CASELLA WASTE SYSTEMS INC
Form DEF 14A
August 19, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

CASELLA WASTE SYSTEMS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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CASELLA WASTE SYSTEMS, INC.

25 Greens Hill Lane

Rutland, Vermont 05701

NOTICE OF THE 2014 ANNUAL MEETING OF STOCKHOLDERS

To be Held on Tuesday, October 7, 2014

The 2014 Annual Meeting of Stockholders, or Annual Meeting, of Casella Waste Systems, Inc., a Delaware corporation, will be held on Tuesday, October 7, 2014 at 10:00 a.m., Eastern Daylight Time, at the Killington Grand Hotel, located at 228 East Mountain Road, Killington, Vermont 05751, to consider and act on the following matters:

1. To elect three Class II directors nominated by our Board of Directors, each to serve for a three-year term expiring at the 2017 Annual Meeting of Stockholders;

2. To approve an amendment to our Amended and Restated 1997 Employee Stock Purchase Plan to increase the number of shares of our Class A common stock authorized for issuance thereunder from 900,000 shares to 1,200,000 shares;

3. To approve, in an advisory say-on-pay vote, the compensation of our named executive officers, as described in the Compensation Discussion and Analysis, executive compensation tables and accompanying narrative disclosures in this proxy statement;

4. To adopt and approve amendments to our Second Amended and Restated Certificate of Incorporation, as amended, and our Third Amended and Restated By-Laws to declassify our Board of Directors;

5. To ratify the appointment of McGladrey LLP, an independent registered public accounting firm, as our independent auditors for the eight-month transition period ending December 31, 2014; and

6. To transact such other business as may properly come before the Annual Meeting and any postponement or adjournment thereof.

Stockholders of record of our Class A common stock and our Class B common stock at the close of business on August 15, 2014, the record date for the Annual Meeting, are entitled to notice of, and to vote at, the Annual Meeting or any adjournment thereof. Your vote is important regardless of the number of shares you own. If you are a stockholder of record, please vote in one of the following ways:

Vote over the Internet, by going to the website of our tabulator, Computershare Trust Company, N.A., at *www.investorvote.com/CWST* and following the instructions for Internet voting shown on the enclosed proxy card;

Vote by Telephone, by calling 1-800-652-VOTE (8683) and following the recorded instructions; or

Vote by Mail, by completing and signing your enclosed proxy card and mailing it in the enclosed postage prepaid envelope. If you vote over the Internet or by telephone, please do not mail your proxy card.

If your shares are held in street name, that is, held for your account by a bank, broker or other nominee, you will receive instructions from the holder of record that you must follow for your shares to be voted.

We encourage all stockholders to attend the Annual Meeting in person. You may obtain directions to the Annual Meeting by contacting our Investor Relations Department at 1-802-775-0325. Whether or not you plan to attend the Annual Meeting in person, we urge you to take the time to vote your shares.

By order of the Board of Directors,

August 19, 2014

John W. Casella

Rutland, Vermont

Chairman and Chief Executive Officer

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PROXY STATEMENT

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CASELLA WASTE SYSTEMS, INC.

25 Greens Hill Lane

Rutland, Vermont 05701

PROXY STATEMENT

for the

2014 ANNUAL MEETING OF STOCKHOLDERS

To be held on Tuesday, October 7, 2014

This proxy statement and the enclosed proxy card are being furnished to you in connection with the solicitation of proxies by our Board of Directors, or Board, for use at the 2014 Annual Meeting of Stockholders, or Annual Meeting, to be held on Tuesday, October 7, 2014 at 10:00 a.m., Eastern Daylight Time, at the Killington Grand Hotel, located at 228 East Mountain Road, Killington, Vermont 05751, and at any postponement or adjournment thereof.

All proxies will be voted in accordance with the instructions contained in those proxies. If no choice is specified, the proxies will be voted (a) FOR the election of all three director nominees, (b) FOR the amendment to our Amended and Restated 1997 Employee Stock Purchase Plan, or ESPP, to increase the number of shares of our Class A common stock authorized for issuance thereunder from 900,000 shares to 1,200,000 shares, (c) FOR the approval, on an advisory basis, of the compensation of our named executive officers, (d) FOR the amendments to our Second Amended and Restated Certificate of Incorporation, as amended, or Certificate of Incorporation, and our Third Amended and Restated By-Laws, or By-Laws, to declassify our Board and (e) FOR the ratification of the appointment of our independent auditors for the eight-month transition period ending December 31, 2014, or 2014 transition period.

The Notice of the 2014 Annual Meeting of Stockholders, this proxy statement, the accompanying proxy card and our Annual Report to Stockholders for the fiscal year ended April 30, 2014, or 2014 Annual Report, are being mailed to stockholders on or about August 25, 2014.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS

For Annual Meeting of Stockholders to be Held on Tuesday, October 7, 2014

The proxy materials, which include this proxy statement, a proxy card and our 2014 Annual Report, which includes our Annual Report on Form 10-K for the fiscal year ended April 30, 2014, are available for viewing, printing and downloading at *www.casella.com/2014AnnualMeeting*.

A copy of our proxy materials will be furnished without charge to any stockholder upon oral or written request to Casella Waste Systems, Inc., Attn: Investor Relations, 25 Greens Hill Lane, Rutland, Vermont 05701, Telephone: 1-802-775-0325.

This proxy statement and our Annual Report on Form 10-K for the fiscal year ended April 30, 2014 are also available on the Securities and Exchange Commission s website at *www.sec.gov*.

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IMPORTANT INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

Q. Why did I receive these proxy materials?

A. We are providing these proxy materials to you in connection with the solicitation by our Board of proxies to be voted at the Annual Meeting, to be held at the Killington Grand Hotel, located at 228 East Mountain Road, Killington, Vermont 05751, on Tuesday, October 7, 2014 at 10:00 a.m., Eastern Daylight Time. As a stockholder of record of Casella Waste Systems, Inc., you are invited to attend the Annual Meeting and you are entitled and requested to vote on the proposals described in this proxy statement.

Q. What is included in the proxy materials?

A. The proxy materials include this proxy statement, a proxy card and our 2014 Annual Report, which includes our Annual Report on Form 10-K for the fiscal year ended April 30, 2014.

Q. Who can vote at the Annual Meeting?

A. Our Board fixed August 15, 2014 as the record date for the Annual Meeting. If you were a stockholder of record on the record date, you are entitled to vote (in person or by proxy) all of the shares that you held on that date at the Annual Meeting and at any postponement or adjournment thereof.

On the record date, we had 39,451,203 shares of Class A common stock outstanding (each of which entitles its holder to one vote per share) and 988,200 shares of Class B common stock outstanding (each of which entitles its holder to 10 votes per share). Unless indicated otherwise, in this proxy statement, we refer to our Class A common stock and our Class B common stock together as our common stock. Holders of our common stock do not have cumulative voting rights.

Q. How do I vote?

A. **If your shares are registered directly in your name,** you may vote:

(1) **Over the Internet:** Go to the website of our tabulator, Computershare Trust Company, N.A., at *www.investorvote.com/CWST*. Use the vote control number printed on your enclosed proxy card to access your account and vote your shares. You must specify how you want your shares voted or your Internet vote cannot be completed and you will receive an error message. Your shares will be voted according to your instructions. You must submit your Internet proxy before 11:59 p.m., Eastern Daylight Time, on October 6, 2014, the day before the Annual Meeting, for your proxy to be valid and your vote to count.

(2) **By Telephone:** Call 1-800-652-VOTE (8683), toll free from the United States, Canada and Puerto Rico, and follow the recorded instructions. You must specify how you want your shares voted and confirm your vote at the end of the call or your telephone vote cannot be completed. Your shares will be voted according to your instructions. You must submit your telephonic proxy before 11:59 p.m., Eastern Daylight Time, on October 6, 2014, the day before the Annual Meeting, for your proxy to be valid and your vote to count.

(3) **By Mail:** If you received your proxy materials by mail, complete and sign your proxy card and mail it to Computershare Trust Company, N.A. in the postage prepaid envelope we provided. Computershare Trust Company, N.A. must receive the proxy card by October 6, 2014, the day before the Annual Meeting, for your proxy to be valid and your vote to

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count. Your shares will be voted according to your instructions. If you do not specify how you want your shares voted, the persons named as proxies will follow our Board s recommendations and vote your shares:

- FOR the election of all three director nominees;
- FOR the amendment to our ESPP to increase the number of shares of our Class A common stock authorized for issuance thereunder from 900,000 shares to 1,200,000 shares;
- FOR the approval, on an advisory basis, of the compensation of our named executive officers;
- FOR the amendments to our Certificate of Incorporation and By-Laws to declassify our Board;
- FOR the ratification of the appointment of McGladrey LLP as our independent auditors for the 2014 transition period; and
- On any other matters properly brought before the Annual Meeting, in accordance with the best judgment of the named proxies.

(4) **In Person at the Meeting:** If you attend the Annual Meeting, you may deliver your completed proxy card in person or you may vote by completing a ballot, which we will provide to you at the Annual Meeting.

If your shares are held in street name, meaning they are held for your account by a bank, broker or other nominee, you may vote:

(1) **Over the Internet or by Telephone:** You will receive instructions from your bank, broker or other nominee if they permit Internet or telephone voting. You should follow those instructions.

(2) **By Mail:** You will receive instructions from your bank, broker or other nominee explaining how you can vote your shares by mail. You should follow those instructions.

(3) **In Person at the Annual Meeting:** Contact your bank, broker or other nominee who holds your shares to obtain a broker s legal proxy and bring it with you to the Annual Meeting. A broker s legal proxy is not the form of proxy enclosed with this proxy statement. **You will not be able to vote shares you hold in street name in person at the Annual Meeting unless you have a legal proxy from your bank, broker or other nominee issued in your name giving you the right to vote your shares.**

Q. Can I change my vote?

A. If your shares are registered directly in your name, you may revoke your proxy and change your vote at any time before the Annual Meeting. To do so, you must do one of the following:

(1) Vote over the Internet or by telephone as instructed above. Only your latest Internet or telephone vote is counted. You may not change your vote over the Internet or by telephone after 11:59 p.m., Eastern Daylight Time, on October 6, 2014.

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(2) Sign a new proxy and mail it as instructed above. Only your latest dated proxy received by Computershare Trust Company, N.A. by October 6, 2014 will be counted.

(3) Attend the Annual Meeting, request that your proxy be revoked and vote in person as instructed above. Attending the Annual Meeting will not revoke your Internet vote, telephone vote or proxy, as the case may be, unless you specifically request it.

If your shares are held in street name, you may submit new voting instructions by contacting your bank, broker or other nominee. You may also vote in person at the Annual Meeting if you obtain a broker s legal proxy as described in the answer above.

Q. Will my shares be voted if I do not return my proxy?

A. If your shares are registered directly in your name, your shares will not be voted if you do not vote over the Internet, by telephone, by returning your proxy or by ballot at the Annual Meeting.

If your shares are held in street name, your bank, broker or other nominee may under certain circumstances vote your shares if you do not timely return your proxy in accordance with the instructions provided by them. Banks, brokers or other nominees can vote their customers unvoted shares on discretionary matters but cannot vote such shares on non-discretionary matters. If you do not timely return a proxy to your bank, broker or other nominee to vote your shares, your bank, broker or other nominee may, on discretionary matters, either vote your shares or leave your shares unvoted. Your bank, broker or other nominee cannot vote your shares on any non-discretionary matter.

The election of directors (Proposal 1), the amendment to our ESPP (Proposal 2), the advisory say-on-pay vote (Proposal 3) and the amendments to our Certificate of Incorporation and By-Laws to declassify our Board (Proposal 4) are non-discretionary matters. The ratification of the appointment of our independent auditors (Proposal 5) is a discretionary matter.

We encourage you to provide voting instructions to your bank, broker or other nominee by giving your proxy to them. This ensures that your shares will be voted at the Annual Meeting according to your instructions. You should receive directions from your bank, broker or other nominee about how to submit your proxy to them at the time you receive this proxy statement.

Q. How many shares must be present to hold the Annual Meeting?

A. The presence, in person or by proxy, of shares representing a majority of the votes entitled to be cast at the Annual Meeting by the holders of our Class A common stock and our Class B common stock, voting together as a class, is necessary to constitute a quorum for the transaction of business at the Annual Meeting, other than the election of the director whom holders of Class A common stock, voting separately as a class, are entitled to elect, whom we refer to as the Class A Director. The presence, in person or by proxy, of shares representing a majority of the votes entitled to be cast at the Annual Meeting by holders of our Class A common stock is necessary to constitute a quorum for purposes of the election of the Class A Director. For purposes of determining whether a quorum exists, we count as present any shares that are voted over the Internet, by telephone, by completing and submitting a proxy or that are represented in person at the Annual Meeting. Further, for purposes of establishing a quorum, we will count as present shares that a stockholder holds even if the stockholder votes to abstain or only votes on one of the proposals. In addition, we will count as present shares held in street name by banks, brokers or nominees who indicate on their proxies that they do not have authority to vote those shares on Proposals 1, 2, 3 and 4. If a quorum is not present, we expect to adjourn the Annual Meeting until we obtain a quorum.

Q. What vote is required to approve each matter and how are votes counted?

A. Proposal 1 Election of Class II Directors

Under our By-Laws, the holders of Class A common stock, voting separately as a class, are entitled to elect the Class A Director. Gregory B. Peters has been nominated as the Class A Director. The nominee for Class A Director receiving the highest number of votes FOR election as Class A Director cast by holders of Class A common stock will be elected as Class A Director. This is called a plurality. The two nominees for director other than Mr. Peters receiving the highest number of votes FOR election cast by holders of Class A common stock and Class B common stock, voting together as a class, will be elected as directors. **Proposal 1 is a non-discretionary matter.** Therefore, if your shares are held by a bank, broker or other nominee in street name and you do not vote your shares, your bank, broker or other nominee cannot vote your shares on Proposal 1. Shares held in street name by banks, brokers or nominees who indicate on their proxies that they do not have authority to vote the shares on Proposal 1 will not be counted as votes FOR or WITHHELD from any nominee and will be treated as broker non-votes. Broker non-votes will have no effect on the voting on Proposal 1. With respect to Proposal 1, you may:

- vote FOR all nominees;
- vote FOR one or more nominee(s) and WITHHOLD your vote from the other nominee(s); or
- WITHHOLD your vote from all nominees.

Votes that are withheld will not be included in the vote tally for the election of directors and will not affect the results of the vote.

Proposal 2 Approval of an amendment to our ESPP to increase the number of shares of our Class A common stock authorized for issuance thereunder from 900,000 shares to 1,200,000 shares

To approve Proposal 2, the holders of shares of Class A common stock and Class B common stock, voting together as a class, representing a majority of the votes cast on the matter must vote FOR the proposal. **Proposal 2 is a non-discretionary matter**. Therefore, if your shares are held by a bank, broker or other nominee in street name and you do not vote your shares, your bank, broker or other nominee cannot vote your shares on Proposal 2. Shares held in street name by brokers or nominees who indicate on their proxies that they do not have authority to vote the shares on Proposal 2 will not be

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counted as votes FOR or AGAINST Proposal 2 and will be treated as broker non-votes. Broker non-votes will have no effect on the voting on Proposal 2. If you vote to ABSTAIN on this Proposal 2, your shares will not be voted FOR or AGAINST the proposal and will not be counted as votes cast or shares withheld on Proposal 2. Voting to ABSTAIN will have no effect on the voting on Proposal 2.

Proposal 3 Advisory Say-on-Pay Vote on the Compensation of Our Named Executive Officers

To approve Proposal 3, the holders of shares of Class A common stock and Class B common stock, voting together as a class, representing a majority of the votes cast on the matter must vote FOR the proposal. **Proposal 3 is a non-discretionary matter**. Therefore, if your shares are held by a bank, broker or other nominee in street name and you do not vote your shares, your bank, broker or other nominee cannot vote your shares on Proposal 3. Shares held in street name by brokers or nominees who indicate on their proxies that they do not have authority to vote the shares on Proposal 3 will not be counted as votes FOR or AGAINST Proposal 3 and will be treated as broker non-votes. Broker non-votes will have no effect on the voting on Proposal 3. If you vote to ABSTAIN on this Proposal 3, your shares will not be voted FOR or AGAINST the proposal and will not be counted as votes cast or shares withheld on Proposal 3. Voting to ABSTAIN will have no effect on the voting on Proposal 3.

As an advisory vote, this proposal is not binding. The outcome of this advisory vote will not overrule any decision by us or our Board (or any committee thereof). However, the Compensation Committee of our Board and our Board value the opinions expressed by our stockholders in their vote on this proposal and will consider the outcome of the vote when making future compensation decisions for our named executive officers.

Proposal 4 Amendments to our Certificate of Incorporation and By-Laws to Declassify Board of Directors

To approve Proposal 4, the holders of shares representing at least seventy-five (75%) of the votes which all the stockholders would be entitled to cast at any election of directors or class of directors (other than an election of the Class A Director) must vote FOR the proposal. **Proposal 4 is a non-discretionary matter**. Therefore, if your shares are held by a bank, broker or other nominee in street name and you do not vote your shares, your bank, broker or other nominee cannot vote your shares on Proposal 4. Shares held in street name by brokers or nominees who indicate on their proxies that they do not have authority to vote the shares on Proposal 4 will not be counted as votes FOR or AGAINST Proposal 4 and will be treated as broker non-votes. Broker non-votes will have the effect of a vote AGAINST Proposal 4. If you vote to ABSTAIN on this Proposal 4, your shares will not be voted FOR or AGAINST the proposal. Voting to ABSTAIN will have the effect of a vote AGAINST Proposal 4.

Proposal 5 Ratification of Appointment of Independent Auditors

To approve Proposal 5, the holders of shares of Class A common stock and Class B common stock, voting together as a class, representing a majority of the votes cast on the matter must vote FOR the proposal. **Proposal 5 is a discretionary matter**. Therefore, if your shares are held by a bank, broker or

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other nominee in street name and you do not vote your shares, your bank, broker or other nominee may vote your unvoted shares on Proposal 5. If you vote to ABSTAIN on Proposal 5, your shares will not be voted FOR or AGAINST the proposal and will also not be counted as votes cast or shares voting on the proposal. As a result, voting to ABSTAIN will have no effect on the voting on Proposal 5.

Although stockholder approval of the appointment by the Audit Committee of our Board of McGladrey LLP as our independent auditors for the 2014 transition period is not required, we believe that it is advisable to give stockholders an opportunity to ratify this appointment. If this proposal is not approved at the Annual Meeting, our Audit Committee may reconsider its appointment of McGladrey LLP as our independent auditors for the 2014 transition period.

Q. Are there other matters to be voted on at the Annual Meeting?

A. We do not know of any matters that may come before the Annual Meeting other than the five proposals described above. If any other matters are properly presented at the Annual Meeting, the persons named in the accompanying proxy intend to vote, or otherwise act, in accordance with their judgment on the matter.

Q. Where can I find the voting results?

A. We will report the voting results in a Current Report on Form 8-K within four business days following the adjournment of our Annual Meeting.

Q. What are the costs of soliciting these proxies?

A. We will bear the cost of soliciting proxies. In addition to these proxy materials, our directors, officers and employees may solicit proxies by telephone, e-mail, facsimile and in person, without additional compensation. We may reimburse brokers or persons holding stock in their names, or in the names of their nominees, for their expenses in sending proxies and proxy material to beneficial owners.

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BOARD OF DIRECTORS

Information Regarding Directors and Director Nominees

Our Certificate of Incorporation and our By-Laws currently provide for the classification of our Board into three classes, each having as nearly an equal number of directors as possible. The terms of service of the three classes are staggered so that the term of one class expires each year. At each annual meeting of stockholders, directors are elected for a full term of three years to continue or succeed those directors whose terms are expiring.

Our Board currently consists of nine directors. Class I consists of James F. Callahan, Jr., Douglas R. Casella and Michael K. Burke, each with a term ending in 2016. Class II consists of Gregory B. Peters, Joseph G. Doody and Emily Nagle Green, each with a term ending in 2014. Class III consists of John W. Casella, John F. Chapple III and James P. McManus, each with a term ending in 2015.

Upon the recommendation of the Nominations and Governance Committee of our Board, our Board nominated Messrs. Peters and Doody and Ms. Nagle Green for re-election at the Annual Meeting as Class II directors, each to serve until 2017 or until his or her successor is elected and qualified.

Director Qualifications

The following table and biographical descriptions provide information as of July 31, 2014 relating to each director and director nominee, including his or her age and period of service as a director of Casella Waste Systems, Inc.; his or her committee memberships; his or her business experience, including principal occupation and employment and directorships at other public companies during the past five years; his or her community activities; and the other experience, qualifications, attributes or skills that led our Board to conclude he or she should serve as a director of Casella Waste Systems, Inc.

Name	Age	Board Tenure, Principal Occupation, Other Business Experience During the Past Five Years and Other Directorships
Class II Director Nominees to be elected at the Annual Meeting (terms expiring in 2017, if elected)		
Joseph G. Doody *Compensation Committee*	61	Mr. Doody has served as a member of our Board since 2004. Mr. Doody has served as Vice Chairman of Staples, Inc., an office products company, since January 2014. Previously, Mr. Doody had served as President, North American Commercial of Staples, Inc. from 1998 until January 2014. From 1974 to 1998, Mr. Doody held several managerial positions with the Eastman Kodak Company, an imaging technology company, including General Manager and Vice President, North America, Office Imaging. Mr. Doody has served on the Board of Directors of Paychex, Inc., a leading provider of payroll, human resource, and benefits outsourcing solutions, since October 2010. Mr. Doody holds a B.S. in Economics from State University of New York at Brockport and an M.B.A. from the University of Rochester. We believe Mr. Doody is qualified to serve on our Board due to his significant leadership experience, board experience and management experience of a multinational company.

Emily Nagle Green *Compensation Committee*	56	Ms. Nagle Green has served as a member of our Board since July 2012. Since January 2012, Ms. Nagle Green has served as President and Chief Executive Officer of Smart Lunches, Inc., an online delivery service providing fresh meals to children. From November 2005 to June 2011, Ms. Nagle Green served as Chief Executive Officer and a member of the Board of Directors of Yankee Group, a technology research firm, and from June 2011 to January 2012, Ms. Nagle Green served as Chairman of the Board of Directors of Yankee Group. Prior to joining Yankee Group, Ms. Nagle Green served as President and Chief Executive Officer of Cambridge Energy Research, an energy research and consulting firm, from 2003 to 2004. From 1995 to 2003, Ms. Nagle Green served in several leadership positions with Forrester Research, a provider of information technology and consulting services. Ms. Nagle Green holds a B.S.LL. from Georgetown University and an M.S. in Engineering and Computer Graphics from the University of Pennsylvania. We believe Ms. Nagle Green is qualified to serve on our Board due to her substantial executive senior management experience as well as over 25 years of experience in identifying and leveraging technology trends.
Gregory B. Peters *Lead Director* *Audit Committee* *Nominations and Governance Committee (Chair)* *Compensation Committee* *Stock Plan Subcommittee*	68	Mr. Peters has served as a member of our Board since 1993. Mr. Peters has served as managing general partner of Lake Champlain Capital Management, LLC, a venture capital firm, since April 2001. From April 1988 to March 2001, Mr. Peters served as managing general partner of Vermont Venture Capital Partners, L.P., a venture capital company. Mr. Peters also previously served as general partner of North Atlantic Capital Partners, L.P., a venture capital company. Mr. Peters holds a B.A. from Harvard College and an M.B.A. from Harvard Business School. We believe Mr. Peters is qualified to serve on our Board due to his significant experience as a professional investor and extensive experience in areas of corporate governance.
Class III Directors (terms expiring in 2015)		
John W. Casella *Chairman*	63	Mr. Casella has served as Chairman of our Board since July 2001 and as our Chief Executive Officer since 1993. Mr. Casella also served as our President from 1993 to July 2001 and as Chairman of our Board from 1993 to December 1999. In addition, Mr. Casella has served as Chairman of the Board of Directors of Casella Waste Management, Inc., a wholly-owned subsidiary of ours, since 1977. Mr. Casella is also an executive officer and director of Casella Construction, Inc., a company owned by Mr. Casella and Douglas R. Casella, which specializes in general contracting, soil excavation and heavy equipment work and which performs landfill-construction services for us. Mr. Casella has been a member of numerous industry-related and community service-related state and local boards and commissions, including the National Recycling Coalition, Board of Directors of the Associated Industries of

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		Vermont, The Association of Vermont Recyclers, the Vermont State Chamber of Commerce, the Rutland Industrial Development Corporation and Rutland Regional Medical Center. Mr. Casella has also served on various state task forces, serving in an advisory capacity to the Governors of Vermont and New Hampshire on solid waste issues. Mr. Casella holds an A.S. in Business Management from Bryant & Stratton College and a B.S. in Business Education from Castleton State College. Mr. Casella is the brother of Douglas R. Casella, a member of our Board. We believe Mr. Casella is qualified to serve on our Board due to his insight and expertise in the waste management industry, coupled with his extensive business and leadership experience.
John F. Chapple III *Compensation Committee*	73	Mr. Chapple has served as a member of our Board since 1994. Mr. Chapple served as President and owner of Catamount Waste Services, Inc., a central Vermont hauling and landfill operation, which we purchased in May 1994, from August 1989 to July 1994. Mr. Chapple has been retired since 1995. We believe Mr. Chapple is qualified to serve on our Board due to his substantial industry expertise, extensive landfill operating knowledge, leadership experience and long tenure on our Board.
James P. McManus *Compensation Committee (Chair)* *Stock Plan Subcommittee*	51	Mr. McManus has served as a member of our Board since August 2005. Since July 2007, Mr. McManus has served as President and Chief Executive Officer of The Hinckley Company, a yacht manufacturer. From 2003 through June 2007, Mr. McManus served as President and Chief Executive Officer of Zoots Corporation, an operator of dry cleaning stores. From 1994 until 2003 Mr. McManus held several management positions with Aramark Corporation, a food services and facility management company, including as President of its Business Services Group. Mr. McManus holds a B.A. from Yale University and an M.B.A. from Harvard Business School. We believe Mr. McManus is qualified to serve on our Board due to his extensive experience as a senior executive and director of publicly-traded and private corporations.
Class I Directors (terms expiring in 2016)		
James F. Callahan, Jr. *Audit Committee (Chair)* *Nominations and Governance Committee*	70	Mr. Callahan has served as a member of our Board since March 2003. Mr. Callahan served as an audit and business advisory partner of Arthur Andersen LLP, an independent public accounting firm, from September 1975 to March 2000. Mr. Callahan has been retired since March 2000. Mr. Callahan has served as a member of various community service-related boards and currently serves on the Board of Trustees of the Massachusetts Department of Developmental Services Hogan Regional Center and is Trustee Emeritus of Bates College. Mr. Callahan holds a B.A. from Bates College and an M.B.A. from the Rutgers University School of Management. We believe Mr. Callahan is qualified to serve on our Board due to his 25 years of experience at Arthur Andersen, the depth and breadth of his financial reporting expertise and his experience with complex financial matters.

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Douglas R. Casella *Vice Chairman*	58	Mr. Casella has served as Vice Chairman of our Board since 1993. Mr. Casella founded Casella Waste Management, Inc., a wholly owned subsidiary of ours, in 1975 and has served as its President since then. Since 1989, Mr. Casella has served as President of Casella Construction, Inc., a company owned by Mr. Casella and John W. Casella, which specializes in general contracting, soil excavation and heavy equipment work and which performs landfill-construction services for us. Mr. Casella is the brother of John W. Casella. We believe Mr. Casella is qualified to serve on our Board due to his extensive experience with operational and asset management matters in the waste management industry.
Michael K. Burke *Audit Committee*	56	Mr. Burke has served as a member of our Board since February 2008. From January 2012 to June 2014, Mr. Burke served as Senior Vice President and Chief Financial Officer of Landauer, Inc., a publicly traded global provider of devices, consumable medical products and technical/analytical services. Prior to Landauer, Mr. Burke served as Senior Vice President and Chief Financial Officer of Albany International Corp., a publicly-traded global advanced textiles and materials processing company, from July 2009 to September 2010. Mr. Burke served as the Executive Vice President and Chief Financial Officer of Intermagnetics General Corporation, a publicly traded medical device company, from December 2001 until its sale to Royal Philips Electronics in November 2006. Before joining Intermagnetics, Mr. Burke served as Executive Vice President and Chief Financial Officer of HbT, Inc., a manufacturer of hydrogen generators and processors. Prior to joining HbT in May 2000, Mr. Burke served as a Managing Director within the U.S. Investment Banking Department of CIBC Oppenheimer Corp. Mr. Burke holds a B.A. in Economics from Lake Forest College and a Graduate Certificate in Mergers and Acquisitions from The Wharton School. We believe Mr. Burke is qualified to serve on our Board due to his leadership and financial experience, particularly as a chief financial officer of publicly-traded companies, and broad functional skill set.

See Certain Relationships and Related Person Transactions and Beneficial Ownership of Voting Stock for additional information concerning members of our Board, including those who are nominees for election as directors.

The holders of Class A common stock, voting separately as a class, are entitled to elect the Class A Director. Mr. Peters, a Class II director who serves as our Lead Director and is a member of the Compensation Committee, Audit Committee, Nominations and Governance Committee and Stock Plan Subcommittee, serves as the Class A Director.

The employment agreement by and between us and Mr. John Casella provides that he shall be elected as a member of our Board. We have agreed to use our best efforts to ensure that Mr. John Casella is elected as a director.

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CORPORATE GOVERNANCE

General

We believe that good corporate governance is important to ensure that our company is managed for the long-term benefit of our stockholders. This section describes key corporate governance policies and practices that we have adopted.

We have adopted a code of business conduct and ethics, which applies to all of our directors, officers and employees, corporate governance guidelines and charters for the Audit Committee, Compensation Committee and Nominations and Governance Committee of our Board. Complete copies of our code of business conduct and business ethics, corporate governance guidelines and committee charters, which are described below, are available on the Investor Relations section of our website, *www.casella.com*. Alternatively, you can request a copy of any of these documents by writing to Casella Waste Systems, Inc., Attn: Corporate Secretary, 25 Greens Hill Lane, Rutland, Vermont 05701.

Corporate Governance Guidelines

Our Board has adopted corporate governance guidelines to assist in the exercise of its duties and responsibilities and to serve the best interests of Casella Waste Systems, Inc. and its stockholders. These guidelines, which provide a framework for the conduct of our Board s business, provide, among other matters, that:

- our Board s principal responsibility is to oversee the management of Casella Waste Systems, Inc.;
- a majority of the members of our Board shall be independent directors;
- the independent directors shall meet regularly in executive session;
- directors shall have full and free access to management and, as necessary and appropriate, independent advisors;
- new directors are expected to participate in an orientation program and all directors are expected to participate in continuing director education on an ongoing basis; and
- at least annually, our Board and its committees will conduct a self-evaluation to determine whether they are functioning effectively.

Stock Ownership Guidelines

Our Board believes that each non-employee director should acquire and hold shares of our stock in an amount that is meaningful and appropriate to such director. Accordingly, our Board adopted stock ownership guidelines that require each non-employee director to attain a share ownership level of our Class A common stock equal to four times the annual cash fees paid to non-employee directors for service on our Board, which does not include fees paid to non-employee directors based on meeting attendance or service as a committee chair or Lead Director. Each non-employee director is required to attain such ownership levels by the third annual meeting of stockholders following the first annual meeting of stockholders at which such non-employee director is elected to our Board.

Board Determination of Independence

Under the applicable rules of the NASDAQ Stock Market, a director will only qualify as an independent director if, in the opinion of our Board, that person does not have a relationship which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Our Board

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determined that none of Ms. Nagle Green or Messrs. Burke, Callahan, Chapple, Doody, McManus and Peters has a relationship which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is an independent director as defined under Rule 5605(a)(2) of the NASDAQ Marketplace Rules.

Director Nominations Process

The Nominations and Governance Committee acts under a written charter that we have posted on the Corporate Governance page of the Investor Relations section of our website, *www.casella.com*. The process followed by the Nominations and Governance Committee to identify and evaluate director candidates includes requests to Board members and others for recommendations, meetings from time to time to evaluate biographical information and background material relating to potential candidates and interviews of selected candidates by members of the Nominations and Governance Committee and our Board.

Criteria and Diversity

Although our Board does not have a formal diversity policy, in considering whether to recommend any particular candidate for inclusion in our Board s slate of recommended director nominees, the Nominations and Governance Committee applies the criteria set forth in our corporate governance guidelines. These criteria include the candidate s integrity, business acumen, knowledge of our business and industry, experience, diligence, absence of conflicts of interest and the ability to act in the interests of all stockholders. The Nominations and Governance Committee does not assign specific weights to particular criteria and no particular criterion is a prerequisite for each prospective nominee. We believe that the backgrounds and qualifications of our directors, considered as a group, should provide a composite mix of experience, knowledge and abilities that will allow our Board to fulfill its responsibilities to our stockholders.

The director biographies appearing above indicate each nominee s experience, qualifications, attributes and skills that led our Board to conclude that he or she should continue to serve as a member of our Board. Our Board believes that each of the nominees has substantial achievement in his or her professional pursuits, and possesses the background, talents and experience that our Board desires and that will contribute to the best interests of Casella Waste Systems, Inc. and to long-term stockholder value.

Stockholder Nominations

Stockholders may recommend individuals to the Nominations and Governance Committee for consideration as potential director candidates by submitting their names, together with appropriate biographical information and background materials to: Nominations and Governance Committee, c/o Corporate Secretary, Casella Waste Systems, Inc., 25 Greens Hill Lane, Rutland, Vermont 05701. The Nominations and Governance Committee has no obligation to consider individuals recommended by stockholders for nomination by the Committee as potential director candidates. However, assuming that appropriate biographical and background material has been provided on a timely basis, we expect that individuals recommended by stockholders would be so considered and evaluated by the Nominations and Governance Committee by following substantially the same process, and applying substantially the same criteria, as it follows for candidates identified by others.

Stockholders also have the right under our By-Laws to directly nominate director candidates, without any action or recommendation on the part of the Nominations and Governance Committee or our Board, by following the procedures set forth under Stockholder Proposals and Nominations for the 2015 Annual Meeting of Stockholders. If our Board determines to nominate a stockholder-recommended candidate and recommends his or her election, then his or her name will be included in our proxy statement and proxy card for the next annual meeting of stockholders. Otherwise, candidates nominated by stockholders in accordance with the procedures set forth in the By-Laws will not be included in our proxy statement and proxy card for the next annual meeting.

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Board Meetings and Attendance

Our Board met eight times during the fiscal year ended April 30, 2014, which we refer to as fiscal 2014, either in person or by teleconference. During fiscal 2014, each director attended at least 75% of the meetings of our Board and at least 75% of the meetings of the committees of our Board on which he or she then served.

Director Attendance at Annual Meeting of Stockholders

We encourage, but have no policy with respect to, attendance of directors at the annual meeting of stockholders. Messrs. Burke, Callahan, John Casella, Douglas Casella and Peters attended the 2013 Annual Meeting of Stockholders.

Board Leadership Structure

Mr. John Casella serves as Chairman of our Board and Chief Executive Officer. Our Board believes that combining the Chairman and Chief Executive Officer positions fosters clear accountability, effective decision-making and alignment of corporate strategy and is the appropriate leadership structure for us at this time. Additionally, our Board believes this leadership structure is particularly appropriate for our company given Mr. Casella s long history with our company and his extensive knowledge of and experience with our business and industry. As our founder and our Chief Executive Officer since 1993, Mr. John Casella has been an integral part of the leadership of our Board, and his strategic vision has helped to guide our growth and performance.

In 2003, our Board established the position of Lead Director. Mr. Peters was elected Lead Director by the independent members of our Board in 2003 and he has served in that role ever since. The responsibilities of the Lead Director are included in our Corporate Governance Guidelines, which are posted on the Corporate Governance page of the Investor Relations section of our website, *www.casella.com*. The Lead Director chairs meetings of our independent directors, meets with any director who is not adequately performing his or her duties as a member of our Board or any committee and facilitates communications between the Chairman of our Board and other directors. The Lead Director also works with the Chairman of our Board in preparing agendas for each meeting of our Board and consults with the Chairman of our Board on matters relating to corporate governance and board performance.

Our Board believes that its leadership structure is appropriate because it strikes an effective balance between strategy development, independent leadership and management oversight in the Board process.

Board Committees

Our Board has established three standing committees Audit, Compensation and Nominations and Governance each of which operates under a charter that was approved by our Board. In addition, the Compensation Committee designated two of its members to serve on the Stock Plan Subcommittee.

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Our Board determined that all of the members of each of its three committees are independent as defined under the rules of NASDAQ, including, in the case of all members of the Audit Committee, the independence requirements contemplated by Rule 10A-3 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and, in the case of all members of the Compensation Committee, the independence requirements under Rule 10C-1 under the Exchange Act. Our non-employee directors serve on the committees of our Board as follows:

	Audit Committee	Compensation Committee	Nominations and Governance Committee
Michael K. Burke			
James F. Callahan			
John F. Chapple III			
Joseph G. Doody			
James P. McManus			
Emily Nagle Green			
Gregory B. Peters**			

** Lead Independent Director
Chairperson
Member

Audit Committee

The Audit Committee s responsibilities include:

- appointing, evaluating, retaining and, if necessary, terminating an independent registered public accounting firm to serve as our independent auditors;
- reviewing and discussing with management and our independent auditors our annual and quarterly financial statements and related disclosures and the internal controls over our financial reporting;
- overseeing our compliance with legal and regulatory requirements;
- taking appropriate actions, or recommending that our Board take appropriate action, to oversee the qualifications and independence of our independent auditors, including the consideration of independence when preapproving audit and non-audit services;
- overseeing our internal audit function;
- monitoring the performance of our internal audit function and our independent auditors, including conducting an annual evaluation of the performance of our auditors;

- overseeing our risk management policies;
- reviewing and approving or ratifying any related person transactions; and
- preparing the Audit Committee report required by Securities and Exchange Commission, or SEC, rules, which is included on page 19 of this proxy statement.

The Audit Committee currently consists of Messrs. Callahan (Chair), Burke and Peters. Our Board determined that Mr. Callahan is an Audit Committee financial expert as defined in Item 407(d)(5) of Regulation S-K. The Audit Committee met five times during fiscal 2014. See Report of the Audit Committee of the Board of Directors.

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Compensation Committee and Stock Plan Subcommittee

The Compensation Committee s responsibilities include:

- administering any bonus, incentive compensation and stock incentive plans;
- reviewing and approving the salaries and certain other compensation and benefits of our executive officers;
- reviewing and making recommendations to our Board with respect to director compensation;
- reviewing and discussing with management our Compensation Discussion and Analysis, which is included beginning on page 20 of this proxy statement; and
- preparing the Compensation Committee report required by SEC rules, which is included on page 25 of this proxy statement.

The Stock Plan Subcommittee of the Compensation Committee grants restricted stock units and other awards under our stock incentive plans to executive officers.

The members of the Compensation Committee are Messrs. McManus (Chair), Doody, Chapple and Peters and Ms. Nagle Green. The members of the Stock Plan Subcommittee are Messrs. McManus and Peters. The Compensation Committee met six times during fiscal 2014, either in person or by teleconference.

Nominations and Governance Committee

The Nominations and Governance Committee s responsibilities include:

- identifying individuals qualified to become members of our Board;
- recommending to our Board persons to be nominated for election as directors;
- developing, reviewing and recommending to our Board applicable corporate governance guidelines; and
- overseeing an annual evaluation of our Board.

The members of the Nominations and Governance Committee are Messrs. Peters (Chair) and Callahan. The Nominations and Governance Committee met four times during fiscal 2014.

Risk Oversight

Role of Our Board in Management of Risk

Our Board administers its risk oversight function directly and through its Audit Committee and receives regular reports from members of senior management on areas of material risk to Casella Waste Systems, Inc., including operational, financial, legal and regulatory, strategic and reputational risks. As part of its charter, the Audit Committee regularly discusses with management our major risk exposures, their potential financial impact on Casella Waste Systems, Inc. and the steps we take to manage them. In addition, the Compensation Committee assists our Board in fulfilling its oversight responsibilities with respect to the management of risks arising from our compensation policies and programs and succession planning. The Nominations and Governance Committee assists our Board in fulfilling its oversight responsibilities with respect to the management of risks associated with board organization, membership and structure and corporate governance.

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Risk Considerations in Executive Compensation

Our Compensation Committee has discussed the concept of risk as it relates to our executive compensation program and our Compensation Committee does not believe our executive compensation program encourages excessive or inappropriate risk taking. As described more fully below in Compensation Discussion and Analysis, we structure our compensation program to consist of both fixed and variable components to motivate our executives to produce superior short and long-term results that are in the best interests of Casella Waste Systems, Inc. and its stockholders in order to attain our ultimate objective of increasing stockholder value. We believe that any risks that may arise from our compensation policies and practices for our employees are not reasonably likely to have a material adverse effect on Casella Waste Systems, Inc.

Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee throughout fiscal 2014 were Messrs. McManus (Chair), Doody, Chapple and Peters and Ms. Nagle Green. None of our executive officers serves as a member of the board of directors or compensation committee, or other committee serving an equivalent function, of any entity that has one or more executive officers who serve as members of our Board or Compensation Committee.

Certain Relationships and Related Person Transactions

We have adopted a written policy and have established procedures regarding approval of transactions between us and any employee, officer, director and other related persons, including those required to be reported under Item 404 of Regulation S-K. The policy requires that all related person transactions are reviewed by the Audit Committee and approved by our Board.

With respect to bidding projects in excess of $500,000 in which a related person, including Casella Construction, Inc. is a bidder, the Audit Committee has established a specific procedure. This procedure requires us to solicit a minimum of three qualified bids. The bid package is required to be sufficiently detailed to allow for direct comparisons of costs between responsive bidders. Bids for work on which Casella Construction, Inc. or any other related person is bidding are required to be directed to a third party engineer for opening, compilation and tabulation. The bids are then evaluated by the project team based on price, performance references, qualifications, experience, alternate bid items, proposed schedule, subcontractors qualifications/references, technical compliance and other bid information that is in the best interest of the project. In the event that a construction contract is successfully bid by a related person, bids and recommendations are required to be submitted to our Chief Financial Officer and our President and Chief Operating Officer for submission to the Audit Committee for review and to our Board for approval. With respect to sole source bids (i.e. those less than $500,000), the Audit Committee is required to be provided with documentation describing the reason for the work, a comparison of market or historical prices to the bid price, and approval by our Chief Financial Officer or our President and Chief Operating Officer. Change orders relating to contracts with related parties are required to be forwarded to our Chief Financial Officer for submission to the Audit Committee for review and to our Board for approval before the change order is approved; provided that change orders to existing contracts with related parties may be approved by our Chief Financial Officer and our President and Chief Operating Officer (executive officers who are not affiliated with the related parties), as long as the total value of such change orders does not exceed 10% of the value of the contract, up to a maximum of $500,000, and subject to ratification of the change order by our Board. Transactions not exceeding $75,000 individually or $300,000 in the aggregate in any fiscal year may, for administrative purposes, be approved by our President and Chief Operating Officer or our Chief Financial Officer, subject to ratification and approval by the Audit Committee and our Board.

With respect to related person transactions involving aggregate consideration in excess of $10.0 million, or in excess of $2.0 million if such transaction is not approved by a majority of disinterested directors, we are required by the terms of our debt instruments to obtain an opinion as to the fairness of such transactions from a financial point of view issued by an accounting, appraisal or investment banking firm of national standing.

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Our related person transaction policy also provides that transactions involving compensation of executive officers shall be reviewed and approved by the Compensation Committee in the manner specified in its charter.

We engage Casella Construction, Inc., a company owned by John W. Casella, our Chief Executive Officer and the Chairman of our Board, and Douglas R. Casella, the Vice Chairman of our Board, to provide construction services for us, including construction, closure and capping activities at our landfills. Total purchased services from Casella Construction, Inc. charged to operations or capitalized to landfills for fiscal 2014, the fiscal year ended April 30, 2013, which we refer to as fiscal 2013, and the fiscal year ended April 30, 2012, which we refer to as fiscal 2012, were $7,815,863, $6,576,752 and $2,611,607, respectively, of which $890,354, $1,188,852 and $44,506, respectively, were outstanding and included in either accounts payable or other current liabilities at April 30, 2014, 2013 and 2012. In addition, we have approved ongoing contracts with Casella Construction, Inc., which we expect will result in additional payments by us to Casella Construction, Inc.

We are also party to two real estate leases with Casella Associates, LLP, a Vermont limited liability company owned by Messrs. John Casella and Douglas Casella. These leases relate to our corporate headquarters in Rutland, Vermont and our Montpelier, Vermont facility, and provide for aggregate monthly payments by us of $27,375, subject to an annual escalation provision based on increases in the consumer price index, through their expiration in April 2023.

From 1977 to 1992, we operated an unlined landfill located in Whitehall, New York owned by Bola, Inc., a corporation owned by Messrs. John Casella and Douglas Casella, which operated as a single-purpose real estate holding company. We paid the cost of closing this landfill in 1992, and have agreed to pay all post-closure obligations. In fiscal 2014, 2013 and 2012, we paid an aggregate of $8,111, $8,111 and $7,871, respectively, pursuant to this arrangement. As of April 30, 2014, 2013 and 2012, we had accrued $94,396, $100,282 and $84,331, respectively, for costs related to those post-closure obligations.

In fiscal 2014, we granted Mr. Douglas Casella a restricted stock unit award with a grant date fair value of $120,619 that vests in three equal annual installments beginning on the first anniversary of the date of grant, as well as other compensation valued at $22,809 for his service as President of Casella Waste Management, Inc., our wholly-owned subsidiary.

We have entered into employment agreements with certain of our officers. See Employment Agreements.

Communicating with the Independent Directors

Our Board will give appropriate attention to written communications that are submitted by stockholders, and will respond if and as appropriate. Our Lead Director, with the assistance of our Chief Financial Officer and General Counsel, is primarily responsible for monitoring communications from stockholders and for providing copies or summaries to the other directors as he considers appropriate.

Communications are forwarded to all directors if they relate to important substantive matters and include suggestions or comments that our Lead Director considers to be important for the directors to know. In general, communications relating to corporate governance and long-term corporate strategy are more likely to be forwarded than communications relating to ordinary business affairs, personal grievances and matters as to which we receive repetitive or duplicative communications.

Stockholders who wish to send communications on any topic to our Board should address such communications to: Board of Directors, Attn: Corporate Secretary, Casella Waste Systems, Inc., 25 Greens Hill Lane, Rutland, Vermont 05701.

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Code of Business Conduct and Ethics

We have adopted a written Code of Business Conduct and Ethics that applies to our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer, and persons performing similar functions. We have posted a current copy of the Code of Business Conduct and Ethics on the Corporate Governance page of the Investor Relations section of our website, *www.casella.com*. In addition, we intend to post on our website all disclosures that are required by law or NASDAQ s listing standards concerning any amendments to, or waivers from, any provision of the Code of Business Conduct and Ethics.

Report of the Audit Committee of the Board of Directors

The Audit Committee reviewed our audited financial statements for fiscal 2014 and discussed these financial statements with our management and McGladrey LLP, our independent auditors.

The Audit Committee also received from, and discussed with, our independent auditors various communications that our independent auditors are required to provide to the Audit Committee, including the matters required to be discussed by Auditing Standard No. 16, *Communications with Audit Committees*, as adopted by the Public Company Accounting Oversight Board.

Our independent auditors also provided the Audit Committee with the written disclosures and the letter required by PCAOB Rule 3526 (Communicating with Audit Committees Concerning Independence), as modified or supplemented. The Audit Committee discussed with the independent auditors their independence from us.

Based on its discussions with management and the independent auditors, and its review of the representations and information provided by management and the independent auditors, the Audit Committee recommended to our Board that the audited financial statements be included in our Annual Report on Form 10-K for fiscal 2014.

Following the completion of the Audit Committee s review of our fiscal 2014 financial statements and our internal accounting controls over financial reporting for fiscal 2014, the Audit Committee, with input from management, completed an evaluation of the performance of our independent auditors, McGladrey LLP. Based on the results of this evaluation, the Audit Committee determined that it was in the best interest of Casella Waste Systems, Inc. and its stockholders to appoint, and the Audit Committee then appointed, McGladrey LLP as our independent auditors for the 2014 transition period.

By the Audit Committee of the Board of Directors of Casella Waste Systems, Inc.

James F. Callahan, Jr., Chair

Michael K. Burke

Gregory B. Peters

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EXECUTIVE AND DIRECTOR COMPENSATION AND RELATED MATTERS

Compensation Discussion and Analysis

This Compensation Discussion and Analysis is designed to provide our stockholders with an understanding of our compensation philosophy, objectives, programs and process, as well as the compensation paid to our named executive officers in fiscal 2014. For fiscal 2014, our named executive officers were:

- John W. Casella, our Chief Executive Officer and Chairman of our Board;
- Edwin D. Johnson, our President and Chief Operating Officer;
- Edmond R. Coletta, our Senior Vice President and Chief Financial Officer;
- David L. Schmitt, our Senior Vice President and General Counsel; and
- Christopher B. Heald, our Vice President of Finance and Chief Accounting Officer.

Roles of Our Compensation Committee and Compensation Committee Consultant

The Compensation Committee, including its Stock Plan Subcommittee, is responsible for overseeing our executive compensation program. In this capacity, the Compensation Committee designs, implements, reviews and approves annually all compensation for our named executive officers.

The Compensation Committee has the authority to retain compensation consultants and other outside advisors to assist in the evaluation of executive officer compensation. In fiscal 2014, the Compensation Committee retained an independent compensation consultant, HRadvantage, to assist the Compensation Committee with its review of the executive compensation program. The Compensation Committee reviewed compensation market data provided by HRadvantage from independent compensation consultants Towers Watson and Mercer LLC and other sources, which included publicly available compensation information from our industry and other industries, and general economic trends in the areas in which our executive officers work and live. HRadvantage reports directly to the Compensation Committee and does not provide any other services to us. In fiscal 2014, HRadvantage did not attend any meetings of the Compensation Committee.

Objectives and Philosophy of Our Executive Compensation Program

The Compensation Committee, including its Stock Plan Subcommittee, seeks to achieve three broad objectives in connection with our executive compensation program. First, the Compensation Committee seeks to reward executives for the achievement of business objectives. Second, the executive compensation program is intended to provide executives with equity incentives so as to link a portion of the executive s compensation with the future performance of our Class A common stock, thereby aligning the interests of our executives with those of our stockholders. Finally, the Compensation Committee structures its executive compensation program so as to enable us to attract and retain qualified and talented executives.

We have entered into employment agreements with certain of our executive officers. These employment agreements establish annual base salary and annual bonus amounts that the Compensation Committee may increase. In general, the Compensation Committee has tied potential bonus compensation to performance factors, including the executive officer s efforts and contributions towards obtaining corporate objectives and our performance.

In making compensation decisions, the Compensation Committee considers a number of factors, including the compensation packages paid by a peer group of publicly traded companies in the waste management industry as provided by HRadvantage. This peer group, which is periodically reviewed and updated by the Compensation Committee after consultation with an independent compensation consultant (HRadvantage

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served in this capacity in fiscal 2014), consists of companies we believe are generally comparable to us. The companies included in our peer group for fiscal 2014 were Clean Harbors, Inc., Covanta Holding Corporation, Progressive Waste Solutions Ltd., Republic Services, Inc., Waste Connections, Inc. and Waste Management, Inc. The Compensation Committee reviews this information in order to obtain a general understanding of current compensation practices in the industry, but does not formally use that information to benchmark its executive compensation. The Compensation Committee also relies on various other factors, including existing compensation paid to executives, experience level of the individual, market factors, general economic conditions, corporate performance and cost of living in the areas where our executives live.

Say-on-Pay Feedback from Stockholders

At our 2013 Annual Meeting of Stockholders, we submitted our executive compensation program to an advisory vote of our stockholders and it received the support of 85% of the total votes cast. Annually, the Compensation Committee intends to review the results of the advisory vote and will consider this feedback as it completes its annual review of each pay element and the total compensation packages for our named executive officers with respect to the next fiscal year.

Components of our Executive Compensation Program

The primary elements of our executive compensation program are:

- base salary;
- annual cash incentive bonuses;
- stock awards; and
- severance and change-of-control benefits.

We do not have any policy or target for allocating compensation between long-term and short-term compensation, between cash and non-cash compensation or among the different forms of non-cash compensation. Instead, the Compensation Committee determines what it believes to be the appropriate level and mix of the various compensation components based on its review of compensation of similarly situated executives in our peer group, the advice of its compensation consultant and our compensation philosophy described previously.

Base Salary

We use base salaries to recognize the experience, skills, knowledge and responsibilities of our employees, including our executive officers. None of our named executive officers is currently party to an employment agreement that provides for automatic or scheduled increases in base salary.

On an annual basis, our Compensation Committee reviews and evaluates for adjustment the base salaries of our executives based on the scope of an executive s responsibilities, individual contribution, prior experience and sustained performance. Base salaries are also reviewed and adjusted, as deemed appropriate, in the case of promotions or other significant changes in responsibility. No formulaic base salary increases are provided to our named executive officers. In making decisions regarding salary increases, we may also draw on the experiences of members of our Board with other companies and the peer group compensation data reviewed by the Compensation Committee. After taking into consideration such factors, the Compensation Committee approved increases in the annual base salaries of our named executive officers for fiscal 2014.

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The following table sets forth the annual base salaries of our named executive officers as of April 30, 2014 and April 30, 2013:

Name and Principal Position(s)	Annual Base Salary as of April 30, 2014	Annual Base Salary as of April 30, 2013
John W. Casella *Chairman and Chief Executive Officer*	$ 450,000	$ 366,785
Edwin D. Johnson *President and Chief Operating Officer*	$ 380,000	$ 350,000
Edmond R. Coletta *Senior Vice President and Chief Financial Officer*	$ 296,715	$ 240,000
David L. Schmitt *Senior Vice President and General Counsel*	$ 270,755	$ 242,800
Christopher B. Heald *Vice President of Finance and Chief Accounting Officer*	$ 185,000	$ 157,800

Annual Incentive Bonus

The employment agreement of each of our named executive officers provides that such named executive officer will be eligible to receive a bonus consisting of cash, a stock award or a combination thereof in an amount, if any, to be determined by the Compensation Committee after the conclusion of each fiscal year. The annual incentive bonuses for named executive officers are intended to compensate them for the achievement of our strategic, operational and financial goals. Amounts payable under the annual incentive bonus plan are calculated as a percentage, from zero to 100%, of a target bonus amount, which is based on a percentage of the applicable executive s base salary.

Fiscal 2014 Bonus Plan

In May 2013, the Compensation Committee approved a bonus plan for fiscal 2014, pursuant to which our named executive officers were eligible to receive an annual bonus, payable in cash or equity, as determined by our Compensation Committee, based upon the improvement of Economic Value Added, or EVA, in fiscal 2014 compared to EVA in fiscal 2013. EVA is calculated as operating income less a cost of capital charge, with the cost of capital charge calculated as our weighted average cost of capital applied to the net assets of each operating unit. No bonus payout would be made to our named executive officers under the fiscal 2014 bonus plan if a specified threshold target for Consolidated EBITDA was not met. Consolidated EBITDA is defined in our Amended and Restated Senior Secured Credit Agreement, which was attached as Exhibit 10.1 to our Current Report on Form 8-K that we filed with the SEC on March 24, 2011.

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The following table shows the 2014 target bonus amount as a percentage of annual base salary for which each of Messrs. John Casella, Johnson, Coletta, Schmitt and Heald was eligible.

Name and Principal Position(s)	Fiscal 2014 Target Bonus Amount as a Percentage of Annual Base Salary	Fiscal 2014 Target Bonus Amount
John W. Casella (1) *Chairman and Chief Executive Officer*	120%	$ 433,341
Edwin D. Johnson *President and Chief Operating Officer*	85%	$ 323,000
Edmond R. Coletta *Senior Vice President and Chief Financial Officer*	75%	$ 222,536
David L. Schmitt *Senior Vice President and General Counsel*	60%	$ 162,453
Christopher B. Heald *Vice President of Finance and Chief Accounting Officer*	50%	$ 92,500

(1) On December 13, 2013, the Compensation Committee set the annual base salary at $450,000 and the fiscal 2014 target bonus amount at 120% of annual base salary for Mr. John Casella. The fiscal 2014 target bonus amount for Mr. John Casella is prorated taking into account such change to the compensation structure for Mr. John Casella.

In June 2014, the Compensation Committee approved the payout of bonuses to our named executive officers under the fiscal 2014 bonus plan based upon the achievement of increased EVA when compared to fiscal 2013 and Consolidated EBITDA above the threshold of $94.5 million. As defined by the plan, the Compensation Committee allocated a preset percentage of positive year-over-year EVA improvement to the bonus pool allocated among our executive officers. Based on the year-over-year increase in EVA of $4,000,401 in fiscal 2014 when compared to fiscal 2013, our Compensation Committee awarded cash bonuses under the fiscal 2014 bonus plan as follows: $102,985 for Mr. John Casella, $76,695 for Mr. Johnson, $52,840 for Mr. Coletta, $38,574 for Mr. Schmitt and $21,964 for Mr. Heald. These cash bonuses awarded under the fiscal 2014 bonus plan were calculated at 23.7% of the fiscal 2014 target bonus amount of each such named executive officer.

2014 Transition Period Bonus Plan

In June 2014, the Compensation Committee approved the 2014 transition period bonus plan, pursuant to which our named executive officers are eligible to receive a bonus with respect to the 2014 transition period, payable in cash or equity, as determined by our Compensation Committee, based upon improved EVA in the 2014 transition period compared to EVA in the eight-month period ended December 31, 2013. The eligibility of our named executive officers to receive a bonus under the 2014 transition period bonus plan is contingent upon our compliance with financial covenants set forth in our Amended and Restated Senior Secured Credit Agreement. If we are not compliant, or not expected to be in compliance with our financial covenants, then the calculated bonuses would be scaled back or eliminated to bring us into compliance with such financial covenants. EVA is calculated as operating income less a cost of capital charge, with the cost of capital charge calculated as our weighted average cost of capital applied to the net assets of each operating unit.

The Compensation Committee worked with our Chief Executive Officer to develop the allocation of positive period-over-period EVA to our named executive officers for the 2014 transition period that they believe can reasonably be achieved with hard work over the 2014 transition period, taking into account the current economic environment.

Under the 2014 transition period bonus plan, our named executive officers are eligible to receive bonuses as a percentage of the pro-rated portion of their respective annual base salary earned during the 2014 transition period as follows: Mr. John Casella: 120%; Mr. Johnson: 85%; Mr. Coletta: 75%; Mr. Schmitt: 60% and Mr. Heald: 50%.

Stock Awards

Our named executive officers are also eligible to receive stock awards under our stock incentive plans. We typically make equity awards to our officers and employees as an incentive to enhance long-term shareholder value. Equity awards are typically granted when the person is first hired, receives a promotion or other significant change in responsibility and thereafter once annually as a part of our broader equity incentive program at a regularly scheduled Compensation Committee meeting at the commencement of the respective fiscal year or transition period. Although the Compensation Committee does not use peer group compensation to formally benchmark the compensation of our named executive officers, the Compensation Committee considers this information as an important reference point in determining the size of an equity award based on a compensation comparison of each of our named executive officers to the comparable executive officers of our peer group.

Historically, the use of stock options has been a significant element in the compensation packages of our named executive officers and our broader annual equity incentive program. The stock options we have granted to our named executive officers generally vest in equal, annual installments over a three or four-year period of the ten-year stock option term, beginning on the first anniversary of the date of grant. Exercise rights generally cease shortly after termination of employment except in the case of death or disability, although in certain circumstances the exercise period may be extended if the Compensation Committee believes the extension is in our best interests. Prior to the exercise of a stock option, the holder has no rights as a stockholder with respect to the shares subject to such stock option, including voting rights and the right to receive dividends or dividend equivalents. It has been the policy of the Stock Plan Subcommittee to set the exercise price of the stock options at a price that is at least equal to the fair market value of a share of our Class A common stock as of the date of grant. In fiscal 2014, as a result of the regularly scheduled annual review of the executive compensation program by the Compensation Committee, the Compensation Committee granted stock options to Mr. John Casella that vest in equal, annual installments over a three-year period beginning on the first anniversary of the date of grant.

Since 2009, we have issued restricted stock units as part of our broader annual equity incentive program instead of stock options as we believe that they generally serve as a more effective equity incentive program to retain quality employees and drive shareholder value. These restricted stock units, each of which represents the right to receive a share of our Class A common stock, are subject to vesting conditions. For fiscal 2014, we granted restricted stock units to our named executive officers as part of our broader annual equity incentive program that vest based on continued employment in three equal annual installments beginning on the first anniversary of the date of grant. The restricted stock units will vest in full upon a change of control of Casella Waste Systems, Inc. During the 2014 transition period, we have also granted restricted stock units to our named executive officers that vest based on continued employment in three equal annual installments beginning on the first anniversary of the date of grant.

We do not have a program, plan or practice of timing the grant of equity awards in coordination with the release of material non-public information.

Benefits and Other Compensation

We maintain broad based benefits that are provided to all employees, including health and dental insurance, life and disability insurance and a 401(k) plan. Our executive officers are eligible to participate in all of our employee benefit plans, in each case on the same basis as other employees.

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Severance and Change-of-Control Benefits

Pursuant to employment agreements we have entered into with our named executive officers, our named executive officers are entitled to specified benefits in the event of the termination of their employment under specified circumstances, including termination following a change of control of Casella Waste Systems, Inc. We have provided more detailed information about these benefits, along with estimates of their value under various circumstances, under the caption Potential Payments Upon Termination or Change of Control below.

Compliance with Internal Revenue Code Section 162(m)

Section 162(m) of the Internal Revenue Code of 1986, as amended, or the Code, generally disallows a tax deduction for compensation in excess of $1.0 million paid to a company s chief executive officer and its three other officers (other than the chief financial officer) whose compensation is required to be reported to our stockholders pursuant to the Exchange Act by reason of being among our most highly paid executive officers. Certain compensation, including qualified performance based compensation, may be deducted if certain requirements are met. The Compensation Committee, including its Stock Plan Subcommittee, reviews the potential effect of Section 162(m) periodically and uses its judgment to authorize compensation payments that may be in excess of the limit when it believes such payments are appropriate and in the best interests of our stockholders, after taking into consideration changing business conditions and the performance of our employees.

Report of the Compensation Committee

Our Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management. Based on this review and discussion, the Compensation Committee recommended to our Board that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference in our Annual Report on Form 10-K for the year ended April 30, 2014.

By the Compensation Committee of the Board of Directors of Casella Waste Systems, Inc.

James P. McManus, Chair
John F. Chapple III
Joseph G. Doody
Emily Nagle Green
Gregory B. Peters

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Summary Compensation

The following table sets forth the total compensation earned by or paid to our named executive officers during the fiscal years indicated.

Summary Compensation Table

Name and Principal Position(s) (1)	Fiscal Year	Salary ($) (2)	Bonus ($) (3)	Option Awards ($) (4)	Stock Awards ($) (5)	All Other Compensation ($) (6)	Total ($)
John W. Casella *Chairman and* *Chief Executive Officer*	2014	402,016	102,895	226,831	139,336	87,575	958,653
	2013	363,150			278,674	43,843	685,667
	2012	361,333	25,293		278,669	37,201	702,496
Edwin D. Johnson *President and*	2014	351,375	76,695	436,940 (7)	133,618	196,533	1,195,161
Chief Operating Officer	2013	320,833		517,050	267,232	11,673	1,116,788
	2012	300,000	17,850		267,234	11,673	596,757
Edmond R. Coletta *Senior Vice President and*	2014	258,905	52,840		133,618	8,236	453,599
Chief Financial Officer	2013	205,000		265,911	114,365	7,000	592,276
David L. Schmitt *Senior Vice President and*	2014	256,113	38,574		57,184	1,000	352,871
General Counsel	2013	241,825			114,365	1,000	357,190
	2012	235,000	10,198		103,801	6,726	355,725
Christopher B. Heald *Vice President of Finance and*	2014	165,733	21,964		57,184	1,000	245,881
Chief Accounting Officer	2013	140,092	15,000	64,869	27,034	1,000	247,995

(1) Neither Mr. Coletta nor Mr. Heald was a named executive officer in fiscal 2012.

(2) The salary amounts included in the summary compensation table differ from those in the annual base salary table on page 22 because salary increases were effected during the fiscal year on a non-retroactive basis.

(3) Reflects amounts paid under the annual incentive bonus plan.

(4) Reflects the aggregate grant date fair value for option awards granted under our 2006 Stock Incentive Plan in accordance with Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 718. The assumptions used to calculate the value of option awards are set forth in the notes to our Consolidated Financial Statements included in our Annual Reports on Form 10-K for the fiscal year ended April 30, 2014.

(5) Amounts shown in this column reflect the aggregate grant date fair value of the restricted stock units and performance-based restricted stock units awarded in accordance with FASB ASC Topic 718 for stock awards granted under our 2006 Stock Incentive Plan. Stock award compensation is based upon the last reported sales price of our Class A common stock on the NASDAQ Stock Market on the grant date. Stock award compensation for performance-based restricted stock units granted in fiscal 2013 and fiscal 2012 assume 100% attainment of the underlying performance metrics. Under the terms of the performance-based restricted stock units, a named executive officer has the right to receive up to a maximum number of shares of Class A common stock if certain performance metrics are met by us. The grant date fair values of the fiscal 2013 awards, assuming that the highest attainment level underlying the performance metrics, or 200%, would be achieved are as follows: $418,010 for Mr. John Casella,

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$400,851 for Mr. Johnson, $171,551 for Mr. Coletta, $171,551 for Mr. Schmitt and $40,553 for Mr. Heald. The grant date fair values of the fiscal 2012 awards, assuming that the highest attainment level underlying the performance metrics, or 150%, would be achieved are as follows: $348,338 for Mr. John Casella, $334,042 for Mr. Johnson, $334,042 for Mr. Larkin and $129,754 for Mr. Schmitt.

(6) The amounts reported in All Other Compensation reflect, for each named executive officer, the sum of (a) the dollar value of life and medical insurance premiums we paid, (b) the amount we contributed to the 401(k) plan, (c) the amount of tax gross-ups we paid and (d) the incremental cost to us of all perquisites and other personal benefits. The following table sets forth All Other Compensation paid to or accrued by our named executive officers in fiscal 2014, fiscal 2013 and fiscal 2012:

Name	Fiscal Year	Life Insurance Premiums ($)	Medical Insurance Premiums ($)	401(k) Plan Matching Contributions ($)	Car Allowance and Usage ($)	Tax Gross-Up Payments	Other
John W. Casella	2014	8,080			17,904	61,591(a)	
	2013	8,367	28,485		6,991		
	2012	8,423	17,296		11,482		
Edwin D. Johnson	2014	897		1,000	9,803		184,833(b)
	2013	897		1,000	9,776		
	2012	897		1,000	9,776		
Edmond R. Coletta	2014			1,000	7,236		
	2013			1,000	6,000		
David L. Schmitt	2014			1,000			
	2013			1,000			
	2012			1,000	5,726		
Christopher B. Heald	2014			1,000			
	2013			1,000			

(a) Consists of a cash payment in connection with the reimbursement of withholding tax in connection with the vesting of restricted stock units in fiscal 2014.

(b) The amount shown constitutes a cash payment to Mr. Johnson equal to the excess of the aggregate exercise price of the stock options issued to him in replacement of stock options that were rescinded over the exercise price of the rescinded stock options. See Note 7.

(7) The amount shown reflects the aggregate grant date fair value of the stock options granted to Mr. Johnson to replace stock options previously granted to him that were rescinded because they were determined to have been issued in excess of the limits set forth under our 2006 Stock Incentive Plan.

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Grants of Plan Based Awards

The following table sets forth information regarding grants of equity awards made to our named executive officers during fiscal 2014.

Fiscal 2014 Grants of Plan Based Awards

Name	Grant Date	All Other Option Awards: Number of Securities Underlying Options (#)	All Other Stock Awards: Number of Shares of Stock or Stock Units (#)	Exercise or Base Price of Option Awards ($/sh)	Grant Date Fair Value of Stock and Option Awards ($) (1)
John W. Casella	6/25/2013		34,235		139,336
	12/13/2013	54,874		5.54	226,831
Edwin D. Johnson	6/25/2013		32,830		133,618
	12/11/2013	52,534		5.71	223,869
	12/11/2013	50,000		5.71	213,071
Edmond R. Coletta	6/25/2013		32,830		133,618
David L. Schmitt	6/25/2013		14,050		57,184
Christopher B. Heald	6/25/2013		14,050		57,184

(1) The value of a stock option award is based on the fair value as of the grant date of such award determined in accordance with FASB ASC Topic 718, and disregards estimates of forfeitures related to service based vesting conditions. The value of a restricted stock unit award is based on the last reported sales price of our Class A common stock on the NASDAQ Stock Market on the grant date.

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Information Relating to Equity Awards and Holdings

The following table sets forth information regarding outstanding unexercised options and stock units that have not vested and related information for each of our named executive officers as of April 30, 2014.

Outstanding Equity Awards at April 30, 2014

	Option Awards				Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($/sh)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested ($)
John W. Casella	30,000		13.28	6/28/2014				
	30,000		12.00	6/30/2015				
	30,000		13.00	7/6/2016				
	14,000		11.01	7/23/2017				
		54,874 (1)	5.54	12/12/2023				
					34,235 (2)	174,959		
					17,968 (3)	91,637		
					7,664 (4)	39,086		
							13,476 (5)	68,728
Edwin D. Johnson	200,000		3.81	7/6/2020				
		122,466 (6)	4.00	12/5/2022				
	50,000		5.71	12/10/2023				
		52,534 (7)	5.71	12/10/2023				
					32,830 (2)	167,433		
					17,230 (3)	87,873		
					7,350 (4)	37,485		
							12,923 (5)	65,907
Edmond R. Coletta	2,000		13.00	7/6/2016				
	1,000		11.01	7/23/2017				
	20,000		13.78	12/13/2017				
	20,000		4.72	3/4/2020				
		90,000 (6)	4.00	12/5/2022				
					32,830 (2)	167,433		
					7,374 (3)	37,607		
					1,903 (4)	9,705		
							5,531 (5)	28,208
David L. Schmitt	15,000		15.60	5/31/2016				
					14,050 (2)	71,655		
					7,374 (3)	37,607		
					2,855 (4)	14,561		
							5,531 (5)	28,208

Christopher B. Heald	1,800		13.00	7/6/2016				
	500		11.01	7/23/2017				
		20,000 (8)	4.38	1/23/2023				
					14,050 (2)	71,655		
					1,743 (3)	8,889		
					743 (4)	3,789		
							1,308 (5)	6,671

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(1) Represents options granted on December 13, 2013. The options vest in equal, annual installments over a three-year period, beginning on the first anniversary of the date of grant.

(2) Represents restricted stock units granted on June 25, 2013. Restricted stock units vest based on continued employment in equal, annual installments over a three-year period beginning on the first anniversary of the date of grant.

(3) Represents restricted stock units granted on May 30, 2012. Restricted stock units vest based on continued employment in equal, annual installments over a three-year period beginning on the first anniversary of the date of grant.

(4) Represents restricted stock units granted on June 14, 2011. Restricted stock units vest based on continued employment in equal, annual installments over a three-year period beginning on the first anniversary of the date of grant.

(5) Represents performance-based restricted stock units granted on May 30, 2012. Performance-based restricted stock units are subject to vesting based on our attainment of a targeted return on net assets for the twelve months ended April 30, 2015 and are shown here assuming 50% attainment of the underlying performance metrics.

(6) Represents options granted on December 5, 2012. The options fully vest on the third anniversary of the date of grant.

(7) Represents options granted on December 11, 2013. The options fully vest on December 5, 2015.

(8) Represents options granted on January 23, 2013. The options fully vest on the third anniversary of the date of grant.

Stock Award Vesting During Fiscal 2014

	Stock Awards	
Name	**Number of Shares Acquired on Vesting (#) (1)**	**Value Realized on Vesting ($)**
John W. Casella	28,058	151,730
Edwin D. Johnson	26,907	145,506
Edmond R. Coletta	16,532	88,661
David L. Schmitt	11,224	60,861
Christopher B. Heald	6,297	33,667

(1) Number of shares acquired on vesting of stock awards is the gross number of shares vested, including shares that were surrendered to us, if applicable, for the payment of withholding taxes pursuant to the terms of our 2006 Stock Incentive Plan.

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Potential Payments Upon Termination or Change of Control

Employment Agreements

We have employment agreements with Messrs. John Casella, Johnson, Coletta and Schmitt, which we entered into as follows: Mr. John Casella: December 8, 1999; Mr. Johnson: July 6, 2010; Mr. Coletta: September 1, 2012; and Mr. Schmitt: May 31, 2006. Each of Messrs. John Casella s and Johnson s employment agreement has an initial term of three years and is automatically renewable for additional one-year terms thereafter unless terminated by either party pursuant to the terms of the agreement. Each of Messrs. Coletta s and Schmitt s employment agreement has an initial term of one year and is automatically renewable for additional one-year terms thereafter unless terminated by either party pursuant to the terms of the agreement. In December 2008, we amended our employment agreements with Messrs. John Casella and Schmitt to document compliance with, and, as applicable, exemption from, Section 409A of the Code.

Pursuant to the terms of their employment agreements, each of Messrs. John Casella, Johnson, Coletta and Schmitt is entitled to a specified annual base salary, subject to adjustment as set forth in the agreement, an annual bonus consisting of cash, stock awards or a combination of cash and stock awards, in an amount determined by the Compensation Committee each fiscal year, and a severance package upon the termination of employment. We have agreed to use our best efforts to assure that Mr. John Casella is elected to our Board for the duration of his term of employment. The base salary and bonus components of their compensation are described above under Base Salary and Annual Incentive Bonus .

Pursuant to their employment agreements and after giving effect to adjustments approved by the Compensation Committee, in fiscal 2014, the annual base salary of Mr. John Casella was $450,000, the annual base salary of Mr. Johnson was $380,000, the annual base salary of Mr. Coletta was $296,715 and the annual base salary of Mr. Schmitt was $270,755.

Mr. John Casella also agreed not to compete with us for a period of two years after the termination of his employment within 300 miles of any facility operated by us during the term of his employment and not to solicit our customers, accounts or employees. Each of Messrs. Johnson, Coletta and Schmitt has agreed not to compete with us for a period of one year after the termination of his employment within 100 miles of any facility operated by us during the term of his employment and not to solicit our customers, accounts or employees. In the event that Mr. John Casella terminates his employment voluntarily and is not entitled to severance, the non-compete provisions of his agreement would not apply unless we continue to pay his base salary and any termination benefits or payments required under his agreement.

In the event Mr. John Casella s employment is terminated by us other than for cause (as defined below), he will be entitled to payment of an amount equal to (a) three times the sum of (i) his highest annual base salary paid under the agreement and (ii) the higher of the most recent bonus paid to him under his agreement or 50% of his base salary immediately prior to such termination, plus (b) an amount in cash equal to the value of any accrued but unpaid base salary, bonus and vacation pay. In addition, Mr. John Casella will continue to receive healthcare and other benefits for a period of three years from the date of termination, and any stock options or equity grants issued by us to him will become exercisable in full upon termination without cause. In the event that Mr. John Casella terminates his employment with us for good reason or qualified good reason (as defined below), he will receive the maximum payments and benefits described in the preceding two sentences plus an additional payment intended to compensate him for excise taxes under Section 4999 of the Code payable in connection with the severance payments.

In the event Mr. Johnson s employment is terminated by us without cause, he will be entitled to payment of an amount equal to (a) two times the sum of (i) his highest annual base salary at any time prior to such termination and (ii) 85% of his highest base salary at any time prior to such termination and (b) an amount in cash equal to the value of any accrued but unpaid base salary, bonus and vacation pay. In addition, Mr. Johnson will continue to receive healthcare and other benefits for a period of two years from the date of termination. Any stock options or equity grants issued by us to Mr. Johnson will become exercisable in full upon termination without cause. In the event that Mr. Johnson terminates his employment with us for good reason, defined as the assignment of any duties inconsistent with his status as President and Chief Operating Officer, a material adverse alteration in the nature or status of his responsibilities from those provided in the agreement or the transfer of a significant portion of such responsibilities to one or more other persons, or a material diminution in his compensation, Mr. Johnson will receive the maximum payments and benefits described in the preceding three sentences and an additional payment intended to compensate him for excise taxes under Section 4999 of the Code payable in connection with the severance payments.

In the event Mr. Coletta s employment is terminated by us without cause, he will be entitled to payment of an amount equal to (a) the sum of (i) 12 months of the highest base salary paid to Mr. Coletta prior to his termination and (ii) 75% of his base salary immediately prior to such termination and (b) an amount in cash equal to any accrued but unpaid base salary, bonus and vacation pay. In addition, Mr. Coletta will continue to receive healthcare and other benefits for a period of one year from the date of termination. Any stock options or equity grants issued by us to Mr. Coletta will become exercisable in full upon termination without cause. In the event that Mr. Coletta terminates his employment for good reason, he will be entitled to receive the severance payments described in the preceding two sentences plus an additional payment intended to compensate him for excise taxes under Section 4999 of the Code payable in connection with the severance payments.

In the event Mr. Schmitt s employment is terminated by us without cause, he will be entitled to payment of an amount equal to (a) the sum of (i) 12 months of the highest base salary paid to Mr. Schmitt prior to his termination and (ii) 60% of his base salary immediately prior to such termination and (b) an amount in cash equal to any accrued but unpaid base salary, bonus and vacation pay. In addition, Mr. Schmitt will continue to receive healthcare and other benefits for a period of one year from the date of termination. Any stock options or equity grants issued by us to Mr. Schmitt will become exercisable in full upon termination without cause. In the event that Mr. Schmitt terminates his employment for good reason, he will be entitled to receive the severance payments described in the preceding two sentences plus an additional payment intended to compensate him for excise taxes under Section 4999 of the Code payable in connection with the severance payments.

For purposes of each agreement discussed above, cause means the discharge of the employee resulting from (a) a conviction of a crime involving us; (b) an act or omission which has a material adverse effect on us; (c) fraud, misappropriation or embezzlement; or (d) the breach of confidentiality, non-competition or other material obligations by the employee. For the purposes of the employment agreement of Mr. John Casella discussed above, good reason means the occurrence of (a) a change of control, accompanied by, or followed within the 12-month period after a change of control by (b) (i) the assignment to the employee of any duties inconsistent with his status prior to the change of control or which require travel significantly more time-consuming than that required at commencement of the agreement, or (ii) a material adverse alteration in the nature or status of the employee s responsibilities from those provided in the agreement or the transfer of a significant portion of such responsibilities to one or more other persons, or (iii) a material diminution in the employee s compensation. For the purposes of the employment agreements of Mr. John Casella discussed above, qualified good reason means the occurrence of one of the events under clause (b)(i), (ii) or (iii) of the preceding definition of good reason.

The severance benefits described above were extended to Mr. John Casella and Mr. Coletta as an inducement to their decisions to continue to remain employed by us and, in the case of Messrs. Johnson and Schmitt, as an inducement to accept employment with us. At the time each of such agreements was entered into, our Board considered a number of factors, including severance arrangements offered by comparable companies, the importance of the respective employee to our ongoing success and the benefits of receiving a non-competition and non-solicitation covenant from the respective employee in exchange for the agreed severance. The Compensation Committee considers the severance benefits to be separate from the compensation payable to employees for their ongoing services and accordingly does not consider the value of the severance package when setting current compensation.

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Summary of Potential Payments Upon Termination or Change of Control as of April 30, 2014

The following table quantifies the amounts that would be payable to our named executive officers upon termination of their employment under the circumstances described above under Employment Agreements. We calculated the amounts shown based upon each such named executive officer s employment agreement, if applicable, described above and upon the hypothetical assumption that we terminated each named executive officer effective April 30, 2014.

	Termination without Cause			
Name	**Cash Payments ($) (1)**	**Value of Benefits ($) (2)**	**Value of Options with Accelerated Vesting ($) (3)**	**Value of Stock with Accelerated Vesting ($)**
John W. Casella	2,025,000	93,246		580,222
Edwin D. Johnson	1,406,000	47,798	134,713	556,410
Edmond R. Coletta	519,251	17,747	99,000	327,568
David L. Schmitt	400,134	22,939		236,645
Christopher B. Heald				

	Immediately upon a Change of Control		Termination for Good Reason				
Name	**Value of Options with Accelerated Vesting ($) (3)**	**Value of Stock with Accelerated Vesting ($)**	**Cash Payments ($) (1)**	**Value of Benefits ($) (2)**	**Value of Options with Accelerated Vesting ($) (3)**	**Tax Reimbursement ($)**	**Value of Stock with Accelerated Vesting ($)**
John W. Casella		580,222	2,025,000	93,246		1,434,389	580,222
Edwin D. Johnson	134,713	556,410	1,406,000	47,798	134,713	1,047,046	556,410
Edmond R. Coletta	99,000	327,568	519,251	17,747	99,000	437,900	327,568
David L. Schmitt		236,645	400,134	22,939			236,645
Christopher B. Heald							

(1) The amounts in this column reflect a lump sum payment, as described above, equal to a multiple of annual base salary in effect on April 30, 2014, and a bonus or other amount equal to a percentage of the base salary for each named executive officer in accordance with the terms of his employment agreement.

(2) The amounts in this column reflect payments for monthly COBRA premiums for continued health and dental coverage as well as payments for life insurance and disability insurance premiums as of April 30, 2014. For Mr. John Casella, payment of these benefits will continue for a period of three years, for each of Messrs. Coletta and Schmitt, a period of one year and for Mr. Johnson, a period of two years from the date of termination.

(3) The amounts in this column are calculated based on the difference between $5.10, the closing market price per share of our Class A common stock on April 30, 2014, and the exercise price per share for the options subject to accelerated vesting.

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Director Compensation

We compensate our directors who are not our employees or employees of our subsidiaries. Accordingly, Mr. John Casella, who serves as our Chief Executive Officer, and Mr. Douglas Casella, who serves as Vice Chairman of our Board and President of Casella Waste Management, Inc., our wholly-owned subsidiary, do not receive any additional compensation for their service as directors.

The Compensation Committee periodically reviews the compensation of our non-employee directors. We seek to attract exceptional talent to our Board and therefore, our policy is to compensate our directors competitively relative to comparable companies. Our Board believes that it is appropriate for the chairs and members of the committees of our Board to receive additional compensation for their services in those positions.

Cash Compensation

In fiscal 2014, our non-employee directors wereed costs in the 2017 period.

Insurance and claims decreased $3.9 million or 4.7% in 2017 compared to 2016 and decreased 0.4% as a percentage of operating revenues. The decrease in 2017 compared to 2016 is primarily the result of a lower amount of unfavorable loss development on prior period large dollar claims in 2017. We renewed our liability insurance policies on August 1, 2017 and assumed additional risk exposure by increasing our self-insured retention and deductible levels. Effective on August 1, 2017, we were responsible for the first $3.0 million per claim with an annual $6.0 million aggregate for claims between $3.0 million and $5.0 million. We also had an additional $5.0 million deductible per claim for each claim between $5.0 million and $10.0 million. As a result, we were responsible for the first $10.0 million per claim, until meeting the $6.0 million aggregate for claims between $3.0 million and $5.0 million. For the policy years that ended July 31, 2016 and 2017, we were responsible for the first $2.0 million per claim with an annual $8.0 million aggregate for claims between $2.0 million and $5.0 million and an annual aggregate of $5.0 million for claims between $5.0 million and $10.0 million. We maintained liability insurance coverage with insurance carriers substantially in excess of the $10.0 million per claim. As a result of the higher self-insured retention and deductible amounts under the new policies, our liability insurance premiums for the policy year that began August 1, 2017 were about $3.7 million lower than premiums for the previous policy year.

Depreciation increased $7.9 million or 3.8% in 2017 compared to 2016 and decreased 0.1% as a percentage of operating revenues. This expense increase is due primarily to (i) the higher cost of new trucks purchased compared to the cost of used trucks that were sold over the past 12 months and (ii) the purchase of new trailers over the past 12 months to replace older used trailers which were fully depreciated. During fourth quarter 2016 we changed the estimated life of certain trucks to more rapidly depreciate the trucks to their residual values due to the weak used truck market. This change in accounting estimate resulted in additional depreciation expense of $4.1 million in 2016 and $3.4 million in 2017. We completed the sale of these specific trucks in 2017.

Rent and purchased transportation expense decreased $2.7 million or 0.5% in 2017 compared to 2016 and decreased 1.4% as a percentage of operating revenues. Werner Logistics rent and purchased transportation expense increased $9.8 million and increased to 85.1% of Werner Logistics revenues in 2017 from 82.9% in 2016. Tighter carrier capacity in 2017 compared to 2016 resulted in higher purchased transportation costs for our predominantly contractual logistics business, causing the lower gross margin percentages.

Rent and purchased transportation expense for the Truckload segment decreased $12.5 million in 2017 compared to 2016. This decrease is due primarily to lower payments to independent contractors in 2017 compared to 2016, resulting from a 15.6% decrease in independent contractor miles driven in 2017. This decrease was partially offset by higher average diesel fuel prices in 2017, which resulted in higher reimbursement to independent contractors for fuel. Independent contractor miles as a percentage of total miles were 12.1% in 2017 and 14.4% in 2016.

Other operating expenses increased $5.5 million in 2017 compared to 2016 and increased 0.3% as a percentage of operating revenues. Gains on sales of assets were $6.8 million in 2017, compared to $16.4 million in 2016, which included $10.5 million in real estate gains. In 2017, we sold more trucks and fewer trailers than in 2016. We realized average gains per truck sold in 2017 compared to average losses per truck in 2016, and we realized lower average gains per trailer sold in 2017 compared to 2016. The used truck pricing market remained difficult in 2017 due to a higher than normal supply of used trucks in the market and low buyer demand. Other operating expenses, primarily provision for doubtful accounts related to the driver training schools and professional and consulting fees, were $4.2 million lower in 2017 than in 2016.

Other Expense (Income)

Other expense (income) increased $0.7 million in 2017 compared to 2016 and remained flat as a percentage of operating revenues. Interest income decreased due to lower average outstanding notes receivable, which was partially offset by lower interest expense in 2017 compared to 2016 due to lower average outstanding debt.

Income Tax Expense (Benefit)

Income tax expense (benefit) decreased $106.7 million in 2017 compared to 2016, due primarily to the impact of federal tax law changes. The Tax Act, enacted on December 22, 2017, lowered the federal corporate income tax rate to 21% from 35% effective January 1, 2018. We recorded a $110.5 million non-cash reduction in income tax expense in 2017, which resulted from the Company’s revalued net deferred income tax liabilities to reflect the lower federal income tax rate. Our effective income tax rate (income taxes expressed as a percentage of income before income taxes) was -40.4% (income tax benefit) in 2017 and was 37.9% (income tax expense) in 2016.

Liquidity and Capital Resources:

During the year ended December 31, 2018, we generated cash flow from operations of $418.2 million, a 47.8% increase ($135.3 million), compared to the year ended December 31, 2017. This increase in net cash provided by operating activities is attributed primarily to the increase in pre-tax earnings in 2018 and the reduction in the federal corporate income tax rate as a result of the Tax Act, as well as a $32.2 million increase in cash flow related to insurance, claims and other long-term accruals. Cash flow from operations decreased $26.8 million in 2017 from 2016, or 8.7%. This decrease is attributed primarily to a $32.5 million decrease in cash flows related to accounts receivable due in part to extended payment terms with customers and growth in revenues in the latter part of 2017 not yet collected from customers. We were able to make net capital expenditures, repurchase stock, and pay dividends with the net cash provided by operating activities and existing cash balances, supplemented by net borrowings under our existing credit facilities.

Net cash used in investing activities increased by $147.6 million to $331.4 million in 2018 from $183.8 million in 2017 and decreased by $226.4 million in 2017 from $410.3 million in 2016. Net property additions (primarily revenue equipment) were $349.0 million for the year ended December 31, 2018, compared to $198.8 million during the same period of 2017 and $429.6 million during 2016. As of December 31, 2018, we were committed to property and equipment purchases of approximately $276.1 million. We currently estimate net capital expenditures (primarily revenue equipment) in 2019 to be in the range of $275.0 million to $300.0 million following our multi-year elevated capital expenditure investment.

Net financing activities used $67.6 million in 2018, used $101.4 million in 2017 and provided $83.4 million in 2016. During the year ended December 31, 2018, we borrowed $110.0 million of debt and repaid $60.0 million of debt. Our outstanding debt at December 31, 2018 totaled $125.0 million. During 2017, we repaid $105.0 million of debt, and in 2016, we borrowed $165.0 million and repaid $60.0 million. We paid quarterly dividends of $23.0 million in 2018, $18.8 million in 2017 and $17.3 million in 2016. We increased our quarterly dividend rate by $0.02 per share, or 29%, beginning with the dividend paid in July 2018, and increased our quarterly dividend rate by $0.01 per share, or 17%, beginning with the dividend paid in July 2017. We repurchased 2,077,101 shares of common stock at a cost of $72.2 million in 2018, and we did not repurchase any common stock in 2017 or 2016. From time to time, the Company has repurchased, and may continue to repurchase, shares of the Company’s common stock. The timing and amount of such purchases depends on stock market conditions and other factors. As of December 31, 2018, the Company had purchased 5,364,392 shares pursuant to our current Board of Directors repurchase authorization and had 2,635,608 shares remaining available for repurchase.

Management believes our financial position at December 31, 2018 is strong. As of December 31, 2018, we had $33.9 million of cash and cash equivalents and over $1.2 billion of stockholders’ equity. Cash is invested primarily in government portfolio money market funds. As of December 31, 2018, we had a total of $325.0 million of borrowing capacity under three credit facilities (see Note 3 in the Notes to Consolidated Financial Statements under Item 8 of Part II of this Form 10-K for information regarding our credit agreements as of December 31, 2018), of which we had borrowed $125.0 million. The remaining $200.0 million of credit available under these facilities at December 31, 2018 is reduced by the $30.3 million in stand-by letters of credit under which we are obligated. These stand-by letters of credit are primarily required as security for insurance policies. Based on our strong financial position, management does not foresee any significant barriers to obtaining sufficient financing, if necessary.

Contractual Obligations and Commercial Commitments:

The following table sets forth our contractual obligations and commercial commitments as of December 31, 2018.

Payments Due by Period

(Amounts in millions)	Total	Less than 1 year (2019)	1-3 years (2020-2021)	3-5 years (2022-2023)	More than 5 years (After 2023)	Period Unknown
Contractual Obligations						
Unrecognized tax benefits	$2.6	$ —	$ —	$ —	$ —	$ 2.6
Long-term debt, including current maturities	125.0	75.0	50.0	—	—	—
Interest payments on debt	3.6	2.8	0.8	—	—	—
Property and equipment purchase commitments	276.1	276.1	—	—	—	—
Total contractual cash obligations	$407.3	$ 353.9	$ 50.8	$ —	$ —	$ 2.6
Other Commercial Commitments						
Unused lines of credit	$169.7	$ —	$ 169.7	$ —	$ —	$ —
Stand-by letters of credit	30.3	30.3	—	—	—	—
Total commercial commitments	$200.0	$ 30.3	$ 169.7	$ —	$ —	$ —
Total obligations	$607.3	$ 384.2	$ 220.5	$ —	$ —	$ 2.6

As of December 31, 2018, 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 million credit facility which will expire on July 12, 2020, and a $75 million term commitment with principal due and payable on September 15, 2019. We had an unsecured line of credit of $75 million with U.S. Bank, N.A., which will expire on July 13, 2020. We also had a $75 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 based on the London Interbank Offered Rate (“LIBOR”). As of December 31, 2018, we had $75 million outstanding under the term commitment at a variable rate of 3.06%, which is effectively fixed at 2.5% with an interest rate swap agreement, and we had an additional $50 million outstanding under the credit facilities at a variable interest rate of 3.01%. Interest payments on debt are based on the debt balance and interest rates at December 31, 2018. The borrowing capacity under these credit facilities is further reduced by the amount of stand-by letters of credit under which we are obligated. The stand-by letters of credit are primarily required for insurance policies. The unused lines of credit are available to us in the event we need financing for the replacement of our fleet or for other significant capital expenditures. Management believes our financial position is strong, and we therefore expect that we could obtain additional financing, if necessary. Property and equipment purchase commitments relate to committed equipment expenditures, primarily for revenue equipment. As of December 31, 2018, we had recorded a $2.6 million liability for unrecognized tax benefits. We are unable to reasonably determine when the $2.6 million categorized as "period unknown" will be settled.

Off-Balance Sheet Arrangements:

In 2018, we did not have any non-cancelable revenue equipment operating leases or other arrangements that meet the definition of an off-balance sheet arrangement.

Critical Accounting Estimates:

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the (i) reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and (ii) reported amounts of revenues and expenses during the reporting period. We evaluate these estimates on an ongoing basis as events and circumstances change, utilizing historical experience, consultation with experts and other methods considered reasonable in the particular circumstances. Actual results could differ from those estimates and may significantly impact our results of operations from period to period. It is also possible that materially different amounts would be reported if we used different estimates or assumptions.

Estimates of accrued liabilities for insurance and claims for liability and physical damage losses and workers' compensation is a critical accounting estimate that requires us to make significant judgments and estimates and affects our financial statements. The insurance and claims accruals (current and non-current) are recorded at the estimated ultimate payment amounts and are based upon individual case estimates and estimates of incurred-but-not-reported losses (negative development) using loss development factors based upon past experience. An actuary reviews our undiscounted self-insurance reserves for bodily injury and property damage claims and workers' compensation claims at year-end. The actual cost to settle our self-insured claim liabilities can differ from our reserve estimates because of a number of uncertainties, including the inherent difficulty in estimating the severity of a claim and the potential amount to defend and settle a claim.

Inflation:

Inflation may impact our operating costs. A prolonged inflation period could cause rises in interest rates, fuel, wages and other costs. These inflationary increases could adversely affect our results of operations unless freight rates could be increased correspondingly. However, the effect of inflation has been minimal over the past three years.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in interest rates, commodity prices and foreign currency exchange rates.

Commodity Price Risk

The price and availability of diesel fuel are subject to fluctuations attributed to changes in the level of global oil production, refining capacity, seasonality, weather and other market factors. Historically, we have recovered a majority, but not all, of fuel price increases from customers in the form of fuel surcharges. We implemented customer fuel surcharge programs with most of our customers to offset much of the higher fuel cost per gallon. However, we do not recover all of the fuel cost increase through these surcharge programs. We cannot predict the extent to which fuel prices will increase or decrease in the future or the extent to which fuel surcharges could be collected. As of December 31, 2018, we had no derivative financial instruments to reduce our exposure to fuel price fluctuations.

Foreign Currency Exchange Rate Risk

We conduct business in several foreign countries, including Mexico, Canada, and China. To date, most foreign revenues are denominated in U.S. Dollars, and we receive payment for foreign freight services primarily in U.S. Dollars to reduce direct foreign currency risk. Assets and liabilities maintained by a foreign subsidiary company in the local currency are subject to foreign exchange gains or losses. Foreign currency translation gains and losses primarily relate to changes in the value of revenue equipment owned by a subsidiary in Mexico, whose functional currency is the Peso. Foreign currency translation losses were $0.5 million in 2018, foreign currency translation gains were $0.5 million in 2017 and foreign currency translation losses were $4.2 million in 2016,

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and were recorded in accumulated other comprehensive loss within stockholders' equity in the Consolidated Balance Sheets. The exchange rate between the Mexican Peso and the U.S. Dollar was 19.68 Pesos to $1.00 at December 31, 2018 compared to 19.74 Pesos to $1.00 at December 31, 2017 and 20.66 Pesos to $1.00 at December 31, 2016.

Interest Rate Risk

We manage interest rate exposure through a mix of variable rate debt and interest rate swap agreements. We had $75 million of debt outstanding at December 31, 2018, for which the interest rate is effectively fixed at 2.5% through September 2019 with an interest rate swap agreement to reduce our exposure to interest rate increases. We had $50 million of variable rate debt outstanding at December 31, 2018. Interest rates on the variable rate debt and our unused credit facilities are based on the LIBOR (see Contractual Obligations and Commercial Commitments). Assuming this level of borrowing, a hypothetical one-percentage point increase in the LIBOR interest rate would increase our annual interest expense by $500,000. As of December 31, 2018, we had one effective interest rate swap agreement with a notional amount of $75.0 million to reduce our exposure to interest rate increases.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm
To the Stockholders and Board of Directors
Werner Enterprises, Inc.:
Opinion on the Consolidated Financial Statements
We have audited the accompanying consolidated balance sheets of Werner Enterprises, Inc. and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three year period ended December 31, 2018, and the related notes and financial statement schedule II listed in the Index in Item 15(a)(2) (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 1, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.
Change in Accounting Principle
As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for revenue recognition in 2018 due to the adoption of Accounting Standards Codification 606, Revenue from Contracts with Customers.
Basis for Opinion
These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.
We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 1999.
Omaha, Nebraska
March 1, 2019

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WERNER ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
(In thousands, except per share amounts)	2018	2017	2016
Operating revenues	$2,457,914	$2,116,737	$2,008,991
Operating expenses:			
Salaries, wages and benefits	781,064	681,547	636,112
Fuel	254,564	198,745	155,042
Supplies and maintenance	185,074	164,325	171,397
Taxes and licenses	87,318	86,768	85,547
Insurance and claims	98,133	79,927	83,866
Depreciation	230,151	217,639	209,728
Rent and purchased transportation	589,002	509,573	512,296
Communications and utilities	16,063	16,105	16,106
Other	(7,670)	18,288	12,827
Total operating expenses	2,233,699	1,972,917	1,882,921
Operating income	224,215	143,820	126,070
Other expense (income):			
Interest expense	2,695	2,243	2,577
Interest income	(2,737)	(3,308)	(4,158)
Other	376	328	191
Total other expense (income)	334	(737)	(1,390)
Income before income taxes	223,881	144,557	127,460
Income tax expense (benefit)	55,733	(58,332)	48,331
Net income	$168,148	$202,889	$79,129
Earnings per share:			
Basic	$2.35	$2.81	$1.10
Diluted	$2.33	$2.80	$1.09
Weighted-average common shares outstanding:			
Basic	71,694	72,270	72,057
Diluted	72,057	72,558	72,393

See Notes to Consolidated Financial Statements.

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WERNER ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
(In thousands)	2018	2017	2016
Net income	$168,148	$202,889	$79,129
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	(493)	483	(4,191)
Change in fair value of interest rate swap	255	599	337
Other comprehensive income (loss)	(238)	1,082	(3,854)
Comprehensive income	$167,910	$203,971	$75,275

See Notes to Consolidated Financial Statements.

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WERNER ENTERPRISES, INC.
CONSOLIDATED BALANCE SHEETS

	December 31,	
(In thousands, except share amounts)	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$33,930	$13,626
Accounts receivable, trade, less allowance of $8,613 and $8,250, respectively	337,927	304,174
Other receivables	26,545	26,491
Inventories and supplies	10,060	11,694
Prepaid taxes, licenses and permits	16,619	15,972
Other current assets	31,577	28,272
Total current assets	456,658	400,229
Property and equipment, at cost:		
Land	59,103	56,300
Buildings and improvements	188,174	171,619
Revenue equipment	1,750,290	1,630,344
Service equipment and other	250,010	256,074
Total property and equipment	2,247,577	2,114,337
Less – accumulated depreciation	760,015	767,474
Property and equipment, net	1,487,562	1,346,863
Other non-current assets	139,284	60,899
Total assets	$2,083,504	$1,807,991
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Checks issued in excess of cash balances	$—	$21,539
Accounts payable	97,781	73,802
Current portion of long-term debt	75,000	—
Insurance and claims accruals	67,304	79,674
Accrued payroll	40,271	32,520
Other current liabilities	30,004	24,642
Total current liabilities	310,360	232,177
Long-term debt, net of current portion	50,000	75,000
Other long-term liabilities	10,911	12,575
Insurance and claims accruals, net of current portion	214,030	108,270
Deferred income taxes	233,450	195,187
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value, 200,000,000 shares authorized; 80,533,536 shares issued; 70,441,973 and 72,409,222 shares outstanding, respectively	805	805
Paid-in capital	107,455	102,563
Retained earnings	1,413,746	1,267,871
Accumulated other comprehensive loss	(16,073)	(15,835)
Treasury stock, at cost; 10,091,563 and 8,124,314 shares, respectively	(241,180)	(170,622)
Total stockholders' equity	1,264,753	1,184,782
Total liabilities and stockholders' equity	$2,083,504	$1,807,991

See Notes to Consolidated Financial Statements.

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WERNER ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
(In thousands)	2018	2017	2016
Cash flows from operating activities:			
Net income	$168,148	$202,889	$79,129
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	230,151	217,639	209,728
Deferred income taxes	37,694	(100,948)	44,632
Gain on disposal of property and equipment	(24,898)	(6,798)	(16,432)
Non-cash equity compensation	7,394	4,546	2,381
Insurance and claims accruals, net of current portion	26,570	(5,605)	(11,320)
Other	(4,774)	(11,957)	(3,370)
Changes in certain working capital items:			
Accounts receivable, net	(33,753)	(42,802)	(10,349)
Other current assets	(9,979)	20,173	2,245
Accounts payable	7,559	5,831	(5,272)
Other current liabilities	14,047	(140)	18,291
Net cash provided by operating activities	418,159	282,828	309,663
Cash flows from investing activities:			
Additions to property and equipment	(519,872)	(316,343)	(537,838)
Proceeds from sales of property and equipment	170,900	117,498	108,231
Decrease in notes receivable	20,898	20,037	19,353
Issuance of notes receivable	(3,300)	(5,000)	—
Net cash used in investing activities	(331,374)	(183,808)	(410,254)
Cash flows from financing activities:			
Repayments of short-term debt	(40,000)	(45,000)	(20,000)
Proceeds from issuance of short-term debt	40,000	—	40,000
Repayments of long-term debt	(20,000)	(60,000)	(40,000)
Proceeds from issuance of long-term debt	70,000	—	125,000
Payment of notes payable	—	—	(3,117)
Change in net checks issued in excess of cash balances	(21,539)	21,539	—
Dividends on common stock	(23,013)	(18,784)	(17,289)
Repurchases of common stock	(72,165)	—	—
Tax withholding related to net share settlements of restricted stock awards	(1,371)	(1,632)	(1,832)
Stock options exercised	476	2,461	370
Excess tax benefits from equity compensation	—	—	238
Net cash provided by (used in) financing activities	(67,612)	(101,416)	83,370
Effect of exchange rate fluctuations on cash	(374)	50	(384)
Net increase (decrease) in cash, cash equivalents and restricted cash	18,799	(2,346)	(17,605)
Cash, cash equivalents and restricted cash, beginning of period	15,131	17,477	35,082
Cash, cash equivalents and restricted cash, end of period[1]	$33,930	$15,131	$17,477
Supplemental disclosures of cash flow information:			
Interest paid	$2,690	$2,491	$2,470
Income taxes paid	11,355	22,088	4,673
Supplemental schedule of non-cash investing activities:			
Notes receivable issued upon sale of property and equipment	$13,140	$5,816	$25,449
Change in fair value of interest rate swap	255	599	337
Property and equipment acquired included in accounts payable	16,748	3,227	1,874

Property and equipment disposed included in other receivables	674	654	155

(1) The following table provides a reconciliation of cash, cash equivalents and restricted cash to amounts reported within the Consolidated Condensed Balance Sheets.

Reconciliation of cash, cash equivalents and restricted cash:			
Cash and cash equivalents	$33,930	$13,626	$16,962
Restricted cash included in Other current assets	—	1,505	515
Total cash, cash equivalents and restricted cash	$33,930	$15,131	$17,477

See Notes to Consolidated Financial Statements.

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WERNER ENTERPRISES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share and per share amounts)	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
BALANCE, December 31, 2015	$ 805	$102,734	$1,022,966	$ (13,063)	$(177,788)	$935,654
Comprehensive income	—	—	79,129	(3,854)	—	75,275
Dividends on common stock ($0.24 per share)	—	—	(17,299)	—	—	(17,299)
Equity compensation activity, 168,219 shares, including excess tax benefits	—	(4,080)	—	—	2,856	(1,224)
Non-cash equity compensation expense	—	2,381	—	—	—	2,381
BALANCE, December 31, 2016	805	101,035	1,084,796	(16,917)	(174,932)	994,787
Comprehensive income	—	—	202,889	1,082	—	203,971
Dividends on common stock ($0.27 per share)	—	—	(19,523)	—	—	(19,523)
Equity compensation activity, 242,253 shares	—	(3,481)	—	—	4,310	829
Non-cash equity compensation expense	—	4,546	—	—	—	4,546
Cumulative effect of accounting change	—	463	(291)	—	—	172
BALANCE, December 31, 2017	805	102,563	1,267,871	(15,835)	(170,622)	1,184,782
Comprehensive income	—	—	168,148	(238)	—	167,910
Purchases of 2,077,101 shares of common stock	—	—	—	—	(72,165)	(72,165)
Dividends on common stock ($0.34 per share)	—	—	(24,284)	—	—	(24,284)
Equity compensation activity, 109,852 shares	—	(2,502)	—	—	1,607	(895)
Non-cash equity compensation expense	—	7,394	—	—	—	7,394
Cumulative effect of accounting change	—	—	2,011	—	—	2,011
BALANCE, December 31, 2018	$ 805	$107,455	$1,413,746	$ (16,073)	(241,180)	$1,264,753

See Notes to Consolidated Financial Statements.

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WERNER ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business: Werner Enterprises, Inc. (the “Company”) is a truckload transportation and logistics company operating under the jurisdiction of the U.S. Department of Transportation, similar governmental transportation agencies in the foreign countries in which we operate and various U.S. state regulatory authorities. For the years ended December 31, 2018, 2017 and 2016, our ten largest customers comprised 45%, 43% and 43%, respectively, of our revenues. No single customer generated more than 9% of the Company’s total revenues in 2018, 2017, and 2016.

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

Use of Management Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the (i) reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and (ii) reported amounts of revenues and expenses during the reporting period. The most significant estimates that affect our financial statements include the useful lives and salvage values of property and equipment, accrued liabilities for insurance and claims, estimates for income taxes and the allowance for doubtful accounts. Actual results could differ from those estimates.

Cash and Cash Equivalents: We consider all highly liquid investments, purchased with a maturity of three months or less, to be cash equivalents. Accounts at banks with an aggregate excess of the amount of checks issued over cash balances are included in current liabilities in the Consolidated Balance Sheets, and changes in such accounts are reported as a financing activity in the Consolidated Statements of Cash Flows.

Trade Accounts Receivable: We record trade accounts receivable at the invoiced amounts, net of an allowance for doubtful accounts for potentially uncollectible receivables. We review the financial condition of customers for granting credit and determine the allowance based on analysis of individual customers’ financial condition, historical write-off experience and national economic conditions. We evaluate the adequacy of our allowance for doubtful accounts quarterly. Past due balances over 90 days and exceeding a specified amount are reviewed individually for collectibility. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. We do not have any off-balance-sheet credit exposure related to our customers.

Inventories and Supplies: Inventories and supplies are stated at the lower of average cost and net realizable value and consist primarily of revenue equipment parts, tires, fuel and supplies. Tires placed on new revenue equipment are capitalized as a part of the equipment cost. Replacement tires are expensed when placed in service.

Property, Equipment, and Depreciation: Additions and improvements to property and equipment are capitalized at cost, while maintenance and repair expenditures are charged to operations as incurred. Gains and losses on the sale or exchange of equipment are recorded in other operating expenses.

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

	Lives	Salvage Values
Building and improvements	30 years	0%
Tractors	80 months	0%
Trailers	12 years	$1,000
Service and other equipment	3-10 years	0%

During fourth quarter 2016, due to the weak used truck market, we reduced the estimated life of certain trucks to more rapidly depreciate the trucks to their residual values. The effect of this change in accounting estimate was to (i) increase 2016 depreciation expense and decrease operating income by $4.1 million and (ii) increase 2017 depreciation expense and decrease operating income by $3.4 million We completed the sale of these specific trucks in 2017.

Long-Lived Assets: We review our long-lived assets for impairment whenever events or circumstances indicate the carrying amount of a long-lived asset may not be recoverable. An impairment loss would be recognized if the carrying amount of the long-lived asset is not recoverable and the carrying amount exceeds its fair value. For long-lived assets classified as held and used, the carrying amount is not recoverable when the carrying value of the long-lived asset exceeds the sum of the future net cash flows. We do not separately identify assets by operating segment because tractors and trailers are routinely transferred from one operating fleet to another. As a result, none of our long-lived assets have identifiable cash flows from use that are largely independent of the cash flows of other assets and liabilities. Thus, the asset group used to assess impairment would include all of our assets.

Insurance and Claims Accruals: Insurance and claims accruals (both current and non-current) reflect the estimated cost (including estimated loss development and loss adjustment expenses) for (i) cargo loss and damage, (ii) bodily injury and property damage, (iii) group health and (iv) workers' compensation claims not covered by insurance. The costs for cargo, bodily injury and property damage insurance and claims are included in insurance and claims expense in the Consolidated Statements of Income; the costs of group health and workers' compensation claims are included in salaries, wages and benefits expense. The insurance and claims accruals are recorded at the estimated ultimate payment amounts. Such insurance and claims accruals are based upon individual case estimates and estimates of incurred-but-not-reported losses (negative development) using loss development factors based upon past experience. Actual costs related to insurance and claims have not differed materially from estimated accrued amounts for all years presented. An actuary reviews our calculation of the undiscounted self-insurance reserves for bodily injury and property damage claims and workers' compensation claims at year-end.

We renewed our liability insurance policies on August 1, 2018 with the same deductibles and aggregates that became effective with the August 1, 2017 renewal. Our self-insured retention ("SIR") and deductible amount continues to be $3.0 million, plus administrative expenses, for each occurrence involving bodily injury or property damage. We also have an annual $6.0 million aggregate for claims between $3.0 million and $5.0 million and an additional $5.0 million deductible per claim for each claim between $5.0 million and $10.0 million. Our SIR/deductible was $2.0 million for policy years from August 1, 2004 through July 31, 2017, and we were also responsible for varying annual aggregate amounts of liability for claims in excess of the SIR/deductible (see page 10). Liability claims in excess of these aggregates are covered under premium-based policies (issued by insurance companies) to coverage levels that our management considers adequate. We are also responsible for administrative expenses for each occurrence involving bodily injury or property damage.

Our SIR for workers' compensation claims is $1.0 million per claim, with premium-based insurance coverage for claims exceeding this amount. We also maintain a $26.7 million bond for the State of Nebraska and a $6.9 million bond for our workers' compensation insurance carrier.

Under these insurance arrangements, we maintained $30.3 million in letters of credit as of December 31, 2018.

Revenue Recognition: The Consolidated Statements of Income reflect recognition of operating revenues (including fuel surcharge revenues) and related direct costs over time as control of the promised services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those services. For shipments where a third-party capacity provider (including independent contractors under contract with us) is utilized to provide some or all of the service, we evaluate whether we are the principal (i.e., report revenues on a gross basis) or agent (i.e., report revenues on a net basis).

Foreign Currency Translation: Local currencies are generally considered the functional currencies outside the United States. Assets and liabilities are translated at year-end exchange rates for operations in local currency environments. Foreign revenues and expense items denominated in the functional currency are translated at the average rates of exchange prevailing during the year. Foreign currency translation adjustments reflect the changes in foreign currency exchange rates applicable to the net assets of the foreign operations. Foreign currency translation adjustments are recorded in accumulated other comprehensive loss within stockholders' equity in the Consolidated Balance Sheets and as a separate component of comprehensive income in the Consolidated Statements of Comprehensive Income.

Income Taxes: Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using the enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In accounting for uncertain tax positions, we recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. We recognize interest and penalties directly related to income tax matters in income tax expense.

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

	Years Ended December 31,		
	2018	2017	2016
Net income	$168,148	$202,889	$79,129
Weighted average common shares outstanding	71,694	72,270	72,057
Dilutive effect of stock-based awards	363	288	336
Shares used in computing diluted earnings per share	72,057	72,558	72,393
Basic earnings per share	$2.35	$2.81	$1.10
Diluted earnings per share	$2.33	$2.80	$1.09

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.

Equity Compensation: We have an equity compensation plan that provides for grants of non-qualified stock options, restricted stock, restricted stock units and stock appreciation rights to our associates and directors. We apply the fair value method of accounting for equity compensation awards. Issuances of stock upon an exercise of stock options or vesting of restricted stock are made from treasury stock; shares reacquired to satisfy tax withholding obligations upon vesting of restricted stock are recorded as treasury stock. Grants of stock options, restricted stock, and performance awards vest in increments, and we recognize compensation expense over the requisite service period of each award. We accrue compensation expense for performance awards for the estimated number of shares expected to be issued using the most current information available at the date of the financial statements. If the performance objectives are not met, no compensation expense will be recognized, and any previously recognized compensation expense will be reversed.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) refers to revenues, expenses, gains and losses that are not included in net income, but rather are recorded directly in stockholders’ equity. For the years ended December 31, 2018, 2017 and 2016, comprehensive income consists of net income, foreign currency translation adjustments and change in fair value of interest rate swap.

New Accounting Pronouncements Adopted: In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers,” which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The Company adopted ASU 2014-09 and related amendments, which is also known as Accounting Standards Codification (“ASC”) Topic 606, as of January 1, 2018 using the modified retrospective transition method. Results for periods beginning January 1, 2018 and later are presented under ASC Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company’s historical accounting policy for revenue recognition.

We recorded a $2.0 million net increase to the opening balance of retained earnings as of January 1, 2018, for the cumulative impact of adopting the new guidance. The impact primarily related to the change in accounting for shipments in transit as of December 31, 2017. ASC Topic 606 requires us to recognize revenue and related direct costs over time as the shipment is being delivered. Prior to adopting the new guidance, we recognized revenue and related direct costs when the shipment was delivered.

Under the modified retrospective method of adoption, we are required to disclose the impact to our financial statements had we continued to follow our accounting policies under the previous revenue recognition guidance. Had we continued to recognize revenues and direct costs upon delivery, our operating revenues and operating expenses for the year ended December 31, 2018, would have been higher by approximately \$0.5 million and \$0.7 million, respectively. Additionally, under ASC Topic 606, we recorded a \$14.3 million reduction of revenues for the year ended December 31, 2018, related to our driver training schools that would have been reported as bad debt expense prior to the new standard.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,” which addresses eight specific cash flow issues with the objective of reducing the existing diversity in

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practice. The Company adopted ASU No. 2016-15 as of January 1, 2018. Upon adoption, this update had no effect on our consolidated financial position, results of operations or cash flows.

In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash,” which requires an entity to include in its cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents. The Company adopted ASU No. 2016-18 as of January 1, 2018, using the required retrospective adoption method. The adoption of this standard impacted the consolidated statements of cash flows by increasing beginning and ending cash to include the restricted balance of our like-kind exchange account and removing from operating activities the change in such balance, which resulted in a $1.0 million increase and a $2.7 million decrease to cash flow from operations for the years ended December 31, 2017 and 2016, respectively.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting,” which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The Company adopted ASU No. 2017-09 as of January 1, 2018 on a prospective basis. Upon adoption, this update had no effect on our consolidated financial position, results of operations or cash flows.

Accounting Standards Updates Not Yet Effective: In February 2016, the FASB issued ASU No. 2016-02, “Leases,” to increase transparency and comparability by recognizing a right-of-use asset and a lease liability on the balance sheet and disclosing key information about leasing arrangements. The provisions of this update and additional guidance in subsequent ASUs are effective for us beginning January 1, 2019. In July 2018, the FASB issued ASU No. 2018-11, “Leases,” which provides an optional transition method allowing entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption, with no restatement of comparative prior periods required. We will adopt the standard using this optional transition method. Based on our evaluation, the adoption of this standard will not have a material effect on our consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities,” with the objective of improving the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements. The provisions of this update are effective for fiscal years beginning after December 15, 2018. Based on our evaluation, the adoption of this standard will not have a material effect on our consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, “Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Comprehensive Income,” which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The provisions of this update are effective for fiscal years beginning after December 15, 2018. We are evaluating the impact of adopting ASU No. 2018-02 on our financial position, results of operations and cash flows.

In August 2018, the FASB issued ASU No. 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement,” which modifies the disclosure requirements on fair value measurements. As part of its disclosure framework project, the FASB has eliminated, amended and added disclosure requirements for fair value measurements in Topic 820, Fair Value Measurement. The provisions of this update are effective for fiscal years beginning after December 15, 2019. Although we are evaluating the impact of adopting ASU No. 2018-13 on our financial position, results of operations and cash flows, we do not expect a material effect upon adoption because we do not currently disclose any fair value measurements subject to the amendments.

In August 2018, the FASB issued ASU No. 2018-15, “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force),” which updates the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract to align with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The provisions of this update are effective for fiscal years beginning after December 15, 2019. We are evaluating the impact of adopting ASU No. 2018-15 on our financial position, results of operations and cash flows.

(2) REVENUE

Revenue Recognition

Revenues are recognized over time as control of the promised services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those services.

The following table presents our revenues disaggregated by revenue source (in thousands):

	Years Ended December 31		
	2018	2017	2016
Truckload Transportation Services	$1,881,323	$1,635,244	$1,533,981
Werner Logistics	518,078	417,639	417,172
Inter-segment eliminations	(1,149)	(829)	(973)
Transportation services	2,398,252	2,052,054	1,950,180
Other revenues	59,662	64,683	58,811
Total revenues	$2,457,914	$2,116,737	$2,008,991

The following table presents our revenues disaggregated by geographic areas in which we conduct business (in thousands). Operating revenues for foreign countries include revenues for (i) shipments with an origin or destination in that country and (ii) other services provided in that country. If both the origin and destination are in a foreign country, the revenues are attributed to the country of origin.

	Years Ended December 31		
	2018	2017	2016
United States	$2,145,098	$1,837,525	$1,760,214
Mexico	233,116	210,228	183,058
Other	79,700	68,984	65,719
Total revenues	$2,457,914	$2,116,737	$2,008,991

Transportation Services

We generate nearly all of our revenues by transporting truckload freight shipments for our customers. Transportation services are carried out by our Truckload Transportation Services ("Truckload") segment and our Werner Logistics ("Logistics") segment. The Truckload segment utilizes company-owned and independent contractor trucks to deliver shipments, while the Logistics segment uses third-party capacity providers.

The Company generates revenues from billings for transportation services under contracts with customers, generally on a rate per mile or per shipment, based on origin and destination of the shipment. The Company's performance obligation arises when it receives a shipment order to transport a customer's freight and is satisfied upon delivery of the shipment. The transaction price may be defined in a transportation services agreement or negotiated with the customer prior to accepting the shipment order. A customer may submit several shipment orders for transportation services at various times throughout a service agreement term, but each shipment represents a distinct service that is a separately identified performance obligation. The Company often provides additional or ancillary services as part of the shipment (such as loading/unloading and stops in transit) which are not distinct or are not material in the context of the contract; therefore the revenues for these services are recognized with the freight transaction price. The average transit time to complete a shipment is approximately 3 days. Invoices for transportation services are typically generated soon after shipment delivery and, while payment terms and conditions vary by customer, are generally due within 30 days after the invoice date.

The Consolidated Statements of Income reflect recognition of transportation revenues (including fuel surcharge revenues) and related direct costs over time as the shipment is being delivered. The Company uses distance shipped (for the Truckload segment) and transit time (for the Logistics segment) to measure progress and the amount of revenues recognized over time, as the customer simultaneously receives and consumes the benefit. Determining a measure of progress requires us to make judgments that affect the timing of revenues recognized. The Company has determined that the methods described provide a faithful depiction of the transfer of services to the customer.

For shipments where a third-party capacity provider (including independent contractors under contract with us) is utilized to provide some or all of the service, we evaluate whether we are the principal (i.e., report revenues on a gross basis) or agent (i.e., report revenues on a net basis). Generally, we report such revenues on a gross basis, that is, we recognize both revenues for the service we bill to the customer and rent and purchased transportation expense for transportation costs we pay to the third-party provider. Where we are the principal, we control the transportation service before it is provided to our customers, which is supported by us being primarily responsible for fulfilling the shipment obligation to the customer and having a level of discretion in establishing pricing with the customer.

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During 2018, revenues recognized from performance obligations related to prior periods (for example, due to changes in transaction price) was not material.

Other Revenues
Other revenues include revenues from our driver training schools, transportation-related activities such as third-party equipment maintenance and equipment leasing, and other business activities. These revenues are generally recognized over time and accounted for 2% of our total revenues in 2018. Revenues from our driver training schools require us to make judgments regarding price concessions in determining the amount of revenues to recognize.

Contract Balances and Accounts Receivable
A receivable is an unconditional right to consideration and is recognized when shipments have been completed and the related performance obligation has been fully satisfied. At December 31, 2018 and December 31, 2017, the accounts receivable, net, balance was $337.9 million and $304.2 million, respectively. Contract assets represent a conditional right to consideration in exchange for goods or services, and are transferred to receivables when the rights become unconditional. At December 31, 2018, the balance of contract assets was $7.4 million, and the balance was $7.8 million at January 1, 2018, after adopting ASC Topic 606. The Company has recognized contract assets within the other current assets financial statement caption on the balance sheet. These contract assets are considered current assets as they will be settled in less than 12 months.

Contract liabilities represent advance consideration received from customers, and are recognized as revenues over time as the related performance obligation is satisfied. At December 31, 2018 and December 31, 2017, the balance of contract liabilities was $1.7 million and $2.1 million, respectively. The amount of revenues recognized in 2018 that was included in the December 31, 2017 contract liability balance was $2.1 million. The Company has recognized contract liabilities within the accounts payable and other current liabilities financial statement captions on the balance sheet. These contract liabilities are considered current liabilities as they will be settled in less than 12 months.

Performance Obligations
We have elected to apply the practical expedient in ASC Topic 606 to not disclose the value of remaining performance obligations for contracts with an original expected length of one year or less. Remaining performance obligations represent the transaction price allocated to future reporting periods for freight shipments started but not completed at the reporting date that we expect to recognize as revenues in the period subsequent to the reporting date; transit times generally average approximately 3 days.

(3) CREDIT FACILITIES
As of December 31, 2018, 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. We had an unsecured line of credit of $75.0 million with U.S. Bank, N.A., which will expire 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 based on the London Interbank Offered Rate (“LIBOR”). As of December 31, 2018 and 2017, our outstanding debt totaled $125.0 million and $75.0 million, respectively. We had $75.0 million outstanding under the term commitment at a variable rate of 3.06% as of December 31, 2018, which is effectively fixed at 2.5% with an interest rate swap agreement, and we had an additional $50.0 million outstanding under the credit facilities at a variable interest rate of 3.01%. The $325.0 million of borrowing capacity under our credit facilities at December 31, 2018, is further reduced by $30.3 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 December 31, 2018, we were in compliance with these covenants.

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At December 31, 2018, the aggregate future maturities of long-term debt by year are as follows (in thousands):

2019	$75,000
2020	50,000
2021	—
2022	—
2023	—
Total	$125,000

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

(4) NOTES RECEIVABLE

We provide financing to some individuals who want to become independent contractors by purchasing a tractor from us and leasing their services to us. We maintain a primary security interest in the tractor until the independent contractor pays the note balance in full. Independent contractor notes receivable are included in other current assets and other non-current assets in the Consolidated Balance Sheets. At December 31, notes receivable consisted of the following (in thousands):

	December 31,	
	2018	2017
Independent contractor notes receivable	$18,660	$28,634
Other notes receivable	11,298	8,489
	29,958	37,123
Less current portion	7,563	11,127
Notes receivable – non-current	$22,395	$25,996

We also provide financing to some individuals who attended our driver training schools. The student notes receivable are included in other receivables and other non-current assets in the Consolidated Balance Sheets. At December 31, student notes receivable consisted of the following (in thousands):

	December 31,	
	2018	2017
Student notes receivable	$53,025	$48,121
Allowance for doubtful student notes receivable	(19,361)	(21,026)
Total student notes receivable, net of allowance	33,664	27,095
Less current portion, net of allowance	8,393	6,326
Student notes receivable – non-current	$25,271	$20,769

(5) INCOME TAXES

The Tax Cuts and Jobs Act of 2017 (the “Tax Act”) was enacted on December 22, 2017, and lowered the federal corporate income tax rate to 21% from 35% effective January 1, 2018. In accounting for income taxes, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using the enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. As a result of the reduction of the federal corporate income tax rate under the Tax Act, the Company revalued its ending net deferred income tax liabilities at December 31, 2017 and recognized a provisional $110.5 million income tax benefit.

The SEC staff issued Staff Accounting Bulletin No. 118 to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. The Company recognized the provisional tax impact related to the revaluation of deferred income tax assets and liabilities and included the amount in its consolidated financial statements for the year ended December 31, 2017. During third quarter 2018, the Company filed its 2017 Federal Income Tax Return which resulted in an immaterial adjustment to the deferred tax liability and the tax expense. Accordingly, the Company’s accounting for the federal rate reduction under the Tax Act is now complete.

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

	Years Ended December 31,		
	2018	2017	2016
Current:			
Federal	$7,428	$38,535	$237
State	9,841	3,979	2,928
Foreign	770	102	534
	18,039	42,616	3,699
Deferred:			
Federal	37,284	(104,573)	42,895
State	410	3,625	1,737
	37,694	(100,948)	44,632
Total income tax expense (benefit)	$55,733	$(58,332)	$48,331

The effective income tax rate differs from the federal corporate tax rate of 21% in 2018 and 35% in 2017 and 2016 as follows (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Tax at statutory rate	$47,015	$50,595	$44,611
Change in federal income tax rate	—	(110,508)	—
State income taxes, net of federal tax benefits	8,098	4,943	3,032
Non-deductible meals and entertainment	1,044	1,495	1,549
Income tax credits	(1,800)	(1,780)	(1,900)
Equity compensation	(312)	(820)	—
Other, net	1,688	(2,257)	1,039
Total income tax expense (benefit)	$55,733	$(58,332)	$48,331

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

	December 31,	
	2018	2017
Deferred income tax assets:		
Insurance and claims accruals	$47,031	$41,986
Compensation-related accruals	7,413	6,797
Allowance for uncollectible accounts	3,628	3,599
Other	1,896	1,979
Gross deferred income tax assets	59,968	54,361
Deferred income tax liabilities:		
Property and equipment	287,061	243,482
Prepaid expenses	4,772	4,699
Other	1,585	1,367
Gross deferred income tax liabilities	293,418	249,548
Net deferred income tax liability	$233,450	$195,187

Deferred income tax assets are more likely than not to be realized as a result of future taxable income and reversal of deferred income tax liabilities.

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We recognized a $0.2 million decrease in the net liability for unrecognized tax benefits for the year ended December 31, 2018, and a $1.6 million decrease for the year ended December 31, 2017, including the impact of the federal tax rate change. We accrued interest expense of $0.1 million during 2018 and $0.2 million during 2017, excluding from both years the reversal of accrued interest related to the adjustment of uncertain tax positions. If recognized, $2.0 million of unrecognized tax benefits as of December 31, 2018 and $2.3 million as of December 31, 2017 would impact our effective tax rate. Interest of $0.4 million as of December 31, 2018 and 2017 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. The reconciliations of beginning and ending gross balances of unrecognized tax benefits for 2018 and 2017 are shown below (in thousands).

	December 31,	
	2018	2017
Unrecognized tax benefits, beginning balance	$2,883	$6,055
Gross increases – tax positions in prior period	106	168
Gross decreases – tax positions in prior period	—	—
Gross increases – current-period tax positions	444	136
Settlements	(856)	(3,476)
Unrecognized tax benefits, ending balance	$2,577	$2,883

We file U.S. federal income tax returns, as well as income tax returns in various states and several foreign jurisdictions. The years 2015 through 2017 are open for examination by the U.S. Internal Revenue Service (“IRS”), and various years are open for examination by state and foreign tax authorities. State and foreign jurisdictional statutes of limitations generally range from three to four years.

(6) EQUITY COMPENSATION AND EMPLOYEE BENEFIT PLANS

Equity Plan

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 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 December 31, 2018, there were 7,077,807 shares available for granting additional awards.

Equity compensation expense is included in salaries, wages and benefits within the Consolidated Statements of Income. As of December 31, 2018, the total unrecognized compensation cost related to non-vested equity compensation awards was approximately $10.4 million and is expected to be recognized over a weighted average period of 2.0 years. The following table summarizes the equity compensation expense and related income tax benefit recognized in the Consolidated Statements of Income (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Stock options:			
Pre-tax compensation expense	$—	$6	$(25)
Tax benefit	—	2	(9)
Stock option expense, net of tax	$—	$4	$(16)
Restricted awards:			
Pre-tax compensation expense	$4,143	$3,244	$2,337
Tax benefit	1,056	1,265	886
Restricted stock expense, net of tax	$3,087	$1,979	$1,451
Performance awards:			

Pre-tax compensation expense	$3,152	$1,459	$167
Tax benefit	804	569	63
Performance award expense, net of tax	$2,348	$890	$104

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We do not have a formal policy for issuing shares upon an exercise of stock options or vesting of restricted and performance awards. Such shares are generally issued from treasury stock. From time to time, we repurchase shares of our common stock, the timing and amount of which depends on market and other factors. Historically, the shares acquired from such repurchases have provided us with sufficient quantities of stock to issue for equity compensation. Based on current treasury stock levels, we do not expect to repurchase additional shares specifically for equity compensation during 2019.

Stock Options

Stock options are granted at prices equal to the market value of the common stock on the date the option award is granted. Option awards currently outstanding became exercisable in installments from 24 to 72 months after the date of grant. The options are exercisable over a period not to exceed ten years and one day from the date of grant. The following table summarizes stock option activity for the year ended December 31, 2018:

	Number of Options (in thousands)	Weighted Average Exercise Price ($)	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at beginning of period	33	$ 19.69		
Granted	—	—		
Exercised	(24)	19.94		
Forfeited	—	—		
Expired	—	—		
Outstanding at end of period	9	19.02	0.92	$ 95
Exercisable at end of period	9	19.02	0.92	$ 95

We did not grant any stock options during the years ended December 31, 2018, 2017 and 2016. The fair value of stock option grants is estimated using a Black-Scholes valuation model. The total intrinsic value of stock options exercised was as follows (in thousands):

2018	$ 484
2017	1,722
2016	119

Restricted Awards

Restricted stock entitles the holder to shares of common stock when the award vests. Restricted stock units entitle the holder to a combination of cash or stock equal to the value of common stock when the unit vests. The value of these shares may fluctuate according to market conditions and other factors. Restricted awards currently outstanding vest over periods ranging from 12 to 60 months from the grant date of the award. The restricted awards do not confer any voting or dividend rights to recipients until such shares vest and do not have any post-vesting sales restrictions. The following table summarizes restricted award activity for the year ended December 31, 2018:

	Number of Restricted Awards (in thousands)	Weighted Average Grant Date Fair Value ($)
Nonvested at beginning of period	273	$ 27.69
Granted	160	36.30
Vested	(91)	27.27
Forfeited	(16)	29.45
Nonvested at end of period	326	31.93

We estimate the fair value of restricted awards based upon the market price of the underlying common stock on the date of grant, reduced by the present value of estimated future dividends because the awards are not entitled to receive dividends prior to vesting. Our estimate of future dividends is based on the most recent quarterly dividend rate at the time of grant, adjusted for any known future changes in the dividend rate. Cash settled restricted stock units are recorded as a liability within the Consolidated Balance Sheets and are adjusted to fair value each reporting period.

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The total fair value of previously granted restricted awards vested during the years ended December 31, 2018, 2017, and 2016 was $3.1 million, $4.4 million, and $4.3 million, respectively. We withheld shares based on the closing stock price on the vesting date to settle the employees' statutory obligation for the applicable income and other employment taxes. The shares withheld to satisfy the tax withholding obligations were recorded as treasury stock.

Performance Awards

Performance awards entitle the recipient to shares of common stock upon attainment of performance objectives as pre-established by the Compensation Committee. If the performance objectives are achieved, performance awards currently outstanding vest, subject to continued employment, over periods ranging from 12 to 60 months from the grant date of the award. The performance awards do not confer any voting or dividend rights to recipients until such shares vest and do not have any post-vesting sales restrictions. The following table summarizes performance award activity for the year ended December 31, 2018:

	Number of Performance Awards (in thousands)	Weighted Average Grant Date Fair Value ($)
Nonvested at beginning of period	158	$ 27.20
Granted	84	37.48
Vested	(35)	27.07
Forfeited	—	—
Nonvested at end of period	207	27.92

The 2018 performance awards are earned based upon the level of attainment by the Company of specified performance objectives related to cumulative diluted earnings per share for the two-year period from January 1, 2018 to December 31, 2019. Shares earned based on cumulative diluted earnings per share may be capped based on absolute total shareholder return during the three-year period ended December 31, 2020. The 2018 performance awards will vest in one installment on the third anniversary from the grant date. The 2017 performance awards are earned based upon the level of attainment by the Company of specified performance objectives related to cumulative diluted earnings per share for the two-year period from January 1, 2017 to December 31, 2018. Shares earned based on cumulative diluted earnings per share may be capped based on absolute total shareholder return during the three-year period ended December 31, 2019. The 2017 performance awards will vest in one installment on the third anniversary from the grant date.

We estimate the fair value of performance awards based upon the market price of the underlying common stock on the date of grant, reduced by the present value of estimated future dividends because the awards are not entitled to receive dividends prior to vesting. Our estimate of future dividends is based on the most recent quarterly dividend rate at the time of grant, adjusted for any known future changes in the dividend rate.

The vesting date fair value of the performance awards vested during the years ended December 31, 2018, 2017 and 2016 was $1.3 million, $1.0 million and $1.6 million, respectively. We withheld shares based on the closing stock price on the vesting date to settle the employees' statutory obligation for the applicable income and other employment taxes. The shares withheld to satisfy the tax withholding obligations are recorded as treasury stock.

Employee Stock Purchase Plan

Employee associates that meet certain eligibility requirements may participate in our Employee Stock Purchase Plan (the "Purchase Plan"). Eligible participants designate the amount of regular payroll deductions and/or a single annual payment (each subject to a yearly maximum amount) that is used to purchase shares of our common stock on the over-the-counter market. The maximum annual contribution amount is currently $20,000. These purchases are subject to the terms of the Purchase Plan. We contribute an amount equal to 15% of each participant's contributions under the Purchase Plan. Interest accrues on Purchase Plan contributions at a rate of 5.25% until the purchase is made. We pay the trading commissions and administrative charges related to purchases of common stock under the Purchase Plan. Our contributions for the Purchase Plan were as follows (in thousands):

2018	$239
2017	208

2016 183

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401(k) Retirement Savings Plan

We have an Employees' 401(k) Retirement Savings Plan (the "401(k) Plan"). Associates are eligible to participate in the 401(k) Plan if they have been continuously employed with us or one of our subsidiaries for six months or more. We match a portion of each associate's 401(k) Plan elective deferrals. Salaries, wages and benefits expense in the accompanying Consolidated Statements of Income includes our 401(k) Plan contributions and administrative expenses, which were as follows (in thousands):

2018	$2,615
2017	2,357
2016	2,113

Nonqualified Deferred Compensation Plan

The Executive Nonqualified Excess Plan (the "Excess Plan") is our nonqualified deferred compensation plan for the benefit of eligible key managerial associates whose 401(k) Plan contributions are limited because of IRS regulations affecting highly compensated associates. Under the terms of the Excess Plan, participants may elect to defer compensation on a pre-tax basis within annual dollar limits we establish. At December 31, 2018, there were 42 participants in the Excess Plan. Although our current intention is not to do so, we may also make matching credits and/or profit sharing credits to participants' accounts as we so determine each year. Each participant is fully vested in all deferred compensation and earnings; however, these amounts are subject to general creditor claims until distributed to the participant. Under current federal tax law, we are not allowed a current income tax deduction for the compensation deferred by participants, but we are allowed a tax deduction when a distribution payment is made to a participant from the Excess Plan. The accumulated benefit obligation is included in other long-term liabilities in the Consolidated Balance Sheets. We purchased life insurance policies to fund the future liability. The aggregate market value of the life insurance policies is included in other non-current assets in the Consolidated Balance Sheets.

The accumulated benefit obligation and aggregate market value of the life insurance policies were as follows (in thousands):

	December 31,	
	2018	2017
Accumulated benefit obligation	$7,202	$7,682
Aggregate market value	6,588	7,059

(7) COMMITMENTS AND CONTINGENCIES

We have committed to property and equipment purchases of approximately $276.1 million at December 31, 2018.

We are involved in certain claims and pending litigation, including those described herein, 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 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.

On May 17, 2018, in Harris County District Court in Houston, Texas, a jury rendered an adverse verdict against Werner Enterprises, Inc. (the "Company") in a lawsuit arising from an accident between a Werner tractor-trailer and a passenger vehicle. The accident happened on December 30, 2014, near Odessa, Texas. A Werner driver was westbound on Interstate 20. A pickup truck, driven by Zaragoza Salinas, was eastbound on Interstate 20. The Salinas pickup lost control in the eastbound lanes, traveled into and through the grassy interstate median, and directly into the path of the Werner unit. The pickup had spun prior to impact, so that the bed of the pickup first struck the front of the Werner tractor.

As a result of the accident, four passengers in the pickup sustained varying injuries. Tragically, a 7 year-old boy died, and his 12 year-old sister suffered catastrophic brain injuries. The children's mother and their 14 year-old brother were also injured.

Werner's driver did not receive a citation, and the investigating officers placed no blame on the Werner driver. The Werner driver was traveling well below the posted speed limit, did not lose control of his tractor-trailer, and even brought the unit to a controlled stop after the impact.

Despite these facts, the jury entered a verdict against the Company. On July 30, 2018, the court entered a final judgment against Werner for $92.0 million, including pre-judgment interest.

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The Company has premium-based liability insurance to cover the potential outcome from this jury verdict. Under the Company's insurance policies in effect on the date of this accident, the Company's maximum liability for this accident is $10.0 million (plus pre-judgment and post-judgment interest) with premium-based coverage that exceeds the jury verdict amount. As a result of this jury verdict, the Company has accrued $15.2 million of pre-tax insurance and claims expense (including interest and legal fees) in its financial statements during 2018. Under the terms of the Company's insurance policies, the Company is the primary obligor of the verdict awarded to the family, and as such, the Company has recorded a $79.2 million receivable from its third-party insurance providers in other non-current assets and a corresponding liability of the same amount in the long-term portion of insurance and claims accruals in the consolidated balance sheets as of December 31, 2018, and such amounts are treated as non-cash operating activities in the consolidated statement of cash flows for the year ended December 31, 2018.

The Company is pursuing an appeal of this verdict. No assurances can be given regarding the outcome of such appeal.

We are involved in class action litigation in the U.S. District Court for the District of Nebraska, in which the plaintiffs allege that we owe drivers for unpaid wages under the Fair Labor Standards Act (FLSA) and the Nebraska Wage Payment and Collection Act and that we 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 is August 2008 through March 2014. The case was tried to a jury in May 2017, resulting in a verdict of $0.8 million in plaintiffs' favor on the short break matter and a verdict in our favor on the sleeper berth matter. As a result of various post-trial motions, the court has awarded $0.5 million to the plaintiffs for attorney fees and costs. As of December 31, 2018, we had accrued for the jury's award, attorney fees and costs in the short break matter and had not accrued for the sleeper berth matter. Plaintiffs have appealed the post-verdict amounts awarded by the trial court for fees, costs and liquidated damages.

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 these class actions 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.

(8) RELATED PARTY TRANSACTIONS

The Company leases land from a trust in which the Company's principal stockholder is the sole trustee. The annual rent payments under this lease are $1.00 per year. The Company is responsible for all real estate taxes and maintenance costs related to the property, which were $72,000 in 2018, $72,000 in 2017, and $50,000 in 2016 and are recorded as expenses in the Consolidated Statements of Income. The Company has made leasehold improvements to the land totaling approximately $6.6 million for facilities used for business meetings and customer promotion.

(9) SEGMENT INFORMATION

We have two reportable segments – Truckload Transportation Services ("Truckload") and Werner Logistics.

The Truckload segment consists of two operating units, Dedicated and One-Way Truckload. These units are aggregated because they have similar economic characteristics and meet the other aggregation criteria described in the accounting guidance for segment reporting. Dedicated provides truckload services dedicated to a specific customer, generally for a retail distribution center or manufacturing facility, utilizing either dry van or specialized trailers. One-Way Truckload is comprised of the following operating fleets: (i) the medium-to-long-haul van ("Van") fleet transports a variety of consumer nondurable products and other commodities in truckload quantities over irregular routes using dry van trailers, including Mexico cross-border routes; (ii) the expedited ("Expedited") fleet provides time-sensitive truckload services utilizing driver teams; (iii) the regional short-haul ("Regional") fleet provides comparable truckload van service within geographic regions across the United States; and (iv) the Temperature Controlled fleet provides truckload services for temperature sensitive products over irregular routes utilizing temperature-controlled trailers. Revenues for the Truckload segment include a small amount of non-trucking revenues which consist primarily of the intra-Mexico portion of cross-border shipments delivered to or from Mexico where we utilize a third-party capacity provider.

The Werner Logistics segment generates the majority of our non-trucking revenues through five operating units that provide non-trucking services to our customers. These five Werner Logistics operating units are as follows: (i) truck brokerage (“Brokerage”) uses contracted carriers to complete customer shipments; (ii) freight management (“Freight Management”) offers a full range of single-source logistics management services and solutions; (iii) the intermodal (“Intermodal”) unit offers rail transportation through alliances with rail and drayage providers as an alternative to truck transportation; (iv) Werner Global Logistics international (“WGL”) provides complete management of global shipments from origin to destination using a combination of air, ocean, truck and rail transportation modes; and (v) Werner Final Mile (“Final Mile”) offers home and business deliveries of large or heavy items using third-party agents with two associates operating a liftgate straight truck.

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We generate other revenues from our driver training schools, transportation-related activities such as third-party equipment maintenance and equipment leasing, and other business activities. None of these operations meets the quantitative reporting thresholds. As a result, these operations are grouped in “Other” in the tables below. “Corporate” includes revenues and expenses that are incidental to our activities and are not attributable to any of our operating segments, including gains and losses on sales of assets not attributable to our operating segments. We do not prepare separate balance sheets by segment and, as a result, assets are not separately identifiable by segment. Inter-segment eliminations in the table below represent transactions between reporting segments that are eliminated in consolidation. The following table summarizes our segment information (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Revenues			
Truckload Transportation Services	$1,881,323	$1,635,244	$1,533,981
Werner Logistics	518,078	417,639	417,172
Other	56,903	62,745	57,062
Corporate	2,759	1,938	1,749
Subtotal	2,459,063	2,117,566	2,009,964
Inter-segment eliminations	(1,149)	(829)	(973)
Total	$2,457,914	$2,116,737	$2,008,991
Operating Income			
Truckload Transportation Services	$202,581	$138,059	$107,713
Werner Logistics	20,378	8,683	20,734
Other	(453)	35	(6,177)
Corporate	1,709	(2,957)	3,800
Total	$224,215	$143,820	$126,070

Information about the geographic areas in which we conduct business is summarized below (in thousands) as of and for the years ended December 31, 2018, 2017 and 2016. Operating revenues for foreign countries include revenues for (i) shipments with an origin or destination in that country and (ii) other services provided in that country. If both the origin and destination are in a foreign country, the revenues are attributed to the country of origin.

	2018	2017	2016
Revenues			
United States	$2,145,098	$1,837,525	$1,760,214
Foreign countries			
Mexico	233,116	210,228	183,058
Other	79,700	68,984	65,719
Total foreign countries	312,816	279,212	248,777
Total	$2,457,914	$2,116,737	$2,008,991
Long-lived Assets			
United States	$1,452,532	$1,321,206	$1,341,703
Foreign countries			
Mexico	34,741	25,309	20,614
Other	289	348	321
Total foreign countries	35,030	25,657	20,935
Total	$1,487,562	$1,346,863	$1,362,638

We generate substantially all of our revenues within the United States or from North American shipments with origins or destinations in the United States. No customer generated more than 9% of our total revenues for 2018, 2017 and 2016.

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(10) QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

(In thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2018:				
Operating revenues	$ 562,684	$ 619,130	$ 629,735	$ 646,365
Operating income	35,115	50,783	63,386	74,931
Net income	27,807	38,264	47,514	54,563
Basic earnings per share	0.38	0.53	0.67	0.77
Diluted earnings per share	0.38	0.53	0.66	0.77

(In thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2017:				
Operating revenues	$ 501,221	$ 519,508	$ 528,643	$ 567,365
Operating income	25,972	36,913	35,874	45,061
Net income	16,019	23,219	22,517	141,134
Basic earnings per share	0.22	0.32	0.31	1.95
Diluted earnings per share	0.22	0.32	0.31	1.94

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

No disclosure under this item was required within the two most recent fiscal years ended December 31, 2018, or any subsequent period, involving a change of accountants or disagreements on accounting and financial disclosure.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

Management’s Report on Internal Control over Financial Reporting

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

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

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2018. This assessment is based on the criteria for effective internal control described in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2018. Management has engaged KPMG LLP (“KPMG”), the independent registered public accounting firm that audited the consolidated financial statements included in this Form 10-K, to attest to and report on the effectiveness of our internal control over financial reporting. KPMG’s report is included herein.

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Report of Independent Registered Public Accounting Firm
To the Stockholders and Board of Directors
Werner Enterprises, Inc.:
Opinion on Internal Control Over Financial Reporting
We have audited Werner Enterprises, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.
We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes and financial statement schedule II listed in the Index in Item 15(a)(2) (collectively, the consolidated financial statements), and our report dated March 1, 2019 expressed an unqualified opinion on those consolidated financial statements.
Basis for Opinion
The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.
We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.
Definition and Limitations of Internal Control Over Financial Reporting
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP
Omaha, Nebraska
March 1, 2019

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Changes in Internal Control over Financial Reporting

Management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, concluded that no changes in our internal control over financial reporting occurred during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

During fourth quarter 2018, no information was required to be disclosed in a report on Form 8-K, but not reported.

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PART III

Certain information required by Part III is omitted from this Form 10-K because we will file a definitive proxy statement pursuant to Regulation 14A (the “Proxy Statement”) not later than 120 days after the end of the fiscal year covered by this Form 10-K, and certain information included therein is incorporated herein by reference. Only those sections of the Proxy Statement which specifically address the items set forth herein are incorporated by reference.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item, with the exception of the Code of Corporate Conduct discussed below, is incorporated herein by reference to our Proxy Statement.

Code of Corporate Conduct

We adopted our Code of Corporate Conduct, which is our code of ethics, that applies to our principal executive officer, principal financial officer, principal accounting officer and all other officers, employee associates and directors. The Code of Corporate Conduct is available on our website, www.werner.com in the “Investors” section. We will post on our website any amendment to, or waiver from, any provision of our Code of Corporate Conduct that applies to our Chief Executive Officer, Chief Financial Officer or Chief Accounting Officer (if any) within four business days of any such event.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to our Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

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

Equity Compensation Plan Information

The following table summarizes, as of December 31, 2018, information about compensation plans under which our equity securities are authorized for issuance:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by stockholders	541,815 (1)	$19.02 (2)	7,077,807

(1) Includes 531,235 shares to be issued upon vesting of outstanding restricted stock awards.

(2) The weighted-average exercise price does not take into account the shares to be issued upon vesting of outstanding restricted stock awards, which have no exercise price.

We do not have any equity compensation plans that were not approved by stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference to our Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated herein by reference to our Proxy Statement.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements and Schedules.

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

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

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

(3) Exhibits: The response to this portion of Item 15 is submitted as a separate section of this Form 10-K (see Exhibit Index on pages 54 and 55).

ITEM 16. FORM 10-K SUMMARY

Not applicable

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 1st day of March, 2019.

WERNER ENTERPRISES, INC.

By: /s/ Derek J. Leathers

Derek J. Leathers
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Position	Date
/s/ Clarence L. Werner Clarence L. Werner	Executive Chairman and Director	March 1, 2019
/s/ Derek J. Leathers Derek J. Leathers	President and Chief Executive Officer (Principal Executive Officer)	March 1, 2019
/s/ Gregory L. Werner Gregory L. Werner	Director	March 1, 2019
/s/ Kenneth M. Bird, Ed.D. Kenneth M. Bird, Ed.D.	Director	March 1, 2019
/s/ Patrick J. Jung Patrick J. Jung	Director	March 1, 2019
/s/ Dwaine J. Peetz, Jr., M.D. Dwaine J. Peetz, Jr., M.D.	Director	March 1, 2019
/s/ Gerald H. Timmerman Gerald H. Timmerman	Director	March 1, 2019
/s/ Diane K. Duren Diane K. Duren	Director	March 1, 2019

/s/ Michael L. Gallagher Michael L. Gallagher	Director	March 1, 2019
/s/ Jack A. Holmes Jack A. Holmes	Director	March 1, 2019
/s/ John J. Steele John J. Steele	Executive Vice President, Treasurer and Chief Financial Officer (Principal Financial Officer)	March 1, 2019
/s/ James L. Johnson James L. Johnson	Executive Vice President, Chief Accounting Officer and Corporate Secretary (Principal Accounting Officer)	March 1, 2019

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SCHEDULE II
WERNER ENTERPRISES, INC.
VALUATION AND QUALIFYING ACCOUNTS

(In thousands)	Balance at Beginning of Period	Charged to Costs and Expenses	Write-offs (Recoveries) of Doubtful Accounts	Balance at End of Period
Year ended December 31, 2018:				
Allowance for doubtful accounts	$ 8,250	$ 672	$ 309	$ 8,613
Year ended December 31, 2017:				
Allowance for doubtful accounts	$ 9,183	$ 184	$ 1,117	$ 8,250
Year ended December 31, 2016:				
Allowance for doubtful accounts	$ 10,298	$ (245)	$ 870	$ 9,183

(In thousands)	Balance at Beginning of Period	Charged to Costs and Expenses [1]	Write-offs (Recoveries) of Doubtful Accounts	Balance at End of Period
Year ended December 31, 2018:				
Allowance for doubtful student notes	$ 21,026	$ 17,858	$ 19,523	$ 19,361
Year ended December 31, 2017:				
Allowance for doubtful student notes	$ 15,682	$ 15,917	$ 10,573	$ 21,026
Year ended December 31, 2016:				
Allowance for doubtful student notes	$ 8,622	$ 19,019	$ 11,959	$ 15,682

[1] Includes $14,277 recorded as a reduction of revenues after adopting the new revenue recognition standard effective January 1, 2018.

See report of independent registered public accounting firm.

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EXHIBIT INDEX

Exhibit Number	Description	Incorporated by Reference to:
3(i)	Restated Articles of Incorporation of Werner Enterprises, Inc.	Exhibit 3(i) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007
3(ii)	Revised and Restated By-Laws of Werner Enterprises, Inc.	Exhibit 3.1 to the Company's Current Report on Form 8-K dated August 14, 2018
10.1	Werner Enterprises, Inc. Amended and Restated Equity Plan	Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018
10.2	Non-Employee Director Compensation	Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017
10.3	The Executive Nonqualified Excess Plan of Werner Enterprises, Inc., restated	Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017
10.4	Named Executive Officer Compensation	Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016; Item 5.02 of the Company's Current Report on Form 8-K dated February 7, 2018; Item 5.02 of the Company's Current Report on Form 8-K dated February 11, 2019
10.5	Lease Agreement, as amended February 8, 2007, between the Company and Clarence L. Werner, Trustee of the Clarence L. Werner Revocable Trust	Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006
10.6	License Agreement, dated February 8, 2007 between the Company and Clarence L. Werner, Trustee of the Clarence L. Werner Revocable Trust	Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006
10.7	Form of Notice of Grant of Nonqualified Stock Option	Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 29, 2007
10.8	Form of Restricted Stock Award Agreement	Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 1, 2009
10.9	Form of Performance-Based Restricted Stock Award Agreement	Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 10, 2014
10.10	Severance Agreement and Release between the Registrant and Greg Werner	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015

11	Statement Re: Computation of Per Share Earnings	See Note 1 (Common Stock and Earnings Per Share) in the Notes to Consolidated Financial Statements under item 8 herein
21	Subsidiaries of the Registrant	Filed herewith
23.1	Consent of KPMG LLP	Filed herewith
31.1	Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934 (Section 302 of the Sarbanes-Oxley Act of 2002)	Filed herewith
31.2	Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934 (Section 302 of the Sarbanes-Oxley Act of 2002)	Filed herewith
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)	Furnished herewith

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Exhibit Number	Description	Incorporated by Reference to:
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)	Furnished herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith