RYDER SYSTEM INC
Form 10-Q
October 25, 2006

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

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM ________ TO ________

Commission File Number: 1-4364
RYDER SYSTEM, INC.
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨

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

Ryder System, Inc. Common Stock ($0.50 par value per share) outstanding at September 30, 2006 was 60,728,059.

RYDER SYSTEM, INC.
FORM 10-Q QUARTERLY REPORT
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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,	
	2006	2005	**2006**	2005
	(In thousands, except per share amounts)			
Revenue	**$ 1,620,549**	1,490,623	**$ 4,712,566**	4,196,054
Operating expense (exclusive of items shown separately)	**700,129**	657,215	**2,064,143**	1,902,545
Salaries and employee-related costs	**354,221**	314,639	**1,035,712**	928,569
Subcontracted transportation	**220,367**	183,468	**637,856**	425,110
Depreciation expense	**187,992**	188,051	**549,622**	556,291
Gains on vehicle sales, net	**(11,045)**	(12,290)	**(38,834)**	(38,141)
Equipment rental	**25,399**	25,236	**76,327**	77,292
Interest expense	**36,395**	31,341	**102,853**	89,146
Miscellaneous income, net	**(408)**	(2,105)	**(6,211)**	(7,377)
Restructuring and other charges (recoveries), net	**86**	(432)	**(73)**	(633)
	1,513,136	1,385,123	**4,421,395**	3,932,802
Earnings before income taxes	**107,413**	105,500	**291,171**	263,252
Provision for income taxes	**42,136**	42,159	**108,033**	95,124
Net earnings	**$ 65,277**	63,341	**$ 183,138**	168,128
Earnings per common share:				
Basic	**$ 1.07**	0.99	**$ 3.00**	2.63
Diluted	**$ 1.06**	0.98	**$ 2.97**	2.60
Cash dividends per common share	**$ 0.18**	0.16	**$ 0.54**	0.48

See accompanying notes to consolidated condensed financial statements.

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RYDER SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

	(unaudited) September 30, 2006	December 31, 2005
	(Dollars in thousands, except per share amounts)	
Assets:		
Current assets:		
Cash and cash equivalents	$ **128,091**	128,727
Receivables, net	**919,198**	820,825
Inventories	**62,169**	59,579
Prepaid expenses and other current assets	**268,423**	154,624
Total current assets	**1,377,881**	1,163,755
Revenue earning equipment, net of accumulated depreciation of $2,833,040 and $2,862,998, respectively	**4,303,929**	3,794,410
Operating property and equipment, net of accumulated depreciation of $777,043 and $748,604, respectively	**497,478**	486,802
Goodwill	**158,247**	155,785
Intangible assets	**15,110**	22,462
Direct financing leases and other assets	**375,600**	410,050
Total assets	$ **6,728,245**	6,033,264
Liabilities and shareholders equity:		
Current liabilities:		
Short-term debt and current portion of long-term debt	$ **389,317**	269,438
Accounts payable	**590,615**	414,336
Accrued expenses and other current liabilities	**453,997**	569,721
Total current liabilities	**1,433,929**	1,253,495
Long-term debt	**2,242,878**	1,915,928
Other non-current liabilities	**504,280**	487,268
Deferred income taxes	**901,773**	849,117
Total liabilities	**5,082,860**	4,505,808
Shareholders equity:		
Preferred stock of no par value per share authorized, 3,800,917; none outstanding, September 30, 2006 or December 31, 2005		

Common stock of $0.50 par value per share authorized, 400,000,000; outstanding, September 30, 2006 60,728,059; December 31, 2005 61,869,473	**30,246**	30,935
Additional paid-in capital	**704,137**	666,674
Retained earnings	**1,082,411**	1,038,364
Deferred compensation		(5,598)
Accumulated other comprehensive loss	**(171,409)**	(202,919)
Total shareholders equity	**1,645,385**	1,527,456
Total liabilities and shareholders equity	**$ 6,728,245**	6,033,264

See accompanying notes to consolidated condensed financial statements.

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

	Nine months ended September 30, 2006	2005
	(In thousands)	
Cash flows from operating activities:		
Net earnings	**$ 183,138**	168,128
Depreciation expense	**549,622**	556,291
Gains on vehicle sales, net	**(38,834)**	(38,141)
Amortization expense and other non-cash charges, net	**11,778**	3,843
Share-based compensation expense	**10,096**	2,230
Deferred income tax expense	**69,141**	7,318
Tax benefits from share-based compensation	**4,643**	3,513
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	**(95,301)**	(76,913)
Inventories	**(2,187)**	(1,342)
Prepaid expenses and other assets	**(48,334)**	(10,395)
Accounts payable	**79,603**	35,296
Accrued expenses and other non-current liabilities	**(111,761)**	(178,985)
Net cash provided by operating activities	**611,604**	470,843
Cash flows from financing activities:		
Net change in commercial paper borrowings	**265,164**	19,440
Debt proceeds	**338,307**	725,709
Debt repaid, including capital lease obligations	**(168,524)**	(306,403)
Dividends on common stock	**(33,080)**	(30,814)
Common stock issued	**53,977**	20,645
Common stock repurchased	**(141,531)**	(40,609)
Excess tax benefits from share-based compensation	**7,798**	
Net cash provided by financing activities	**322,111**	387,968
Cash flows from investing activities:		
Purchases of property and revenue earning equipment	**(1,171,561)**	(1,105,823)
Sales of revenue earning equipment	**253,482**	249,891
Sales of operating property and equipment	**3,387**	2,682
Acquisitions	**(4,113)**	(15,110)
Collections on direct finance leases	**51,287**	49,689
Changes in restricted cash	**(71,789)**	4,587
Other, net	**2,164**	
Net cash used in investing activities	**(937,143)**	(814,084)

Effect of exchange rate changes on cash	**2,792**	(5,161)
(Decrease) increase in cash and cash equivalents	**(636)**	39,566
Cash and cash equivalents at January 1	**128,727**	100,971
Cash and cash equivalents at September 30	**$ 128,091**	140,537
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	**$ 75,634**	61,719
Income taxes, net of refunds	**126,744**	283,486
Non-cash investing activities:		
Changes in accounts payable related to purchases of revenue earning equipment	**91,558**	41,503
Revenue earning equipment acquired under capital leases	**91**	433

See accompanying notes to consolidated condensed financial statements.

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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	Deferred Compensation	Accumulated Other Comprehensive Loss	Total
	(Dollars in thousands, except per share amount)							
Balance at December 31, 2005	$	61,869,473	$ 30,935	666,674	1,038,364	(5,598)	(202,919)	1,527,456
Components of comprehensive income:								
Net earnings					**183,138**			**183,138**
Foreign currency translation adjustments							**31,360**	**31,360**
Unrealized gain related to derivative instruments							**150**	**150**
Total comprehensive income								**214,648**
Common stock dividends declared - $0.54 per share					**(33,080)**			**(33,080)**
Common stock issued under employee stock option and stock purchase plans (1)		**1,914,732**	**968**	**52,797**				**53,765**
Benefit plan stock sales (2)		**6,036**	**3**	**209**				**212**
Common stock repurchases		**(3,062,182)**	**(1,531)**	**(33,989)**	**(106,011)**			**(141,531)**
Tax benefits from stock plan transactions				**13,819**				**13,819**
Share-based compensation				**10,096**				**10,096**
Adoption of SFAS No.123R			**(129)**	**(5,469)**		**5,598**		
Balance at September 30, 2006	**$**	**60,728,059**	**$ 30,246**	**704,137**	**1,082,411**		**(171,409)**	**1,645,385**

(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 plan.*

See accompanying notes to consolidated condensed financial statements.

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. and all entities in which Ryder System, Inc. has a controlling voting interest (subsidiaries), and variable interest entities (VIEs) required to be consolidated in accordance with U.S. generally accepted accounting principles (GAAP), which have been prepared in accordance with the accounting policies described in the 2005 Annual Report on Form 10-K except for the accounting change noted below relating to share-based compensation, and should be read in conjunction with the Consolidated Financial Statements and notes thereto. These statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals except for the pension accounting charge noted below) considered necessary for a fair presentation 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. Certain prior year amounts have been reclassified to conform to the current period presentation.

(B) ACCOUNTING CHANGE

At September 30, 2006, we had two types of share-based employee compensation plans, which are described more fully in Note (C), Share-Based Compensation Plans. Prior to January 1, 2006, share-based compensation expense related to stock options was not recognized in the results of operations if the exercise price was equal to the market value of the common stock on the measurement date, in accordance with Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, and related Interpretations, as permitted by Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation. As a result, the recognition of share-based compensation expense was limited to the expense attributed to grants of nonvested stock (restricted stock). Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123R, Share-Based Payment, using the modified-prospective transition method. Under this transition method, compensation expense was recognized beginning January 1, 2006 and includes (a) compensation expense for all share-based employee compensation arrangements granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation expense for all share-based employee compensation arrangements granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. Results for prior periods have not been restated.

As a result of adopting SFAS No. 123R on January 1, 2006, earnings before income taxes for the three and nine months ended September 30, 2006 were $2.8 million ($2.0 million after-tax) and $7.8 million ($5.6 million after-tax) lower, respectively, than if we had continued to account for share-based compensation under APB No. 25. Both basic and diluted earnings per common share for the three and nine months ended September 30, 2006 were $0.03 and $0.09 lower, respectively, than if we had continued to account for share-based compensation under APB No. 25.

Prior to the adoption of SFAS No. 123R, we presented all tax benefits of tax deductions resulting from the exercise of stock options as operating cash flows in the Consolidated Condensed Statements of Cash Flows. SFAS No. 123R requires the cash flows from the tax benefits resulting from tax deductions in excess of the compensation expense recognized for those options (excess tax benefits) to be classified as financing cash flows. As a result, we classified $7.8 million as cash flows from financing activities rather than cash flows from operating activities for the nine months ended September 30, 2006.

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

The following table illustrates the effect on 2005 net earnings and earnings per diluted common share if we had applied the fair value recognition provisions of SFAS No. 123 to options granted under our share-based employee compensation plans. For purposes of this pro forma disclosure, the value of the options was estimated using a Black-Scholes-Merton option-pricing valuation model and amortized to expense over the options vesting periods.

	Three months ended September 30, 2005	Nine months ended September 30, 2005
	(In thousands, except per share amounts)	
Net earnings, as reported	$ 63,341	168,128
Add: Share-based compensation expense included in reported net earnings, net of tax	369	1,319
Deduct: Total share-based compensation expense determined under fair value method for all awards, net of tax	(2,121)	(7,282)
Pro forma net earnings	$ 61,589	162,165
Earnings per common share:		
Basic:		
As reported	$ 0.99	2.63
Pro forma	$ 0.96	2.54
Diluted:		
As reported	$ 0.98	2.60
Pro forma	$ 0.95	2.50

(C) SHARE-BASED COMPENSATION PLANS

At September 30, 2006, Ryder had various stock option and incentive plans and a stock purchase plan, which are described below. Share-based compensation expense is recorded in Salaries and employee-related costs. The following table provides information on share-based compensation expense and income tax benefits recognized during the periods:

	Three months ended September 30,	Nine months ended September 30,

	2006	2005	2006	2005
		(In thousands)		
Stock option and stock purchase plans	$ 2,784		$ 7,776	
Nonvested stock (restricted stock)	924	639	2,320	2,230
Share-based compensation expense	3,708	639	10,096	2,230
Income tax benefit	(1,142)	(270)	(2,973)	(911)
Share-based compensation expense, net of tax	$ 2,566	369	$ 7,123	1,319

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

The amount of pre-tax share-based compensation expense and related allocation across business segments was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	**2006**	2005
	(In thousands)			
Fleet Management Solutions	**$ 997**	7	**$ 3,055**	351
Supply Chain Solutions	**930**	130	**2,376**	388
Dedicated Contract Carriage	**83**	18	**243**	46
Central Support Services	**1,698**	484	**4,422**	1,445
Total	**$ 3,708**	639	**$ 10,096**	2,230

Cash received from stock issued under all share-based employee compensation arrangements for the nine months ended September 30, 2006 and 2005 was $53.8 million and $20.6 million, respectively. The actual tax benefit realized for the tax deductions from share-based employee compensation arrangements totaled $1.5 million and $0.9 million for the three months ended September 30, 2006 and 2005, respectively, and $12.4 million and $3.5 million for the nine months ended September 30, 2006 and 2005, respectively.

Stock Option Plans

Ryder sponsors various stock option and incentive plans that are shareholder-approved and permit the grant of stock options and shares to our employees for up to 5 million shares of common stock. Option awards are granted to employees for purchase of common stock at prices equal to the market price of Ryder s stock at the time of grant. Options granted under all plans generally vest one-third each year based on three years of service and have no more than 10-year contractual terms. Certain employee plans also provide for the issuance of nonvested stock (restricted stock) or stock units at no cost to the employee. Certain nonvested stock granted in 2006 was subject to a three-year market vesting condition in addition to the general service condition. The market condition provides that Ryder s total shareholder return (TSR) as a percentage of the S&P 500 comparable period TSR is 100% or greater over a three-year period.

A summary of option activity under our stock option plans as of September 30, 2006, and changes during the nine months ended September 30, 2006 is presented in the table below:

	Shares	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term (in years)**	**Aggregate Intrinsic Value (in thousands)**

	(Shares in thousands)						
Options outstanding at January 1	**4,535**	**$**	**33.02**				
Granted	**1,083**		**43.17**				
Exercised	**(1,734)**		**28.97**				
Forfeited or expired	**(155)**		**40.78**				
Options outstanding at September 30	**3,729**	**$**	**37.52**		**4.9**	**$**	**54,143**
Vested and expected to vest at September 30	**3,587**	**$**	**37.35**		**5.2**	**$**	**52,684**
Exercisable at September 30	**1,575**	**$**	**30.53**		**3.7**	**$**	**33,865**

The weighted-average grant date fair value of options granted during the nine months ended September 30, 2006 and 2005 was $10.81 and $9.89, respectively. The aggregate intrinsic values in the table above represent the total pre-tax intrinsic value (the difference between the market price of Ryder s stock on the last trading day of the quarter and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options at quarter end. The amount changes based on the fair market value of Ryder s stock. The total intrinsic value of options exercised during the nine months ended September 30, 2006 and 2005 was $35.2 million and $9.4 million, respectively.

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

A summary of the status of Ryder s nonvested stock as of September 30, 2006, and changes during the nine months ended September 30, 2006 is presented in the table below:

	Shares	Weighted-Average Grant Date Fair Value
	(Shares in thousands)	
Nonvested stock outstanding at January 1	**297**	**$ 34.45**
Granted	**123**	**30.89**
Vested	**(107)**	**28.98**
Forfeited	**(24)**	**34.63**
Nonvested stock outstanding at September 30	**289**	**$ 34.94**
Nonvested stock outstanding at September 30, subject to market vesting conditions	**97**	**$ 26.17**

The total fair value of vested awards during the nine months ended September 30, 2006 and 2005 was $13.1 million and $14.0 million, respectively.

A summary of unrecognized compensation expense and the period over which the expense is expected to be recognized at September 30, 2006 is presented below:

	September 30, 2006
	(Dollars in thousands)
Unrecognized share-based compensation expense:	
Stock options	**$ 11,921**
Nonvested stock	**7,339**
Weighted-average period to recognize expense	**3.6 years**

Stock Purchase Plan

Ryder s employee stock purchase plan provides for periodic offerings to substantially all U.S. and Canadian employees to subscribe to shares of Ryder s common stock at 85% of the fair market value on either the first or the last day of the purchase period, whichever is less. The stock purchase plan currently in effect provides for quarterly purchase periods and stock purchased must be held for 90 days.

A summary of the status of Ryder s stock purchase plan as of September 30, 2006, and changes during the nine months ended September 30, 2006 is presented in the table below:

	Shares	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term**	**Aggregate Intrinsic Value**
		(Shares in thousands)		
Outstanding at January 1		$		
Granted	**136**	**38.56**		
Exercised	**(136)**	**38.56**		
Forfeited or expired				
Outstanding at September 30		$		$
Exercisable at September 30		$		$

The weighted-average grant date fair value of stock purchase plan shares granted during the nine months ended September 30, 2006 and 2005 was $10.67 and $7.91, respectively.

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

Share-Based Compensation Fair Value Assumptions

The fair value of each option award is estimated on the date of grant using a Black-Scholes-Merton option-pricing valuation model that uses the weighted-average assumptions noted in the table below. The fair value of the stock option and nonvested stock awards, which are subject to graded vesting, is expensed on a straight-line basis over the vesting life of the awards. Stock option awards granted prior to January 1, 2006 are expensed based on their graded vesting schedule. Expected volatility is based on historical volatility of Ryder s stock and implied volatility from traded options on Ryder s stock. The risk-free rate for periods within the contractual life of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the stock option award is granted with a maturity equal to the expected term of the stock option award. We use historical data to estimate stock option exercises and forfeitures within the valuation model. The expected term of stock option awards granted is derived from historical exercise experience under the share-based employee compensation arrangements and represents the period of time that stock option awards granted are expected to be outstanding.

	Nine months ended September 30,	
	2006	2005
Option plans:		
Expected dividends	**1.7%**	1.4%
Expected volatility	**27.1%**	25.2%
Risk-free rate	**4.6%**	3.6%
Expected term	**4.1 years**	3.9 years
Purchase plan:	**1.4%**	1.5%
Expected dividends	**29.1%**	19.1%
Expected volatility	**4.7%**	2.7%
Risk-free rate	**0.25 year**	0.25 year
Expected term		

The fair value of the awards of nonvested stock during 2006 that contained a market condition was estimated on the date of grant using a lattice-based option-pricing valuation model that incorporates a Monte-Carlo simulation.

(D) EARNINGS PER SHARE INFORMATION

Basic earnings per common share are computed by dividing net earnings by the weighted-average number of common shares outstanding. Nonvested stock (restricted stock) granted to employees and directors are not included in the computation of basic earnings per common share until the securities vest. Diluted earnings per common share reflect the dilutive effect of potential common shares from securities such as stock options and nonvested stock. The dilutive effect of stock options and nonvested stock is computed using the treasury stock method, which assumes any proceeds that could be obtained upon the exercise of stock options and vesting of restricted stock would be used to purchase common shares at the average market price for the period. A reconciliation of the number of shares used in computing basic and diluted earnings per common share follows:

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	**2006**	2005
	(In thousands)			
Weighted-average shares outstanding Basic	**61,051**	63,903	**61,005**	63,954
Effect of dilutive options and nonvested stock	**644**	623	**712**	818
Weighted-average shares outstanding Diluted	**61,695**	64,526	**61,717**	64,772
Anti-dilutive options not included above	**1,039**	2,205	**1,247**	1,151

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

(E) RESTRUCTURING AND OTHER CHARGES (RECOVERIES)

The components of restructuring and other charges (recoveries), net were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	**2006**	2005
	(In thousands)			
Restructuring charges (recoveries), net:				
Severance and employee-related (recoveries)	**$ (32)**	(245)	**$ (174)**	(282)
Facility and related costs (recoveries)	**118**	(187)	**101**	(278)
Other (recoveries), net:				
Contract termination and transition costs				(73)
Total	**$ 86**	(432)	**$ (73)**	(633)

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

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	**2006**	2005
	(In thousands)			
Fleet Management Solutions	**$ 94**	(355)	**$ (1)**	(523)
Supply Chain Solutions	**(7)**	(43)	**(65)**	(67)
Dedicated Contract Carriage	**(1)**	(6)	**(5)**	(15)
Central Support Services		(28)	**(2)**	(28)
Total	**$ 86**	(432)	**$ (73)**	(633)

Restructuring charges (recoveries), net in the nine months ended September 30, 2006 and 2005 related primarily to employee severance and benefits and facility charges recorded in prior restructuring charges that were reversed due to subsequent refinements in estimates. In the third quarter of 2006, these reversals were offset by refinements in sublease income estimates associated with prior facility charges.

Activity related to restructuring reserves was as follows:

	December 31, 2005 Balance	**Additions**	**Deductions** Cash Payments	Non-Cash Reductions[1]	**September 30, 2006 Balance**
			(In thousands)		
Employee severance and benefits	$ 2,527	**145**	**1,726**	**319**	**627**
Facilities and related costs	700	**118**	**281**	**17**	**520**
Total	$ 3,227	**263**	**2,007**	**336**	**1,147**

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

At September 30, 2006, outstanding restructuring obligations are generally required to be paid over the next twelve months.

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

(F) RESTRICTED CASH

We have restricted cash consisting of the following: (1) cash from a vehicle securitization financing program in the form of a cash collection account which holds cash for payment of the related debt obligations and a cash reserve deposit which serves as collateral for borrowings under the arrangement, and (2) cash proceeds from the sale of eligible vehicles set aside for the acquisition of replacement vehicles under our like-kind exchange program, which is currently being implemented. See Note (I), Income Taxes, for a complete discussion of the like-kind exchange program. We classify restricted cash within Prepaid expenses and other current assets if the restriction is expected to expire in the next twelve months following the balance sheet date or within Direct financing leases and other assets if the restriction is expected to expire more than twelve months after the balance sheet date.

The following table provides a detail of restricted cash and the classification of amounts as of September 30, 2006 and December 31, 2005:

	September 30, 2006			December 31, 2005		
	Prepaid Expenses and Other Current Assets	**Direct Financing Leases and Other Assets**	**Total**	Prepaid Expenses and Other Current Assets	Direct Financing Leases and Other Assets	Total
			(In thousands)			
Vehicle securitization financing program	**$ 19,149**		**19,149**	$ 7,781	14,592	22,373
Like-kind exchange program	**75,013**		**75,013**			
Total	**$ 94,162**		**94,162**	$ 7,781	14,592	22,373

(G) REVENUE EARNING EQUIPMENT

	September 30, 2006			December 31, 2005		
	Cost	**Accumulated Depreciation**	**Net Book Value (1)**	Cost	Accumulated Depreciation	Net Book Value (1)
			(In thousands)			
Full service lease	**$ 5,496,430**	**(2,071,304)**	**3,425,126**	$ 5,085,084	(2,113,494)	2,971,590
Commercial rental	**1,640,539**	**(761,736)**	**878,803**	1,572,324	(749,504)	822,820
Total	**$ 7,136,969**	**(2,833,040)**	**4,303,929**	$ 6,657,408	(2,862,998)	3,794,410

(1) Revenue earning equipment, net includes vehicles acquired under capital leases of $13.9 million, less accumulated amortization of $9.5 million, at September 30, 2006, and $16.5 million, less accumulated amortization of $11.1 million, at December 31, 2005. Amortization expense attributed to vehicles acquired under capital leases is combined with depreciation expense.

At September 30, 2006 and December 31, 2005, the net carrying value of revenue earning equipment held for sale was $82.0 million and $94.5 million, respectively.

At the end of 2005, we completed our annual depreciation review of the residual values and useful lives of our revenue earning equipment. Based on the results of our analysis, we adjusted the residual values and useful lives of certain classes of our revenue earning equipment effective January 1, 2006. This change in estimate caused pre-tax earnings to increase for the three and nine months ended September 30, 2006 by approximately $3 million or $0.03 per diluted common share, and $10 million or $0.10 per diluted common share, respectively, compared to the same periods in 2005.

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(H) ACCRUED EXPENSES AND OTHER LIABILITIES

	September 30, 2006			December 31, 2005		
	Accrued Expenses	**Non-Current Liabilities**	**Total**	Accrued Expenses	Non-Current Liabilities	Total
			(In thousands)			
Salaries and wages	**$ 73,022**		**73,022**	$ 79,386		79,386
Pension benefits	**47,344**	**168,590**	**215,934**	71,289	166,384	237,673
Deferred compensation	**3,098**	**20,534**	**23,632**	3,134	20,212	23,346
Other postretirement benefits	**7,858**	**24,141**	**31,999**	7,381	24,483	31,864
Employee benefits	**1,359**		**1,359**	3,746		3,746
Insurance obligations (1)	**112,752**	**200,011**	**312,763**	111,163	192,077	303,240
Residual value guarantees	**1,159**	**1,356**	**2,515**	3,622	1,678	5,300
Vehicle rent	**8,315**	**3,167**	**11,482**	1,917	3,606	5,523
Deferred vehicle gains	**953**	**1,881**	**2,834**	1,087	2,450	3,537
Environmental liabilities	**4,181**	**12,514**	**16,695**	3,536	12,970	16,506
Asset retirement obligations	**3,585**	**10,003**	**13,588**	3,075	10,181	13,256
Operating taxes	**78,090**		**78,090**	87,489		87,489
Income taxes	**6,167**	**26,968**	**33,135**	95,352	26,971	122,323
Restructuring	**965**	**182**	**1,147**	2,714	513	3,227
Interest	**43,354**		**43,354**	17,918		17,918
Cross-currency swap		**16,793**	**16,793**		9,739	9,739
Customer deposits	**20,609**		**20,609**	19,596		19,596
Other	**41,186**	**18,140**	**59,326**	57,316	16,004	73,320
Total	**$ 453,997**	**504,280**	**958,277**	$ 569,721	487,268	1,056,989

(1) Insurance obligations are primarily comprised of self-insurance accruals.

(I) INCOME TAXES

Tax Law Changes

On June 22, 2006, Canada enacted various tax measures in connection with the 2006 federal budget process. These measures contained various corporate tax changes, including the gradual reduction of the general corporate tax rate beginning in 2008, the elimination of the 4% surtax as of January 1, 2008, and the elimination of the Large Corporations Tax as of January 1, 2006. The impact of the above mentioned measures resulted in a favorable adjustment to deferred income taxes. This non-cash benefit increased reported net earnings in the nine months ended September 30, 2006 by $3.9 million, or $0.06 per diluted common share.

On May 18, 2006, the State of Texas enacted substantial changes to its tax system, which included the replacement of the taxable capital and earned surplus components of its franchise tax with a new Margin tax beginning in 2007. The current Texas franchise tax structure remains in existence until the end of 2006. As a result of the enactment of the Margin Tax, existing deferred income taxes not expected to be used in the computation of taxes in years after 2006 must be adjusted. This non-cash benefit increased reported net earnings in the nine months ended September 30, 2006 by $2.9 million, or $0.05 per diluted common share.

On June 30, 2005, the State of Ohio enacted tax legislation, which phases out the Ohio corporate franchise tax and phases in a new gross receipts tax called the Commercial Activity Tax (CAT) over a five-year period. While the corporate franchise tax was generally based on federal taxable income, the CAT is based on current year sales and rentals in Ohio. The elimination of Ohio s corporate franchise tax over five years resulted in a favorable adjustment to deferred income taxes. This non-cash benefit increased reported net earnings in the nine months ended September 30, 2005 by $7.6 million, or $0.12 per diluted common share.

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Federal Tax Audits

We are subject to tax audits in numerous jurisdictions in the U.S. and around the world. Tax audits by their very nature are often complex and can require several years to complete. The Internal Revenue Service (IRS) has now closed audits of our U.S. federal income tax returns through fiscal year 2000. As disclosed in our 2005 Annual Report on Form 10-K, the IRS challenged our tax positions with respect to certain transactions for the 1998 to 2000 tax period. In connection with the resolution of our federal income tax audit for the 1998 to 2000 tax period, on February 22, 2005, we paid $176 million, including interest through the date of payment.

In 2005, the IRS began auditing our federal income tax returns for 2001 through 2003. We believe that Ryder has not entered into any other transactions since 2000 that raise the same type of issues identified by the IRS in its most recently concluded audit.

Like-Kind Exchange Program

We are currently implementing a like-kind exchange program for our vehicles. 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 carry-over the tax basis of the vehicles sold (like-kind exchanges). The program is expected to result 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 for accounting purposes. At September 30, 2006, these consolidated entities had $75.0 million of proceeds from the sale of eligible vehicles and $73.8 million of vehicles to be acquired under the like-kind exchange program.

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(J) DEBT

	September 30, 2006	December 31, 2005
	(In thousands)	
Short-term debt and current portion of long-term debt:		
Capital lease obligations	$	$ 137
Unsecured foreign obligations	28,824	26,083
Current portion of long-term debt, including capital leases	360,493	243,218
Total short-term debt and current portion of long-term debt	389,317	269,438
Long-term debt:		
U.S. commercial paper [(1)]	605,661	322,711
Canadian commercial paper [(1)]	52,188	67,080
Unsecured U.S. notes [(1)]:		
Debentures	125,936	125,915
Medium-term notes	1,605,246	1,394,976
Unsecured U.S. obligations, principally bank term loans	57,050	56,200
Unsecured foreign obligations	132,050	118,271
Asset-backed securities [(2)]	23,244	71,551
Capital lease obligations	1,800	1,683
Total before fair market value adjustment	2,603,175	2,158,387
Fair market value adjustment on notes subject to hedging [(3)]	196	759
	2,603,371	2,159,146
Current portion of long-term debt, including capital leases	(360,493)	(243,218)
Long-term debt	2,242,878	1,915,928
Total debt	$ 2,632,195	$ 2,185,366

(1) Ryder had unamortized original issue discounts of $15.6 million at September 30, 2006 and $15.7 million at December 31, 2005.

(2) Asset-backed securities represent outstanding debt of consolidated VIEs. Asset-backed securities are collateralized by legally restricted cash reserve deposits and revenue earning equipment of consolidated VIEs totaling $53.9 million and $96.6 million at September 30, 2006 and December 31, 2005, respectively.

(3) The notional amount of executed interest rate swaps designated as fair value hedges was $145.0 million at September 30, 2006 and $185.0 million at December 31, 2005.

Ryder can borrow up to $870 million through a global revolving credit facility with a syndicate of twelve lenders. The credit facility matures in May 2010 and is used primarily to finance working capital and provide support for the issuance of commercial paper. 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, 2006). At Ryder s option, the interest rate on borrowings under the credit facility is based on LIBOR, prime, federal funds or local equivalent rates. The credit facility s current annual facility fee is 11.0 basis points, which applies to the total facility of $870 million, and is based on Ryder s current credit ratings. The credit facility contains no provisions restricting 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, Ryder must maintain a ratio of debt to consolidated tangible net worth, as defined in the agreement, of less than or equal to 300%. The ratio at September 30, 2006 was 144%. At September 30, 2006, $204.6 million was available under the credit facility.

In May 2006, we issued $250 million of unsecured medium-term notes, maturing in May 2011. The proceeds from the notes were used to reduce commercial paper borrowings. At September 30, 2006, Ryder had $550 million of securities available for issuance under an $800 million universal shelf registration statement filed with the Securities and Exchange Commission (SEC) during 2005.

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(K) GUARANTEES

Ryder has executed various agreements with third parties that contain standard indemnifications that may require Ryder to indemnify a third party against losses arising from a variety of matters such as lease obligations, financing agreements, environmental matters and agreements to sell business assets. In each of these instances, payment by Ryder is contingent on the other party bringing about a claim under the procedures outlined in the specific agreement. Normally, these procedures allow Ryder to dispute the other party s claim. Additionally, Ryder s obligations under these agreements may be limited in terms of the amount and (or) timing of any claim. We cannot predict the maximum potential amount of future payments under certain of these agreements due to the contingent nature of the potential obligations and the distinctive provisions that are involved in each individual agreement. Historically, no such payments made by Ryder have had a material adverse effect on our business. We believe that if a loss were incurred in any of these matters, the loss would not result in a material adverse impact on our consolidated results of operations or financial position.

At September 30, 2006 and December 31, 2005, the maximum determinable exposure of guarantees and the corresponding liability, if any, recorded on the Consolidated Condensed Balance Sheets were as follows:

Guarantee	**September 30, 2006** Maximum Exposure of Guarantee	**September 30, 2006** Carrying Amount of Liability	December 31, 2005 Maximum Exposure of Guarantee	December 31, 2005 Carrying Amount of Liability
	(In thousands)			
Vehicle residual value guarantees:				
Sale and leaseback arrangements end of term guarantees[1]	$		$ 628	4
Finance lease program	**3,779**	**1,216**	3,838	1,730
Used vehicle financing	**5,753**	**894**	4,450	1,197
Standby letters of credit	**7,327**		7,299	
Total	**$ 16,859**	**2,110**	$ 16,215	2,931

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(1) Amounts exclude contingent rentals associated with residual value guarantees on certain vehicles held under operating leases for which the guarantees are conditioned upon disposal of the leased vehicles prior to the end of their lease term. At September 30, 2006 and December 31, 2005, Ryder s maximum exposure for such guarantees was approximately $128.8 million and $161.2 million, respectively, with $2.5 million and $5.3 million recorded as a liability at September 30, 2006 and December 31, 2005, respectively.

At September 30, 2006, Ryder had letters of credit and surety bonds outstanding totaling $212.6 million and $53.0 million, respectively, which primarily guarantee the payment of insurance claims. Certain of these letters of credit and surety bonds guarantee insurance activities associated with insurance claim liabilities transferred in conjunction with the sale of our automotive transport business, reported as discontinued operations in previous years. The entity that assumed these liabilities filed for protection under Chapter 11 of the United States Bankruptcy Code on

July 31, 2005. To date, the insurance claims, representing per-claim deductibles payable under third-party insurance policies, have been paid and continue to be paid by the company that assumed such liabilities. However, if all or a portion of the estimated outstanding assumed claims of approximately $7.3 million at September 30, 2006 are unable to be paid, the third-party insurers may have recourse against certain of the outstanding letters of credit provided by Ryder in order to satisfy the unpaid claim deductibles. In order to reduce our potential exposure to these claims, we have received an irrevocable letter of credit from the purchaser of the business referred to above totaling $7.5 million at September 30, 2006. Periodically, an independent actuarial valuation will be made in order to better estimate the amount of outstanding insurance claim liabilities.

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(L) SHARE REPURCHASE PROGRAM

In May 2006, our Board of Directors authorized a two-year share repurchase program intended to mitigate the dilutive impact of shares issued under our various employee stock option and stock purchase plans. Under the May 2006 program, management is authorized to repurchase shares of common stock in an amount not to exceed the number of shares issued to employees upon the exercise of stock options or through the employee stock purchase plan since March 1, 2006. The May 2006 program limits aggregate share repurchases to no more than 2 million shares of Ryder common stock. Share repurchases are made periodically in open-market transactions, and are subject to market conditions, legal requirements and other factors. Management was granted the authority to establish a trading plan under Rule 10b5-1 of the Securities and Exchange Act of 1934 as part of the May 2006 program. Since May 2006, we repurchased and retired approximately 1.5 million shares under the May 2006 program at an aggregate cost of $75.7 million.

In October 2005, our Board of Directors authorized a $175 million share repurchase program over a period not to exceed two years. Share repurchases of common stock were made periodically in open-market transactions and were subject to market conditions, legal requirements and other factors. During the first quarter of 2006, we completed the October 2005 program. Management established a prearranged written plan under Rule 10b5-1 of the Securities Exchange Act of 1934 as part of the October 2005 program, which allowed for share repurchases during Ryder s quarterly blackout periods as set forth in the trading plan. In 2006, we repurchased and retired approximately 1.6 million shares under the October 2005 program at an aggregate cost of $65.8 million. We repurchased and retired an aggregate of approximately 4.2 million shares under the October 2005 program.

In July 2004, our Board of Directors authorized a two-year share repurchase program intended to mitigate the dilutive impact of shares issued under our various employee stock option and stock purchase plans. Under the July 2004 program, shares of common stock were purchased in an amount not to exceed the number of shares issued to employees upon the exercise of stock options or through the employee stock purchase plan since May 1, 2004. The July 2004 program limited aggregate share repurchases to no more than 3.5 million shares of Ryder common stock. During the fourth quarter of 2005, we replaced the July 2004 program with the October 2005 program noted previously. Management was granted the authority to establish a trading plan under Rule 10b5-1 as part of the July 2004 program. For the nine months ended September 30, 2005, we repurchased and retired a total of approximately 1.0 million shares under the program at an aggregate cost of $40.3 million.

(M) 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. 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,	
	2006	2005	**2006**	2005
	(In thousands)			
Net earnings	**$ 65,277**	63,341	**$ 183,138**	168,128

Other comprehensive income:				
Foreign currency translation adjustments	**6,532**	8,942	**31,360**	(16,480)
Unrealized net gain on derivative instruments	**30**	43	**150**	83
Total comprehensive income	**$ 71,839**	72,326	**$ 214,648**	151,731

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(N) EMPLOYEE BENEFIT PLANS

Components of net periodic benefit cost were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	**2006**	2005
	(In thousands)			
Pension Benefits				
Company-administered plans:				
Service cost	**$ 10,886**	9,278	**$ 32,128**	28,016
Interest cost	**20,546**	19,131	**61,183**	57,846
Expected return on plan assets	**(24,861)**	(22,527)	**(73,189)**	(67,882)
Amortization of transition asset	**(8)**	(7)	**(22)**	(22)
Recognized net actuarial loss	**9,106**	7,495	**26,819**	22,551
Amortization of prior service costs	**6,226**	355	**6,932**	1,067
	21,895	13,725	**53,851**	41,576
Union-administered plans	**1,212**	1,290	**3,610**	3,493
Net periodic benefit cost	**$ 23,107**	15,015	**$ 57,461**	45,069
Company-administered plans:				
U.S.	**$ 16,792**	9,882	**$ 39,487**	29,815
Non-U.S.	**5,103**	3,843	**14,364**	11,761
	21,895	13,725	**53,851**	41,576
Union-administered plans	**1,212**	1,290	**3,610**	3,493
	$ 23,107	15,015	**$ 57,461**	45,069

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	**2006**	2005
	(In thousands)			
Postretirement Benefits				
Company-administered plans:				
Service cost	**$ 320**	253	**$ 958**	755
Interest cost	**559**	531	**1,675**	1,590
Recognized net actuarial loss	**179**	71	**538**	211

Amortization of prior service credit	**(58)**	(290)	**(173)**	(868)
Net periodic benefit cost	**$ 1,000**	565	**$ 2,998**	1,688
Company-administered plans:				
U.S.	**$ 868**	467	**$ 2,604**	1,401
Non-U.S.	**132**	98	**394**	287
	$ 1,000	565	**$ 2,998**	1,688

Pension Accounting Charge

In the third quarter of 2006, we recorded a pension accounting charge of $5.9 million ($3.5 million after-tax) which represented a one-time, non-cash charge to properly account for prior service costs related to retiree pension benefit improvements made in 1995 and 2000. We previously amortized these prior service costs over the remaining life expectancy of retired participants (approximately 15 years). The applicable accounting literature requires that prior service costs be amortized over the future service period of active employees at the date of the amendment who are expected to receive benefits under the plan (approximately 6-8 years for Ryder). The literature does provide an exception in which prior service costs can be amortized over the remaining life expectancy of retired participants if all or almost all of the plan participants are inactive. In the third quarter of 2006, we determined that we had not met the exception criteria, which allows for the use of the remaining life expectancy of retired participants as the amortization period. Because the amounts involved were not material to our financial statements in any individual prior period, and the cumulative amount is not material to 2006 results, we recorded the cumulative adjustment, which increased Salaries and employee-related costs and reduced Intangible assets by $5.9 million, in the third quarter of 2006.

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Pension Contributions

During the nine months ended September 30, 2006, we made $75.3 million of global contributions to our pension plans. We do not expect to make additional contributions to our pension plans during the remainder of 2006.

Subsequent Event

The historical basis of accounting for our U.S. and Canadian pension plans included a substantive commitment to make future plan amendments in order to provide benefits (to active employees) attributable to prior service that are greater than the benefits defined by the written terms of the plans. In October 2006, our Retirement Committee resolved that there is no present commitment to grant benefit improvements now or in the near future. As a result, we are eliminating the substantive commitment benefit improvement assumption for the U.S. and Canadian plans. This action is considered a substantive amendment to the plans which will require an interim measurement of plan assets and pension obligations as of the date of the amendment. The revalued amounts will also be used to measure pension expense from the date of the amendment through year-end. In performing this interim measurement, we must update plan asset values, roll forward employee census data to reflect population changes and review the appropriateness of all actuarial assumptions including discount rate, expected long-term rate of return, expected increase in compensation levels, retirement rate and mortality. We are currently preparing the interim measurement; however, based on asset returns to date and current discount rates, we expect that prospective application of the interim measurement will reduce fourth quarter 2006 pension expense relative to expense recognized through September 30, 2006.

(O) SEGMENT REPORTING

Ryder s operating segments are aggregated into reportable business segments based primarily upon similar economic characteristics, products, services and delivery methods. Ryder operates in three reportable business segments: (1) 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.; (2) Supply Chain Solutions (SCS), which provides comprehensive supply chain consulting and lead logistics management solutions that support customers entire supply chains from inbound raw materials through distribution of finished goods throughout North America and in Latin America, Europe and Asia; and (3) Dedicated Contract Carriage (DCC), which provides vehicles and drivers as part of a dedicated transportation solution in the U.S.

Ryder s 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) recoveries, net and the 2006 pension accounting (charge) described in Note (N), Employee Benefit Plans . 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. 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, corporate communications, public affairs and certain executive compensation. CSS costs attributable to the business segments are predominantly allocated to FMS, SCS and DCC as follows:

Finance, corporate services, and health and safety allocated based upon estimated and planned resource utilization;

Human resources individual costs within this category are allocated in several ways, including allocation based on estimated utilization and number of personnel supported;

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Information technology principally allocated based upon utilization-related metrics such as number of users or minutes of CPU time. Customer-related project costs and expenses are allocated to the business segment responsible for the project; and

Other represents legal and other centralized costs and expenses including certain share-based and incentive compensation costs. Expenses, where allocated, are based primarily on the number of personnel supported.

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) is included in both FMS and the business segment which served the customer and then eliminated (presented as Eliminations).

The following tables set forth financial information for each of Ryder s business segments and a reconciliation between segment NBT and earnings before income taxes for the three and nine months ended September 30, 2006 and 2005. 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, 2006					
Revenue from external customers	**$ 960,326**	**513,764**	**146,459**		**1,620,549**
Inter-segment revenue	**99,692**			**(99,692)**	
Total revenue	**$ 1,060,018**	**513,764**	**146,459**	**(99,692)**	**1,620,549**
Segment NBT	**$ 103,708**	**16,376**	**11,740**	**(8,602)**	**123,222**
Unallocated CSS					**(9,851)**
Restructuring and other (charges) recoveries, net and pension accounting (charge)(1)					**(5,958)**
Earnings before income taxes					**$ 107,413**
Segment capital expenditures (2)	**$ 378,619**	**12,204**	**254**		**391,077**
Unallocated CSS					**4,356**
Capital expenditures					**$ 395,433**
September 30, 2005					
Revenue from external customers	$ 918,227	433,392	139,004		1,490,623
Inter-segment revenue	92,600			(92,600)	

Total revenue	$ 1,010,827	433,392	139,004	(92,600)	1,490,623
Segment NBT	$ 102,597	10,600	9,216	(8,252)	114,161
Unallocated CSS					(9,093)
Restructuring and other (charges) recoveries, net					432
Earnings before income taxes					$ 105,500
Segment capital expenditures [(2), (3)]	$ 316,725	3,040	194		319,959
Unallocated CSS					6,461
Capital expenditures					$ 326,420

(1) Includes the pension accounting charge of $5.9 million recorded in the third quarter of 2006. See Note (N), Employee Benefit Plans for additional information.

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

(3) Excludes FMS acquisition payments of $0.4 million during the three months ended September 30, 2005.

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	FMS	SCS	DCC	Eliminations	Total
			(In thousands)		
For the nine months ended September 30, 2006					
Revenue from external customers	**$ 2,798,572**	**1,485,368**	**428,626**		**4,712,566**
Inter-segment revenue	**292,081**			**(292,081)**	
Total revenue	**$ 3,090,653**	**1,485,368**	**428,626**	**(292,081)**	**4,712,566**
Segment NBT	**$ 273,524**	**45,112**	**31,376**	**(24,645)**	**325,367**
Unallocated CSS					**(28,397)**
Restructuring and other (charges) recoveries, net and pension accounting (charge) [1]					**(5,799)**
Earnings before income taxes					**$ 291,171**
Segment capital expenditures [2], [3]	**$ 1,142,166**	**18,913**	**796**		**1,161,875**
Unallocated CSS					**9,686**
Capital expenditures					**$ 1,171,561**
September 30, 2005					
Revenue from external customers	$ 2,640,109	1,155,135	400,810		4,196,054
Inter-segment revenue	264,935			(264,935)	
Total revenue	$ 2,905,044	1,155,135	400,810	(264,935)	4,196,054
Segment NBT	$ 262,362	25,440	24,758	(23,262)	289,298
Unallocated CSS					(26,679)
Restructuring and other (charges) recoveries, net					633
Earnings before income taxes					$ 263,252
Segment capital expenditures [2], [3]	$ 1,057,120	18,849	721		1,076,690
Unallocated CSS					29,133
Capital expenditures					$ 1,105,823

(1) Includes the pension accounting charge of $5.9 million recorded in the third quarter of 2006. See Note (N), Employee Benefit Plans for additional information.

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

(3) Excludes FMS acquisition payments of $4.1 million and $15.1 million, primarily comprised of long-lived assets, during the nine months ended September 30, 2006 and 2005, respectively.

Our customer base includes enterprises operating in a variety of industries including automotive, electronics, high-tech, telecommunications, industrial, consumer goods, paper and paper products, office equipment, food and beverage, general retail industries, and governments. Our largest customer, General Motors Corporation, accounted for approximately 13% of consolidated revenue for the nine months ended September 30, 2006, and is comprised of multiple contracts within our SCS business segment in various geographic regions. The revenue generated from General Motors Corporation is primarily related to the pass-through of subcontracted transportation expense for which we realize minimal changes in profitability as a result of fluctuations in subcontracted transportation.

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

(P) RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans. SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit pension and other postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. We will adopt the provisions of SFAS No. 158 on December 31, 2006, prospectively. We expect the adoption of this standard will reduce shareholders equity by approximately $56 million, with no impact to our consolidated statements of earnings and cash flows. This estimate is based on the December 31, 2005 valuation measurement date for pension costs and includes the tax-related impact. We do not expect the adoption of this standard will cause us to violate any financial covenants in outstanding debt agreements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The transition adjustment, which is measured as the difference between the carrying amount and the fair value of those financial instruments at the date this Statement is initially applied, should be recognized as a cumulative effect adjustment to the opening balance of retained earnings for the fiscal year in which this Statement is initially applied. The provisions of SFAS No. 157 are effective for us beginning January 1, 2008. We are currently evaluating the impact of adopting SFAS No. 157 on our consolidated financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB No. 108 addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB No. 108 requires companies to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. SAB No. 108 permits existing public companies to initially apply its provisions either by (i) restating prior financial statements as if the dual approach had always been used or (ii) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying value of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. Use of the cumulative effect transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. We are currently evaluating the impact of adopting SAB No. 108 but we do not expect that it will have a material effect on our consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes, which clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation requires that we recognize and measure in our consolidated financial statements, the impact of a tax position, if that position is more likely than not of being sustained in an audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. The provisions of FIN 48 are effective beginning January 1, 2007, with the cumulative effect of the change in accounting principle recorded as an adjustment to the opening balance of retained earnings. We are currently evaluating the impact of adopting FIN 48 on our consolidated financial statements.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

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 2005 Annual Report on Form 10-K.

Our business is divided into three segments: our Fleet Management Solutions (FMS) business segment 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.; our Supply Chain Solutions (SCS) business segment provides comprehensive supply chain consulting and lead logistics management solutions that support customers entire supply chains from inbound raw materials through distribution of finished goods throughout North America and in Latin America, Europe and Asia; and our Dedicated Contract Carriage (DCC) business segment provides vehicles and drivers as part of a dedicated transportation solution in the U.S. We operate in extremely 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, high-tech, telecommunications, industrial, consumer goods, paper and paper products, office equipment, food and beverage, general retail industries and governments.

ITEMS AFFECTING COMPARABILITY BETWEEN PERIODS

Prior to January 1, 2006, share-based compensation expense related to stock options was not recognized in the results of operations if the exercise price was equal to the market value of the common stock on the measurement date, in accordance with Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, and related Interpretations, as permitted by Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation. As a result, the recognition of share-based compensation expense was limited to the expense attributed to grants of nonvested stock (restricted stock). Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123R, Share-Based Payment, using the modified-prospective transition method. Under this transition method, compensation was recognized beginning January 1, 2006 and includes (a) compensation expense for all share-based employee compensation arrangements granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation expense for all share-based employee compensation arrangements granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. Results for prior periods have not been restated.

The amount of pre-tax share-based compensation expense and related allocation across business segments was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	**2006**	2005

	(In thousands)			
Fleet Management Solutions	**$ 997**	7	**$ 3,055**	351
Supply Chain Solutions	**930**	130	**2,376**	388
Dedicated Contract Carriage	**83**	18	**243**	46
Central Support Services	**1,698**	484	**4,422**	1,445
Total	**$ 3,708**	639	**$ 10,096**	2,230

At September 30, 2006, unrecognized compensation expense from stock options and nonvested shares totaled $19.3 million which is expected to be recognized over the next 3.6 years.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The calculation of share-based employee compensation expense involves estimates that require management s judgment. These estimates include the fair value of each of our stock option awards, which is estimated on the date of grant using a Black-Scholes-Merton option-pricing valuation model as discussed in Note (C), Share-Based Compensation Plans, in the Notes to Consolidated Condensed Financial Statements. The determination of the fair value of our stock option awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends. Prior to the adoption of SFAS No. 123R, expected volatility was determined based solely on historical volatility. As a result of the adoption of SFAS No. 123R, we estimate expected volatility based on both historical and implied volatility. In 2006, we added a market vesting condition in addition to the service condition, related to certain grants of nonvested stock pursuant to the terms of our share-based employee compensation plan. The market condition provided that shares of nonvested stock are subject to vest only if Ryder s total shareholder return (TSR) as a percentage of the S&P 500 comparable period TSR is 100% or greater, over a three-year period. These grants have been valued using a lattice-based option-pricing valuation model that incorporates a Monte-Carlo simulation.

CONSOLIDATED RESULTS

	Three months ended September 30,		Nine months ended September 30,		Change 2006/2005	
	2006	2005	**2006**	2005	Three Months	Nine Months
	(In thousands, except per share amounts)					
Earnings before income taxes	**$ 107,413**	105,500	**$ 291,171**	263,252	2%	11%
Provision for income taxes	**42,136**	42,159	**108,033**	95,124		14
Net earnings	**$ 65,277**	63,341	**$ 183,138**	168,128	3%	9%
Per diluted common share	**$ 1.06**	0.98	**$ 2.97**	2.60	8%	14%
Weighted-average shares outstanding Diluted	**61,695**	64,526	**61,717**	64,772	(4)%	(5)%

Earnings before income taxes increased $1.9 million to $107.4 million in the third quarter of 2006 and increased $27.9 million to $291.2 million in the first nine months of 2006, compared with the same periods in 2005. The improved results were driven by better operating performance and revenue growth in all business segments. See Operating Results by Business Segment for a further discussion of operating results. Earnings in the third quarter of

2006 were negatively impacted by a one-time, non-cash charge of $5.9 million recorded to properly account for prior service costs related to retiree pension benefit improvements made in 1995 and 2000.

Net earnings increased $1.9 million to $65.3 million in the third quarter of 2006 and increased $15.0 million to $183.1 million for the nine months ended September 30, 2006, compared with the same periods in 2005. Net earnings in the third quarter and first nine months of 2006 were negatively impacted by a one-time, non-cash charge of $3.5 million, or $0.06 per diluted common share, recorded to properly account for prior service costs related to retiree pension benefit improvements made in 1995 and 2000. Net earnings for the first nine months of 2006 included an income tax benefit of $6.8 million, or $0.11 per diluted common share, associated with the reduction of deferred income taxes due to enacted changes in Texas and Canadian tax laws. Net earnings for the first nine months of 2005 included a state income tax benefit of $7.6 million, or $0.12 per diluted common share, associated with the reduction of deferred income taxes due to the expected phase-out of income taxes for the State of Ohio. Earnings per share growth exceeded the earnings growth over the prior periods because the average number of shares outstanding has decreased during the past year reflecting the impact of stock repurchase programs.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

	Three months ended September 30,		Nine months ended September 30,		Change 2006/2005	
	2006	2005	**2006**	2005	Three Months	Nine Months
	(In thousands)					
Revenue:						
Fleet Management Solutions	**$1,060,018**	1,010,827	**$3,090,653**	2,905,044	5%	6%
Supply Chain Solutions	**513,764**	433,392	**1,485,368**	1,155,135	19	29
Dedicated Contract Carriage	**146,459**	139,004	**428,626**	400,810	5	7
Eliminations	**(99,692)**	(92,600)	**(292,081)**	(264,935)	(8)	(10)
Total	**$1,620,549**	1,490,623	**$4,712,566**	4,196,054	9%	12%
Operating revenue[1]	**$1,139,583**	1,068,509	**$3,308,186**	3,124,956	7%	6%

(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 sudden increases or decreases 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 revenue in our SCS and DCC business segments are excluded from the operating revenue computation as subcontracted transportation is largely a pass-through to our customers and we realize minimal changes in profitability as a result of fluctuations in subcontracted transportation.

All business segments reported revenue growth in 2006 compared with the same periods in 2005. Revenue growth for FMS was driven by higher fuel services revenue, primarily as a result of higher average fuel prices, and full service lease growth. SCS revenue growth was primarily related to higher volumes and new and expanded business in all industry groups as well as increased volume of managed subcontracted transportation. DCC revenue growth was due to expanded and new business as well as pricing increases associated with higher fuel costs. Revenue comparisons were also impacted by favorable movements in foreign currency exchange rates related to our international operations. Total revenue in the third quarter and nine months ended September 30, 2006 included a favorable foreign exchange impact of 0.8% and 0.7%, respectively, due primarily to the strengthening of the Canadian dollar and the Brazilian real.

Three months ended September 30,		Nine months ended September 30,		Change 2006/2005	
2006	2005	**2006**	2005	Three Months	Nine Months
(Dollars in thousands)					
$700,129	657,215	**$2,064,143**	1,902,545	7%	8%

Operating expense (exclusive of items shown separately)				
Percentage of revenue	**43.2%**	44.1%	**43.8%**	45.3%

Operating expense increased in 2006 compared with the same periods in 2005 principally as a result of higher average fuel prices. Fuel costs are largely a pass-through to customers for which we realize minimal changes in profitability during periods of steady market fuel prices. The revenue growth from each business segment, excluding fuel, also contributed to the increase in operating expenses.

Salaries and employee-related costs and salaries and employee-related costs as a percentage of operating revenue increased in 2006 compared with the same periods in 2005, primarily as a result of added headcount, increased outside labor costs in our SCS and DCC business segments from new and expanded business, and increased pension expense. Additionally, on January 1, 2006, we adopted SFAS No. 123R and recognized $2.8 million and $7.8 million of additional share-based compensation expense in the third quarter and first nine months of 2006, respectively. See Note (C), Share-Based Compensation Plans, in the Notes to Consolidated Condensed Financial Statements for additional information.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Pension expense increased $8.1 million and $12.4 million in the third quarter and the nine months ended September 30, 2006, respectively, compared with the same periods in 2005. In the third quarter of 2006, we recorded a pension accounting charge of $5.9 million ($3.5 million after-tax) which represented a one-time, non-cash charge to properly account for prior service costs related to retiree pension benefit improvements made in 1995 and 2000. We previously amortized these prior service costs over the remaining life expectancy of retired participants. In the third quarter of 2006, we determined that we had not amortized the prior service costs over the appropriate amortization period. Because the amounts involved were not material to our financial statements in any individual prior period, and the cumulative amount is not material to 2006 results, we recorded the cumulative adjustment, which increased Salaries and employee-related costs and reduced Intangible assets by $5.9 million, in the third quarter of 2006. Pension expense increases primarily impact our FMS business segment, which employs the majority of our employees that participate in the primary U.S. pension plan. However, the 2006 pension accounting charge discussed above has been excluded from our segment measure of financial performance. We expect pension expense to decrease in the fourth quarter of 2006 due to the remeasurement of pension assets and liabilities performed in connection with the elimination of a substantive commitment benefit improvement assumption. See Note (N), Employee Benefit Plans, in the Notes to Consolidated Condensed Financial Statements, for additional information regarding the pension accounting charge and the subsequent event.

	Three months ended September 30,		Nine months ended September 30,		Change 2006/2005	
	2006	2005	**2006**	2005	Three Months	Nine Months
	(Dollars in thousands)					
Subcontracted transportation	**$ 220,367**	183,468	**$ 637,856**	425,110	20%	50%
Percentage of revenue	**13.6%**	12.3%	**13.5%**	10.1%		

Subcontracted transportation expense represents freight management costs on logistics contracts for which we purchase transportation from third parties. Subcontracted transportation expense in our SCS business segment grew in 2006 compared with the same periods in 2005, as a result of increased volumes of freight management activity from new and expanded business and higher average pricing on subcontracted freight costs, resulting from increased fuel costs.

	Three months ended September 30,		Nine months ended September 30,		Change 2006/2005	
	2006	2005	**2006**	2005	Three Months	Nine Months
	(In thousands)					
Depreciation expense	**$ 187,992**	188,051	**$ 549,622**	556,291	%	(1)%
Gains on vehicle sales, net	**(11,045)**	(12,290)	**(38,834)**	(38,141)	(10)	2
Equipment rental	**25,399**	25,236	**76,327**	77,292	1	(1)

Depreciation expense relates primarily to FMS revenue earning equipment. Depreciation expense decreased in 2006 compared with the same periods in 2005, reflecting the impact of a lower average fleet count and the adjustments made to residual values and useful lives as part of the annual depreciation review, which were implemented January 1, 2006. These changes were slightly offset by the impact of a higher average vehicle investment on purchases over the past year.

Gains on vehicle sales, net decreased in the third quarter of 2006 compared with the same period in 2005 due to a decline in the number of vehicles sold, which was slightly offset by improved average pricing on vehicles sold. Gains on vehicle sales, net increased in the nine months ended September 30, 2006 compared to the same period in 2005 due to improved average pricing on vehicles sold, which more than offset the decline in the number of vehicles sold.

Equipment rental consists primarily of rent expense for FMS revenue earning equipment under lease. Equipment rental in the third quarter of 2006 was slightly up compared to the same period in 2005 and reflects the impact of higher rental costs associated with investments made in material handling equipment to support the growth in our SCS business, which more than offset the decline in vehicle-related rental expense during the period. The decrease in equipment rental for the nine months ended September 30, 2006 compared with the same period in 2005 was due to a reduction in the average number of leased vehicles.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

	Three months ended September 30,		Nine months ended September 30,		Change 2006/2005	
	2006	2005	**2006**	2005	Three Months	Nine Months
	(Dollars in thousands)					
Interest expense	**$ 36,395**	31,341	**$ 102,853**	89,146	16%	15%
Effective interest rate	**5.7%**	5.6%	**5.7%**	5.6%		

Interest expense grew in 2006 compared with the same periods in 2005, primarily reflecting higher average debt levels, resulting from capital spending required to support our contractual full service lease business, working capital growth and stock repurchases and, to a lesser extent, higher effective interest rates.

	Three months ended September 30,		Nine months ended September 30,		Change 2006/2005	
	2006	2005	**2006**	2005	Three Months	Nine Months
	(In thousands)					
Miscellaneous income, net	**$ (408)**	(2,105)	**$ (6,211)**	(7,377)	(81)%	(16)%

Miscellaneous income, net consists of investment income on securities used to fund certain benefit plans, interest income, (gains) losses from sales of properties, foreign currency transaction (gains) losses, and other non-operating items. Miscellaneous income, net decreased in the third quarter of 2006 as compared with the same period in 2005 due to foreign currency transaction losses and declining market performance of investments classified as trading securities. Miscellaneous income, net decreased in the nine months ended September 30, 2006 as compared with the same period in 2005, as a result of a $1.3 million charge in 2006 related to the settlement of litigation associated with a discontinued operation as well as the one-time recovery in the first quarter of 2005 of $2.6 million of project costs incurred in prior years. This decrease was partially offset by a one-time recovery in the first quarter of 2006 of $1.9 million for the recognition of common stock received from mutual insurance companies.

	Three months ended September 30,		Nine months ended September 30,		Change 2006/2005	
	2006	2005	**2006**	2005	Three Months	Nine Months
	(In thousands)					
Restructuring and other charges (recoveries), net	**$ 86**	(432)	**$ (73)**	(633)	NA	(88)%

Restructuring and other charges (recoveries), net in 2006 and 2005, related primarily to employee severance and benefits and facility charges recorded in prior restructuring charges that were reversed due to subsequent refinements in estimates. In the third quarter of 2006, these reversals were offset by refinements in sublease income estimates associated with prior facility charges. See Note (E), Restructuring and Other Charges (Recoveries), in the Notes to Consolidated Condensed Financial Statements, for a complete discussion of restructuring activity.

	Three months ended September 30,		Nine months ended September 30,		Change 2006/2005	
	2006	2005	**2006**	2005	Three Months	Nine Months
	(Dollars in thousands)					
Provision for income taxes	**$ 42,136**	42,159	**$ 108,033**	95,124	%	14%
Effective tax rate	**39.2%**	40.0%	**37.1%**	36.1%		

For the third quarter of 2006 as compared with the same period in 2005, our effective income tax rate decreased due to fewer non-deductible items. For the nine months ended September 30, 2006 as compared with the same period in 2005, our effective income tax rate increased primarily due to projected higher non-deductible compensation expenses and increased earnings in higher tax rate jurisdictions. Comparisons for the nine months ended September 30, 2006 were also impacted by various tax measures passed into law in 2006 and 2005. During the second quarter of 2006, Canada and the State of Texas enacted various tax measures which resulted in favorable adjustments to deferred income taxes of $6.8 million. In June 2005, the State of Ohio enacted a tax measure phasing out its corporate franchise and phasing in a new gross receipts tax resulting in a favorable adjustment to deferred income taxes of $7.6 million. See Note (I), Income Taxes, in the Notes to Consolidated Condensed Financial Statements, for a complete discussion of these items.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

OPERATING RESULTS BY BUSINESS SEGMENT

	Three months ended September 30,		Nine months ended September 30,		Change 2006/2005	
	2006	2005	**2006**	2005	Three Months	Nine Months
	(In thousands)					
Revenue:						
Fleet Management Solutions	**$ 1,060,018**	1,010,827	**$ 3,090,653**	2,905,044	5%	6%
Supply Chain Solutions	**513,764**	433,392	**1,485,368**	1,155,135	19	29
Dedicated Contract Carriage	**146,459**	139,004	**428,626**	400,810	5	7
Eliminations	**(99,692)**	(92,600)	**(292,081)**	(264,935)	(8)	(10)
Total	**$ 1,620,549**	1,490,623	**$ 4,712,566**	4,196,054	9%	12%
Operating Revenue:						
Fleet Management Solutions	**$ 750,153**	728,600	**$ 2,179,716**	2,141,297	3%	2%
Supply Chain Solutions	**299,145**	254,345	**862,790**	741,647	18	16
Dedicated Contract Carriage	**140,711**	134,583	**413,348**	389,188	5	6
Eliminations	**(50,426)**	(49,019)	**(147,668)**	(147,176)	(3)	
Total	**$ 1,139,583**	1,068,509	**$ 3,308,186**	3,124,956	7%	6%
NBT:						
Fleet Management Solutions	**$ 103,708**	102,597	**$ 273,524**	262,362	1%	4%
Supply Chain Solutions	**16,376**	10,600	**45,112**	25,440	54	77
Dedicated Contract Carriage	**11,740**	9,216	**31,376**	24,758	27	27
Eliminations	**(8,602)**	(8,252)	**(24,645)**	(23,262)	(4)	(6)
	123,222	114,161	**325,367**	289,298	8	12
Unallocated Central Support Services	**(9,851)**	(9,093)	**(28,397)**	(26,679)	(8)	(6)
Restructuring and other (charges) recoveries, net and pension accounting (charge)[(1)]	**(5,958)**	432	**(5,799)**	633	NA	NA

Earnings before income taxes	$	**107,413**	105,500	$	**291,171**	263,252	2%	11%

(1) Includes the pension accounting charge of $5.9 million recorded in the third quarter of 2006. See Note (N), Employee Benefit Plans in the Notes to Consolidated Condensed Financial Statements for additional information.

We define the primary measurement of our segment financial performance as Net Before Taxes (NBT), which includes an allocation of Central Support Services (CSS) and excludes restructuring and other (charges) recoveries, net and the 2006 pension accounting (charge) described in Note (N) Employee Benefit Plans 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 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, corporate communications, public affairs and certain executive compensation. See Note (O), Segment Reporting, in the Notes to Consolidated Condensed Financial Statements for a description of how the remainder of CSS costs is allocated to the business segments.

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).

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

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

	Three months ended September 30,		Nine months ended September 30,		Change 2006/2005	
	2006	2005	**2006**	2005	Three Months	Nine Months
	(In thousands)					
Equipment contribution:						
Supply Chain Solutions	**$ 4,301**	4,109	**$ 12,374**	11,365	5%	9%
Dedicated Contract Carriage	**4,301**	4,143	**12,271**	11,897	4	3
Total	**$ 8,602**	8,252	**$ 24,645**	23,262	4%	6%

Fleet Management Solutions

	Three months ended September 30,		Nine months ended September 30,		Change 2006/2005	
	2006	2005	**2006**	2005	Three Months	Nine Months
	(Dollars in thousands)					