RYDER SYSTEM INC
Form 10-Q
May 02, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO
Commission File Number: 1-4364

RYDER SYSTEM, INC.
(Exact name of registrant as specified in its charter)

Florida	59-0739250
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
11690 N.W. 105th Street Miami, Florida 33178	(305) 500-3726
(Address of principal executive offices, including zip code)	(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer þ		Accelerated filer ¨
Non-accelerated filer ¨	(Do not check if a smaller reporting company)	Smaller reporting company ¨
Emerging growth company ¨		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ¨

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

The number of shares of Ryder System, Inc. Common Stock ($0.50 par value per share) outstanding at March 31, 2018, was 53,094,898.

RYDER SYSTEM, INC.
FORM 10-Q QUARTERLY REPORT
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

RYDER SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS
(unaudited)

	Three months ended March 31,	
	2018	2017
	(In thousands, except per share amounts)	
Lease and rental revenues	$824,253	767,590
Services revenue	928,144	840,687
Fuel services revenue	151,070	128,706
Total revenues	1,903,467	1,736,983
Cost of lease and rental	619,207	578,762
Cost of services	787,238	702,900
Cost of fuel services	146,903	125,850
Other operating expenses	33,470	31,271
Selling, general and administrative expenses	208,624	201,095
Non-operating pension costs	1,222	7,330
Used vehicle sales, net	7,409	(780)
Interest expense	37,781	34,886
Miscellaneous income, net	(2,510)	(4,953)
Restructuring and other charges, net	16,023	—
	1,855,367	1,676,361
Earnings from continuing operations before income taxes	48,100	60,622
Provision for income taxes	14,168	22,086
Earnings from continuing operations	33,932	38,536
Loss from discontinued operations, net of tax	(427)	(130)
Net earnings	$33,505	38,406
Earnings (loss) per common share — Basic		
Continuing operations	$0.65	0.73
Discontinued operations	(0.01)	—
Net earnings	$0.64	0.72
Earnings (loss) per common share — Diluted		
Continuing operations	$0.64	0.72
Discontinued operations	(0.01)	—
Net earnings	$0.63	0.72
Cash dividends declared per common share	$0.52	0.44

See accompanying notes to consolidated condensed financial statements.
Note: EPS amounts may not be additive due to rounding.

RYDER SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three months ended March 31,	
	2018	2017
	(In thousands)	
Net earnings	$33,505	38,406
Other comprehensive income:		
Changes in currency translation adjustment and other	11,892	15,742
Amortization of pension and postretirement items	7,215	8,109
Income tax expense related to amortization of pension and postretirement items	(1,609)	(3,045)
Amortization of pension and postretirement items, net of tax	5,606	5,064
Other comprehensive income, net of taxes	17,498	20,806
Comprehensive income	$51,003	59,212

See accompanying notes to consolidated condensed financial statements.

RYDER SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(unaudited)

	March 31, 2018	December 31, 2017
	(Dollars in thousands, except share amounts)	
Assets:		
Current assets:		
Cash and cash equivalents	$ 73,857	78,348
Receivables, net of allowance of $15,288 and $13,847, respectively	986,102	1,010,908
Inventories	73,704	73,543
Prepaid expenses and other current assets	177,858	160,094
Total current assets	1,311,521	1,322,893
Revenue earning equipment, net	8,595,583	8,355,262
Operating property and equipment, net of accumulated depreciation of $1,210,379 and $1,192,377, respectively	790,476	776,704
Goodwill	380,122	395,504
Intangible assets, net of accumulated amortization of $58,760 and $57,420, respectively	41,746	42,930
Direct financing leases and other assets	616,709	570,706
Total assets	$ 11,736,157	11,463,999
Liabilities and shareholders' equity:		
Current liabilities:		
Short-term debt and current portion of long-term debt	$ 677,916	826,069
Accounts payable	618,588	599,303
Accrued expenses and other current liabilities	512,776	589,603
Total current liabilities	1,809,280	2,014,975
Long-term debt	4,999,770	4,583,582
Other non-current liabilities	824,257	812,642
Deferred income taxes	1,244,035	1,211,129
Total liabilities	8,877,342	8,622,328
Shareholders' equity:		
Preferred stock, no par value per share — authorized, 3,800,917; none outstanding, March 31, 2018 or December 31, 2017	—	—
Common stock, $0.50 par value per share — authorized, 400,000,000; outstanding, March 31, 2018 — 53,094,898 December 31, 2017 — 52,955,314	26,547	26,478
Additional paid-in capital	1,054,266	1,051,017
Retained earnings	2,468,005	2,471,677
Accumulated other comprehensive loss	(690,003)	(707,501)
Total shareholders' equity	2,858,815	2,841,671
Total liabilities and shareholders' equity	$ 11,736,157	11,463,999

See accompanying notes to consolidated condensed financial statements.

RYDER SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(unaudited)

	Three months ended March 31,	
	2018	2017
	(In thousands)	
Cash flows from operating activities from continuing operations:		
Net earnings	$33,505	38,406
Less: Loss from discontinued operations, net of tax	(427)	(130)
Earnings from continuing operations	33,932	38,536
Depreciation expense	336,745	311,207
Goodwill impairment	15,513	—
Used vehicle sales, net	7,409	(780)
Amortization expense and other non-cash charges, net	13,636	8,841
Non-operating pension costs and share-based compensation expense	6,563	12,285
Deferred income tax expense	31,858	19,296
Changes in operating assets and liabilities:		
Receivables	22,265	(27,348)
Inventories	(253)	1,876
Prepaid expenses and other assets	(26,040)	(7,577)
Accounts payable	(30,851)	13,966
Accrued expenses and other non-current liabilities	(95,890)	(38,953)
Net cash provided by operating activities from continuing operations	314,887	331,349
Cash flows from financing activities from continuing operations:		
Net change in commercial paper borrowings and revolving credit facilities	237,960	9,513
Debt proceeds	446,500	477,550
Debt repaid	(412,080)	(555,671)
Dividends on common stock	(27,795)	(23,907)
Common stock issued	1,417	3,992
Common stock repurchased	(12,921)	(16,846)
Debt issuance costs and other items	(1,259)	(846)
Net cash provided by (used in) financing activities	231,822	(106,215)
Cash flows from investing activities from continuing operations:		
Purchases of property and revenue earning equipment	(662,744)	(361,339)
Sales of revenue earning equipment	89,023	95,617
Sales of operating property and equipment	933	892
Collections on direct finance leases and other items	19,744	16,265
Net cash used in investing activities	(553,044)	(248,565)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	3,519	1,501
Decrease in cash, cash equivalents, and restricted cash from continuing operations	(2,816)	(21,930)
Decrease in cash, cash equivalents, and restricted cash from discontinued operations	(348)	(355)

Decrease in cash, cash equivalents, and restricted cash	(3,164)	(22,285)
Cash, cash equivalents, and restricted cash at January 1	83,022	62,639
Cash, cash equivalents, and restricted cash at March 31	$79,858	40,354

See accompanying notes to consolidated condensed financial statements.

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(unaudited)

1. GENERAL

Interim Financial Statements

The accompanying unaudited Consolidated Condensed Financial Statements include the accounts of Ryder System, Inc. (Ryder) and all entities in which Ryder has a controlling voting interest (subsidiaries) and variable interest entities (VIEs) required to be consolidated in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The accompanying unaudited Consolidated Condensed Financial Statements have been prepared in accordance with the accounting policies described in our 2017 Annual Report on Form 10-K and should be read in conjunction with the Consolidated Financial Statements and notes thereto except for the update to our revenue recognition significant accounting policies discussed below. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included and the disclosures herein are adequate. The operating results for interim periods are unaudited and are not necessarily indicative of the results that can be expected for a full year.

Update to Significant Accounting Policies

Our significant accounting policies are detailed in "Note 1: Summary of Significant Accounting Policies" within Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2017. Significant changes to our accounting policies as a result of adopting ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) are discussed below:

Revenue Recognition
We recognize revenue upon the transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. We enter into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. Revenue is recognized net of allowances for returns and amounts collected from customers for taxes, such as sales tax, and remitted to the applicable taxing authorities. We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectibility of consideration is probable. We generally recognize revenue over time as we perform because of continuous transfer of control to our customers.

We generate revenue primarily through the lease, rental and maintenance of revenue earning equipment and by providing logistics management and dedicated services. We classify our revenues in the categories of lease and rental, services and fuel. Our lease and rental revenues are accounted for in accordance with existing lease guidance in Leases (Topic 840) and our services and fuel revenues are accounted for in accordance with revenue recognition guidance in Topic 606.

Lease and rental
Lease and rental includes ChoiceLease and commercial rental revenues from our Fleet Management Solutions (FMS) business segment. We offer a full service lease as well as a lease with more flexible maintenance options under our ChoiceLease product line, which are marketed, priced and managed as bundled lease arrangements, and include equipment, service and financing components. We do not offer a stand-alone unbundled lease of new vehicles. For these reasons, both the lease and service components of our leases are included within lease and rental revenues.

ChoiceLease revenue is recognized in accordance with existing lease accounting guidance in Topic 840. Our ChoiceLease arrangements include lease deliverables such as the lease of a vehicle and the executory agreement for the maintenance, insurance, taxes and other services related to the leased vehicles during the lease term. Arrangement consideration is allocated between the lease deliverables and non-lease deliverables based on management's best estimate of the relative fair value of each deliverable. The arrangement consideration is accounted for pursuant to accounting guidance on leases. Our ChoiceLease arrangements provide for a fixed charge billing and a variable charge billing based on mileage or time usage. Fixed charges are typically billed at the beginning of the month for the services to be provided that month. Variable charges are typically billed a month in arrears.

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)
(unaudited)

Revenue from ChoiceLease and rental agreements is recognized based on the classification of the arrangement, typically as either an operating or direct financing lease (DFL).

- The majority of our leases and all of our rental arrangements are classified as operating leases and, therefore, we recognize lease and commercial rental revenue on a straight-line basis as it becomes receivable over the term of the lease or rental arrangement. Lease and rental agreements do not usually provide for scheduled rent increases or escalations. However, most lease agreements allow for rate changes based upon changes in the Consumer Price Index (CPI). ChoiceLease and rental agreements also provide for vehicle usage charges based on a time charge and/or a fixed per-mile charge. The fixed time charge, the fixed per-mile charge and the changes in rates attributed to changes in the CPI are considered contingent rentals and are not considered fixed or determinable until the effect of CPI changes is implemented or the equipment usage occurs.

- The non-lease components of our ChoiceLease arrangements include access to substitute vehicles, emergency road service, and safety services. These services are available to our customers throughout the lease term. Accordingly, revenue is recognized on a straight-line basis over the lease term.

- Leases not classified as operating leases are generally considered direct financing leases. We recognize revenue for direct financing leases using the effective interest method, which provides a constant periodic rate of return on the outstanding investment on the lease. Cash receipts on impaired direct financing lease receivables are first applied to the direct financing lease receivable and then to any unrecognized income. A direct financing lease receivable is considered impaired, based on current information and events, if it is probable that we will be unable to collect all amounts due according to the contractual terms of the lease.

Services
Services include SelectCare and other revenues from our FMS business segment and all Dedicated Transportation Solutions (DTS) and Supply Chain Solutions (SCS) revenues.

Under our SelectCare arrangements, we provide maintenance and repairs required to keep a vehicle in good operating condition, schedule preventive maintenance inspections and provide access to emergency road service and substitute vehicles. The vast majority of our services are routine services performed on a recurring basis throughout the term of the arrangement. From time to time, we provide non-routine major repair services in order to place a vehicle back in service.

Through our SelectCare product line, we provide maintenance services to customers who do not choose to lease vehicles from us. Our maintenance service arrangement provides for a monthly fixed charge and a monthly variable charge based on mileage or time usage. Fixed charges are typically billed at the beginning of the month for the services to be provided that month. Variable charges are typically billed a month in arrears. Most maintenance agreements allow for rate changes based upon changes in the CPI. The fixed per-mile charge and the changes in rates attributed to changes in the CPI are recognized as earned. Costs associated with the activities performed under our maintenance arrangements are primarily comprised of labor, parts and outside work. These costs are expensed as incurred. Non-chargeable maintenance costs have been allocated and reflected within “Cost of services” based on the proportionate maintenance-related labor costs relative to all product lines.

The maintenance service is the only performance obligation in SelectCare contracts. This single performance obligation is satisfied at a point in time for transactional maintenance services or over time for contract maintenance agreements. For contract maintenance agreements, the maintenance performance obligation represents a series of distinct maintenance services performed during the contract period as the services provided are substantially the same and have the same pattern of transfer to our customers. Revenue from SelectCare contracts is recognized as maintenance services are rendered over the terms of the related arrangements. We generally account for long-term maintenance contracts as one-year contracts since our maintenance arrangements are generally cancelable, without penalty, after one year. As a practical expedient, we do not disclose information about remaining performance obligations that have original expected durations of one year or less. For maintenance contracts that are longer than one year (e.g., not cancelable after one year, without penalty), the revenue we recognize corresponds directly with the value of service transferred to date. We measure the progress of transfer based on the costs incurred to provide the service to the customer. The amount that we have the right to invoice for services performed aligns with this measure. As a practical expedient, we do not disclose information about remaining performance obligations for these contracts since the revenue recognized corresponds to the amount we have the right to invoice for services performed.

In our DTS business segment, we combine equipment, maintenance, drivers, administrative services and additional services to provide customers with a dedicated transportation solution. DTS transportation solutions are customized for our customers based on a transportation analysis to create a logistics design that includes the routing and scheduling of vehicles, the efficient use of vehicle capacity and overall asset utilization. In our SCS business, we offer a broad range of logistics management services designed to optimize the supply chain and address the key business requirements of our customers. SCS operates by industry verticals (Automotive, Technology and Healthcare, Consumer Packaged Goods and Retail, and Industrial) to enable our teams to focus on the specific needs of their customers. Our SCS services are supported by a variety of information technology and engineering solutions.

Revenues from DTS and SCS service contracts are recognized as services are rendered in accordance with contract terms, which typically include (1) fixed and variable billing rates, (2) cost-plus billing rates (based on actual costs incurred to perform services and a contracted mark-up), or (3) variable only or fixed only billing rates for the services. Our billing structure aligns with the value provided to our customers. As a practical expedient, we do not disclose information about remaining performance obligations for these contracts since the revenue recognized corresponds to the amount we have the right to invoice for services performed.

Our customers contract with us to provide a significant service of integrating a set of transportation or supply chain logistical components into a single transportation or supply chain solution. Therefore, we typically account for DTS and SCS service contracts as one performance obligation satisfied over time. Less commonly, however, we may promise to provide distinct goods or services within a contract, in which case we separate the contract into more than one performance obligation. If a contract is separated into more than one performance obligation, we allocate the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. We infrequently sell standard products with observable standalone sales. More frequently, we sell a customized customer specific solution, and in these cases we use the expected cost plus a margin approach to estimate the standalone selling price of each performance obligation.

Although not material to our financial statements, in certain contracts, a portion of the contract consideration may be contingent upon the satisfaction of performance criteria, attainment of pain/gain share thresholds or volume thresholds. The amount of contingent consideration included in the determination of the transaction price at the commencement of a contract is only included to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized under the contract will not occur in a future period. Actual amounts of consideration ultimately received may differ from our estimates. If actual results in the future vary from the initial estimates, we will adjust these estimates, which would affect revenue and earnings in the period such variances become known. In transportation management arrangements where we act as principal, revenue is reported on a gross basis, without deducting third-party purchased transportation costs. To the extent that we are acting as an agent in the arrangement, revenue is reported on a net basis, after deducting purchased transportation costs.

Fuel
Fuel services include fuel services revenue from our FMS business segment. We provide our FMS customers with access to fuel at our maintenance facilities across the United States and Canada. Fuel services revenue is invoiced to customers at contracted rates, separate from other services being provided in other contracts, or at retail prices. Revenue from fuel services is recognized when fuel is delivered to customers. As a practical expedient, we do not disclose information about remaining performance obligations for these contracts since the revenue recognized corresponds to the amount we have the right to invoice for services performed. Fuel is largely a pass-through to our

customers, for which we realize minimal changes in profitability during periods of steady market fuel prices. However, profitability may be positively or negatively impacted by sudden increases or decreases in market fuel prices during a short period of time as customer pricing for fuel services is established based on trailing market fuel costs.

Significant Judgments and Estimates

Our contracts with customers often include promises to transfer multiple services to a customer. Determining whether these services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Our DTS and SCS services depend on a significant level of integration and interdependency between the services provided within a contract. Judgment is required to determine whether each service is considered distinct and accounted for separately, or not distinct and accounted for together as a significant integrated service and recognized over time. In making this judgment, we consider whether the services provided, within the context of the contract, represent the transfer of individual services or a combined bundle of services to the customer. This involves evaluating the promises to a customer within a contract to identify the services that need to be performed in order for the transfer of control to occur. Since multiple services that occur at different points in time during a contract may be accounted for as an integrated service, judgment is required to assess the pattern of delivery to our customers.

Our judgments on collectibility are initially established when a business relationship with a customer is initiated and is continuously monitored as services are provided. We have a credit rating system based on internally developed standards and ratings provided by third parties. Our credit rating system, along with monitoring for delinquent payments, allows us to make decisions as to whether collectibility may not be reasonably assured. Factors considered during this process include historical payment trends, industry risks, liquidity of the customer, years in business, and judgments, liens or bankruptcies. When collectibility is not considered reasonably assured (typically when a customer is 120 days past due), revenue is not recognized until it is determined that the customer has the ability and intention to pay.

Contract Balances
We do not have material contract assets as we generally invoice customers as we perform services. Contract receivables are recorded in “Receivables, net” in the Consolidated Condensed Balance Sheets. Payment terms vary by contract type, although terms generally include a requirement of payment within 90 days. As a practical expedient, we do not assess whether a contract has a significant financing component as the period between the receipt of customer payment and the transfer of service to the customer is less than a year. Our contract liabilities consist of deferred revenue. We record deferred revenues when cash payments are received or due in advance of our performance, including amounts that are refundable. We classify deferred revenue as current as we expect to recognize this revenue within 12 months. Revenue is recognized upon satisfaction of the performance obligation.

Costs to Obtain and Fulfill a Contract
Our incremental direct costs of obtaining a contract, which primarily consist of sales commissions and start-up costs, are deferred and amortized over the period of contract performance or a longer period, generally the estimated life of the customer relationship if renewals are expected and the renewal commission is not commensurate with the initial commission. We capitalize incremental direct costs of obtaining a contract that i) relate directly to the contract and ii) are expected to be recovered through revenue generated under the contract. This requires an evaluation of whether the costs are incremental and would not have occurred absent the customer contract. The current and noncurrent portions of incremental costs to obtain and fulfill a contract are included in “Prepaid expenses and other current assets” and “Direct financing leases and other assets” respectively, in the Consolidated Condensed Balance Sheets. Costs are amortized in “Selling, general and administrative expenses” in the Consolidated Condensed Statements of Earnings on a straight-line basis over the expected period of benefit.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Derivatives and Hedging

In August 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-12, Derivatives and Hedging (Topic 815), which simplifies and clarifies the accounting and disclosure for hedging activities by more closely aligning the results of cash flow and fair value hedge accounting with the risk management activities of an entity. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018, with early adoption permitted. We do not expect this standard to have an impact on our consolidated financial position, results of operations or cash flows.

Share-Based Compensation

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting, which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted. We adopted the standard during the first quarter of 2018 and it did not have an impact on our consolidated financial position, results of operations, or cash flows.

Statement of Cash Flows

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows, which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. In November 2016, the FASB issued additional guidance related to the statement of cash flows, which requires companies to explain the change during the period in the total of cash, cash equivalents, and restricted cash or restricted cash equivalents. The standard is effective January 1, 2018, with early adoption permitted. We adopted the standard during the first quarter of 2018. As a result of this update, restricted cash is included within cash and cash equivalents on our statements of consolidated cash flows. As of March 31, 2018 and December 31, 2017, we had $6 million and $5 million respectively, in prepaid expenses and other current assets associated with our like-kind exchange program for certain of our U.S. based revenue earning equipment.

Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard requires lessees to classify leases as either finance or operating leases. This classification will determine whether the related expense will be recognized based on asset amortization and interest on the obligation or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of- use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. We do not expect the lessee requirements to have a material impact on our consolidated financial position, results of operations or cash flows.

The new standard continues to require lessors to separate the lease component from the non-lease component; however, it provides clarification on the scope of non-lease components (e.g., maintenance services). The new standard also provides more guidance on how to identify and separate the components. The lease component will be accounted for using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The non-lease component will be accounted for in accordance with the revenue recognition guidance, see below section "Revenue Recognition." The adoption of the new lease standard will primarily impact our ChoiceLease product line, which includes a vehicle lease as well as maintenance and other services related to the vehicle. We will generally continue to recognize revenue for the lease portion of the product line on a straight-line basis. Revenue from maintenance services will be recognized at the time the maintenance services are performed, which will generally require the deferral of some portion of the customer's lease payments when received, as maintenance services are not performed evenly over the life of a ChoiceLease contract.

We will adopt the standard effective January 1, 2019, using the modified retrospective transition method. Upon adoption, we will record a cumulative-effect adjustment to recognize deferred revenue related to the maintenance services on the opening balance sheet for 2017 and restate all prior periods presented (2017 and 2018). We expect the cumulative-effect adjustment will have a significant impact on our consolidated financial position. We continue to evaluate the impact of adoption of this standard on our results of operations. We do not expect the adoption of this standard to have an impact on our cash flows.

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which together with related, subsequently issued guidance, 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. In addition, Topic 606 requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. We adopted Topic 606 in the first quarter of 2018 using the full retrospective method, which required us to restate each prior reporting period presented.

Upon adoption of Topic 606, we applied the standard’s practical expedient that permits the omission of disclosures of the prior period allocation of the transaction price to remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue.

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)
(unaudited)

Adoption of the new revenue recognition standard impacted our previously reported Consolidated Condensed Statement of Operations results as follows (in thousands, except per share amounts):

	Three months ended March 31, 2017		
	As Previously Reported	New Revenue Standard Adjustment	As Revised
Services revenue [1]	$851,867	(11,180)	840,687
Total revenues	1,748,163	(11,180)	1,736,983
Cost of services [1]	714,080	(11,180)	702,900
Selling, general and administrative expenses	201,761	(666)	201,095
Earnings from continuing operations before income taxes	59,956	666	60,622
Provision for income taxes	21,677	409	22,086
Earnings from continuing operations	38,279	257	38,536
Net earnings	38,149	257	38,406
Earnings per common share - Basic			
Continuing operations	0.72	0.01	0.73
Earnings per common share - Diluted			
Continuing operations	0.71	0.01	0.72
Net earnings	0.71	0.01	0.72

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(1) Amount includes $11 million correction of a prior period error. We historically accounted for certain freight brokerage agreements as a principal and presented revenue and costs related to subcontracted transportation on a gross basis in our financial statements. In adopting Topic 606, we reviewed and evaluated our existing revenue contracts and determined that certain of our freight brokerage agreements should have historically been presented on a net basis as an agent. We evaluated the materiality of this revision, quantitatively and qualitatively. We concluded it was not material to any of our previously issued consolidated financial statements and correction as an out of period adjustment in the current period was not material.

Adoption of the new revenue recognition standard impacted our previously reported Consolidated Condensed Statement of Comprehensive Income as follows (in thousands):

	Three months ended March 31, 2017	
	New Revenue Standard	As

	As Previously Reported	Adjustment	Revised
Net earnings	$38,149	257	38,406
Comprehensive income	58,955	257	59,212

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)
(unaudited)

Adoption of the new revenue recognition standard impacted our previously reported Consolidated Condensed Balance Sheet as follows (in thousands):

	December 31, 2017		
	As Previously Reported	New Revenue Standard Adjustment	As Revised
Prepaid expenses and other current assets	$159,483	611	160,094
Total current assets	1,322,282	611	1,322,893
Direct financing leases and other assets	559,549	11,157	570,706
Total assets	11,452,231	11,768	11,463,999
Accrued expenses and other current liabilities	587,406	2,197	589,603
Total current liabilities	2,012,778	2,197	2,014,975
Other non-current liabilities	812,089	553	812,642
Deferred income taxes	1,208,766	2,363	1,211,129
Total liabilities	8,617,215	5,113	8,622,328
Retained earnings	2,465,022	6,655	2,471,677
	2,835,016	6,655	2,841,671

Total shareholders' equity			
Total liabilities and shareholders' equity	11,452,231	11,768	11,463,999

Income Taxes

In February 2018, the FASB issued ASU No. 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which permits - but does not require - companies to reclassify stranded tax effects caused by 2017 tax reform from accumulated other comprehensive income to retained earnings. Additionally, the ASU requires new disclosures by all companies, whether they opt to do the reclassification or not. The standard is effective fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. We are currently evaluating the impact of the adoption of this standard on our consolidated financial position, results of operations and cash flows.

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)
(unaudited)

3. REVENUE

Disaggregation of Revenue

The following tables disaggregate our revenue by primary geographical market, major product/service lines, and industry:

Primary Geographical Markets

	Three months ended March 31, 2018				
	FMS	DTS	SCS	Eliminations	Total
	(In thousands)				
United States	$1,080,455	298,970	391,653	(127,717)	1,643,361
Canada	74,468	—	43,093	(5,072)	112,489
Europe	87,656	—	—	—	87,656
Mexico	—	—	54,262	—	54,262
Singapore	—	—	5,699	—	5,699
Total revenue	$1,242,579	298,970	494,707	(132,789)	1,903,467

	Three months ended March 31, 2017				
	FMS	DTS	SCS	Eliminations	Total
	(In thousands)				
United States	$990,261	266,630	358,347	(109,582)	1,505,656
Canada	65,822	—	40,845	(4,148)	102,519
Europe	76,387	—	—	—	76,387
Mexico	—	—	45,041	—	45,041
Singapore	—	—	7,380	—	7,380
Total revenue	$1,132,470	266,630	451,613	(113,730)	1,736,983

Major Products/Service Lines

	Three months ended March 31, 2018				
	FMS	DTS	SCS	Eliminations	Total
	(In thousands)				
ChoiceLease	$690,431	—	—	(60,644)	629,787
SelectCare	121,873	—	—	(9,345)	112,528
Commercial rental	204,530	—	—	(10,064)	194,466
Fuel	203,807	—	—	(52,736)	151,071
Other	21,938	—	—	—	21,938
DTS	—	298,970	—	—	298,970
SCS	—	—	494,707	—	494,707
Total revenue	$1,242,579	298,970	494,707	(132,789)	1,903,467

12

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)
(unaudited)

	Three months ended March 31, 2017				
	FMS	DTS	SCS	Eliminations	Total
	(In thousands)				
ChoiceLease	$656,312	—	—	(54,217)	602,095
SelectCare	113,609	—	—	(9,452)	104,157
Commercial rental	174,006	—	—	(8,511)	165,495
Fuel	170,254	—	—	(41,550)	128,704
Other	18,289	—	—	—	18,289
DTS	—	266,630	—	—	266,630
SCS	—	—	451,613	—	451,613
Total revenue	$1,132,470	266,630	451,613	(113,730)	1,736,983

Industry

Our SCS business segment includes revenue from the below industries:

	Three months ended March 31,	
	2018	2017
	(In thousands)	
Automotive	$207,792	196,441
Technology and healthcare	103,097	82,658
CPG and retail	135,358	118,949
Industrial and other	48,460	53,565
Total revenue	$494,707	451,613

Contract Balances

We record a receivable related to revenue recognized when we have an unconditional right to invoice. There were no material contract assets as of March 31, 2018 or December 31, 2017. Trade receivables were $882 million and $899 million at March 31, 2018 and December 31, 2017, respectively. Impairment losses on receivables were not material during the first quarters of 2018 and 2017.

Contract liabilities relate to payments received in advance of performance under the contract. Changes in contract liabilities are due to our performance under the contract. The following table presents changes in contract liabilities for the three months ended March 31, 2018:

	2018
	(In thousands)
Balance at January 1	$ 14,004
Deferral of revenue	67,401
Recognition of deferred revenue	(64,005)
Balance at March 31	$ 17,400

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)
(unaudited)

4. REVENUE EARNING EQUIPMENT

	March 31, 2018			December 31, 2017		
	Cost	Accumulated Depreciation	Net Book Value (1)	Cost	Accumulated Depreciation	Net Book Value (1)
	(In thousands)					
Held for use:						
ChoiceLease	$10,182,353	(3,486,416)	6,695,937	$10,002,981	(3,367,431)	6,635,550
Commercial rental	2,790,551	(999,632)	1,790,919	2,616,706	(1,001,965)	1,614,741
Held for sale	401,555	(292,828)	108,727	403,229	(298,258)	104,971
Total	$13,374,459	(4,778,876)	8,595,583	$13,022,916	(4,667,654)	8,355,262

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(1) Revenue earning equipment, net includes vehicles under capital leases of $24 million, less accumulated depreciation of $12 million, at March 31, 2018, and $29 million, less accumulated depreciation of $14 million, at December 31, 2017.

We lease revenue earning equipment to customers for periods typically ranging from three to seven years for trucks and tractors and up to ten years for trailers. The majority of our leases are classified as operating leases. However, some of our revenue earning equipment leases are classified as direct financing leases and, to a lesser extent, sales-type leases. As of March 31, 2018 and December 31, 2017, the net investment in direct financing and sales-type leases was $454 million and $447 million, respectively. Our direct financing lease customers operate in a wide variety of industries, and we have no significant customer concentrations in any one industry. We assess credit risk for all of our customers including those who lease equipment under direct financing leases prior to signing a ChoiceLease contract. For those customers who are designated as high risk, we typically require deposits to be paid in advance in order to mitigate our credit risk. Additionally, our receivables are collateralized by the vehicles, which further mitigates our credit risk.

As of March 31, 2018 and December 31, 2017, the amount of direct financing lease receivables past due was not significant, and there were no impaired receivables. Accordingly, we do not believe there is a material risk of default with respect to the direct financing lease receivables.

Revenue earning equipment held for sale is stated at the lower of carrying amount or fair value less costs to sell. Losses on vehicles held for sale for which carrying values exceeded fair value are recognized at the time they arrive at our used truck sales centers and are presented within “Used vehicle sales, net” in the Consolidated Condensed Statements of Earnings. For revenue earning equipment held for sale, we stratify our fleet by vehicle type (trucks, tractors and trailers), weight class, age and other relevant characteristics and create classes of similar assets for analysis purposes. For a certain population of our revenue earning equipment held for sale, fair value was determined based upon recent market prices obtained from our own sales experience for sales of each class of similar assets and vehicle condition. Expected declines in market prices were also considered when valuing the vehicles held for sale. These vehicles held for sale were classified within Level 3 of the fair value hierarchy.

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)
(unaudited)

The following table presents our assets held for sale that are measured at fair value on a nonrecurring basis and considered a Level 3 fair value measurement:

			Total Losses [2] Three months ended March 31,	
	March 31, 2018	December 31, 2017	2018	2017
	(In thousands)			
Assets held for sale:				
Revenue earning equipment [1]:				
Trucks	$35,636	33,208	$8,601	5,800
Tractors	26,547	27,976	3,377	5,183
Trailers	2,041	2,100	1,593	568