

Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

WERNER ENTERPRISES INC

Form 10-K/A

February 15, 2006

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

FORM 10-K/A  
Amendment No. 1

(Mark One)

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

For the fiscal year ended December 31, 2005

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-14690

WERNER ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Securities registered pursuant to Section 12(b) of the Act: NONE  
Securities registered pursuant to Section 12(g) of the Act:  
COMMON STOCK, \$.01 PAR VALUE

Indicate by check mark if the registrant is a well-known seasoned  
issuer, as defined in Rule 405 of the Securities Act.  
YES X NO  
--- ---

Indicate by check mark if the registrant is not required to file  
reports pursuant to Section 13 or Section 15(d) of the Act.  
YES NO X  
--- ---

Indicate by check mark whether the registrant (1) has filed all  
reports required to be filed by Section 13 or 15(d) of the  
Securities Exchange Act of 1934 during the preceding 12 months  
(or for such shorter period that the registrant was required to  
file such reports), and (2) has been subject to such filing  
requirements for the past 90 days. YES X NO  
--- ---

Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

---

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer  Accelerated filer  Non-accelerated filer

---

---

---

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO

--- ---

The aggregate market value of the common equity held by non-affiliates of the Registrant (assuming for these purposes that all executive officers and Directors are "affiliates" of the Registrant) as of June 30, 2005, the last business day of the Registrant's most recently completed second fiscal quarter, was approximately \$1.004 billion (based on the closing sale price of the Registrant's Common Stock on that date as reported by Nasdaq).

As of February 9, 2006, 79,764,809 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement of Registrant for the Annual Meeting of Stockholders to be held May 9, 2006, are incorporated in Part III of this report.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A ("Amendment No. 1") to the Annual Report on Form 10-K of Werner Enterprises, Inc. (the "Company") for the fiscal year ended December 31, 2005, filed with the Securities and Exchange Commission on February 14, 2006 (the "Original Report"), is being filed solely to correct omissions and certain typographical errors on the cover page that arose in the process of converting the Original Report to an electronic format suitable for filing on the Commission's EDGAR system. In the EDGAR-filed version of the Original Report, all check marks indicating the Company's responses to items on the cover page were inadvertently omitted, and the appropriate boxes are checked on the amended cover page. Additionally, the Company is making certain non-substantive corrections appearing on the cover page including the deletion of the blank lines immediately preceding the references to \$1.004 billion market value of the common equity and 79,764,809 shares outstanding in the two paragraphs preceding the "DOCUMENTS INCORPORATED BY REFERENCE" section. The dollar amount of the market value of the common equity and number of shares

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

outstanding are correct. Further, the date of "February 109, 2006" should have been "February 9, 2006." This Amendment No. 1 revises the cover page of the Original Report to correct these items. In connection with the filing of this Amendment No. 1, the Company also is including as exhibits certain currently dated certifications of its Chief Executive Officer and Chief Financial Officer. The Exhibit Index on page 52 has been revised to reflect the addition of these exhibits.

For convenience and ease of reference, this Amendment No. 1 sets forth the annual report in its entirety with the applicable changes. This Amendment No. 1 only reflects the changes discussed above, and does not amend, update, or change any other items or disclosures contained in the Original Report.

### TABLE OF CONTENTS

	Page
	----
PART I	
Item 1. Business	1
Item 1A. Risk Factors	6
Item 1B. Unresolved Staff Comments	8
Item 2. Properties	8
Item 3. Legal Proceedings	9
Item 4. Submission of Matters to a Vote of Security Holders	10
PART II	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	11
Item 6. Selected Financial Data	12
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	26
Item 8. Financial Statements and Supplementary Data	28
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	45
Item 9A. Controls and Procedures	45
Item 9B. Other Information	47
PART III	
Item 10. Directors and Executive Officers of the Registrant	47
Item 11. Executive Compensation	48
Item 12. Security Ownership of Certain Beneficial Owners and Management	48
Item 13. Certain Relationships and Related Transactions	48
Item 14. Principal Accountant Fees and Services	48
PART IV	
Item 15. Exhibits and Financial Statement Schedules	49

PART I

ITEM 1. BUSINESS

General

Werner Enterprises, Inc. ("Werner" or the "Company") is a transportation company engaged primarily in hauling truckload shipments of general commodities in both interstate and intrastate commerce as well as providing logistics services. Werner is one of the five largest truckload carriers in the United States based on total operating revenues and maintains its headquarters in Omaha, Nebraska, near the geographic center of its service area. Werner was founded in 1956 by Chairman and Chief Executive Officer, Clarence L. Werner, who started the business with one truck at the age of 19 and was incorporated in the state of Nebraska on September 14, 1982. Werner completed its initial public offering in June 1986 with a fleet of 632 trucks as of February 28, 1986. Werner ended 2005 with a fleet of 8,750 trucks, of which 7,920 were owned by the Company and 830 were owned and operated by owner-operators (independent contractors).

The Company operates throughout the 48 contiguous states pursuant to operating authority, both common and contract, granted by the United States Department of Transportation ("DOT") and pursuant to intrastate authority granted by various states. The Company also has authority to operate in the ten provinces of Canada and provides through trailer service in and out of Mexico. The principal types of freight transported by the Company include retail store merchandise, consumer products, manufactured products, and grocery products. The Company's emphasis is to transport consumer nondurable products that ship more consistently throughout the year and throughout changes in the economy. The Company has two reportable segments - Truckload Transportation Services and Value Added Services. Financial information regarding these segments and the Company's geographic areas can be found in the Notes to Consolidated Financial Statements under Item 8 of this Form 10-K.

Marketing and Operations

Werner's business philosophy is to provide superior on-time service to its customers at a competitive cost. To accomplish this, Werner operates premium, modern tractors and trailers. This equipment has a lower frequency of breakdowns and helps attract and retain qualified drivers. Werner has continually developed technology to improve service to customers and improve retention of drivers. Werner focuses on shippers that value the broad geographic coverage, equipment capacity, technology, customized services, and flexibility available from a large, financially-stable carrier. These shippers are generally less sensitive to rate levels, preferring to have their freight handled by a few core carriers with whom they can establish service-based, long-term relationships.

Werner operates in the truckload segment of the trucking industry. Within the truckload segment, Werner provides specialized services to customers based on their trailer needs (van, flatbed, temperature-controlled), geographic area (medium to long haul throughout the 48 contiguous states, Mexico, and Canada; regional), time-sensitive nature of shipments

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

(expedited), or conversion of their private fleet to Werner (dedicated). Beginning the latter part of 2003, the Company expanded its brokerage, intermodal, and multimodal service offerings by adding senior management and developing new computer systems. Trucking revenues accounted for 88% of total revenues, and non-trucking and other operating revenues, primarily brokerage revenues, accounted for 12% of total revenues in 2005. Werner's Value Added Services ("VAS") division manages the transportation and logistics requirements for individual customers. This includes truck brokerage, transportation routing, transportation mode selection, intermodal, multimodal, transloading, and other services. Value Added Services is a non-asset-based business that is highly dependent on information systems, qualified employees, and the services of third-party capacity providers. Compared to trucking operations which require a significant capital equipment investment, VAS's operating margin is lower and return on assets is substantially higher. Revenues generated by services accounting for more than 10% of consolidated revenues,

1

consisting of Truckload Transportation Services and Value Added Services, for the last three years can be found under Item 7 of this Form 10-K.

Werner has a diversified freight base and is not dependent on a small group of customers or a specific industry for a majority of its freight. During 2005, the Company's largest 5, 10, 25, and 50 customers comprised 24%, 36%, 54%, and 69% of the Company's revenues, respectively. The Company's largest customer, Dollar General, accounted for 10% of the Company's revenues in 2005, of which approximately two-thirds is dedicated fleet business and the remainder is primarily VAS. No other customer exceeded 5% of revenues in 2005. By industry group, the Company's top 50 customers consist of 45% retail and consumer products, 23% grocery products, 22% manufacturing/industrial, and 10% logistics and other. Many of our non-dedicated customer contracts are cancelable on 30 days notice, which is standard in the trucking industry. Most dedicated customer contracts are cancelable on 90 days notice following the expiration of the initial term of the contract.

Virtually all of Werner's company and owner-operator tractors are equipped with satellite communications devices manufactured by Qualcomm that enable the Company and drivers to conduct two-way communication using standardized and freeform messages. This satellite technology, installed in trucks beginning in 1992, also enables the Company to plan and monitor the progress of shipments. The Company obtains specific data on the location of all trucks in the fleet at least every hour of every day. Using the real-time data obtained from the satellite devices, Werner has developed advanced application systems to improve customer service and driver service. Examples of such application systems include (1) the Company's proprietary Paperless Log System to electronically preplan the assignment of shipments to drivers based on real-time available driving hours and to automatically keep track of truck movement and drivers' hours of service, (2) software which preplans shipments that can be swapped by drivers enroute to meet driver home time needs, without compromising on-time delivery schedules, (3) automated

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

"possible late load" tracking which informs the operations department of trucks that may be operating behind schedule, thereby allowing the Company to take preventive measures to avoid a late delivery, and (4) automated engine diagnostics to continually monitor mechanical fault tolerances. In June 1998, Werner became the first, and only, trucking company in the United States to receive authorization from the DOT, under a pilot program, to use a global positioning system based paperless log system in place of the paper logbooks traditionally used by truck drivers to track their daily work activities. On September 21, 2004, the DOT's Federal Motor Carrier Safety Administration ("FMCSA") agency approved the Company's exemption for its paperless log system that moves this exemption from the FMCSA-approved pilot program to permanent status. The exemption is to be renewed every two years.

### Seasonality

In the trucking industry, revenues generally show a seasonal pattern as some customers reduce shipments during and after the winter holiday season. The Company's operating expenses have historically been higher in the winter months due primarily to decreased fuel efficiency, increased maintenance costs of revenue equipment in colder weather, and increased insurance and claims costs due to adverse winter weather conditions. The Company attempts to minimize the impact of seasonality through its marketing program that seeks additional freight from certain customers during traditionally slower shipping periods. Revenue can also be affected by bad weather and holidays, since revenue is directly related to available working days of shippers.

### Employees and Owner-Operator Drivers

As of December 31, 2005, the Company employed 10,792 drivers, 986 mechanics and maintenance personnel, 1,687 office personnel for the trucking operation, and 257 personnel for the VAS and other non-trucking operations. The Company also had 830 contracts with owner-operators for services that provide both a tractor and a qualified driver or drivers. None of the Company's U.S. or Canadian employees are represented by a collective bargaining unit, and the Company considers relations with all of its employees to be good.

2

The Company recognizes that its professional driver workforce is one of its most valuable assets. Most of Werner's drivers are compensated based upon miles driven. For company-employed drivers, the rate per mile generally increases with the drivers' length of service. Additional compensation may be earned through a mileage bonus, an annual achievement bonus, and for extra work associated with their job (loading and unloading, extra stops, and shorter mileage trips, for example).

At times, there are shortages of drivers in the trucking industry. The number of qualified drivers in the industry has not kept pace with freight growth because of changes in the demographic composition of the workforce, alternative jobs to truck driving which become available in an improving economy, and individual drivers' desire to be home more often. In recent months, the already challenging market for recruiting and

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

retaining drivers has become even more difficult. The Company anticipates that the competition for drivers will continue to be very high and cannot predict whether it will experience shortages in the future. If such a shortage were to occur and increases in driver pay rates became necessary to attract and retain drivers, the Company's results of operations would be negatively impacted to the extent that corresponding freight rate increases were not obtained.

The Company also recognizes that carefully selected owner-operators complement its company-employed drivers. Owner-operators are independent contractors that supply their own tractor and driver and are responsible for their operating expenses. Because owner-operators provide their own tractors, less financial capital is required from the Company. Also, owner-operators provide the Company with another source of drivers to support its fleet. The Company intends to continue its emphasis on recruiting owner-operators, as well as company drivers. However, it has continued to be difficult for the Company and the industry to recruit and retain owner-operators over the past few years due to several factors including high fuel prices, tightening of equipment financing standards, and declining values for older used trucks.

### Revenue Equipment

As of December 31, 2005, Werner operated 7,920 company tractors and had contracts for 830 tractors owned by owner-operators. The company tractors were manufactured by Freightliner, a subsidiary of DaimlerChrysler, and Peterbilt and Kenworth, divisions of PACCAR. This standardization of the company tractor fleet decreases downtime by simplifying maintenance. The Company adheres to a comprehensive maintenance program for both tractors and trailers. Owner-operator tractors are inspected prior to acceptance by the Company for compliance with operational and safety requirements of the Company and the DOT. These tractors are then periodically inspected, similar to company tractors, to monitor continued compliance. The vehicle speed of company-owned trucks is regulated to a maximum of 65 miles per hour to improve safety and fuel efficiency.

The Company operated 25,210 trailers at December 31, 2005: 23,320 dry vans; 621 flatbeds; and 1,269 temperature-controlled. Most of the Company's trailers were manufactured by Wabash National Corporation. As of December 31, 2005, 98% of the Company's fleet of dry van trailers consisted of 53-foot trailers, and 98% consisted of aluminum plate or composite (duraplate) trailers. Other trailer lengths such as 48-foot and 57-foot are also provided by the Company to meet the specialized needs of certain customers.

Effective October 1, 2002, all newly manufactured truck engines must comply with phase 1 of the new engine emission standards mandated by the Environmental Protection Agency ("EPA"). All truck engines manufactured prior to October 1, 2002 are not subject to these new standards. To delay the cost and business risk of buying these new truck engines with inadequate testing time prior to the October 1, 2002 effective date, the Company significantly increased the purchase of trucks with pre-October 2002 engines. As of December 31, 2005, approximately 89% of the company-owned truck fleet consisted of trucks with the post-October 2002 engines. The Company has experienced an

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

approximate 5% reduction in fuel efficiency to date, and increased depreciation expense due to the higher cost of the new engines. The average age of the Company's truck fleet at December 31, 2005 is 1.23 years. A new set of more stringent emissions standards mandated by the EPA will become effective for newly manufactured trucks beginning in January 2007 (phase 2) and

3

January 2010 (phase 3). The Company expects that the engines produced under the 2007 standards will be less fuel-efficient and have a higher cost than the current engines. During 2005, the Company purchased significantly more trucks than normal to reduce the average age of its fleet. The Company's goal is to keep its fleet as new as possible during 2006.

### Fuel

The Company purchases approximately 95% of its fuel through a network of fuel stops throughout the United States. The Company has negotiated discounted pricing based on certain volume commitments with these fuel stops. Bulk fueling facilities are maintained at seven of the Company's terminals and four dedicated fleet locations.

Shortages of fuel, increases in fuel prices, or rationing of petroleum products can have a materially adverse effect on the operations and profitability of the Company. The Company's customer fuel surcharge reimbursement programs have historically enabled the Company to recover from its customers a significant portion of the higher fuel prices compared to normalized average fuel prices. These fuel surcharges, which automatically adjust depending on the Department of Energy ("DOE") weekly retail on-highway diesel fuel prices, enable the Company to recoup much of the higher cost of fuel when prices increase except for miles not billable to customers, out-of-route miles, and truck engine idling. During 2005, the Company's fuel expense and reimbursements to owner-operator drivers for the higher cost of fuel resulted in an additional cost of \$137.1 million, while the Company collected an additional \$121.6 million in fuel surcharge revenues to offset the fuel cost increase. Conversely, when fuel prices decrease, fuel surcharges decrease. In addition, the two September 2005 hurricanes in the Gulf Coast region caused a shortage of refined product that escalated diesel fuel prices at the same time that crude oil prices did not increase significantly. The Company cannot predict whether high fuel prices will continue to increase or will decrease in the future or the extent to which fuel surcharges will be collected to offset such increases. As of December 31, 2005, the Company had no derivative financial instruments to reduce its exposure to fuel price fluctuations.

The Company maintains aboveground and underground fuel storage tanks at most of its terminals. Leakage or damage to these facilities could expose the Company to environmental clean-up costs. The tanks are routinely inspected to help prevent and detect such problems.

### Regulation

The Company is a motor carrier regulated by the DOT, the



## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

Federal and Provincial Transportation Departments in Canada, and the Secretary of Communication and Transportation ("SCT") in Mexico. The DOT generally governs matters such as safety requirements, registration to engage in motor carrier operations, accounting systems, certain mergers, consolidations, acquisitions, and periodic financial reporting. The Company currently has a satisfactory DOT safety rating, which is the highest available rating. A conditional or unsatisfactory DOT safety rating could have an adverse effect on the Company, as some of the Company's contracts with customers require a satisfactory rating. Such matters as weight and dimensions of equipment are also subject to federal, state, and international regulations.

The FMCSA issued a final rule on April 24, 2003 that made several changes to the regulations that govern truck drivers' hours of service ("HOS"). These new federal regulations became effective on January 4, 2004. On July 16, 2004, the U.S. Circuit Court of Appeals for the District of Columbia rejected these new hours of service rules for truck drivers that had been in place since January 2004 because it said the FMCSA had failed to address the impact of the rules on the health of drivers as required by Congress. In addition, the judge's ruling noted other areas of concern including the increase in driving hours from 10 hours to 11 hours, the exception that allows drivers in trucks with sleeper berths to split their required rest periods, the new rule allowing drivers to reset their 70-hour clock to 0 hours after 34 consecutive hours off duty, and the decision by the FMCSA not to require the use of electronic onboard recorders to monitor driver compliance. On September 30, 2004, the extension of the Federal highway bill signed into law by the President extended the current hours of service rules until October 1, 2005, when all truckload carriers became subject to revised HOS regulations. The only significant change from the previous regulations is that a driver using the sleeper berth provision

4

must take at least eight consecutive hours in the sleeper berth during their ten hours off-duty. Previously, drivers were allowed to split their ten hour off-duty time in the sleeper berth into two periods, provided neither period was less than two hours. This more restrictive sleeper berth provision is requiring some drivers to plan their time better and could have a negative impact on mileage productivity. The greatest impact will be for those customers with multiple-stop shipments or those shipments with pickup or delivery delays.

The Company has unlimited authority to carry general commodities in interstate commerce throughout the 48 contiguous states. The Company has authority to carry freight on an intrastate basis in 43 states. The Federal Aviation Administration Authorization Act of 1994 (the "FAAA Act") amended sections of the Interstate Commerce Act to prevent states from regulating rates, routes, or service of motor carriers after January 1, 1995. The FAAA Act did not address state oversight of motor carrier safety and financial responsibility or state taxation of transportation. If a carrier wishes to operate in intrastate commerce in a state where it did not previously have intrastate authority, it must, in most cases, still apply for authority.

The Company's operations are subject to various federal, state, and local environmental laws and regulations, implemented principally by the EPA and similar state regulatory agencies, governing the management of hazardous wastes, other discharge of pollutants into the air and surface and underground waters, and the disposal of certain substances. The Company does not believe that compliance with these regulations has a material effect on its capital expenditures, earnings, and competitive position.

The implementation of various provisions of the North American Free Trade Agreement ("NAFTA") may alter the competitive environment for shipping into and out of Mexico. It is not possible at this time to predict when and to what extent that impact will be felt by companies transporting goods into and out of Mexico. The Company does a substantial amount of business in international freight shipments to and from the United States and Mexico (see Note 8 "Segment Information" in the Notes to Consolidated Financial Statements under Item 8 of this Form 10-K) and is continuing to prepare for the various scenarios that may finally result. The Company believes it is one of the five largest truckload carriers in terms of the volume of freight shipments to and from the United States and Mexico.

#### Competition

The trucking industry is highly competitive and includes thousands of trucking companies. It is estimated that the annual revenue of domestic trucking amounts to approximately \$600 billion per year. The Company has a small but growing share (estimated at approximately 1%) of the markets targeted by the Company. The Company competes primarily with other truckload carriers. Logistics companies, railroads, less-than-truckload carriers, and private carriers also provide competition, but to a much lesser degree.

Competition for the freight transported by the Company is based primarily on service and efficiency and, to some degree, on freight rates alone. Few other truckload carriers have greater financial resources, own more equipment, or carry a larger volume of freight than the Company. The Company is one of the five largest carriers in the truckload transportation industry based on total operating revenues.

Industry-wide truck capacity in the truckload sector is being limited due to a number of factors. An extremely challenging driver recruiting market is causing most large truckload carriers to limit their fleet additions. There are continuing cost issues with the engine emission changes and uncertainties regarding the engines that will be required for newly manufactured trucks beginning in January 2007. Trucking company failures in the last six years are continuing at a pace higher than the previous fifteen years. Many truckload carriers, including Werner, slowed their fleet growth in the last six years, and some carriers have downsized their fleets to improve their operating margins and returns.

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

The Company maintains a website where additional information concerning its business can be found. The address of that website is [www.werner.com](http://www.werner.com). The Company makes available free of charge on its Internet website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after it electronically files or furnishes such materials to the SEC. Information on the Company's website is not incorporated by reference into this annual report on Form 10-K.

### ITEM 1A. RISK FACTORS

The following risks and uncertainties may cause actual results to differ materially from those anticipated in the forward-looking statements included in this Form 10-K:

The Company's business is subject to overall economic conditions that could have a material adverse effect on the results of operations of the Company.

The Company is sensitive to changes in overall economic conditions that impact customer shipping volumes. The general slowdown in the economy in 2001 and 2002 had a negative effect on freight volumes for truckload carriers, including the Company. Beginning in 2003 and continuing throughout 2005, general economic improvements lead to improved freight demand. As the unemployment rate increased during 2001 and 2002, driver availability improved for the Company and the industry but became more difficult beginning in fourth quarter 2003 and continuing through 2005. Future economic conditions that may affect the Company include employment levels, business conditions, fuel and energy costs, interest rates, and tax rates.

Increases in fuel prices and shortages of fuel can have a material adverse effect on the results of operations and profitability of the Company.

Fuel prices climbed steadily throughout most of 2005, spiking in September and October 2005 due to the two hurricanes that struck the Gulf Coast region in September 2005. Prices declined in November 2005 from the record high price levels in October, but the end-of-year prices, excluding fuel taxes, were still about 47% higher in 2005 than in 2004. Shortages of fuel, increases in fuel prices, or rationing of petroleum products can have a materially adverse impact on the operations and profitability of the Company. To the extent that the Company cannot recover the higher cost of fuel through customer fuel surcharges, the Company's financial results would be negatively impacted.

Difficulty in recruiting and retaining drivers and owner-operators could impact the Company's results of operations and limit growth opportunities.

At times, there have been shortages of drivers in the trucking industry. The market for recruiting and retaining drivers became more difficult in fourth quarter 2003 and continued throughout 2005. During the last several years, it was more difficult to recruit and retain owner-operator drivers due to challenging operating conditions, including high fuel prices. The Company anticipates that the competition for company drivers and owner-operator drivers will continue to be high and cannot predict whether it will experience shortages in the future. If a

shortage of company drivers and owner-operators were to occur and increases in driver pay rates and owner-operator settlement rates became necessary to attract drivers and owner-operators, the Company's results of operations would be negatively impacted to the extent that corresponding freight rate increases were not obtained. Additionally, the Company expects the tight driver market will make it very difficult to add truck capacity in the near future.

The Company operates in a highly competitive industry, which may limit growth opportunities and reduce profitability.

The trucking industry is highly competitive and includes thousands of trucking companies. The Company estimates the ten largest truckload carriers have about 12% of the approximate \$150 billion market targeted by the Company. This competition could limit the Company's growth opportunities and reduce its profitability. The Company competes primarily with other truckload carriers. Logistics companies, railroads, less-than-truckload carriers, and private carriers also provide

6

competition, but to a much lesser degree. Competition for the freight transported by the Company is based primarily on service and efficiency and, to some degree, on freight rates alone.

The Company operates in a highly regulated industry. Changes in existing regulations or violations of existing or future regulations could have an adverse effect on the operations and profitability of the Company.

The Company is regulated by the DOT, the Federal and Provincial Transportation Departments in Canada, and the SCT in Mexico. These regulatory authorities establish broad powers, generally governing activities such as authorization to engage in motor carrier operations, safety, financial reporting, and other matters. The Company may become subject to new or more comprehensive regulations relating to fuel emissions, driver hours of service, or other issues mandated by the DOT, EPA, the Federal and Provincial Transportation Departments in Canada, or the SCT in Mexico.

New hours of service regulations became effective October 1, 2005, with only one significant change from the previous regulations. The Company cannot predict what rule changes, if any, might result in the future. Any changes could have an adverse effect on the operations and profitability of the Company.

Effective October 1, 2002, all newly manufactured truck engines must comply with the engine emission standards mandated by the EPA. As of December 31, 2005, approximately 89% of the company-owned truck fleet consisted of trucks with the new post-October 2002 engines. The Company has experienced an approximate 5% reduction in fuel efficiency to date and increased depreciation expense due to the higher cost of the new engines. A new set of more stringent emissions standards mandated by the EPA will become effective for newly manufactured trucks beginning in January 2007. The Company has already reduced the average age of its truck fleet to 1.23 years in advance of these new standards. The Company expects that the engines produced under the 2007 standards will be less fuel-efficient and have a higher

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

cost than the current engines. The Company is unable to predict the impact these new regulations will have on its operations, financial position, results of operations, and cash flows.

The seasonal pattern generally experienced in the trucking industry may affect the Company's periodic results during traditionally slower shipping periods and during the winter months.

The Company's business is modestly seasonal with peak freight demand occurring generally in the months of September, October, and November. After the Christmas holiday season, during the remaining winter months, the Company's freight volumes are typically lower as some customers have lower shipment levels. The Company's operating expenses have historically been higher in winter months primarily due to decreased fuel efficiency, increased maintenance costs of revenue equipment in colder weather, and increased insurance and claims costs due to adverse winter weather conditions. The Company attempts to minimize the impact of seasonality through its marketing program by seeking additional freight from certain customers during traditionally slower shipping periods. Bad weather, holidays, and the number of business days during the period can also affect revenue, since revenue is directly related to available working days of shippers.

The Company depends on the services of third-party capacity providers, the availability of which could affect the Company's profitability and limit growth in its VAS division.

The Company's VAS division is highly dependent on the services of third-party capacity providers, including other truckload carriers and railroads. Many of those providers face the same economic challenges as the Company. As the truck capacity market tightened during 2005, it became more difficult to find qualified truckload capacity to meet customer freight needs. The Company expects a tight truckload capacity market in 2006 with the extremely challenging driver market and historically high fuel prices. If the Company were unable to secure the services of these third-party capacity providers, its results of operations could be adversely affected.

Increases in the number of insurance claims, the cost per claim, or the costs of insurance premiums could reduce the Company's earnings.

The Company self-insures for a significant portion of liability resulting from cargo loss, personal injury, and property damage as well as workers' compensation. This is supplemented by premium insurance with licensed insurance companies above the Company's self-insurance level for each type of coverage. To the extent the Company were to experience a significant increase in the number of claims, the cost per claim, or the costs of insurance premiums for coverage in excess of its

7

retention amounts, the Company's operating results would be negatively affected.

Decreased demand for the Company's used revenue equipment could result in lower unit sales, lower resale values, and lower gains on sales of assets.

The Company is sensitive to changes in used equipment

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

prices, especially tractors. Because of truckload carrier concerns with new truck engines and lower industry production of new trucks over the last several years, the resale value of Werner's premium used trucks improved from the historically low values of 2001. The Company has been in the business of selling its Company-owned trucks since 1992, when it formed its wholly-owned subsidiary Fleet Truck Sales. The Company currently has 17 Fleet Truck Sales locations throughout the United States. Gains on sales of assets are reflected as a reduction of other operating expenses in the Company's income statement and amounted to gains of \$11.0 million in 2005, \$9.3 million in 2004, and \$6.9 million in 2003.

The Company relies on the services of key personnel, the loss of which could impact the future success of the Company.

The Company is highly dependent on the services of key personnel including Clarence L. Werner and other executive officers. Although the Company believes it has an experienced and highly qualified management group, the loss of the services of these executive officers could have a material adverse impact on the Company and its future profitability.

Difficulty in obtaining goods and services from the Company's vendors and suppliers could adversely affect the Company's business.

The Company is dependent on its vendors and suppliers. The Company believes it has good relationships with its vendors and that it is generally able to obtain attractive pricing and other terms from vendors and suppliers. If the Company fails to maintain good relationships with its vendors and suppliers or if its vendors and suppliers experience significant financial problems, the Company could face difficulty in obtaining needed goods and services because of interruptions of production or for other reasons, which could adversely affect the Company's business.

The Company uses its information systems extensively for day-to-day operations, and service disruptions could have an adverse impact on the Company's operations.

The efficient operation of the Company's business is highly dependent on its information systems. Much of the Company's software has been developed internally or by adapting purchased software applications to the Company's needs. The Company has purchased redundant computer hardware systems and has its own off-site disaster recovery facility approximately ten miles from the Company's offices to use in the event of a disaster. The Company has taken these steps to reduce the risk of disruption to its business operation if a disaster were to occur.

Caution should be taken not to place undue reliance on forward-looking statements made herein, since the statements speak only as of the date they are made. The Company undertakes no obligation to publicly release any revisions to any forward-looking statements contained herein to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

### ITEM 1B. UNRESOLVED STAFF COMMENTS

The Company has received no written comments regarding its periodic or current reports from the staff of the Securities and Exchange Commission that were issued 180 days or more preceding

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

the end of its 2005 fiscal year and that remain unresolved.

### ITEM 2. PROPERTIES

Werner's headquarters is located nearby Interstate 80 just west of Omaha, Nebraska, on approximately 195 acres, 105 of which are held for future expansion. The Company's headquarters office building includes a computer center, drivers' lounge areas, a drivers' orientation section, a cafeteria, a cargo salvage store, and a Company store. The Omaha headquarters also consists of a driver training facility and equipment maintenance and repair facilities containing a central parts warehouse, frame

8

straightening and alignment machine, truck and trailer wash areas, equipment safety lanes, body shops for tractors and trailers, a paint booth, and a reclaim center. The Company's headquarters facilities have suitable space available to accommodate planned needs for the next 3 to 5 years.

The Company also has several terminals throughout the United States, consisting of office and/or maintenance facilities. The Company's terminal locations are described below:

Location -----	Owned or Leased -----	Description -----
Omaha, Nebraska	Owned	Corporate headquarters, maintenance
Omaha, Nebraska	Owned	Disaster recovery, warehouse
Phoenix, Arizona	Owned	Office, maintenance
Fontana, California	Owned	Office, maintenance
Denver, Colorado	Owned	Office, maintenance
Atlanta, Georgia	Owned	Office, maintenance
Indianapolis, Indiana	Leased	Office, maintenance
Springfield, Ohio	Owned	Office, maintenance
Allentown, Pennsylvania	Leased	Office, maintenance
Dallas, Texas	Owned	Office, maintenance
Laredo, Texas	Owned	Office, maintenance, transloading
Lakeland, Florida	Leased	Office
Portland, Oregon	Leased	Office, maintenance
Ardmore, Oklahoma	Leased	Maintenance
Indianola, Mississippi	Leased	Maintenance
Scottsville, Kentucky	Leased	Maintenance
Fulton, Missouri	Leased	Maintenance
Tomah, Wisconsin	Leased	Maintenance
Newbern, Tennessee	Leased	Maintenance
Chicago, Illinois	Leased	Maintenance

The Company leases approximately 60 small sales offices and trailer parking yards in various locations throughout the country, owns a 96-room motel located near the Company's headquarters, owns four low-income housing apartment complexes in

Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

the Omaha area, has 50% ownership in a 125,000 square-foot warehouse located near the Company's headquarters, and has one-third ownership in a 71-room motel near the Company's Dallas terminal. Currently, the Company has 17 locations in its Fleet Truck Sales network. Fleet Truck Sales, a wholly owned subsidiary, is one of the largest domestic class 8 truck sales entities in the U.S. and sells the Company's used trucks and trailers.

ITEM 3. LEGAL PROCEEDINGS

The Company is a party to routine litigation incidental to its business, primarily involving claims for personal injury, property damage, and workers' compensation incurred in the transportation of freight. The Company has maintained a self-insurance program with a qualified department of Risk Management professionals since 1988. These employees manage the Company's property damage, cargo, liability, and workers' compensation claims. The Company's self-insurance reserves are reviewed by an actuary every six months.

9

The Company has been responsible for liability claims up to \$500,000, plus administrative expenses, for each occurrence involving personal injury or property damage since August 1, 1992. For the policy year beginning August 1, 2004, the Company increased its self-insured retention ("SIR") amount to \$2.0 million per occurrence. The Company is also responsible for varying annual aggregate amounts of liability for claims in excess of the self-insured retention. The following table reflects the self-insured retention levels and aggregate amounts of liability for personal injury and property damage claims since August 1, 2002:

Coverage Period	Primary Coverage	Primary Coverage SIR/deductible
August 1, 2002 - July 31, 2003	\$3.0 million	\$500,000 (1)
August 1, 2003 - July 31, 2004	\$3.0 million	\$500,000 (2)
August 1, 2004 - July 31, 2005	\$5.0 million	\$2.0 million (3)
August 1, 2005 - July 31, 2006	\$5.0 million	\$2.0 million (4)

(1) Subject to an additional \$1.5 million aggregate in the \$0.5 to \$1.0 million layer, a \$1.0 million aggregate in the \$1.0 to \$2.0 million layer, no aggregate (i.e., fully insured) in the \$2.0 to \$3.0 million layer, and self-insured in the \$3.0 to \$5.0 million layer.

(2) Subject to an additional \$1.5 million aggregate in the \$0.5 to \$1.0 million layer, a \$1.0 million aggregate in the \$1.0 to \$2.0 million layer, no aggregate (i.e., fully insured) in the \$2.0 to \$3.0 million layer, a \$6.0 million aggregate in the \$3.0 to \$5.0 million layer, and a \$5.0 million aggregate in the \$5.0 to \$10.0 million layer.



Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

(3) Subject to an additional \$3.0 million aggregate in the \$2.0 to \$3.0 million layer, no aggregate (i.e., fully insured) in the \$3.0 to \$5.0 million layer, and a \$5.0 million aggregate in the \$5.0 to \$10.0 million layer.

(4) Subject to an additional \$2.0 million aggregate in the \$2.0 to \$3.0 million layer, no aggregate (i.e., fully insured) in the \$3.0 to \$5.0 million layer, and a \$5.0 million aggregate in the \$5.0 to \$10.0 million layer.

The Company has assumed responsibility for workers' compensation up to \$1.0 million per claim, subject to an additional \$1.0 million aggregate for claims between \$1.0 million and \$2.0 million, maintains a \$27.5 million bond, and has obtained insurance for individual claims above \$1.0 million.

The Company's primary insurance covers the range of liability where the Company expects most claims to occur. Liability claims substantially in excess of coverage amounts listed in the table above, if they occur, are covered under premium-based policies with reputable insurance companies to coverage levels that management considers adequate. The Company is also responsible for administrative expenses for each occurrence involving personal injury or property damage. See also Note 1 "Insurance and Claims Accruals" and Note 6 "Commitments and Contingencies" in the Notes to Consolidated Financial Statements under Item 8 of this Form 10-K.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of 2005, no matters were submitted to a vote of security holders.

10

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Price Range of Common Stock

The Company's common stock trades on the Nasdaq National Market tier of The Nasdaq Stock Market under the symbol "WERN". The following table sets forth for the quarters indicated the high and low bid information per share of the Company's common stock quoted on the Nasdaq National Market and the Company's dividends declared per common share from January 1, 2004, through December 31, 2005.

	High	Low	Dividends Declared Per Common Share
	-----	-----	-----
2005			
Quarter ended:			
March 31	\$22.91	\$19.25	\$.035

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

June 30	19.91	17.68	.040
September 30	20.62	15.78	.040
December 31	20.96	16.34	.040

	High	Low	Dividends Declared Per Common Share
	-----	-----	-----
2004			
Quarter ended:			
March 31	\$20.00	\$17.65	\$.025
June 30	21.11	17.76	.035
September 30	21.19	17.55	.035
December 31	23.24	18.68	.035

As of February 9, 2006, the Company's common stock was held by 227 stockholders of record and approximately 8,200 stockholders through nominee or street name accounts with brokers. The high and low bid prices per share of the Company's common stock in the Nasdaq National Market as of February 9, 2006 were \$21.17 and \$20.72, respectively.

### Dividend Policy

The Company has been paying cash dividends on its common stock following each of its quarters since the fiscal quarter ended May 31, 1987. The Company currently intends to continue payment of dividends on a quarterly basis and does not currently anticipate any restrictions on its future ability to pay such dividends. However, no assurance can be given that dividends will be paid in the future since they are dependent on earnings, the financial condition of the Company, and other factors.

### Equity Compensation Plan Information

For information on the Company's equity compensation plans, please refer to Item 12, "Security Ownership of Certain Beneficial Owners and Management".

11

### Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On November 24, 2003, the Company announced that its Board of Directors approved an authorization for common stock repurchases of 3,965,838 shares. As of December 31, 2005, the Company had purchased 257,038 shares pursuant to this authorization and had 3,708,800 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 until withdrawn by the Board of Directors.

The Company did not repurchase any shares of common stock during the fourth quarter of 2005.

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

### ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the consolidated financial statements and notes under Item 8 of this Form 10-K.

(In thousands, except per share amounts)

	2005	2004	2003	2002	2001
Operating revenues	\$1,971,847	\$1,678,043	\$1,457,766	\$1,341,456	\$1,270,519
Net income	98,534	87,310	73,727	61,627	47,744
Diluted earnings per share*	1.22	1.08	0.90	0.76	0.60
Cash dividends declared per share*	.155	.130	.090	.064	.060
Return on average stockholders' equity (1)	12.1%	11.9%	10.9%	10.0%	8.5%
Return on average total assets (2)	7.6%	7.5%	6.7%	6.1%	5.1%
Operating ratio (consolidated) (3)	91.7%	91.6%	91.9%	92.6%	93.8%
Book value per share* (4)	10.86	9.76	8.90	8.12	7.42
Total assets	1,385,762	1,225,775	1,121,527	1,062,878	964,014
Total debt	60,000	-	-	20,000	50,000
Stockholders' equity	862,451	773,169	709,111	647,643	590,049

\*After giving retroactive effect for the September 30, 2003 five-for-four stock split and the March 14, 2002 four-for-three stock split (all years presented).

(1) Net income expressed as a percentage of average stockholders' equity. Return on equity is a measure of a corporation's profitability relative to recorded shareholder investment.

(2) Net income expressed as a percentage of average total assets. Return on assets is a measure of a corporation's profitability relative to recorded assets.

(3) Operating expenses expressed as a percentage of operating revenues. Operating ratio is a common measure in the trucking industry used to evaluate profitability.

(4) Stockholders' equity divided by common shares outstanding as of the end of the period. Book value per share indicates the dollar value remaining for common shareholders if all assets were liquidated and all debts were paid at the recorded amounts.

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report contains historical information, as well as forward-looking statements that are based on information currently available to the Company's management. The forward-looking statements in this report, including those made in Item 7, "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. The Company believes the assumptions underlying these forward-looking statements are reasonable based on information currently available; however, any of the assumptions could be inaccurate, and therefore, actual results may differ materially from those anticipated in the forward-looking statements as a result of certain risks and uncertainties. These risks include, but are not limited to, those discussed in Item 1A "Risk

Factors". Caution should be taken not to place undue reliance on forward-looking statements made herein, since the statements speak only as of the date they are made. The Company undertakes no obligation to publicly release any revisions to any forward-looking statements contained herein to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

12

Overview:

The Company operates in the truckload sector of the trucking industry, with a focus on transporting consumer nondurable products that ship more consistently throughout the year. The Company's success depends on its ability to efficiently manage its resources in the delivery of truckload transportation and logistics services to its customers. Resource requirements vary with customer demand, which may be subject to seasonal or general economic conditions. The Company's ability to adapt to changes in customer transportation requirements is a key element in efficiently deploying resources and in making capital investments in tractors and trailers. Although the Company's business volume is not highly concentrated, the Company may also be affected by the financial failure of its customers or a loss of a customer's business from time-to-time.

Operating revenues consist of trucking revenues generated by the six operating fleets in the Truckload Transportation Services segment (dedicated, medium/long-haul van, regional short-haul, expedited, flatbed, and temperature-controlled) and non-trucking revenues generated primarily by the Company's VAS segment. The Company's Truckload Transportation Services segment ("truckload segment") also includes a small amount of non-trucking revenues for the portion of shipments delivered to or from Mexico where it utilizes a third-party carrier, and for a few of its dedicated accounts where the services of third-party carriers are used to meet customer capacity requirements. Non-trucking revenues reported in the operating statistics table include those revenues generated by the VAS segment, as well as the non-trucking revenues generated by the truckload segment. Trucking revenues accounted for 88% of total operating revenues in 2005, and non-trucking and other operating revenues accounted for 12%.

Trucking services typically generate revenue on a per-mile basis. Other sources of trucking revenue include fuel surcharges and accessorial revenue such as stop charges, loading/unloading charges, and equipment detention charges. Because fuel surcharge revenues fluctuate in response to changes in the cost of fuel, these revenues are identified separately within the operating statistics table and are excluded from the statistics to provide a more meaningful comparison between periods. Non-trucking revenues generated by a fleet whose operations are part of the truckload segment are included in non-trucking revenue in the operating statistics table so that the revenue statistics in the table are calculated using only the revenues generated by the company-owned and owner-operator trucks. The key statistics used to evaluate trucking revenues, excluding fuel surcharges, are average revenues per tractor per week, the per-mile rates charged to customers, the average monthly miles generated per tractor, the percentage of empty miles, the average trip length, and the

average number of tractors in service. General economic conditions, seasonal freight patterns in the trucking industry, and industry capacity are key factors that impact these statistics.

The Company's most significant resource requirements are qualified drivers, tractors, trailers, and related costs of operating its equipment (such as fuel and related fuel taxes, driver pay, insurance, and supplies and maintenance). The Company has historically been successful mitigating its risk to increases in fuel prices by recovering additional fuel surcharges from its customers that recoup a majority of the increased fuel costs; however, there is no assurance that current recovery levels will continue in future periods. The Company's financial results are also affected by availability of drivers and the market for new and used trucks. Because the Company is self-insured for a significant portion of cargo, personal injury, and property damage claims on its revenue equipment and for workers' compensation benefits for its employees (supplemented by premium-based coverage above certain dollar levels), financial results may also be affected by driver safety, medical costs, weather, the legal and regulatory environment, and the costs of insurance coverage to protect against catastrophic losses.

A common industry measure used to evaluate the profitability of the Company and its trucking operating fleets is the operating ratio (operating expenses expressed as a percentage of operating revenues). The most significant variable expenses that impact the trucking operation are driver salaries and benefits, payments to owner-operators (included in rent and purchased transportation expense), fuel, fuel taxes (included in taxes and licenses

13

expense), supplies and maintenance, and insurance and claims. Generally, these expenses vary based on the number of miles generated. As such, the Company also evaluates 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 2005 to 2004, several industry-wide issues, including high fuel prices and a challenging driver recruiting and retention market, could cause costs to increase in future periods. The Company's main fixed costs include depreciation expense for tractors and trailers and equipment licensing fees (included in taxes and licenses expense). Depreciation expense has been affected by the new engine emission standards that became effective in October 2002 for all newly purchased trucks, which have increased truck purchase costs. The trucking operations require substantial cash expenditures for tractors and trailers. The Company has accelerated its normal three-year replacement cycle for company-owned tractors. These purchases are funded by net cash from operations and financing available under the Company's existing credit facilities, as management deems necessary.

Non-trucking services provided by the Company, primarily through its VAS division, include freight brokerage, intermodal, multimodal, freight transportation management, and other services. Unlike the Company's trucking operations, the non-

Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

trucking operations are less asset-intensive and are instead dependent upon information systems, qualified employees, and the services of other third-party capacity providers. The most significant expense item related to these non-trucking services is the cost of transportation paid by the Company to third-party capacity providers, which is recorded as rent and purchased transportation expense. Other expenses include salaries, wages and benefits and computer hardware and software depreciation. The Company evaluates the non-trucking operations by reviewing the gross margin percentage (revenues less rent and purchased transportation expense expressed as a percentage of revenues) and the operating margin. The operating margin for the non-trucking business is lower than those of the trucking operations, but the return on assets is substantially higher.

Results of Operations

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

	2005	2004	2003	2002	2001
Trucking revenues, net of fuel surcharge (1)	\$1,493,826	\$1,378,705	\$1,286,674	\$1,215,266	\$1,150,361
Trucking fuel surcharge revenues (1)	235,690	114,135	61,571	29,060	46,157
Non-trucking revenues, including VAS (1)	230,863	175,490	100,916	89,450	66,739
Other operating revenues (1)	11,468	9,713	8,605	7,680	7,262
Operating revenues (1)	\$1,971,847	\$1,678,043	\$1,457,766	\$1,341,456	\$1,270,519
Operating ratio (consolidated) (2)	91.7%	91.6%	91.9%	92.6%	93.8%
Average revenues per tractor per week (3)	\$ 3,286	\$ 3,136	\$ 2,988	\$ 2,932	\$ 2,874
Average annual miles per tractor	120,912	121,644	121,716	123,480	123,660
Average annual trips per tractor	187	185	173	166	166
Average total miles per trip	647	657	703	746	744
Average loaded miles per trip	568	583	627	674	670
Total miles (loaded and empty) (1)	1,057,062	1,028,458	1,008,024	984,305	952,003
Average revenues per total mile (3)	\$ 1.413	\$ 1.341	\$ 1.277	\$ 1.235	\$ 1.208
Average revenues per loaded mile (3)	\$ 1.609	\$ 1.511	\$ 1.431	\$ 1.366	\$ 1.342
Average percentage of empty miles	12.2%	11.3%	10.8%	9.6%	10.0%
Average tractors in service	8,742	8,455	8,282	7,971	7,698
Total tractors (at year end):					
Company	7,920	7,675	7,430	7,180	6,640
Owner-operator	830	925	920	1,020	1,135
Total tractors	8,750	8,600	8,350	8,200	7,775

Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

Total trailers (at year end)	25,210	23,540	22,800	20,880	19,775
	=====	=====	=====	=====	=====

(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

14

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 \$12.2 million, \$14.4 million, and \$11.2 million for 2005, 2004, and 2003, respectively, as described on page 13.

	2005		2004		2003	
Truckload Transportation Services (amounts in 000's)	\$	%	\$	%	\$	%
Revenues	\$1,741,828	100.0	\$1,506,937	100.0	\$1,358,428	100.0
Operating expenses	1,585,706	91.0	1,371,109	91.0	1,240,282	91.3
Operating income	\$ 156,122	9.0	\$ 135,828	9.0	\$ 118,146	8.7

Higher fuel prices and higher fuel surcharge collections have the effect of increasing the Company's consolidated operating ratio and the truckload segment's operating ratio. The following table calculates the truckload segment's operating ratio using total operating expenses, net of fuel surcharge revenues, as a percentage of revenues, excluding fuel surcharges. Eliminating this sometimes volatile source of revenue provides a more consistent basis for comparing the results of operations from period to period.

	2005		2004		2003	
Truckload Transportation Services (amounts in 000's)	\$	%	\$	%	\$	%
Revenues	\$1,741,828		\$1,506,937		\$1,358,428	
Less: trucking fuel surcharge revenues	235,690		114,135		61,571	
Revenues, net of fuel surcharge	1,506,138	100.0	1,392,802	100.0	1,296,857	100.0
Operating expenses	1,585,706		1,371,109		1,240,282	
Less: trucking fuel surcharge revenues	235,690		114,135		61,571	

Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

	-----		-----		-----	
Operating expenses, net of fuel surcharge	1,350,016	89.6	1,256,974	90.2	1,178,711	90.9
Operating income	\$ 156,122	10.4	\$ 135,828	9.8	\$ 118,146	9.1
	=====		=====		=====	

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

	2005		2004		2003	
Value Added Services (amounts in 000's)	\$	%	\$	%	\$	%
-----	-----	-----	-----	-----	-----	-----
Revenues	\$ 218,620	100.0	\$ 161,111	100.0	\$ 89,742	100.0
Rent and purchased transportation expense	196,972	90.1	145,474	90.3	83,387	92.9
Gross margin	21,648	9.9	15,637	9.7	6,355	7.1
Other operating expenses	13,203	6.0	10,006	6.2	5,901	6.6
Operating income	\$ 8,445	3.9	\$ 5,631	3.5	\$ 454	0.5
	=====		=====		=====	

2005 Compared to 2004

Operating Revenues

Operating revenues increased 17.5% in 2005 compared to 2004. Excluding fuel surcharge revenues, trucking revenues increased 8.3% due primarily to a 5.4% increase in average revenues per total mile, excluding fuel surcharges, and a 3.4% increase in the average number of tractors in service, offset by a 0.6% decrease in average annual miles per tractor. Average revenues per total mile, excluding fuel surcharges, increased due to customer rate increases, and, to a lesser extent, a 2.6% decrease in the average loaded trip length. The truckload freight environment was solid during 2005 due to ongoing truck capacity constraints. In comparison to 2004, demand in the months of March to August 2005 was not as strong as the strong freight market of 2004, but

freight demand for the remaining months of the year was comparable to the demand in the same periods of 2004.



## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

The average percentage of empty miles increased to 12.2% in 2005 from 11.3% in 2004. The increase in the empty mile percentage is partially the result of a higher percentage of dedicated trucks in the fleet and a higher percentage of regional shipments with a shorter length of haul. Over the past few years, Werner has grown its dedicated fleets, arrangements in which the Company provides trucks and/or trailers for the exclusive use of a specific customer. For almost all the Company's dedicated fleet arrangements, dedicated customers pay the Company on an all-miles basis (loaded or empty) to obtain guaranteed truck and/or trailer capacity. For freight management and statistical reporting purposes, Werner classifies a mile without cargo in the trailer as an empty mile (i.e., deadhead mile). Since dedicated fleets generally have a higher percentage of miles without cargo in the trailer and since the Company has been growing its dedicated fleet business, this has contributed to an increase in the Company's reported average empty mile percentage. Excluding the dedicated fleet, the average empty mile percentage would be substantially lower for 2005 and 2004.

During third and fourth quarter 2005, the Company's sales and marketing team renewed customer contracts and obtained annual base rate increases for a substantial portion of the Company's non-dedicated fleet business that renewed in the second half of 2005. Although the Company has taken steps to minimize or delay certain controllable cost increases, base rate increases continue to be necessary to recoup several inflationary cost increases including driver pay and benefits, truck engine emissions costs, and tolls and to improve the Company's return on assets. The Company met its goals for these base rate increases in the 2005 renewal period.

Fuel surcharge revenues, which represent collections from customers for the higher cost of fuel, increased to \$235.7 million in 2005 from \$114.1 million in 2004 in response to higher average fuel prices in 2005. To lessen the effect of fluctuating fuel prices on the Company's margins, the Company collects fuel surcharge revenues from its customers. The Company's fuel surcharge programs are designed to recoup the higher cost of fuel from customers when fuel prices rise and provide customers with the benefit of lower costs when fuel prices decline. The truckload industry's fuel surcharge standard is a one-cent per mile increase in rate for every five-cent per gallon increase in the Department of Energy ("DOE") weekly retail on-highway diesel prices that are used for most fuel surcharge programs. These programs have historically enabled the Company to recover a significant portion of the fuel price increases. However, the five-cent per gallon brackets only recoup about 80% to 85% of the actual increase in the cost of fuel, due to empty miles not billable to customers, out-of-route miles, truck idle time, and the volatility in fuel prices as prices change rapidly in short periods of time.

VAS revenues increased 35.7% to \$218.6 million in 2005 from \$161.1 million in 2004, and gross margin increased 38.4% for the same period. VAS revenues consist primarily of freight brokerage, intermodal, multimodal, freight transportation management, and other services. Most of the revenue growth came from the Company's brokerage and intermodal divisions within VAS. The Company continues to focus on growing the volume of business in this segment, which provides customers with additional sources

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

of capacity.

### Operating Expenses

The Company's operating ratio (operating expenses expressed as a percentage of operating revenues) was 91.7% in 2005 versus 91.6% in 2004. As explained on page 15, the significant increase in fuel expense and related fuel surcharge revenues had the effect of increasing the operating ratio. Because the Company's VAS business operates with a lower operating margin and a significantly higher return on assets than the trucking business, the growth in VAS business in 2005 compared to 2004 also increased the Company's overall operating ratio. The tables on page 15 show the operating ratios and operating margins for the Company's two reportable segments, Truckload Transportation Services and Value Added Services.

16

The following table sets forth the cost per total mile of operating expense items for the truckload segment for the periods indicated. The Company evaluates operating costs for this segment on a per-mile basis to adjust for the impact on the percentage of total operating revenues caused by changes in fuel surcharge revenues and rate per mile increases, which provides a more consistent basis for comparing the results of operations from period to period.

	2005	2004	Increase (Decrease) per Mile	% Change
Salaries, wages and benefits	\$.532	\$.519	\$.013	2.5
Fuel	.321	.211	.110	52.1
Supplies and maintenance	.143	.130	.013	10.0
Taxes and licenses	.112	.106	.006	5.7
Insurance and claims	.083	.075	.008	10.7
Depreciation	.149	.138	.011	8.0
Rent and purchased transportation	.149	.140	.009	6.4
Communications and utilities	.019	.018	.001	5.6
Other	(.008)	(.003)	(.005)	166.7

Owner-operator costs are included in rent and purchased transportation expense. Owner-operator miles as a percentage of total miles were 12.5% in 2005 compared to 12.7% in 2004. Owner-operators are independent contractors who supply their own tractor and driver and are responsible for their operating expenses including fuel, supplies and maintenance, and fuel taxes. Because the change in owner-operator miles as a percentage of total miles was only minimal, there was essentially no shift in costs from the rent and purchased transportation category to other expense categories. Over the past year, attracting and retaining owner-operator drivers continued to be very difficult due to high fuel prices and other factors.

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

Salaries, wages and benefits for non-drivers increased in 2005 compared to 2004 to support the growth in the VAS segment. The increase in salaries, wages and benefits per mile of 1.3 cents for the truckload segment is primarily the result of increased student driver pay, higher driver pay per mile, and an increase in the number of maintenance employees. Because of the challenging driver recruiting and retention market, discussed below, the Company is training more student drivers as an alternative source of drivers. On August 1, 2004, the Company's previously announced two cent per mile pay raise became effective for company solo drivers in its medium-to-long-haul van division, representing approximately 25% of total company drivers. The Company recovered this pay raise through its customer rate increase negotiations, which occurred in third and fourth quarter 2004.

The driver recruiting and retention market remains extremely challenging. The supply of truck drivers continues to be constrained due to alternative jobs to truck driving that are available in today's economy and inadequate demographic growth for the industry's targeted driver base over the next several years. The Company continues to focus on driver quality of life issues such as developing more driving jobs with more frequent home time, providing drivers with newer trucks, and maximizing mileage productivity within the federal hours of service regulations. The Company has also placed more emphasis on training drivers. Improved driver recruiting has offset higher driver turnover; however, the Company expects the tight driver market will make it very difficult to add meaningful truck capacity in the near future.

The Company instituted an optional per diem reimbursement program for eligible company drivers beginning in April 2004. This program increases a company driver's net pay per mile, after taxes. As a result of more drivers electing to participate in the per diem program, driver pay per mile was slightly lower before considering the factors above that increased driver pay per mile, and the Company's effective income tax rate was higher in 2005 compared to 2004. The Company expects the cost of the per diem program to be neutral, because the combined driver pay rate per mile and per diem reimbursement under the per diem program is about one cent per mile lower than mileage pay without per diem reimbursement, which offsets the Company's increased income taxes caused by the nondeductible portion of the per diem. The per diem program increases driver satisfaction through higher net pay per mile. The Company anticipates that the competition

17

for drivers will continue to be high and cannot predict whether it will experience shortages in the future. If such a shortage were to occur and additional increases in driver pay rates were necessary to attract and retain drivers, the Company's results of operations would be negatively impacted to the extent that corresponding freight rate increases were not obtained.

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), and it will now report in its financial statements the share-based compensation expense for reporting periods beginning in 2006. As of the date of this filing, management believes that adopting the

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

new statement will have a negative impact of approximately two cents per share for the year ending December 31, 2006, representing the expense to be recognized for the unvested portion of awards granted to date, and cannot predict the earnings impact of awards that may be granted in the future.

Fuel increased 11.0 cents per mile for the truckload segment due primarily to higher average diesel fuel prices. Average fuel prices in 2005 were 56 cents a gallon, or 47%, higher than in 2004. Higher fuel costs, after considering the amounts collected from customers through fuel surcharge programs and the cost impact of owner-operator fuel reimbursements (which is included in rent and purchased transportation expense) and lower fuel mile per gallon ("mpg") due to truck engine emissions changes, had a ten-cent negative impact on earnings per share in 2005 compared to 2004. Company data continues to indicate an approximate 5% fuel mpg degradation for trucks with post-October 2002 engines (89% of the company-owned truck fleet as of December 31, 2005 compared to 47% as of December 31, 2004). As the Company replaces the remaining 11% of the trucks in its fleet that have the pre-October 2002 engines with trucks with the post-October 2002 engines, fuel cost per mile is expected to increase further due to the lower mpg. Shortages of fuel, increases in fuel prices, or rationing of petroleum products can have a materially adverse effect on the operations and profitability of the Company. The Company is unable to predict whether fuel price levels will continue to increase or decrease in the future or the extent to which fuel surcharges will be collected from customers. As of December 31, 2005, the Company had no derivative financial instruments to reduce its exposure to fuel price fluctuations.

Diesel fuel prices for the first six weeks of 2006 averaged 38 cents a gallon, or 26%, higher than average fuel prices for first quarter 2005. If diesel fuel prices remain at the average price for the first six weeks of 2006, the Company estimates that fuel will have a negative impact on first quarter 2006 earnings compared to first quarter 2005 earnings of three cents to four cents per share. The Company includes the following items in the calculation of the estimated impact of higher fuel costs on earnings: fuel pricing, fuel reimbursement to owner-operator drivers, lower fuel mpg due to the increasing percentage of company-owned trucks with post-October 2002 engines, and anticipated fuel surcharge reimbursement. It is difficult to estimate the impact of higher fuel costs on earnings because of changing fuel pricing trends, the temporary lag effect of rapidly changing fuel prices on fuel surcharge revenues, and other factors. The actual impact of fuel costs on earnings could be higher or lower than estimated due to these factors.

Supplies and maintenance for the truckload segment increased 1.3 cents on a per-mile basis in 2005 due primarily to increases in repair expenses for an increased number of trucks sold by the Company's Fleet Truck Sales subsidiary and higher costs to maintain the Company's trailer fleet. Higher driver recruiting costs (including driver advertising, transportation and lodging) and higher toll expense related to state toll rate increases also contributed to a smaller portion of the increase.

Taxes and licenses for the truckload segment increased 0.6 cents per total mile due primarily to the effect of the fuel mpg degradation for company-owned trucks with post-October 2002 engines on the per-mile cost of federal and state diesel fuel

taxes, as well as increases in some state tax rates.

Insurance and claims for the truckload segment increased 0.8 cents on a per-mile basis, primarily related to higher negative development on existing liability insurance claims. Cargo claims expense was essentially flat on a per-mile basis compared to 2004. The Company renewed its liability insurance policies on August 1, 2005. See Item 3 "Legal Proceedings" for information on the Company's coverage levels for personal injury and property damage since August 1, 2002. Liability insurance premiums for the policy year beginning August 1, 2005 were approximately the

18

same as the previous policy year. The Company is unable to predict whether the trend of increasing insurance and claims expense will continue in the future.

Depreciation expense for the truckload segment increased 1.1 cents on a per-mile basis in 2005 due primarily to higher costs of new tractors with the post-October 2002 engines. As of December 31, 2005, approximately 89% of the company-owned truck fleet consisted of trucks with the post-October 2002 engines, compared to 47% at December 31, 2004. As the Company replaces the remaining 11% of the trucks in its fleet that have the pre-October 2002 engines with trucks with the post-October 2002 engines, depreciation expense is expected to increase.

Rent and purchased transportation consists mainly of payments to third-party capacity providers in the VAS and other non-trucking operations and payments to owner-operators in the trucking operations. As shown in the VAS statistics table under the "Results of Operations" heading on page 15, rent and purchased transportation expense for the VAS segment increased in response to higher VAS revenues. These expenses generally vary depending on changes in the volume of services generated by the segment. As a percentage of VAS revenues, VAS rent and purchased transportation expense decreased to 90.1% in 2005 compared to 90.3% in 2004, resulting in a higher gross margin in 2005. As the truck capacity market tightened during 2005, it became more difficult to find qualified truckload capacity to meet VAS customer freight needs, especially in the latter part of the year. However, the Company's marketing efforts continued to successfully expand its VAS qualified carrier base in a constrained capacity market, ending the year with 3,600 qualified broker carriers. The Company expects a tight truckload capacity market in 2006 with the extremely challenging driver market and historically high fuel prices. During fourth quarter 2005, VAS expanded its small, but growing, intermodal presence by agreeing to manage a fleet of Union Pacific-owned containers for intermodal freight shipments. The Company pays a daily fee per container to Union Pacific ("UP") for any days that the containers are not in transit in the UP network. As of December 2005, VAS Intermodal was managing 400 UP containers. VAS Intermodal has the option to, and expects to, increase the number of the UP containers in 2006 as it further develops its intermodal freight program.

Rent and purchased transportation for the truckload segment increased 0.9 cents per total mile in 2005. Higher fuel prices necessitated higher reimbursements to owner-operators for fuel,

which resulted in an increase of 1.1 cents per total mile. The Company's customer fuel surcharge programs do not differentiate between miles generated by Company-owned trucks and miles generated by owner-operator trucks; thus, the increase in owner-operator fuel reimbursements is included with Company fuel expenses in calculating the per-share impact of higher fuel costs on earnings. The Company has experienced difficulty recruiting and retaining owner-operators for over three years because of challenging operating conditions. This has resulted in a reduction in the number of owner-operator tractors to 830 as of December 31, 2005 from 925 as of December 31, 2004. However, the Company has historically been able to add company-owned tractors and recruit additional company drivers to offset any decreases in owner-operators. If a shortage of owner-operators and company drivers were to occur and increases in per mile settlement rates became necessary to attract and retain owner-operators, the Company's results of operations would be negatively impacted to the extent that corresponding freight rate increases were not obtained. Payments to third-party capacity providers used for portions of shipments delivered to or from Mexico and by a few dedicated fleets in the truckload segment decreased by 0.2 cents per mile, partially offsetting the overall increase for the truckload segment.

Other operating expenses for the truckload segment decreased 0.5 cents per mile in 2005. Gains on sales of assets, primarily trucks, 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 increased to \$11.0 million in 2005 from \$9.3 million in 2004, due to increased unit sales, partially offset by an increased ratio of traded trucks to sold trucks. The Company's wholly-owned used truck retail network, Fleet Truck Sales, is one of the largest class 8 truck sales entities in the United States, with 17 locations, and has been in operation since 1992. Fleet Truck Sales continues to be a resource for the Company to remarket its used trucks. Other operating expenses also include bad debt expense and professional service fees. The remaining decrease in other operating expenses in 2005 is due primarily to a reduction

19

in computer consulting fees as consultants were hired by the Company, resulting in a reduction in other operating expense, but an increase in salaries, wages and benefits expense.

The Company recorded \$0.7 million of interest expense in 2005 versus virtually no interest expense in 2004. The Company incurred debt of \$60.0 million during the fourth quarter of 2005 and had no debt outstanding throughout 2004. The Company repaid \$35.0 million of its debt in January 2006 and expects to pay down the remaining debt during the first half of 2006, due to expected lower net capital expenditures. Interest income for the Company increased to \$3.4 million in 2005 from \$2.6 million in 2004 due to improved interest rates, partially offset by a declining cash balance throughout 2005.

The Company's effective income tax rate (income taxes expressed as a percentage of income before income taxes) increased to 41.0% in 2005 from 39.2% in 2004, as described in Note 4 of the Notes to Consolidated Financial Statements under

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

Item 8 of this Form 10-K. The income tax rate increased in 2005 because of higher non-deductible expenses for tax purposes related to the implementation of a per diem pay program for student drivers in fourth quarter 2003 and a per diem pay program for eligible company drivers in April 2004. The Company does not expect its effective income tax rate to increase in 2006.

2004 Compared to 2003  
-----

### Operating Revenues

Operating revenues increased 15.1% in 2004 compared to 2003. Excluding fuel surcharge revenues, trucking revenues increased 7.2% due primarily to a 5.0% increase in average revenues per total mile, excluding fuel surcharges, and a 2.1% increase in the average number of tractors in service. Average revenues per total mile, excluding fuel surcharges, increased due to customer rate increases, an improvement in freight selection, and a 7.0% decrease in the average loaded trip length due to growth in the Company's dedicated fleet. Part of the growth in the dedicated fleet was offset by a decrease in the Company's medium-to-long-haul van fleet. Dedicated fleet business tends to have lower miles per trip, a higher empty mile percentage, a higher rate per loaded mile, and lower miles per truck. The growth in dedicated business had a corresponding effect on these same operating statistics, as reported above, for the entire Company. During 2004, the truckload freight environment strengthened due to ongoing truck capacity constraints and a steadily improving economy.

Beginning in August 2004, the Company's sales and marketing team met with customers to negotiate annual rate increases to recoup the significant cost increases in fuel, driver pay, equipment, and insurance and to improve margins. Much of the Company's non-dedicated contractual business renewed in the latter part of third quarter and fourth quarter. As a result of these efforts, average revenues per total mile, net of fuel surcharges, rose seven cents a mile, or 5.3%, sequentially from second quarter 2004 to fourth quarter 2004.

Fuel surcharge revenues increased to \$114.1 million in 2004 from \$61.6 million in 2003 due to higher average fuel prices in 2004. These surcharge programs, which automatically adjust depending on the DOE weekly retail on-highway diesel prices, continued in effect throughout 2004. Typical programs specify a base price per gallon when surcharges can begin to be billed. Above this price, the Company bills a surcharge rate per mile when the price per gallon falls in a bracketed range of fuel prices. When fuel prices increase, fuel surcharges recoup a lower percentage of the incrementally higher costs due to the impact of inadequate recovery for empty miles not billable to customers, out-of-route miles, truck idle time, and "bracket creep". "Bracket creep" occurs when fuel prices approach the upper limit of the bracketed range, but a higher surcharge rate per mile cannot be billed until the fuel price per gallon reaches the next bracket. Also, the DOE survey price used for surcharge contracts changes once a week while fuel prices change more frequently. Because collections of fuel surcharges typically trail fuel price changes, rapid fuel price increases cause a temporarily unfavorable effect of fuel prices increasing more rapidly than fuel surcharge revenues. This effect typically

reverses when fuel prices fall.

20

VAS revenues increased to \$161.1 million in 2004 from \$89.7 million in 2003, or 79.5%, and gross margin increased 146.1% for the same period. Most of this revenue growth came from the Company's brokerage group within VAS. During 2004, the expansion of the Company's VAS services assisted customers by providing needed capacity while driving cost out of their freight network.

#### Operating Expenses

The Company's operating ratio was 91.6% in 2004 versus 91.9% in 2003. Because the Company's VAS business operates with a lower operating margin and a higher return on assets than the trucking business, the substantial growth in VAS business in 2004 compared to 2003 affected the Company's overall operating ratio. As explained on page 15, the significant increase in fuel expense and related fuel surcharge revenues also affected the operating ratio. The tables on page 15 show the operating ratios and operating margins for the Company's two reportable segments, Truckload Transportation Services and Value Added Services.

The following table sets forth the cost per total mile of operating expense items for the truckload segment for the periods indicated. The Company evaluates operating costs for this segment on a per-mile basis to adjust for the impact on the percentage of total operating revenues caused by changes in fuel surcharge revenues and rate per mile increases, which provides a more consistent basis for comparing the results of operations from period to period.

	2004	2003	Increase (Decrease) per Mile	% Change
Salaries, wages and benefits	\$ .519	\$ .502	\$.017	3.4
Fuel	.211	.158	.053	33.5
Supplies and maintenance	.130	.117	.013	11.1
Taxes and licenses	.106	.103	.003	2.9
Insurance and claims	.075	.072	.003	4.2
Depreciation	.138	.132	.006	4.5
Rent and purchased transportation	.140	.131	.009	6.9
Communications and utilities	.018	.016	.002	12.5
Other	(.003)	(.001)	(.002)	200.0

Owner-operator miles as a percentage of total miles were 12.7% in 2004 compared to 12.6% in 2003. Because the change in owner-operator miles as a percentage of total miles was only minimal, there was essentially no shift in costs to the rent and purchased transportation category from other expense categories. During 2004, attracting and retaining owner-operator drivers was difficult due to the challenging operating conditions.

Salaries, wages and benefits for non-drivers increased in



## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

2004 compared to 2003 to support the growth in the VAS segment. The increase in salaries, wages and benefits per mile of 1.7 cents for the truckload segment is primarily the result of higher driver pay per mile. On August 1, 2004, the Company's previously announced two cent per mile pay raise became effective for company solo drivers in its medium-to-long-haul van division, representing approximately 25% of total drivers. The Company recovered a substantial portion of this pay raise through its customer rate increase negotiations. As a result of the new hours of service regulations effective at the beginning of 2004, the Company increased driver pay in the non-dedicated fleets for multiple stop shipments. Additional revenue from increased rates per stop offset most of the increased driver pay. The increase in dedicated business as a percentage of total trucking business also contributed to the increase in driver pay per mile as dedicated drivers are usually compensated at a higher rate per mile due to the lower average miles per truck. The Company's dedicated fleets also typically have higher amounts of loading/unloading pay and minimum pay.

During the last quarter of 2003, the market for recruiting experienced drivers tightened. The Company experienced initial improvement in driver turnover after announcing the two-cent per mile pay raise that became effective in August 2004; however, that improvement has been difficult to sustain. Alternative jobs with an improving economy, weak population demographics, and competitor pay raises are expected to keep the driver market challenging. In 2004, the Company expanded its student-driver

21

training program to attract more drivers to the Company and the industry. The Company also offered an increasing percentage of driving jobs with more frequent home time in its dedicated, regional, and network-optimization fleets. The Company instituted an optional per diem reimbursement program for eligible company drivers (approximately half of total non-student company drivers) beginning in April 2004. This program increases a company driver's net pay per mile, after taxes. As a result, driver pay per mile was slightly lower before considering the factors above that increased driver pay per mile, and the Company's effective income tax rate was higher in 2004 compared to 2003.

Fuel increased 5.3 cents per mile for the truckload segment due primarily to higher average diesel fuel prices. Average fuel prices in 2004 were 30 cents a gallon, or 32%, higher than in 2003. Fuel expense, after considering the amounts collected from customers through fuel surcharge programs, net of reimbursement to owner-operators, had an eight-cent negative impact on 2004 earnings per share compared to 2003 earnings per share. In addition to the increase in fuel prices, company data indicated that the fuel mpg degradation for trucks with post-October 2002 engines (47% of the company-owned truck fleet as of December 31, 2004) was a reduction of approximately 5%. As of December 31, 2004, the Company had no derivative financial instruments to reduce its exposure to fuel price fluctuations.

Supplies and maintenance for the truckload segment increased 1.3 cents on a per-mile basis in 2004 due primarily to increases in the cost of over-the-road repairs and an increase in

maintenance on equipment sales related to a larger number of tractors sold through the Company's Fleet Truck Sales subsidiary in 2004 versus 2003. Over-the-road ("OTR") repairs increased as a result of the increase in dedicated-fleet trucks, which typically do not have as much maintenance performed at company terminals. The Company includes the higher cost of OTR maintenance in its dedicated pricing models. Higher driver recruiting costs (including driver advertising) and driver travel and lodging also contributed to a small portion of the increase.

Insurance and claims for the truckload segment increased 0.3 cents on a per-mile basis, primarily related to liability claims. Cargo claims expense was essentially flat on a per-mile basis compared to 2003.

The Company renewed its liability insurance policies on August 1, 2004. Effective August 1, 2004, the Company became responsible for the first \$2.0 million per claim (previously \$500,000 per claim). See Item 3 "Legal Proceedings" for information on the Company's coverage levels for personal injury and property damage since August 1, 2002. The increased Company retention from \$500,000 to \$2.0 million was due to changes in the trucking insurance market and was similar to increased claim retention levels experienced by other truckload carriers. Liability insurance premiums for the policy year beginning August 1, 2004 decreased approximately \$0.4 million due to the higher retention level.

Depreciation expense for the truckload segment increased 0.6 cents on a per-mile basis in 2004 due primarily to higher costs of new tractors with the post-October 2002 engines.

Rent and purchased transportation consists mainly of payments to third-party capacity providers in the VAS and other non-trucking operations and payments to owner-operators in the trucking operations. Rent and purchased transportation for the truckload segment increased 0.9 cents per total mile as higher fuel prices necessitated higher reimbursements to owner-operators for fuel. The Company has experienced difficulty recruiting and retaining owner-operators for over two years because of challenging operating conditions. Payments to third-party capacity providers used for portions of shipments delivered to or from Mexico and by a few dedicated fleets in the truckload segment contributed 0.2 cents of the total per-mile increase for the truckload segment.

As shown in the VAS statistics table under the "Results of Operations" heading on page 15, rent and purchased transportation expense for the VAS segment increased in response to higher VAS revenues. As a percentage of VAS revenues, VAS rent and purchased transportation expense decreased to 90.3% in 2004 compared to 92.9% in 2003, resulting in a higher gross margin in 2004. An improving truckload freight environment in 2004 resulted in improved customer rates for the VAS segment. Additionally, to support the ongoing growth within VAS, the group has increased its number of approved third-party providers. This

larger carrier base allows VAS to more competitively match customer freight with available capacity, resulting in improved

margins.

Other operating expenses for the truckload segment decreased 0.2 cents per mile in 2004. Gains on sales of assets, primarily trucks, were \$9.3 million in 2004 compared to \$7.6 million in 2003. In 2004, the Company sold about three-fourths of its used trucks to third parties and traded about one-fourth. In 2003, the Company sold about two-thirds of its used trucks and traded about one-third. Gains increased due to a larger number of trucks sold in 2004, with a lower average gain per truck. In July 2004, the Company also began recording gains on certain tractor trades in accordance with EITF 86-29. In 2002, 2003, and the first six months of 2004, the excess of the trade price over the net book value of the trucks exchanged reduced the cost basis of new trucks. This change did not have a material impact on the Company's results of operations. Other operating expenses also include bad debt expense and professional service fees. The Company incurred approximately \$0.7 million in professional fees in 2004 in connection with the implementation of Section 404 of the Sarbanes-Oxley Act of 2002.

The Company recorded essentially no interest expense in 2004, as it repaid its last remaining debt in December 2003. Interest income for the Company increased to \$2.6 million in 2004 from \$1.7 million in 2003 due to higher average cash balances in 2004 compared to 2003.

The Company's effective income tax rate increased from 37.5% in 2003 to 39.2% in 2004, as described in Note 4 of the Notes to Consolidated Financial Statements under Item 8 of this Form 10-K. The income tax rate increased in 2004 because of higher non-deductible expenses for tax purposes related to the implementation of a per diem pay program for student drivers in fourth quarter 2003 and a per diem pay program for eligible company drivers in April 2004.

#### Liquidity and Capital Resources

During the year ended December 31, 2005, the Company generated cash flow from operations of \$172.5 million, a 23.9% decrease (\$54.1 million) in cash flow compared to the year ended December 31, 2004. The decrease in cash flow from operations is due primarily to larger federal income tax payments in 2005 and an increase in days sales in accounts receivable, offset by higher depreciation expense for financial reporting purposes related to the higher cost of the post-October 2002 engines and higher net income. Income taxes paid during 2005 totaled \$99.2 million compared to \$42.9 million in 2004. This increase was related to recent tax law changes resulting in the reversal of certain tax strategies implemented in 2001 and lower income tax depreciation in 2005 due to the bonus tax depreciation provision that expired on December 31, 2004. The Company made federal income tax payments of \$22.5 million related to the reversal of the tax strategies in second quarter 2005. Cash flow from operations increased \$19.1 million in 2004 compared to 2003, or 9.2%, as the Company returned to a normal tractor replacement cycle in 2004 after purchasing fewer trucks in 2003. The cash flow from operations and existing cash balances, supplemented by borrowings under its existing credit facilities, enabled the Company to make net capital expenditures and pay dividends as discussed below.

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

Net cash used in investing activities increased 52.1% (\$100.8 million) to \$294.3 million in 2005 from \$193.5 million in 2004. The large increase was due primarily to the Company purchasing more new tractors in 2005 to reduce the average age of its truck fleet, as compared to a more normal tractor replacement cycle in 2004. The 90.5% increase (\$91.9 million) from 2003 to 2004 was due primarily to the Company purchasing fewer new tractors in 2003 following its accelerated purchases of tractors with pre-October 2002 engines in the latter part of 2002 in advance of the first phase of new EPA engine emissions standards. As of December 31, 2005, approximately 89% of the company-owned truck fleet consisted of trucks with the new engines, and the average age of the Company's truck fleet was 1.23 years. The Company's goal is to keep its fleet as new as possible during 2006. Net capital expenditures in 2006 are expected to return to more normal levels, with lower than normal expected truck purchases in the first half of 2006.

23

As of December 31, 2005, the Company has committed to property and equipment purchases, net of trades, of approximately \$33.1 million. The Company intends to fund these net capital expenditure commitments through cash flow from operations.

Net financing activities provided \$48.9 million in 2005 and used \$25.7 million and \$33.8 million in 2004 and 2003, respectively. The change from 2004 to 2005 resulted from borrowings of \$60.0 million in the fourth quarter of 2005 to fund a portion of the Company's net capital expenditures, as described above. Through the date of this report, the Company has repaid \$35.0 million of the total \$60.0 million of debt outstanding on December 31, 2005 and expects to repay the remaining \$25.0 million during the first half of 2006. The Company paid dividends of \$11.9 million in 2005, \$9.5 million in 2004, and \$6.5 million in 2003. The Company increased its quarterly dividend rate by \$.005 per share beginning with the dividend paid in July 2005, and by \$0.01 per share beginning with the dividend paid in July 2004. Financing activities also included common stock repurchases of \$1.6 million in 2005, \$21.6 million in 2004, and \$13.5 million in 2003. From time to time, the Company has repurchased, and may continue to repurchase, shares of its common stock. The timing and amount of such purchases depends on market and other factors. The Company's Board of Directors has authorized the repurchase of up to 3,965,838 shares. As of December 31, 2005, the Company had purchased 257,038 shares pursuant to this authorization and had 3,708,800 shares remaining available for repurchase.

Management believes the Company's financial position at December 31, 2005 is strong. As of December 31, 2005, the Company had \$36.6 million of cash and cash equivalents and \$862.5 million of stockholders' equity. As of December 31, 2005, the Company had \$125.0 million of credit pursuant to credit facilities, of which it had borrowed \$60.0 million. The remaining \$65.0 million of credit available under these facilities is further reduced by the \$37.2 million in letters of credit the Company maintains. These letters of credit are primarily required as security for insurance policies. As of December 31, 2005, the Company had no non-cancelable revenue equipment operating leases, and therefore, had no off-balance

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

sheet revenue equipment debt. Based on the Company's strong financial position, management foresees no significant barriers to obtaining sufficient financing, if necessary.

### Contractual Obligations and Commercial Commitments

The following tables set forth the Company's contractual obligations and commercial commitments as of December 31, 2005.

Contractual Obligations	Payments Due by Period (in millions)				
	Total	Less than 1 year	1-3 years	4-5 years	Over 5 years
Long-term debt, including current maturities	\$ 60.0	\$ 60.0	\$ -	\$ -	\$ -
Total contractual cash obligations	\$ 60.0	\$ 60.0	\$ -	\$ -	\$ -

### Amount of Commitment Expiration Per Period (in millions)

Other Commercial Commitments	Total Amounts Committed	Less than 1 year	1-3 years	4-5 years	Over 5 years
Unused lines of credit	\$ 27.8	\$ 25.0	\$ 2.8	\$ -	\$ -
Standby letters of credit	37.2	37.2	-	-	-
Other commercial commitments	33.1	33.1	-	-	-
Total commercial commitments	\$ 98.1	\$ 95.3	\$ 2.8	\$ -	\$ -

The Company has committed credit facilities with two banks totaling \$125.0 million, of which it had borrowed \$60.0 million. These credit facilities bear variable interest (4.8% at December 31, 2005) based on the London Interbank Offered Rate ("LIBOR"). The credit available under these facilities is further reduced by the amount of standby letters of credit the Company maintains.

24

The unused lines of credit are available to the Company in the event the Company needs financing for the growth of its fleet. With the Company's strong financial position, the Company expects it could obtain additional financing, if necessary, at favorable terms. The standby letters of credit are primarily required for insurance policies. The other commercial commitments relate to committed equipment expenditures.

### Off-Balance Sheet Arrangements

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

The Company does not have arrangements that meet the definition of an off-balance sheet arrangement.

### Critical Accounting Policies

The Company's success depends on its ability to efficiently manage its resources in the delivery of truckload transportation and logistics services to its customers. Resource requirements vary with customer demand, which may be subject to seasonal or general economic conditions. The Company's ability to adapt to changes in customer transportation requirements is a key element in efficiently deploying resources and in making capital investments in tractors and trailers. Although the Company's business volume is not highly concentrated, the Company may also be affected by the financial failure of its customers or a loss of a customer's business from time-to-time.

The Company's most significant resource requirements are qualified drivers, tractors, trailers, and related costs of operating its equipment (such as fuel and related fuel taxes, driver pay, insurance, and supplies and maintenance). The Company has historically been successful mitigating its risk to increases in fuel prices by recovering additional fuel surcharges from its customers. The Company's financial results are also affected by availability of drivers and the market for new and used trucks. Because the Company is self-insured for a significant portion of its cargo, personal injury, and property damage claims on its trucks and for workers' compensation benefits for its employees (supplemented by premium-based coverage above certain dollar levels), financial results may also be affected by driver safety, medical costs, weather, the legal and regulatory environment, and the costs of insurance coverage 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 5 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 the Company's normal replacement cycle for tractors is three years, the Company calculates 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, in those instances in which 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. The Company continually monitors the adequacy of the lives and salvage values used in calculating depreciation expense and adjusts these assumptions appropriately when warranted.
- \* Impairment of long-lived assets. The Company reviews its

long-lived assets for impairment whenever events or changes in circumstances indicate that 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 it exceeds its fair value. For long-lived assets classified as held and used, if the carrying value of the long-lived asset exceeds the sum of the future net cash flows, it is not recoverable. The Company does not separately identify

25

assets by operating segment, as tractors and trailers are routinely transferred from one operating fleet to another. As a result, none of the Company's long-lived assets have identifiable cash flows from use that are largely independent of the cash flows of other assets and liabilities. Thus, the asset group used to assess impairment would include all assets of the Company. 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 long-term) 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 based upon past experience. The Company's self-insurance reserves are reviewed by an actuary 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 is utilized to provide some or all of the service and the Company is the primary obligor in regards to the delivery of the shipment, establishes customer pricing separately from carrier rate negotiations, generally has discretion in carrier selection, and/or has credit risk on the shipment, the Company records both revenues for the dollar value of services billed by the Company to the customer and rent and purchased transportation expense for the costs of transportation paid by the Company to the third-party provider upon delivery of the shipment. In the absence of the conditions listed above, the Company records revenues net of expenses related to third-party providers.
- \* Accounting for income taxes. Significant management judgment is required to determine the provision for income taxes and to determine whether deferred income taxes will be realized in full or in part. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. 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 to be

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

necessary due to the Company's profitable operations. Accordingly, if the facts or financial circumstances were to change, thereby impacting the likelihood of realizing the deferred income tax assets, judgment would need to be applied to determine the amount of valuation allowance required in any given period.

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

### Inflation

Inflation can be expected to have an impact on the Company's operating costs. A prolonged period of inflation could cause interest rates, fuel, wages, and other costs to increase and could adversely affect the Company's results of operations unless freight rates could be increased correspondingly. However, the effect of inflation has been minimal over the past three years.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in interest and foreign currency exchange rates and commodity prices.

26

### Interest Rate Risk

The Company had \$60.0 million of variable rate debt outstanding at December 31, 2005. The interest rates on the variable rate debt are based on the London Interbank Offered Rate ("LIBOR"). Assuming this level of borrowings, a hypothetical one-percentage point increase in the LIBOR interest rate would increase the Company's annual interest expense by \$600,000. The Company has no derivative financial instruments to reduce its exposure to interest rate increases.

### Commodity Price Risk

The price and availability of diesel fuel are subject to fluctuations due to changes in the level of global oil production, refining capacity, seasonality, weather, and other market factors. Historically, the Company has been able to recover a majority of fuel price increases from customers in the form of fuel surcharges. The Company cannot predict the extent to which high fuel price levels will continue in the future or the extent to which fuel surcharges could be collected to offset such increases. As of December 31, 2005, the Company had no derivative financial instruments to reduce its exposure to fuel price fluctuations.

### Foreign Currency Exchange Rate Risk

The Company conducts business in Mexico and Canada. Foreign currency transaction gains and losses were not material to the Company's results of operations for 2005 and prior years. Accordingly, the Company is not currently subject to material



## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

foreign currency exchange rate risks from the effects that exchange rate movements of foreign currencies would have on the Company's future costs or on future cash flows. To date, virtually all foreign revenues are denominated in U.S. dollars, and the Company receives payment for freight services performed in Mexico and Canada primarily in U.S. dollars to reduce direct foreign currency risk.

27

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

#### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors  
Werner Enterprises, Inc.:

We have audited the accompanying consolidated balance sheets of Werner Enterprises, Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2005. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule for each of the years in the three-year period ended December 31, 2005, listed in Item 15(a)(2) of this Form 10-K. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Werner Enterprises, Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Werner Enterprises, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 1, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Omaha, Nebraska  
February 1, 2006

28

WERNER ENTERPRISES, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except per share amounts)

	Years Ended December 31,		
	2005	2004	2003
Operating revenues	\$1,971,847	\$1,678,043	\$1,457,766
Operating expenses:			
Salaries, wages and benefits	574,893	544,424	513,551
Fuel	340,622	218,095	160,465
Supplies and maintenance	154,719	138,999	123,680
Taxes and licenses	118,853	109,720	104,392
Insurance and claims	88,595	76,991	73,032
Depreciation	162,462	144,535	135,168
Rent and purchased transportation	354,335	289,186	215,463
Communications and utilities	20,468	18,919	16,480
Other	(7,711)	(4,154)	(1,969)
Total operating expenses	1,807,236	1,536,715	1,340,262
Operating income	164,611	141,328	117,504
Other expense (income):			
Interest expense	672	13	1,099
Interest income	(3,381)	(2,580)	(1,699)
Other	261	198	128
Total other income	(2,448)	(2,369)	(472)
Income before income taxes	167,059	143,697	117,976
Income taxes	68,525	56,387	44,249
Net income	\$ 98,534	\$ 87,310	\$ 73,727
Earnings per share:			
Basic	\$ 1.24	\$ 1.10	\$ 0.92

Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

Diluted	=====	=====	=====
	\$ 1.22	\$ 1.08	\$ 0.90
	=====	=====	=====
Weighted-average common shares outstanding:			
Basic	79,393	79,224	79,828
	=====	=====	=====
Diluted	80,701	80,868	81,668
	=====	=====	=====

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

29

WERNER ENTERPRISES, INC.  
CONSOLIDATED BALANCE SHEETS  
(In thousands, except share amounts)

	December 31,	
ASSETS	2005	2004
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 36,583	\$ 108,807
Accounts receivable, trade, less allowance of \$8,357 and \$8,189, respectively	240,224	186,771
Other receivables	19,914	11,832
Inventories and supplies	10,951	9,658
Prepaid taxes, licenses, and permits	18,054	15,292
Current deferred income taxes	20,940	-
Other current assets	20,966	18,896
	-----	-----
Total current assets	367,632	351,256
	-----	-----
Property and equipment, at cost:		
Land	26,279	25,008
Buildings and improvements	110,275	105,493
Revenue equipment	1,262,112	1,100,596
Service equipment and other	157,098	143,552
	-----	-----
Total property and equipment	1,555,764	1,374,649
Less - accumulated depreciation	553,157	511,651
	-----	-----
Property and equipment, net	1,002,607	862,998
	-----	-----
Other non-current assets	15,523	11,521
	-----	-----
	\$1,385,762	\$1,225,775
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 52,387	\$ 49,618

Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

Current portion of long-term debt	60,000	-
Insurance and claims accruals	62,418	55,095
Accrued payroll	21,274	19,579
Current deferred income taxes	-	15,569
Other current liabilities	21,838	17,705
	-----	-----
Total current liabilities	217,917	157,566
	-----	-----
Other long-term liabilities	526	301
Deferred income taxes	209,868	210,739
Insurance and claims accruals, net of current portion	95,000	84,000
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.01 par value, 200,000,000 shares authorized; 80,533,536 shares issued; 79,420,443 and 79,197,747 shares outstanding, respectively	805	805
Paid-in capital	105,074	106,695
Retained earnings	777,260	691,035
Accumulated other comprehensive loss	(259)	(861)
Treasury stock, at cost; 1,113,093 and 1,335,789 shares, respectively	(20,429)	(24,505)
	-----	-----
Total stockholders' equity	862,451	773,169
	-----	-----
	\$1,385,762	\$1,225,775
	=====	=====

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

30

WERNER ENTERPRISES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)

	Years Ended December 31,		
	2005	2004	2003
	-----	-----	-----
Cash flows from operating activities:			
Net income	\$ 98,534	\$ 87,310	\$ 73,727
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	162,462	144,535	135,168
Deferred income taxes	(37,380)	12,517	(5,480)
Gain on disposal of operating equipment	(11,026)	(9,735)	(7,557)
Tax benefit from exercise of stock options	1,617	3,225	2,863
Other long-term assets	(795)	408	1,023

Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

Insurance and claims accruals, net of current portion	11,000	13,000	23,500
Other long-term liabilities	225	-	-
Changes in certain working capital items:			
Accounts receivable, net	(53,453)	(34,310)	(20,572)
Prepaid expenses and other current assets	(14,207)	(4,261)	6,358
Accounts payable	2,769	8,715	(9,643)
Accrued and other current liabilities	12,746	5,178	8,087
	-----	-----	-----
Net cash provided by operating activities	172,492	226,582	207,474
	-----	-----	-----
Cash flows from investing activities:			
Additions to property and equipment	(414,112)	(294,288)	(158,351)
Retirements of property and equipment	114,903	98,098	54,754
Decrease in notes receivable	4,957	2,703	2,052
	-----	-----	-----
Net cash used in investing activities	(294,252)	(193,487)	(101,545)
	-----	-----	-----
Cash flows from financing activities:			
Proceeds from issuance of short- term debt	60,000	-	-
Repayments of long-term debt	-	-	(20,000)
Dividends on common stock	(11,904)	(9,506)	(6,466)
Payment of stock split fractional shares	-	-	(9)
Repurchases of common stock	(1,573)	(21,591)	(13,476)
Stock options exercised	2,411	5,424	6,167
	-----	-----	-----
Net cash provided by (used in) financing activities	48,934	(25,673)	(33,784)
	-----	-----	-----
Effect of exchange rate fluctuations on cash	602	(24)	(621)
Net increase (decrease) in cash and cash equivalents:	(72,224)	7,398	71,524
Cash and cash equivalents, beginning of year	108,807	101,409	29,885
	-----	-----	-----
Cash and cash equivalents, end of year	\$ 36,583	\$108,807	\$101,409
	=====	=====	=====
Supplemental disclosures of cash flow information:			
Cash paid during year for:			
Interest	\$ 561	\$ 13	\$ 1,148
Income taxes	99,170	42,850	34,401
Supplemental disclosures of non-cash investing activities:			
Notes receivable issued upon sale of revenue equipment	\$ 8,164	\$ 4,079	\$ 2,566

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

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

31

WERNER ENTERPRISES, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME  
INCOME  
(In thousands, except share and per share amounts)

	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
BALANCE, December 31, 2002	\$805	\$107,366	\$547,467	\$ (216)	\$ (7,779)	\$647,393
Purchases of 764,500 shares of common stock	-	-	-	-	(13,476)	(13,476)
Dividends on common stock (\$.090 per share)	-	-	(7,183)	-	-	(7,183)
Payment of stock split fractional shares	-	(9)	-	-	-	-
Exercise of stock options, 752,591 shares, including tax benefits	-	1,349	-	-	7,681	9,030
Comprehensive income (loss):						
Net income	-	-	73,727	-	-	73,727
Foreign currency translation adjustments	-	-	-	(621)	-	(621)
Total comprehensive income (loss)	-	-	73,727	(621)	-	73,106
BALANCE, December 31, 2003	805	108,706	614,011	(837)	(13,574)	709,611
Purchases of 1,173,200 shares of common stock	-	-	-	-	(21,591)	(21,591)
Dividends on common stock (\$.130 per share)	-	-	(10,286)	-	-	(10,286)
Exercise of stock options, 656,676 shares, including tax benefits	-	(2,011)	-	-	10,660	8,649
Comprehensive income (loss):						
Net income	-	-	87,310	-	-	87,310
Foreign currency translation adjustments	-	-	-	(24)	-	(24)
Total comprehensive income (loss)	-	-	87,310	(24)	-	87,286
BALANCE, December 31, 2004	805	106,695	691,035	(861)	(24,505)	773,269
Purchases of 88,000 shares of common stock	-	-	-	-	(1,573)	(1,573)

Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

Dividends on common stock (\$.155 per share)	-	-	(12,309)	-	-	(12,309)
Exercise of stock options, 310,696 shares, including tax benefits	-	(1,621)	-	-	5,649	4,028
Comprehensive income (loss):						
Net income	-	-	98,534	-	-	98,534
Foreign currency translation adjustments	-	-	-	602	-	602
	----	-----	-----	-----	-----	-----
Total comprehensive income (loss)	-	-	98,534	602	-	99,136
	----	-----	-----	-----	-----	-----
BALANCE, December 31, 2005	\$805	\$105,074	\$777,260	\$(259)	\$(20,429)	\$862,401
	=====	=====	=====	=====	=====	=====

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

32

WERNER ENTERPRISES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Werner Enterprises, Inc. (the "Company") is a truckload transportation and logistics company operating under the jurisdiction of the U.S. Department of Transportation, the Federal and Provincial Transportation Departments in Canada, the Secretary of Communication and Transportation in Mexico, and various state regulatory commissions. The Company maintains a diversified freight base and is not dependent on a small group of customers or a specific industry for a majority of its freight, which limits concentrations of credit risk. One customer generated approximately 10% of total revenues for 2005 and approximately 9% of total revenues for 2004 and 2003.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Werner Enterprises, Inc. and its majority-owned subsidiaries. All significant intercompany accounts and transactions relating to these majority-owned entities have been eliminated.

Use of Management Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Cash and Cash Equivalents

The Company considers all highly liquid investments, purchased with a maturity of three months or less, to be cash equivalents.

### Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amounts, net of an allowance for doubtful accounts. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The financial condition of customers is reviewed by the Company prior to granting credit. The Company determines the allowance based on historical write-off experience and national economic data. The Company reviews the adequacy of its allowance for doubtful accounts quarterly. Past due balances over 90 days and over a specified amount are reviewed individually for collectibility. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

### Inventories and Supplies

Inventories and supplies consist primarily of revenue equipment parts, tires, fuel, supplies, and company store merchandise and are stated at average cost. Tires placed on new revenue equipment are capitalized as a part of the equipment cost. Replacement tires are expensed when placed in service.

33

### Property, Equipment, and Depreciation

Additions and improvements to property and equipment are capitalized at cost, while maintenance and repair expenditures are charged to operations as incurred. Gains and losses on the sale or exchange of equipment are recorded in other operating expenses. Prior to July 1, 2005, if equipment was traded rather than sold and cash involved in the exchange was less than 25% of the fair value of the exchange, the cost of new equipment was recorded at an amount equal to the lower of the monetary consideration paid plus the net book value of the traded property or the fair value of the new equipment.

Depreciation is calculated based on the cost of the asset, reduced by its estimated salvage value, using the straight-line method. Accelerated depreciation methods are used for income tax purposes. The lives and salvage values assigned to certain assets for financial reporting purposes are different than for income tax purposes. For financial reporting purposes, assets are depreciated using the following estimated useful lives and salvage values:



## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

	Lives	Salvage Values
Building and improvements	30 years	0%
Tractors	5 years	25%
Trailers	12 years	0%
Service and other equipment	3-10 years	0%

Although the Company's normal replacement cycle for tractors is three years, the Company calculates 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 value of the tractors, in those instances in which 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. As a result, there is no difference in recorded depreciation expense on a quarterly or annual basis with the Company's five-year life, 25% salvage value as compared to a three-year life, 55% salvage value.

### Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that 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 it exceeds its fair value. For long-lived assets classified as held and used, if the carrying value of the long-lived asset exceeds the sum of the future net cash flows, it is not recoverable. The Company does not separately identify assets by operating segment, as tractors and trailers are routinely transferred from one operating fleet to another. As a result, none of the Company's long-lived assets have identifiable cash flows from use that are largely independent of the cash flows of other assets and liabilities. Thus, the asset group used to assess impairment would include all assets of the Company. Long-lived assets classified as held for sale are reported at the lower of its carrying amount or fair value less costs to sell.

### Insurance and Claims Accruals

Insurance and claims accruals, both current and noncurrent, reflect the estimated cost for cargo loss and damage, bodily injury and property damage (BI/PD), group health, and workers' compensation claims, including estimated loss development and loss adjustment expenses, not covered by insurance. The costs for cargo and BI/PD insurance and claims are included in insurance and claims expense, while the costs of group health and workers' compensation claims are included in salaries, wages and benefits expense in the Consolidated Statements of Income. The insurance and claims accruals are recorded at the estimated ultimate payment amounts and are based upon individual case estimates and

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

estimates of incurred-but-not-reported losses based upon past experience. Actual costs related to insurance and claims have

34

not differed materially from estimated accrued amounts for all years presented. The Company's insurance and claims accruals are reviewed by an actuary every six months.

The Company has been responsible for liability claims up to \$500,000, plus administrative expenses, for each occurrence involving personal injury or property damage since August 1, 1992. For the policy year beginning August 1, 2004, the Company increased its self-insured retention ("SIR") amount to \$2.0 million per occurrence. The Company is also responsible for varying annual aggregate amounts of liability for claims in excess of the self-insured retention. The following table reflects the self-insured retention levels and aggregate amounts of liability for personal injury and property damage claims since August 1, 2002:

Coverage Period	Primary Coverage	Primary Coverage SIR/deductible
-----	-----	-----
August 1, 2002 - July 31, 2003	\$3.0 million	\$500,000 (1)
August 1, 2003 - July 31, 2004	\$3.0 million	\$500,000 (2)
August 1, 2004 - July 31, 2005	\$5.0 million	\$2.0 million (3)
August 1, 2005 - July 31, 2006	\$5.0 million	\$2.0 million (4)

(1) Subject to an additional \$1.5 million aggregate in the \$0.5 to \$1.0 million layer, a \$1.0 million aggregate in the \$1.0 to \$2.0 million layer, no aggregate (i.e., fully insured) in the \$2.0 to \$3.0 million layer, and self-insured in the \$3.0 to \$5.0 million layer.

(2) Subject to an additional \$1.5 million aggregate in the \$0.5 to \$1.0 million layer, a \$1.0 million aggregate in the \$1.0 to \$2.0 million layer, no aggregate (i.e., fully insured) in the \$2.0 to \$3.0 million layer, a \$6.0 million aggregate in the \$3.0 to \$5.0 million layer, and a \$5.0 million aggregate in the \$5.0 to \$10.0 million layer.

(3) Subject to an additional \$3.0 million aggregate in the \$2.0 to \$3.0 million layer, no aggregate (i.e., fully insured) in the \$3.0 to \$5.0 million layer, and a \$5.0 million aggregate in the \$5.0 to \$10.0 million layer.

(4) Subject to an additional \$2.0 million aggregate in the \$2.0 to \$3.0 million layer, no aggregate (i.e., fully insured) in the \$3.0 to \$5.0 million layer, and a \$5.0 million aggregate in the \$5.0 to \$10.0 million layer.

The Company's primary insurance covers the range of liability where the Company expects most claims to occur. Liability claims substantially in excess of coverage amounts

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

listed in the table above, if they occur, are covered under premium-based policies with reputable insurance companies to coverage levels that management considers adequate. The Company is also responsible for administrative expenses for each occurrence involving personal injury or property damage.

The Company has assumed responsibility for workers' compensation up to \$1.0 million per claim, subject to an additional \$1.0 million aggregate for claims between \$1.0 million and \$2.0 million, maintains a \$27.5 million bond, and has obtained insurance for individual claims above \$1.0 million.

Under these insurance arrangements, the Company maintains \$37.2 million in letters of credit as of December 31, 2005.

### Revenue Recognition

The Consolidated Statements of Income reflect recognition of operating revenues (including fuel surcharge revenues) and related direct costs when the shipment is delivered. For shipments where a third-party provider is utilized to provide some or all of the service and the Company is the primary obligor in regards to the delivery of the shipment, establishes customer pricing separately from carrier rate negotiations, generally has discretion in carrier selection, and/or has credit risk on the shipment, the Company records both revenues for the dollar value of services billed by the Company to the customer and rent and purchased transportation expense for the costs of transportation paid by the Company to the third-party provider upon delivery of the shipment. In the absence of the conditions listed above, the Company records revenues net of expenses related to third-party providers.

35

### Foreign Currency Translation

Local currencies are generally considered the functional currencies outside the United States. Assets and liabilities are translated at year-end exchange rates for operations in local currency environments. Virtually all foreign revenues are denominated in U.S. dollars. Expense items are translated at average rates of exchange prevailing during the year. Foreign currency translation adjustments reflect the changes in foreign currency exchange rates applicable to the net assets of the Mexican and Canadian operations for the years ended December 31, 2005, 2004, and 2003. The amounts of such translation adjustments were not significant for all years presented (see the Consolidated Statements of Stockholders' Equity and Comprehensive Income).

### Income Taxes

The Company uses the asset and liability method of Statement of Financial Accounting Standards ("SFAS") No. 109 in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

taxable income in the years in which those temporary differences are expected to be recovered or settled.

### Common Stock and Earnings Per Share

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

	Years Ended December 31,		
	2005	2004	2003
	-----	-----	-----
Net income	\$ 98,534	\$ 87,310	\$ 73,727
	=====	=====	=====
Weighted-average common shares outstanding	79,393	79,224	79,828
Common stock equivalents	1,308	1,644	1,840
	-----	-----	-----
Shares used in computing diluted earnings per share	80,701	80,868	81,668
	=====	=====	=====
Basic earnings per share	\$ 1.24	\$ 1.10	\$ 0.92
	=====	=====	=====
Diluted earnings per share	\$ 1.22	\$ 1.08	\$ 0.90
	=====	=====	=====

Options to purchase shares of common stock which 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:

	Years Ended December 31,		
	2005	2004	2003
	-----	-----	-----
Number of shares under option	19,500	-	-
Option purchase price	\$ 19.84	-	-

## Stock Based Compensation

At December 31, 2005, the Company has a nonqualified stock option plan, as described more fully in Note 5. The Company applies the intrinsic value based method of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its stock option plan. No stock-based employee compensation cost is reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. The Company's pro forma net income and earnings per share (in thousands, except per share amounts) would have been as indicated below had the fair value of option grants been charged to salaries, wages, and benefits in accordance with SFAS No. 123, Accounting for Stock-Based Compensation:

	Years Ended December 31,		
	2005	2004	2003
Net income, as reported	\$ 98,534	\$ 87,310	\$ 73,727
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	1,758	2,006	2,516
Pro forma net income	\$ 96,776	\$ 85,304	\$ 71,211
Earnings per share:			
Basic - as reported	\$ 1.24	\$ 1.10	\$ 0.92
Basic - pro forma	\$ 1.22	\$ 1.08	\$ 0.89
Diluted - as reported	\$ 1.22	\$ 1.08	\$ 0.90
Diluted - pro forma	\$ 1.20	\$ 1.05	\$ 0.87

As discussed under "Accounting Standards", the Company adopted SFAS 123(R) on January 1, 2006.

## Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) refers to revenues, expenses, gains, and losses that are not included in net income, but rather are recorded directly in

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

stockholders' equity. For the years ended December 31, 2005, 2004, and 2003, comprehensive income consists of net income and foreign currency translation adjustments.

### Accounting Standards

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 153, Exchanges of Nonmonetary Assets. This Statement amends the guidance in APB Opinion No. 29, Accounting for Nonmonetary Transactions. APB Opinion No. 29 provided an exception to the basic measurement principle (fair value) for exchanges of similar assets, requiring that some nonmonetary exchanges be recorded on a carryover basis. SFAS No. 153 eliminates the exception to fair value for exchanges of similar productive assets and replaces it with a general exception for exchange transactions that do not have commercial substance, that is, transactions that are not expected to result in significant changes in the cash flows of the reporting entity. The provisions of SFAS No. 153 are effective for exchanges of nonmonetary assets occurring in fiscal periods beginning after June 15, 2005. Management has determined that adoption of this standard did not have any material effect on the financial position, results of operations, and cash flows of the Company.

In December 2004, the FASB revised SFAS No. 123 (revised 2004), Share-Based Payments. SFAS No. 123(R) eliminates the alternative to use APB Opinion No. 25's intrinsic value method of accounting (generally resulting in recognition of no compensation cost) and instead requires a company to recognize in its financial statements the cost of employee services received in

37

exchange for valuable equity instruments issued, and liabilities incurred, to employees in share-based payment transactions (e.g., stock options). The cost will be based on the grant-date fair value of the award and will be recognized over the period for which an employee is required to provide service in exchange for the award. In March 2005, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") 107, Share-Based Payment, which includes recognition, measurement and disclosure guidance as companies begin to implement SFAS No. 123(R). SAB 107 does not modify any of the requirements of SFAS No. 123(R). In April 2005, the SEC adopted a rule deferring the compliance date for SFAS No. 123(R) to the first annual reporting period that begins after June 15, 2005. On adoption, the Company would recognize compensation cost for the unvested portion of awards granted or modified after December 15, 1994 based on the grant-date fair value of those awards calculated under SFAS No. 123 (as originally issued) for either recognition or pro forma disclosures and for awards granted, modified, or settled after adoption. The Company adopted this standard on January 1, 2006, and it will now report in its financial statements the share-based compensation expense for reporting periods beginning in 2006. As of the date of this filing, management believes that adopting the new standard will have a negative impact of approximately two cents per share for the year ending December 31, 2006, representing the expense to be recognized for the unvested portion of awards granted to date, and cannot predict the earnings impact of awards that may be granted in the future.

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections. This Statement replaces APB Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of all voluntary changes in accounting principle and changes required by an accounting pronouncement when the pronouncement does not include specific transition provisions. This Statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to do so. The provisions of SFAS No. 154 are effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 will have no effect on the financial position, results of operations, and cash flows of the Company upon adoption, but would affect future changes in accounting principles.

### (2) LONG-TERM DEBT

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

	2005	2004
	-----	-----
Notes payable to banks under committed credit facilities	\$ 60,000	\$ -
	-----	-----
Less current portion	60,000	-
	-----	-----
Long-term debt, net	\$ -	\$ -
	=====	=====

The notes payable to banks under committed credit facilities bear variable interest (4.8% at December 31, 2005) based on the London Interbank Offered Rate ("LIBOR"), and these credit facilities mature at various dates from October 2006 to October 2007. During January 2006, the Company repaid \$35.0 million on these notes. As of December 31, 2005, the Company has an additional \$65.0 million of available credit under these credit facilities with banks, which is further reduced by \$37.2 million in letters of credit the Company maintains. Each of the debt agreements require, among other things, that the Company maintain a minimum consolidated tangible net worth and not exceed a maximum ratio of total funded debt to earnings before interest, income taxes, depreciation, amortization and rentals payable as defined in the credit facility. The Company was in compliance with these covenants at December 31, 2005.

38

### (3) NOTES RECEIVABLE

Notes receivable are included in other current assets and other non-current assets in the Consolidated Balance Sheets. At

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

December 31, notes receivable consisted of the following (in thousands):

	2005	2004
	-----	-----
Owner-operator notes receivable	\$ 9,627	\$ 7,006
TDR Transportes, S.A. de C.V.	3,600	3,600
Other notes receivable	3,746	1,951
	-----	-----
	16,973	12,557
Less current portion	3,962	2,753
	-----	-----
Notes receivable - non-current	\$ 13,011	\$ 9,804
	=====	=====

The Company provides financing to some independent contractors who want to become owner-operators by purchasing a tractor from the Company and leasing their truck to the Company. At December 31, 2005 and 2004, the Company had 246 and 221 notes receivable totaling \$9,627 and \$7,006 (in thousands), respectively, from these owner-operators. See Note 7 for information regarding notes from related parties. The Company maintains a first security interest in the tractor until the owner-operator has paid the note balance in full. The Company also retains recourse exposure related to owner-operators who have purchased tractors from the Company with third-party financing arranged by the Company.

During 2002, the Company loaned \$3,600 (in thousands) to TDR Transportes, S.A. de C.V. ("TDR"), a truckload carrier in the Republic of Mexico. The loan has a nine-year term with principal payable at the end of the term, is subject to acceleration if certain conditions are met, bears interest at a rate of five percent per annum which is payable quarterly, contains certain financial and other covenants, and is collateralized by the assets of TDR. The Company had a receivable for interest on this note of \$31 (in thousands) as of December 31, 2005 and 2004. See Note 7 for information regarding related party transactions.

#### (4) INCOME TAXES

Income tax expense consisted of the following (in thousands):

	2005	2004	2003
	-----	-----	-----
Current:			
Federal	\$ 93,715	\$ 38,206	\$ 46,072
State	12,190	5,664	3,657
	-----	-----	-----
	105,905	43,870	49,729
	-----	-----	-----
Deferred:			



Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

Federal	(32,910)	12,336	(6,159)
State	(4,470)	181	679
	-----	-----	-----
	(37,380)	12,517	(5,480)
	-----	-----	-----
Total income tax expense	\$ 68,525	\$ 56,387	\$ 44,249
	=====	=====	=====

39

The effective income tax rate differs from the federal corporate tax rate of 35% in 2005, 2004 and 2003 as follows (in thousands):

	2005	2004	2003
	-----	-----	-----
Tax at statutory rate	\$ 58,471	\$ 50,294	\$ 41,292
State income taxes, net of federal tax benefits	5,018	3,800	2,818
Non-deductible meals and entertainment	4,340	2,670	172
Income tax credits	(895)	(900)	(900)
Other, net	1,591	523	867
	-----	-----	-----
	\$ 68,525	\$ 56,387	\$ 44,249
	=====	=====	=====

At December 31, deferred tax assets and liabilities consisted of the following (in thousands):

	2005	2004
	-----	-----
Deferred tax assets:		
Insurance and claims accruals	\$ 59,870	\$ 53,994
Allowance for uncollectible accounts	4,216	3,813
Other	4,588	4,584
	-----	-----
Gross deferred tax assets	68,674	62,391
	-----	-----
Deferred tax liabilities:		
Property and equipment	244,128	242,139
Prepaid expenses	7,915	42,517
Other	5,559	4,043
	-----	-----
Gross deferred tax liabilities	257,602	288,699
	-----	-----
Net deferred tax liability	\$188,928	\$226,308
	=====	=====

Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

These amounts (in thousands) are presented in the accompanying Consolidated Balance Sheets as of December 31 as follows:

	2005	2004
	-----	-----
Current deferred tax asset	\$ 20,940	\$ -
Current deferred tax liability	-	15,569
Noncurrent deferred tax liability	209,868	210,739
	-----	-----
Net deferred tax liability	\$188,928	\$226,308
	=====	=====

The Company has not recorded a valuation allowance as it believes that all deferred tax assets are more likely than not to be realized as a result of the Company's history of profitability, taxable income and reversal of deferred tax liabilities.

(5) STOCK OPTION AND EMPLOYEE BENEFIT PLANS

Stock Option Plan

The Company's Stock Option Plan (the "Stock Option Plan") is a nonqualified plan that provides for the grant of options to management employees. Options are granted at prices equal to the market value of the common stock on the date the option is granted.

Options granted become exercisable in installments from six to seventy-two months after the date of grant. The options are exercisable over a period not to exceed ten years and one day from the date of grant. The maximum number of shares of common

40

stock that may be optioned under the Stock Option Plan is 20,000,000 shares. The maximum aggregate number of options that may be granted to any one person under the Stock Option Plan is 2,562,500 options.

At December 31, 2005, 8,845,861 shares were available for granting additional options. At December 31, 2005, 2004, and 2003, options for 3,026,532, 2,485,582, and 2,183,597, shares with weighted average exercise prices of \$8.55, \$8.48, and \$8.45 were exercisable, respectively.

The following table summarizes Stock Option Plan activity for the three years ended December 31, 2005:

Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

	Options Outstanding	
	Shares	Weighted-Average Exercise Price
Balance, December 31, 2002	6,137,460	\$ 8.52
Options granted	-	-
Options exercised	(752,591)	8.19
Options canceled	(110,022)	7.84
-----		
Balance, December 31, 2003	5,274,847	8.58
Options granted	787,000	18.33
Options exercised	(656,676)	8.26
Options canceled	(448,042)	8.79
-----		
Balance, December 31, 2004	4,957,129	10.16
Options granted	415,500	16.95
Options exercised	(310,696)	7.76
Options canceled	(33,385)	14.80
-----		
Balance, December 31, 2005	5,028,548	10.83
=====		

The following table summarizes information about stock options outstanding and exercisable at December 31, 2005:

Range of Exercise Prices	Number Outstanding	Options Outstanding		Options Exercisable	
		Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$ 6.28 to \$ 7.95	1,916,182	4.3 years	\$ 7.59	1,687,428	\$ 7.57
\$ 8.96 to \$ 9.77	1,889,645	5.3 years	9.75	1,296,967	9.74
\$10.43 to \$13.94	46,721	3.5 years	11.28	42,137	10.99
\$16.68 to \$19.84	1,176,000	8.9 years	17.84	-	-
	-----			-----	
	5,028,548	5.7 years	10.83	3,026,532	8.55
	=====			=====	

The Company applies the intrinsic value based method of APB Opinion No. 25 and related interpretations in accounting for its Stock Option Plan. SFAS No. 123, Accounting for Stock-Based Compensation requires pro forma disclosure of net income and earnings per share had the estimated fair value of option grants on their grant date been charged to salaries, wages and benefits. The fair value of the options granted during 2005 and 2004 was estimated using the Black-Scholes option-pricing model with the following assumptions: risk-free interest rate of 4.1 percent in 2005 and 4.0 percent in 2004; dividend yield of 0.94 percent in 2005 and 0.66 percent in 2004; expected life of 4.8 years in 2005 and 6.5 years in 2004; and volatility of 36 percent in 2005 and

37 percent in 2004. The weighted-average fair value of options granted during 2005 and 2004 was \$5.86 and \$7.60 per share, respectively. The table in Note 1 illustrates the effect on net income and earnings per share had the fair value of option grants been charged to salaries, wages and benefits expense in the accompanying Consolidated Statements of Income.

41

#### Employee Stock Purchase Plan

Employees meeting certain eligibility requirements may participate in the Company's Employee Stock Purchase Plan (the "Purchase Plan"). Eligible participants designate the amount of regular payroll deductions and/or single annual payment, subject to a yearly maximum amount, that is used to purchase shares of the Company's common stock on the Over-The-Counter Market subject to the terms of the Purchase Plan. The Company contributes an amount equal to 15% of each participant's contributions under the Purchase Plan. Company contributions for the Purchase Plan (in thousands) were \$119, \$108, and \$102 for 2005, 2004, and 2003, respectively. Interest accrues on Purchase Plan contributions at a rate of 5.25%. The broker's commissions and administrative charges related to purchases of common stock under the Purchase Plan are paid by the Company.

#### 401(k) Retirement Savings Plan

The Company has an Employees' 401(k) Retirement Savings Plan (the "401(k) Plan"). Employees are eligible to participate in the 401(k) Plan if they have been continuously employed with the Company or its subsidiaries for six months or more. The Company matches a portion of the amount each employee contributes to the 401(k) Plan. It is the Company's intention, but not its obligation, that the Company's total annual contribution for employees will equal at least 2 1/2 percent of net income (exclusive of extraordinary items). Salaries, wages and benefits expense in the accompanying Consolidated Statements of Income includes Company 401(k) Plan contributions and administrative expenses (in thousands) of \$2,268, \$2,043, and \$1,711 for 2005, 2004, and 2003, respectively.

#### (6) COMMITMENTS AND CONTINGENCIES

The Company has committed to property and equipment purchases, net of trades, of approximately \$33.1 million.

The Company is involved in certain claims and pending litigation arising in the normal course of business. Management believes the ultimate resolution of these matters will not have a material effect on the consolidated financial statements of the Company.

#### (7) RELATED PARTY TRANSACTIONS

The Company leases land from a trust in which the Company's principal stockholder is the sole trustee, with annual rent payments of \$1 per year. The Company is responsible for all real estate taxes and maintenance costs related to the property, which are recorded as expenses in the Company's Consolidated Statements of Income. The Company has made leasehold improvements to the

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

land totaling approximately \$6.1 million for facilities used for business meetings and customer promotion.

The Company's principal stockholder was the sole trustee of a trust that owned a one-third interest in an entity that operates a motel located nearby one of the Company's terminals with which the Company has committed to rent a guaranteed number of rooms. The trust assigned its one-third interest in this entity to the Company at a nominal cost in February 2005. During 2005, 2004, and 2003, the Company paid (in thousands) \$945, \$840, and \$732, respectively, for lodging services for its drivers at this motel. On June 30, 2005, the Company sold .783 acres of land to this entity for approximately \$90 (in thousands), in accordance with the exercise of a purchase option clause contained in a separate agreement entered into by the Company and the entity in April 2000. The Company realized a gain of approximately \$35 (in thousands) on the transaction.

The brother and sister-in-law of the Company's principal stockholder own an entity with a fleet of tractors that operates as an owner-operator for the Company. During 2005, 2004, and 2003, the Company paid (in thousands) \$6,291, \$6,200, and \$5,888, respectively, to this owner-operator for purchased transportation services. This fleet is compensated using the same owner-operator pay package as the Company's other comparable third-party owner-operators. The Company also sells used revenue

42

equipment to this entity. During 2005, 2004, and 2003, these sales (in thousands) totaled \$1,019, \$193, and \$292, respectively, and the Company recognized gains (in thousands) of \$130, \$18, and \$55 in 2005, 2004, and 2003, respectively. The Company had 32 and 35 notes receivable from this entity related to the revenue equipment sales (in thousands) totaling \$1,105 and \$656 at December 31, 2005 and 2004, respectively.

The brother of the Company's principal stockholder has a 50% ownership interest in an entity with a fleet of tractors that operates as an owner-operator for the Company. During 2005 and 2004, the Company paid (in thousands) \$476 and \$453, respectively to this owner-operator for purchased transportation services. This fleet is compensated using the same owner-operator pay package as the Company's other comparable third-party owner-operators.

The Company and TDR transact business with each other for certain of their purchased transportation needs. During 2005, 2004, and 2003, the Company recorded operating revenues (in thousands) from TDR of approximately \$227, \$168, and \$206, respectively, and recorded purchased transportation expense (in thousands) to TDR of approximately \$521, \$631, and \$1,099, respectively. In addition, during 2005, 2004, and 2003, the Company recorded operating revenues (in thousands) from TDR of approximately \$3,582, \$2,837, and \$1,495, respectively, related to the leasing of revenue equipment. As of December 31, 2005 and 2004, the Company had receivables related to the equipment leases (in thousands) of \$2,389 and \$1,351, respectively. The Company also sells used revenue equipment to this entity. During 2005, these sales (in thousands) totaled \$358, and the Company recognized gains (in thousands) of \$19 in 2005. See Note 3 for

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

information regarding the note receivable from TDR.

The Company has a 5% ownership interest in Transplace ("TPC"), a logistics joint venture of five large transportation companies. The Company and TPC enter into transactions with each other for certain of their purchased transportation needs. The Company recorded operating revenue (in thousands) from TPC of approximately \$4,800, \$8,400, and \$16,800 in 2005, 2004, and 2003, respectively, and recorded purchased transportation expense (in thousands) to TPC of approximately \$0, \$7, and \$711 during 2005, 2004, and 2003, respectively.

The Company believes that these transactions are on terms no less favorable to the Company than those that could be obtained from unrelated third parties on an arm's length basis.

### (8) SEGMENT INFORMATION

The Company has two reportable segments - Truckload Transportation Services and Value Added Services. The Truckload Transportation Services segment consists of six operating fleets that have been aggregated since they have similar economic characteristics and meet the other aggregation criteria of SFAS No. 131. The medium-to-long-haul Van fleet transports a variety of consumer, nondurable products and other commodities in truckload quantities over irregular routes using dry van trailers. The Regional Short-Haul fleet provides comparable truckload van service within five geographic regions. The Dedicated Services fleet provides truckload services required by a specific company, plant, or distribution center. The Flatbed and Temperature-Controlled fleets provide truckload services for products with specialized trailers. The Expedited fleet provides time-sensitive truckload services utilizing driver teams.

The Value Added Services segment, which generates the majority of the Company's non-trucking revenues, provides freight brokerage, intermodal services, multimodal services, and freight transportation management.

The Company generates other revenues related to third-party equipment maintenance, equipment leasing, and other business activities. None of these operations meet the quantitative threshold reporting requirements of SFAS No. 131. As a result, these operations are grouped in "Other" in the table below. The Company does not prepare separate balance sheets by segment and, as a result, assets are not separately identifiable by segment. The Company has no significant intersegment sales or expense transactions that would result in adjustments necessary to eliminate amounts between the Company's segments.

43

The following tables summarize the Company's segment information (in thousands):

	Revenues -----	
2005	2004	2003

Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

	-----	-----	-----
Truckload Transportation Services	\$1,741,828	\$1,506,937	\$1,358,428
Value Added Services	218,620	161,111	89,742
Other	7,777	6,424	5,287
Corporate	3,622	3,571	4,309
	-----	-----	-----
Total	\$1,971,847	\$1,678,043	\$1,457,766
	=====	=====	=====

	Operating Income		
	-----	-----	-----
	2005	2004	2003
	-----	-----	-----
Truckload Transportation Services	\$ 156,122	\$ 135,828	\$ 118,146
Value Added Services	8,445	5,631	454
Other	2,850	2,587	1,236
Corporate	(2,806)	(2,718)	(2,332)
	-----	-----	-----
Total	\$ 164,611	\$ 141,328	\$ 117,504
	=====	=====	=====

Information as to the Company's operations by geographic area is summarized below (in thousands). Operating revenues for Mexico and Canada include revenues for shipments with an origin or destination in that country and other services provided in that country.

	Revenues		
	-----	-----	-----
	2005	2004	2003
	-----	-----	-----
United States	\$1,782,501	\$1,537,745	\$1,349,153
	-----	-----	-----
Foreign countries			
Canada	43,668	35,364	30,886
Mexico	145,678	104,934	77,727
	-----	-----	-----
Total foreign countries	189,346	140,298	108,613
	-----	-----	-----
Total	\$1,971,847	\$1,678,043	\$1,457,766
	=====	=====	=====

Long-lived Assets

Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

	2005	2004	2003
United States	\$ 990,439	\$ 850,250	\$ 796,627
Foreign countries			
Canada	301	136	142
Mexico	11,867	12,612	8,918
Total foreign countries	12,168	12,748	9,060
Total	\$1,002,607	\$ 862,998	\$ 805,687

Substantially all of the Company's revenues are generated within the United States or from North American shipments with origins or destinations in the United States. One customer generated approximately 10% of the Company's total revenues for 2005 and approximately 9% of total revenues for 2004 and 2003.

44

(9) QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

(In thousands, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2005:				
Operating revenues	\$ 455,262	\$ 485,789	\$ 504,520	\$ 526,276
Operating income	32,837	42,128	41,138	48,508
Net income	19,921	25,295	24,491	28,827
Basic earnings per share	.25	.32	.31	.36
Diluted earnings per share	.25	.31	.30	.36

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2004:				
Operating revenues	\$ 386,280	\$ 411,115	\$ 425,409	\$ 455,239
Operating income	24,859	34,991	39,510	41,968
Net income	15,568	21,620	24,299	25,823
Basic earnings per share	.20	.27	.31	.33
Diluted earnings per share	.19	.27	.30	.32

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

No reports under this item have been required to be filed within the two most recent fiscal years ended December 31, 2005, involving a change of accountants or disagreements on accounting



and financial disclosure.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process designed to provide reasonable assurance to the Company's management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect the Company's transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements; providing reasonable assurance that receipts and expenditures of company assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of the company assets that could have a material effect on the Company's financial statements would be prevented or detected on a timely basis.

45

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

Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on the criteria for effective internal control described in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2005.

Management has engaged KPMG LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Annual Report on Form 10-K, to attest

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

to and report on management's evaluation of the Company's internal control over financial reporting. Its report is included herein.

Report of Independent Registered Public Accounting Firm

The Stockholders and Board of Directors  
Werner Enterprises, Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Werner Enterprises, Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Werner Enterprises, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Werner Enterprises, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on COSO. Also, in our opinion, Werner Enterprises, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Werner Enterprises, Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2005, and our report dated February 1, 2006, expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Omaha, Nebraska  
February 1, 2006

### Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal controls over financial reporting that occurred during the quarter ended December 31, 2005, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### ITEM 9B. OTHER INFORMATION

The following disclosure is provided pursuant to Item 5.02 of Form 8-K. On February 9, 2006, Mr. Jeffrey G. Doll notified the Board of Directors (the "Board") of Werner Enterprises, Inc. (the "Company") of his intention to not stand for re-election at the 2006 Annual Meeting of Stockholders on May 9, 2006. Mr. Doll will remain on the Board through the expiration of his current term at the 2006 Annual Meeting. Mr. Doll is the Lead Outside Director and also serves on the Audit Committee, Option Committee, Executive Compensation Committee, and Nominating Committee. The Board intends to submit a qualified candidate for election at the 2006 Annual Meeting of Stockholders to fill this vacancy.

### PART III

Certain information required by Part III is omitted from this report on Form 10-K in that the Company will file a definitive proxy statement pursuant to Regulation 14A ("Proxy Statement") not later than 120 days after the end of the fiscal year covered by this report on Form 10-K, and certain information included therein is incorporated herein by reference. Only those sections of the Proxy Statement which specifically address the items set forth herein are incorporated by reference. Such incorporation does not include the Compensation Committee Report or the Performance Graph included in the Proxy Statement.

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item, with the exception of the Code of Ethics discussed below, is incorporated herein by reference to the Company's Proxy Statement.

47

#### Code of Ethics

The Company has adopted a code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officer/controller, and all other officers, employees, and directors. The code of ethics is available on the Company's website, [www.werner.com](http://www.werner.com). The Company intends to post on its website any material changes to, or waiver from, its code of ethics, if any, within four business days of any such event.

### ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the Company's Proxy Statement.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item, with the exception of the equity compensation plan information presented below, is incorporated herein by reference to the Company's Proxy Statement.

#### Equity Compensation Plan Information

The following table summarizes, as of December 31, 2005, information about compensation plans under which equity securities of the Company are authorized for issuance:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	5,028,548	\$10.83	8,845,861

The Company does not have any equity compensation plans that were not approved by security holders.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

The information required by this Item is incorporated herein by reference to the Company's Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated herein by reference to the Company's Proxy Statement.

48

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements and Schedules.

(1) Financial Statements: See Part II, Item 8 hereof.

	Page
	----
Report of Independent Registered Public Accounting Firm	28
Consolidated Statements of Income	29
Consolidated Balance Sheets	30
Consolidated Statements of Cash Flows	31
Consolidated Statements of Stockholders' Equity and Comprehensive Income	32
Notes to Consolidated Financial Statements	33

(2) Financial Statement Schedules: The consolidated financial statement schedule set forth under the following caption is included herein. The page reference is to the consecutively numbered pages of this report on Form 10-K.

	Page
	----
Schedule II - Valuation and Qualifying Accounts	51

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

(3) Exhibits: The response to this portion of Item 15 is submitted as a separate section of this report on Form 10-K (see Exhibit Index on page 52).

49

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on the 15th day of February, 2006.

WERNER ENTERPRISES, INC.

By: /s/ James L. Johnson  
-----  
James L. Johnson

Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

Senior Vice President, Controller  
and Corporate Secretary

50

SCHEDULE II

WERNER ENTERPRISES, INC.

VALUATION AND QUALIFYING ACCOUNTS  
(In thousands)

	Balance at Beginning of Period -----	Charged to Costs and Expenses -----	Write-off of Doubtful Accounts -----	Balance at End of Period -----
Year ended December 31, 2005:				
Allowance for doubtful accounts	\$8,189 =====	\$ 962 =====	\$ 794 =====	\$8,357 =====
Year ended December 31, 2004:				
Allowance for doubtful accounts	\$6,043 =====	\$2,255 =====	\$ 109 =====	\$8,189 =====
Year ended December 31, 2003:				
Allowance for doubtful accounts	\$4,459 =====	\$1,914 =====	\$ 330 =====	\$6,043 =====

See report of independent registered public accounting firm.

51

EXHIBIT INDEX

Exhibit Number -----	Description -----	Page Number or Incorporated by Reference to -----
3(i) (A)	Revised and Amended Articles of Incorporation	Filed herewith *
3(i) (B)	Articles of Amendment to Articles of Incorporation	Exhibit 3(i) to the Company's report on Form Q for the quarter ended May 31, 1994

## Edgar Filing: WERNER ENTERPRISES INC - Form 10-K/A

3(i) (C)	Articles of Amendment to Articles of Incorporation	Exhibit 3(i) to the Company's report on Form K for the year ended December 31, 1998
3(i) (D)	Articles of Amendment to Articles of Incorporation	Exhibit 3(i) (D) to the Company's report on Form 10-Q for the quarter ended June 30, 2005
3(ii)	Revised and Amended By-Laws	Exhibit 3(ii) to the Company's report on Form Q for the quarter ended June 30, 2004
10.1	Amended and Restated Stock Option Plan	Exhibit 10.1 to the Company's report on Form Q for the quarter ended June 30, 2004
10.2	Non-Employee Director Compensation	Exhibit 10.1 to the Company's report on Form Q for the quarter ended June 30, 2005
10.3	The Executive Nonqualified Excess Plan of Werner Enterprises, Inc.	Exhibit 10.1 to the Company's report on Form Q for the quarter ended September 30, 2005
10.4	Named Executive Officer Compensation	Filed herewith *
11	Statement Re: Computation of Per Share Earnings	See Note 1 "Common Stock and Earnings Per Share" in the Notes to Consolidated Financial Statements under Item 8
21	Subsidiaries of the Registrant	Filed herewith *
23.1	Consent of KPMG LLP	Filed herewith *
31.1	Rule 13a-14(a)/15d-14(a) Certification	Filed herewith **
31.2	Rule 13a-14(a)/15d-14(a) Certification	Filed herewith **
32.1	Section 1350 Certification	Filed herewith **
32.2	Section 1350 Certification	Filed herewith **

\* Filed with the Original Report on February 14, 2006.

\*\* Filed with this Amendment No. 1 on Form 10-K/A.