RYDER SYSTEM INC
Form 10-Q
October 22, 2009

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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, 2009**

OR

o **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 o

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 o NO o

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

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

The number of shares of Ryder System, Inc. Common Stock ($0.50 par value per share) outstanding at September 30, 2009 was 56,050,542.

RYDER SYSTEM, INC.
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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,	
	2009	2008	**2009**	2008
	(In thousands, except per share amounts)			
Revenue	**$ 1,256,647**	1,576,836	**$ 3,653,559**	4,697,166
Operating expense (exclusive of items shown separately)	**576,059**	790,609	**1,656,765**	2,368,368
Salaries and employee-related costs	**313,526**	344,897	**926,403**	1,038,946
Subcontracted transportation	**52,901**	64,684	**140,122**	185,623
Depreciation expense	**220,455**	213,263	**665,939**	625,766
Gains on vehicle sales, net	**(3,326)**	(10,400)	**(9,092)**	(32,990)
Equipment rental	**16,283**	18,750	**48,128**	59,580
Interest expense	**35,749**	39,206	**110,520**	112,357
Miscellaneous (income) expense, net	**(2,375)**	710	**(3,117)**	2,336
Restructuring and other charges (recoveries), net	**3,121**		**4,473**	(33)
	1,212,393	1,461,719	**3,540,141**	4,359,953
Earnings from continuing operations before income taxes	**44,254**	115,117	**113,418**	337,213
Provision for income taxes	**15,752**	42,340	**45,900**	127,737
Earnings from continuing operations	**28,502**	72,777	**67,518**	209,476
Loss from discontinued operations, net of tax	**(4,531)**	(2,569)	**(13,821)**	(20,241)
Net earnings	**$ 23,971**	70,208	**$ 53,697**	189,235
Earnings (Loss) per common share Basic				
Continuing operations	**$ 0.51**	1.30	**$ 1.21**	3.67
Discontinued operations	**(0.08)**	(0.05)	**(0.25)**	(0.35)
Net earnings	**$ 0.43**	1.25	**$ 0.96**	3.32
Earnings (Loss) per common share Diluted				

Continuing operations	$	**0.51**	1.29	$	**1.21**	3.64
Discontinued operations		**(0.08)**	(0.05)		**(0.25)**	(0.35)
Net earnings	$	**0.43**	1.24	$	**0.96**	3.29
Cash dividends per common share	$	**0.25**	0.23	$	**0.71**	0.69

See accompanying notes to consolidated condensed financial statements.

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

	September 30, 2009	December 31, 2008
	(Dollars in thousands, except per share amount)	
Assets:		
Current assets:		
Cash and cash equivalents	**$ 111,014**	$ 120,305
Receivables, net of allowance of $13,323 and $15,477, respectively	**633,587**	635,376
Inventories	**48,088**	48,324
Prepaid expenses and other current assets	**130,996**	147,191
Total current assets	**923,685**	951,196
Revenue earning equipment, net of accumulated depreciation of $2,974,323 and $2,749,654, respectively	**4,319,970**	4,565,224
Operating property and equipment, net of accumulated depreciation of $870,656 and $842,427, respectively	**548,894**	546,816
Goodwill	**215,737**	198,253
Intangible assets	**39,753**	36,705
Direct financing leases and other assets	**405,534**	391,314
Total assets	**$ 6,453,573**	$ 6,689,508
Liabilities and shareholders equity:		
Current liabilities:		
Short-term debt and current portion of long-term debt	**$ 256,554**	$ 384,262
Accounts payable	**233,636**	295,083
Accrued expenses and other current liabilities	**401,830**	431,820
Total current liabilities	**892,020**	1,111,165
Long-term debt	**2,269,795**	2,478,537
Other non-current liabilities	**886,917**	837,280
Deferred income taxes	**953,193**	917,365
Total liabilities	**5,001,925**	5,344,347
Shareholders equity:		
Preferred stock of no par value per share authorized, 3,800,917; none outstanding, September 30, 2009 or December 31, 2008		
	28,025	27,829

Common stock of $0.50 par value per share authorized, 400,000,000; outstanding, September 30, 2009 56,050,542; December 31, 2008 55,658,059		
Additional paid-in capital	**774,293**	756,190
Retained earnings	**1,119,314**	1,105,369
Accumulated other comprehensive loss	**(469,984)**	(544,227)
Total shareholders equity	**1,451,648**	1,345,161
Total liabilities and shareholders equity	**$ 6,453,573**	$ 6,689,508

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,	
	2009	2008
	(In thousands)	
Cash flows from operating activities from continuing operations:		
Net earnings	**$ 53,697**	$ 189,235
Loss from discontinued operations, net of tax	**(13,821)**	(20,241)
Earnings from continuing operations	**67,518**	209,476
Depreciation expense	**665,939**	625,766
Gains on vehicle sales, net	**(9,092)**	(32,990)
Share-based compensation expense	**12,531**	12,832
Amortization expense and other non-cash charges, net	**30,628**	9,007
Deferred income tax expense	**37,885**	99,852
Tax (charges) benefits from share-based compensation	**(156)**	1,162
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	**(11,506)**	68,148
Inventories	**943**	1,615
Prepaid expenses and other assets	**(4,623)**	(25,876)
Accounts payable	**(16,271)**	(89,889)
Accrued expenses and other non-current liabilities	**(14,957)**	15,996
Net cash provided by operating activities from continuing operations	**758,839**	895,099
Cash flows from financing activities from continuing operations:		
Net change in commercial paper borrowings	**152,450**	(369,879)
Debt proceeds	**1,309**	652,880
Debt repaid, including capital lease obligations	**(496,291)**	(135,308)
Dividends on common stock	**(39,752)**	(39,439)
Common stock issued	**5,475**	53,794
Common stock repurchased		(256,132)
Excess tax benefits from share-based compensation	**449**	6,361
Other	**(10,523)**	(3,956)
Net cash used in financing activities from continuing operations	**(386,883)**	(91,679)
Cash flows from investing activities from continuing operations:		
Purchases of property and revenue earning equipment	**(508,586)**	(888,336)
Sales of revenue earning equipment	**147,066**	208,868
Sales of operating property and equipment	**3,440**	3,360
Acquisitions	**(85,698)**	(232,167)
Collections on direct finance leases	**51,130**	46,824
Changes in restricted cash	**14,380**	58,039

Other, net	**209**	395
Net cash used in investing activities from continuing operations	**(378,059)**	(803,017)
Effect of exchange rate changes on cash	**2,588**	(3,737)
Decrease in cash and cash equivalents from continuing operations	**(3,515)**	(3,334)
Cash flows from discontinued operations:		
Operating cash flows	**(10,838)**	(13,054)
Financing cash flows	**(7,499)**	13,131
Investing cash flows	**13,895**	(2,812)
Effect of exchange rate changes on cash	**(1,334)**	14
Decrease in cash and cash equivalents from discontinued operations	**(5,776)**	(2,721)
Decrease in cash and cash equivalents	**(9,291)**	(6,055)
Cash and cash equivalents at January 1	**120,305**	116,459
Cash and cash equivalents at September 30	**$ 111,014**	$ 110,404

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	Accumulated Other Comprehensive Loss	Total
	(Dollars in thousands, except per share amount)						
Balance at December 31, 2008	$	55,658,059	$ 27,829	756,190	1,105,369	(544,227)	1,345,161
Components of comprehensive income:							
Net earnings					**53,697**		**53,697**
Foreign currency translation adjustments						**71,573**	**71,573**
Net unrealized gain related to derivatives accounted for as hedges						**162**	**162**
Amortization of pension and postretirement items, net of tax						**10,927**	**10,927**
Pension curtailment, net of tax						**(11,927)**	**(11,927)**
Change in net actuarial loss, net of tax						**3,508**	**3,508**
Total comprehensive income							**127,940**
Common stock dividends declared $0.71 per share					**(39,752)**		**(39,752)**
Common stock issued under employee stock option and stock purchase plans (1)		**387,193**	**193**	**4,965**			**5,158**
Benefit plan stock sales (2)		**5,290**	**3**	**314**			**317**
Share-based compensation				**12,531**			**12,531**
Tax benefits from share-based compensation				**293**			**293**
Balance at September 30, 2009	**$**	**56,050,542**	**$ 28,025**	**774,293**	**1,119,314**	**(469,984)**	**1,451,648**

(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.

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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 2008 Annual Report on Form 10-K except for the accounting changes described below relating to earnings per share data, business combinations and certain fair value measurements, 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 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. Prior year amounts have been restated to conform to the current period presentation. In connection with preparation of the Consolidated Condensed Financial Statements, we evaluated subsequent events after the balance sheet date of September 30, 2009 through the date of issuance, October 22, 2009.

In December of 2008, we announced strategic initiatives to increase our competitiveness and drive long-term profitable growth. As part of these initiatives, we decided to discontinue Supply Chain Solutions (SCS) operations in South America and Europe. During the third quarter of 2009, we ceased service operations in Brazil, Argentina, Chile and certain 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.

(B) ACCOUNTING CHANGES

In June 2008, the Financial Accounting Standards Board (FASB) issued accounting guidance on earnings per share which provides that unvested share-based payment awards that contain non-forfeitable rights to dividends are participating securities and shall be included in the computation of earnings per share pursuant to 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 (time-vested restricted stock rights, market-based restricted stock rights and restricted stock units) are considered participating securities since the share-based awards contain a non-forfeitable right to dividend equivalents irrespective of whether the awards ultimately vest. We adopted the provisions of this accounting guidance effective January 1, 2009 and computed earnings per common share using the two-class method for all periods presented. The two-class method of computing earnings per share reduced full year 2008, 2007 and 2006 diluted earnings per common share by $0.02, $0.02 and $0.01, respectively, and reduced third quarter and year-to-date 2008 diluted earnings per common share by $0.01 and $0.02, respectively.

In December 2007, the FASB revised the accounting guidance for recognizing and measuring assets acquired and liabilities assumed in a business combination and requires, among other things, that transaction costs in a business combination be expensed as incurred. This guidance was effective for business combinations closing after January 1, 2009. Effective January 1, 2009, we adopted the accounting guidance without a material impact to our Consolidated Condensed Financial Statements.

In September 2006, the FASB issued accounting guidance on fair value measurements, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. We adopted the accounting guidance on January 1, 2008 for all financial assets and liabilities and for all nonfinancial assets and liabilities recognized or disclosed at fair value in our Consolidated Condensed Financial Statements on a recurring basis (at least annually). We adopted the accounting guidance on January 1, 2009 for all other nonfinancial assets and liabilities, including our vehicles held for sale. The adoption of this accounting guidance did not have a material impact on our Consolidated Condensed Financial Statements. Refer to Note (M), Fair Value Measurements, for additional disclosures.

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

(C) ACQUISITIONS

Edart Leasing LLC Acquisition 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 $87.7 million, of which $81.3 million was paid as of September 30, 2009. The initial recording of the transaction was based on preliminary valuation assessments and is subject to change. As of September 30, 2009, goodwill and customer relationship intangibles related to the Edart acquisition were $14.4 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.

Transpacific Container Terminal Ltd. and CRSA Logistics Ltd. Acquisition On December 19, 2008, we acquired the assets of Transpacific Container Terminal Ltd. and CRSA Logistics Ltd. (CRSA) located in Port Coquitlam, British Columbia, as well as CRSA s operations in Hong Kong and Shanghai, China. The companies specialize in trans-Pacific, end-to-end transportation management and supply chain services primarily for Canadian retailers. This acquisition adds complementary solutions to our SCS business segment capabilities including consolidation services in Asian hubs and off-dock deconsolidation operations in Canada. The purchase price and initial recording of the transaction was based on preliminary valuation assessments and is subject to change. The purchase price was $15.2 million, of which $12.2 million was paid as of September 30, 2009. As of September 30, 2009, goodwill and customer relationship intangibles related to the CRSA acquisition were $4.1 million and $8.3 million, respectively. The terms of the asset purchase agreement provide for up to $4 million in contingent consideration to be paid to the seller if certain financial metrics are achieved. The contingent consideration will be accounted for as additional purchase price when the contingency is resolved.

2008 FMS Acquisitions During 2008, we completed a series of acquisitions in our FMS business segment, for a total purchase price of $239.6 million, of which $230.8 million was paid during the nine months ended September 30, 2008. We acquired all the assets of Gordon Truck Leasing, Gator Leasing Inc. and Lily Transportation Corporation. As of September 30, 2009, goodwill and customer relationship intangibles related to the 2008 FMS acquisitions were $56.5 million and $13.7 million, respectively. During the nine months ended September 30, 2009, purchase price adjustments were not significant.

During the nine months ended September 30, 2009, we paid $4.4 million related to acquisitions completed in 2008. During the nine months ended September 30, 2008, we paid $1.4 million related to other acquisitions completed in years prior to 2008.

Pro Forma Information The operating results of the acquired companies have been included in the consolidated condensed financial statements from the dates of acquisition. The following table provides the unaudited pro forma revenue, net earnings and earnings per common share as if the results of the 2009 and 2008 acquisitions had been included in operations commencing January 1, 2008. This pro forma information is not necessarily indicative either of the combined results of operations that actually would have been realized had the acquisitions been consummated during the periods for which the pro forma information is presented, or of future results.

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	**2009**	2008
	(In thousands, except for share amounts)			
Revenue	**$ 1,256,647**	1,596,359	**$ 3,656,335**	4,771,866
Net earnings	**$ 23,971**	71,277	**$ 54,594**	193,012
Earnings per common share:				

Basic	$	**0.43**	1.27	$	**0.98**	3.38
Diluted	$	**0.43**	1.26	$	**0.98**	3.36

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

(D) DISCONTINUED OPERATIONS

In December of 2008, we announced strategic initiatives to increase our competitiveness and drive long-term profitable growth. As part of these initiatives, we decided to discontinue SCS operations in South America and Europe. During the third quarter of 2009, we ceased service operations in Brazil, Argentina, Chile and certain 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,	
	2009	2008	**2009**	2008
	(In thousands)			
Total revenue	**$ 6,790**	49,285	**$ 55,682**	132,779
Pre-tax loss from discontinued operations	**$ (4,625)**	(3,134)	**$ (14,306)**	(20,469)
Income tax benefit	**94**	565	**485**	228
Loss from discontinued operations, net of tax	**$ (4,531)**	(2,569)	**$ (13,821)**	(20,241)

Loss from discontinued operations in the third quarter of 2009 and 2008 included $2.4 million and $3.1 million, respectively, of operating losses. Loss from discontinued operations in the nine months ended September 30, 2009 and 2008 included $7.9 million and $14.0 million, respectively, of operating losses.

During the third quarter of 2009, we incurred $2.2 million of exit-related restructuring and other charges related to discontinued operations. These charges included $1.3 million of employee severance and benefit costs for retention bonuses, $0.6 million of lease contract termination charges and $0.3 million of restructuring plan implementation costs, mostly professional service fees. For the nine months ended September 30, 2009, we incurred $6.4 million of restructuring and other charges related to discontinued operations. These charges included $4.4 million of employee severance and benefit costs for retention and other bonuses, $0.4 million of contract termination charges and $1.6 million of restructuring plan implementation costs, mostly professional service fees.

During the nine months ended September 30, 2008, we recorded a pre-tax charge of $6.5 million for prior years adjustments associated with our Brazilian SCS operation. The charge was identified in the course of a detailed business and financial review in Brazil, which occurred following certain adverse tax and legal developments. We determined that accruals of $3.7 million, primarily for carrier transportation and loss contingencies related to tax and legal matters, were not established in the appropriate period; and deferrals of $3.1 million, primarily for indirect value-added taxes, were overstated. The charges related primarily to the period from 2004 to 2007. After considering the qualitative and quantitative effects of the charges, we determined the charges were not material to our consolidated condensed financial statements in any individual prior period, and the cumulative amount was not material to 2008 results. Therefore, we recorded the adjustment for the cumulative amount in the second quarter of 2008.

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

	September 30, 2009	December 31, 2008

	(In thousands)	
Assets of discontinued operations:		
Total current assets, primarily accounts receivable	**$ 20,771**	$ 31,931
Total assets	**$ 25,330**	$ 50,295
Liabilities of discontinued operations:		
Total current liabilities, primarily accounts payable	**$ 34,128**	$ 55,287
Total liabilities	**$ 38,131**	$ 57,402

At September 30, 2009, the net carrying value of operating property and equipment and revenue earning equipment held for sale recorded at fair value was $1.8 million. Fair value was determined based upon recent market prices for sales of each class of similar assets and vehicle condition. Therefore, our equipment held for sale was classified within Level 3 of the fair value hierarchy. During the three and nine months ended September 30, 2009, losses to reflect changes in fair value were not significant. At September 30, 2009, we had $12.3 million of foreign currency translation losses in other accumulated comprehensive income related to the subsidiaries where we have ceased or expect to cease operations. Accumulated foreign currency translation losses will be recognized in earnings upon substantial liquidation of our investment in the foreign subsidiaries.

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

(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,		Nine months ended September 30,	
	2009	2008	**2009**	2008
	(In thousands)			
Stock option and stock purchase plans	**$ 2,591**	2,802	**$ 7,630**	7,847
Nonvested stock	**1,872**	1,781	**4,901**	4,985
Share-based compensation expense	**4,463**	4,583	**12,531**	12,832
Income tax benefit	**(1,560)**	(1,522)	**(4,099)**	(4,337)
Share-based compensation expense, net of tax	**$ 2,903**	3,061	**$ 8,432**	8,495

Total unrecognized pre-tax compensation expense related to share-based compensation arrangements at September 30, 2009 was $25.4 million and is expected to be recognized over a weighted-average period of approximately 1.8 years.

During the nine months ended September 30, 2009 and 2008, approximately 900,000 and 700,000 stock options, respectively, 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, 2009 and 2008 was $9.23 and $14.00, respectively.

During each of the nine months ended September 30, 2009 and 2008, approximately 200,000 awards 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. For the 2009 grant, 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. For the 2008 grant, employees only receive the grant of stock if Ryder s TSR at least meets the S&P 500 TSR over an applicable three-year period. The fair value of the market-based restricted stock rights on the grant date was estimated using a lattice-based option-pricing valuation model that incorporates a Monte-Carlo simulation. The weighted-average fair value per market-based restricted stock right and RSU granted during the nine months ended September 30, 2009 and 2008 was $18.09 and $51.47, respectively. Stock awards granted during the nine months ended September 30, 2009 and 2008, also included time-vested restricted stock rights which entitle the holder to shares of common stock as the awards vest over a three-year period. The fair value of the time-vested awards is determined and fixed on the grant date based on Ryder s stock price. The weighted-average fair value per time-vested restricted stock right granted during the nine months ended September 30, 2009 and 2008 was $26.34 and $59.25, respectively.

During the nine months ended September 30, 2009 and 2008, 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 as the cash settlement is based upon the performance of our common stock. 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. During the three months ended September 30, 2009 and 2008, we recognized $1.1 million and $0.6 million, respectively, of compensation expense related to these cash awards in addition to the share-based compensation expense reported in the previous table. During the nine months ended September 30, 2009 and 2008, we recognized $1.8 million and $3.3 million, respectively, of compensation expense related to these cash awards in addition to the share-based compensation expense reported in the previous table.

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

(F) EARNINGS PER SHARE

Effective January 1, 2009, we compute earnings per share using the two-class method. 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.

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	**2009**	2008
	(In thousands, except per share amounts)			
Earnings per share Basic:				
Earnings from continuing operations	**$ 28,502**	72,777	**$ 67,518**	209,476
Less: Distributed and undistributed earnings allocated to nonvested stock	**(312)**	(710)	**(724)**	(1,868)
Earnings from continuing operations available to common shareholders Basic	**$ 28,190**	72,067	**$ 66,794**	207,608
Weighted average common shares outstanding Basic	**55,435**	55,550	**55,339**	56,552
Earnings from continuing operations per common share Basic	**$ 0.51**	1.30	**$ 1.21**	3.67
Earnings per share Diluted:				
Earnings from continuing operations	**$ 28,502**	72,777	**$ 67,518**	209,476
Less: Distributed and undistributed earnings allocated to nonvested stock	**(312)**	(706)	**(724)**	(1,857)
Earnings from continuing operations available to common shareholders Diluted	**$ 28,190**	72,071	**$ 66,794**	207,619
Weighted average common shares outstanding Basic	**55,435**	55,550	**55,339**	56,552
Effect of dilutive options	**46**	399	**42**	423
Weighted average common shares outstanding Diluted	**55,481**	55,949	**55,381**	56,975
Earnings from continuing operations per common share Diluted	**$ 0.51**	1.29	**$ 1.21**	3.64
Anti-dilutive equity awards not included above	**2,982**	650	**2,894**	804

(G) RESTRUCTURING AND OTHER CHARGES (RECOVERIES)

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	**2009**	2008
	(In thousands)			
Restructuring (recoveries) charges, net:				
Severance and employee-related recoveries	**$ (919)**		**$ (146)**	(75)
Contract termination costs	**239**		**646**	42
	(680)		**500**	(33)
Other charges (recoveries), net:				
Early retirement of debt	**3,932**		**3,932**	
Other	**(131)**		**41**	
Total	**$ 3,121**		**$ 4,473**	(33)

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	**2009**	2008
	(In thousands)			
Fleet Management Solutions	**$ 3,730**		**$ 5,549**	64
Supply Chain Solutions	**(598)**		**(1,243)**	(126)
Dedicated Contract Carriage	**(3)**		**44**	6
Central Support Services	**(8)**		**123**	23
Total	**$ 3,121**		**$ 4,473**	(33)

Restructuring recoveries, net of $0.7 million for the three months ended September 30, 2009 represented benefits of $0.9 million related to refinements in estimates of employee severance and benefit costs for exit of remaining SCS Europe operations and workforce reduction charges. These benefits were partially offset by $0.2 million of contract termination charges recorded on the exit of remaining SCS Europe operations.

Restructuring charges, net of $0.5 million for the nine months ended September 30, 2009 represented $0.6 million of contract termination charges recorded on the exit of the remaining SCS Europe operations partially offset by benefits of $0.1 million related to refinements in estimates of employee severance and benefit costs. We recognized a benefit of $2.5 million related to the exit of remaining SCS Europe operations and a charge of $2.4 million for workforce reductions. In the first quarter of 2009, we eliminated approximately 30 positions in 2009 as part of workforce reductions under our continued cost containment initiatives in addition to the approximately 700 positions eliminated as part of the fourth quarter 2008 actions.

Other charges, net in the three and nine months ended September 30, 2009 consists primarily of debt extinguishment charges incurred as part of a $100 million debt tender offer completed in September 2009 and described in Note (L), Debt. The charge of $3.9 million consists of $3.5 million premium paid on the purchase of the $100 million outstanding, $0.4 million for the write-off of unamortized original debt discount and issuance costs, and fees on the transaction.

Restructuring and other charges (recoveries), net for the three and nine months ended September 30, 2008 were not significant.

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

	December 31, 2008 Balance	**Additions**	**Deductions** **Cash Payments**	**Non-Cash Reductions**(1)	**Foreign Translation Adjustment**	**September 30, 2009 Balance**
	(In thousands)					
Employee severance and benefits	$ 26,541	**7,942**	**26,834**	**3,689**	**1,243**	**5,203**

Contract termination costs	3,482	**1,519**	**4,494**	**522**	**135**	**120**
Total	$ 30,023	**9,461**	**31,328**	**4,211**	**1,378**	**5,323**

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

At September 30, 2009, the majority of outstanding restructuring obligations are required to be paid over the next three months.

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(H) REVENUE EARNING EQUIPMENT

	September 30, 2009			December 31, 2008		
	Cost	**Accumulated Depreciation**	**Net Book Value(1)**	Cost	Accumulated Depreciation	Net Book Value (1)
	(In thousands)					
Full service lease	**$ 5,946,874**	**(2,339,403)**	**3,607,471**	$ 5,568,162	(1,957,535)	3,610,627
Commercial rental	**1,347,419**	**(634,920)**	**712,499**	1,746,716	(792,119)	954,597
Total	**$ 7,294,293**	**(2,974,323)**	**4,319,970**	$ 7,314,878	(2,749,654)	4,565,224

(1) Revenue earning equipment, net includes vehicles acquired under capital leases of $22.5 million, less accumulated amortization of $8.2 million, at September 30, 2009, and $20.2 million, less accumulated amortization of $5.1 million, at December 31, 2008. Amortization expense attributed to vehicles acquired under capital leases is combined with depreciation expense.

(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 December 31, 2008	$ 179,504	13,849	4,900	198,253
Acquisitions (1)	**14,520**	**1,438**		**15,958**
Foreign currency translation adjustment	**1,204**	**322**		**1,526**
Balance at September 30, 2009	**$ 195,228**	**15,609**	**4,900**	**215,737**

(1) See Note (C), Acquisitions, for additional information on acquisitions.

We assess goodwill for impairment on April 1st of each year or more often if deemed necessary. On April 1, 2009, we completed our annual goodwill impairment test and determined there was no impairment.

(J) ACCRUED EXPENSES AND OTHER LIABILITIES

	September 30, 2009			December 31, 2008		
	Accrued Expenses	**Non-Current Liabilities**	**Total**	Accrued Expenses	Non-Current Liabilities	Total
	(In thousands)					
Salaries and wages	**$ 49,078**		**49,078**	$ 69,697		69,697
Deferred compensation	**1,415**	**19,677**	**21,092**	1,453	18,050	19,503
Pension benefits	**2,538**	**524,853**	**527,391**	2,501	504,714	507,215

Other postretirement benefits	**3,307**	**44,304**	**47,611**	3,350	43,027	46,377
Employee benefits	**2,301**		**2,301**	5,185		5,185
Insurance obligations, primarily self-insurance	**106,984**	**161,563**	**268,547**	109,167	164,372	273,539
Residual value guarantees	**1,691**	**1,921**	**3,612**	651	1,738	2,389
Vehicle rent	**9,140**	**11,877**	**21,017**	16,680	7,167	23,847
Deferred vehicle gains	**790**	**2,452**	**3,242**	808	3,120	3,928
Environmental liabilities	**4,159**	**10,761**	**14,920**	3,848	11,623	15,471
Asset retirement obligations	**4,955**	**11,557**	**16,512**	4,544	11,146	15,690
Operating taxes	**71,686**		**71,686**	73,280		73,280
Income taxes	**33,831**	**63,953**	**97,784**	4,183	52,700	56,883
Restructuring	**5,182**	**141**	**5,323**	29,857	166	30,023
Interest	**34,421**		**34,421**	34,547		34,547
Customer deposits	**26,586**		**26,586**	27,017		27,017
Derivatives				607		607
Other	**43,766**	**33,858**	**77,624**	44,445	19,457	63,902
Total	**$ 401,830**	**886,917**	**1,288,747**	$ 431,820	837,280	1,269,100

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(K) INCOME TAXES

Uncertain Tax Positions

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. 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 determine whether the benefits of our tax positions are at least more likely than not of being sustained upon audit based on the technical merits of the tax position. For tax positions that are more likely than not of being sustained upon audit, we accrue the largest amount of the benefit that is more likely than not of being sustained in our Consolidated Condensed Financial Statements. Such accruals 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. The statute of limitations for the 2004 and 2006 years will expire on December 31, 2009 and September 15, 2010, respectively.

State for the majority of states, we are no longer subject to tax examinations by tax authorities for tax years before 2004.

Foreign we are no longer subject to examinations by tax authorities for tax years before 2001 in Canada and Brazil, and 2003 and 2006 in Mexico and the U.K., respectively, which are our major foreign tax jurisdictions. In Brazil, we were assessed $14.6 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, 2009 and December 31, 2008, the total amount of gross unrecognized tax benefits (excluding the federal benefit received from state positions) was $61.2 million and $51.7 million, respectively. Unrecognized tax benefits related to federal, state and foreign tax positions may decrease by $1.3 million by September 30, 2010, if audits are completed or tax years close.

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 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 in accordance with U.S. GAAP. At September 30, 2009 and December 31, 2008, these consolidated entities had total assets of $20.7 million and $70.5 million, respectively.

At September 30, 2009 and December 31, 2008, we had $18.1 million and $32.5 million, respectively, of restricted cash for all like-kind exchange programs included within Prepaid expenses and other current assets on the Consolidated Condensed Balance Sheets.

Tax Law Change

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.

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On July 2, 2008, the State of Massachusetts 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, 2008 by $1.8 million, or $0.03 per diluted common share.

Effective Tax Rate

Our effective income tax rate from continuing operations for the third quarter of 2009 was 35.6% compared with 36.8% in the same period last year. The decrease in the effective tax rate was mainly due to the favorable settlement of a foreign tax audit resulting in a $2.2 million tax benefit (or 5.1% of pre-tax earnings from continuing operations), partially offset by the impact of non-deductible expenses on lower comparable projected pre-tax earnings from continuing operations. During the third quarter of 2008, the State of Massachusetts enacted a new tax law which resulted in a favorable adjustment of $1.8 million. Our effective tax rate from continuing operations for the nine months ended September 30, 2009 was 40.5% compared with 37.9% in the same period last year. The increase in the effective tax rate was mainly due to the impact of non-deductible expenses on lower comparable projected pre-tax earnings from continuing operations and the benefit in the prior year from the new tax law, partially offset by the favorable settlement of the foreign tax audit.

(L) DEBT

	Weighted-Average Interest Rate				
	September 30, 2009	December 31, 2008	**Maturities**	**September 30, 2009**	December 31, 2008
				(In thousands)	
Short-term debt and current portion of long-term debt:					
Unsecured foreign obligations	**12.37 %**	9.03 %	**2009**	**$ 6,047**	$ 14,635
Trade receivables program		2.77 %	**2009**		190,000
Current portion of long-term debt, including capital leases				**250,507**	179,627
Total short-term debt and current portion of long-term debt				**256,554**	384,262
Long-term debt:					
U.S. commercial paper [1],[2]	**0.58 %**	3.63 %	**2012**	**195,954**	34,804
Canadian commercial paper [1],[2]	**%**	2.80 %	**2012**		8,283
Unsecured U.S. notes Medium-term notes [1]	**5.89 %**	5.73 %	**2009-2025**	**2,031,949**	2,306,751
Unsecured U.S. obligations, principally bank term loans	**1.76 %**	3.40 %	**2010-2013**	**132,550**	157,150
Unsecured foreign obligations	**5.07 %**	5.07 %	**2010-2012**	**134,659**	120,944
Capital lease obligations	**8.66 %**	9.31 %	**2009-2017**	**11,727**	11,841
Total before fair market value adjustment				**2,506,839**	2,639,773
Fair market value adjustment on notes subject to hedging [3]				**13,463**	18,391