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WERNER ENTERPRISES INC
Form 10-Q
August 02, 2006

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

FORM 10-Q

[Mark one]

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

For the quarterly period ended June 30, 2006

OR

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

Commission file number 0-14690

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

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

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

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

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

Yes X No
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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

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

Yes No X
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As of July 28, 2006, 77,269,947 shares of the registrant's common stock, par value \$.01 per share, were outstanding.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

The interim consolidated financial statements contained herein reflect all adjustments, which in the opinion of management are necessary for a fair statement of the financial condition, results of operations, and cash flows for the periods presented. The interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

Operating results for the three-month and six-month periods ended June 30, 2006, are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. In the opinion of management, the information set forth in the accompanying consolidated condensed balance sheets is fairly stated in all material respects in relation to the consolidated balance sheets from which it has been derived.

These interim consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year

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ended December 31, 2005.

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WERNER ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)	Three Months Ended	
	June 30	
	2006	2005
	(Unaudited)	
Operating revenues	\$ 528,889	\$ 485,789
Operating expenses:		
Salaries, wages and benefits	149,743	141,332
Fuel	102,812	78,064
Supplies and maintenance	38,982	39,921
Taxes and licenses	27,905	29,465
Insurance and claims	21,613	21,838
Depreciation	41,072	40,539
Rent and purchased transportation	101,335	90,342
Communications and utilities	4,827	5,134
Other	(5,751)	(2,974)
Total operating expenses	482,538	443,661
Operating income	46,351	42,128
Other expense (income):		
Interest expense	4	2
Interest income	(1,221)	(822)
Other	85	46
Total other expense (income)	(1,132)	(774)
Income before income taxes	47,483	42,902
Income taxes	19,462	17,607
Net income	\$ 28,021	\$ 25,295
Earnings per share:		
Basic	\$.36	\$.32
Diluted	\$.35	\$.31

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Dividends declared per share	\$.045	\$.040
	=====	=====
Weighted-average common shares outstanding:		
Basic	78,236	79,415
	=====	=====
Diluted	79,689	80,692
	=====	=====

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WERNER ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)	Six Months Ended	
	June 30	
	2006	2005
	(Unaudited)	
Operating revenues	\$ 1,020,811	\$ 941,051
	-----	-----
Operating expenses:		
Salaries, wages and benefits	296,356	281,554
Fuel	191,458	145,692
Supplies and maintenance	76,774	76,675
Taxes and licenses	57,374	58,243
Insurance and claims	40,808	45,038
Depreciation	82,173	80,176
Rent and purchased transportation	189,354	172,909
Communications and utilities	9,722	10,576
Other	(6,381)	(4,777)
	-----	-----
Total operating expenses	937,638	866,086
	-----	-----
Operating income	83,173	74,965
	-----	-----
Other expense (income):		
Interest expense	277	6
Interest income	(2,216)	(1,787)
Other	126	73
	-----	-----
Total other expense (income)	(1,813)	(1,708)
	-----	-----
Income before income taxes	84,986	76,673
Income taxes	34,936	31,457
	-----	-----

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Net income	\$ 50,050	\$ 45,216
=====		
Earnings per share:		
Basic	\$.63	\$.57
=====		
Diluted	\$.62	\$.56
=====		
Dividends declared per share	\$.085	\$.075
=====		
Weighted-average common shares outstanding:		
Basic	78,837	79,383
=====		
Diluted	80,324	80,754
=====		

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WERNER ENTERPRISES, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS

(In thousands, except share amounts)	June 30	December 31
	2006	2005
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 42,810	\$ 36,583
Accounts receivable, trade, less allowance of \$15,828 and \$8,357, respectively	233,504	240,224
Other receivables	17,370	19,914
Inventories and supplies	10,576	10,951
Prepaid taxes, licenses and permits	8,215	18,054
Current deferred income taxes	21,900	20,940
Other current assets	22,755	20,966

Total current assets	357,130	367,632

Property and equipment	1,538,914	1,555,764
Less - accumulated depreciation	564,213	553,157

Property and equipment, net	974,701	1,002,607

Other non-current assets	16,420	15,523

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\$1,348,251 \$1,385,762
=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$ 63,273	\$ 52,387
Current portion of long-term debt	-	60,000
Insurance and claims accruals	60,511	62,418
Accrued payroll	22,502	21,274
Other current liabilities	18,321	21,838

Total current liabilities	164,607	217,917
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Other long-term liabilities	745	526
-----------------------------	-----	-----

Insurance and claims accruals, net of current portion	97,500	95,000
---	--------	--------

Deferred income taxes	213,525	209,868
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Commitments and contingencies

Stockholders' equity:

Common stock, \$.01 par value, 200,000,000 shares authorized; 80,533,536 shares issued; 77,810,695 and 79,420,443 shares outstanding, respectively	805	805
Paid-in capital	104,391	105,074
Retained earnings	820,657	777,260
Accumulated other comprehensive loss	(1,269)	(259)
Treasury stock, at cost; 2,722,841 and 1,113,093 shares, respectively	(52,710)	(20,429)

Total stockholders' equity	871,874	862,451
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	\$1,348,251	\$1,385,762
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WERNER ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30	
(In thousands)		
	2006	2005
	(Unaudited)	

Cash flows from operating activities:

Net income	\$ 50,050	\$ 45,216
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Adjustments to reconcile net income to net cash provided by operating activities:

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Depreciation	82,173	80,176
Deferred income taxes	2,697	(37,675)
Gain on disposal of property and equipment	(15,958)	(6,039)
Stock based compensation	1,312	-
Tax benefit from exercise of stock options	-	1,260
Other long-term assets	68	(311)
Insurance claims accruals, net of current portion	2,500	3,000
Other long-term liabilities	219	-
Changes in certain working capital items:		
Accounts receivable, net	6,720	(12,018)
Other current assets	10,969	349
Accounts payable	10,886	4,171
Other current liabilities	(4,521)	18,142
Net cash provided by operating activities	147,115	96,271
Cash flows from investing activities:		
Additions to property and equipment	(129,893)	(208,640)
Retirements of property and equipment	88,058	55,979
Decrease in notes receivable	2,561	2,087
Net cash used in investing activities	(39,274)	(150,574)
Cash flows from financing activities:		
Repayments of short-term debt	(60,000)	-
Dividends on common stock	(6,328)	(5,552)
Repurchases of common stock	(39,477)	(263)
Stock options exercised	3,112	1,868
Excess tax benefits from exercise of stock options	2,089	-
Net cash used in financing activities	(100,604)	(3,947)
Effect of exchange rate fluctuations on cash	(1,010)	500
Net increase (decrease) in cash and cash equivalents	6,227	(57,750)
Cash and cash equivalents, beginning of period	36,583	108,807
Cash and cash equivalents, end of period	\$ 42,810	\$ 51,057
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 388	\$ 6
Income taxes	\$ 34,370	\$ 65,999
Supplemental schedule of non-cash investing activities:		
Notes receivable issued upon sale of revenue equipment	\$ 3,526	\$ 5,298

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(1) Comprehensive Income

Other than its net income, the Company's only other source of comprehensive income (loss) is foreign currency translation adjustments. Other comprehensive income (loss) from foreign currency translation adjustments was (\$712) and \$549 (in thousands) for the three-month periods and (\$1,010) and \$500 (in thousands) for the six-month periods ended June 30, 2006 and 2005, respectively.

(2) Long-Term Debt

As of June 30, 2006, the Company has credit facilities with two banks totaling \$200.0 million which mature at various dates from May 2008 to May 2011 and bear variable interest based on the London Interbank Offered Rate ("LIBOR"), on which no borrowings were outstanding. The Company repaid the \$60.0 million of outstanding debt as of December 31, 2005 in first quarter 2006. As of June 30, 2006, the credit available pursuant to these bank credit facilities is reduced by \$37.2 million in letters of credit the Company maintains. Each of the debt agreements require, among other things, that the Company not exceed a maximum ratio of total debt to total capitalization 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. While the Company had no borrowings outstanding under these credit facilities as of June 30, 2006, the Company remained in compliance with these covenants at June 30, 2006.

On June 7, 2006, the Company amended its \$75.0 million bank credit facility with Wells Fargo Bank, increasing the credit facility to \$100.0 million and extending the maturity date from May 16, 2007 to May 31, 2011. The amendment also replaced the minimum consolidated tangible net worth requirement with a maximum total debt to capitalization requirement of 40%. On June 28, 2006, the Company amended its \$50.0 million bank credit facility with Harris, N.A., increasing the credit facility to \$100.0 million and extending the expiration date from October 22, 2007 to May 31, 2008. The amendment also provides for the maximum facility amount to be reduced from \$100.0 million to \$75.0 million on March 31, 2007 and from \$75.0 million to \$50.0 million on June 30, 2007. The amendment also replaced the minimum consolidated tangible net worth requirement with a maximum ratio of total funded debt to total capitalization requirement of 0.40 to 1.00.

(3) Commitments and Contingencies

As of June 30, 2006, the Company has commitments for net capital expenditures of approximately \$122.9 million.

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(4) 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. The computation of basic and diluted earnings per share is shown below (in thousands, except per share amounts).

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	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Net income	\$ 28,021	\$ 25,295	\$ 50,050	\$ 45,216
Weighted-average common shares outstanding	78,236	79,415	78,837	79,383
Common stock equivalents	1,453	1,277	1,487	1,371
Shares used in computing diluted earnings per share	79,689	80,692	80,324	80,754
Basic earnings per share	\$.36	\$.32	\$.63	\$.57
Diluted earnings per share	\$.35	\$.31	\$.62	\$.56

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:

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Number of shares under option	24,500	39,500	5,000	-
Range of option purchase prices	\$19.84-\$20.36	\$19.26-\$19.84	\$20.36	-

(5) Stock Based Compensation

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 Company's common stock using the common stock's closing price on the date prior to 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 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 June 30, 2006, 8,886,133 shares were available for granting additional options.

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Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), Share-Based Payment ("No. 123R") using a modified version of the prospective transition method. Under this transition method, compensation cost is recognized on or after the required effective date for the portion of outstanding awards for which

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the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated under SFAS No. 123 for either recognition or pro forma disclosures. Stock-based employee compensation expense for the three-month period and six-month period ended June 30, 2006 was \$0.6 million and \$1.3 million, respectively, and is included in salaries, wages and benefits within the consolidated statements of income. There was no cumulative effect of initially adopting SFAS No. 123R.

The Company granted 5,000 and 20,000 stock options during the three-month periods ended June 30, 2006 and 2005 and 5,000 and 39,500 options during the six-month periods ended June 30, 2006 and 2005. The fair value of stock options granted was estimated using a Black-Scholes valuation model with the following weighted-average assumptions:

	Six Months Ended June 30	
	2006	2005
Risk-free interest rate	4.7%	4.0%
Expected dividend yield	0.88%	0.78%
Expected volatility	36%	37%
Expected term (in years)	4.9	4.5

The risk-free interest rate assumptions were based on average 5-year and 10-year U.S. Treasury note yields. The expected volatility was based on historical daily price changes of the Company's stock since June 2001 for the options granted in 2006 and on historical monthly price changes of the Company's stock since January 1990 for the options granted in 2005. The expected term was the average number of years that the Company estimated these options will be outstanding. The Company considered groups of employees that have similar historical exercise behavior separately for valuation purposes.

The following table summarizes Stock Option Plan activity for the six months ended June 30, 2006:

Number of Options (in 000's)	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in 000's)

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Outstanding at beginning of period	5,029	\$	10.83		
Options granted	5	\$	20.36		
Options exercised	(391)	\$	7.97		
Options forfeited	(44)	\$	17.69		
Options expired	(1)	\$	7.35		

Outstanding at end of period	4,598	\$	11.02	5.38	\$ 42,520
	=====				
Exercisable at end of period	2,826	\$	9.29	4.47	\$ 31,035
	=====				

The weighted-average grant date fair value of stock options granted during the six months ended June 30, 2006 and 2005 was \$7.37 and \$6.74 per share, respectively. The total intrinsic value of share options exercised during the six months ended June 30, 2006 and 2005 was \$5.1 million and \$3.1 million, respectively. As of June 30, 2006, the total unrecognized compensation cost related to nonvested stock option awards was approximately \$3.5 million and is expected to be recognized over a weighted average period of 1.4 years.

In periods prior to January 1, 2006, the Company applied the intrinsic value based method of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in

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accounting for its Stock Option Plan. No stock-based employee compensation cost was 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 estimated fair value of all option grants on their grant date been charged to salaries, wages and benefits expense in accordance with SFAS No. 123, Accounting for Stock-Based Compensation.

	Three Months Ended June 30	Six Months Ended June 30
	----- 2005 -----	----- 2005 -----
Net income, as reported	\$ 25,295	\$ 45,216
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	457	905
	-----	-----
Net income, pro forma	\$ 24,838	\$ 44,311
	=====	=====
Earnings per share:		
Basic - as reported	\$.32	\$.57
	=====	=====
Basic - pro forma	\$.31	\$.56

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	=====	=====
Diluted - as reported	\$.31	\$.56
	=====	=====
Diluted - pro forma	\$.31	\$.55
	=====	=====

Although the Company does not have a formal policy for issuing shares upon exercise of stock options, such shares are generally issued from treasury stock. From time to time, the Company has repurchased shares of its common stock, the timing and amount of which depends on market and other factors. Historically, the shares acquired under these regular repurchase programs have provided sufficient quantities of stock for issuance upon exercise of stock options. Based on current treasury stock levels, the Company does not expect the need to repurchase additional shares specifically for stock option exercises during 2006.

(6) Segment Information

The Company has two reportable segments - Truckload Transportation Services and Value Added Services ("VAS"). 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, Disclosures about Segments of an Enterprise and Related Information. 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. Revenues for the Truckload Transportation Services segment include non-trucking revenues of \$2.8 million and \$3.5 million for the three-month periods and \$5.6 million and \$7.0 million for the six-month periods ended June 30, 2006 and 2005, respectively, representing the portion of shipments delivered to or from Mexico where the Company utilizes a third-party capacity provider and revenues generated in a few dedicated accounts where the services of third-party capacity providers are used to meet customer capacity requirements. The VAS segment, which generates the majority of the Company's non-trucking revenues, provides truck brokerage, intermodal, and freight transportation management (single-source logistics), as well as a newly expanded international product line. The Company recently formed Werner Global

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Logistics U.S., LLC, a separate company that operates under the VAS segment. After several months of researching and developing the Company's business plans, the Company is announcing its entrance into the Asian transportation market. Expectations for the product offering in China will include site selection analysis, vendor and purchase order management, full container load consolidation and warehousing, as well as door-to-door freight forwarding and customs brokerage. These services are expected to be achieved through a combination of strategic alliances with best in class providers throughout the Trans-Pacific supply chain and company-owned assets.

The Company generates other revenues related to third-party equipment maintenance, equipment leasing, and other business activities. None of

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these operations meet the quantitative threshold reporting requirements of SFAS No. 131. As a result, these operations are grouped in "Other" in the tables below. "Corporate" includes revenues and expenses that are incidental to the activities of the Company and are not attributable to any of its operating segments. 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.

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

	Revenues			
	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2006	2005	2006	2005
Truckload Transportation Services	\$ 456,920	\$ 427,136	\$ 889,917	\$ 829,499
Value Added Services	68,807	55,555	124,978	105,715
Other	2,418	1,919	4,280	3,818
Corporate	744	1,179	1,636	2,019
Total	\$ 528,889	\$ 485,789	\$1,020,811	\$ 941,051

	Operating Income			
	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2006	2005	2006	2005
Truckload Transportation Services	\$ 44,043	\$ 39,803	\$ 79,126	\$ 70,987
Value Added Services	2,365	1,916	3,876	3,909
Other	167	815	630	1,671
Corporate	(224)	(406)	(459)	(1,602)
Total	\$ 46,351	\$ 42,128	\$ 83,173	\$ 74,965

Item 2. 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 this Item 2, "Management's Discussion and Analysis

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of Financial Condition and Results of Operations", are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended. The Company believes the assumptions underlying these forward-looking statements are reasonable based on information currently

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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", of the Company's Annual Report on Form 10-K for the year ended December 31, 2005. 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.

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 services, medium-to-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 capacity provider, and for a few of its dedicated accounts where the services of third-party capacity providers 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 86% of total operating revenues in second quarter 2006, and non-trucking and other operating revenues accounted for 14%.

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

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the revenues generated by 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 average 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 company drivers, owner-operators, 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 company drivers and owner-operators and the market for new and used revenue equipment. Because the Company is

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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 expense), supplies and maintenance, and insurance and claims. These expenses generally 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 second quarter 2006 to second quarter 2005, 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. In addition, beginning in January 2007, a new set of more stringent engine emissions standards mandated by the Environmental Protection Agency ("EPA") will become effective for all newly manufactured trucks. The Company intends to continue to keep its fleet as new as possible in advance of the new standards. 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. The trucking operations require substantial cash expenditures for the purchase of 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 when necessary, by borrowings from the Company's credit facilities.

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Non-trucking services provided by the Company, primarily through its VAS division, include truck brokerage, intermodal, and freight transportation management (single-source logistics), as well as a newly expanded international product line. Unlike the Company's trucking operations, the non-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 ratio. The operating margin for the non-trucking business is lower than those of the trucking operations, but the return on assets is substantially higher.

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Results of Operations:

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

	Three Months Ended June 30		%	Six Months Ended June 30		%
	2006	2005		Change	2006	
Trucking revenues, net of fuel surcharge (1)	\$375,897	\$371,612	1.2%	\$744,153	\$729,478	2.0%
Trucking fuel surcharge revenues (1)	78,213	51,967	50.5%	140,101	92,903	50.8%
Non-trucking revenues, including VAS (1)	71,569	59,065	21.2%	130,549	112,742	15.8%
Other operating revenues (1)	3,210	3,145	2.1%	6,008	5,928	1.3%
Operating revenues (1)	\$528,889	\$485,789	8.9%	\$1,020,811	\$941,051	8.5%
Operating ratio (consolidated) (2)	91.2%	91.3%	-0.1%	91.9%	92.0%	-0.1%
Average monthly miles per tractor	9,938	10,199	-2.6%	9,886	10,066	-1.8%
Average revenues per total mile (3)	\$1.463	\$1.389	5.3%	\$1.456	\$1.391	4.7%
Average revenues per loaded mile (3)	\$1.679	\$1.578	6.4%	\$1.671	\$1.579	5.8%
Average percentage of empty miles (4)	12.84%	11.99%	7.1%	12.87%	11.88%	8.3%
Average trip length in miles (loaded)	584	566	3.2%	585	569	2.8%
Total miles (loaded and empty) (1)	256,852	267,547	-4.0%	511,169	524,393	-2.5%
Average tractors in service	8,615	8,744	-1.5%	8,618	8,682	-0.7%

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Average revenues per tractor per week (3)	\$3,356	\$3,269	2.7%	\$3,321	\$3,231	2.8%
Total tractors (at quarter end)						
Company	7,905	7,820		7,905	7,820	
Owner-operator	805	930		805	930	
	-----	-----		-----	-----	
Total tractors	8,710	8,750		8,710	8,750	
Total trailers (truck and intermodal, at quarter end)	25,180	24,090		25,180	24,090	
Managed containers (at quarter end)	400	-		400	-	

- (1) Amounts in thousands.
- (2) Operating expenses expressed as a percentage of operating revenues. Operating ratio is a common measure in the trucking industry used to evaluate profitability.
- (3) Net of fuel surcharge revenues.
- (4) Miles without trailer cargo. Dedicated fleets have a higher empty mile percentage, which is priced in the dedicated business.

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The following table sets forth the revenues, operating expenses, and operating income for the truckload segment. Revenues for the truckload segment include non-trucking revenues of \$2.8 million and \$3.5 million for the three-month periods and \$5.6 million and \$7.0 million for the six-month periods ended June 30, 2006 and 2005, respectively, as described on page 10.

Truckload Transportation Services	Three Months Ended June 30				Six Months Ended June 30			
	2006		2005		2006		2005	
(amounts in 000's)	\$	%	\$	%	\$	%	\$	%
Revenues	\$456,920	100.0	\$427,136	100.0	\$889,917	100.0	\$829,499	100.0
Operating expenses	412,877	90.4	387,333	90.7	810,791	91.1	758,512	91.4
Operating income	\$ 44,043	9.6	\$ 39,803	9.3	\$ 79,126	8.9	\$ 70,987	8.6

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

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Truckload Transportation Services	Three Months Ended June 30				Six Months Ended June 30			
	2006		2005		2006		2005	
(amounts in 000's)	\$	%	\$	%	\$	%	\$	%
Revenues	\$456,920		\$427,136		\$889,917		\$829,499	
Less: trucking fuel surcharge revenues	78,213		51,967		140,101		92,903	
Revenues, net of fuel surcharges	378,707	100.0	375,169	100.0	749,816	100.0	736,596	100.0
Operating expenses	412,877		387,333		810,791		758,512	
Less: trucking fuel surcharge revenues	78,213		51,967		140,101		92,903	
Operating expenses, net of fuel surcharges	334,664	88.4	335,366	89.4	670,690	89.4	665,609	90.4
Operating income	\$ 44,043	11.6	\$ 39,803	10.6	\$ 79,126	10.6	\$ 70,987	9.6

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.

Value Added Services (amounts in 000's)	Three Months Ended June 30				Six Months Ended June 30			
	2006		2005		2006		2005	
	\$	%	\$	%	\$	%	\$	%
Revenues	\$ 68,807	100.0	\$ 55,555	100.0	\$124,978	100.0	\$105,715	100.0
Rent and purchased transportation expense	62,204	90.4	50,405	90.7	113,095	90.5	95,571	90.4
Gross margin	6,603	9.6	5,150	9.3	11,883	9.5	10,144	9.6
Other operating expenses	4,238	6.2	3,234	5.9	8,007	6.4	6,235	5.9
Operating income	\$ 2,365	3.4	\$ 1,916	3.4	\$ 3,876	3.1	\$ 3,909	3.7

2005

Operating Revenues

Operating revenues increased 8.9% for the three months ended June 30, 2006, compared to the same period of the prior year. Excluding fuel surcharge revenues, trucking revenues increased 1.2% due primarily to a 5.3% increase in average revenues per total mile, offset by a 1.5% decrease in the average number of tractors in service, and a 2.6% decrease in average monthly miles per tractor. Average revenues per total mile, excluding fuel surcharges, increased due to customer rate increases. The average percentage of empty miles increased to 12.8% in second quarter 2006 from 12.0% in second quarter 2005. A significant portion of the decrease in average miles per truck is due to the ongoing shift of trucks from the medium-to-long-haul van division (which has higher average miles per truck) to the dedicated division (which has lower average miles per truck). Dedicated fleet business also tends to have a higher empty mile percentage, lower miles per trip, and a higher rate per loaded mile. The revision to the hours of service regulations that went into effect in October 2005 also caused lower miles per truck for some shorter haul or multiple stop shipments.

A substantial portion of the Company's freight base is under contract with customers and provides for annual pricing increases. A significant portion of the Company's non-dedicated fleet contracts renew and will be renegotiated during the second half of 2006. There continue to be several inflationary cost pressures that are impacting truckload carriers. They include: driver pay and other driver-related costs due to a difficult driver market, rising diesel fuel prices, conversion from low sulfur diesel fuel to ultra-low sulfur diesel fuel ("ULSD"), new engine emission requirements for newly manufactured trucks beginning in January 2007 that are increasing the truck purchase costs and lowering the miles per gallon ("mpg"), and rising liability and cargo insurance costs. To recoup these cost increases, management will be seeking freight rate increases during the upcoming contract renewal period.

As second quarter 2006 progressed, freight demand improved on a year-over-year basis. April 2006 demand was comparable to April 2005. Beginning the second week of May 2006, freight demand was better than the same period of 2005. This favorable demand trend continued throughout the last seven weeks of second quarter 2006. July 2006 freight demand has been about the same as it was in July 2005. The Company measures freight demand for all periods by comparing the percentage of available loads to available trucks for its non-dedicated truck fleets.

Fuel surcharge revenues, which represent collections from customers for the higher cost of fuel, increased to \$78.2 million in second quarter 2006 from \$52.0 million in second quarter 2005 as a result of higher fuel costs. 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 approximately 80% to 85% of the actual increase in the cost of fuel, due to empty miles not billable to

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customers, out-of-route miles, truck idle time, and the volatility in the fuel prices as prices change rapidly in short periods of time.

VAS revenues increased 23.9% to \$68.8 million for the three months ended June 30, 2006 from \$55.6 million for the three months ended June 30, 2005 due to growth in brokerage and intermodal while gross margin dollars increased 28.2% for the same period. VAS revenues include truck brokerage, freight transportation management (single-source logistics), intermodal, and multimodal, as well as a newly expanded international product line (see

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paragraph below). VAS has a goal to grow revenues and operating income over 20% during third and fourth quarter 2006 compared to third and fourth quarter 2005. The VAS brokerage network consists of nine offices and 43 freight brokers. The brokerage product line has expanded from dry van freight into the flatbed and temperature-controlled segments of the business, which is accelerating the growth rate. The Company continues to focus on growing the volume of business in the VAS segment, which provides customers with additional sources of capacity.

The Company recently formed Werner Global Logistics U.S., LLC, a separate company that operates under the VAS segment. After several months of researching and developing the Company's business plans, the Company is announcing its entrance into the Asian transportation market. Werner Global Logistics U.S., LLC recently obtained its U.S. Ocean Transport Intermediary (NVOCC and Ocean Freight Forwarding) license and established a local presence with the opening of its Shanghai, China office. Expectations for the product offering in China will include site selection analysis, vendor and purchase order management, full container load consolidation and warehousing, as well as door-to-door freight forwarding and customs brokerage. These services are expected to be achieved through a combination of strategic alliances with best in class providers throughout the Trans-Pacific supply chain and company-owned assets.

Operating Expenses

Operating expenses, expressed as a percentage of operating revenues, were 91.2% for the three months ended June 30, 2006, compared to 91.3% for the three months ended June 30, 2005. As explained above, 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 higher return on assets than the trucking business, the growth in VAS business in second quarter 2006 compared to second quarter 2005 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.

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, which provides a more consistent basis for comparing the results of operations from period to period.

Three Months Ended June 30	Increase (Decrease)	Six Months Ended June 30	Increase (Decrease)
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	2006	2005	per Mile	2006	2005	per Mile
Salaries, wages and benefits	\$0.567	\$0.517	\$.050	\$0.565	\$0.525	\$.040
Fuel	0.398	0.291	.107	0.372	0.277	.095
Supplies and maintenance	0.144	0.144	.000	0.144	0.145	(.001)
Taxes and licenses	0.108	0.110	(.002)	0.112	0.111	.001
Insurance and claims	0.084	0.081	.003	0.080	0.085	(.005)
Depreciation	0.155	0.147	.008	0.156	0.148	.008
Rent and purchased transportation	0.152	0.149	.003	0.148	0.147	.001
Communications and utilities	0.018	0.019	(.001)	0.019	0.020	(.001)
Other	(0.019)	(0.010)	(.009)	(0.010)	(0.012)	.002

Owner-operator costs are included in rent and purchased transportation expense. Owner-operator miles as a percentage of total miles were 11.6% in second quarter 2006 compared to 12.8% in second quarter 2005. Owner-operators are independent contractors who supply their own tractor and driver and are responsible for their operating expenses including fuel,

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supplies and maintenance, and fuel taxes. This decrease in owner-operator miles as a percentage of total miles shifted costs from the rent and purchased transportation category to other expense categories. The Company estimates that rent and purchased transportation expense for the truckload segment was lower by approximately 1.4 cents per total mile due to this decrease, and other expense categories had offsetting increases on a total-mile basis, as follows: salaries, wages and benefits (0.5 cents), fuel (0.5 cents), supplies and maintenance (0.1 cent), taxes and licenses (0.1 cent), and depreciation (0.2 cents).

Salaries, wages and benefits for non-drivers increased in second quarter 2006 compared to second quarter 2005 due to a larger number of personnel to support the growth in VAS. The increase in salaries, wages and benefits of 5.0 cents per mile for the truckload segment is primarily due to higher driver pay per mile resulting from an increase in the percentage of company truck miles versus owner-operator miles (see above), driver pay increases for some dedicated fleets, and increases in the Company's group health insurance costs and workers' compensation expense. The Company renewed its workers' compensation insurance coverage, and for the policy year beginning April 1, 2006, the Company continues to maintain a self-insurance retention of \$1.0 million per claim and is responsible for an annual aggregate amount of \$1.0 million for claims above \$1.0 million and below \$2.0 million. The Company's premium rates for this coverage did not change from the prior policy year. Non-driver salaries, wages and benefits increased due to an increase in the number of equipment maintenance personnel and approximately \$0.6 million of stock compensation expense related to the Company's adoption of Statement of Financial Accounting Standards ("SFAS") No. 123R on January 1, 2006. See footnote 5 to the Notes to Consolidated Financial Statements for more explanation of SFAS No. 123R.

The driver market continues to be extremely challenging, as it becomes even more difficult during the spring and summer months when the truckload industry competes with construction, agricultural, and other outdoor jobs that are more plentiful during this seasonal period. Average tractors in service declined by 129 trucks from second quarter 2005 to second quarter 2006 due principally to the driver market; however, the Company made

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significant progress improving its truck count during the latter part of second quarter 2006 by reducing driver turnover. Decreasing driver turnover continues to be a primary focus of the Company's non-driver workforce. The Company anticipates that the competition for qualified 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.

Fuel increased 10.7 cents per mile for the truckload segment due to higher average diesel fuel prices. Fuel costs averaged 57 cents a gallon higher in second quarter 2006 compared to second quarter 2005. In the Company's March 31, 2006 Form 10-Q filed with the Securities and Exchange Commission on May 1, 2006, the Company estimated the negative impact of higher fuel costs on second quarter 2006 earnings compared to second quarter 2005 earnings to be four cents to six cents per share, assuming diesel fuel prices for the last nine weeks of second quarter 2006 remained at the average price for the first four weeks of second quarter 2006. The Company's average mpg was better than expected, and the Company's fuel surcharge collections were higher than estimated, resulting in only a two-cent per share negative impact on second quarter 2006 earnings compared to second quarter 2005 earnings. The Company includes the following items in the calculation of the estimated impact of higher fuel costs on earnings for both periods: fuel pricing, fuel reimbursement to owner-operator drivers, lower mpg due to the increasing percentage of company-owned trucks with post-October 2002 engines ("EPA phase one"), and anticipated fuel surcharge reimbursement.

Truckload carriers will be required to transition from low sulfur diesel fuel to ULSD, as refiners gradually meet the October 15, 2006 transition date mandated by the EPA. Preliminary estimates are that ULSD will result in a 1% to 3% degradation of fuel mpg for all trucks, due to the lower energy content (btu) of ULSD. The EPA estimates the higher cost of ULSD to the end user should not exceed eight cents per gallon once the

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fuel becomes widely available. However, during the transition period, supply and demand factors could cause the pricing of ULSD to be more volatile. To the extent that diesel fuel prices increase more significantly during the transition to ULSD, the Company's fuel surcharge programs with its customers are designed to recover most of the potential diesel fuel price increase.

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 June 30, 2006, the Company had no derivative financial instruments to reduce its exposure to fuel price fluctuations.

Insurance and claims for the truckload segment increased 0.3 cents on a per-mile basis due primarily to negative development on existing liability insurance claims. For the policy year that began August 1, 2005, the Company is responsible for the first \$2.0 million per claim with an annual aggregate of \$2.0 million for claims between \$2.0 million and \$3.0 million, and the Company is fully insured (i.e., no aggregate) for claims between \$3.0 million and \$5.0 million. For claims in excess of \$5.0

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million and less than \$10.0 million, the Company is responsible for the first \$5.0 million of claims in the policy year. The Company maintains liability insurance coverage with reputable insurance carriers substantially in excess of the \$10.0 million per claim. The Company's liability insurance premiums for the policy year beginning August 1, 2005 were approximately the same as the previous policy year. Effective August 1, 2006, the Company's self-insured retention levels and aggregate amounts of liability for personal injury and property damage claims will stay the same. The Company expects its liability insurance premiums for the policy year beginning August 1, 2006 to be slightly higher than the previous policy year.

Depreciation expense for the truckload segment increased 0.8 cents on a per-mile basis in second quarter 2006 due primarily to higher costs of new tractors with the post-October 2002 engines, the impact of lower average miles per truck, and a higher percentage of company-owned trucks versus owner-operators. As of June 30, 2006, nearly 100% of the company-owned truck fleet consisted of trucks with the post-October 2002 engines compared to 68% at June 30, 2005.

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 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 90.4% in second quarter 2006 compared to 90.7% in second quarter 2005. During fourth quarter 2005, VAS entered into an agreement with Union Pacific ("UP") to manage UP-owned containers for intermodal freight shipments. During second quarter 2006, VAS Intermodal was managing a fleet of 400 of these assigned containers. VAS Intermodal has the option to, and may, increase the number of UP assigned containers in 2006 as it further develops its intermodal freight program.

Rent and purchased transportation for the truckload segment increased 0.3 cents per total mile in second quarter 2006. Higher fuel prices necessitated higher reimbursements to owner-operators for fuel (\$9.0 million for second quarter 2006 compared to \$6.2 million for second quarter 2005), which resulted in a 1.1 cent per total mile increase. This increase in owner-operator fuel reimbursement was offset by the decrease in the number of owner-operator trucks and the decrease in corresponding owner-operator miles. 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 prices on earnings.

Over the past year, the Company has experienced difficulty attracting and retaining owner-operator drivers due to the increasingly challenging operating conditions including inflationary cost increases that are the responsibility of the owner-operators. The number of owner-operators decreased to 805 as of June 30, 2006 from a total of 930 as of June 30, 2005 (a 13% decrease). The Company increased the van and regional over-the-road owner-operators' settlement rate by two cents per mile effective May 1, 2006. This increase applies to 84% of the Company's owner-operators and increased costs by \$0.3 million in second quarter 2006. The Company has historically been able to add company-owned tractors and

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recruit additional company drivers to offset any decreases in owner-operators. If a shortage of owner-operators and company drivers were to occur and additional 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.

Other operating expenses for the truckload segment decreased 0.9 cents per mile in second quarter 2006. Gains on sales of assets, primarily trucks and trailers, increased to \$7.1 million in second quarter 2006 compared to \$3.6 million in second quarter 2005. In second quarter 2006, the Company spent less on repairs per truck sold than in second quarter 2005. The Company continued to sell its oldest van trailers that have already reached the end of their depreciable life. These trailer sales contributed to the improved equipment gains in second quarter 2006. The Company expects to continue to sell its oldest van trailers during the remainder of 2006 as it replaces them with new van trailers. Rising fuel prices in second quarter 2006 affected used truck buyers and reduced the number of trucks sold in second quarter 2006 compared to first quarter 2006, when gains on sales were \$8.8 million. In addition, the pace of truck sales slowed during the latter part of second quarter 2006 and through July 2006. If fuel prices remain high going forward, the Company expects this could significantly limit truck sales and, to a lesser extent, trailer sales. The number of trucks planned for sale during 2007 is expected to be lower than the number planned to be sold in 2006, and the Company intends to continue to replace its oldest van trailers into 2007.

The Company's effective income tax rate (income taxes expressed as a percentage of income before income taxes) was 41.0% for second quarter 2006 and 2005.

Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005

Operating Revenues

Operating revenues increased by 8.5% for the six months ended June 30, 2006, compared to the same period of the previous year. Excluding fuel surcharge revenues, trucking revenues increased 2.0%, due primarily to a 4.7% increase in average revenues per total mile, offset by a 1.8% decrease in average monthly miles per tractor and a 0.7% decrease in the average number of tractors in service. Average revenues per total mile, excluding fuel surcharges, increased due primarily to customer rate increases secured during late 2005 and early 2006. VAS revenues increased by \$19.3 million (18.2%) due to ongoing growth in the brokerage and intermodal groups, and fuel surcharge revenues increased by \$47.2 million (50.8%) due to higher average diesel fuel prices for the first six months of 2006 as compared to the same period of 2005.

Operating Expenses

Operating expenses, expressed as a percentage of operating revenues, were 91.9% for the six months ended June 30, 2006, compared to 92.0% for the same period of the previous year. As explained in the previous pages, 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 higher return on assets than the trucking business, the growth in VAS business in the first six months of 2006 compared to the first six months of 2005 also increased the Company's overall operating ratio. The tables on page 15

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show the operating ratios and operating margins for the Company's two reportable segments, Truckload Transportation Services and Value Added Services.

Owner-operator miles as a percentage of total miles decreased to 11.7% for the six months ended June 30, 2006, from 12.8% for the six months ended June 30, 2005. This decrease in owner-operator miles as a percentage of total miles shifted costs from the rent and purchased transportation category to other expense categories. The Company estimates that rent and purchased transportation expense for the truckload segment was lower by approximately 1.3 cents per total mile due to this decrease, and other expense categories had offsetting increases on a total-mile basis, as follows: salaries, wages and benefits (0.5 cents), fuel (0.4 cents), depreciation (0.2 cents), supplies and maintenance (0.1 cent), and taxes and licenses (0.1 cent).

Salaries, wages and benefits for non-drivers increased to support the growth in the VAS segment. Salaries, wages and benefits for the truckload segment increased 4.0 cents on a per-mile basis due to higher driver pay per mile resulting from the increase in the percentage of company truck miles versus owner-operator miles (see above) and driver pay increases in some dedicated fleets, as well as higher workers' compensation and group health insurance costs. Non-driver salaries, wages and benefits for the truckload segment also increased due to an increase in the number of maintenance employees, approximately \$1.3 million of stock compensation expense, and the effect of the lower average miles per tractor. Fuel increased 9.5 cents per total mile due primarily to higher fuel prices, and to a lesser extent, the increase in the percentage of company truck miles versus owner-operator miles (see above). Average fuel prices for the first six months of 2006 were 50 cents per gallon, or 32%, higher than the first six months of 2005. Insurance decreased 0.5 cents on a per-mile basis due to better claims experience. Depreciation increased 0.8 cents per total mile due to higher costs of new tractors with the post-October 2002 engines and the decrease in the number of owner-operator tractors and corresponding increase in company-owned tractors. Rent and purchased transportation for the truckload segment increased only 0.1 cent per total mile as higher fuel reimbursements to owner-operators due to higher fuel prices were offset by the decrease in the number of owner-operator tractors and the corresponding decrease in owner-operator miles. Rent and purchased transportation expense for the VAS segment increased in response to higher VAS revenues. Other operating expenses increased 0.2 cents per total mile as higher gains on sales of assets in 2006 were offset by the additional \$7.2 million of bad debt expense recorded in first quarter 2006 related to the bankruptcy of one of the Company's customers, APX Logistics, Inc. The Company's effective income tax rate was 41.1% and 41.0% for the six months ended June 30, 2006 and 2005, respectively.

Liquidity and Capital Resources:

During the six months ended June 30, 2006, the Company generated cash flow from operations of \$147.1 million, a 52.8% increase (\$50.8 million) in cash flow compared to the same six-month period a year ago. The increase in cash flow from operations is due to lower income tax payments during the first six months of 2006 and better collections of accounts receivable. The increase in the allowance for doubtful accounts from December 31, 2005 to June 30, 2006 includes \$7.2 million related to the APX bankruptcy, resulting in a decrease in net accounts receivable. Deferred taxes decreased by \$37.7 million during the six months ended June 30, 2005 related to tax law changes resulting in the reversal of certain tax strategies implemented in 2001 and lower income tax depreciation in 2005

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due to the bonus tax depreciation provision that expired on December 31, 2004. The Company made federal income tax payments of \$22.5 million in second quarter 2005 related to the reversal of the tax strategies. The cash flow from operations enabled the Company to make net capital expenditures, repay debt, and repurchase common stock as discussed below.

Net cash used in investing activities for the six-month period ended June 30, 2006 decreased by \$111.3 million, from \$150.6 million for the six-month period ended June 30, 2005 to \$39.3 million for the six-month period ended June 30, 2006. Net property additions, primarily revenue equipment, were \$41.8 million for the six-month period ended June 30, 2006 versus \$152.7 million during the same period of 2005. The large decrease was due

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primarily to the Company purchasing more tractors in the first half of 2005 to reduce the average age of its truck fleet and purchasing fewer tractors in the first six months of 2006. The average age of the Company's truck fleet is 1.32 years at June 30, 2006 compared to 1.44 years as of June 30, 2005. The Company intends to continue to keep its truck fleet as new as possible during 2006, in advance of phase two of the federally mandated engine emission standards that will become effective for newly manufactured trucks beginning in January 2007. During the second half of 2006, the Company will be taking delivery of a substantial number of new trucks which will increase capital expenditures during this period. As a result, 2007 capital expenditures are expected to be lower than normal.

As of June 30, 2006, the Company has committed to property and equipment purchases, net of trades, of approximately \$122.9 million. The Company intends to fund these net capital expenditures through cash flow from operations and through financing available under its existing credit facilities, as management deems necessary.

Net financing activities used \$100.6 million and \$3.9 million during the six months ended June 30, 2006 and 2005, respectively. During first quarter 2006, the Company repaid outstanding debt totaling \$60.0 million that was originally borrowed in the fourth quarter of 2005 to fund a portion of the Company's net capital expenditures. The Company paid dividends of \$6.3 million in the six-month period ended June 30, 2006 and \$5.6 million in the six-month period ended June 30, 2005. The Company increased its quarterly dividend rate by \$.005 per share beginning with the dividend paid in July 2005 and by an additional \$.005 per share beginning with the dividend paid in July 2006. Financing activities also included common stock repurchases of \$39.5 million and \$0.3 million in the six-month periods ended June 30, 2006 and 2005, respectively. 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. On April 14, 2006, the Company's Board of Directors approved an increase to its authorization for common stock repurchases of 6,000,000 shares. The previous authorization announced on November 23, 2003, authorized the Company to repurchase 3,965,838 shares. As of June 30, 2006, the Company had purchased 2,257,038 shares pursuant to this authorization and had 7,708,800 shares remaining available for repurchase.

Management believes the Company's financial position at June 30, 2006 is strong. As of June 30, 2006, the Company had \$42.8 million of cash and cash equivalents, no debt, and \$871.9 million of stockholders' equity. In June 2006, the Company amended both of its existing credit facilities to increase the available credit by a total of \$75.0 million, bringing its available credit pursuant to credit facilities to \$200.0 million as of June 30, 2006, on which no borrowings were outstanding. The credit available

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under these facilities is 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 June 30, 2006, the Company had no non-cancelable revenue equipment operating leases, and, therefore had no off-balance sheet revenue equipment debt. Based on the Company's strong financial position, management foresees no significant barriers to obtaining sufficient financing, if necessary.

Off-Balance Sheet Arrangements:

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

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Regulations:

Effective October 1, 2005, all truckload carriers became subject to revised hours of service ("HOS") regulations. The only significant change from the previous regulations is that a driver using the sleeper berth provision 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 had a negative impact on mileage productivity. The greatest impact was for those customers with multiple-stop shipments or those shipments with pickup or delivery delays.

In June 1998, the Company became the first, and only, trucking company in the United States to receive authorization from the U.S. Department of Transportation ("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 Federal Motor Carrier Safety Administration ("FMCSA") 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. The Company has applied for its two-year renewal of the paperless log program.

Beginning in January 2007, a new set of more stringent engine emissions standards mandated by the EPA will become effective for all newly manufactured trucks. The Company has already reduced the average age of its truck fleet to 1.32 years in advance of the new standards. 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. Truckload carriers will be required to transition from low sulfur diesel fuel to ULSD, as refiners gradually meet the October 15, 2006 transition date mandated by the EPA. Preliminary estimates are that ULSD will result in a 1% to 3% degradation of fuel mpg for all trucks, due to the lower energy content (btu) of ULSD. A 2% mpg degradation would have a cost impact of 1.1 cents per loaded mile at current fuel price levels.

Critical Accounting Policies:

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

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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 current 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.

- * 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

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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 and liabilities 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 capacity 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 capacity 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

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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 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 evaluates these estimates and policies as events and circumstances change. There have been no changes to these policies that occurred during the Company's most recent fiscal quarter. Together with the effects of the matters discussed above, these factors may significantly impact the Company's results of operations from period to period.

Accounting Standards:

In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments—An Amendment of FASB Statements No. 133 and 140. This Statement amends FASB Statements No. 133, Accounting for Derivative Instruments and Hedging Activities, and No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities and eliminates the exemption from applying Statement 133 to interests in securitized financial assets so that similar items are accounted for in the same way. The

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provisions of SFAS No. 155 are effective for all financial instruments acquired or issued after the beginning of the first fiscal year that begins after September 15, 2006. As of June 30, 2006, management believes that SFAS No. 155 will have no effect on the financial position, results of operations, and cash flows of the Company.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets—An Amendment of FASB Statement No. 140. This Statement amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities and requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. The provisions of SFAS No. 156 are effective as of the beginning of the first fiscal year that begins after September 15, 2006. As of June 30, 2006, management believes that SFAS No. 156 will have no effect on the financial position, results of operations, and cash flows of the Company.

In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109. This interpretation prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, this interpretation provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The provisions of FIN 48 will be effective at the beginning of the first fiscal year that begins after December 15, 2006. The Company will be evaluating the effect, if any, the adoption of FIN 48 will have on

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its financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Commodity Price Risk

The price and availability of diesel fuel are subject to fluctuations 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 has implemented customer fuel surcharges programs with most of its revenue base to offset most of the higher fuel cost per gallon. The Company cannot predict the extent to which higher fuel price levels will continue in the future or the extent to which fuel surcharges could be collected to offset such increases. As of June 30, 2006, 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 second quarter 2006 and prior periods. To date, almost 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. Accordingly, the Company is not currently subject to material 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.

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Interest Rate Risk

The Company had no debt outstanding at June 30, 2006. Interest rates on the Company's unused credit facilities are based on the London Interbank Offered Rate ("LIBOR"). Increases in interest rates could impact the Company's annual interest expense on future borrowings.

Item 4. 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). The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving the desired control objectives. 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, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, concluded that there have been no changes in the Company's internal control over

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financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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PART II

OTHER INFORMATION

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

On November 24, 2003, the Company announced that its Board of Directors approved an increase to its authorization for common stock repurchases of 3,965,838 shares. On April 14, 2006, the Company's Board of Directors approved an increase to the November 2003 authorization of 6,000,000 shares. As of June 30, 2006, the Company had purchased 2,257,038 shares pursuant to this authorization and had 7,708,800 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 following table summarizes the Company's common stock repurchases during the second quarter of 2006 made pursuant to this authorization. No shares were purchased during the quarter other than through this program, and all purchases were made by or on behalf of the Company and not by any "affiliated purchaser".

Issuer Purchases of Equity Securities

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) May Yet Be Purchased Under Plans or Programs
April 1-30, 2006	350,000	\$19.8671	350,000	8,358,800
May 1-31, 2006	490,700	\$19.5774	490,700	7,868,100
June 1-30, 2006	159,300	\$19.4103	159,300	7,708,800
Total	1,000,000	\$19.6522	1,000,000	7,708,800

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

The Annual Meeting of Stockholders of Werner Enterprises, Inc. was held on May 9, 2006 for the purpose of electing three directors for three-year terms. Proxies for the meeting were solicited pursuant to Regulation 14A of the Securities Exchange Act of 1934, and there was no solicitation in opposition to management's nominees and all such nominees were elected. Of the 79,021,537 shares entitled to vote, stockholders representing 70,664,766 shares (89.4%) were present in person or by proxy. The voting tabulation was as follows:

	Shares Voted "FOR" -----	Shares Voted "ABSTAIN" -----
Clarence L. Werner	68,536,180	2,128,586
Patrick J. Jung	66,954,492	3,710,274
Duane K. Sather	70,336,247	328,519

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Item 6. Exhibits.

Index of Exhibits

Exhibit 3(i)(A) Revised and Amended Articles of Incorporation (Incorporated by reference to Exhibit 3(i) to the Company's report on Form 10-K for the year ended December 31, 2005)

Exhibit 3(i)(B) Articles of Amendment to Articles of Incorporation (Incorporated by reference to Exhibit 3(i) to the Company's report on Form 10-Q for the quarter ended May 31, 1994)

Exhibit 3(i)(C) Articles of Amendment to Articles of Incorporation (Incorporated by reference to Exhibit 3(i) to the Company's report on Form 10-K for the year ended December 31, 1998)

Exhibit 3(i)(D) Articles of Amendment to Articles of Incorporation (Incorporated by reference to Exhibit 3(i)(D) to the Company's report on Form 10-Q for the quarter ended June 30, 2005)

Exhibit 3(ii) Revised and Restated By-Laws (Incorporated by reference to Exhibit 3(ii) to the Company's report on Form 10-Q for the quarter ended June 30, 2004)

Exhibit 31.1 Rule 13a-14(a)/15d-14(a) Certification (filed herewith)

Exhibit 31.2 Rule 13a-14(a)/15d-14(a) Certification (filed herewith)

Exhibit 32.1 Section 1350 Certification (filed herewith)

Exhibit 32.2 Section 1350 Certification (filed herewith)

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SIGNATURES

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

WERNER ENTERPRISES, INC.

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Date: August 2, 2006 By: /s/ John J. Steele

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

Date: August 2, 2006 By: /s/ James L. Johnson

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

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		443,038
	1.05%	443,038
	*	-
Hefcap Holdings, LLC (3)		86,392
	*	86,392
	*	-
Marc C. Tesio (4)		115,190
	*	115,190
	*	-
Windward Capital Advisors, LLC (5)		86,392
	*	86,392
	*	-
Élan Pharmaceutical Investments, Ltd.		3,044,556
	7.24%	376,886
		2,667,670
	6.35%	
The Board of Regents of the University of Texas system		197,500
	*	37,040
		160,460

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			*	
Roxana G. Baluma (6)				25,000
			*	
				4,689
				20,311
			*	
Joan E. Smallshaw (6)				22,500
			*	
				4,220
				18,280
			*	
Michelle Vitteta (6)				5,000
			*	
				937
				4,063
			*	
*Total expenses	5,931.8	5,931.8		

Operating income

1,942.2 1,942.2

Interest expense, net⁽¹⁾

(318.2) (23.2) (341.4)

Other items, net

(4.0) (4.0)

Earnings from continuing operations before income taxes, equity in earnings of affiliated companies and minority interest

1,620.0 (23.2) 1,596.8

Provision for income taxes⁽²⁾

(529.6) 9.2 (520.4)

Equity in earnings of affiliated companies, net of tax

3.4 3.4

Minority interest, net of tax

(4.3) (4.3)

Net earnings from continuing operations

1,089.5 (14.0) 1,075.5

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Net earnings from continuing operations per common share:

Basic

\$1.51 \$ 1.49

Diluted

\$1.51 \$ 1.49

Weighted average number of common shares outstanding:

Basic

721.4 721.4

Diluted

722.4 722.4

- (1) The pro forma adjustment to interest expense, net has been determined by adding (i) the interest charge of \$87.4 million for the issuances of the fixed rate senior notes and senior debentures on April 12, 2006 as if such senior notes and senior debentures were outstanding as of January 1, 2006 until April 11, 2006 plus (ii) the interest charge of \$19.8 million for the issuance of floating rate senior notes on June 16, 2006, based on an annual interest rate of 5.69%, being LIBOR plus 0.35%, as if such floating rate senior notes were outstanding as of January 1, 2006 until June 15, 2006 less (iii) the interest expense savings of \$84.0 million (calculated based on actual interest rates in effect) for the nine months ended September 30, 2006 resulting

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from utilizing the net proceeds from the issuances of the fixed rate senior notes and senior debentures on April 12, 2006 and the floating rate senior notes on June 16, 2006 to repay a portion of the term credit facility due in 2007 as if such amounts were repaid as of January 1, 2006. This adjustment does not give effect to the offering of the senior notes offered hereby and the use of the net proceeds therefrom. If this adjustment did give effect to those events as if they had occurred on January 1, 2006, then for each percentage point by which the annual interest rate on the senior notes offered hereby exceeds approximately 5.3%, this adjustment would increase by approximately \$0.75 million per \$100 million of senior notes offered hereby.

- (2) Pro forma adjustments to the provision for income taxes calculated using blended statutory rates in effect for the nine months ended September 30, 2006.

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DESCRIPTION OF THE SENIOR NOTES

General

The senior notes due 2055 offered hereby (the "senior notes") will be issued under an indenture dated as of April 12, 2006 (the "base indenture"), as supplemented by a first supplemental indenture dated April 12, 2006, as further supplemented by a second supplemental indenture dated as of June 16, 2006 and as further supplemented by a third supplemental indenture dated as of _____, 2006 between Viacom Inc., as issuer (in this Description of the Senior Notes, "Viacom"), and The Bank of New York, as trustee (the "Trustee") (such supplements, together with the base indenture, the "indenture") between Viacom and the Trustee. In this Description of the Senior Notes, "Viacom," "we," "us," "our" and similar words refer to Viacom Inc. and not to any of its consolidated subsidiaries unless the context otherwise requires.

We provide information to you about the senior notes in two separate documents:

_____ this prospectus supplement; and

_____ the accompanying prospectus.

The following statements about the senior notes are summaries and are subject to, and qualified in their entirety by reference to, the accompanying prospectus and the indenture. See "Description of Debt Securities" in the accompanying prospectus for additional information concerning the securities and the indenture. The following statements, therefore, do not contain all of the information that may be important to you. Not all the defined terms used in this prospectus supplement are defined herein, and you should refer to the accompanying prospectus or the indenture for the definitions of such terms. The provisions of the indenture set forth the terms of the senior notes in greater detail than this prospectus supplement or the accompanying prospectus. If the statements in this prospectus supplement differ from the provisions of the indenture, the provisions of the indenture control. A copy of the base indenture was filed with the Securities and Exchange Commission as an exhibit to our current report on Form 8-K filed on April 17, 2006.

The senior notes:

_____ will be unsecured senior obligations of Viacom;

_____ will rank equally with all of our other unsecured senior indebtedness from time to time outstanding;

_____ will initially be limited to \$250,000,000 aggregate principal amount of senior notes, which aggregate principal amount may, without the consent of holders, be increased in the future on the same terms as to status, CUSIP number or otherwise as the senior notes being offered hereby; and

_____ will be issued in minimum denominations of \$25 and integral multiples thereof.

The senior notes are subject in all cases to any tax, fiscal or other law or regulation or administrative or judicial interpretation applicable thereto. We are not required to make any payment to a holder with respect to any tax, assessment or other governmental charge imposed (by withholding or otherwise) by any government or a political subdivision or taxing authority thereof or therein due and owing with respect to the senior notes.

Principal, Maturity and Interest

Each senior note will bear interest at a rate of _____ % per year. Interest will be payable quarterly in arrears on the senior notes on _____, _____, _____ and _____ of each year, beginning on _____, 2007, each an interest payment date, and will be computed on the basis of a 360-day year of twelve 30-day months. Interest on the senior notes will accrue from and including the settlement date and will be paid to holders of record on the _____, _____ and _____ immediately before the respective interest payment date.

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The senior notes will mature on _____, 2055. On the maturity date of the senior notes, the holders will be entitled to receive 100% of the principal amount of the senior notes.

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If any interest payment date falls on a day that is not a business day, then payment of interest may be made on the next succeeding business day and no interest will accrue because of such delayed payment.

Ranking

The senior notes will be unsecured senior obligations of Viacom Inc. and will rank equally with all of Viacom Inc.'s existing and future unsecured senior obligations. As of September 30, 2006, Viacom Inc. had approximately \$7.84 billion of indebtedness outstanding under its credit facilities, its outstanding fixed rate senior notes and senior debentures issued on April 12, 2006, its outstanding floating rate senior notes issued on June 16, 2006 and its commercial paper program.

We conduct our operations through subsidiaries. As a result, distributions or advances from our subsidiaries are a major source of funds necessary to meet our debt service and other obligations. Contractual provisions, laws or regulations, as well as our subsidiaries' financial condition and operating requirements, may limit our ability to obtain cash required to pay our debt service obligations, including payments on the senior notes. The senior notes will be structurally subordinated to all obligations of our subsidiaries including claims with respect to trade payables. This means that holders of the senior notes will have a junior position to the claims of creditors of our subsidiaries on the assets and earnings of such subsidiaries. As of September 30, 2006, our direct and indirect subsidiaries had approximately \$343.3 million of indebtedness outstanding.

Further Issues

We may from time to time, without notice to or the consent of the holders of the senior notes currently offered hereby, create and issue further senior notes ranking equally and ratably in all respects with the senior notes, or in all respects except for the payment of interest accruing prior to the issue date or except, in some circumstances, for the first payment of interest following the issue date of those further senior notes. Any such further senior notes will be consolidated with and form a single series with the senior notes currently being offered and will have the same terms as to status, CUSIP number or otherwise as such senior notes. Any such further senior notes will be issued pursuant to a resolution of our board of directors, a supplement to the indenture or under an officer's certificate pursuant to the indenture.

Optional Redemption

Prior to _____, 2011, we may not redeem the senior notes. We may redeem the senior notes, in whole or in part, at any time and from time to time on or after _____, 2011, upon not less than 30 nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date.

On and after the redemption date, interest will cease to accrue on the senior notes or any portion of the senior notes called for redemption (unless we default in the payment of the redemption price and accrued interest). On or before the redemption date, we will deposit with the Trustee money sufficient to pay the redemption price of and (unless the redemption date shall be an interest payment date) accrued and unpaid interest to the redemption date on the senior notes to be redeemed on such date. If less than all of the senior notes are to be redeemed, the senior notes to be redeemed shall be selected by the Trustee by such method as the Trustee shall deem fair and appropriate. Additionally, we may at any time repurchase senior notes in the open market and may hold or surrender such senior notes to the Trustee for cancellation.

No Mandatory Redemption or Sinking Fund

There will be no mandatory redemption prior to maturity or sinking fund payments for the senior notes.

The Trustee, Security Registrar and Paying Agent

The Bank of New York, acting through its principal corporate trust office at 101 Barclay Street, 8W, New York, New York, 10286 is the Trustee for the senior notes and is the security registrar and paying agent for the

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senior notes. Principal and interest will be payable, and the senior notes will be transferable, at the office of the paying agent and security registrar. We may, however, pay interest by check mailed to registered holders of the senior notes. At the maturity of the senior notes, the principal, together with accrued interest thereon, will be payable in immediately available funds upon surrender of such senior notes at the office of the Trustee.

Events of Default

See Description of Debt Securities Defaults and Remedies in the accompanying prospectus.

Application of Defeasance Provision

The accompanying prospectus contains a section entitled Description of Debt Securities Defeasance and Covenant Defeasance. That section describes provisions for the full defeasance and covenant defeasance of securities issued under the indenture. Those provisions will apply to the senior notes.

To effect full defeasance or covenant defeasance of the senior notes, we would be required to deliver to the Trustee an opinion of counsel to the effect that the deposit of money or U.S. government obligations in the trust created when we elect full defeasance or covenant defeasance will not cause the holders of the affected series of securities to recognize income, gain or loss for federal income tax purposes.

Book Entry, Delivery and Form

The senior notes will be issued in the form of one or more fully registered global securities (each a Global Security) which will be deposited with, or on behalf of, The Depository Trust Company, New York, New York (the Depository) and registered in the name of Cede & Co., the Depository's nominee. We will not issue senior notes in certificated form except in certain circumstances. Beneficial interests in the Global Securities will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in the Depository (the Depository Participants). Investors may elect to hold interests in the Global Securities through either the Depository (in the United States), or Clearstream Banking Luxembourg (Clearstream Luxembourg) or Euroclear (in Europe) if they are participants in those systems, or, indirectly through organizations that are participants in those systems. Clearstream Luxembourg and Euroclear will hold interests on behalf of their participants through customers' securities accounts in Clearstream Luxembourg's and Euroclear's names on the books of their respective depositories, which in turn will hold such interests in customers' securities accounts in the depositories' names on the books of the Depository. At the present time, Citibank, N.A. acts as U.S. depository for Clearstream Luxembourg and JPMorgan Chase Bank acts as U.S. depository for Euroclear (the U.S. Depositories). Beneficial interests in the Global Securities will be held in minimum denominations of \$25 and integral multiples thereof. Except as set forth below, the Global Securities may be transferred, in whole but not in part, only to another nominee of the Depository or to a successor of the Depository or its nominee.

The Depository has advised us and the underwriters that it is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. The Depository holds securities that its participants (Direct Participants) deposit with the Depository. The Depository also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers (which may include the underwriters of the senior notes), banks, trust companies, clearing corporations and certain other organizations. The Depository is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the Depository's book-entry system is also available to

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others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (Indirect Participants). The rules applicable to the Depository and its Direct and Indirect Participants are on file with the Securities and Exchange Commission.

Clearstream Luxembourg has advised us that it is incorporated under the laws of Luxembourg as a professional depository. Clearstream Luxembourg holds securities for its participating organizations, known as Clearstream Luxembourg participants, and facilitates the clearance and settlement of securities transactions between Clearstream Luxembourg participants through electronic book-entry changes in accounts of Clearstream Luxembourg participants, thereby eliminating the need for physical movement of certificates. Clearstream Luxembourg provides to Clearstream Luxembourg participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream Luxembourg interfaces with domestic markets in several countries. As a professional depository, Clearstream Luxembourg is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector, also known as the Commission de Surveillance du Secteur Financier. Clearstream Luxembourg participants are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the underwriters of the senior notes or their affiliates. Indirect access to Clearstream Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through, or maintain a custodial relationship with, a Clearstream Luxembourg participant either directly or indirectly.

Distributions with respect to the senior notes held beneficially through Clearstream Luxembourg will be credited to the cash accounts of Clearstream Luxembourg participants in accordance with its rules and procedures, to the extent received by the U.S. Depository for Clearstream Luxembourg.

Euroclear has advised us that it was created in 1968 to hold securities for its participants, known as Euroclear participants, and to clear and settle transactions between Euroclear participants and between Euroclear participants and participants of certain other securities intermediaries through simultaneous electronic book-entry delivery against payment, eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear is owned by Euroclear Clearance System Public Limited Company and operated through a license agreement by Euroclear Bank S.A./N.V., known as the Euroclear operator. The Euroclear operator provides Euroclear participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing and related services. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters of the senior notes.

Indirect access to Euroclear is also available to others that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

The Euroclear operator is regulated and examined by the Belgian Banking and Finance Commission.

Securities clearance accounts and cash accounts with the Euroclear operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law, collectively referred to as the terms and conditions. The terms and conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear operator acts under the terms and conditions only on behalf of Euroclear participants, and has no record of or relationship with persons holding through Euroclear participants.

Distributions with respect to senior notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the terms and conditions, to the extent received by the U.S. Depository for Euroclear.

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If the Depositary is at any time unwilling or unable to continue as depositary and a successor depositary is not appointed by us within 90 days, we will issue the senior notes in definitive form in exchange for the entire Global Security representing such senior notes. In this case, an owner of a beneficial interest in the Global Security will be entitled to physical delivery in definitive form of senior notes represented by such Global Security equal in principal amount to such beneficial interest and to have such senior notes registered in its name.

Title to book-entry interests in the senior notes will pass by book-entry registration of the transfer within the records of Clearstream Luxembourg, Euroclear or the Depositary, as the case may be, in accordance with their respective procedures. Book-entry interests in the senior notes may be transferred within Clearstream Luxembourg and within Euroclear and between Clearstream Luxembourg and Euroclear in accordance with procedures established for these purposes by Clearstream Luxembourg and Euroclear. Book-entry interests in the senior notes may be transferred within the Depositary in accordance with procedures established for this purpose by the Depositary. Transfers of book-entry interests in the senior notes among Clearstream Luxembourg and Euroclear and the Depositary may be effected in accordance with procedures established for this purpose by Clearstream Luxembourg, Euroclear and the Depositary.

Global Clearance and Settlement Procedures

Initial settlement for the senior notes will be made in immediately available funds. Secondary market trading between Depositary Participants will occur in the ordinary way in accordance with the Depositary's rules and will be settled in immediately available funds using the Depositary's Same-Day Funds Settlement System. Secondary market trading between Clearstream Luxembourg participants and Euroclear participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream Luxembourg and Euroclear and will be settled using the procedures applicable to conventional eurobonds in immediately available funds.

Cross-market transfers between persons holding directly or indirectly through the Depositary on the one hand, and directly or indirectly through Clearstream Luxembourg participants or Euroclear participants, on the other, will be effected through the Depositary in accordance with the Depositary's rules on behalf of the relevant European international clearing system by its U.S. Depositary; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time).

The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. Depositary to take action to effect final settlement on its behalf by delivering or receiving the senior notes in the Depositary, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to the Depositary. Clearstream Luxembourg participants and Euroclear participants may not deliver instructions directly to their respective U.S. Depositaries.

Because of time-zone differences, credits of the senior notes received in Clearstream Luxembourg or Euroclear as a result of a transaction with a Depositary Participant will be made during subsequent securities settlement processing and dated the business day following the Depositary settlement date. Such credits, or any transactions in the senior notes settled during such processing, will be reported to the relevant Euroclear participants or Clearstream Luxembourg participants on that business day. Cash received in Clearstream Luxembourg or Euroclear as a result of sales of senior notes by or through a Clearstream Luxembourg participant or a Euroclear participant to a Depositary Participant will be received with value on the business day of settlement in the Depositary but will be available in the relevant Clearstream Luxembourg or Euroclear cash account only as of the business day following settlement in the Depositary.

Although the Depositary, Clearstream Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of securities among participants of the Depositary, Clearstream Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures and they may discontinue the procedures at any time.

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EUROPEAN UNION DIRECTIVE ON THE TAXATION OF SAVINGS INCOME

The European Union has adopted a Directive regarding the taxation of savings income. The Directive provides for member states of the European Union (each, a Member State, and together, Member States) to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise.

UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a summary of certain United States federal income tax consequences of the purchase, ownership and disposition of the senior notes to the holders of senior notes that purchase the senior notes at original issuance at their initial issue price, and that hold the senior notes as capital assets (generally, property held for investment). This summary is based on the Internal Revenue Code of 1986, as amended (the Code), administrative pronouncements, judicial decisions and existing and proposed Treasury Regulations, and interpretations of the foregoing, changes to any of which subsequent to the date of this prospectus supplement may affect the tax consequences described herein. This summary does not address all of the tax consequences that may be relevant to holders in light of their particular circumstances or to holders subject to special tax rules, such as certain financial institutions, insurance companies, tax-exempt organizations, partnerships and other pass-through entities, dealers in securities or foreign currencies, United States Holders (as defined below) whose functional currency (as defined in Section 985 of the Code) is not the U.S. dollar, persons holding senior notes in connection with a hedging transaction, straddle, conversion transaction or other integrated transaction, traders in securities that elect to mark to market, holders liable for alternative minimum tax or persons who have ceased to be United States citizens or to be taxed as resident aliens. Persons considering the purchase of the senior notes should consult their tax advisors concerning the application of United States federal income tax laws, as well as the laws of any state, local or foreign taxing jurisdictions and any other tax laws, including gift and estate tax liability, as may be applicable to their particular situations.

Viacom believes that the senior notes constitute indebtedness for United States federal income tax purposes, and the following discussion assumes such treatment. No ruling has been or will be obtained from the Internal Revenue Service (IRS) regarding the United States federal income tax treatment of the senior notes, and no assurances can be given that the IRS will not take a contrary position.

As used in this section, a United States Holder means a beneficial owner of senior notes that is, for United States federal income tax purposes, a United States person. For this purpose, a United States person means (i) any individual who is a citizen or resident of the United States, (ii) a corporation, or other entity taxable as a corporation created or organized in or under the laws of the United States, any State thereof or the District of Columbia, (iii) any estate the income of which is subject to United States federal income taxation regardless of its source, or (iv) any trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust. Notwithstanding the preceding sentence, certain trusts in existence on August 20, 1996 and treated as United States persons prior to such date may elect to continue to be treated as United States persons.

A United States Alien Holder is a beneficial owner of senior notes that is neither a United States person nor a partnership or other entity treated as a partnership for United States federal income tax purposes. If a holder of the senior notes is a partnership or other entity treated as a partnership for United States federal income tax purposes, the tax treatment of the partnership and each partner in such partnership generally will depend on the activities of the partnership and the status of the partner. Partnerships that hold notes, and partners in such partnerships, should consult their own tax advisors.

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Tax Consequences to United States Holders

Payments of Stated Interest

Stated interest on senior notes will generally be taxable to a United States Holder as ordinary interest income at the time any such interest accrues or is received in accordance with the United States Holder's regular method of accounting for United States federal income tax purposes.

Sale, Taxable Exchange, Redemption, Retirement or other Taxable Disposition of the Senior Notes

A United States Holder will recognize gain or loss on the sale, taxable exchange, redemption, retirement or other taxable disposition of a senior note in an amount equal to the difference between the amount realized upon the disposition (less any portion allocable to any accrued and unpaid interest, which will be taxable as ordinary income to the extent not previously included in gross income) and the United States Holder's adjusted tax basis in the senior note. Such gain or loss generally will be a capital gain or loss, and will be a long-term capital gain or loss if the United States Holder has held the senior note for more than one year. A United States Holder's adjusted tax basis in a senior note generally will be the cost of the senior note, less any principal payments received by such United States Holder. Under current law, long-term capital gains of certain United States Holders (including individuals) generally are eligible for reduced rates of United States federal income tax. The deductibility of capital losses is subject to limitations under the Code.

Tax Consequences to United States Alien Holders

Under present United States federal income tax law, and subject to the discussion below concerning backup withholding:

- (a) payments of interest on the senior notes by Viacom or its paying agent to any United States Alien Holder will be exempt from the 30% United States federal withholding tax, provided that (i) such holder does not own, actually or constructively, directly or indirectly, 10% or more of the total combined voting power of all classes of stock of Viacom entitled to vote, (ii) such holder is not a controlled foreign corporation related, directly or indirectly, to Viacom through stock ownership, (iii) such holder is not a bank that received such senior notes in an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business, (iv) the requirement to certify such holder's non-U.S. status, as set forth in Section 871(h) or Section 881(c) of the Code and under applicable Treasury Regulations has been fulfilled with respect to the beneficial owner, as discussed below and (v) the interest is not effectively connected with the conduct by such holder of a trade or business in the United States; and
- (b) a United States Alien Holder of senior notes will not be subject to United States federal income tax on gain realized on the sale, taxable exchange, redemption, retirement or other taxable disposition of such senior notes, unless (i) such holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition, and either the gain is attributable to an office or other fixed place of business maintained by such individual in the United States or, generally, such individual has a tax home in the United States or (ii) such gain is effectively connected with the holder's conduct of a trade or business in the United States (and, if an income tax treaty applies, generally is attributable to a U.S. permanent establishment maintained by such holder).

The certification requirement referred to in subparagraph (a) will be fulfilled if the United States Alien Holder of senior notes certifies on IRS Form W-8BEN or successor form under penalties of perjury, that such owner is not a United States person and provides its name and address, and (i) such United States Alien Holder files such Form W-8BEN or successor form with the withholding agent or (ii) in the case of senior notes held on behalf of the beneficial owner by a securities clearing organization, bank or other financial institution holding customers' securities in the ordinary course of its trade or business, such financial institution files with the withholding agent a statement that it has received the Form W-8BEN or successor form from the United States Alien Holder of the senior notes, furnishes the withholding agent with a copy thereof, and otherwise complies with the applicable IRS requirements.

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If a United States Alien Holder of senior notes is engaged in a trade or business in the United States, and if interest on the senior notes (or gain realized on their sale, taxable exchange or other disposition) is effectively connected with the conduct of such trade or business (and, if an income tax treaty applies, generally is attributable to a U.S. permanent establishment maintained by such holder), the United States Alien Holder, although exempt from the withholding tax discussed in the preceding paragraphs, will be subject to regular United States federal income tax on such effectively connected interest (or gain), generally in the same manner as if it were a United States Holder. See *Tax Consequences to United States Holders* above. In lieu of the certificate described in the preceding paragraph, such a United States Alien Holder will be required to provide to the withholding agent a properly executed IRS Form W-8ECI or successor form, as appropriate, to claim an exemption from withholding tax. In addition, if such United States Alien Holder is a foreign corporation, it may be subject to a 30% branch profits tax (unless reduced or eliminated by an applicable treaty) on its earnings and profits for the taxable year attributable to such effectively connected interest (or gain), subject to certain adjustments.

Backup Withholding and Information Reporting

Under current United States federal income tax law, information reporting requirements apply to certain payments of principal, interest, or proceeds of sales or other dispositions to noncorporate United States Holders. In addition, a backup withholding tax will apply to such payments (currently at a rate of 28%) if the noncorporate United States Holder (i) fails to furnish its Taxpayer Identification Number (TIN) which, for an individual, is his or her Social Security Number, (ii) furnishes an incorrect TIN, (iii) is notified by the IRS that it is subject to backup withholding for failure to report interest and dividend payments, or (iv) under certain circumstances fails to certify, under penalties of perjury, that it has furnished a correct TIN and has not been notified by the IRS that it is subject to backup withholding for failure to report interest and dividend payments. United States Holders should consult their tax advisors regarding their qualification for exemption from backup withholding and the procedure for obtaining such an exemption if applicable. Backup withholding is not additional tax. Any amount withheld under the backup withholding rules generally will be allowed as a refund or credit against a United States Holder's United States federal income tax liability, provided that the required information is timely furnished to the IRS.

Interest payments made to a United States Alien Holder will generally be reported to such holder and to the IRS on Form 1042-S or any successor form. Copies of the information returns reporting such interest payments and any withholding may also be made available to the tax authorities in the country in which a United States Alien Holder resides under the provisions of an applicable tax treaty.

Backup withholding will not apply to payments made on the senior notes if the certifications required by Sections 871(h) and 881(c) of the Code as described above are properly submitted, provided that Viacom or its paying agent or the qualified intermediary, as the case may be, does not have actual knowledge or reason to know that the payee is a United States person. Under current Treasury Regulations, payments on the sale, taxable exchange, redemption, retirement, or other taxable disposition of notes made to or through a foreign office of a broker generally will not be subject to backup withholding. However, if such broker is:

a United States person;

a controlled foreign corporation for United States federal income tax purposes;

a foreign person 50% or more of whose gross income for certain periods is effectively connected with a United States trade or business; or

a foreign partnership with certain connections to the United States;

then information reporting will be required unless the broker has in its records documentary evidence that the beneficial owner is not a United States person and certain other conditions are met or the beneficial owner

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otherwise establishes an exemption. Backup withholding may apply to any payment that such broker is required to report if the broker has actual knowledge or reason to know that the payee is a United States person. Payments to or through the United States office of a broker will be subject to backup withholding and information reporting unless the United States Alien Holder certifies, under penalties of perjury, that it is not a United States person and the payor does not have actual knowledge or reason to know that the United States Alien Holder is a United States person, or the United States Alien Holder otherwise establishes an exemption.

United States Alien Holders of the senior notes should consult their tax advisors regarding the application of information reporting and backup withholding in their particular situations, the availability of an exemption therefrom, and the procedure for obtaining such an exemption, if available. Any amounts withheld from a payment to a United States Alien Holder under the backup withholding rules will be allowed as a credit against such United States Alien Holder's United States federal income tax liability and may entitle such United States Alien Holder to a refund, provided that the United States Alien Holder files a United States income tax return and the required information is timely furnished to the IRS.

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We intend to offer the senior notes through the underwriters named below. Subject to the terms and conditions contained in an underwriting agreement, we have agreed to sell to the underwriters and the underwriters severally have agreed to purchase from us, the principal amount of the senior notes listed opposite their names below.

Underwriter	Senior Notes
Merrill Lynch, Pierce, Fenner & Smith Incorporated	\$
Wachovia Capital Markets, LLC	\$
Citigroup Global Markets Inc.	\$
Morgan Stanley & Co. Incorporated	\$
UBS Securities LLC	\$
Total	\$ 250,000,000

The underwriters have agreed to purchase all of the senior notes sold pursuant to the underwriting agreement if any of these senior notes are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the senior notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the senior notes, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Over-Allotment Option

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus supplement, to purchase up to an additional \$ aggregate principal amount of senior notes at the public offering price less the underwriting discount. The underwriters may exercise the option solely for the purpose of covering over-allotments, if any, in connection with this offering. To the extent the option is exercised, each underwriter must purchase a number of additional senior notes approximately proportionate to that underwriter's initial purchase commitment. If the underwriters exercise their over-allotment option in full the total price to the public would be \$, the total underwriting discounts and commissions would be \$ and the total proceeds, before deducting expenses, to us would be \$.

Commissions and Discounts

The underwriters have advised us that they propose initially to offer the senior notes to the public at the public offering price on the cover page of this prospectus supplement, and to dealers at that price less a concession not in excess of \$ per senior note for retail orders and \$ per senior note for institutional orders. The underwriters may allow, and the dealers may reallow, a discount not in excess of \$ per senior note to other dealers. After the initial public offering, the public offering prices, concessions and discounts may be changed.

The expenses of the offering, not including the underwriting discount, are estimated to be \$ and are payable by us.

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The following table shows the underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional senior notes.

	No Exercise	Full Exercise
Per senior note (retail orders)	\$	\$
Per senior note (institutional orders)	\$	\$
Total	\$	\$

New Issue of Senior Notes

The senior notes are a new issue of securities with no established trading market. Application has been made to list the senior notes on the New York Stock Exchange. We expect trading in the senior notes on the New York Stock Exchange to begin within 30 days after the original issue date.

We have been advised by the underwriters that they presently intend to make a market in the senior notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the senior notes or that an active public market for the senior notes will develop. If an active public trading market for the senior notes does not develop, the market price and liquidity of the senior notes may be adversely affected.

Price Stabilization and Short Positions

In connection with the offering, the underwriters are permitted to engage in transactions that stabilize the market price of the senior notes. These stabilization transactions consist of bids or purchases to peg, fix or maintain the price of the senior notes. Specifically, the underwriters may sell a principal amount of senior notes greater than they are obligated to purchase under the underwriting agreement, creating a short position. A short sale is covered if the short position is no greater than the principal amount of senior notes available for purchase by the underwriters under the over-allotment option. The underwriters can close out a covered short sale by exercising the over-allotment option or purchasing senior notes in the open market. In determining the source of senior notes to close out a covered short sale, the underwriters will consider, among other things, the open market price of shares compared to the price available under the over-allotment option. The underwriters may also sell a principal amount of senior notes in excess of the over-allotment option, creating a naked short position. The underwriters must close out any naked short position by purchasing senior notes in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the senior notes in the open market after pricing that could adversely affect investors who purchase in this offering. As an additional means of facilitating this offering, the underwriters may bid for, and purchase, senior notes in the open market to stabilize the price of the senior notes. Purchases of a security to stabilize the price or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases.

Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the senior notes. In addition, neither we nor any of the underwriters makes any representation that the underwriters will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Other Relationships

The underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us. They have received customary fees and commissions for these transactions.

Affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated, Wachovia Capital Markets, LLC, Citigroup Global Markets Inc., UBS Securities LLC and affiliates of certain of the other underwriters are lenders under our existing credit facilities, a portion of which we intend to repay with the net proceeds of this offering.

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LEGAL MATTERS

The validity of the securities to be offered hereby will be passed upon for us by Shearman & Sterling LLP, New York, New York, and for the underwriters by Hughes Hubbard & Reed LLP, New York, New York. Hughes Hubbard & Reed LLP has from time to time performed legal services for Viacom including its affiliates.

EXPERTS

The financial statements incorporated in this Prospectus Supplement by reference to our Annual Report on Form 10-K for the year ended December 31, 2005 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

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PROSPECTUS

VIACOM INC.

Debt Securities

Preferred Stock

Class B Common Stock

Warrants

We may offer and sell, from time to time, in one or more offerings and series, together or separately:

debt securities;

preferred stock;

Class B common stock; and

warrants representing rights to purchase debt securities or preferred stock.

The debt securities and preferred stock may be convertible into Class B common stock.

Our voting Class A common stock and non-voting Class B common stock are listed and traded on the New York Stock Exchange under the symbols VIA and VIA.B, respectively.

Investing in our securities involves risks that are referenced under the caption Risk Factors on page i of this prospectus.

When we offer securities we will provide you with a prospectus supplement or term sheet describing the specific terms of the specific issue of securities, including the offering price of the securities. You should carefully read this prospectus and the prospectus supplements or term sheets relating to the specific issue of securities before you decide to invest in any of these securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is December 1, 2006.

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RISK FACTORS

Prior to making any investment decision with respect to the securities that we may offer, prospective investors should carefully consider the specific factors set forth under the caption **Risk Factors** in the applicable prospectus supplement and in our periodic reports filed with the Securities and Exchange Commission (the **SEC**) that are incorporated by reference herein, together with all of the other information appearing in this prospectus, in the applicable prospectus supplement or incorporated by reference into this prospectus in light of their particular investment objectives and financial circumstances.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the SEC utilizing the **shelf** registration process. This prospectus provides you with a general description of the securities we may offer. Each time we offer securities, we will provide a prospectus supplement that will contain specific information about the terms of such offering. The prospectus supplement may also add, update or change information contained in this prospectus. The prospectus supplement will also contain, with respect to the securities being sold, the names of any underwriters, dealers or agents, together with the terms of the offering, the compensation of any underwriters and the net proceeds to us. Any underwriters, dealers or agents participating in such offering may be deemed **underwriters** within the meaning of the Securities Act of 1933, as amended, which we refer to in this prospectus as the **Securities Act**. You should carefully read both this prospectus and any prospectus supplement together with additional information described under the heading **Where You Can Find More Information**.

In this prospectus we use the terms **Viacom**, **we**, **us**, and **our** and similar words to refer to Viacom Inc., a Delaware corporation, and its consolidated subsidiaries, unless the context otherwise requires. References to **securities** include any security that we might offer under this prospectus or any prospectus supplement. References to **\$** and **dollars** are to United States dollars.

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You should rely only on the information contained or incorporated by reference in this prospectus, in the related prospectus supplement and in any free writing prospectus that we have authorized. Viacom has not authorized anyone to provide you with different information. If anyone provides you with different, inconsistent or additional information, you should not rely on it. Viacom is not making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus or that any document incorporated by reference into this prospectus is accurate as of any date other than the date of such document. Our business, financial condition, results of operations and prospects may have changed since such date.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document that we file at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public from the SEC's website at <http://www.sec.gov>. Our Class A common stock and Class B common stock are listed on the New York Stock Exchange under the symbols VIA and VIA.B, respectively. Information about us is also available at the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

INCORPORATION BY REFERENCE

We are incorporating by reference specified documents that we file with the SEC, which means that we can disclose important information to you by referring you to those documents that are considered part of this prospectus. Information that we subsequently file with the SEC will automatically update and supersede this information. We incorporate by reference into this prospectus the documents listed below and any future filings made with the SEC (other than any portion of such filings that are furnished under applicable SEC rules rather than filed) under Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934, as amended, including filings made after the date of the initial registration statement and until the offering of the particular securities covered by a prospectus supplement has been completed:

- (a) Our Annual Report on Form 10-K for the year ended December 31, 2005 (filed March 16, 2006);
- (b) Our Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2006 (filed May 12, 2006), June 30, 2006 (filed August 9, 2006) and September 30, 2006 (filed November 9, 2006);
- (c) Our Current Reports on Form 8-K, filed January 5, 2006, January 25, 2006, February 3, 2006, March 30, 2006, April 7, 2006, April 17, 2006, May 31, 2006, June 14, 2006, June 22, 2006, August 3, 2006, September 5, 2006, September 7, 2006, September 26, 2006, October 18, 2006 and November 9, 2006 (but only the information filed under Item 5.02); and
- (d) Our definitive Proxy Statement filed April 14, 2006.

Any statement contained in a document incorporated or deemed to be incorporated by reference into this prospectus will be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or any other subsequently filed document that is deemed to be incorporated by reference into this prospectus modifies or supersedes the statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

Our filings with the SEC, including our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports, are available free of charge on our website as soon as reasonably practicable after they are filed with, or furnished to, the SEC. Our internet website is located at <http://www.viacom.com>. The contents of the website are not incorporated by reference into this prospectus. You may obtain a copy of these filings at no cost, by writing or telephoning us at the following address: Viacom Inc., 1515 Broadway, 52nd Floor, New York, New York 10036, Attn: Investor Relations, Telephone Number: (212) 258-6000.

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference into this prospectus contain both historical and forward-looking statements. All statements which are not statements of historical fact are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements are not based on historical facts, but rather reflect our current expectations concerning future results and events. These forward-looking statements generally can be identified by the use of statements that include words such as believe, expect, anticipate, intend, plan, foresee, likely, will or other similar words or phrases. Similarly, statements that describe our objectives, plans or goals are, or may be, forward-looking statements. These forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that are difficult to predict and which may cause our actual results, performance or achievements to be different from any future results, performance and achievements expressed or implied by these statements. More information about risks, uncertainties and other factors is included in our news releases and our filings with the SEC including, but not limited to, our 2005 Annual Report on Form 10-K filed on March 16, 2006 and our Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2006, June 30, 2006 and September 30, 2006. There may be additional risks, uncertainties and factors that we do not currently view as material or that are not necessarily known. We cannot make any assurance that projected results or events will be achieved. The forward-looking statements included in this prospectus are made only as of the date of this prospectus and, under Section 27A of the Securities Act and Section 21E of the Exchange Act, we do not have any obligation to publicly update any forward-looking statement to reflect subsequent events or circumstances. The risk factors referenced in the section entitled Risk Factors on page i, among others, could affect future results, causing these results to differ materially from those expressed in our forward-looking statements.

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THE COMPANY

We are a leading global entertainment content company, with prominent and respected brands in focused demographics. Engaging our audiences through television, motion pictures and digital platforms, we seek to reach our audiences wherever they consume content. Our leading brands include the multiplatform properties of MTV Networks: MTV: Music Television®, VH1®, Nickelodeon®, Nick at Nite®, Comedy Central®, CMT®: Country Music Television, Spike TV®, TV Land®, Logo and more than 130 networks around the world, as well as digital assets such as Neopets®, Xfire® and Atom Entertainment; BET®; Paramount Pictures®, Paramount Vantage, Paramount Home Entertainment, DreamWorks® and Famous Music®.

We were organized as a Delaware corporation in 2005 and our principal offices are located at 1515 Broadway, New York, New York 10036. Our telephone number is (212) 258-6000 and our internet website is located at <http://www.viacom.com>.

Table of Contents**USE OF PROCEEDS**

Unless indicated otherwise in a prospectus supplement, we expect to use the proceeds, net of transaction costs, from the sale of our securities for general corporate purposes, including, but not limited to, acquisitions, repayment of borrowings, working capital, capital expenditures and stock repurchases.

RATIO OF EARNINGS TO FIXED CHARGES

Set forth below is information concerning our ratio of earnings to fixed charges. For purposes of determining the ratio of earnings to fixed charges, earnings consist of earnings from continuing operations before income taxes plus distributed income of equity affiliates and fixed charges. Fixed charges are defined as interest expense and one-third of gross rent expense relating to operating leases which is deemed to be representative of interest. For the nine months ended September 30, 2006, fixed charges include interest expense on indebtedness outstanding during that period. For periods ending December 31, 2005 and prior, indebtedness, other than certain capital lease obligations, was not transferred to Viacom as it remained at CBS Corporation. Accordingly, debt service cost is not reflected in periods prior to the nine months ended September 30, 2006.

	Nine Months Ended September 30,		Year Ended December 31,			
	2006	2005	2004	2003	2002	2001
Ratio of Earnings to Fixed Charges⁽¹⁾	5.4x	34.8x	40.7x	38.7x	25.6x	18.8x

- (1) Interest expense increased for the first nine months of 2006 primarily due to higher average debt outstanding and higher interest rates. The higher debt outstanding resulted principally from funding the special dividend payment made to CBS Corporation in connection with the separation from Former Viacom in December 2005, the purchase of DreamWorks L.L.C. on January 31, 2006, and the purchase of common stock under the Company's stock repurchase program which commenced in January 2006. Interest expense will increase substantially for the remainder of 2006 versus 2005 as this higher level of debt is expected to be outstanding for the entire year.

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DESCRIPTION OF DEBT SECURITIES