WERNER ENTERPRISES INC
Form 10-Q
May 02, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[Mark one]

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

For the quarterly period ended March 31, 2016

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 incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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 ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

As of April 29, 2016, 72,043,671 shares of the registrant's common stock, par value $0.01 per share, were outstanding.

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PART I
FINANCIAL INFORMATION
Cautionary Note Regarding Forward-Looking Statements:
This Quarterly Report on Form 10-Q contains historical information and forward-looking statements based on information currently available to our management. The forward-looking statements in this report, including those made in Item 2 (Management’s Discussion and Analysis of Financial Condition and Results of Operations) of Part I, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended. These safe harbor provisions encourage reporting companies to provide prospective information to investors. Forward-looking statements can be identified by the use of certain words, such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “project” and other similar terms and language. We believe the forward-looking statements are reasonable based on currently available information. However, forward-looking statements involve risks, uncertainties and assumptions, whether known or unknown, that could cause our actual results, business, financial condition and cash flows to differ materially from those anticipated in the forward-looking statements. A discussion of important factors relating to forward-looking statements is included in Item 1A (Risk Factors) of Part I of our Annual Report on Form 10-K for the year ended December 31, 2015 (“2015 Form 10-K”). Readers should not unduly rely on the forward-looking statements included in this Form 10-Q because such statements speak only to the date they were made. Unless otherwise required by applicable securities laws, we undertake no obligation or duty to update or revise any forward-looking statements contained herein to reflect subsequent events or circumstances or the occurrence of unanticipated events.

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 U.S. Securities and Exchange Commission (“SEC”) instructions to Form 10-Q and were also prepared without audit. The interim consolidated financial statements do not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements; although in management’s opinion, the disclosures are adequate so that the information presented is not misleading.
Operating results for the three-month period ended March 31, 2016, are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. In the opinion of management, the information set forth in the accompanying consolidated condensed balance sheets is fairly stated in all material respects in relation to the consolidated balance sheets from which it has been derived.
These interim consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and accompanying notes contained in our 2015 Form 10-K.

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WERNER ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)	Three Months Ended March 31, 2016	2015
	(Unaudited)	
Operating revenues	$482,802	$495,654
Operating expenses:		
Salaries, wages and benefits	156,737	151,465
Fuel	32,060	52,760
Supplies and maintenance	47,115	47,657
Taxes and licenses	20,987	21,080
Insurance and claims	18,347	22,047
Depreciation	50,164	45,720
Rent and purchased transportation	117,976	113,748
Communications and utilities	3,909	3,678
Other	3,020	(686)
Total operating expenses	450,315	457,469
Operating income	32,487	38,185
Other expense (income):		
Interest expense	494	475
Interest income	(990)	(631)
Other	45	90
Total other income	(451)	(66)
Income before income taxes	32,938	38,251
Income taxes	12,846	15,109
Net income	$20,092	$23,142
Earnings per share:		
Basic	$0.28	$0.32
Diluted	$0.28	$0.32
Dividends declared per share	$0.060	$0.050
Weighted-average common shares outstanding:		
Basic	72,025	72,067
Diluted	72,353	72,542

See Notes to Consolidated Financial Statements (Unaudited).

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WERNER ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	Three Months Ended March 31, 2016	2015
	(Unaudited)	
Net income	$20,092	$23,142
Other comprehensive loss:		
Foreign currency translation adjustments	56	(836)
Change in fair value of interest rate swap	(735)	(87)
Other comprehensive loss	(679)	(923)
Comprehensive income	$19,413	$22,219

See Notes to Consolidated Financial Statements (Unaudited).

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WERNER ENTERPRISES, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS

(In thousands, except share amounts)	March 31, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$20,410	$31,833
Accounts receivable, trade, less allowance of $8,797 and $10,298, respectively	235,763	251,023
Other receivables	17,769	17,241
Inventories and supplies	15,670	16,415
Prepaid taxes, licenses and permits	11,953	15,657
Income taxes receivable	14,709	20,052
Other current assets	27,504	27,281
Total current assets	343,778	379,502
Property and equipment	1,951,258	1,908,600
Less – accumulated depreciation	750,068	754,130
Property and equipment, net	1,201,190	1,154,470
Other non-current assets	64,597	51,675
Total assets	$1,609,565	$1,585,647
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$78,069	$70,643
Insurance and claims accruals	65,387	64,106
Accrued payroll	25,292	25,233
Other current liabilities	21,892	23,720
Total current liabilities	190,640	183,702
Long-term debt, net of current portion	75,000	75,000
Other long-term liabilities	20,823	19,832
Insurance and claims accruals, net of current portion	120,945	125,195
Deferred income taxes	252,187	246,264
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value, 200,000,000 shares authorized; 80,533,536 shares issued; 72,043,671 and 71,998,750 shares outstanding, respectively	805	805
Paid-in capital	101,217	102,734
Retained earnings	1,038,736	1,022,966
Accumulated other comprehensive loss	(13,742)	(13,063)
Treasury stock, at cost; 8,489,865 and 8,534,786 shares, respectively	(177,046)	(177,788)
Total stockholders' equity	949,970	935,654
Total liabilities and stockholders' equity	$1,609,565	$1,585,647

See Notes to Consolidated Financial Statements (Unaudited).

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WERNER ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Three Months Ended March 31, 2016	2015
	(Unaudited)	
Cash flows from operating activities:		
Net income	$20,092	$23,142
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	50,164	45,720
Deferred income taxes	6,410	(2,286)
Gain on disposal of property and equipment	(3,365)	(5,504)
Non-cash equity compensation	(315)	1,770
Insurance and claims accruals, net of current portion	(4,250)	5,400
Other	(5,006)	(190)
Changes in certain working capital items:		
Accounts receivable, net	15,260	20,374
Other current assets	12,006	19,361
Accounts payable	813	9,220
Other current liabilities	(490)	3,979
Net cash provided by operating activities	91,319	120,986
Cash flows from investing activities:		
Additions to property and equipment	(123,424)	(108,735)
Proceeds from sales of property and equipment	21,821	23,870
Decrease in notes receivable	3,394	3,777
Net cash used in investing activities	(98,209)	(81,088)
Cash flows from financing activities:		
Dividends on common stock	(4,320)	(3,602)
Tax withholding related to net share settlements of restricted stock awards	(540)	(368)
Stock options exercised	99	703
Excess tax benefits from equity compensation	(19)	186
Net cash used in financing activities	(4,780)	(3,081)
Effect of exchange rate fluctuations on cash	247	(158)
Net increase (decrease) in cash and cash equivalents	(11,423)	36,659
Cash and cash equivalents, beginning of period	31,833	22,604
Cash and cash equivalents, end of period	$20,410	$59,263
Supplemental disclosures of cash flow information:		
Interest paid	$494	$482
Income taxes paid	1,088	1,467
Supplemental schedule of non-cash investing activities:		
Notes receivable issued upon sale of property and equipment	$14,051	$5,917
Change in fair value of interest rate swap	(735)	(87)
Property and equipment acquired included in accounts payable	7,240	585
Property and equipment disposed included in other receivables	476	68

See Notes to Consolidated Financial Statements (Unaudited).

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WERNER ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) Accounting Policies
In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, which requires presentation of deferred tax assets and liabilities as non-current in the balance sheet, which simplifies the current guidance. Effective January 1, 2016, we early-adopted the guidance and retrospectively adjusted the December 31, 2015 presentation by reclassifying $28.0 million of current deferred tax assets into the non-current liability "Deferred income taxes".

(2) Credit Facilities
As of March 31, 2016, we had unsecured committed credit facilities with three banks as well as a term commitment with one of these banks. We had with Wells Fargo Bank, N.A., a $100.0 million credit facility which will expire on July 12, 2020, and a $75.0 million term commitment with principal due and payable on September 15, 2019. Subsequent to the end of the quarter, in April 2016, we borrowed $20.0 million. We had an unsecured line of credit of $75.0 million with U.S. Bank, N.A.,which expires on July 13, 2020. We also had a $75.0 million credit facility with BMO Harris Bank, N.A., which will expire on March 5, 2020. Borrowings under these credit facilities and term note bear variable interest (1.0362% at March 31, 2016) based on the London Interbank Offered Rate ("LIBOR"), with interest on the term note effectively fixed at 2.5% with an interest rate swap agreement.

As of March 31, 2016, and December 31, 2015, our outstanding debt totaled $75.0 million. The $325.0 million of credit available under our credit facilities at March 31, 2016, is further reduced by $31.0 million in stand-by letters of credit under which we are obligated. Each of the debt agreements includes, among other things, financial covenants requiring us (i) not to exceed a maximum ratio of total debt to total capitalization and/or (ii) not to exceed a maximum ratio of total funded debt to earnings before interest, income taxes, depreciation and amortization (as such terms are defined in each credit facility). At March 31, 2016, we were in compliance with these covenants.

At March 31, 2016, the aggregate future maturities of long-term debt by year are as follows (in thousands):

2016	$—
2017	—
2018	—
2019	75,000
2020	—
Total	$75,000

The carrying amounts of our long-term debt approximate fair value due to the duration of the notes and the variable interest rates.

(3) Income Taxes
For the three-month period ended March 31, 2016, there were no material changes to the total amount of unrecognized tax benefits. We accrued interest expense of $52 thousand and $59 thousand during the three-month periods ended March 31, 2016 and March 31, 2015, respectively, excluding the reversal of accrued interest related to adjustments for the remeasurement of uncertain tax positions. Our total gross liability for unrecognized tax benefits at March 31, 2016, is $7.7 million. If recognized, $5.0 million of unrecognized tax benefits would impact our effective tax rate. Interest of $1.4 million has been reflected as a component of the total liability. We expect no other significant increases or decreases for uncertain tax positions during the next twelve months.

We file U.S. federal income tax returns, as well as income tax returns in various states and several foreign jurisdictions. The years 2011 through 2015 are open for examination by the Internal Revenue Service ("IRS"), and various years are open for examination by state and foreign tax authorities. In December 2015, we were notified that the IRS will perform an audit of our amended 2011 federal income tax return. State and foreign jurisdictional statutes of limitations generally range from three to four years.

(4) Commitments and Contingencies

As of March 31, 2016, we have committed to property and equipment purchases of approximately $163.6 million.

We are involved in certain claims and pending litigation arising in the ordinary course of business. The majority of these claims relate to bodily injury, property damage, cargo and workers' compensation incurred in the transportation of freight, as well as certain class action litigation related to personnel and employment matters. We accrue for the uninsured portion of contingent

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losses from these and other pending claims when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Based on the knowledge of the facts, management believes the resolution of claims and pending litigation, taking into account existing reserves, will not have a material adverse effect on our consolidated financial statements. Moreover, the results of complex legal proceedings are difficult to predict and our view of these matters may change in the future as the litigation and related events unfold.

We are involved in class action litigation in the U.S. District Court for the District of Nebraska, alleging that we owe drivers for unpaid wages under the Fair Labor Standards Act and the Nebraska Wage Payment and Collection Act and failed to pay minimum wage per hour for drivers in our student driver training program, related to short break time and sleeper berth time. The period covered by this class action suit dates back to 2008 through March 2014. In August 2015, the court denied our motion for summary judgment and granted the plaintiff's motion for summary judgment, ruling in plaintiff's favor on both theories of liability (short breaks and sleeper berth time). As a result, we had a $2.0 million estimated liability at March 31, 2016 related to the short break matter. Based on the knowledge of the facts related to the sleeper berth matter, management does not currently believe a loss is probable, thus we have not accrued for the sleeper berth matter. We are currently unable to determine the possible loss or range of loss. We intend to vigorously defend the merits of these claims and to appeal any adverse verdict in this case.

We are also involved in certain class action litigation in which the plaintiffs allege claims for failure to provide meal and rest breaks, unpaid wages, unauthorized deductions and other items. Based on the knowledge of the facts, management does not currently believe the outcome of the litigation is likely to have a material adverse effect on our financial position or results of operations. However, the final disposition of these matters and the impact of such final dispositions cannot be determined at this time.

(5) Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares outstanding plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options and restricted stock awards. There are no differences in the numerators of our computations of basic and diluted earnings per share for any period presented.

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

	Three Months Ended March 31,	
	2016	2015
Net income	$20,092	$23,142
Weighted average common shares outstanding	72,025	72,067
Dilutive effect of stock-based awards	328	475
Shares used in computing diluted earnings per share	72,353	72,542
Basic earnings per share	$0.28	$0.32
Diluted earnings per share	$0.28	$0.32

There were no options to purchase shares of common stock that were outstanding during the periods indicated above that 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 during the period. Performance awards are excluded from the calculation of dilutive potential common shares until the threshold performance conditions have been satisfied.

(6) Equity Compensation

The Werner Enterprises, Inc. Amended and Restated Equity Plan (the “Equity Plan”), approved by the Company’s shareholders, provides for grants to employees and non-employee directors of the Company in the form of nonqualified stock options, restricted stock and units (“restricted awards”), performance stock and units (“performance awards”), and stock appreciation rights. The Board of Directors or the Compensation Committee of our Board of Directors determines the terms of each award, including the type, recipients, number of shares subject to and vesting conditions of each award. No awards of stock appreciation rights have been issued under the Equity Plan to date. The maximum number of shares of common stock that may be awarded under the Equity Plan is 20,000,000 shares. The maximum aggregate number of shares that may be awarded to any one person in any one calendar year under the Equity Plan is 500,000. As of March 31, 2016, there were 7,409,690 shares available for granting additional awards.

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Equity compensation expense is included in salaries, wages and benefits within the Consolidated Statements of Income. As of March 31, 2016, the total unrecognized compensation cost related to non-vested equity compensation awards was approximately $9.9 million and is expected to be recognized over a weighted average period of 2.5 years.

The following table summarizes the equity compensation expense and related income tax benefit recognized in the Consolidated Statements of Income (in thousands):

	Three Months Ended March 31,	
	2016	2015
Stock options:		
Pre-tax compensation expense	$5	$17
Tax benefit	2	7
Stock option expense, net of tax	$3	$10
Restricted awards:		
Pre-tax compensation expense	$130	$1,017
Tax benefit	50	402
Restricted award expense, net of tax	$80	$615
Performance awards:		
Pre-tax compensation expense	$(419)	$755
Tax benefit (expense)	(163)	298
Performance award expense, net of tax	$(256)	$457