,683 | 41,629 |
| Rent and purchased transportation | 105,220 | 108,903 |
| Communications and utilities | 4,820 | 5,182 |
| Other | (1,015) | (6,383) |
| | ----- | ----- |
| Total operating expenses | 547,313 | 492,900 |
| | ----- | ----- |
| Operating income | 30,868 | 38,386 |
| | ----- | ----- |
| Other expense (income): | | |
| Interest expense | 3 | 1,057 |
| Interest income | (964) | (923) |
| Other | 1 | 46 |
| | ----- | ----- |
| Total other expense (income) | (960) | 180 |
| | ----- | ----- |
| Income before income taxes | 31,828 | 38,206 |
| Income taxes | 13,716 | 15,952 |
| | ----- | ----- |
| Net income | \$ 18,112 | \$ 22,254 |
| | ===== | ===== |
| Earnings per share: | | |
| Basic | \$.26 | \$.30 |
| | ===== | ===== |
| Diluted | \$.25 | \$.30 |
| | ===== | ===== |
| Dividends declared per share | \$.050 | \$.050 |
| | ===== | ===== |
| Weighted-average common shares outstanding: | | |
| Basic | 70,410 | 73,395 |
| | ===== | ===== |
| Diluted | 71,417 | 74,748 |
| | ===== | ===== |

See Notes to Consolidated Financial Statements (Unaudited).

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

| (In thousands, except per share amounts) | Six Months Ended June 30, | |
|---|------------------------------|--------------|
| | 2008 | 2007 |
| | (Unaudited) | |
| Operating revenues | \$ 1,090,968 | \$ 1,035,199 |
| Operating expenses: | | |
| Salaries, wages and benefits | 291,775 | 300,856 |
| Fuel | 278,799 | 189,003 |
| Supplies and maintenance | 81,770 | 79,668 |
| Taxes and licenses | 56,151 | 59,480 |
| Insurance and claims | 48,639 | 48,127 |
| Depreciation | 83,479 | 84,186 |
| Rent and purchased transportation | 199,683 | 209,118 |
| Communications and utilities | 10,059 | 10,274 |
| Other | (3,673) | (11,165) |
| Total operating expenses | 1,046,682 | 969,547 |
| Operating income | 44,286 | 65,652 |
| Other expense (income): | | |
| Interest expense | 6 | 2,393 |
| Interest income | (2,037) | (1,974) |
| Other | 52 | 118 |
| Total other expense (income) | (1,979) | 537 |
| Income before income taxes | 46,265 | 65,115 |
| Income taxes | 19,778 | 27,193 |
| Net income | \$ 26,487 | \$ 37,922 |
| Earnings per share: | | |
| Basic | \$.38 | \$.51 |
| Diluted | \$.37 | \$.50 |
| Dividends declared per share | \$.100 | \$.095 |
| Weighted-average common shares outstanding: | | |
| Basic | 70,428 | 74,080 |

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

Diluted 71,438 75,477
 =====

See Notes to Consolidated Financial Statements (Unaudited).

5

WERNER ENTERPRISES, INC.
 CONSOLIDATED CONDENSED BALANCE SHEETS

| In thousands, except share amounts) | June 30, | December 31, |
|---|--------------|--------------|
| | 2008 | 2007 |
| | (Unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 77,523 | \$ 25,090 |
| Accounts receivable, trade, less allowance of \$10,283 and \$9,765, respectively | 234,991 | 213,496 |
| Other receivables | 14,488 | 14,587 |
| Inventories and supplies | 10,013 | 10,747 |
| Prepaid taxes, licenses and permits | 7,809 | 17,045 |
| Current deferred income taxes | 30,327 | 26,702 |
| Other current assets | 20,192 | 21,500 |
| | | |
| Total current assets | 395,343 | 329,167 |
| | | |
| Property and equipment | 1,621,247 | 1,605,445 |
| Less - accumulated depreciation | 662,690 | 633,504 |
| | | |
| Property and equipment, net | 958,557 | 971,941 |
| | | |
| Other non-current assets | 18,244 | 20,300 |
| | | |
| | \$ 1,372,144 | \$ 1,321,408 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 63,808 | \$ 49,652 |
| Insurance and claims accruals | 81,650 | 76,189 |
| Accrued payroll | 25,715 | 21,753 |
| Other current liabilities | 26,051 | 19,395 |
| | | |
| Total current liabilities | 197,224 | 166,989 |
| | | |
| Other long-term liabilities | 7,416 | 14,165 |
| Insurance and claims accruals, net of current portion | 116,000 | 110,500 |

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

| | | |
|---|---------------------|---------------------|
| Deferred income taxes | 196,760 | 196,966 |
| Stockholders' equity: | | |
| Common stock, \$.01 par value, 200,000,000 shares authorized; 80,533,536 shares issued; 70,422,549 and 70,373,189 shares outstanding, respectively | 805 | 805 |
| Paid-in capital | 99,807 | 101,024 |
| Retained earnings | 942,858 | 923,411 |
| Accumulated other comprehensive income (loss) | 2,018 | (169) |
| Treasury stock, at cost; 10,110,987 and 10,160,347 shares, respectively | (190,744) | (192,283) |
| Total stockholders' equity | 854,744 | 832,788 |
| | <u>\$ 1,372,144</u> | <u>\$ 1,321,408</u> |

See Notes to Consolidated Financial Statements (Unaudited).

6

WERNER ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

| (In thousands) | Six Months Ended June 30, | |
|--|------------------------------|----------------|
| | 2008 | 2007 |
| | (Unaudited) | |
| Cash flows from operating activities: | | |
| Net income | \$ 26,487 | \$ 37,922 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 83,479 | 84,186 |
| Deferred income taxes | (3,660) | (6,502) |
| Gain on disposal of property and equipment | (5,969) | (13,779) |
| Stock-based compensation | 756 | 794 |
| Other long-term assets | 422 | 1,688 |
| Insurance claims accruals, net of current portion | 5,500 | 1,500 |
| Other long-term liabilities | (20) | 560 |
| Changes in certain working capital items: | | |
| Accounts receivable, net | (21,495) | 9,047 |
| Other current assets | 11,377 | 18,510 |
| Accounts payable | 14,156 | (9,334) |
| Other current liabilities | 9,177 | 9,732 |
| Net cash provided by operating activities | <u>120,210</u> | <u>134,324</u> |

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

| | | |
|---|-----------|-----------|
| Cash flows from investing activities: | | |
| Additions to property and equipment | (114,320) | (87,125) |
| Retirements of property and equipment | 48,350 | 57,750 |
| Decrease in notes receivable | 3,478 | 3,246 |
| | | |
| Net cash used in investing activities | (62,492) | (26,129) |
| | | |
| Cash flows from financing activities: | | |
| Proceeds from issuance of long-term debt | - | 10,000 |
| Repayments of long-term debt | - | (60,000) |
| Dividends on common stock | (7,038) | (6,716) |
| Repurchases of common stock | (4,486) | (58,123) |
| Stock options exercised | 3,097 | 4,870 |
| Excess tax benefits from exercise of stock options | 955 | 2,745 |
| | | |
| Net cash used in financing activities | (7,472) | (107,224) |
| | | |
| Effect of foreign exchange rate fluctuations on cash | 2,187 | 313 |
| Net increase in cash and cash equivalents | 52,433 | 1,284 |
| Cash and cash equivalents, beginning of period | 25,090 | 31,613 |
| | | |
| Cash and cash equivalents, end of period | \$ 77,523 | \$ 32,897 |
| | | |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 6 | \$ 3,061 |
| Income taxes | \$ 21,352 | \$ 30,865 |
| Supplemental schedule of non-cash investing activities: | | |
| Notes receivable issued upon sale of revenue equipment | \$ 1,844 | \$ 3,630 |

See Notes to Consolidated Financial Statements (Unaudited).

7

WERNER ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) Comprehensive Income

Other than our net income, our only other source of comprehensive income (loss) is foreign currency translation adjustments. Comprehensive income (loss) from foreign currency translation adjustments was income of \$1,543,000 for the three-month period ended June 30, 2008 and \$892,000 for the same period ended June 30, 2007. Such comprehensive income (loss) was also income of \$2,187,000 for the six-month period ended June 30, 2008 and \$313,000 for the same period ended June 30, 2007.

(2) Long-Term Debt

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

As of June 30, 2008, we have two committed credit facilities with banks totaling \$225.0 million that mature in May 2009 (\$50.0 million) and May 2011 (\$175.0 million). Borrowings under these credit facilities bear variable interest based on the London Interbank Offered Rate ("LIBOR"). As of June 30, 2008, we had no borrowings outstanding under these credit facilities with banks. The \$225.0 million of credit available under these facilities is further reduced by \$39.5 million in letters of credit under which we are obligated. Each of the debt agreements includes, among other things, two financial covenants requiring us (i) not to exceed a maximum ratio of total debt to total capitalization and (ii) not to exceed a maximum ratio of total funded debt to earnings before interest, income taxes, depreciation, amortization and rentals payable (as defined in each credit facility). At June 30, 2008, we were in compliance with these covenants.

(3) Income Taxes

During first quarter 2006, in connection with an audit of our federal income tax returns for the years 1999 to 2002, we received a notice from the Internal Revenue Service ("IRS") proposing to disallow a significant tax deduction. This deduction was based on a timing difference between financial reporting and tax reporting and would result in interest charges, which we record as a component of income tax expense in the Consolidated Statements of Income. This timing difference deduction reversed in our 2004 income tax return. We formally protested this matter in April 2006. During fourth quarter 2007, we reached a tentative settlement agreement with an IRS appeals officer. During fourth quarter 2007, we also accrued in income taxes expense in our Consolidated Statements of Income the estimated cumulative interest charges for the anticipated settlement of this matter, net of income taxes, which amounted to \$4.0 million, or \$0.05 per share. During second quarter 2008, the appeals officer received the concurrence of the Joint Committee of Taxation with regard to the recommended basis of settlement. The case is now undergoing administrative processing at the IRS.

For the three-month and six-month periods ended June 30, 2008, there were no material changes to the total amount of unrecognized tax benefits. We reclassified \$6.8 million of our total liability for unrecognized tax benefits from long-term to current during the six-month period ended June 30, 2008. This reclassification is due to the settlement agreement with the IRS for tax years 1999 through 2002, as discussed above. We accrued interest of \$0.2 million during the three-month period and \$0.4 million during the six-month period ended June 30, 2008. Our total gross liability for unrecognized tax benefits at June 30, 2008 is \$12.8 million. If recognized, \$7.9 million of unrecognized tax benefits would impact our effective tax rate. Interest of \$9.0 million has been reflected as a component of the total liability. We do not expect any other significant increases or decreases for uncertain tax positions during the next twelve months.

8

We file U.S. federal income tax returns, as well as income tax returns in various states and several foreign jurisdictions. The years 2003 through 2007 are open for examination by the IRS, and various years are open for examination by state and foreign tax authorities. The IRS completed an audit of our 2005 federal income tax return and issued a "no change letter" during second quarter 2008.

(4) Commitments and Contingencies

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

As of June 30, 2008, we have committed to property and equipment purchases of approximately \$23.6 million.

We are involved in certain claims and pending litigation arising in the normal course of business. Management believes the ultimate resolution of these matters will not materially affect our consolidated financial statements.

(5) Earnings Per Share

We compute and present earnings per share in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, Earnings per Share. Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. The difference between basic and diluted earnings per share for all periods presented is due to the common stock equivalents that are assumed to be issued upon the exercise of stock options. There are no differences in the numerator of our computations of basic and diluted earnings per share for any periods presented. The computation of basic and diluted earnings per share is shown below (in thousands, except per share amounts).

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------|------------------------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| Net income | \$ 18,112 | \$ 22,254 | \$ 26,487 | \$ 37,922 |
| Weighted-average common shares outstanding | 70,410 | 73,395 | 70,428 | 74,080 |
| Common stock equivalents | 1,007 | 1,353 | 1,010 | 1,397 |
| Shares used in computing diluted earnings per share | 71,417 | 74,748 | 71,438 | 75,477 |
| Basic earnings per share | \$.26 | \$.30 | \$.38 | \$.51 |
| Diluted earnings per share | \$.25 | \$.30 | \$.37 | \$.50 |

Options to purchase shares of common stock that were outstanding during the periods indicated above, but were excluded from the computation of diluted earnings per share because the option purchase price was greater than the average market price of the common shares, were:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------|------------------------------|------|
| | 2008 | 2007 | 2008 | 2007 |

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

| | | | | |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
| Number of options | 29,500 | 29,500 | 29,500 | 29,500 |
| Range of option purchase prices | \$19.26-\$20.36 | \$19.26-\$20.36 | \$19.26-\$20.36 | \$19.26-\$20.36 |

9

(6) Stock-Based Compensation

Our Equity Plan provides for grants of nonqualified stock options, restricted stock and stock appreciation rights. Options are granted at prices equal to the market value of the common stock on the date the option is granted. The Board of Directors or the Compensation Committee of our Board of Directors will determine the vesting conditions of the award. Option awards currently outstanding become exercisable in installments from eighteen to seventy-two months after the date of grant. The options are exercisable over a period not to exceed ten years and one day from the date of grant. No awards of restricted stock or stock appreciation rights have been issued to date. The maximum number of shares of common stock that may be awarded under the Equity Plan is 20,000,000 shares. The maximum aggregate number of shares that may be awarded to any one person under the Equity Plan is 2,562,500. As of June 30, 2008, there were 8,700,007 shares available for granting additional awards.

Effective January 1, 2006, we adopted SFAS No. 123 (Revised 2004), Share-Based Payment ("No. 123R"), using a modified version of the prospective transition method. Under this transition method, compensation cost is recognized on or after January 1, 2006 for (i) the portion of outstanding awards that were not vested as of January 1, 2006, based on the grant-date fair value of those awards calculated under SFAS No. 123, Accounting for Stock-Based Compensation (as originally issued), for either recognition or pro forma disclosures and (ii) all share-based payments granted on or after January 1, 2006, based on the grant-date fair value of those awards calculated under SFAS No. 123R. Stock-based employee compensation expense was \$0.4 million for each of the three-month periods ended June 30, 2008 and June 30, 2007 and \$0.8 million for each of the six-month periods ended June 30, 2008 and June 30, 2007. Stock-based employee compensation expense is included in salaries, wages and benefits within the Consolidated Statements of Income. The total income tax benefit recognized in the Consolidated Statements of Income for stock-based compensation arrangements was \$0.1 million for each of the three-month periods ended June 30, 2008 and June 30, 2007 and \$0.3 million for each of the six-month periods ended June 30, 2008 and June 30, 2007.

The following table summarizes Equity Plan stock option activity for the six months ended June 30, 2008:

| | Number of Options (in thousands) | Weighted Average Exercise Price (\$) | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value (in thousands) |
|------------------------------------|---|---|--|--|
| Outstanding at beginning of period | 3,854 | \$ 12.23 | | |
| Options granted | - | \$ - | | |

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

| | | | | | |
|------------------------------|-------|----|-------|------|-----------|
| Options exercised | (300) | \$ | 10.34 | | |
| Options forfeited | (132) | \$ | 17.56 | | |
| Options expired | - | \$ | - | | |
| | ----- | | | | |
| Outstanding at end of period | 3,422 | \$ | 12.19 | 4.32 | \$ 21,918 |
| | ===== | | | | |
| Exercisable at end of period | 2,658 | \$ | 10.68 | 3.34 | \$ 21,007 |
| | ===== | | | | |

We did not grant any stock options during the three-month and six-month periods ended June 30, 2008 and June 30, 2007. The fair value of stock option grants is estimated using a Black-Scholes valuation model. The total intrinsic value of share options exercised was \$0.4 million and \$6.0 million for the three-month periods ended June 30, 2008 and June 30, 2007 and \$2.7 million and \$6.7 million for the six-month periods ended June 30, 2008 and June 30, 2007. As of June 30, 2008, the total unrecognized compensation cost related to nonvested stock option awards was approximately \$2.7 million and

10

is expected to be recognized over a weighted average period of 1.6 years.

We do not have a formal policy for issuing shares upon exercise of stock options, so such shares are generally issued from treasury stock. From time to time, we repurchase shares of our common stock, the timing and amount of which depends on market and other factors. Historically, the shares acquired under these regular repurchase programs have provided us with sufficient quantities of stock to issue upon exercises of stock options. Based on current treasury stock levels, we do not expect to repurchase additional shares specifically for stock option exercises during 2008.

(7) Segment Information

We have two reportable segments - Truckload Transportation Services ("Truckload") and Value Added Services ("VAS").

The Truckload segment consists of six operating fleets that are aggregated because they have similar economic characteristics and meet the other aggregation criteria of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information ("No. 131"). The six operating fleets that comprise our Truckload segment are as follows: (i) dedicated services ("Dedicated") provides truckload services required by a specific customer, generally for a distribution center or manufacturing facility; (ii) the medium-to-long-haul van ("Van") fleet transports a variety of consumer, nondurable products and other commodities in truckload quantities over irregular routes using dry van trailers; (iii) the regional short-haul ("Regional") fleet provides comparable truckload van service within five geographic regions across the United States; (iv) the expedited ("Expedited") fleet provides time-sensitive truckload services utilizing driver teams; and the (v) flatbed ("Flatbed") and (vi) temperature-controlled ("Temperature-Controlled") fleets provide truckload services for products with specialized trailers. Revenues for the Truckload segment include non-trucking revenues of \$1.9 million and \$2.3 million for the three-month periods ended June 30, 2008 and June 30, 2007 and \$3.8 million and \$5.4 million for the six-month periods ended June 30, 2008 and June 30, 2007. These revenues consist primarily of the portion of shipments delivered to or from Mexico where we utilize a third-party capacity provider.

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

The VAS segment generates the majority of our non-trucking revenues through four operating units that provide non-trucking services to our customers. These four VAS operating units are (i) truck brokerage ("Brokerage"), (ii) freight management (single-source logistics) ("Freight Management"), (iii) intermodal services ("Intermodal") and (iv) Werner Global Logistics international services ("International").

We generate other revenues related to third-party equipment maintenance, equipment leasing and other business activities. None of these operations meets the quantitative threshold reporting requirements of SFAS No. 131. As a result, these operations are grouped in "Other" in the tables below. "Corporate" includes revenues and expenses that are incidental to our activities and are not attributable to any of our operating segments. We do not prepare separate balance sheets by segment and, as a result, assets are not separately identifiable by segment. We have no significant intersegment sales or expense transactions that would require the elimination of revenue between our segments in the tables below.

11

The following tables summarize our segment information (in thousands):

| | Revenues | | | |
|-----------------------------------|--------------------------------|-------------------|------------------------------|--------------------|
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Truckload Transportation Services | \$ 505,214 | \$ 451,069 | \$ 951,383 | \$ 880,876 |
| Value Added Services | 67,629 | 75,849 | 129,815 | 145,726 |
| Other | 4,054 | 3,795 | 7,959 | 7,397 |
| Corporate | 1,284 | 573 | 1,811 | 1,200 |
| Total | \$ 578,181 | \$ 531,286 | \$1,090,968 | \$1,035,199 |

| | Operating Income | | | |
|-----------------------------------|--------------------------------|-----------|------------------------------|-----------|
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Truckload Transportation Services | \$ 25,778 | \$ 34,632 | \$ 35,013 | \$ 58,408 |
| Value Added Services | 3,684 | 3,457 | 7,351 | 6,397 |
| Other | 916 | 814 | 1,982 | 1,643 |
| Corporate | 490 | (517) | (60) | (796) |

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

| | | | | |
|-------|-----------|-----------|-----------|-----------|
| Total | \$ 30,868 | \$ 38,386 | \$ 44,286 | \$ 65,652 |
| | ===== | ===== | ===== | ===== |

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") summarizes the financial statements from management's perspective with respect to our financial condition, results of operations, liquidity and other factors that may affect actual results. The MD&A is organized in the following sections:

- * Overview
- * Results of Operations
- * Liquidity and Capital Resources
- * Contractual Obligations and Commercial Commitments
- * Off-Balance Sheet Arrangements
- * Regulations
- * Critical Accounting Policies
- * Accounting Standards

The MD&A should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2007.

Overview:

We operate primarily in the truckload sector of the trucking industry, with a focus on transporting consumer nondurable products that ship consistently throughout the year. Our success depends on our ability to

12

efficiently manage our resources in the delivery of truckload transportation and logistics services to our customers. Resource requirements vary with customer demand, which may be subject to seasonal or general economic conditions. Our ability to adapt to changes in customer transportation requirements is essential to efficiently deploy resources and make capital investments in tractors and trailers (with respect to our Truckload segment) or obtain qualified third-party capacity at a reasonable price (with respect to our VAS segment). Although our business volume is not highly concentrated, we may also be occasionally affected by our customers' financial failures or loss of customer business.

Operating revenues consist of (i) trucking revenues generated by the six operating fleets in the Truckload segment (Dedicated, Van, Regional, Expedited, Temperature-Controlled and Flatbed) and (ii) non-trucking revenues generated primarily by the four operating units in our VAS segment (Brokerage, Freight Management, Intermodal and International). Our Truckload segment also includes a small amount of non-trucking revenues, consisting primarily of the portion of shipments delivered to or from Mexico where the Truckload segment utilizes a third-party capacity provider. Non-trucking revenues reported in the operating statistics table include those revenues generated by the VAS and Truckload segments. Trucking revenues accounted for 87% of total operating revenues in second quarter 2008, and non-trucking and other operating revenues accounted for 13% of total operating revenues.

Trucking services typically generate revenues on a per-mile basis. Other sources of trucking revenues include fuel surcharges and accessorial

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

revenues (such as stop charges, loading/unloading charges and equipment detention charges). Because fuel surcharge revenues fluctuate in response to changes in fuel costs, these revenues are identified separately within the operating statistics table and are excluded from the statistics to provide a more meaningful comparison between periods. The non-trucking revenues in the operating statistics table include such revenues generated by a fleet whose operations fall within the Truckload segment. We do this so that we can calculate the revenue statistics in the operating statistics table using only the revenue generated by company-owned and owner-operator trucks. The key statistics used to evaluate trucking revenues (excluding fuel surcharges) are (i) average revenues per tractor per week, (ii) per-mile rates charged to customers, (iii) average monthly miles generated per tractor, (iv) average percentage of empty miles (miles without trailer cargo), (v) average trip length (in loaded miles) and (vi) average number of tractors in service. General economic conditions, seasonal trucking industry freight patterns and industry capacity are important factors that impact these statistics.

Our most significant resource requirements are company drivers, owner-operators, tractors, trailers and equipment operating costs (such as fuel and related fuel taxes, driver pay, insurance and supplies and maintenance). To mitigate our risk to fuel price increases, we recover additional fuel surcharges from our customers that recoup a majority, but not all, of the increased fuel costs; however, we cannot assure that current recovery levels will continue in future periods. Our financial results are also affected by company driver and owner-operator availability and the market for new and used revenue equipment. We are self-insured for a significant portion of bodily injury, property damage and cargo claims and for workers' compensation benefits for our employees (supplemented by premium-based insurance coverage above certain dollar levels). For that reason, our financial results may also be affected by driver safety, medical costs, weather, legal and regulatory environments and insurance coverage costs to protect against catastrophic losses.

The operating ratio is a common industry measure used to evaluate our profitability and that of our Truckload segment operating fleets. The operating ratio consists of operating expenses expressed as a percentage of operating revenues. The most significant variable expenses that impact the Truckload segment are driver salaries and benefits, payments to owner-operators (included in rent and purchased transportation expense), fuel, fuel taxes (included in taxes and licenses expense), supplies and maintenance and insurance and claims. These expenses generally vary based on the number of miles generated. We also evaluate these costs on a per-mile basis to adjust for the impact on the percentage of total operating revenues caused by changes in fuel surcharge revenues, per-mile rates

13

charged to customers and non-trucking revenues. As discussed further in the comparison of operating results for second quarter 2008 to second quarter 2007, several industry-wide issues could cause costs to increase in 2008. These issues include rising fuel prices, higher new truck and trailer purchase prices and a weaker used equipment market. Our main fixed costs include depreciation expense for tractors and trailers and equipment licensing fees (included in taxes and licenses expense). The Truckload segment requires substantial cash expenditures for tractor and trailer purchases. We fund these purchases with net cash from operations and financing available under our existing credit facilities, as management deems necessary.

We provide non-trucking services primarily through four operating units

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

within our VAS segment. These operating units include Brokerage, Freight Management, Intermodal and International. Unlike our Truckload segment, the VAS segment is less asset-intensive and is instead dependent upon qualified employees, information systems and qualified third-party capacity providers. The largest expense item related to the VAS segment is the cost of transportation we pay to third-party capacity providers. This expense item is recorded as rent and purchased transportation expense. Other operating expenses include salaries, wages and benefits and computer hardware and software depreciation. We evaluate VAS by reviewing the gross margin percentage (revenues less rent and purchased transportation expenses expressed as a percentage of revenues) and the operating income percentage.

14

Results of Operations:

The following table sets forth certain industry data regarding the freight revenues and operations for the periods indicated.

| | Three Months Ended June 30, | | % | Six Months Ended June 30, | | % |
|--|--------------------------------|------------------|-------------|------------------------------|--------------------|-------------|
| | 2008 | 2007 | | 2008 | 2007 | |
| Trucking revenues, net of fuel surcharge (1) | \$368,577 | \$375,169 | -1.8% | \$717,001 | \$741,475 | -3.3% |
| Trucking fuel surcharge revenues (1) | 134,929 | 73,403 | 83.8% | 230,698 | 133,786 | 72.4% |
| Non-trucking revenues, including VAS (1) | 69,510 | 78,184 | -11.1% | 133,629 | 151,135 | -11.6% |
| Other operating revenues (1) | 5,165 | 4,530 | 14.0% | 9,640 | 8,803 | 9.5% |
| Total operating revenues (1) | \$578,181 | \$531,286 | 8.8% | \$1,090,968 | \$1,035,199 | 5.4% |
| Operating ratio (consolidated) (2) | 94.7% | 92.8% | | 95.9% | 93.7% | |
| Average monthly miles per tractor | 10,397 | 10,078 | 3.2% | 10,132 | 9,792 | 3.5% |
| Average revenues per total mile (3) | \$1.465 | \$1.463 | 0.1% | \$1.459 | \$1.453 | 0.4% |
| Average revenues per loaded mile (3) | \$1.690 | \$1.685 | 0.3% | \$1.688 | \$1.680 | 0.5% |
| Average percentage of empty miles (4) | 13.35% | 13.19% | 1.2% | 13.53% | 13.51% | 0.1% |
| Average trip length in miles (loaded) | 540 | 561 | -3.7% | 541 | 567 | -4.6% |
| Total miles (loaded and empty) (1) | 251,630 | 256,486 | -1.9% | 491,374 | 510,200 | -3.7% |
| Average tractors in service | 8,068 | 8,483 | -4.9% | 8,083 | 8,684 | -6.9% |
| Average revenues per tractor per week (3) | \$3,514 | \$3,402 | 3.3% | \$3,412 | \$3,284 | 3.9% |
| Total tractors (at quarter end) | | | | | | |
| Company | 7,320 | 7,530 | -2.8% | 7,320 | 7,530 | -2.8% |
| Owner-operator | 730 | 820 | -11.0% | 730 | 820 | -11.0% |

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

| | | | | | | |
|---|--------|--------|-------|--------|--------|-------|
| Total tractors | 8,050 | 8,350 | -3.6% | 8,050 | 8,350 | -3.6% |
| Total trailers (Truckload and Intermodal, at quarter end) | 24,700 | 24,800 | -0.4% | 24,700 | 24,800 | -0.4% |

- (1) Amounts in thousands.
- (2) Operating expenses expressed as a percentage of operating revenues. Operating ratio is a common measure in the trucking industry used to evaluate profitability.
- (3) Net of fuel surcharge revenues.
- (4) Miles without trailer cargo.

15

The following table sets forth the revenues, operating expenses and operating income for the Truckload segment. Revenues for the Truckload segment include non-trucking revenues of \$1.9 million and \$2.3 million for the three-month periods ended June 30, 2008 and June 30, 2007 and \$3.8 million and \$5.4 million for the six-month periods ended June 30, 2008 and June 30, 2007, as described on page 11.

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|--------------------------------|-------|-----------|-------|------------------------------|-------|-----------|-------|
| | 2008 | | 2007 | | 2008 | | 2007 | |
| Truckload Transportation Services (amounts in thousands) | \$ | % | \$ | % | \$ | % | \$ | % |
| Revenues | \$505,214 | 100.0 | \$451,069 | 100.0 | \$951,383 | 100.0 | \$880,876 | 100.0 |
| Operating expenses | 479,436 | 94.9 | 416,437 | 92.3 | 916,370 | 96.3 | 822,468 | 93.4 |
| Operating income | \$ 25,778 | 5.1 | \$ 34,632 | 7.7 | \$ 35,013 | 3.7 | \$ 58,408 | 6.6 |

Higher fuel prices and higher fuel surcharge revenues increase our consolidated operating ratio and the Truckload segment's operating ratio when fuel surcharges are reported on a gross basis as revenues versus netting against fuel expenses. Eliminating fuel surcharge revenues, which are generally a more volatile source of revenue, provides a more consistent basis for comparing the results of operations from period to period. The following table calculates the Truckload segment's operating ratio as if fuel surcharges are excluded from revenue and instead reported as a reduction of operating expenses.

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|--|--------------------------------|--|--|--|------------------------------|--|--|--|
|--|--------------------------------|--|--|--|------------------------------|--|--|--|

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

| Truckload Transportation Services (amounts in thousands) | 2008 | | 2007 | | 2008 | | 2007 | |
|---|-----------|-------|-----------|-------|-----------|-------|-----------|-------|
| | \$ | % | \$ | % | \$ | % | \$ | % |
| Revenues | \$505,214 | | \$451,069 | | \$951,383 | | \$880,876 | |
| Less: trucking fuel surcharge revenues | 134,929 | | 73,403 | | 230,698 | | 133,786 | |
| Revenues, net of fuel surcharges | 370,285 | 100.0 | 377,666 | 100.0 | 720,685 | 100.0 | 747,090 | 100.0 |
| Operating expenses | 479,436 | | 416,437 | | 916,370 | | 822,468 | |
| Less: trucking fuel surcharge revenues | 134,929 | | 73,403 | | 230,698 | | 133,786 | |
| Operating expenses, net of fuel surcharges | 344,507 | 93.0 | 343,034 | 90.8 | 685,672 | 95.1 | 688,682 | 92.2 |
| Operating income | \$ 25,778 | 7.0 | \$ 34,632 | 9.2 | \$ 35,013 | 4.9 | \$ 58,408 | 7.8 |

The following table sets forth the VAS segment's non-trucking revenues, rent and purchased transportation expense, other operating expenses and operating income. Other operating expenses for the VAS segment primarily consist of salaries, wages and benefits expense. VAS also incurs smaller expense amounts in the supplies and maintenance, depreciation, rent and purchased transportation (excluding third-party transportation costs), insurance, communications and utilities and other operating expense categories.

| Value Added Services (amounts in thousands) | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|--|--------------------------------|-------|----------|-------|------------------------------|-------|-----------|-------|
| | 2008 | | 2007 | | 2008 | | 2007 | |
| | \$ | % | \$ | % | \$ | % | \$ | % |
| Revenues | \$67,629 | 100.0 | \$75,849 | 100.0 | \$129,815 | 100.0 | \$145,726 | 100.0 |
| Rent and purchased transportation expense | 57,841 | 85.5 | 67,308 | 88.7 | 110,520 | 85.1 | 129,237 | 88.7 |
| Gross margin | 9,788 | 14.5 | 8,541 | 11.3 | 19,295 | 14.9 | 16,489 | 11.3 |
| Other operating expenses | 6,104 | 9.1 | 5,084 | 6.7 | 11,944 | 9.2 | 10,092 | 6.9 |
| Operating income | \$ 3,684 | 5.4 | \$ 3,457 | 4.6 | \$ 7,351 | 5.7 | \$ 6,397 | 4.4 |

Three Months Ended June 30, 2008 Compared to Three Months Ended June 30,

2007

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

Operating Revenues

Operating revenues increased 8.8% for the three months ended June 30, 2008, compared to the same period of the prior year. Excluding fuel surcharge revenues, trucking revenues decreased 1.8% due primarily to a 4.9% decrease in the average number of tractors in service, partially offset by a 3.2% increase in average monthly miles per tractor. In mid-March 2007, we began reducing the Van fleet to better match declining load volumes with fewer trucks. This proactive decision helped us achieve measurable performance improvement by increasing average miles per tractor 3.2% and improving revenue per total mile slightly in second quarter 2008 compared to second quarter 2007. With respect to pricing and rates, revenue per total mile, excluding fuel surcharges, increased by 0.1%. We believe the overall rate market has shifted from a rate decrease market to a rate stable market. If freight demand improves in the third quarter, the potential exists to begin obtaining rate increases in the second half of 2008.

Freight demand for the nearly 4,800 trucks in our Regional, Expedited and Van fleets (collectively the "Van Network") showed the normal seasonal improvement from first quarter to second quarter 2008. The percentages of loads to trucks (pre-books) in April and May 2008 were lower than in April and May 2007 and improved in June 2008, exceeding June 2007 levels. During July, we experienced the normal seasonal decline in pre-books which tracked at about the same level as July 2007. The Regional and Expedited fleets demonstrated the strongest improvement, with second quarter 2008 demand consistently exceeding second quarter 2007. This trend for the Regional and Expedited fleets continued in July 2008.

Although the domestic economy remains sluggish, we experienced improving freight demand over the last five weeks of second quarter 2008 due to the tightening of capacity. We believe the primary reason for the freight improvement during June 2008 is due to trucking company failures and shipper concerns about the potential for further trucking company failures, which results in more shipments being offered to high-service, financially-strong companies such as Werner. The rapid increase in diesel fuel prices during second quarter 2008 likely caused an acceleration of trucking company failures. As carrier failures have been occurring, shippers' understanding of the overall impact of higher fuel prices has improved. In addition, many trucking companies, including Werner, reduced the size of their fleets over the past year to adapt to the challenging market conditions.

Fuel surcharge revenues represent collections from customers for the higher cost of fuel. These revenues increased 83.8% to \$134.9 million in second quarter 2008 from \$73.4 million in second quarter 2007 due to an average increase in diesel fuel costs of \$1.51 per gallon in second quarter 2008 compared to second quarter 2007. To lessen the effect of fluctuating fuel prices on our margins, we collect fuel surcharge revenues from our customers. Our fuel surcharge programs are designed to (i) recoup high fuel costs from customers when fuel prices rise and (ii) provide customers with the benefit of lower costs when fuel prices decline. These programs enable us to recover a majority, but not all, of the fuel price increases. The remainder is generally not recoverable because of empty miles not billable to customers, out-of-route miles, truck idle time and the volatility of fuel prices when prices increase rapidly in short time periods. In the past, we negotiated higher rates with customers to recover the fuel expense shortfall in base rates per mile. However, given the softer freight market experienced during the past two years, we have not been able to recover the fuel expense shortfall in base rates. As a result, increases in fuel costs may continue to negatively impact our earnings per share until freight market conditions may allow us to recover this shortfall from customers.

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

The U.S. Department of Energy national diesel fuel price index exceeded \$4.70 per gallon during June 2008 and averaged \$4.37 per gallon in second quarter 2008, compared to \$2.81 per gallon in second quarter 2007. For longer haul shipments (over approximately 1,000 miles per trip), we observed a modal shift for some shipments from truckload to rail intermodal. We believe that because of the effect of higher priced diesel fuel on truckload

17

freight rates, some price-sensitive shippers have been reallocating a greater portion of their long-haul freight from truckload to rail intermodal in recent months. This modal shift is supported by our Intermodal unit within VAS. As a result, our customer is ultimately able to stay with us while exploring the lowest cost delivery option on a shipment-by-shipment basis. We also believe this partial modal shift has contributed to the more significant decline in freight demand in the longer haul truckload market, but customers have seldom transitioned from us altogether. We have proactively adapted to this modal shift by reducing the number of trucks in our Van fleet by 30% from 3,000 trucks in March 2007 to approximately 2,100 trucks at June 30, 2008.

The ongoing diversification of our service offerings away from the Van fleet to Dedicated, Regional, Expedited and North America international in the Truckload segment and logistics through the VAS segment helped lessen the impact of a weaker freight market in second quarter 2008. Customer response to these growing service offerings continues to be very positive. We intend to continue diversifying and expanding these service offerings.

To provide shippers with additional sources of managed capacity and network analysis, as well as a more global footprint, we continue to grow our non-asset based VAS division. In second quarter 2008, VAS received a record number of freight management business awards in comparison to its historical award levels. This new business is expected to generate additional revenues across all of our business units and fleets (including Brokerage, Intermodal, Dedicated and the Van Network) as the new business is implemented in the second half of 2008. Our diverse portfolio of logistics services, backed by our asset-based fleets, has become an attractive option to customers as they look to ensure they have a competitive and seamless supply chain solution.

VAS revenues are generated by its four operating units: Brokerage, Freight Management, Intermodal and International. VAS revenues declined 11% to \$67.6 million in second quarter 2008 from \$75.8 million in second quarter 2007 due to a structural change to a certain customer's continuing arrangement, offset partially by an increase in Brokerage, Intermodal and International revenues. We negotiated a structural change to a large VAS customer's continuing arrangement related to the use of third party carriers, effective in third quarter 2007. Consequently, we began reporting VAS revenues for this customer on a net basis (revenues net of purchased transportation expense) rather than on a gross basis. This change affected the reporting of VAS revenues and resulted in a reduction of VAS revenues and VAS purchased transportation expense for this customer in third quarter 2007 and subsequent periods. This reporting change resulted in a reduction of VAS revenues and VAS rent and purchased transportation expense of \$19.5 million from second quarter 2007 to second quarter 2008. This change had no impact on the dollar amount of VAS gross margin or operating income. Excluding the affected revenues for this customer, VAS revenues grew 20% during second quarter 2008 compared to the same period in 2007, the gross margin percentage declined to 14.5% in second quarter 2008 compared to 15.2% in second quarter 2007, and the operating income percentage declined to 5.4% in second quarter 2008 compared to 6.1% in second quarter 2007.

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

Brokerage continued to produce strong results with a 17% revenue growth and a slight decline in its gross margin percentage. The tightening of truckload capacity due to increased carrier failures is making it more challenging for Brokerage to obtain qualified third party carriers at a comparable cost to prior quarters. Intermodal revenues grew 21%, and its operating margin percentage also improved. International continues to generate solid growth and better results.

Operating Expenses

Our operating ratio (operating expenses expressed as a percentage of operating revenues) was 94.7% for the three months ended June 30, 2008, compared to 92.8% for the three months ended June 30, 2007. Expense items that impacted the overall operating ratio are described on the following pages. The tables on page 16 show the operating ratios and operating margins for our two reportable segments, Truckload and VAS.

18

The following table sets forth the cost per total mile of operating expense items for the Truckload segment for the periods indicated. We evaluate operating costs for this segment on a per-mile basis, which is a better measurement tool for comparing the results of operations from period to period.

| | Three Months Ended June 30, | | Increase (Decrease) | Six Months Ended June 30, | | Increase (Decrease) |
|-----------------------------------|--------------------------------|----------------|------------------------|------------------------------|----------------|------------------------|
| | 2008 | 2007 | per Mile | 2008 | 2007 | per Mile |
| Salaries, wages and benefits | \$0.568 | \$0.566 | \$0.002 | \$0.571 | \$0.570 | \$0.001 |
| Fuel | 0.614 | 0.388 | 0.226 | 0.565 | 0.368 | 0.197 |
| Supplies and maintenance | 0.155 | 0.147 | 0.008 | 0.158 | 0.148 | 0.010 |
| Taxes and licenses | 0.110 | 0.114 | (0.004) | 0.114 | 0.116 | (0.002) |
| Insurance and claims | 0.094 | 0.093 | 0.001 | 0.098 | 0.094 | 0.004 |
| Depreciation | 0.160 | 0.157 | 0.003 | 0.164 | 0.159 | 0.005 |
| Rent and purchased transportation | 0.188 | 0.162 | 0.026 | 0.181 | 0.156 | 0.025 |
| Communications and utilities | 0.019 | 0.020 | (0.001) | 0.020 | 0.020 | 0.000 |
| Other | (0.003) | (0.023) | 0.020 | (0.006) | (0.019) | 0.013 |
| Total | \$1.905 | \$1.624 | \$0.281 | 1.865 | \$1.612 | \$0.253 |

Owner-operator costs are included in rent and purchased transportation expense. Owner-operator miles as a percentage of total miles were 12.1% for second quarter 2008 compared to 12.4% for second quarter 2007. Owner-operators are independent contractors who supply their own tractor and driver and are responsible for their operating expenses (including driver pay, fuel, supplies and maintenance and fuel taxes). This slight decrease in owner-operator miles as a percentage of total miles shifted costs from the rent and purchased transportation category to other expense categories. Due to this decrease, we estimate that rent and purchased transportation expense for the Truckload segment was lower by approximately 0.4 cents per total mile, and other expense categories had offsetting increases on a

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

total-mile basis as follows: (i) salaries, wages and benefits, 0.1 cents; (ii) fuel, 0.2 cents; and (iii) depreciation, 0.1 cents.

Salaries, wages and benefits for non-drivers decreased in second quarter 2008 compared to second quarter 2007. Lower non-driver pay on a total mile basis for office and equipment maintenance personnel in the Truckload segment (due to efficiency and cost control improvements) was offset partially by higher non-driver salaries in the growing non-trucking VAS segment. There was a slight increase in salaries, wages and benefits in the Truckload segment, which is primarily attributed to an increase in student driver pay as the average number of student trainer teams was higher in second quarter 2008 compared to second quarter 2007 and higher workers' compensation expense. These cost increases for the Truckload segment were partially offset by the decrease in non-driver pay discussed above.

We renewed our workers' compensation insurance coverage for the policy year beginning April 1, 2008. Our coverage levels are the same as the prior policy year. We continue to maintain a self-insurance retention of \$1.0 million per claim and have no annual aggregate retention amount for claims above \$1.0 million. Our workers' compensation insurance premiums for the policy year beginning April 2008 are slightly lower than the previous policy year.

The driver recruiting and retention market remained less difficult than a year ago. The weakness in the construction and automotive industries and other factors continue to positively affect our driver availability and selectivity. In addition, our strong mileage utilization and financial strength are attractive to drivers when compared to other carriers. During the past few months, several large competitors reduced the maximum speed for their company trucks to as low as 60 miles per hour ("mph") in order to improve fuel miles per gallon ("mpg"). For such competitors, we believe this mph reduction essentially resulted in a pay-cut for their drivers, who

19

subsequently must work more hours to earn the same amount of pay received prior to the mph reduction. In addition, customer transit times in shipping lanes are negatively impacted when the maximum mph is lowered. We continue to carefully analyze all aspects of this issue and have no current plans to change the maximum speed for our company trucks from 65 mph. We anticipate that competition for qualified drivers will remain high and cannot predict whether we will experience future shortages. If such a shortage were to occur and driver pay rate increases were necessary to attract and retain drivers, our results of operations would be negatively impacted to the extent that corresponding freight rate increases were not obtained.

Fuel increased 22.6 cents per total mile for the Truckload segment due primarily to higher average diesel fuel prices. Compared to the same month in the prior year, diesel fuel costs were \$1.22 per gallon higher in April 2008, \$1.63 per gallon higher in May 2008 and \$1.70 per gallon higher in June 2008. Fuel prices averaged \$1.62 per gallon higher in July 2008 compared to July 2007. During second quarter 2008, we improved the controllable aspects of fuel expense by implementing numerous initiatives to improve fuel efficiency. These initiatives include (i) reducing truck idle time, (ii) lowering non-billable miles, (iii) continuing to increase the percentage of aerodynamic, more fuel-efficient trucks in the company truck fleet and (iv) installing auxiliary power units ("APUs") in company trucks. Truck idle time percentages can be affected by seasonal weather patterns (such as warm summer months and cold winter months) that prompt drivers to idle the engine to provide air conditioning or heating for comfort during non-driving periods. Thus, idle time percentages for trucks without APUs

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

may be higher (and fuel mpg may be lower as a result) during the summer and winter months as compared to temperate spring and fall months. APUs provide an alternate source to power heating and air conditioning systems when the main engine is not operating, and APUs consume significantly less diesel fuel than idling the main engine. As of June 30, 2008, we had installed APUs in approximately 30% of the company-owned truck fleet, and we intend to continue increasing the percentage of trucks with APUs in upcoming months. The average mpg of company trucks improved in second quarter 2008 compared to second quarter 2007. Due strictly to these mpg improvements, we purchased nearly two million fewer gallons of fuel in second quarter 2008 than in second quarter 2007.

Shortages of fuel, increases in fuel prices or rationing of petroleum products can have a materially adverse effect on our operations and profitability. We are unable to predict whether fuel price levels will increase or decrease in the future or the extent to which fuel surcharges will be collected from customers. As of June 30, 2008, we had no derivative financial instruments to reduce our exposure to fuel price fluctuations.

Supplies and maintenance for the Truckload segment increased 0.8 cents on a total mile basis in second quarter 2008 compared to second quarter 2007. Over-the-road repair costs increased due to rising parts and labor costs assessed by over-the-road vendors (partially due to higher commodity costs which increases the costs of parts and tires) and the performance of more over-the-road repairs resulting from a decrease in our equipment maintenance personnel. The increased average age of the truck fleet also contributed to higher truck maintenance repairs.

Taxes and licenses for the Truckload segment decreased in second quarter 2008 by 0.4 cents on a total mile basis from second quarter 2007 due a decrease in fuel taxes per mile resulting from the improvement in the company truck mpg.

Insurance and claims for the Truckload segment increased by 0.1 cents on a total mile basis in second quarter 2008 from second quarter 2007. This increase was the result of net unfavorable claims experience on large claims offset by a reduction in the average number of liability claims and fewer larger dollar claims. We renewed our liability insurance policies on August 1, 2008 and retained the annual \$8.0 million aggregate for claims between \$2.0 million and \$5.0 million. For claims in excess of \$5.0 million and less than \$10.0 million, we are responsible for an aggregate of \$4.0 million of claims in the policy year, which decreased from an aggregate of \$5.0 million in the policy year that began August 1, 2007. We maintain liability

20

insurance coverage with reputable insurance carriers substantially in excess of the \$10.0 million per claim. Our liability insurance premiums for the policy year that began August 1, 2008 are slightly lower than the previous policy year.

Depreciation expense for the Truckload segment increased 0.3 cents per total mile in second quarter 2008 compared to second quarter 2007. This increase was due primarily to the resulting higher ratio of trailers to tractors after we reduced the number of tractors in our Van fleet beginning in March 2007 and due to depreciation of the APUs installed on company trucks. The APU depreciation expense is offset by lower fuel costs as tractors with APUs generally consume less fuel during periods of idle.

Depreciation expense was historically affected by the engine emissions standards imposed by the U.S. Environmental Protection Agency ("EPA") that

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

became effective in October 2002 and applied to all new trucks purchased after that time, resulting in increased truck purchase costs. Depreciation expense will be affected because in January 2007, a second set of more strict EPA engine emissions standards became effective for all newly manufactured truck engines. Compared to trucks with engines produced before 2007, the trucks with new engines manufactured under the 2007 standards have higher purchase prices, and we expect they could be less fuel-efficient and could have increased maintenance costs. We began to take delivery of trucks with these 2007-standard engines in first quarter 2008 to replace older trucks in our fleet, but it is too early to assess the full extent of differences in operating costs. The engines in our fleet of company-owned trucks as of June 30, 2008 consist of 83% Caterpillar (nearly all are pre-2007 standard engines), 11% Detroit Diesel and 6% Mercedes Benz. In June 2008, Caterpillar announced that it will not produce on-highway engines for use in the United States that will comply with new EPA engine emissions standards that become effective in January 2010 but will continue to sell on-highway engines internationally. Caterpillar also announced it is pursuing a strategic alliance with Navistar. We are unable to determine if this decision will affect the value of our company-owned trucks with Caterpillar engines in the used equipment market. Approximately 1 million trucks in the U.S. domestic market have Caterpillar heavy-duty engines, and Caterpillar has stated it will fully support these engines going forward.

Rent and purchased transportation expense consists mainly of payments to third-party capacity providers in the VAS segment and other non-trucking operations and payments to owner-operators in the Truckload segment. As shown on page 16, the VAS segment's rent and purchased transportation expense decreased in response to a structural change to a large VAS customer's continuing arrangement offset partially by an increase in Brokerage and International. These expenses generally vary depending on changes in the volume of services generated by the segment. As a percentage of VAS revenues, VAS rent and purchased transportation expense decreased to 85.5% in second quarter 2008 compared to 88.7% in second quarter 2007.

Rent and purchased transportation expense for the Truckload segment increased 2.6 cents per total mile (a total of \$5.5 million) in second quarter 2008 primarily because of increased fuel prices that necessitated higher reimbursements to owner-operators for fuel. Our customer fuel surcharge programs do not differentiate between miles generated by company-owned and owner-operator trucks. Challenging operating conditions, including inflationary cost increases that are the responsibility of owner-operators and higher fuel prices, have made it difficult for owner-operators to stay in business. These challenging operating conditions have made owner-operator recruitment and retention difficult for us. We have historically been able to add company-owned tractors and recruit additional company drivers to offset any owner-operator decreases. If a shortage of owner-operators and company drivers occurs, increases in per mile settlement rates (for owner-operators) and driver pay rates (for company drivers) may become necessary to attract and retain these drivers. This could negatively affect our results of operations to the extent that we did not obtain corresponding freight rate increases.

Other operating expenses for the Truckload segment increased 2.0 cents per total mile in second quarter 2008. Gains on sales of assets (primarily trucks and trailers) are reflected as a reduction of other operating expenses and are reported net of sales-related expenses, including costs to prepare the equipment for sale. Gains on sales of assets decreased to \$2.2 million in second quarter 2008 from \$7.6 million in second quarter 2007. As

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

noted in our first quarter 2008 Quarterly Report on Form 10-Q filed with the U.S. Securities and Exchange Commission ("SEC") on May 5, 2008, we anticipated lower gains on sales of equipment in second quarter 2008 than in first quarter 2008 if the soft freight market and high fuel price conditions did not improve. From early May 2008 to June 2008, fuel prices increased approximately 50 cents per gallon and trucking company failures accelerated. As a result, buyer demand declined, and the supply of used trucks increased. Based on current freight and fuel conditions, we anticipate that gains on sales of equipment for third quarter 2008 will be lower than the gains realized in second quarter 2008. Our wholly-owned subsidiary, Fleet Truck Sales, is one of the largest Class 8 used truck and equipment retail entities in the United States. Fleet Truck Sales continues to be our resource for remarketing our used trucks and trailers.

Other Expense (Income)

We recorded minimal interest expense in second quarter 2008 versus \$1.1 million of interest expense in second quarter 2007. We had no debt outstanding at June 30, 2008 compared to \$50.0 million debt outstanding at June 30, 2007.

Income Taxes

Our effective income tax rate (income taxes expressed as a percentage of income before income taxes) increased slightly to 43.1% for second quarter 2008 from 41.8% for second quarter 2007. The higher income tax rate was due primarily to lower income before income taxes for second quarter 2008, which caused non-deductible expenses such as driver per diem to be a larger percentage of our income before income taxes.

Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

Operating Revenues

Operating revenues increased by 5.4% for the six months ended June 30, 2008, compared to the same period of the prior year. Excluding fuel surcharge revenues, trucking revenues decreased 3.3% due primarily to a 6.9% decrease in average number of tractors in service offset by a 3.5% increase in average monthly miles per tractor and a 0.4% increase in average revenues per total mile. Fuel surcharge revenues increased 72.4% to \$230.7 million in the 2008 year to date period from \$133.8 million in the 2007 year to date period because of higher diesel fuel prices. VAS revenues decreased 10.9% due to a structural change to a customer's continuing arrangement related to third party carriers. This change reduced VAS revenues and VAS rent and purchased transportation for the six months ended June 30, 2008 by \$37.9 million, compared to the same period of 2007. Excluding the affected revenues for this customer, VAS revenues grew 20% during the six months ended June 30, 2008 compared to the same period in 2007. This reduction was offset partially by continued growth in Brokerage.

Operating Expenses

Our operating ratio (operating expenses expressed as a percentage of operating revenues) was 95.9% for the six months ended June 30, 2008, compared to 93.7% for the same period of the previous year. Expense items that impacted the overall operating ratio are described below. The tables on page 16 show the operating ratios and operating margins for our two reportable segments, Truckload and VAS.

Owner-operator miles as a percentage of total miles were 12.2% for the six months ended June 30, 2008 compared to 12.1% for the six months ended

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

June 30, 2007. This resulted in essentially no shifting of costs between rent and purchased transportation and other expense categories.

22

Salaries, wages and benefits for non-drivers decreased as a result of the reduction in office and equipment maintenance personnel in the Truckload segment (due to cost control initiatives) offset partially by an increase in VAS personnel to support the VAS segment growth. Salaries, wages and benefits for the Truckload segment increased slightly because an increase in student driver pay resulting from a higher average number of student trainer teams was offset by lower non-driver pay related to office and equipment maintenance personnel. Fuel increased 19.7 cents per total mile due to the higher fuel expense per gallon offset partially by improvements in the company truck fleet mpg. Supplies and maintenance increased 1.0 cent per total mile due to increases in over-the-road tractor repairs and related parts and labor costs. Taxes and licenses were 0.2 cents per mile lower during the first six months of 2008 than the same period of 2007 due to the effect of improved company truck mpg on fuel taxes. Insurance increased 0.4 cents on a total mile basis due primarily to net unfavorable claims experience on large claims offset by a reduction in the average number of liability claims and fewer larger dollar claims. Depreciation increased 0.5 cents per total mile because of a higher trailer-to-tractor ratio and depreciation expense on APUs. Rent and purchased transportation for the Truckload segment increased 2.5 cents per total mile primarily because of an increase in the fuel reimbursement paid to owner-operators. Rent and purchased transportation expense for the VAS segment decreased in response to lower VAS revenues. Other operating expenses decreased 1.3 cents per total mile due to lower gains on sales of assets in 2008.

Other Expense (Income)

We recorded minimal interest expense during the six months ended June 30, 2008 versus \$2.4 million of interest expense during the six months ended June 30, 2007. We had no debt outstanding during the first six months of 2008 compared to \$50.0 million debt outstanding at June 30, 2007 after debt repayments (net of borrowings) of \$50.0 million during the six-month period ended June 30, 2007.

Income Taxes

Our effective income tax rate was 42.7% for the six months ended June 30, 2008 and 41.8% for the same period in 2007. The higher income tax rate was due primarily to lower income before income taxes for second quarter 2008, which caused non-deductible expenses such as driver per diem to be a larger percentage of our income before income taxes.

Liquidity and Capital Resources:

During the six months ended June 30, 2008, we generated cash flow from operations of \$120.2 million, a 10.5% decrease (\$14.1 million) in cash flow compared to the same six-month period one year ago. The decrease in cash flow from operations resulted primarily from an increase in the accounts receivable balance of \$21.5 million from December 31, 2007 to June 30, 2008 (because of higher fuel surcharge billings in accounts receivable as of June 30, 2008) compared to a decrease in the accounts receivable balance of \$9.0 million from December 31, 2006 to June 30, 2007. This \$30.5 million reduction in cash flow was offset partially by a \$15.6 million decrease in accounts payable for revenue equipment from December 2006 to June 2007, compared to no change in accounts payable for revenue equipment from December 2007 to June 2008. We were able to make net capital expenditures,

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

repurchase common stock and pay dividends because of the cash flow from operations and existing cash balances as discussed below.

Net cash used in investing activities for the six-month period ended June 30, 2008 increased by 139.2% (\$36.4 million), from \$26.1 million for the six-month period ended June 30, 2007 to \$62.5 million for the six-month period ended June 30, 2008. Net property additions (primarily revenue equipment) were \$66.0 million for the six-month period ended June 30, 2008, compared to \$29.4 million during the same period of 2007.

23

As of June 30, 2008, we committed to property and equipment purchases, net of trades, of approximately \$23.6 million. We expect our net capital expenditures (primarily revenue equipment) to be in the range of \$75.0 million to \$125.0 million in fiscal year 2008. We intend to fund these net capital expenditures through cash flow from operations, existing cash balances and financing available under our existing credit facilities, as management deems necessary.

Net financing activities used \$7.5 million during the six months ended June 30, 2008 and \$107.2 million during the same period in 2007. The change from 2007 to 2008 included debt repayments (net of borrowings) of \$50.0 million during the six-month period ended June 30, 2007, compared to no debt repayments during the six-month period ended June 30, 2008. We paid dividends of \$7.0 million in the six months ended June 30, 2008 compared to \$6.7 million in the same period of 2007. Financing activities also included common stock repurchases of \$4.5 million in the six-month period ended June 30, 2008 and \$58.1 million in the same period of 2007. From time to time, we have repurchased, and may continue to repurchase, shares of our common stock. The timing and amount of such purchases depends on market and other factors. As of June 30, 2008, we had purchased 1,041,200 shares pursuant to our current Board of Directors repurchase authorization and had 6,958,800 shares remaining available for repurchase.

Management believes our financial position at June 30, 2008 is strong. As of June 30, 2008, we had \$77.5 million of cash and cash equivalents and \$854.7 million of stockholders' equity. Cash is invested in government portfolio money market funds. We do not hold any investments in auction-rate securities. As of June 30, 2008, we had \$225.0 million of available credit pursuant to credit facilities, of which we had no outstanding borrowings. The credit available under these facilities is further reduced by the \$39.5 million in letters of credit we maintain. These letters of credit are primarily required as security for insurance policies. Based on our strong financial position, management foresees no significant barriers to obtaining sufficient financing, if necessary.

Contractual Obligations and Commercial Commitments:

The following tables set forth our contractual obligations and commercial commitments as of June 30, 2008.

| Payments Due by Period | | | | | |
|------------------------|--------|-------|-------|--------|-------|
| (in millions) | | | | | |
| | Less | | | | |
| | than 1 | 1-3 | 4-5 | Over 5 | |
| Total | year | years | years | years | Other |
| | | | | | |

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

| | | | | | | |
|------------------------------------|----------|----------|----------|-------|-------|--------|
| Contractual Obligations | | | | | | |
| Unrecognized tax benefits | \$ 12.8 | \$ 6.9 | \$ - | \$ - | \$ - | \$ 5.9 |
| Equipment purchase commitments | 23.6 | 23.6 | - | - | - | - |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Total contractual cash obligations | \$ 36.4 | \$ 30.5 | \$ - | \$ - | \$ - | \$ 5.9 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Other Commercial Commitments | | | | | | |
| Unused lines of credit | \$ 185.5 | \$ 50.0 | \$ 135.5 | \$ - | \$ - | \$ - |
| Standby letters of credit | 39.5 | 39.5 | - | - | - | - |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Total commercial commitments | \$ 225.0 | \$ 89.5 | \$ 135.5 | \$ - | \$ - | \$ - |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Total obligations | \$ 261.4 | \$ 120.0 | \$ 135.5 | \$ - | \$ - | \$ 5.9 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

24

The equipment purchase commitments relate to committed equipment expenditures (primarily revenue equipment). We have committed credit facilities with two banks totaling \$225.0 million, of which we had no outstanding borrowings at June 30, 2008. These credit facilities bear variable interest based on the LIBOR. The credit available under these facilities is further reduced by the amount of standby letters of credit under which we are obligated. The unused lines of credit are available to us in the event we need financing for the replacement of our fleet or for other significant capital expenditures. Given our strong financial position, we expect that we could obtain additional financing, if necessary, at favorable terms. The standby letters of credit are primarily required for insurance policies. On January 1, 2007, we adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109 ("FIN 48"), and have recorded \$12.8 million of unrecognized tax benefits. We expect \$6.9 million to be settled within the next 12 months; however, we are unable to reasonably determine when the remaining amounts will be settled.

Off-Balance Sheet Arrangements:

As of June 30, 2008, we did not have any non-cancelable revenue equipment operating leases or other arrangements that meet the definition of an off-balance sheet arrangement.

Regulations:

Effective October 1, 2005, all truckload carriers became subject to revised hours of service ("HOS") regulations issued by the Federal Motor Carrier Safety Administration ("FMCSA") ("2005 HOS Regulations"). The most significant change for us from the previous regulations is that now, pursuant to the 2005 HOS Regulations, drivers using the sleeper berth must take at least eight consecutive hours off-duty in the sleeper berth during their ten hours off-duty. Previously, drivers using a sleeper berth were allowed to split their ten-hour off-duty time into two periods, provided neither period was less than two hours. The more restrictive sleeper berth

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

regulations are requiring some drivers to plan their time better. The 2005 HOS Regulations also had a negative impact on our mileage efficiency, resulting in lower mileage productivity for those customers with multiple-stop shipments or those shipments with pick-up or delivery delays.

Effective December 27, 2007, the FMCSA issued an interim final rule that amended the 2005 HOS Regulations to (i) allow drivers up to 11 hours of driving time within a 14-hour, non-extendable window from the start of the workday (this driving time must follow ten consecutive hours of off-duty time) and (ii) restart calculations of the weekly on-duty time limits after the driver has at least 34 consecutive hours off-duty. This interim rule made essentially no changes to the 11-hour driving limit and 34-hour restart rules. In 2006 and 2007, the U.S. Court of Appeals for the District of Columbia also considered the 2005 HOS Regulations and heard arguments on the various petitions for review, one of which was submitted by Public Citizen (a consumer safety organization). The FMCSA solicited comments on the interim final rule until February 15, 2008 and intends to issue a final rule in 2008 that addresses the issues identified by the Court. As of June 30, 2008, the FMCSA has not published a final rule. On January 23, 2008, the Court denied Public Citizen's motion to invalidate the interim final rule.

On January 18, 2007, the FMCSA published a Notice of Proposed Rulemaking ("NPRM") in the Federal Register on the trucking industry's use of Electronic On-Board Recorders ("EOBRs") for compliance with HOS rules. The intent of this proposed rule is to (i) improve highway safety by fostering development of new EOBR technology for HOS compliance; (ii) encourage EOBR use by motor carriers through incentives; and (iii) require EOBR use by operators with serious and continuing HOS compliance problems. Comments on the NPRM were to be received by April 18, 2007. While we do not believe the rule, as proposed, would have a significant effect on our operations and profitability, we will continue to monitor future developments. As of June 30, 2008, the FMCSA has not published a final rule.

25

In 1998, we became the first, and only, trucking company in the United States to receive a U.S. Department of Transportation exemption to use a global positioning system-based paperless log system as an alternative to the paper logbooks traditionally used by truck drivers to track their daily work activities. On September 21, 2004, the FMCSA approved the exemption for our paperless log system and moved this exemption from the FMCSA-approved pilot program to permanent status. The exemption is to be renewed every two years. On September 7, 2006, the FMCSA announced in the Federal Register its decision to renew for two additional years our exemption from the FMCSA's requirement that drivers of commercial motor vehicles operating in interstate commerce prepare handwritten records of duty status (logs). In July 2008, we applied for the two-year renewal of our paperless log program.

On December 26, 2007, the FMCSA published an NPRM in the Federal Register regarding minimum requirements for entry-level driver training. Under the proposed rule, a commercial driver's license ("CDL") applicant would be required to present a valid driver training certificate obtained from an accredited institution or program. Entry-level drivers applying for a Class A CDL would be required to complete a minimum of 120 hours of training, consisting of 76 classroom hours and 44 driving hours. The current regulations do not require a minimum number of training hours and require only classroom education. Drivers who obtain their first CDL during the three-year period after the FMCSA issues a final rule would be exempt. The FMCSA extended the NPRM comment period until July 2008. On April 9,

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

2008, the FMCSA published another NPRM that (i) establishes new minimum standards to be met before states issue commercial learner's permits ("CLPs"); (ii) revises the CDL knowledge and skills testing standards; and (iii) improves anti-fraud measures within the CDL program. If one or both of these proposed rules is approved as written, the final rules could materially impact the number of potential new drivers entering the industry.

The EPA mandated a new set of more stringent engine emissions standards for all newly manufactured truck engines. These standards became effective in January 2007. Compared to trucks with engines manufactured before 2007 and not subject to the new standards, the trucks manufactured with the new engines have higher purchase prices (approximately \$5,000 to \$10,000 more per truck). To delay the cost impact of these new emissions standards, in 2005 and 2006 we purchased significantly more new trucks than we normally buy each year, and we maintained a newer truck fleet relative to historical company and industry standards. Our newer truck fleet allowed us to delay purchases of trucks with the new 2007-standard engines until first quarter 2008. In January 2010, a final set of more rigorous EPA-mandated emissions standards will become effective for all new engines manufactured after that date. We are currently evaluating the options available to us to prepare for the upcoming 2010 standards.

Several U.S. states, counties and cities have enacted legislation or ordinances restricting idling of trucks to short periods of time. This action is significant when it impacts the driver's ability to idle the truck for purposes of operating air conditioning and heating systems particularly while in the sleeper berth. Many of the statutes or ordinances recognize the need of the drivers to have a comfortable environment in which to sleep and include exceptions for those circumstances. California had such an exemption; however, since January 1, 2008, the California sleeper berth exemption no longer exists. We have taken steps to address this issue in California, including the installation and use of APUs. California has also enacted restrictions on transport refrigeration unit ("TRU") emissions, which are scheduled to be phased in over several years beginning at the end of 2008. Although legal challenges may be mounted against California's regulations, if the TRU emissions law becomes effective as scheduled, it will require companies to operate only compliant TRUs in California. There are several alternatives for meeting these requirements that we are currently evaluating.

Critical Accounting Policies:

We operate in the truckload sector of the trucking industry, with a focus on transporting consumer nondurable products that ship more consistently throughout the year and when changes occur in the economy. Our

26

success depends on our ability to efficiently manage our resources in the delivery of truckload transportation and logistics services to our customers. Resource requirements vary with customer demand and may be subject to seasonal or general economic conditions. Our ability to adapt to changes in customer transportation requirements is essential to efficient resource deployment, making capital investments in tractors and trailers or obtaining qualified third-party carrier capacity at a reasonable price. Although our business volume is not highly concentrated, we may also be occasionally affected by our customers' financial failures or loss of customer business.

Our most significant resource requirements are company drivers, owner-operators, tractors, trailers and related equipment operating costs (such as

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

fuel and related fuel taxes, driver pay, insurance and supplies and maintenance). To mitigate our risk to fuel price increases, we recover additional fuel surcharges from our customers that recoup a majority, but not all, of the increased fuel costs; however, we cannot assure that current recovery levels will continue in future periods. Our financial results are also affected by company driver and owner-operator availability and the new and used revenue equipment market. Because we are self-insured for a significant portion of bodily injury, property damage and cargo claims and for workers' compensation benefits for our employees (supplemented by premium-based insurance coverage above certain dollar levels), financial results may also be affected by driver safety, medical costs, weather, legal and regulatory environments and insurance coverage costs to protect against catastrophic losses.

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

- * Selections of estimated useful lives and salvage values for purposes of depreciating tractors and trailers. Depreciable lives of tractors and trailers range from five to 12 years. Estimates of salvage value at the expected date of trade-in or sale (for example, three years for tractors) are based on the expected market values of equipment at the time of disposal. Although our normal replacement cycle for tractors is three years, we calculate depreciation expense for financial reporting purposes using a five-year life and 25% salvage value. Depreciation expense calculated in this manner continues at the same straight-line rate (which approximates the continuing declining market value of the tractors) when a tractor is held beyond the normal three-year age. Calculating depreciation expense using a five-year life and 25% salvage value results in the same annual depreciation rate (15% of cost per year) and the same net book value at the normal three-year replacement date (55% of cost) as using a three-year life and 55% salvage value. We continually monitor the adequacy of the lives and salvage values used in calculating depreciation expense and adjust these assumptions appropriately when warranted.
- * Impairment of long-lived assets. We review our long-lived assets for impairment whenever events or circumstances indicate the carrying amount of a long-lived asset may not be recoverable. An impairment loss would be recognized if the carrying amount of the long-lived asset is not recoverable and the carrying amount exceeds its fair value. For long-lived assets classified as held and used, the carrying amount is not recoverable when the carrying value of the long-lived asset exceeds the sum of the future net cash flows. We do not separately identify assets by operating segment because tractors and trailers are routinely transferred from one operating fleet to another. As a result, none of our long-lived assets have identifiable cash flows from use that are largely independent of the cash flows of other assets and liabilities. Thus, the asset group used to assess impairment would include all of our assets. Long-lived assets classified as "held for sale" are reported at the lower of their carrying amount or fair value less costs to sell.
- * Estimates of accrued liabilities for insurance and claims for liability and physical damage losses and workers' compensation. The insurance and claims accruals (current and noncurrent) are recorded

at the estimated ultimate payment amounts and are based upon individual case estimates (including negative development) and estimates of incurred-but-not-reported losses using loss development

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

factors based upon past experience. An actuary reviews our self-insurance reserves for bodily injury and property damage claims and workers' compensation claims every six months.

- * Policies for revenue recognition. Operating revenues (including fuel surcharge revenues) and related direct costs are recorded when the shipment is delivered. For shipments where a third-party capacity provider (including owner-operators under contract with us) is utilized to provide some or all of the service and we (i) are the primary obligor in regard to the shipment delivery, (ii) establish customer pricing separately from carrier rate negotiations, (iii) generally have discretion in carrier selection and/or (iv) have credit risk on the shipment, we record both revenues for the dollar value of services we bill to the customer and rent and purchased transportation expense for transportation costs we pay to the third-party provider upon the shipment's delivery. In the absence of the conditions listed above, we record revenues net of those expenses related to third-party providers.
- * Accounting for income taxes. Significant management judgment is required to determine (i) the provision for income taxes, (ii) whether deferred income taxes will be realized in full or in part and (iii) the liability for unrecognized tax benefits in accordance with the provisions of FIN 48. Deferred income tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income in the years when those temporary differences are expected to be recovered or settled. When it is more likely that all or some portion of specific deferred income tax assets will not be realized, a valuation allowance must be established for the amount of deferred income tax assets that are determined not to be realizable. A valuation allowance for deferred income tax assets has not been deemed necessary due to our profitable operations. Accordingly, if facts or financial circumstances change and consequently impact the likelihood of realizing the deferred income tax assets, we would need to apply management's judgment to determine the amount of valuation allowance required in any given period.

Management periodically re-evaluates these estimates as events and circumstances change. Together with the effects of the matters discussed above, these factors may significantly impact our results of operations from period to period.

Accounting Standards:

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ("No. 157"). This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements and is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position No. 157-2 ("FSP No. 157-2"). FSP No. 157-2 delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. These nonfinancial items include assets and liabilities such as reporting units measured at a fair value in a goodwill impairment test and nonfinancial assets acquired and liabilities assumed in a business combination. Effective January 1, 2008, we adopted SFAS No. 157 for financial assets and liabilities recognized at fair value on a recurring basis. The partial adoption of SFAS No. 157 for financial assets and liabilities had no effect on our financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations ("No. 141R"). This statement establishes requirements for (i) recognizing and measuring in an acquiring company's financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree, (ii) recognizing and measuring the goodwill acquired in the business combination or a gain from a bargain purchase and (iii) determining what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The provisions of SFAS No. 141R are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. As of June 30, 2008, management believes that SFAS No. 141R will not have a material effect on our financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51 ("No. 160"). This statement amends Accounting Research Bulletin No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The provisions of SFAS No. 160 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. As of June 30, 2008, management believes that SFAS No. 160 will not have a material effect on our financial position, results of operations and cash flows.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133 ("No. 161"). This statement amends FASB Statement No. 133 to require enhanced disclosures about an entity's derivative and hedging activities. The provisions of SFAS No. 161 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. As of June 30, 2008, management believes that SFAS No. 161 will not have a material effect on our financial position, results of operations and cash flows.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles ("No. 162"). This statement identifies the sources of and framework for selecting the accounting principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles ("GAAP") in the United States ("GAAP hierarchy"). Because the current GAAP hierarchy is set forth in the American Institute of Certified Public Accountants Statement on Auditing Standards No. 69, it is directed to the auditor rather than to the entity responsible for selecting accounting principles for financial statements presented in conformity with GAAP. Accordingly, the FASB concluded the GAAP hierarchy should reside in the accounting literature established by the FASB and issued this statement to achieve that result. The provisions of SFAS No. 162 became effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. As of June 30, 2008, management believes that SFAS No. 162 will not have any effect on our current accounting practices or on our financial position, results of operations and cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risk from changes in commodity prices, foreign

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

currency exchange rates and interest rates.

Commodity Price Risk

The price and availability of diesel fuel are subject to fluctuations attributed to changes in the level of global oil production, refining capacity, seasonality, weather and other market factors. Historically, we have recovered a significant portion of fuel price increases from customers in the form of fuel surcharges. We implemented customer fuel surcharge

29

programs with most of our customers to offset much of the higher fuel cost per gallon. However, we do not recover all of the fuel cost increase through these surcharge programs. We cannot predict the extent to which higher fuel price levels will continue in the future or the extent to which fuel surcharges could be collected to offset such increases. As of June 30, 2008, we had no derivative financial instruments to reduce our exposure to fuel price fluctuations.

Foreign Currency Exchange Rate Risk

We conduct business in Mexico, Canada and Asia. Foreign currency transaction gains and losses were not material to our results of operations for second quarter 2008 and prior periods. To date, most foreign revenues are denominated in U.S. Dollars, and we receive payment for foreign freight services primarily in U.S. Dollars to reduce direct foreign currency risk. Accordingly, we are not currently subject to material risks involving any foreign currency exchange rate and the effects that such exchange rate movements would have on our future costs or future cash flows.

Interest Rate Risk

We had no debt outstanding at June 30, 2008. Interest rates on our unused credit facilities are based on the LIBOR. Increases in interest rates could impact our annual interest expense on future borrowings. As of June 30, 2008, we do not have any derivative financial instruments to reduce our exposure to interest rate increases.

Item 4. Controls and Procedures.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 15d-15(e) of the Securities Exchange Act of 1934 ("Exchange Act"). Our disclosure controls and procedures are designed to provide reasonable assurance of achieving the desired control objectives. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in enabling us to record, process, summarize and report information required to be included in our periodic filings with the SEC within the required time period.

Management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, concluded that no changes in our internal control over financial reporting occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

We have confidence in our internal controls and procedures.

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

Nevertheless, our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that the internal controls or disclosure procedures and controls will prevent all errors or intentional fraud. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of such internal controls are met. Further, the design of an internal control system must reflect that resource constraints exist, and the benefits of controls must be relative to their costs. Because of the inherent limitations in all internal control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

30

PART II

OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On October 15, 2007, we announced that on October 11, 2007 our Board of Directors approved an increase in the number of shares of our common stock that Werner Enterprises, Inc. (the "Company") is authorized to repurchase. Under this new authorization, the Company is permitted to repurchase an additional 8,000,000 shares. As of June 30, 2008, the Company had purchased 1,041,200 shares pursuant to this authorization and had 6,958,800 shares remaining available for repurchase. The Company may purchase shares from time to time depending on market, economic and other factors. The authorization will continue unless withdrawn by the Board of Directors.

No shares of common stock were repurchased during the second quarter of 2008 by either the Company or any "affiliated purchaser," as defined by Rule 10b-18 of the Exchange Act.

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

The Annual Meeting of Stockholders of Werner Enterprises, Inc. was held on May 13, 2008 for the purpose of electing three directors to each serve for a three-year term and ratifying the appointment of our independent public accountants. Proxies for the meeting were solicited pursuant to Regulation 14A of the Exchange Act. There was no solicitation in opposition to management's director nominees, and all such nominees were elected. Of the 70,385,013 shares entitled to vote, stockholders representing 65,659,550 shares (93.3%) were present in person or by proxy.

The stockholders elected three Class II directors to each serve for a three-year term expiring at the 2011 Annual Meeting of Stockholders and until their respective successors are elected and qualified. The voting tabulation for the elected directors was as follows:

| | For | Withheld | Broker Non-Votes |
|----------------------|------------|-----------|---------------------|
| | ----- | ----- | ----- |
| Gary L. Werner | 58,969,551 | 6,689,999 | - |
| Gregory L. Werner | 63,310,095 | 2,349,455 | - |
| Michael L. Steinbach | 63,017,767 | 2,641,783 | - |

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

Clarence L. Werner, Gerald H. Timmerman, Kenneth M. Bird, Patrick J. Jung and Duane K. Sather continued serving their terms of office as directors after the meeting.

The stockholders ratified the appointment of KPMG LLP as the independent registered public accounting firm for the year ending December 31, 2008. The voting tabulation was as follows:

| | For ----- | Against ----- | Abstain ----- | Broker Non-Votes ----- |
|-------------------------|--------------|------------------|------------------|------------------------------|
| Appointment of KPMG LLP | 65,397,792 | 249,416 | 12,342 | - |

31

Item 6. Exhibits.

| Exhibit No. ----- | Exhibit ----- | Incorporated by Reference to: ----- |
|----------------------|---|---|
| 3(i) | Restated Articles of Incorporation of Werner of Werner Enterprises, Inc. | Exhibit 3(i) to the registrant's Form 10-Q for the quarter ended June 30, 2007 |
| 3(ii) | Revised and Restated By-Laws of Werner Enterprises, Inc. | Exhibit 3(ii) to the registrant's Form 10-Q for the quarter ended June 30, 2007 |
| 31.1 | Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934 (Section 302 of the Sarbanes-Oxley Act of 2002) | Filed herewith |
| 31.2 | Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934 (Section 302 of the Sarbanes-Oxley Act of 2002) | Filed herewith |
| 32.1 | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002) | Filed herewith |
| 32.2 | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002) | Filed herewith |

SIGNATURES

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

WERNER ENTERPRISES, INC.

Date: August 4, 2008

By: /s/ John J. Steele

John J. Steele
Executive Vice President, Treasurer and
Chief Financial Officer

Date: August 4, 2008

By: /s/ James L. Johnson

James L. Johnson
Senior Vice President, Controller and
Corporate Secretary