

RYDER SYSTEM INC
Form 10-Q
October 21, 2010

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010
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
(State or other jurisdiction of incorporation or
organization)

59-0739250
(I.R.S. Employer Identification No.)

**11690 N.W. 105th Street
Miami, Florida 33178**
(Address of principal executive offices, including zip
code)

(305) 500-3726
(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 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 NO

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting
company)

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

The number of shares of Ryder System, Inc. Common Stock (\$0.50 par value per share) outstanding at September 30, 2010 was 51,737,643.

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

	Page No.
<u>PART I FINANCIAL INFORMATION</u>	
<u>ITEM 1 Financial Statements (unaudited)</u>	
<u>Consolidated Condensed Statements of Earnings</u> <u>Three and nine months ended September 30, 2010 and 2009</u>	1
<u>Consolidated Condensed Balance Sheets</u> <u>September 30, 2010 and December 31, 2009</u>	2
<u>Consolidated Condensed Statements of Cash Flows</u> <u>Nine months ended September 30, 2010 and 2009</u>	3
<u>Consolidated Condensed Statement of Shareholders' Equity</u> <u>Nine months ended September 30, 2010</u>	4
<u>Notes to Consolidated Condensed Financial Statements</u>	5
<u>ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>ITEM 3 Quantitative and Qualitative Disclosures About Market Risk</u>	39
<u>ITEM 4 Controls and Procedures</u>	39
<u>PART II OTHER INFORMATION</u>	
<u>ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	39
<u>ITEM 6 Exhibits</u>	40
<u>SIGNATURES</u>	41
<u>EX-10.1</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	
<u>EX-101 DEFINITION LINKBASE DOCUMENT</u>	

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 September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(In thousands, except per share amounts)			
Revenue	\$ 1,316,948	1,253,854	\$ 3,823,009	3,640,286
Operating expense (exclusive of items shown separately)	624,495	574,595	1,813,603	1,653,157
Salaries and employee-related costs	314,706	312,042	929,659	918,109
Subcontracted transportation	67,049	52,539	191,972	138,547
Depreciation expense	209,929	220,258	627,695	665,392
Gains on vehicle sales, net	(6,904)	(3,326)	(18,009)	(9,092)
Equipment rental	16,463	16,463	49,532	48,553
Interest expense	31,897	35,730	96,385	110,447
Miscellaneous income, net	(2,685)	(2,394)	(4,525)	(3,135)
Restructuring and other charges, net		3,740		6,338
	1,254,950	1,209,647	3,686,312	3,528,316
Earnings from continuing operations before income taxes	61,998	44,207	136,697	111,970
Provision for income taxes	22,324	15,768	53,551	45,523
Earnings from continuing operations	39,674	28,439	83,146	66,447
Loss from discontinued operations, net of tax	(839)	(4,468)	(2,097)	(12,750)
Net earnings	\$ 38,835	23,971	\$ 81,049	53,697
Earnings (loss) per common share Basic				
Continuing operations	\$ 0.76	0.51	\$ 1.58	1.19
Discontinued operations	(0.02)	(0.08)	(0.04)	(0.23)
Net earnings	\$ 0.74	0.43	\$ 1.54	0.96
Earnings (loss) per common share Diluted				
Continuing operations	\$ 0.76	0.51	\$ 1.57	1.19
Discontinued operations	(0.02)	(0.08)	(0.04)	(0.23)
Net earnings	\$ 0.74	0.43	\$ 1.53	0.96

Cash dividends declared and paid per common share	\$	0.27	0.25	\$	0.77	0.71
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See accompanying notes to consolidated condensed financial statements.

1

Table of Contents

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

	September 30, 2010	December 31, 2009
	(Dollars in thousands, except per share amount)	
Assets:		
Current assets:		
Cash and cash equivalents	\$ 134,696	\$ 98,525
Receivables, net of allowance of \$13,724 and \$13,808, respectively	623,951	598,661
Inventories	53,378	50,146
Prepaid expenses and other current assets	137,807	133,041
Total current assets	949,832	880,373
Revenue earning equipment, net of accumulated depreciation of \$3,130,638 and \$3,013,179, respectively	4,266,376	4,178,659
Operating property and equipment, net of accumulated depreciation of \$888,471 and \$855,657, respectively	545,648	543,910
Goodwill	217,204	216,444
Intangible assets	37,356	39,120
Direct financing leases and other assets	393,339	401,324
Total assets	\$ 6,409,755	\$ 6,259,830
Liabilities and shareholders' equity:		
Current liabilities:		
Short-term debt and current portion of long-term debt	\$ 463,466	\$ 232,617
Accounts payable	305,097	262,712
Accrued expenses and other current liabilities	409,605	354,945
Total current liabilities	1,178,168	850,274
Long-term debt	2,066,319	2,265,074
Other non-current liabilities	693,018	681,613
Deferred income taxes	1,063,951	1,035,874
Total liabilities	5,001,456	4,832,835
Shareholders' equity:		
Preferred stock of no par value per share authorized, 3,800,917; none outstanding, September 30, 2010 or December 31, 2009		
Common stock of \$0.50 par value per share authorized, 400,000,000; outstanding,	25,869	26,710

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September 30, 2010	51,737,643;	December 31, 2009	53,419,721		
Additional paid-in capital				735,215	743,026
Retained earnings				1,017,536	1,036,178
Accumulated other comprehensive loss				(370,321)	(378,919)
Total shareholders' equity				1,408,299	1,426,995
Total liabilities and shareholders' equity				\$ 6,409,755	\$ 6,259,830

See accompanying notes to consolidated condensed financial statements.

2

Table of Contents

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

	Nine months ended September 30,	
	2010	2009
	(In thousands)	
Cash flows from operating activities from continuing operations:		
Net earnings	\$ 81,049	\$ 53,697
Less: Loss from discontinued operations, net of tax	(2,097)	(12,750)
Earnings from continuing operations	83,146	66,447
Depreciation expense	627,695	665,392
Gains on vehicle sales, net	(18,009)	(9,092)
Share-based compensation expense	12,203	12,531
Amortization expense and other non-cash charges, net	27,564	30,611
Deferred income tax expense	21,568	37,885
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	(29,367)	(11,682)
Inventories	(3,132)	888
Prepaid expenses and other assets	(517)	(5,696)
Accounts payable	9,334	(14,322)
Accrued expenses and other non-current liabilities	73,677	(4,226)
Net cash provided by operating activities from continuing operations	804,162	768,736
Cash flows from financing activities from continuing operations:		
Net change in commercial paper borrowings	(48,000)	152,450
Debt proceeds	314,511	1,309
Debt repaid, including capital lease obligations	(239,560)	(496,291)
Dividends on common stock	(40,603)	(39,752)
Common stock issued	11,124	5,475
Common stock repurchased	(91,926)	¾
Excess tax benefits from share-based compensation	641	449
Debt issuance costs	(2,195)	(10,523)
Net cash used in financing activities from continuing operations	(96,008)	(386,883)
Cash flows from investing activities from continuing operations:		
Purchases of property and revenue earning equipment	(860,902)	(508,586)
Sales of revenue earning equipment	159,012	147,223
Sales of operating property and equipment	2,821	3,547
Acquisitions	(6,789)	(85,698)
Collections on direct finance leases	45,941	51,130
Changes in restricted cash	(6,430)	14,380
Other, net	1,950	209

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Net cash used in investing activities from continuing operations	(664,397)	(377,795)
Effect of exchange rate changes on cash	6	571
Increase in cash and cash equivalents from continuing operations	43,763	4,629
Cash flows from discontinued operations:		
Operating cash flows	(6,010)	(20,727)
Financing cash flows	(2,941)	(7,500)
Investing cash flows	1,624	13,627
Effect of exchange rate changes on cash	(265)	680
Decrease in cash and cash equivalents from discontinued operations	(7,592)	(13,920)
Increase (decrease) in cash and cash equivalents	36,171	(9,291)
Cash and cash equivalents at January 1	98,525	120,305
Cash and cash equivalents at September 30	\$ 134,696	\$ 111,014

See accompanying notes to consolidated condensed financial statements.

Table of Contents

RYDER SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENT OF SHAREHOLDERS EQUITY
(unaudited)

	Preferred Stock Amount	Common Stock Shares	Common Stock Par	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(Dollars in thousands, except per share amount)						
Balance at December 31, 2009	\$	53,419,721	\$ 26,710	743,026	1,036,178	(378,919)	1,426,995
Components of comprehensive income:							
Net earnings					81,049		81,049
Foreign currency translation adjustments						1,451	1,451
Amortization of pension and postretirement items, net of tax						8,118	8,118
Change in net actuarial loss, net of tax						(971)	(971)
Total comprehensive income							89,647
Common stock dividends declared and paid \$0.77 per share					(40,603)		(40,603)
Common stock issued under employee stock option and stock purchase plans ⁽¹⁾		591,053	296	10,890			11,186
Benefit plan stock purchases ⁽²⁾		(1,370)	(1)	(61)			(62)
Common stock repurchases		(2,271,761)	(1,136)	(31,702)	(59,088)		(91,926)
Share-based compensation				12,203			12,203
Tax benefits from share-based compensation				859			859
Balance at September 30, 2010	\$	51,737,643	\$ 25,869	735,215	1,017,536	(370,321)	1,408,299

(1) Net of common shares delivered as payment for the exercise price or to satisfy the option holders withholding tax liability upon exercise of

options.

- (2) *Represents
open-market
transactions of
common shares
by the trustee of
Ryder's deferred
compensation
plans.*

See accompanying notes to consolidated condensed financial statements.

4

Table of Contents

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

(A) 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 2009 Annual Report on Form 10-K except for the accounting changes described below relating to transfers of financial assets and consolidation of VIEs, and should be read in conjunction with the Consolidated Financial Statements and notes thereto. These financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. 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. Prior year amounts have been restated to conform to the current period presentation.

(B) ACCOUNTING CHANGES

In June 2009, the Financial Accounting Standards Board (FASB) issued accounting and disclosure guidance for transfers of financial assets occurring on or after January 1, 2010. The adoption of this accounting guidance did not have a material impact on our consolidated financial position, results of operations or cash flows.

In June 2009, the FASB issued accounting guidance which amends the consolidation principles for variable interest entities by requiring consolidation of VIEs based on which party has control of the entity. The guidance was effective beginning January 1, 2010. The adoption of this accounting guidance did not have a material impact on our consolidated financial position, results of operations or cash flows.

(C) ACQUISITIONS

On February 2, 2009, we acquired the assets of Edart Leasing LLC (Edart), which included Edart s fleet of approximately 1,600 vehicles and more than 340 contractual customers from Edart s five locations in Connecticut for a purchase price of \$85.2 million, of which \$2.1 million and \$81.3 million was paid during the nine months ended September 30, 2010 and 2009, respectively. Goodwill and customer relationship intangibles related to the Edart acquisition totaled \$14.7 million and \$4.3 million, respectively. The combined network operates under the Ryder name, complementing our Fleet Management Solutions (FMS) business segment market coverage in the Northeast. We also acquired approximately 525 vehicles for remarketing, the majority of which have been sold.

During the nine months ended September 30, 2010 and 2009, we paid \$4.7 million and \$4.4 million, respectively, related to other acquisitions including payments for acquisitions completed in prior years.

(D) DISCONTINUED OPERATIONS

In 2009, we ceased Supply Chain Solutions (SCS) service operations in Brazil, Argentina, Chile and European markets. Accordingly, results of these operations, financial position and cash flows are separately reported as discontinued operations for all periods presented either in the Consolidated Condensed Financial Statements or notes thereto.

Summarized results of discontinued operations were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Total revenue	\$	10,056	\$	110 69,972

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Loss from discontinued operations before income taxes	\$ (854)	(4,577)	\$ (2,191)	(12,858)
Income tax benefit	15	109	94	108
Loss from discontinued operations, net of tax	\$ (839)	(4,468)	\$ (2,097)	(12,750)

5

Table of Contents

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

Loss from discontinued operations before income taxes in the third quarter and the nine months ended September 30, 2010 included \$0.9 million and \$2.2 million, respectively, of losses related to adverse legal developments, professional services and administrative costs associated with our discontinued South American operations.

Loss from discontinued operations before income taxes in the third quarter and nine months ended September 30, 2009 included \$3.1 million and \$9.2 million, respectively, of operating losses incurred in the wind-down of our South American and European operations. Loss from discontinued operations before income taxes in the third quarter and nine months ended September 30, 2009 also included \$1.5 million and \$3.7 million, respectively, of exit-related restructuring charges and other items associated with these operations.

We are subject to various claims, tax assessments and administrative proceedings associated with our discontinued operations. We have established loss provisions for matters in which losses are deemed probable and can be reasonably estimated. However, at this time, it is not possible for us to determine fully the ultimate effect of all unasserted claims and assessments on our consolidated financial condition, results of operations or liquidity. Additional adjustments and expenses may be recorded through discontinued operations in future periods as further relevant information becomes available. Although it is not possible to predict the ultimate outcome of these matters, we do not expect that any resulting liability will have a material adverse effect upon our financial condition, results of operations or liquidity.

The following is a summary of assets and liabilities of discontinued operations:

	September 30, 2010	December 31, 2009
	(In thousands)	
Assets:		
Total current assets	\$4,451	\$ 3,671
Total assets	\$6,665	\$ 7,631
Liabilities:		
Total current liabilities	\$1,314	\$ 7,713
Total liabilities	\$7,031	\$12,869

(E) SHARE-BASED COMPENSATION PLANS

Share-based incentive awards are provided to employees under the terms of various share-based compensation plans (collectively, the Plans). The Plans are administered by the Compensation Committee of the Board of Directors. Awards under the Plans principally include at-the-money stock options, nonvested stock and cash awards. Share-based compensation expense is generally recorded in Salaries and employee-related costs in the Consolidated Condensed Statements of Earnings.

The following table provides information on share-based compensation expense and income tax benefits recognized during the periods:

	Three months ended September 30, 2010		Nine months ended September 30, 2010	
	2009	2009	2009	2009
	(In thousands)			
Stock option and stock purchase plans	\$ 2,311	2,591	\$ 6,803	7,630
Nonvested stock	1,876	1,872	5,400	4,901

Share-based compensation expense	4,187	4,463	12,203	12,531
Income tax benefit	(1,408)	(1,560)	(4,149)	(4,099)
Share-based compensation expense, net of tax	\$ 2,779	2,903	\$ 8,054	8,432

During each of the nine months ended September 30, 2010 and 2009, approximately 900,000 stock options were granted under the Plans. These awards, which generally vest one-third each year from the date of grant, are fully vested three years from the grant date and have contractual terms of seven years. The fair value of each option award at the date of grant was estimated using a Black-Scholes-Merton option-pricing valuation model. The weighted-average fair value per option granted during the nine months ended September 30, 2010 and 2009 was \$8.93 and \$9.23, respectively.

Table of Contents

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

During the nine months ended September 30, 2010 and 2009, approximately 260,000 and 200,000 awards, respectively, of restricted stock rights and restricted stock units (RSUs) were granted under the Plans. The majority of the restricted stock rights granted during the periods included a market-based vesting provision, and the remainder are time-vested awards. Employees only receive the grant of stock if Ryder's cumulative average total shareholder return (TSR) at least meets the S&P 500 cumulative average TSR over an applicable three-year period. The fair value of the market-based restricted stock rights was estimated using a lattice-based option-pricing valuation model that incorporates a Monte-Carlo simulation. Fair value of the time-vested awards was determined and fixed on the grant date based on Ryder's stock price on the date of grant. The weighted-average fair value per restricted stock right and RSU granted during the nine months ended September 30, 2010 and 2009 was \$22.22 and \$18.19, respectively.

During the nine months ended September 30, 2010 and 2009, employees who received market-based restricted stock rights also received market-based cash awards. The awards have the same vesting provisions as the market-based restricted stock rights except that Ryder's TSR must at least meet the TSR of the 33rd percentile of the S&P 500. The cash awards are accounted for as liability awards under the share-based compensation accounting guidance as the awards are based upon the performance of our common stock and are settled in cash. As a result, the liability is adjusted to reflect fair value at the end of each reporting period. The fair value of the cash awards was estimated using a lattice-based option-pricing valuation model that incorporates a Monte-Carlo simulation.

The following table is a summary of compensation expense recognized related to cash awards in addition to the share-based compensation expense reported in the previous table:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Cash awards	\$452	1,148	\$ 1,224	1,774

Total unrecognized pre-tax compensation expense related to share-based compensation arrangements at September 30, 2010 was \$25.3 million and is expected to be recognized over a weighted-average period of approximately 1.8 years.

(F) EARNINGS PER SHARE

We compute earnings per share using the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for common stock and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. Our nonvested stock are considered participating securities since the share-based awards contain a non-forfeitable right to dividend equivalents irrespective of whether the awards ultimately vest. Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities based on the weighted average shares outstanding during the period.

Table of Contents

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

The following table presents the calculation of basic and diluted earnings per common share from continuing operations:

	Three months ended September 30, 2010		Nine months ended September 30, 2010	
	2009	2009	2009	2009
	(In thousands, except per share amounts)			
Earnings per share Basic:				
Earnings from continuing operations	\$ 39,674	28,439	\$ 83,146	66,447
Less: Distributed and undistributed earnings allocated to nonvested stock	(576)	(311)	(1,146)	(713)
Earnings from continuing operations available to common shareholders Basic	\$ 39,098	28,128	\$ 82,000	65,734
Weighted average common shares outstanding Basic	51,409	55,435	52,044	55,339
Earnings from continuing operations per common share Basic	\$ 0.76	0.51	\$ 1.58	1.19
Earnings per share Diluted:				
Earnings from continuing operations	\$ 39,674	28,439	\$ 83,146	66,447
Less: Distributed and undistributed earnings allocated to nonvested stock	(576)	(311)	(1,146)	(713)
Earnings from continuing operations available to common shareholders Diluted	\$ 39,098	28,128	\$ 82,000	65,734
Weighted average common shares outstanding Basic	51,409	55,435	52,044	55,339
Effect of dilutive options	126	46	122	42
Weighted average common shares outstanding Diluted	51,535	55,481	52,166	55,381
Earnings from continuing operations per common share Diluted	\$ 0.76	0.51	\$ 1.57	1.19
Anti-dilutive equity awards not included above	1,793	2,982	1,833	2,894

(G) RESTRUCTURING AND OTHER CHARGES

Restructuring and other charges, net for the three and nine months ended September 30, 2009 consisted primarily of debt extinguishment charges of \$3.9 million incurred as part of a \$100 million debt tender offer completed in September 2009. Restructuring and other charges, net in the third quarter of 2009 also included a benefit of \$0.2 million related to refinements in estimates of employee severance and benefit costs. Restructuring and other charges, net for the nine months ended September 30, 2009 also included \$2.4 million employee severance and benefit

costs related to workforce reductions.

As noted in Note (T), Segment Reporting, our primary measure of segment financial performance excludes, among other items, restructuring and other charges, net; however, the applicable portion of the restructuring and other charges, net that relates to each segment was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Fleet Management Solutions	\$	3,730	\$	5,549
Supply Chain Solutions		21		622
Dedicated Contract Carriage		(3)		44
Central Support Services		(8)		123
Total	\$	3,740	\$	6,338

8

Table of Contents

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

Activity related to restructuring reserves including discontinued operations were as follows:

	December 31, 2009 Balance	Additions	Deductions		Foreign Translation Adjustment	September 30, 2010 Balance
			Cash Payments	Non-Cash Reductions ⁽¹⁾ (In thousands)		
Employee severance and benefits	\$ 1,070	113	951	33		199
Contract termination costs	172	86	183		(10)	65
Total	\$ 1,242	199	1,134	33	(10)	264

(1) Non-cash reductions represent adjustments to the restructuring reserves as actual costs were less than originally estimated.

At September 30, 2010, the majority of outstanding restructuring obligations are required to be paid by year-end.

(H) REVENUE EARNING EQUIPMENT

	September 30, 2010			December 31, 2009		
	Cost	Accumulated Depreciation	Net Book Value ⁽¹⁾ (In thousands)	Cost	Accumulated Depreciation	Net Book Value ⁽¹⁾
Held for use:						
Full service lease	\$ 5,635,639	(2,332,737)	3,302,902	\$ 5,616,102	(2,173,693)	3,442,409
Commercial rental	1,529,930	(625,955)	903,975	1,235,404	(577,839)	657,565
Held for sale	231,445	(171,946)	59,499	340,332	(261,647)	78,685
Total	\$ 7,397,014	(3,130,638)	4,266,376	\$ 7,191,838	(3,013,179)	4,178,659

(1) Revenue earning equipment, net includes

vehicles
 acquired under
 capital leases of
 \$19.1 million,
 less
 accumulated
 amortization of
 \$6.7 million, at
 September 30,
 2010, and \$19.9
 million, less
 accumulated
 amortization of
 \$6.9 million, at
 December 31,
 2009.
 Amortization
 expense
 attributed to
 vehicles
 acquired under
 capital leases is
 combined with
 depreciation
 expense.

At the end of 2009, we completed our annual review of residual values and useful lives of revenue earning equipment. Based on the results of our analysis, we adjusted the residual values of certain classes of revenue earning equipment effective January 1, 2010. The change in estimated residual values decreased pre-tax earnings for the three and nine months ended September 30, 2010 by approximately \$3.5 million and \$10.5 million, respectively. In addition, during the three and nine months ended September 30, 2010, we recognized \$1.5 million and \$5.0 million, respectively, of accelerated depreciation for select vehicles that are expected to be held for sale through 2011. In the three and nine months ended September 30, 2009, we recognized \$4.0 million and \$6.3 million, respectively, of accelerated depreciation for select vehicles that were expected to be held for sale through 2010.

(I) GOODWILL

The carrying amount of goodwill attributable to each reportable business segment with changes therein was as follows:

	Fleet Management Solutions	Supply Chain Solutions	Dedicated Contract Carriage	Total
	(In thousands)			
Balance at January 1, 2010:				
Goodwill	\$ 202,308	38,457	4,900	245,665
Accumulated impairment losses	(10,322)	(18,899)		(29,221)
	191,986	19,558	4,900	216,444
Acquisitions	438			438
Foreign currency translation adjustment	141	181		322
Balance at September 30, 2010:				
Goodwill	202,887	38,638	4,900	246,425

Accumulated impairment losses	(10,322)	(18,899)		(29,221)
	\$ 192,565	19,739	4,900	217,204

We assess goodwill for impairment on April 1st of each year or more often if deemed necessary. On April 1, 2010, we completed our annual goodwill impairment test and determined there was no impairment.

Table of Contents

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

(J) ACCRUED EXPENSES AND OTHER LIABILITIES

	September 30, 2010			December 31, 2009		
	Accrued Expenses	Non-Current Liabilities	Total	Accrued Expenses	Non-Current Liabilities	Total
	(In thousands)					
Salaries and wages	\$ 66,826		66,826	\$ 45,349		45,349
Deferred compensation	1,762	16,746	18,508	5,068	16,970	22,038
Pension benefits	2,705	346,762	349,467	2,695	328,571	331,266
Other postretirement benefits	3,215	43,554	46,769	3,214	46,115	49,329
Employee benefits	2,234		2,234	2,346		2,346
Insurance obligations, primarily self-insurance	106,404	141,817	248,221	111,144	151,045	262,189
Residual value guarantees	2,760	2,086	4,846	2,177	1,872	4,049
Deferred rent	12,055	20,406	32,461	1,995	16,302	18,297
Deferred vehicle gains	739	1,604	2,343	790	2,259	3,049
Environmental liabilities	5,153	9,257	14,410	5,285	9,578	14,863
Asset retirement obligations	3,671	12,759	16,430	4,881	11,435	16,316
Operating taxes	74,748		74,748	70,370		70,370
Income taxes	19,512	76,918	96,430	459	73,311	73,770
Interest	30,541		30,541	29,123		29,123
Deposits, mainly from customers	31,551	7,532	39,083	29,511	7,527	37,038
Deferred revenue	9,018	4,800	13,818	9,136	5,578	14,714
Other	36,711	8,777	45,488	31,402	11,050	42,452
Total	\$ 409,605	693,018	1,102,623	\$ 354,945	681,613	1,036,558

(K) INCOME TAXES**Uncertain Tax Positions**

We are subject to tax audits in numerous jurisdictions in the U.S. and foreign countries. Tax audits by their very nature are often complex and can require several years to complete. In the normal course of business, we are subject to challenges from the Internal Revenue Service (IRS) and other tax authorities regarding amounts of taxes due. These challenges may alter the timing or amount of taxable income or deductions, or the allocation of income among tax jurisdictions. As part of our calculation of the provision for income taxes on earnings, we recognize the tax benefit from uncertain tax positions that are at least more likely than not of being sustained upon audit based on the technical merits of the tax position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Such calculations require management to make estimates and judgments with respect to the ultimate outcome of a tax audit. Actual results could vary materially from these estimates.

The following is a summary of tax years that are no longer subject to examination:

Federal audits of our U.S. federal income tax returns are closed through fiscal year 2006. In the first quarter of 2009, the IRS completed their examination of our U.S. income tax returns for 2004 through 2006.

State for the majority of states, we are no longer subject to tax examinations by tax authorities for tax years before 2006.

Foreign we are no longer subject to foreign tax examinations by tax authorities for tax years before 2001 in Brazil, 2002 in Canada, 2003 in Mexico and 2007 in the U.K., which are our major foreign tax jurisdictions. In Brazil,

we were assessed \$16.1 million, including penalties and interest, related to the tax due on the sale of our outbound auto carriage business in 2001. We believe it is more likely than not that our tax position will ultimately be sustained and no amounts have been reserved for this matter.

At September 30, 2010 and December 31, 2009, the total amount of gross unrecognized tax benefits (excluding the federal benefit received from state positions) was \$71.6 million and \$69.5 million, respectively. Unrecognized tax benefits related to federal, state and foreign tax positions may decrease by \$2.2 million by September 30, 2011, if audits are completed or tax years close.

Table of Contents

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

Like-Kind Exchange Program

We have a like-kind exchange program for certain of our revenue earning equipment operating in the U.S. Pursuant to the program, we dispose of vehicles and acquire replacement vehicles in a form whereby tax gains on disposal of eligible vehicles are deferred. To qualify for like-kind exchange treatment, we exchange, through a qualified intermediary, eligible vehicles being disposed of with vehicles being acquired allowing us to generally carryover the tax basis of the vehicles sold (like-kind exchanges). The program results in a material deferral of federal and state income taxes. As part of the program, the proceeds from the sale of eligible vehicles are restricted for the acquisition of replacement vehicles and other specified applications. Due to the structure utilized to facilitate the like-kind exchanges, the qualified intermediary that holds the proceeds from the sales of eligible vehicles and the entity that holds the vehicles to be acquired under the program are required to be consolidated in the accompanying Consolidated Condensed Financial Statements in accordance with U.S. GAAP. At September 30, 2010 and December 31, 2009, these consolidated entities had total assets, primarily revenue earning equipment, and total liabilities, primarily accounts payable, of \$51.7 million and \$28.5 million, respectively.

Tax Law Changes

On September 27, 2010, the U.S. enacted the Small Business Jobs Act of 2010. The Act extended bonus depreciation for one year to apply to qualified property placed in service during 2010. The impact of the change will result in a lower federal cash tax payment for 2010.

On July 27, 2010 the United Kingdom (U.K.) enacted legislation which lowered the statutory rate from 28% to 27% effective April 1, 2011. The impact of this change resulted in a favorable non-cash adjustment to deferred taxes and an increase in net earnings for the nine months ended September 30, 2010 of \$0.4 million, or \$0.01 per diluted common share.

On March 23, 2010, the U.S. enacted the Patient Protection and Affordable Care Act and on March 30, 2010, the U.S. enacted the Health Care and Education Reconciliation Act of 2010 (collectively, the Act). The Act will reduce certain tax benefits available to employers for providing prescription coverage to retirees among other tax law changes. We do not provide prescription coverage for our retirees; therefore the Act had no impact on our deferred income taxes or net earnings.

On February 19, 2009, the State of Wisconsin enacted changes to its tax system, which included mandatory unitary combined reporting. The impact of this change resulted in a favorable non-cash adjustment to deferred income taxes and increased net earnings in the nine months ended September 30, 2009 by \$0.5 million, or \$0.01 per diluted common share.

Effective Tax Rate

Our effective income tax rate from continuing operations for the third quarter of 2010 was 36.0% compared to 35.7% in the same period of the prior year. The increase in the effective income tax rate from continuing operations was due to the favorable settlement of a foreign tax audit in 2009 partially offset by 2010 lower foreign operating losses, income tax rate reductions in the U.K and lower contingent tax accruals in 2010. Our effective income tax rate from continuing operations for the nine months ended September 30, 2010 was 39.2% compared 40.7% in the prior year. The decrease in the effective income tax rate from continuing operations in the nine months ended September 30, 2010 was mainly due to lower non-deductible expenses partially offset by higher contingent tax accruals.

Table of Contents

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

(L) DEBT

	Weighted-Average Interest Rate		Maturities	September	December
	September 30, 2010	December 31, 2009		30, 2010	31, 2009
Short-term debt and current portion of long-term debt:					
U.S. commercial paper ⁽¹⁾	0.45%	0.43%	2010	\$ 82,000	\$
Unsecured foreign obligations	1.62%	6.98%	2010 - 2011	3,977	5,369
Current portion of long-term debt, including capital leases				377,489	227,248
Total short-term debt and current portion of long-term debt				463,466	232,617
Long-term debt:					
U.S. commercial paper ⁽¹⁾	0.45%	0.43%	2012	61,971	191,934
Unsecured U.S. notes					
Medium-term notes ⁽¹⁾	5.28%	5.89%	2012 - 2025	2,158,216	2,032,344
Unsecured U.S. obligations, principally bank term loans	1.82%	1.45%	2012 - 2013	105,800	132,150
Unsecured foreign obligations	4.94%	5.22%	2011 - 2012	89,920	112,782
Capital lease obligations	8.19%	8.26%	2010 - 2017	9,862	11,011
Total before fair market value adjustment				2,425,769	2,480,221
Fair market value adjustment on notes subject to hedging ⁽²⁾				18,039	12,101
				2,443,808	2,492,322
Current portion of long-term debt, including capital leases				(377,489)	(227,248)
Long-term debt				2,066,319	2,265,074
Total debt				\$ 2,529,785	\$ 2,497,691

(1) We had
unamortized
original issue
discounts of

*\$10.8 million
and
\$11.7 million at
September 30,
2010 and
December 31,
2009,
respectively.*

- (2) *The notional
amount of the
executed
interest rate
swap designated
as a fair value
hedge was
\$250 million at
both
September 30,
2010 and
December 31,
2009.*

We can borrow up to \$875 million under a global revolving credit facility with a syndicate of thirteen lending institutions led by Bank of America N.A., Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Corporate Bank, Ltd., Royal Bank of Scotland Plc and Wells Fargo N.A. The global credit facility matures in April 2012 and is used primarily to finance working capital and provide support for the issuance of unsecured commercial paper in the U.S. and Canada. This facility can also be used to issue up to \$75 million in letters of credit (there were no letters of credit outstanding against the facility at September 30, 2010). At our option, the interest rate on borrowings under the credit facility is based on LIBOR, prime, federal funds or local equivalent rates. The agreement provides for annual facility fees, which range from 22.5 basis points to 62.5 basis points, and are based on Ryder's long-term credit ratings. The current annual facility fee is 37.5 basis points, which applies to the total facility size of \$875 million. The credit facility contains no provisions limiting its availability in the event of a material adverse change to Ryder's business operations; however, the credit facility does contain standard representations and warranties, events of default, cross-default provisions, and certain affirmative and negative covenants. In order to maintain availability of funding, we must maintain a ratio of debt to consolidated tangible net worth, of less than or equal to 300%. Tangible net worth, as defined in the credit facility, includes 50% of our deferred federal income tax liability and excludes the book value of our intangibles. The ratio at September 30, 2010 was 157%. At September 30, 2010, \$730.2 million was available under the credit facility, net of the support for commercial paper borrowings.

Our global revolving credit facility permits us to refinance short-term commercial paper obligations on a long-term basis. Settlement of short-term commercial paper obligations not expected to require the use of working capital are classified as long-term as we have both the intent and ability to refinance on a long-term basis. At September 30, 2010, we classified \$82.0 million of commercial paper as short-term debt because we expect to reduce the balance within one year. At September 30, 2010 and December 31, 2009, we classified \$62.0 million and \$191.9 million, respectively, of short-term commercial paper as long-term debt.

In September 2010, we issued \$300 million of unsecured medium-term notes maturing in March 2016. If the notes are downgraded following, and as a result of, a change of control, the note holder can require us to repurchase all or a portion of the notes at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. The medium-term notes were issued to take advantage of historically low interest rates and fund capital expenditures and debt maturities.

Table of Contents

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

We have a trade receivables purchase and sale program, pursuant to which we sell certain of our domestic trade accounts receivable to a bankruptcy remote, consolidated subsidiary of Ryder, that in turn sells, on a revolving basis, an ownership interest in certain of these accounts receivable to a receivables conduit or committed purchasers. The subsidiary is considered a VIE and is consolidated based on our control of the entity's activities. We use this program to provide additional liquidity to fund our operations, particularly when it is cost effective to do so. The costs under the program may vary based on changes in interest rates. The available proceeds that may be received under the program are limited to \$175 million. If no event occurs which causes early termination, the 364-day program will expire on October 29, 2010. We are in the process of renewing the program and do not anticipate any material changes to the program's terms and conditions. The program contains provisions restricting its availability in the event of a material adverse change to our business operations or the collectibility of the collateralized receivables. At September 30, 2010 and December 31, 2009, no amounts were outstanding under the program. Sales of receivables under this program will be accounted for as secured borrowings based on our continuing involvement in the transferred assets.

On February 25, 2010, we filed an automatic shelf registration statement on Form S-3 with the Securities and Exchange Commission. The registration is for an indeterminate number of securities and is effective for three years. Under this universal shelf registration statement, we have the capacity to offer and sell from time to time various types of securities, including common stock, preferred stock and debt securities, subject to market demand and ratings status.

At September 30, 2010 and December 31, 2009, we had letters of credit and surety bonds outstanding totaling \$258.1 million and \$262.7 million, respectively, which primarily guarantee the payment of insurance claims.

(M) FAIR VALUE MEASUREMENTS

The following tables present our assets and liabilities that are measured at fair value on a recurring basis and the levels of inputs used to measure fair value:

	Balance Sheet Location	Fair Value Measurements At September 30, 2010 Using			Total
		Level 1	Level 2	Level 3	
(In thousands)					
Assets:					
Investments held in Rabbi Trusts:					
	Cash and cash equivalents	\$ 3,550			3,550
	U.S. equity mutual funds	6,578			6,578
	Foreign equity mutual funds	2,437			2,437
	Fixed income mutual funds	3,540			3,540
	DFL and other assets	16,105			16,105
	DFL and other assets		18,039		18,039
	Interest rate swap		18,039		18,039
	Total assets at fair value	\$ 16,105	18,039		34,144

Fair Value Measurements
At December 31, 2009 Using

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	Balance Sheet Location	Level 1	Level 2	Level 3	Total
(In thousands)					
Assets:					
Investments held in Rabbi Trusts	DFL and other assets	\$ 19,686			19,686
Interest rate swap	DFL and other assets		12,101		12,101
Total assets at fair value		\$ 19,686	12,101		31,787

The following is a description of the valuation methodologies used for these items, as well as the level of inputs used to measure fair value:

Investments held in Rabbi Trusts The investments primarily include mutual funds that invest in equity and fixed income securities. Shares of mutual funds were valued based on quoted market prices, which represents the net asset value of the shares and were therefore classified within Level 1 of the fair value hierarchy.

Interest rate swap The derivative is a pay-variable, receive-fixed interest rate swap based on the LIBOR rate and is designated as a fair value hedge. Fair value was based on a model-driven income approach using the LIBOR rate at each interest payment date,

Table of Contents

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

which was observable at commonly quoted intervals for the full term of the swap. Therefore, our interest rate swap was classified within Level 2 of the fair value hierarchy.

The following tables present our assets and liabilities that are measured at fair value on a nonrecurring basis and the levels of inputs used to measure fair value:

	Fair Value Measurements			Total Losses ⁽²⁾	
	At September 30, 2010 Using			Three	Nine
	Level	Level	Level 3	months	months
	1	2	ended	ended	
	(In thousands)				
Assets held for sale:					
Revenue earning equipment: ⁽¹⁾					
Trucks	\$		12,507	\$ 2,541	\$ 10,423
Tractors			13,298	1,911	8,403
Trailers			1,920	867	3,098
Total assets at fair value	\$		27,725	\$ 5,319	\$ 21,924

	Fair Value Measurements			Total Losses ⁽²⁾	
	At September 30, 2009 Using			Three	Nine
	Level	Level	Level 3	months	months
	1	2	ended	ended	
	(In thousands)				
Assets held for sale:					
Revenue earning equipment ⁽¹⁾	\$		45,055	\$ 12,217	\$ 41,948
Total assets at fair value	\$		45,055	\$ 12,217	\$ 41,948

(1) Represents the portion of all revenue earning equipment held for sale that is recorded at fair value, less costs to sell.

(2) Total losses represent fair value adjustments for all vehicles held

*for sale
throughout the
period for which
fair value was
less than
carrying value.*

Revenue earning equipment held for sale is stated at the lower of carrying amount or fair value less costs to sell. Losses to reflect changes in fair value are presented within Depreciation expense in the Consolidated Condensed Statements of Earnings. For revenue earning equipment held for sale, we stratify our fleet by vehicle type (tractors, trucks, trailers), weight class, age and other relevant characteristics and create classes of similar assets for analysis purposes. 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. Therefore, our revenue earning equipment held for sale was classified within Level 3 of the fair value hierarchy.

Fair value of total debt at September 30, 2010 and December 31, 2009 was approximately \$2.71 billion and \$2.60 billion, respectively. For publicly-traded debt, estimates of fair value were based on market prices. For other debt, fair value was estimated based on rates currently available to us for debt with similar terms and remaining maturities. The carrying amounts reported in the Consolidated Condensed Balance Sheets for cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the immediate or short-term maturities of these financial instruments.

(N) DERIVATIVES

In February 2008, we issued \$250 million of unsecured medium-term notes maturing in March 2013. Concurrently, we entered into an interest rate swap with a notional amount of \$250 million maturing in March 2013. The swap was designated as a fair value hedge whereby we receive fixed interest rate payments in exchange for making variable interest rate payments. The differential to be paid or received is accrued and recognized as interest expense. At September 30, 2010, the interest rate swap agreement effectively changed \$250 million of fixed-rate debt with an interest rate of 6.00% to LIBOR-based floating-rate debt at a rate of 2.63%. Changes in the fair value of the interest rate swap are offset by changes in the fair value of the debt instrument. Accordingly, there is no ineffectiveness related to the interest rate swap. Our swap agreement contains provisions that would require us to post collateral in the event that the swap is in a liability position exceeding certain thresholds based on our credit ratings.

Table of Contents

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

The location and amount of gains (losses) on derivative instruments and related hedged items reported in the Consolidated Condensed Statements of Earnings were as follows:

	Location of Gain (Loss) Recognized in Income	Three months ended September 30,		Nine months ended September 30,	
Fair Value Hedging Relationship		2010	2009	2010	2009
		(In thousands)			
Derivative: Interest rate swap	Interest expense	\$ 1,813	3,146	\$ 5,938	(4,928)
Hedged item: Fixed-rate debt	Interest expense	(1,813)	(3,146)	(5,938)	4,928
Total		\$		\$	

Refer to Note (M), Fair Value Measurements, for disclosures of the fair value and line item caption of derivative instruments recorded on the Consolidated Condensed Balance Sheets.

(O) SHARE REPURCHASE PROGRAMS

In February 2010, our Board of Directors authorized a \$100 million discretionary share repurchase program over a period not to exceed two years. Share repurchases of common stock under this plan may be made periodically in open-market transactions and are subject to market conditions, legal requirements and other factors. Management has established a prearranged written plan for the Company under Rule 10b5-1 of the Securities Exchange Act of 1934 as part of the February 2010 program, which allows for share repurchases during Ryder's quarterly blackout periods as set forth in the plan. For the three months ended September 30, 2010, we repurchased and retired 720,000 shares under this program at an aggregate cost of \$29.6 million. For the nine months ended September 30, 2010, we repurchased and retired 1,855,000 shares under this program at an aggregate cost of \$75.1 million.

In December 2009, our Board of Directors authorized a share repurchase program intended to mitigate the dilutive impact of shares issued under our various employee stock, stock option and stock purchase plans. Under the December 2009 program, management is authorized to repurchase shares of common stock in an amount not to exceed the number of shares issued to employees under the Company's various employee stock, stock option and stock purchase plans from December 1, 2009 through December 15, 2011. The December 2009 program limits aggregate share repurchases to no more than 2 million shares of Ryder common stock. Share repurchases of common stock are made periodically in open-market transactions and are subject to market conditions, legal requirements and other factors. Management may establish a prearranged written plan for the Company under Rule 10b5-1 of the Securities Exchange Act of 1934 as part of the December 2009 program, which allows for share repurchases during Ryder's quarterly blackout periods as set forth in the plan. For the three months ended September 30, 2010, we repurchased and retired 109,064 shares under this program at an aggregate cost of \$4.6 million. For the nine months ended September 30, 2010, we repurchased and retired 416,761 shares under this program at an aggregate cost of \$16.8 million.

(P) COMPREHENSIVE INCOME

Comprehensive income presents a measure of all changes in shareholders' equity except for changes resulting from transactions with shareholders in their capacity as shareholders. Our total comprehensive income presently consists of net earnings, currency translation adjustments associated with foreign operations that use the local currency as their functional currency, adjustments for derivative instruments accounted for as cash flow hedges and various pension

and other postretirement benefits related items.

Table of Contents

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

The following table provides a reconciliation of net earnings as reported in the Consolidated Condensed Statements of Earnings to comprehensive income:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Net earnings	\$ 38,835	23,971	\$ 81,049	53,697
Other comprehensive income (loss):				
Foreign currency translation adjustments	31,825	26,616	1,451	71,573
Net unrealized gain on derivative instruments		6		162
Amortization of transition obligation ⁽¹⁾	(4)	(3)	(13)	(12)
Amortization of net actuarial loss ⁽¹⁾	3,112	3,834	9,331	12,081
Amortization of prior service credit ⁽¹⁾	(400)	(393)	(1,200)	(1,142)
Pension curtailment ⁽¹⁾		(11,927)		(11,927)
Change in net actuarial loss ⁽¹⁾	(3)	(16)	(971)	3,508
Total comprehensive income	\$ 73,365	42,088	\$ 89,647	127,940

(1) Amounts pertain to our pension and/or postretirement benefit plans and are presented net of tax. See Note (Q), Employee Benefit Plans, for additional information.

Table of Contents

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

(Q) EMPLOYEE BENEFIT PLANS

Components of net periodic benefit cost were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Pension Benefits				
Company-administered plans:				
Service cost	\$ 3,538	5,231	\$ 11,690	15,760
Interest cost	24,062	23,547	72,004	69,439
Expected return on plan assets	(23,322)	(18,812)	(69,743)	(56,099)
Curtailment loss		115		115
Amortization of:				
Transition obligation	(6)	(7)	(18)	(19)
Net actuarial loss	4,758	5,799	14,257	18,237
Prior service credit	(564)	(557)	(1,690)	(1,618)
	8,466	15,316	26,500	45,815
Union-administered plans	1,296	1,336	3,887	3,900
Net periodic benefit cost	\$ 9,762	16,652	\$ 30,387	49,715
Company-administered plans:				
U.S.	\$ 8,433	12,717	\$ 25,300	38,151
Non-U.S.	33	2,599	1,200	7,664
	8,466	15,316	26,500	45,815
Union-administered plans	1,296	1,336	3,887	3,900
Net periodic benefit cost	\$ 9,762	16,652	\$ 30,387	49,715
Postretirement Benefits				
Company-administered plans:				
Service cost	\$ 343	370	\$ 1,028	1,083
Interest cost	680	712	2,039	2,113
Amortization of:				
Net actuarial loss	88	161	263	476
Prior service credit	(58)	(58)	(173)	(173)
Net periodic benefit cost	\$ 1,053	1,185	\$ 3,157	3,499
Company-administered plans:				
U.S.	\$ 783	883	\$ 2,350	2,653

Non-U.S.	270	302	807	846
	\$ 1,053	1,185	\$ 3,157	3,499

Pension Contributions

In 2010, we expect to contribute approximately \$17 million to our pension plans. During the nine months ended September 30, 2010, we contributed \$10.9 million to our pension plans.

Pension Curtailments

In July 2009, our Board of Directors approved an amendment to freeze our U.K. retirement plan for all participants effective March 31, 2010. In July 2008, our Board of Directors approved an amendment to freeze the defined benefit portion of our Canadian retirement plan effective January 1, 2010 for current participants who did not meet certain grandfathering criteria.

Table of Contents

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

Savings Plans

Employees who do not actively participate in our pension plans are eligible to participate in savings plans. The savings plans provide for (i) company contributions even if employees do not make contributions, (ii) a company match of employee contributions of eligible pay, and (iii) in certain cases, a discretionary company match based on our performance. During the three months ended September 30, 2010 and 2009, we recognized total savings plan costs of \$6.7 million and \$5.0 million, respectively. During the nine months ended September 30, 2010 and 2009, we recognized total savings plan costs of \$20.0 million and \$16.6 million, respectively.

(R) OTHER ITEMS IMPACTING COMPARABILITY

Our primary measure of segment performance excludes certain items that we believe are not representative of the ongoing operations of the segment. We believe that excluding these items from our segment measure of performance allows for better comparison of results.

During the first quarter of 2009, we recognized a pre-tax impairment charge of \$4.1 million to write-down a SCS Singapore facility to its estimated fair value. This charge was presented within Depreciation expense in our Consolidated Condensed Statements of Earnings.

(S) SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information was as follows:

	Nine months ended September 30,	
	2010	2009
	(In thousands)	
Interest paid	\$89,017	\$ 107,525
Income taxes (refunded) paid	\$ (6,602)	\$ 7,969
Changes in accounts payable related to purchases of revenue earning equipment	\$33,808	\$ (40,331)
Revenue earning equipment acquired under capital leases	\$ 106	\$ 1,949

(T) SEGMENT REPORTING

Our operating segments are aggregated into reportable business segments based upon similar economic characteristics, products, services, customers and delivery methods. We operate in three reportable business segments: (1) FMS, which provides full service leasing, contract maintenance, contract-related maintenance and commercial rental of trucks, tractors and trailers to customers, principally in the U.S., Canada and the U.K.; (2) SCS, which provides comprehensive supply chain consulting including distribution and transportation services in North America and Asia; and (3) Dedicated Contract Carriage (DCC), which provides vehicles and drivers as part of a dedicated transportation solution in the U.S.

Our primary measurement of segment financial performance, defined as Net Before Taxes (NBT), includes an allocation of Central Support Services (CSS) and excludes restructuring and other charges, net described in Note (G),

Restructuring and Other Charges, and excludes the items discussed in Note (R), Other Items Impacting Comparability. CSS represents those costs incurred to support all business segments, including human resources, finance, corporate services, public affairs, information technology, health and safety, legal and corporate communications. The objective of the NBT measurement is to provide clarity on the profitability of each business segment and, ultimately, to hold leadership of each business segment and each operating segment within each business segment accountable for their allocated share of CSS costs. Certain costs are considered to be overhead not attributable to any segment and remain unallocated in CSS. Included among the unallocated overhead remaining within CSS are the costs for investor relations, public affairs and certain executive compensation.

Our FMS segment leases revenue earning equipment and provides fuel, maintenance and other ancillary services to the SCS and DCC segments. Inter-segment revenue and NBT are accounted for at rates similar to those executed with

third parties. NBT related to inter-segment equipment and services billed to customers (equipment contribution) are included in both FMS and the business segment which served the customer and then eliminated (presented as Eliminations).

Table of Contents

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

The following tables set forth financial information for each of our business segments and reconciliation between segment NBT and earnings from continuing operations before income taxes for the three and nine months ended September 30, 2010 and 2009. Segment results are not necessarily indicative of the results of operations that would have occurred had each segment been an independent, stand-alone entity during the periods presented.

	FMS	SCS	DCC	Eliminations	Total
	(In thousands)				
For the three months ended					
September 30, 2010					
Revenue from external customers	\$ 872,685	322,871	121,392		1,316,948
Inter-segment revenue	76,254			(76,254)	
Total revenue	\$ 948,939	322,871	121,392	(76,254)	1,316,948
Segment NBT	\$ 54,766	15,199	8,619	(4,629)	73,955
Unallocated CSS					(11,957)
Earnings from continuing operations before income taxes					\$ 61,998
Segment capital expenditures ^{(1), (2)}	\$ 310,374	3,554	215		314,143
Unallocated CSS					2,370
Capital expenditures paid					\$ 316,513
September 30, 2009					
Revenue from external customers	\$ 838,546	294,681	120,627		1,253,854
Inter-segment revenue	74,257			(74,257)	
Total revenue	\$ 912,803	294,681	120,627	(74,257)	1,253,854
Segment NBT	\$ 37,061	16,198	9,799	(5,725)	57,333
Unallocated CSS					(9,236)
Restructuring and other charges, net and other items ⁽³⁾					(3,890)
Earnings from continuing operations before income taxes					\$ 44,207

Segment capital expenditures ^{(1), (2)}	\$ 114,068	1,743	408	116,219
Unallocated CSS				1,121
Capital expenditures paid				\$ 117,340

(1) *Excludes acquisition payments of \$4.4 million and \$0.2 million during the three months ended September 30, 2010 and 2009, respectively.*

(2) *Excludes revenue earning equipment acquired under capital leases.*

(3) *See Note (R), Other Items Impacting Comparability, for a discussion of items, in addition to restructuring and other charges, net that are excluded from our primary measure of segment performance.*

Table of Contents

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

	FMS	SCS	DCC	Eliminations	Total
	(In thousands)				
For the nine months ended					
September 30, 2010					
Revenue from external customers	\$ 2,535,094	927,157	360,758		3,823,009
Inter-segment revenue	228,999			(228,999)	
Total revenue	\$ 2,764,093	927,157	360,758	(228,999)	3,823,009
Segment NBT	\$ 122,687	34,784	24,437	(14,505)	167,403
Unallocated CSS					(30,706)
Earnings from continuing operations before income taxes					\$ 136,697
Segment capital expenditures ^{(1) (2)}	\$ 844,659	7,051	1,206		852,916
Unallocated CSS					7,986
Capital expenditures paid					\$ 860,902
September 30, 2009					
Revenue from external customers	\$ 2,450,771	837,826	351,689		3,640,286
Inter-segment revenue	216,846			(216,846)	
Total revenue	\$ 2,667,617	837,826	351,689	(216,846)	3,640,286
Segment NBT	\$ 108,454	23,962	30,720	(16,174)	146,962
Unallocated CSS					(24,580)
Restructuring and other charges, net and other items ⁽³⁾					(10,412)
Earnings from continuing operations before income taxes					\$ 111,970
Segment capital expenditures ^{(1), (2)}	\$ 495,934	6,888	951		503,773
Unallocated CSS					4,813

Capital expenditures paid

\$ 508,586

(1) *Excludes acquisition payments of \$6.8 million and \$85.7 million during the nine months ended September 30, 2010 and 2009, respectively.*

(2) *Excludes revenue earning equipment acquired under capital leases.*

(3) *See Note (R), Other Items Impacting Comparability, for a discussion of items, in addition to restructuring and other charges, net that are excluded from our primary measure of segment performance.*

(U) RECENT ACCOUNTING PRONOUNCEMENTS

In July 2010, the FASB issued expanded disclosure requirements surrounding the credit quality of financing receivables and the allowance for credit losses. Certain disclosures regarding the credit quality of our financing receivables as of the end of a period are required in our December 31, 2010 10-K. Disclosures about the changes in the allowance for credit losses that occur during a reporting period are effective for interim and annual periods after January 1, 2011.

In September 2009, the FASB issued accounting guidance which amends the criteria for allocating a contract's consideration to individual services or products in multiple arrangements. The guidance requires that the best estimate of selling price be used when vendor specific objective or third-party evidence for deliverables cannot be determined. This guidance is effective for revenue arrangements entered into or materially modified on or after January 1, 2011, with early adoption permitted. The adoption of this accounting guidance will not have a material impact on our consolidated financial position, results of operations or cash flows.

Table of Contents

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009**

OVERVIEW

The following discussion should be read in conjunction with the unaudited Consolidated Condensed Financial Statements and notes thereto included under Item 1. In addition, reference should be made to our audited Consolidated Financial Statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 2009 Annual Report on Form 10-K.

Ryder System, Inc. (Ryder) is a global leader in transportation and supply chain management solutions. Our business is divided into three business segments: Fleet Management Solutions (FMS), which provides full service leasing, contract maintenance, contract-related maintenance and commercial rental of trucks, tractors and trailers to customers principally in the U.S., Canada and the U.K.; Supply Chain Solutions (SCS), which provides comprehensive supply chain consulting including distribution and transportation services in North America and Asia; and Dedicated Contract Carriage (DCC), which provides vehicles and drivers as part of a dedicated transportation solution in the U.S. We operate in highly competitive markets. Our customers select us based on numerous factors including service quality, price, technology and service offerings. As an alternative to using our services, customers may choose to provide these services for themselves, or may choose to obtain similar or alternative services from other third-party vendors. Our customer base includes enterprises operating in a variety of industries including automotive, electronics, transportation, grocery, lumber and wood products, food service, and home furnishing.

ACQUISITIONS

On February 2, 2009, we acquired the assets of Edart Leasing LLC (Edart), which included Edart's fleet of approximately 1,600 vehicles and more than 340 contractual customers from Edart's five locations in Connecticut for a purchase price of \$85.2 million. The combined network operates under the Ryder name, complementing our FMS business segment market coverage in the Northeast. We also acquired approximately 525 vehicles for remarketing, the majority of which have been sold.

CONSOLIDATED RESULTS

	Three months ended September 30,		Nine months ended September 30,		Change 2010/2009	
	2010	2009	2010	2009	Three Months	Nine Months
	(In thousands, except per share amounts)					
Earnings from continuing operations before income taxes	\$ 61,998	44,207	\$ 136,697	111,970	40%	22%
Provision for income taxes	22,324	15,768	53,551	45,523	42	18
Earnings from continuing operations	39,674	28,439	83,146	66,447	40	25
Loss from discontinued operations, net of tax	(839)	(4,468)	(2,097)	(12,750)	81	84
Net earnings	\$ 38,835	23,971	\$ 81,049	53,697	62%	51%
Earnings (loss) per common share - Diluted						
Continuing operations	\$ 0.76	0.51	\$ 1.57	1.19	49%	32%
Discontinued operations	(0.02)	(0.08)	(0.04)	(0.23)	75	83
Net earnings	\$ 0.74	0.43	\$ 1.53	0.96	72%	59%

Weighted-average shares outstanding	Diluted	51,535	55,481	52,166	55,381	(7)%	(6)%
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Earnings from continuing operations before income taxes (NBT) increased 40% in the third quarter of 2010 to \$62.0 million reflecting the impact of stronger results in our FMS business segment primarily due to improved global commercial rental performance and used vehicle sales results. This increase was partially offset by lower full service lease performance reflecting higher maintenance costs on a relatively older fleet and the cumulative effect of customer fleet downsizing. NBT in the third quarter of 2009 included restructuring charges and other items of \$3.9 million. NBT increased 22% in the nine months ended September 30, 2010 to \$136.7 million. NBT in the nine months ended September 30, 2009 was impacted by restructuring and SCS Singapore impairment charges totaling \$10.4 million. Excluding these charges, NBT increased 12% in the nine months ended September 30, 2010 primarily due to improved commercial rental performance, used vehicle sales results and higher SCS results partially offset by lower full service lease performance. See Note (G), Restructuring and Other Charges and Note (R), Other Items Impacting Comparability, for information regarding items excluded from 2009 results.

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Net earnings increased 62% in the third quarter of 2010 to \$38.8 million or \$0.74 per diluted common share. Net earnings increased 51% in the nine months ended September 30, 2010 to \$81.0 million or \$1.53 per diluted common share. Net earnings in the third quarter and the nine months ended September 30, 2009 were negatively impacted by losses from discontinued operations from SCS South America and Europe of \$4.5 million and \$12.8 million, respectively.

EPS growth in the third quarter and the nine months ended September 30, 2010 exceeded the net earnings growth reflecting the impact of share repurchase programs. See Operating Results by Business Segment for a further discussion of operating results.

	Three months ended September 30,		Nine months ended September 30,		Change 2010/2009	
	2010	2009	2010	2009	Three Months	Nine Months
	(In thousands)					
Revenue:						
Fleet Management Solutions	\$ 948,939	912,803	\$ 2,764,093	2,667,617	4%	4%
Supply Chain Solutions	322,871	294,681	927,157	837,826	10	11
Dedicated Contract Carriage	121,392	120,627	360,758	351,689	1	3
Eliminations	(76,254)	(74,257)	(228,999)	(216,846)	(3)	(6)
Total	\$ 1,316,948	1,253,854	\$ 3,823,009	3,640,286	5%	5%
Operating revenue ⁽¹⁾	\$ 1,071,611	1,034,014	\$ 3,096,300	3,042,690	4%	2%

(1) We use operating revenue, a non-GAAP financial measure, to evaluate the operating performance of our businesses and as a measure of sales activity. FMS fuel services revenue net of related intersegment billings, which is directly

impacted by fluctuations in market fuel prices, is excluded from the operating revenue computation as 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 rapid changes in market fuel prices during a short period of time as customer pricing for fuel services is established based on market fuel costs.

Subcontracted transportation is deducted from total revenue to arrive at operating revenue as subcontracted transportation is typically a pass-through to our customers.

We realize minimal changes in profitability as a result of

fluctuations in subcontracted transportation. Operating revenue is also a primary internal operating metric used to measure segment performance. Refer to the section titled Non-GAAP Financial Measures for a reconciliation of total revenue to operating revenue.

Total revenue increased 5% in the third quarter of 2010 to \$1.32 billion and increased 5% in the nine months ended September 30, 2010 to \$3.82 billion. Total revenue growth in the third quarter was driven by higher operating revenue. Total revenue growth in the first nine months of 2010 was driven by higher fuel services revenue reflecting higher fuel cost pass-throughs. Operating revenue increased 4% in the third quarter of 2010 to \$1.07 billion primarily due to higher commercial rental revenue and SCS volumes and was partially offset by lower full service lease revenue. Operating revenue increased 2% in the nine months ended September 30, 2010 to \$3.10 billion primarily due to higher commercial rental revenue and favorable movements in foreign exchange rates partially offset by lower full service lease revenue. Total revenue and operating revenue in the third quarter of 2010 included a favorable foreign exchange impact of 0.3%, and 0.2%, respectively, primarily due to the strengthening of the Canadian dollar. Both total revenue and operating revenue in the nine months ended September 30, 2010 included a favorable foreign exchange impact of 1.1% primarily due to the strengthening of the Canadian dollar.

	Three months ended September 30,		Nine months ended September 30,		Change 2010/2009	
	2010	2009	2010	2009	Three Months	Nine Months
	(Dollars in thousands)					
Operating expense (exclusive of items shown separately)	\$624,495	574,595	\$1,813,603	1,653,157	9%	10%
Percentage of revenue	47%	46%	47%	45%		

Operating expense and operating expense as a percentage of revenue increased in the third quarter and first nine months of 2010 primarily as a result of higher fuel cost pass-throughs and higher maintenance costs. The increase in fuel costs in the third quarter and first nine months of 2010 was driven by an increase in fuel prices.

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

We retain a portion of the accident risk under vehicle liability and workers' compensation insurance programs. The costs associated with these insurance programs are reflected within Operating expense. Our self-insurance accruals are based on actuarially estimated, undiscounted cost of claims, which includes claims incurred but not reported. While we believe that our estimation processes are well designed, every estimation process is inherently subject to limitations. Fluctuations in the frequency or severity of accidents make it difficult to precisely predict the ultimate cost of claims. During the three months ended September 30, 2009, we recorded a charge of \$0.4 million from developments in estimated prior years' self-insured loss reserves. During the nine months ended September 30, 2010 and 2009, we recorded a charge of \$2.4 million and a benefit of \$2.9 million, respectively, from developments in estimated prior years' self-insured loss reserves.

	Three months ended September 30,		Nine months ended September 30,		Change 2010/2009	
	2010	2009	2010	2009	Three Months	Nine Months
	(Dollars in thousands)					
Salaries and employee-related costs	\$314,706	312,042	\$929,659	918,109	1%	1%
Percentage of revenue	24%	25%	24%	25%		
Percentage of operating revenue	29%	30%	30%	30%		

Salaries and employee-related costs increased 1% in the third quarter of 2010 to \$314.7 million and increased 1% in the nine months ended September 30, 2010 to \$929.7 million primarily due to higher incentive-based compensation costs and higher driver costs. The increases in salaries and employee-related costs were partially offset by lower retirement plans expense of \$5.1 million in the third quarter of 2010 and \$15.9 million in the nine months ended September 30, 2010 reflecting higher than expected return on pension assets in 2009 and the favorable impact from voluntary pension contributions made in the fourth quarter of 2009. Salaries and employee-related costs in the nine months ended September 30, 2010 were also impacted by unfavorable changes in foreign currency exchange rates. Average headcount from continuing operations decreased 3% and 6% for the three and nine months ended September 30, 2010, respectively.

	Three months ended September 30,		Nine months ended September 30,		Change 2010/2009	
	2010	2009	2010	2009	Three Months	Nine Months
	(Dollars in thousands)					
Subcontracted transportation	\$67,049	52,539	\$191,972	138,547	28%	39%
Percentage of revenue	5%	4%	5%	4%		

Subcontracted transportation expense represents freight management costs on logistics contracts for which we purchase transportation from third parties. Subcontracted transportation expense is directly impacted by whether we are acting as an agent or principal in our transportation management contracts. To the extent that we are acting as a principal, revenue is reported on a gross basis and carriage costs to third parties are recorded as subcontracted transportation expense. To the extent we are acting as an agent, revenue is reported net of carriage costs to third parties. The impact to net earnings is the same whether we are acting as an agent or principal in the arrangement. Subcontracted transportation expense increased 28% in the third quarter of 2010 to \$67.0 million and 39% in the nine months ended September 30, 2010 to \$192.0 million from increased freight volumes particularly in the automotive industry.

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	Three months ended September 30,		Nine months ended September 30,		Change 2010/2009	
	2010	2009	2010	2009	Three Months	Nine Months
	(In thousands)					
Depreciation expense	\$ 209,929	220,258	\$ 627,695	665,392	(5)%	(6)%
Gains on vehicle sales, net	\$ (6,904)	(3,326)	\$ (18,009)	(9,092)	108%	98%
Equipment rental	\$ 16,463	16,463	\$ 49,532	48,553	%	2%

Depreciation expense relates primarily to FMS revenue earning equipment. Revenue earning equipment held for sale is recorded at the lower of fair value less costs to sell or carrying value. Losses to reflect change in fair value are reflected within Depreciation expense. Depreciation expense decreased 5% in the third quarter of 2010 to \$209.9 million and 6% in the nine months ended September 30, 2010 to \$627.7 million because of a smaller fleet as well as lower write-downs in the carrying value of vehicles held for sale of \$6.9 million and \$20.0 million, respectively. Depreciation expense in the nine months ended September 30, 2009 also included a SCS Singapore facility impairment charge of \$4.1 million. The decreases in depreciation expense in the third quarter and nine months ended September 30, 2010

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

were partially offset by higher average vehicle investments, as well as changes in both residual values of certain classes of our revenue earning equipment effective January 1, 2010 and accelerated depreciation for select vehicles that are expected to be sold by the end of 2011. Refer to Note (H), Revenue Earning Equipment, in the Notes to Consolidated Condensed Financial Statements for further discussion.

Gains on vehicle sales, net increased in the third quarter and nine months ended September 30, 2010 to \$6.9 million and \$18.0 million, respectively, due to higher pricing, primarily in our used truck class.

Equipment rental consists primarily of rent expense for FMS revenue earning equipment under lease. Equipment rental remained unchanged in the third quarter of 2010 at \$16.5 million. Equipment rental increased 2% in the nine months ended September 30, 2010 to \$49.5 million as higher rental costs associated with investments in material handling equipment to support our SCS operations were partially offset by a lower number of leased vehicles.

	Three months ended September 30,		Nine months ended September 30,		Change 2010/2009	
	2010	2009	2010	2009	Three Months	Nine Months
	(Dollars in thousands)					
Interest expense	\$31,897	35,730	\$96,385	110,447	(11)%	(13)%
Effective interest rate	5.1%	5.5%	5.2%	5.4%		

Interest expense decreased 11% in the third quarter of 2010 to \$31.9 million primarily due to a lower average effective interest rate and lower average debt balances. Interest expense decreased 13% in the nine months ended September 30, 2010 to \$96.4 million primarily due to lower average debt balances and, to a lesser extent, a lower average effective interest rate.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Miscellaneous income, net	\$ (2,685)	(2,394)	\$ (4,525)	(3,135)

Miscellaneous income, net consists of investment (income) losses on securities used to fund certain benefit plans, interest income, (gains) losses from sales of operating property, foreign currency transaction (gains) losses, and other non-operating items. Miscellaneous income, net increased \$0.3 million in the third quarter of 2010 and increased \$1.4 million in the nine months ended September 30, 2010 primarily due to gains from sales of operating property and a life insurance recovery partially offset by lower income on investment securities.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Restructuring and other charges, net	\$	3,740	\$	6,338

Refer to Note (G), Restructuring and Other Charges, for a discussion of the restructuring and other charges recognized in the three and nine months ended September 30, 2009.

	Three months ended September 30,	Nine months ended September 30,	Change 2010/2009
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	2010	2009	2010	2009	Three Months	Nine Months
			(Dollars in thousands)			
Provision for income taxes	\$22,324	15,768	\$ 53,551	45,523	42%	18%
Effective tax rate from continuing operations	36.0%	35.7%	39.2%	40.7%		

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Our effective income tax rate from continuing operations for the third quarter of 2010 was 36.0% compared to 35.7% in the same period of the prior year. The increase in the effective income tax rate from continuing operations was due to the favorable settlement of a foreign tax audit in 2009 partially offset by 2010 lower foreign operating losses, income tax rate reductions in the U.K and lower contingent tax accruals in 2010. Our effective income tax rate from continuing operations for the nine months ended September 30, 2010 was 39.2% compared 40.7% in the prior year. The decrease in the effective income tax rate from continuing operations in the nine months ended September 30, 2010 was mainly due to lower non-deductible expenses partially offset by higher contingent tax accruals.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Loss from discontinued operations, net of tax	\$(839)	(4,468)	\$(2,097)	(12,750)

Refer to Note (D), Discontinued Operations, in the Notes to Consolidated Condensed Financial Statements for a discussion of losses from discontinued operations.

OPERATING RESULTS BY BUSINESS SEGMENT

	Three months ended September 30,		Nine months ended September 30,		Change 2010/2009	
	2010	2009	2010	2009	Three Months	Nine Months
	(In thousands)					
Revenue:						
Fleet Management						
Solutions	\$ 948,939	912,803	\$ 2,764,093	2,667,617	4%	4%
Supply Chain Solutions	322,871	294,681	927,157	837,826	10	11
Dedicated Contract						
Carriage	121,392	120,627	360,758	351,689	1	3
Eliminations	(76,254)	(74,257)	(228,999)	(216,846)	(3)	(6)
Total	\$ 1,316,948	1,253,854	\$ 3,823,009	3,640,286	5%	5%
Operating Revenue:						
Fleet Management						
Solutions	\$ 733,870	712,468	\$ 2,120,278	2,118,280	3%	%
Supply Chain Solutions	258,542	245,869	746,653	707,814	5	5
Dedicated Contract						
Carriage	118,672	116,900	349,290	343,154	2	2
Eliminations	(39,473)	(41,223)	(119,921)	(126,558)	4	5
Total	\$ 1,071,611	1,034,014	\$ 3,096,300	3,042,690	4%	2%

NBT:

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Fleet Management Solutions	\$	54,766	37,061	\$	122,687	108,454	48%	13%
Supply Chain Solutions		15,199	16,198		34,784	23,962	(6)	45
Dedicated Contract Carriage		8,619	9,799		24,437	30,720	(12)	(20)
Eliminations		(4,629)	(5,725)		(14,505)	(16,174)	19	10
		73,955	57,333		167,403	146,962	29	14
Unallocated Central Support Services		(11,957)	(9,236)		(30,706)	(24,580)	(29)	(25)
Restructuring and other charges, net and other items			(3,890)			(10,412)	NM	NM
Earnings from continuing operations before income taxes	\$	61,998	44,207	\$	136,697	111,970	40%	22%

As part of management's evaluation of segment operating performance, we define the primary measurement of our segment financial performance as Net Before Taxes (NBT) from continuing operations, which includes an allocation of Central Support Services (CSS), excludes restructuring and other charges, net, described in Note (G), Restructuring and Other Charges, and excludes the items discussed in Note (R), Other Items Impacting Comparability in the Notes to Consolidated Condensed Financial Statements. CSS represents those costs incurred to support all business segments, including human resources, finance, corporate services and public affairs, information technology, health and safety, legal and corporate communications. The objective of the NBT measurement is to provide clarity on the profitability of each business segment and, ultimately, to hold leadership of each business segment and each operating segment within each business segment accountable for their allocated share of CSS costs. Segment results are not necessarily indicative of the results of operations that would have

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

occurred had each segment been an independent, stand-alone entity during the periods presented. Certain costs are considered to be overhead not attributable to any segment and remain unallocated in CSS. Included within the unallocated overhead remaining within CSS are the costs for investor relations, public affairs and certain executive compensation.

The following table provides a reconciliation of items excluded from our segment NBT measure to their classification within our Consolidated Condensed Statements of Earnings:

Description	Consolidated Condensed Statements of Earnings Line Item	Three months ended September 30,		Nine months ended September 30,	
		2010	2009	2010	2009
		(In thousands)			
Restructuring and other charges, net	Restructuring ⁽¹⁾	\$	(3,740)	\$	(6,338)
International asset impairment ⁽²⁾	Depreciation expense		(150)		(4,074)
Restructuring and other charges, net and other items		\$	(3,890)	\$	(10,412)

(1) Restructuring refers to Restructuring and other charges, net on our Consolidated Condensed Statements of Earnings.

(2) See Note (R), Other Items Impacting Comparability, for additional information.

Our FMS segment leases revenue earning equipment and provides fuel, maintenance and other ancillary services to our SCS and DCC segments. Inter-segment revenue and NBT are accounted for at rates similar to those executed with third parties. NBT related to inter-segment equipment and services billed to customers (equipment contribution) are included in both FMS and the business segment which served the customer and then eliminated (presented as Eliminations).

The following table sets forth equipment contribution included in NBT for our SCS and DCC business segments:

Three months ended September	Nine months ended September 30,	Change 2010/2009
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	2010	2009	2010	2009	Three Months	Nine Months
			(Dollars in thousands)			
Equipment contribution:						
Supply Chain Solutions	\$ 1,973	2,476	\$ 6,228	7,274	(20)%	(14)%
Dedicated Contract						
Carriage	2,656	3,249	8,277	8,900	(18)	(7)
Total	\$ 4,629	5,725	\$ 14,505	16,174	(19)%	(10)%

26

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)****Fleet Management Solutions**

	Three months ended September 30,		Nine months ended September 30,		Change 2010/2009	
	2010	2009	2010	2009	Three Months	Nine Months
	(Dollars in thousands)					
Full service lease	\$ 487,488	499,941	\$ 1,449,365	1,496,237	(2)%	(3)%
Contract maintenance	40,098	42,360	119,757	126,041	(5)	(5)
Contractual revenue	527,586	542,301	1,569,122	1,622,278	(3)	(3)
Contract-related maintenance	41,176	40,126	121,247	125,926	3	(4)
Commercial rental	147,899	112,266	379,544	320,057	32	19
Other	17,209	17,775	50,365	50,019	(3)	1
Operating revenue ⁽¹⁾	733,870	712,468	2,120,278	2,118,280	3	
Fuel services revenue	215,069	200,335	643,815	549,337	7	17
Total revenue	\$ 948,939	912,803	\$ 2,764,093	2,667,617	4%	4%
Segment NBT	\$ 54,766	37,061	\$ 122,687	108,454	48%	13%
Segment NBT as a % of total revenue	5.8%	4.1%	4.4%	4.1%	170 bps	30 bps
Segment NBT as a % of operating revenue ⁽¹⁾	7.5%	5.2%	5.8%	5.1%	230 bps	70 bps

(1) We use operating revenue, a non-GAAP financial measure, to evaluate the operating performance of our FMS business segment and as a measure of sales activity.

Fuel services revenue, which is directly impacted by fluctuations in market fuel prices, is excluded from our operating revenue computation as fuel is largely a pass-through to 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 rapid changes in market fuel prices during a short period of time as customer pricing for fuel services is established based on market fuel costs.

Total revenue increased 4% in the third quarter of 2010 to \$948.9 million primarily due to higher operating revenue and fuel services revenue. Total revenue increased 4% in the nine months ended September 30, 2010 to \$2.76 billion primarily due to higher fuel services revenue. The increase in fuel services revenue was due to higher fuel cost pass-throughs. Operating revenue (revenue excluding fuel) increased 3% in the third quarter of 2010 to \$733.9 million primarily due to higher commercial rental revenue partially offset by lower full service lease revenue. Operating revenue remained flat in the nine months ended September 30, 2010, as increased commercial rental revenue was offset by lower contractual revenue. Both total revenue and operating revenue in the nine months ended September 30, 2010 included a favorable foreign exchange impact of 1.1%.

Full service lease revenue decreased 2% in the third quarter of 2010 to \$487.5 million and 3% in the nine months ended September 30, 2010 to \$1.45 billion. Contract maintenance revenue decreased 5% in the third quarter of 2010 to \$40.1 million and 5% in the nine months ended September 30, 2010 to \$119.8 million. The decrease in contractual revenue reflects the cumulative effect of customer fleet downsizing resulting from the long-term economic downturn. We expect similar declines in contractual revenue comparisons through the end of the year based on recent sales activity. Commercial rental revenue increased 32% in the third quarter of 2010 to \$147.9 million and 19% in the nine

months ended September 30, 2010 of 2010 to \$379.5 million reflecting improved global market demand and improved pricing. In light of current economic conditions, we expect favorable commercial rental revenue comparisons to continue through the end of the year driven by higher demand, improved utilization and higher pricing.

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

The following table provides commercial rental statistics on our global fleet:

	Three months ended September 30,		Nine months ended September 30,		Change 2010/2009	
	2010	2009	2010	2009	Three Months	Nine Months
	(Dollars in thousands)					
Non-lease customer rental revenue	\$ 95,479	71,452	\$ 238,594	196,292	34%	22%
Lease customer rental revenue ⁽¹⁾	\$ 52,420	40,814	\$ 140,950	123,765	28%	14%
Average commercial rental power fleet size in service ^{(2), (3)}	25,100	22,600	23,500	23,300	11%	1%
Commercial rental utilization power fleet	79.2%	70.8%	75.5%	66.6%	840 bps	890 bps

(1) *Lease customer rental revenue is revenue from rental vehicles provided to our existing full service lease customers, generally during peak periods in their operations.*

(2) *Number of units rounded to nearest hundred and calculated using quarterly average unit counts.*

(3) *Fleet size excluding trailers.*

FMS NBT increased 48% in the third quarter of 2010 to \$54.8 million and increased 13% in the nine months ended September 30, 2010 to \$122.7 million primarily due to improved global commercial rental performance, better used vehicle results and lower retirement plans expense. Commercial rental performance improved as a result of increased

market demand and higher pricing. Used vehicle sales results were positively impacted by higher pricing and a lower average quarterly inventory level. Both commercial rental and used vehicle sales results benefited from a lower supply of vehicles in the overall marketplace. Retirement plans cost decreased \$5.0 million in the third quarter of 2010 and decreased \$14.8 million in the nine months ended September 30, 2010 because of improved performance in the overall stock market in 2009. The increase in NBT in both periods was partially offset by lower full service lease performance which was adversely impacted by increased maintenance costs on a relatively older fleet and the cumulative impact of customer fleet downsizing. The increase in NBT in the nine months ended September 30, 2010 was also partially offset by higher compensation costs and increased depreciation expense of \$9.2 million resulting from residual value changes and accelerated depreciation.

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (Continued)**

Our global fleet of owned and leased revenue earning equipment and contract maintenance vehicles is summarized as follows (number of units rounded to the nearest hundred):

	September 30, 2010	December 31, 2009	September 30, 2009	Sep. 2010/ Dec. 2009	Sep. 2010/ Sep. 2009
End of period vehicle count					
By type:					
Trucks ⁽¹⁾	63,700	63,600	65,300	%	(2)%
Tractors ⁽²⁾	50,300	50,300	50,900		(1)
Trailers ⁽³⁾	33,300	35,400	36,600	(6)	(9)
Other	2,900	3,100	3,100	(6)	(6)
Total	150,200	152,400	155,900	(1)%	(4)%
By ownership:					
Owned	145,500	147,200	150,900	(1)%	(4)%
Leased	4,700	5,200	5,000	(10)	(6)
Total	150,200	152,400	155,900	(1)%	(4)%
By product line:					
Full service lease	111,800	115,100	116,900	(3)%	(4)%
Commercial rental	30,900	27,400	28,200	13	10
Service vehicles and other	2,800	3,000	3,000	(7)	(7)
Active units	145,500	145,500	148,100		(2)
Held for sale	4,700	6,900	7,800	(32)	(40)
Total	150,200	152,400	155,900	(1)%	(4)%
Customer vehicles under contract maintenance	33,600	34,400	34,400	(2)%	(2)%
Quarterly average vehicle count					
By product line:					
Full service lease	111,900	116,000	117,900	(4)%	(5)%
Commercial rental	31,100	27,800	28,600	12	9
Service vehicles and other	1,900	2,900	2,900	(34)	(34)

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Active units	144,900	146,700	149,400	(1)	(3)
Held for sale	5,100	7,300	8,300	(30)	(39)
Total	150,000	154,000	157,700	(3)%	(5)%
Customer vehicles under contract maintenance	33,700	34,300	34,900	(2)%	(3)%
Year-to-date average vehicle count					
By product line:					
Full service lease	112,900	118,800	119,800	(5)%	(6)%
Commercial rental	29,600	29,400	29,900		(1)
Service vehicles and other	2,600	2,900	2,800	(10)	(7)
Active units	145,100	151,100	152,500	(4)	(5)
Held for sale	6,100	8,400	8,800	(27)	(31)
Total	151,200	159,500	161,300	(5)%	(6)%
Customer vehicles under contract maintenance	33,800	35,200	35,500	(4)%	(5)%

(1) Generally comprised of Class 1 through Class 6 type vehicles with a Gross Vehicle Weight (GVW) up to 26,000 pounds.

(2) Generally comprised of over the road on highway tractors and are primarily comprised of Classes 7 and 8 type vehicles with a GVW of over 26,000 pounds.

- (3) *Generally
comprised of
dry, flatbed and
refrigerated
type trailers.*

NOTE: Amounts were computed using a 12-point average based on monthly information.

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

The following table provides a breakdown of our non-revenue earning equipment included in our global fleet count (number of units rounded to nearest hundred):

	September 30, 2010	December 31, 2009	September 30, 2009	Change Sep. 2010/ Dec. 2009	Sep. 2010/ Sep. 2009
Not yet earning revenue (NYE)	1,000	700	700	43%	43%
No longer earning revenue (NLE):					
Units held for sale	4,700	6,900	7,800	(32)	(40)
Other NLE units	2,200	2,900	3,200	(24)	(31)
Total	7,900	10,500	11,700	(25)%	(32)%

NYE units represent new vehicles on hand that are being prepared for deployment to a lease customer or into the rental fleet. Preparations include activities such as adding lift gates, paint, decals, cargo area and refrigeration equipment. For 2010, NYE units increased reflecting new lease sales and, to a lesser extent, the refresh and modest growth of the rental fleet. NLE units represent vehicles held for sale and vehicles for which no revenue has been earned in the previous 30 days. For 2010, NLE units decreased because of lower used vehicle inventory levels and higher rental utilization. We expect NLE levels to increase through the end of this year as we outservice rental units.

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	Three months ended September 30,		Nine months ended September 30,		Change 2010/2009	
	2010	2009	2010	2009	Three Months	Nine Months
	(Dollars in thousands)					
U.S. operating revenue:						
Automotive	\$ 94,040	88,349	\$ 270,527	246,650	6%	10%
High-Tech and Consumer	62,289	61,175	179,918	186,628	2	(4)
Industrial and Other	31,147	30,884	89,327	90,891	1	(2)
U.S. operating revenue	187,476	180,408	539,772	524,169	4	3
International operating revenue	71,066	65,461	206,881	183,645	9	13
Operating revenue ⁽¹⁾	258,542	245,869	746,653	707,814	5	5
Subcontracted transportation	64,329	48,812	180,504	130,012	32	39
Total revenue	\$ 322,871	294,681	\$ 927,157	837,826	10%	11%
Segment NBT	\$ 15,199	16,198	\$ 34,784	23,962	(6)%	45%

Segment NBT as a % of
total revenue

4.7%

5.5%

3.8%

2.9%

(80) bps

90 bps