

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

WERNER ENTERPRISES INC  
Form 10-Q  
November 03, 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 September 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  
--- ---

As of October 30, 2008, 71,025,892 shares of the registrant's common

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

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 September 30, 2008 and 2007		4
Consolidated Statements of Income for the Nine Months Ended September 30, 2008 and 2007		5
Consolidated Condensed Balance Sheets as of September 30, 2008 and December 31, 2007		6
Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2008 and 2007		7
Notes to Consolidated Financial Statements (Unaudited) as of September 30, 2008		8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations		13
Item 3. Quantitative and Qualitative Disclosures About Market Risk		31
Item 4. Controls and Procedures		32
PART II - OTHER INFORMATION		
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds		33
Item 6. Exhibits		34

#### 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 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,

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

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 nine-month periods ended September 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 September 30,	
	2008	2007
	(Unaudited)	
Operating revenues	\$ 584,057	\$ 510,260
Operating expenses:		
Salaries, wages and benefits	150,616	150,789
Fuel	145,280	101,859
Supplies and maintenance	41,566	40,698
Taxes and licenses	26,733	28,796
Insurance and claims	28,727	22,001
Depreciation	41,653	41,087

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

Rent and purchased transportation	107,948	87,537
Communications and utilities	4,769	4,978
Other	(1,257)	(4,549)
	-----	-----
Total operating expenses	546,035	473,196
	-----	-----
Operating income	38,022	37,064
	-----	-----
Other expense (income):		
Interest expense	3	527
Interest income	(1,012)	(1,015)
Other	27	54
	-----	-----
Total other expense (income)	(982)	(434)
	-----	-----
Income before income taxes	39,004	37,498
Income taxes	16,558	15,648
	-----	-----
Net income	\$ 22,446	\$ 21,850
	=====	=====
Earnings per share:		
Basic	\$ .32	\$ .30
	=====	=====
Diluted	\$ .31	\$ .30
	=====	=====
Dividends declared per share	\$ .050	\$ .050
	=====	=====
Weighted average common shares outstanding:		
Basic	70,864	72,305
	=====	=====
Diluted	71,825	73,501
	=====	=====

See Notes to Consolidated Financial Statements (Unaudited).

4

WERNER ENTERPRISES, INC.  
CONSOLIDATED STATEMENTS OF INCOME

	Nine Months Ended	
	September 30,	
(In thousands, except per share amounts)		
	-----	-----
	2008	2007
	-----	-----
	(Unaudited)	

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

Operating revenues	\$ 1,675,025	\$ 1,545,459
-----		
Operating expenses:		
Salaries, wages and benefits	442,391	451,645
Fuel	424,079	290,862
Supplies and maintenance	123,336	120,366
Taxes and licenses	82,884	88,276
Insurance and claims	77,366	70,128
Depreciation	125,132	125,273
Rent and purchased transportation	307,631	296,655
Communications and utilities	14,828	15,252
Other	(4,930)	(15,714)
-----		
Total operating expenses	1,592,717	1,442,743
-----		
Operating income	82,308	102,716
-----		
Other expense (income):		
Interest expense	9	2,920
Interest income	(3,049)	(2,989)
Other	79	172
-----		
Total other expense (income)	(2,961)	103
-----		
Income before income taxes	85,269	102,613
Income taxes	36,336	42,841
-----		
Net income	\$ 48,933	\$ 59,772
=====		
Earnings per share:		
Basic	\$ .69	\$ .81
=====		
Diluted	\$ .68	\$ .80
=====		
Dividends declared per share	\$ .150	\$ .145
=====		
Weighted average common shares outstanding:		
Basic	70,574	73,482
=====		
Diluted	71,575	74,810
=====		

See Notes to Consolidated Financial Statements (Unaudited).

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

(In thousands, except share amounts)	September 30,	December 31,
	2008	2007
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 136,315	\$ 25,090
Accounts receivable, trade, less allowance of \$9,921 and \$9,765, respectively	231,931	213,496
Other receivables	15,512	14,587
Inventories and supplies	10,048	10,747
Prepaid taxes, licenses and permits	7,266	17,045
Current deferred income taxes	31,433	26,702
Other current assets	23,571	21,500
<b>Total current assets</b>	<b>456,076</b>	<b>329,167</b>
Property and equipment	1,608,906	1,605,445
Less - accumulated depreciation	675,132	633,504
<b>Property and equipment, net</b>	<b>933,774</b>	<b>971,941</b>
Other non-current assets	17,457	20,300
	<b>\$ 1,407,307</b>	<b>\$ 1,321,408</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 58,004	\$ 49,652
Insurance and claims accruals	86,360	76,189
Accrued payroll	28,336	21,753
Other current liabilities	27,454	19,395
<b>Total current liabilities</b>	<b>200,154</b>	<b>166,989</b>
Other long-term liabilities	7,447	14,165
Insurance and claims accruals, net of current portion	118,500	110,500
Deferred income taxes	200,398	196,966
Stockholders' equity:		
Common stock, \$.01 par value, 200,000,000 shares authorized; 80,533,536 shares issued; 71,025,892 and 70,373,189 shares outstanding, respectively	805	805
Paid-in capital	96,757	101,024
Retained earnings	961,752	923,411
Accumulated other comprehensive income (loss)	249	(169)
Treasury stock, at cost; 9,507,644 and 10,160,347 shares, respectively	(178,755)	(192,283)

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

Total stockholders' equity	880,808	832,788
	\$ 1,407,307	\$ 1,321,408

See Notes to Consolidated Financial Statements (Unaudited).

6

WERNER ENTERPRISES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Nine Months Ended September 30,	
	2008	2007
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$ 48,933	\$ 59,772
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	125,132	125,273
Deferred income taxes	(909)	(8,930)
Gain on disposal of property and equipment	(8,768)	(19,300)
Stock-based compensation	1,113	1,192
Other long-term assets	640	1,580
Insurance claims accruals, net of current portion	8,000	5,000
Other long-term liabilities	(63)	848
Changes in certain working capital items:		
Accounts receivable, net	(18,435)	14,700
Other current assets	7,482	12,743
Accounts payable	8,352	(11,567)
Other current liabilities	17,735	5,875
Net cash provided by operating activities	189,212	187,186
Cash flows from investing activities:		
Additions to property and equipment	(145,656)	(111,899)
Retirements of property and equipment	65,265	84,621
Decrease in notes receivable	4,397	4,418
Net cash used in investing activities	(75,994)	(22,860)
Cash flows from financing activities:		
Repayment of short-term debt	-	(30,000)
Proceeds from issuance of long-term debt	-	10,000
Repayments of long-term debt	-	(70,000)
Dividends on common stock	(10,559)	(10,363)
Repurchases of common stock	(4,486)	(87,052)
Stock options exercised	8,245	8,178
Excess tax benefits from exercise of stock options	4,389	4,280

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

Net cash used in financing activities	(2,411)	(174,957)
Effect of foreign exchange rate fluctuations on cash	418	(132)
Net increase in cash and cash equivalents	111,225	(10,763)
Cash and cash equivalents, beginning of period	25,090	31,613
Cash and cash equivalents, end of period	\$ 136,315	\$ 20,850
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 9	\$ 3,606
Income taxes	\$ 30,034	\$ 47,574
Supplemental schedule of non-cash investing activities:		
Notes receivable issued upon sale of revenue equipment	\$ 2,194	\$ 4,846

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 a loss of \$1,769,000 for the three-month period ended September 30, 2008 and a loss of \$445,000 for the same period ended September 30, 2007. Such comprehensive income (loss) was income of \$418,000 for the nine-month period ended September 30, 2008 and a loss of \$132,000 for the same period ended September 30, 2007.

(2) Long-Term Debt

As of September 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 September 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 September 30, 2008, we were in compliance with these covenants.

(3) Income Taxes

During first quarter 2006, in connection with an audit of our federal



## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

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 IRS finalized the settlement during third quarter 2008, and we paid the federal accrued interest at the beginning of October 2008.

For the three-month and nine-month periods ended September 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 nine-month period ended September 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 \$0.6 million during the nine-month period ended September 30, 2008. Our total gross liability for unrecognized tax benefits at September 30, 2008 is \$13.0 million. If recognized, \$8.0 million of unrecognized tax benefits would impact our effective tax rate. Interest of \$9.2 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 2004 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, under which the IRS did not propose any adjustment to the tax return.

#### (4) Commitments and Contingencies

As of September 30, 2008, we have committed to property and equipment purchases of approximately \$47.0 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. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method.

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

Dilutive potential common shares include outstanding stock options and stock awards. There are no differences in the numerators 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 September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net income	\$ 22,446	\$ 21,850	\$ 48,933	\$ 59,772
Weighted average common shares outstanding	70,864	72,305	70,574	73,482
Common stock equivalents	961	1,196	1,001	1,328
Shares used in computing diluted earnings per share	71,825	73,501	71,575	74,810
Basic earnings per share	\$ .32	\$ .30	\$ .69	\$ .81
Diluted earnings per share	\$ .31	\$ .30	\$ .68	\$ .80

9

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 September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Number of options	-	24,500	5,000	29,500
Range of option purchase prices	-	\$19.84-\$20.36	\$20.36	\$19.26-\$20.36

### (6) Stock-Based Compensation

Our Equity Plan provides for grants of nonqualified stock options, restricted stock and stock appreciation rights. The Board of Directors or the Compensation Committee of our Board of Directors determine the terms of each award, including type of award, recipients, number of shares subject to each award and vesting conditions of each award. Stock option and restricted stock awards are described below. No awards of stock

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

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 September 30, 2008, there were 8,665,182 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 September 30, 2008 and September 30, 2007, \$1.1 million for the nine-month period ended September 30, 2008 and \$1.2 million for the nine-month period ended September 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 \$0.2 million for each of the three-month periods ended September 30, 2008 and September 30, 2007 and \$0.5 million for each of the nine-month periods ended September 30, 2008 and September 30, 2007. As of September 30, 2008, the total unrecognized compensation cost related to nonvested stock-based compensation awards was approximately \$3.1 million and is expected to be recognized over a weighted average period of 1.8 years.

We do not have a formal policy for issuing shares upon exercise of stock options or vesting of restricted stock, 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 for stock-based compensation. Based on current treasury stock levels, we do not expect to repurchase additional shares specifically for stock-based compensation during 2008.

### Stock Options

Stock options are granted at prices equal to the market value of the common stock on the date the option award is granted. Option awards currently outstanding become exercisable in installments from twenty-four to

10

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.

The following table summarizes stock option activity for the nine months ended September 30, 2008:

Number of Options	Weighted Average	Weighted Average Remaining Contractual	Aggregate Intrinsic Value
----------------------	---------------------	---	---------------------------------

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

	(in thousands)	Exercise Price (\$)	Term (Years)	(in thousands)
Outstanding at beginning of period	3,854	\$ 12.23		
Options granted	-	\$ -		
Options exercised	(903)	\$ 9.13		
Options forfeited	(132)	\$ 17.56		
Options expired	-	\$ -		
Outstanding at end of period	2,819	\$ 12.97	4.52	\$ 24,642
Exercisable at end of period	2,055	\$ 11.31	3.43	\$ 21,362

We did not grant any stock options during the three-month and nine-month periods ended September 30, 2008 and September 30, 2007. The fair value of stock option grants is estimated using a Black-Scholes valuation model. The total intrinsic value of stock options exercised was \$9.1 million and \$3.7 million for the three-month periods ended September 30, 2008 and September 30, 2007 and \$11.8 million and \$10.4 million for the nine-month periods ended September 30, 2008 and September 30, 2007.

Restricted Stock

Restricted stock awards entitle the holder to shares of common stock when the award vests. The value of these shares may fluctuate according to market conditions and other factors. During third quarter 2008, the Compensation Committee awarded 35,000 shares of restricted stock. These restricted shares will vest sixty months from the grant date of the award. The restricted shares do not confer any voting or dividend rights to recipients until such shares fully vest and do not have any post-vesting sales restrictions.

The following table summarizes restricted stock activity for the nine months ended September 30, 2008:

	Number of Restricted Shares (in thousands)	Weighted Average Grant Date Fair Value (\$)
Nonvested at beginning of period	-	\$ -
Shares granted	35	\$ 22.88
Shares vested	-	\$ -
Shares forfeited	-	\$ -
Nonvested at end of period	35	\$ 22.88

We granted 35,000 shares of restricted stock during the three-month and nine-month periods ended September 30, 2008 and did not grant any shares of restricted stock during the three-month and nine-month periods ended September 30, 2007. We estimate the fair value of restricted stock awards based upon the market price of the underlying common stock on the date of

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

grant, reduced by the present value of estimated future dividends because the awards are not entitled to receive dividends prior to vesting. The present value of estimated future dividends was calculated using the following assumptions:

11

Dividends per share (quarterly amounts)	\$0.05
Risk-free interest rate	3.0%

### (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 \$2.5 million and \$2.2 million for the three-month periods ended September 30, 2008 and September 30, 2007 and \$6.3 million and \$7.6 million for the nine-month periods ended September 30, 2008 and September 30, 2007. These revenues consist primarily of the portion of shipments delivered to or from Mexico where we utilize a third-party capacity provider.

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.

12

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

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

	Revenues			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Truckload Transportation Services	\$ 505,489	\$ 451,272	\$1,456,872	\$1,332,148
Value Added Services	73,586	54,517	203,401	200,243
Other	4,218	3,781	12,177	11,178
Corporate	764	690	2,575	1,890
Total	\$ 584,057	\$ 510,260	\$1,675,025	\$1,545,459

	Operating Income			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Truckload Transportation Services	\$ 33,113	\$ 33,066	\$ 68,126	\$ 91,474
Value Added Services	4,319	3,181	11,670	9,578
Other	333	864	2,315	2,507
Corporate	257	(47)	197	(843)
Total	\$ 38,022	\$ 37,064	\$ 82,308	\$ 102,716

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.

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

### Overview:

We operate in the truckload sector of the trucking industry and the logistics sector of the transportation industry. In the truckload sector, we focus on transporting consumer nondurable products that ship consistently

13

throughout the year. In the logistics sector, besides managing transportation requirements for individual customers, we provide additional sources of truck capacity, alternative modes of transportation, a global delivery network and systems analysis to optimize transportation needs. Our 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, 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 86% of total operating revenues in third quarter 2008, and non-trucking and other operating revenues accounted for 14% of total operating revenues.

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

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

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 and health claims 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, fuel, fuel taxes (included in taxes and licenses expense), payments to owner-operators

14

(included in rent and purchased transportation 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 charged to customers and non-trucking revenues. As discussed further in the comparison of operating results for third quarter 2008 to third quarter 2007, several industry-wide issues could cause costs to increase in future periods. These issues include a softer freight market, changing 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 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.

15

### Results of Operations:

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



Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
	2008	2007		Change	2008	
Trucking revenues, net of fuel surcharge (1)	\$367,401	\$371,746	-1.2%	\$1,084,402	\$1,113,221	-2.6%
Trucking fuel surcharge revenues (1)	135,525	77,286	75.4%	366,223	211,072	73.5%
Non-trucking revenues, including VAS (1)	76,070	56,725	34.1%	209,699	207,860	0.9%
Other operating revenues (1)	5,061	4,503	12.4%	14,701	13,306	10.5%
<b>Total operating revenues (1)</b>	<b>\$584,057</b>	<b>\$510,260</b>	<b>14.5%</b>	<b>\$1,675,025</b>	<b>\$1,545,459</b>	<b>8.4%</b>
Operating ratio (consolidated) (2)	93.5%	92.7%		95.1%	93.4%	
Average monthly miles per tractor	10,306	9,956	3.5%	10,189	9,846	3.5%
Average revenues per total mile (3)	\$1.480	\$1.474	0.4%	\$1.466	\$1.460	0.4%
Average revenues per loaded mile (3)	\$1.699	\$1.702	-0.2%	\$1.691	\$1.688	0.2%
Average percentage of empty miles (4)	12.88%	13.38%	-3.7%	13.31%	13.47%	-1.2%
Average trip length in miles (loaded)	539	550	-2.0%	540	561	-3.7%
Total miles (loaded and empty) (1)	248,197	252,128	-1.6%	739,571	762,327	-3.0%
Average tractors in service	8,028	8,441	-4.9%	8,065	8,603	-6.3%
Average revenues per tractor per week (3)	\$3,521	\$3,388	3.9%	\$3,448	\$3,318	3.9%
Total tractors (at quarter end)						
Company	7,335	7,620		7,335	7,620	
Owner-operator	705	810		705	810	
<b>Total tractors</b>	<b>8,040</b>	<b>8,430</b>		<b>8,040</b>	<b>8,430</b>	
Total trailers (Truckload and Intermodal, at quarter end)	24,140	24,765		24,140	24,765	

(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.

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 \$2.5 million and \$2.2 million for the three-month periods ended September 30, 2008 and September 30, 2007 and \$6.3 million and \$7.6 million for the nine-month periods ended September 30, 2008 and September 30, 2007, as described on page 12.

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

Truckload Transportation Services  (amounts in thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2008		2007		2008		2007	
	\$	%	\$	%	\$	%	\$	%
Revenues	\$505,489	100.0	\$451,272	100.0	\$1,456,872	100.0	\$1,332,148	100.0
Operating expenses	472,376	93.4	418,206	92.7	1,388,746	95.3	1,240,674	93.1
Operating income	\$ 33,113	6.6	\$ 33,066	7.3	\$ 68,126	4.7	\$ 91,474	6.8

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.

Truckload Transportation Services  (amounts in thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2008		2007		2008		2007	
	\$	%	\$	%	\$	%	\$	%
Revenues	\$505,489		\$451,272		\$1,456,872		\$1,332,148	
Less: trucking fuel surcharge revenues	135,525		77,286		366,223		211,072	
Revenues, net of fuel surcharges	369,964	100.0	373,986	100.0	1,090,649	100.0	1,121,076	100.0
Operating expenses	472,376		418,206		1,388,746		1,240,674	
Less: trucking fuel surcharge revenues	135,525		77,286		366,223		211,072	
Operating expenses, net of fuel surcharges	336,851	91.0	340,920	91.2	1,022,523	93.8	1,029,602	93.1
Operating income	\$ 33,113	9.0	\$ 33,066	8.8	\$ 68,126	6.2	\$ 91,474	8.1

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

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

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	Three Months Ended September 30,				Nine Months Ended September 30,			
	2008		2007		2008		2007	
(amounts in thousands)	\$	%	\$	%	\$	%	\$	%
Revenues	\$ 73,586	100.0	\$ 54,517	100.0	\$203,401	100.0	\$200,243	100.0
Rent and purchased transportation expense	62,838	85.4	45,963	84.3	173,358	85.2	175,200	87.5
Gross margin	10,748	14.6	8,554	15.7	30,043	14.8	25,043	12.5
Other operating expenses	6,429	8.7	5,373	9.9	18,373	9.1	15,465	7.7
Operating income	\$ 4,319	5.9	\$ 3,181	5.8	\$ 11,670	5.7	\$ 9,578	4.8

17

Three Months Ended September 30, 2008 Compared to Three Months Ended  
September 30, 2007

### Operating Revenues

Operating revenues increased 14.5% for the three months ended September 30, 2008, compared to the same period of the prior year. Excluding fuel surcharge revenues, trucking revenues decreased 1.2% due primarily to a 4.9% decrease in the average number of tractors in service, partially offset by a 3.5% 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 improve performance by increasing average miles per tractor and improving revenue per total mile slightly in third quarter 2008 compared to third quarter 2007. With respect to pricing and rates, revenue per total mile, excluding fuel surcharges, increased by 0.4%.

Freight demand for the nearly 4,700 trucks in our Regional, Expedited and Van fleets (collectively the "Van Network"), as measured by the percentages of loads to trucks (pre-books), in July, August and September 2008 was approximately the same as July, August and September 2007. The strengthening of demand we experienced in June 2008 did not continue into third quarter 2008. However, third quarter 2008 pre-books were relatively stable year over year, compared to weaker year-over-year pre-books experienced during the first five months of 2008. We believe that as a result of increased carrier financial failures that occurred during the first half of 2008, industry capacity remained more balanced with freight demand in third quarter 2008, compared to the excess capacity at the

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

beginning of 2008.

Freight demand during the latter part of third quarter 2008 and the month of October 2008 has been disappointing but not unexpected, considering the turbulence and uncertainty in the financial markets. During October, we experienced weaker year-over-year pre-books. We believe consumer spending is being affected by the current lack of confidence in the credit market and the stock market. We are planning based on the assumption that this trend will continue. We currently expect this trend will result in lackluster shipping volumes this peak freight season.

Fuel surcharge revenues represent collections from customers for the higher cost of fuel. These revenues increased 75.4% to \$135.5 million in third quarter 2008 from \$77.3 million in third quarter 2007 due to an average increase in diesel fuel costs of \$1.19 per gallon in third quarter 2008 compared to third 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. Each year in the past four years, rising fuel costs (net of fuel surcharge collections) had a negative impact on our operating income when compared to the previous year. The total negative impact on our operating income due to fuel expense, net of fuel surcharge collections, during 2004 through 2007 was \$61 million.

When fuel prices rise rapidly, a negative earnings lag occurs because the cost of fuel rises immediately and the market indexes used to determine fuel surcharges increase at a slower pace. As a result, during these rising fuel price periods, the negative impact of fuel on our financial results is more significant. The fuel price trend in third quarter 2008 was unusual because fuel prices declined for most weeks during the quarter. In a period of declining fuel prices, we generally experience a temporary favorable earnings effect because fuel costs decline at a faster pace than the fuel surcharge collections that are determined by the market indexes. This occurred during third quarter 2008, enabling us to temporarily have lower net fuel expense, which helped to offset uncompensated fuel costs from truck idling, empty miles not billable to customers and out-of-route miles. All of these uncompensated fuel costs were higher in third quarter 2008 than third quarter 2007 due to the higher average fuel prices in third quarter

18

2008. Once fuel prices stabilize, we do not expect the temporary favorable trend to continue.

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.

We continue diversifying our services from the one-way Van fleet to our Dedicated, Regional and Expedited fleets and North America cross-border services within the Truckload segment and to the logistics units and services within the VAS segment. This ongoing diversification helped lessen the impact of a lackluster freight market in third quarter 2008. Customer response to these growing services continues to be very positive. We intend

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

to continue expanding and developing these services.

To provide shippers with additional sources of managed capacity and network analysis, as well as a more global footprint, we continue growing our non-asset based VAS segment. In third quarter 2008, VAS began implementing new business, which began to generate additional revenues across all of our business units and fleets. Our diverse portfolio of logistics services, backed by our asset-based fleets, has become an attractive option to customers who want 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 increased 35% to \$73.6 million in third quarter 2008 from \$54.5 million in third quarter 2007 due to an increase in Brokerage, Intermodal and International revenues. The gross margin percentage declined to 14.6% in third quarter 2008 compared to 15.7% in third quarter 2007, although gross margin dollars grew 26% on the higher revenues. The operating income percentage increased to 5.9% in third quarter 2008 compared to 5.8% in third quarter 2007.

Brokerage continued to produce strong results with 41% revenue growth but experienced a decline in its gross margin percentage. The tightening of truckload capacity due to increased carrier financial failures has made it more challenging for Brokerage to obtain qualified third party carriers at a comparable cost to prior quarters. Intermodal revenues grew 47%, and its operating margin percentage also improved. International continues to generate increased revenues and improve its operating margin.

### Operating Expenses

Our operating ratio (operating expenses expressed as a percentage of operating revenues) was 93.5% for the three months ended September 30, 2008, compared to 92.7% for the three months ended September 30, 2007. Expense items that impacted the overall operating ratio are described on the following pages. The tables on page 17 show the operating ratios and operating margins for our two reportable segments, Truckload and VAS.

19

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 September 30,		Increase (Decrease) per Mile	Nine Months Ended September 30,		Increase (Decrease) per Mile
	2008	2007		2008	2007	
Salaries, wages and benefits	\$0.582	\$0.578	\$0.004	\$0.575	\$0.573	\$0.002
Fuel	0.584	0.402	0.182	0.571	0.379	0.192
Supplies and maintenance	0.158	0.153	0.005	0.158	0.149	0.009
Taxes and licenses	0.109	0.114	(0.005)	0.112	0.115	(0.003)
Insurance and claims	0.115	0.087	0.028	0.104	0.092	0.012
Depreciation	0.163	0.157	0.006	0.164	0.158	0.006

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

Rent and purchased transportation	0.181	0.165	0.016	0.181	0.159	0.022
Communications and utilities	0.019	0.019	0.000	0.020	0.020	0.000
Other	(0.008)	(0.016)	0.008	(0.007)	(0.018)	0.011
<hr/>						
Total	\$1.903	\$1.659	\$0.244	\$1.878	\$1.627	\$0.251
<hr/>						

Owner-operator costs are included in rent and purchased transportation expense. Owner-operator miles as a percentage of total miles were 11.6% for third quarter 2008 compared to 12.7% for third 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 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 1.6 cents per total mile, and other expense categories had offsetting increases on a total-mile basis as follows: (i) fuel, 0.7 cents; (ii) salaries, wages and benefits, 0.5 cents; (iii) depreciation, 0.2 cents; (iv) supplies and maintenance, 0.1 cents; and (v) taxes and licenses, 0.1 cents.

Salaries, wages and benefits in the Truckload segment increased slightly on a total mile basis in third quarter 2008 compared to third quarter 2007. This increase is primarily attributed to higher workers' compensation expense and, as discussed above, the shift from rent and purchased transportation to salaries, wages and benefits because of the decrease in owner-operator miles as a percentage of total miles. Within the Truckload segment, these cost increases were offset partially by a small decrease in average pay per mile for company drivers and lower non-driver pay for office and equipment maintenance personnel in the Truckload segment (due to efficiency and cost control improvements). The growing non-trucking VAS segment experienced higher non-driver salaries in third quarter 2008 compared to third quarter 2007.

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 a rising national unemployment rate continue to positively affect our driver availability and selectivity. In addition, we believe our strong mileage utilization and financial strength are attractive to drivers when compared to many other carriers. 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

20

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 18.2 cents per total mile for the Truckload segment due

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

primarily to higher average diesel fuel prices. Compared to unprecedented high diesel fuel prices in second quarter 2008, diesel fuel prices declined during third quarter 2008 but remained higher than diesel fuel prices in third quarter 2007. Compared to the same month in 2007, diesel fuel costs were \$1.62 per gallon higher in July 2008, \$1.12 per gallon higher in August 2008 and \$0.82 per gallon higher in September 2008. Fuel prices averaged only 5 cents per gallon higher in October 2008 compared to October 2007. Fuel expense increased \$43.4 million and rent and purchased transportation expense paid to owner-operator drivers (which increased due to the higher fuel reimbursement to owner-operators) increased \$5.9 million, when comparing third quarter 2008 to third quarter 2007.

During third quarter 2008, we continued to improve our fuel miles per gallon ("mpg") through 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 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 September 30, 2008, we had installed APUs in approximately 40% of the company-owned truck fleet, and we intend to continue increasing the percentage of trucks with APUs as we purchase new tractors. The average mpg of company trucks improved in third quarter 2008 compared to third quarter 2007. Due strictly to these mpg improvements, we purchased nearly 2.6 million fewer gallons of fuel in third quarter 2008 than in third quarter 2007. This equates to a reduction of approximately 29,000 tons of carbon dioxide emissions. As we purchase new trucks, we intend to continue installing APUs and taking part in other environmentally conscious initiatives, such as our active participation in the SmartWay Transport Partnership program of the U.S. Environmental Protection Agency ("EPA").

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 September 30, 2008, we had no derivative financial instruments to reduce our exposure to fuel price fluctuations.

Supplies and maintenance for the Truckload segment increased 0.5 cents on a total mile basis in third quarter 2008 compared to third 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 that increase 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 third quarter 2008 by 0.5 cents on a total mile basis from third quarter 2007 due to 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 2.8 cents

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

on a total mile basis in third quarter 2008 from third quarter 2007. This increase was the result of net unfavorable claims development on large claims and, to a lesser extent, on smaller claims for accidents that occurred prior to third quarter 2008. 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

21

\$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 insurance coverage with 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. A portion of our insurance coverage for the current and prior policy years is provided by insurance companies that are subsidiaries of American International Group, Inc. ("AIG"). These AIG insurance subsidiaries are regulated by various state insurance departments. We do not currently believe that financial issues affecting AIG will impact our current or prior insurance coverage or our ability to obtain coverage in the future.

Depreciation expense for the Truckload segment increased 0.6 cents per total mile in third quarter 2008 compared to third quarter 2007. This increase was due primarily to depreciation of the APUs installed on company trucks. The APU depreciation expense is offset by lower fuel costs because tractors with APUs generally consume less fuel during periods of idle. The higher average miles per tractor also has the effect of lowering this fixed cost when evaluated on a per-mile basis.

Depreciation expense was historically affected by the engine emissions standards imposed by the EPA that became effective in October 2002 and applied to all new trucks purchased after that time, resulting in increased truck purchase costs. Depreciation expense is 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. We began to take delivery of trucks with these 2007-standard engines in first quarter 2008 to replace older trucks in our fleet. The engines in our fleet of company-owned trucks as of September 30, 2008 consist of 82% Caterpillar (nearly all are pre-2007 standard engines), 12% Detroit Diesel and 6% Mercedes Benz. In June 2008, Caterpillar announced 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. To date, we have not experienced a reduction in value of our company-owned trucks with Caterpillar engines in the used equipment market due to this announcement. Approximately one 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. These expenses generally vary depending on changes in the volume of services generated by the VAS segment. As a percentage of VAS revenues, VAS rent and purchased transportation expense increased to 85.4% in third quarter 2008 compared to 84.3% in third quarter 2007. The tightening of truckload



## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

carrier capacity due to increased carrier financial failures has made it more challenging for VAS's Brokerage unit to obtain qualified third party carriers at a cost comparable to prior quarters.

Rent and purchased transportation expense for the Truckload segment increased 1.6 cents per total mile in third quarter 2008 primarily because of increased fuel prices that necessitated higher reimbursements to owner-operators for fuel (increased \$5.9 million) offset partially by a decrease in the number of owner-operators. 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. 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

22

retain these drivers. This could negatively affect our results of operations to the extent that we do not obtain corresponding freight rate increases.

Other operating expenses for the Truckload segment increased 0.8 cents per total mile in third 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 \$2.8 million in third quarter 2008 from \$5.5 million in third quarter 2007. As noted in our second quarter 2008 Quarterly Report on Form 10-Q filed with the U.S. Securities and Exchange Commission ("SEC") on August 4, 2008, we anticipated lower gains on sales of equipment in third quarter 2008 than in second quarter 2008 if the freight market and high fuel price conditions did not improve. Gains in third quarter 2008 were \$0.6 million higher than gains in second quarter 2008, which we attribute to the effect of lower fuel prices during the third quarter. The used equipment sales market remains challenging due to carrier failures and company fleet reductions increasing the number of trucks for sale while buyer demand for the purchase of used trucks remains lackluster. 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 third quarter 2008 versus \$0.5 million of interest expense in third quarter 2007. We had no debt outstanding at September 30, 2008 or during third quarter 2008 compared to \$10.0 million debt outstanding at September 30, 2007 and average outstanding debt of \$30.0 million during third quarter 2007.

### Income Taxes

Our effective income tax rate (income taxes expressed as a percentage of income before income taxes) increased slightly to 42.5% for third quarter 2008 from 41.7% for third quarter 2007. The higher income tax rate was due primarily to lower income before income taxes on an annualized basis, which caused non-deductible expenses such as driver per diem to comprise a larger

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

percentage of our income before income taxes.

Nine Months Ended September 30, 2008 Compared to Nine Months Ended September  
-----  
30, 2007  
-----

### Operating Revenues

Operating revenues increased by 8.4% for the nine months ended September 30, 2008, compared to the same period of the prior year. Excluding fuel surcharge revenues, trucking revenues decreased 2.6% due primarily to a 6.3% decrease in the average number of tractors in service, partially 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 73.5% to \$366.2 million in the 2008 year-to-date period from \$211.1 million in the 2007 year-to-date period because of higher diesel fuel prices. VAS revenues increased 2% due to growth in Brokerage, International and Intermodal. This growth was offset by a structural change to a customer's continuing arrangement related to third party carriers that became 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 reduced VAS revenues and VAS rent and purchased transportation expense by \$36.3 million from the nine months ended September 30, 2007 to the same period of 2008. Excluding the affected revenues for this customer, VAS revenues grew 24% during the nine months ended September 30, 2008 compared to the same period in 2007.

23

### Operating Expenses

Our operating ratio (operating expenses expressed as a percentage of operating revenues) was 95.1% for the nine months ended September 30, 2008, compared to 93.4% for the same period of the previous year. Expense items that impacted the overall operating ratio are described below. The tables on page 17 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 12.0% for the nine months ended September 30, 2008 compared to 12.3% for the nine months ended September 30, 2007. This small 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 total-mile basis as follows: (i) fuel, 0.2 cents; (ii) salaries, wages and benefits, 0.1 cents; and (iii) depreciation, 0.1 cents.

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 of an increase in student driver pay resulting from a higher average number of student trainer teams offset by the lower non-driver pay related to office and equipment maintenance personnel. Fuel increased 19.2 cents per total mile

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

due to the higher fuel expense per gallon offset partially by mpg improvements in the company truck fleet. Supplies and maintenance increased 0.9 cents per total mile because of increases in over-the-road tractor repairs and related parts and labor costs. The higher average age of the company truck fleet also contributed to higher truck maintenance repairs. Taxes and licenses were 0.3 cents per mile lower during the first nine months of 2008 than in the same period of 2007 due to the effect of improved company truck mpg on fuel taxes. Insurance increased 1.2 cents on a total mile basis due primarily to net unfavorable claims development on large claims, partially offset by a reduction in the average number of liability claims and fewer new larger dollar claims. Depreciation increased 0.6 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 2.2 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 slightly, although VAS revenues increased slightly. As a percentage of VAS revenues, VAS rent and purchased transportation expense decreased to 85.2% for the nine-month period ended September 30, 2008 compared to 87.5% during the same period of 2007. Excluding the affected VAS revenues and purchased transportation expense from the 2007 period related to the structural change of a customer's continuing arrangement (described above), VAS rent and purchased transportation expense would have been 84.7% of revenues in the 2007 period. Other operating expenses increased 1.1 cents per total mile due to lower gains on sales of assets in the 2008 nine-month period.

### Other Expense (Income)

We recorded minimal interest expense during the nine months ended September 30, 2008 versus \$2.9 million of interest expense during the nine months ended September 30, 2007. We had no debt outstanding during the first nine months of 2008, compared to \$10.0 million debt outstanding at September 30, 2007 after debt repayments (net of borrowings) of \$90.0 million were made during the nine-month period ended September 30, 2007. The average debt outstanding during the nine months ended September 30, 2007 was \$55.0 million.

24

### Income Taxes

Our effective income tax rate was 42.6% for the nine months ended September 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 on an annualized basis, 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 nine months ended September 30, 2008, we generated cash flow from operations of \$189.2 million, a 1.1% (\$2.0 million) increase in cash flow compared to the same nine-month period one year ago. The change in operating cash flows results primarily from changes in the timing of collections of trade accounts receivable, payments to vendors and increases in insurance and claims accruals. We were able to make net capital expenditures, repurchase common stock and pay dividends (discussed below) because of the cash flow from operations and existing cash balances.

Net cash used in investing activities for the nine-month period ended September 30, 2008 increased by 232.4% (\$53.1 million), from \$22.9 million for the nine-month period ended September 30, 2007 to \$76.0 million for the

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

nine-month period ended September 30, 2008. Net property additions (primarily revenue equipment) were \$80.4 million for the nine-month period ended September 30, 2008, compared to \$27.3 million during the same period of 2007.

As of September 30, 2008, we committed to property and equipment purchases, net of trades, of approximately \$47.0 million. We expect our net capital expenditures (primarily revenue equipment) to be in the range of \$115.0 million to \$140.0 million in 2008 and \$75.0 million to \$150.0 million in 2009. 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. In 2009, we plan to purchase only enough new trucks to replace the number of used trucks that we can sell, which will affect our net capital expenditures. Other carriers' financial failures and fleet reductions have increased the supply of used trucks for sale, while buyer demand for the purchase of used trucks remains lackluster. Based on these current used truck market conditions, we may be unable to sell enough used trucks to maintain the current 2.4 year average age of our company tractor fleet.

Net financing activities used \$2.4 million during the nine months ended September 30, 2008 and \$175.0 million during the same period in 2007. The change included debt repayments (net of borrowings) of \$90.0 million during the nine-month period ended September 30, 2007, compared to no debt repayments during the nine-month period ended September 30, 2008. We paid dividends of \$10.6 million in the nine months ended September 30, 2008 compared to \$10.4 million in the same period of 2007. Our common stock repurchases totaled \$87.1 million during the nine-month period ended September 30, 2007 compared to \$4.5 million during the same period of 2008. 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 September 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 September 30, 2008 is strong. As of September 30, 2008, we had \$136.3 million of cash and cash equivalents and \$880.8 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 September 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

25

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 September 30, 2008.

Payments Due by Period  
(in millions)  
Less

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

	Total	than 1 year	1-3 years	4-5 years	Over 5 years	Period Unknown
-----						
Contractual Obligations						
Unrecognized tax benefits	\$ 13.0	\$ 7.1	\$ -	\$ -	\$ -	\$ 5.9
Equipment purchase commitments	47.0	47.0	-	-	-	-
	-----	-----	-----	-----	-----	-----
Total contractual cash obligations	\$ 60.0	\$ 54.1	\$ -	\$ -	\$ -	\$ 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	\$ 285.0	\$ 143.6	\$ 135.5	\$ -	\$ -	\$ 5.9
	=====	=====	=====	=====	=====	=====

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"). As of September 30, 2008, we have recorded \$13.0 million of unrecognized tax benefits. We made payments totaling \$4.9 million subsequent to September 30, 2008 which will reduce the \$7.1 million in the "less than 1 year" category, and we expect the remaining \$2.2 million to be settled within the next 12 months. We are unable to reasonably determine when the \$5.9 million categorized as "period unknown" will be settled. 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 September 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. The standby letters of credit are primarily required for insurance policies.

Off-Balance Sheet Arrangements:

As of September 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

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

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 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). On January 23, 2008, the Court denied Public Citizen's motion to invalidate the interim final rule. 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 September 30, 2008, the FMCSA has not published a 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 September 30, 2008, the FMCSA has not published a final rule.

In 1998, we became the first 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 again applied for the two-year renewal of our paperless log exemption. The FMCSA has determined that our paperless log system satisfies the FMCSA's Automatic On-Board Recording Device requirements and that an exemption is no longer required.

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

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

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, 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

27

of these proposed rules is approved as written, the final rules could materially impact the number of potential new drivers entering the industry. As of September 30, 2008, the FMCSA has not published a final rule.

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, when we began to take delivery of trucks with 2007-standard engines. 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, which include driver training, better scheduling, and the installation and use of APUs. California has also enacted restrictions on transport refrigeration unit ("TRU") emissions, which are to be phased in over several years beginning at the end of 2008, provided the EPA issues a waiver of preemption to California. If the 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 and the logistics sector of the transportation industry. In the truckload sector, we focus on transporting consumer nondurable products that ship consistently throughout the year. In the logistics sector, besides managing transportation requirements for individual customers, we provide additional sources of truck capacity, alternative modes of transportation, a global delivery network and systems analysis to optimize transportation needs. Our 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

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

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 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 and health claims for our employees (supplemented by premium-based insurance coverage above certain dollar

28

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



## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

- 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 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

29

- 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.
- \* Allowance for doubtful accounts. The allowance for doubtful accounts is our estimate of the amount of probable credit losses in our existing accounts receivable. We review the financial condition of customers prior to granting credit. We determine the allowance based on our historical write-off experience and national economic conditions. During third quarter 2008, numerous significant events affected the U.S. financial markets and resulted in a significant reduction of credit availability and liquidity. Current economic data also indicates the U.S. economy will soon be experiencing a recession. Consequently, we believe some of our customers may be unable to obtain or retain adequate financing to support their businesses in the future. We anticipate that because of these combined factors, some of our customers may also be compelled to

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

restructure their businesses or may be unable to pay amounts owed to us. We have formal policies in place to continually monitor credit extended to customers and to manage our credit risk. We evaluate the adequacy of our allowance for doubtful accounts quarterly and believe our allowance for doubtful accounts is adequate based on information currently available.

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. As of September 30, 2008, management believes that fully adopting SFAS No. 157 will not have a material 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

30

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 September 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

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

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 September 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 September 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 will become effective on November 15, 2008, which is 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 September 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 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 majority, but not all, of fuel price increases from customers in the form of fuel surcharges. We implemented customer fuel surcharge 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 fuel prices will increase or decrease in the future or the extent to which fuel surcharges could be collected. As of September 30, 2008, we had

31

no derivative financial instruments to reduce our exposure to fuel price fluctuations.

#### Foreign Currency Exchange Rate Risk

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

We conduct business in several foreign countries, including Mexico, Canada and China. Foreign currency transaction gains and losses were not material to our results of operations for third 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 September 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 September 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. 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.

32

## 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

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

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 September 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 third quarter of 2008 by either the Company or any "affiliated purchaser," as defined by Rule 10b-18 of the Exchange Act.

33

### Item 6. Exhibits.

Exhibit No. -----	Exhibit -----	Incorporated by Reference to: -----
3(i)	Restated Articles of Incorporation of Werner Enterprises, Inc.	Exhibit 3(i) to the registrant's report on 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 report on Form 10-Q for the quarter ended June 30, 2007
10.1	Form of Restricted Stock Award Agreement for recipients under the Werner Enterprises, Inc. Equity Plan	Filed herewith
10.2	The Executive Nonqualified Excess Plan of Werner Enterprises, Inc., as amended	Filed herewith
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

34

Edgar Filing: WERNER ENTERPRISES INC - Form 10-Q

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: November 3, 2008  
-----

By: /s/ John J. Steele  
-----  
John J. Steele  
Executive Vice President, Treasurer and  
Chief Financial Officer

Date: November 3, 2008  
-----

By: /s/ James L. Johnson  
-----  
James L. Johnson  
Senior Vice President, Controller and  
Corporate Secretary