RYDER SYSTEM INC
Form 10-Q
April 23, 2008

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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 MARCH 31, 2008

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 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. (Check one):

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 March 31, 2008 was 57,497,673.

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 March 31,	
	2008	2007
	(In thousands, except per share amounts)	
Revenue	$ **1,543,582**	1,594,102
Operating expense (exclusive of items shown separately)	**763,767**	667,208
Salaries and employee-related costs	**358,370**	354,164
Subcontracted transportation	**75,331**	247,229
Depreciation expense	**205,960**	196,183
Gains on vehicle sales, net	**(12,426)**	(15,032)
Equipment rental	**21,526**	20,522
Interest expense	**37,428**	39,370
Miscellaneous expense (income), net	**1,617**	(916)
Restructuring and other (recoveries) charges, net	**(78)**	536
	1,451,495	1,509,264
Earnings before income taxes	**92,087**	84,838
Provision for income taxes	**36,005**	33,579
Net earnings	$ **56,082**	51,259
Earnings per common share:		
Basic	$ **0.97**	0.85
Diluted	$ **0.96**	0.84
Cash dividends per common share	$ **0.23**	0.21

See accompanying notes to consolidated condensed financial statements.

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RYDER SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

	(unaudited) March 31, 2008	December 31, 2007
	(Dollars in thousands, except per share amount)	
Assets:		
Current assets:		
Cash and cash equivalents	**$ 114,621**	116,459
Receivables, net	**764,634**	843,662
Inventories	**59,268**	58,810
Prepaid expenses and other current assets	**189,403**	203,131
Total current assets	**1,127,926**	1,222,062
Revenue earning equipment, net of accumulated depreciation of $2,728,696 and $2,724,565, respectively	**4,583,363**	4,501,397
Operating property and equipment, net of accumulated depreciation of $822,273 and $811,579, respectively	**534,702**	518,728
Goodwill	**196,492**	166,570
Intangible assets	**26,485**	19,231
Direct financing leases and other assets	**431,598**	426,661
Total assets	**$ 6,900,566**	6,854,649
Liabilities and shareholders equity:		
Current liabilities:		
Short-term debt and current portion of long-term debt	**$ 302,380**	222,698
Accounts payable	**400,027**	383,808
Accrued expenses and other current liabilities	**411,650**	412,855
Total current liabilities	**1,114,057**	1,019,361
Long-term debt	**2,494,106**	2,553,431
Other non-current liabilities	**404,088**	409,907
Deferred income taxes	**1,014,450**	984,361
Total liabilities	**5,026,701**	4,967,060
Shareholders equity:		
Preferred stock of no par value per share authorized, 3,800,917; none outstanding, March 31, 2008 or December 31, 2007		

Common stock of $0.50 par value per share authorized, 400,000,000; outstanding, March 31, 2008 57,497,673; December 31, 2007 58,041,563	**28,512**	28,883
Additional paid-in capital	**750,579**	729,451
Retained earnings	**1,130,092**	1,160,132
Accumulated other comprehensive loss	**(35,318)**	(30,877)
Total shareholders equity	**1,873,865**	1,887,589
Total liabilities and shareholders equity	**$ 6,900,566**	6,854,649

See accompanying notes to consolidated condensed financial statements.

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

	Three months ended March 31,	
	2008	2007
	(In thousands)	
Cash flows from operating activities:		
Net earnings	$ **56,082**	51,259
Depreciation expense	**205,960**	196,183
Gains on vehicle sales, net	**(12,426)**	(15,032)
Share-based compensation expense	**3,635**	3,651
Amortization expense and other non-cash charges, net	**4,399**	6,655
Deferred income tax expense	**28,132**	19,258
Tax benefits from share-based compensation	**592**	758
Changes in operating assets and liabilities, net of acquisition:		
Receivables	**74,183**	(31,569)
Inventories	**(130)**	1,639
Prepaid expenses and other assets	**(15,228)**	(17,123)
Accounts payable	**(41,826)**	46,322
Accrued expenses and other non-current liabilities	**(3,121)**	(8,808)
Net cash provided by operating activities	**300,252**	253,193
Cash flows from financing activities:		
Net change in commercial paper borrowings	**(238,351)**	(206,449)
Debt proceeds	**453,624**	343,881
Debt repaid, including capital lease obligations	**(201,726)**	(86,280)
Dividends on common stock	**(13,414)**	(12,783)
Common stock issued	**35,241**	19,556
Common stock repurchased	**(93,751)**	(9,036)
Excess tax benefits from share-based compensation	**2,332**	1,192
Net cash (used in) provided by financing activities	**(56,045)**	50,081
Cash flows from investing activities:		
Purchases of property and revenue earning equipment	**(273,813)**	(487,381)
Sales of operating property and equipment	**679**	1,133
Sales of revenue earning equipment	**74,304**	93,190
Acquisitions	**(92,830)**	
Collections on direct finance leases	**17,628**	15,716
Changes in restricted cash	**23,934**	38,112
Other, net	**395**	750
Net cash used in investing activities	**(249,703)**	(338,480)

Effect of exchange rate changes on cash	**3,658**	170
Decrease in cash and cash equivalents	**(1,838)**	(35,036)
Cash and cash equivalents at January 1	**116,459**	128,639
Cash and cash equivalents at March 31	**$ 114,621**	93,603
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	**$ 18,026**	11,868
Income taxes, net of refunds	**7,498**	10,816
Non-cash investing activities:		
Changes in accounts payable related to purchases of revenue earning equipment	**58,617**	(11,914)
Revenue earning equipment acquired under capital leases	**773**	5,768

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, 2007	$	58,041,563	$ 28,883	729,451	1,160,132	(30,877)	1,887,589
Components of comprehensive income:							
Net earnings					**56,082**		**56,082**
Foreign currency translation adjustments						**(4,973)**	**(4,973)**
Net unrealized gain related to derivatives accounted for as hedges						**6**	**6**
Amortization of pension and postretirement items, net of tax						**526**	**526**
Total comprehensive income							**51,641**
Common stock dividends declared $0.23 per share					**(13,414)**		**(13,414)**
Common stock issued under employee stock option and stock purchase plans [1]		**1,005,010**	**403**	**32,168**			**32,571**
Benefit plan stock sales [2]		**42,051**	**21**	**2,649**			**2,670**
Common stock repurchases		**(1,590,951)**	**(795)**	**(20,248)**	**(72,708)**		**(93,751)**
Share-based compensation				**3,635**			**3,635**
Tax benefits from share-based compensation				**2,924**			**2,924**
Balance at March 31, 2008	**$**	**57,497,673**	**$ 28,512**	**750,579**	**1,130,092**	**(35,318)**	**1,873,865**

(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.

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 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). The accompanying unaudited Consolidated Condensed Financial Statements have been prepared in accordance with the accounting policies described in the 2007 Annual Report on Form 10-K except for the accounting change described below relating to 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 GAAP in the United States of America 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. Certain prior year amounts have been reclassified to conform to the current period presentation.

(B) ACCOUNTING CHANGES

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are to be applied prospectively, except for certain financial instruments, which 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, as amended by FASB Staff Position FAS 157-1, exclude provisions of SFAS No. 13, Accounting for Leases, and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS No. 13. We adopted SFAS No. 157 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). The adoption of SFAS No. 157 on January 1, 2008 did not have a material impact on our Consolidated Condensed Financial Statements. For all other nonfinancial assets and liabilities, SFAS No. 157 is effective for us on January 1, 2009. We are in the process of evaluating the impact of SFAS No. 157 on the valuation of all other nonfinancial assets and liabilities, including our vehicles held for sale, and we do not expect there to be a material impact upon adoption on January 1, 2009 on our Consolidated Condensed Financial Statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This statement permits companies to choose to measure many financial instruments and certain other items at fair value in order to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Effective January 1, 2008, we adopted SFAS No. 159; however, we have not elected to measure any financial instruments and other items at fair value under the provisions of this standard. Consequently, SFAS No. 159 had no impact on our Consolidated Condensed Financial Statements.

(C) ACQUISITIONS

Lily Acquisition On January 11, 2008, we completed an asset purchase agreement with Lily Transportation Corporation (Lily), under which we acquired Lily s fleet of approximately 1,600 vehicles and over 200 contractual

customers for a purchase price of $96 million, of which $93 million has been paid as of March 31, 2008. The combined network will operate under the Ryder name, complementing Ryder s market coverage and service network in the Northeast United States. The asset purchase was accounted for as a business combination. The initial recording of the transaction was based on preliminary valuation assessments and is subject to change. Goodwill and intangible assets related to the Lily acquisition were $29 million and $8 million, respectively.

Pollock Acquisition On October 5, 2007, we completed an asset purchase agreement with Pollock NationaLease (Pollock), under which we acquired Pollock s fleet of approximately 2,000 vehicles and nearly 200 contractual customers served by 6 locations for a purchase price of $78 million, of which $75 million had been paid as of March 31, 2008. The combined network operates under the Ryder name, complementing our market coverage and service network in Canada. The asset purchase was accounted for as a business combination. The initial recording of the transaction was based on preliminary valuation assessments and is subject to change. During the three months ended March 31, 2008, purchase price adjustments related to the Pollock acquisition were not significant. Pro forma information for the Lily and Pollock acquisitions is not disclosed because the effects of the acquisitions are not significant.

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

On April 11, 2008, we entered into an asset purchase agreement with Gator Leasing, Inc. (Gator), under which we agreed to acquire Gator s fleet of approximately 2,300 vehicles and nearly 300 contractual customers. The acquisition is expected to be finalized in May 2008 and is subject to customary closing conditions. If consummated, the combined network will operate under the Ryder name, complementing Ryder s Fleet Management Solutions market coverage and service network in Florida. The asset purchase will be accounted for as a business combination.

(D) 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 (time-vested restricted stock rights, market-based restricted stock rights and restricted stock units) 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 March 31,	
	2008	2007
	(In thousands)	
Stock option and stock purchase plans	**$ 2,255**	2,438
Nonvested stock	**1,380**	1,213
Share-based compensation expense	**3,635**	3,651
Income tax benefit	**(1,293)**	(1,176)
Share-based compensation expense, net of tax	**$ 2,342**	2,475

Total unrecognized pre-tax compensation expense related to share-based compensation arrangements at March 31, 2008 was $37 million and is expected to be recognized over a weighted-average period of approximately 2.4 years.

During the three months ended March 31, 2008 and 2007, 0.6 million and 0.9 million stock options, respectively, were granted under the Plans. These awards, which vest one-third each year, are fully vested three years from the grant date and have a contractual term of seven years. The fair value of each option award was estimated using a Black-Scholes-Merton option-pricing valuation model. The weighted-average grant-date fair value of options granted during the three months ended March 31, 2008 and 2007 was $13.82 and $12.81 respectively.

During the three months ended March 31, 2008 and 2007, 0.2 million and 0.1 million awards, respectively, of restricted stock rights and restricted stock units (RSUs) were granted under the Plans. The time-vested restricted stock rights entitle the holder to shares of common stock as the awards vest over a three-year period. The majority of the

restricted stock rights granted during the period included a market-based vesting provision. Under such provision, the employees only receive the grant of stock 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. The fair value of the market-based restricted stock rights was estimated using a lattice-based option-pricing valuation model that incorporates a Monte-Carlo simulation. The weighted-average grant-date fair value of restricted stock rights and RSUs granted during the three months ended March 31, 2008 and 2007 was $53.04 and $30.32, respectively.

During the three months ended March 31, 2008 and 2007, we also granted employees cash awards. The awards granted in 2008 will vest on the same date as the market-based restricted stock rights if Ryder s TSR is equal to or better than the S&P 500 s 33rd percentile over a three-year period. The cash awards in 2007 were granted in tandem and with the same vesting provisions as the market-based restricted stock rights. 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 March 31, 2008, we recognized $1 million of compensation expense related to these cash awards in addition to the share-based compensation expense reported in the previous table. During the three months ended March 31, 2007, the amount of compensation expense recognized related to these cash awards was not significant.

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

(E) EARNINGS PER SHARE

A reconciliation of the number of shares used in computing basic and diluted earnings per common share follows:

	Three months ended March 31,	
	2008	2007
	(In thousands)	
Weighted-average shares outstanding Basic	**57,595**	60,569
Effect of dilutive options and nonvested stock	**582**	596
Weighted-average shares outstanding Diluted	**58,177**	61,165
Anti-dilutive equity awards and market-based restricted stock rights not included above	**1,235**	609

(F) RESTRUCTURING AND OTHER (RECOVERIES) CHARGES

Restructuring and other recoveries, net totaled $0.1 million in the three months ended March 31, 2008 and related primarily to employee severance and benefits recorded in prior restructuring charges that were reversed due to subsequent refinement in estimates. Restructuring and other charges, net totaled $0.5 million in the three months ended March 31, 2007 and related primarily to information technology transition costs and employee severance and benefit costs incurred in connection with global cost savings initiatives announced during the fourth quarter of 2006.

Activity related to restructuring reserves was as follows:

			Deductions		
	December 31, 2007 Balance	**Additions**	**Cash Payments**	**Non-Cash Reductions**[1]	**March 31, 2008 Balance**
			(In thousands)		
Employee severance and benefits	$ 7,829	**47**	**3,884**	**125**	**3,867**
Facilities and related costs	814		**31**		**783**
Total	$ 8,643	**47**	**3,915**	**125**	**4,650**

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

At March 31, 2008, the majority of outstanding restructuring obligations are required to be paid over the next nine months.

(G) REVENUE EARNING EQUIPMENT

	March 31, 2008			December 31, 2007		
	Cost	**Accumulated Depreciation**	**Net Book Value[1]**	Cost	Accumulated Depreciation	Net Book Value [1]
			(In thousands)			
Full service lease	**$ 5,800,991**	**(2,065,894)**	**3,735,097**	5,705,147	(2,047,951)	3,657,196
Commercial rental	**1,511,068**	**(662,802)**	**848,266**	1,520,815	(676,614)	844,201
Total	**$ 7,312,059**	**(2,728,696)**	**4,583,363**	7,225,962	(2,724,565)	4,501,397

(1) Revenue earning equipment, net includes vehicles acquired under capital leases of $14 million, less accumulated amortization of $5 million, at March 31, 2008, and $19 million, less accumulated amortization of $6 million, at December 31, 2007. Amortization expense attributed to vehicles acquired under capital leases is combined with depreciation expense.

At March 31, 2008 and December 31, 2007, the net carrying value of revenue earning equipment held for sale was $68 million and $81 million, respectively. Revenue earning equipment held for sale is stated at the lower of carrying amount or fair value less costs to sell. During the three months ended March 31, 2008 and 2007, we reduced the carrying value of vehicles held for sale by $7 million and $9 million, respectively to reflect changes in fair value. Reductions in the carrying values of vehicles held for sale are recorded within Depreciation expense in the Consolidated Condensed Statements of Earnings.

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

(H) ACCRUED EXPENSES AND OTHER LIABILITIES

	March 31, 2008			December 31, 2007		
	Accrued Expenses	**Non-Current Liabilities**	**Total**	Accrued Expenses	Non-Current Liabilities	Total
	(In thousands)					
Salaries and wages	**$ 55,639**		**55,639**	73,758		73,758
Deferred compensation	**3,027**	**20,602**	**23,629**	1,915	24,587	26,502
Pension benefits	**2,270**	**39,272**	**41,542**	2,318	39,843	42,161
Other postretirement benefits	**3,195**	**41,330**	**44,525**	3,209	41,083	44,292
Employee benefits	**5,454**		**5,454**	1,740		1,740
Insurance obligations, primarily self-insurance	**118,025**	**174,035**	**292,060**	119,280	178,889	298,169
Residual value guarantees	**718**	**1,720**	**2,438**	757	1,668	2,425
Vehicle rent	**5,585**	**9,889**	**15,474**	7,878	6,351	14,229
Deferred vehicle gains	**861**	**5,526**	**6,387**	871	5,712	6,583
Environmental liabilities	**4,083**	**11,606**	**15,689**	3,858	11,318	15,176
Asset retirement obligations	**4,674**	**10,742**	**15,416**	4,238	10,743	14,981
Operating taxes	**79,073**		**79,073**	78,909		78,909
Income taxes	**8,341**	**72,353**	**80,694**	10,381	72,062	82,443
Restructuring	**4,087**	**563**	**4,650**	7,491	1,152	8,643
Interest	**40,833**		**40,833**	22,275		22,275
Customer deposits	**29,125**		**29,125**	30,017		30,017
Other	**46,660**	**16,450**	**63,110**	43,960	16,499	60,459
Total	**$ 411,650**	**404,088**	**815,738**	412,855	409,907	822,762

We retain a portion of the accident risk under vehicle liability and worker s compensation insurance programs. Self-insurance accruals are based primarily on actuarially estimated, undiscounted cost of claims, and include claims incurred but not reported. Such liabilities are based on estimates. Historical loss development factors are utilized to project the future development of incurred losses, and these amounts are adjusted based upon actual claim experience and settlements. While we believe the amounts are adequate, there can be no assurance that changes to our estimates may not occur due to limitations inherent in the estimation process. In recent years, our development has been favorable compared to historical selected loss development factors because of improved safety performance, payment patterns and settlement patterns. During each of the three months ended March 31, 2008 and 2007, we recorded a benefit of $5 million within Operating expense in our Consolidated Condensed Statements of Earnings to reduce estimated prior years self-insured loss reserves for the reasons noted above.

(I) 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 2003. The statute of limitations for the 2001 through 2003 tax returns expires on December 31, 2008. In 2007, the IRS commenced an examination of our U.S. income tax returns for 2004 through 2006.

State for the majority of states, we are no longer subject to tax examinations by tax authorities for tax years before 2001.

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

Foreign we are no longer subject to foreign tax examinations by tax authorities for tax years before 2000, 2001, 2002 and 2006 in Canada, Brazil, Mexico and the U.K., respectively, which are our major foreign tax jurisdictions. In Brazil, we were assessed $11 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 March 31, 2008 and December 31, 2007, the total amount of gross unrecognized tax benefits (excluding the federal benefit received from state positions) was $76 million and $75 million, respectively. Unrecognized tax benefits related to federal, state and foreign tax positions may decrease by $8 million by December 31, 2008, if audits are completed or tax years close during 2008.

Like-Kind Exchange Program

We have a like-kind exchange program for certain of our U.S. revenue earning equipment. Pursuant to the program, we dispose of vehicles and acquire replacement vehicles in a form whereby tax gains on the 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 March 31, 2008 and December 31, 2007, these consolidated entities had $37 million and $59 million, respectively, of cash proceeds from the sale of eligible vehicles and $111 million and $63 million, respectively, of vehicles to be acquired under the like-kind exchange program.

At March 31, 2008 and December 31, 2007, we had $60 million and $84 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.

(J) DEBT

	Weighted-Average Interest Rate	**Maturities**	**March 31, 2008**	December 31, 2007
			(In thousands)	
Short-term debt and current portion of long-term debt:				
Unsecured foreign obligations	**4.44%**	**2008**	**$ 35,500**	29,373
Trade receivables program				100,000

Current portion of long-term debt, including capital leases		**2009**	**266,880**	93,325
Total short-term debt and current portion of long-term debt			**302,380**	222,698
Long-term debt:				
U.S. commercial paper [1]	**3.25%**	**2010**	**299,597**	522,772
Canadian commercial paper [1]	**3.77%**	**2010**	**30,136**	45,713
Unsecured U.S. notes Medium-term notes [1]	**5.04%**	**2008-2025**	**2,096,339**	1,846,500
Unsecured U.S. obligations, principally bank term loans	**4.32%**	**2010-2013**	**160,050**	60,050
Unsecured foreign obligations	**5.22%**	**2008-2012**	**154,963**	158,879
Capital lease obligations	**8.52%**	**2008-2017**	**13,960**	12,842
Total before fair market value adjustment			**2,755,045**	2,646,756
Fair market value adjustment on notes subject to hedging [2]			**5,941**	
			2,760,986	2,646,756
Current portion of long-term debt, including capital leases			**(266,880)**	(93,325)
Long-term debt			**2,494,106**	2,553,431
Total debt			**$ 2,796,486**	2,776,129

(1) *We had unamortized original issue discounts of $14 million and $15 million at March 31, 2008 and December 31, 2007, respectively.*

(2) *The notional amount of executed interest rate swaps designated as fair value hedges was $250 million at March 31, 2008.*

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We 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 in the U.S. and Canada. This facility can also be used to issue up to $75 million in letters of credit (there were no letters of credit outstanding against the facility at March 31, 2008). At our 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, we 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 March 31, 2008 was 135%. At March 31, 2008, $533 million was available under the credit facility. Foreign borrowings of $31 million were outstanding under the facility at March 31, 2008.

In February 2008, we issued $250 million of unsecured medium-term notes maturing in March 2013. The proceeds from the notes were used for general corporate purposes. Concurrently, we entered into an interest rate swap with a notional amount of $250 million. The swap was designated as a fair value hedge whereby we receive fixed interest rate payments in exchange for making variable interest rate payments. The differential to be paid or received is accrued and recognized as interest expense. The swap agreement matures in March 2013. At March 31, 2008, the interest rate swap agreement effectively changed $250 million of fixed-rate debt with an interest rate of 6.00% to LIBOR-based floating-rate debt at a rate of 5.15%. Changes in the fair value of the interest rate swap are offset by changes in the fair value of the debt instrument. Accordingly, there is no ineffectiveness related to the interest rate swap. During the three months ended March 31, 2008, the increase in the fair value of the interest rate swap was $6 million.

On February 27, 2007, Ryder filed an automatic shelf registration statement on Form S-3 with the Securities and Exchange Commission. The registration is for an indeterminate number of securities and is effective for three years. Under this universal shelf registration statement, we have the capacity to offer and sell from time to time various types of securities, including common stock, preferred stock and debt securities.

Ryder Receivable Funding II, L.L.C. (RRF LLC), a bankruptcy remote, consolidated subsidiary of Ryder has a Trade Receivables Purchase and Sale Agreement (the Trade Receivables Agreement) with two financial institutions. Under this program, Ryder sells certain of its domestic trade accounts receivable to RRF LLC that in turn may sell, on a revolving basis, an ownership interest in certain of these accounts receivable to a receivables conduit and (or) committed purchasers. Under the terms of the program, RRF LLC and Ryder have provided representations, warranties, covenants and indemnities that are customary for accounts receivable facilities of this type. We use this program to provide additional liquidity to fund our operations, particularly when the cost of such sales is cost effective compared with other funding programs, notably the issuance of unsecured commercial paper. This program is accounted for as a collateralized financing arrangement. The available proceeds that may be received by RRF LLC under the program are limited to $300 million. RRF LLC s costs under this program may vary based on changes in Ryder s unsecured debt ratings and changes in interest rates. If no event occurs which causes early termination, the 364-day program will expire on September 9, 2008. At March 31, 2008 there were no amounts outstanding under the program. There was $100 million outstanding under the program at December 31, 2007.

(K) FAIR VALUE MEASUREMENTS

Effective January 1, 2008, we adopted SFAS No. 157 for all financial assets and liabilities and for nonfinancial assets and liabilities recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair

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value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or model-derived valuations or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs for the asset or liability. These inputs reflect our own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Ryder carries various assets and liabilities at fair value in the Consolidated Condensed Balance Sheets. The most significant assets and liabilities are vehicles held for sale, which are carried at fair value less costs to sell, investments held in Rabbi Trusts, derivatives and certain liabilities. The initial adoption of SFAS No. 157 on January 1, 2008 was limited to our investments held in Rabbi Trusts, other liabilities and derivatives. On January 1, 2009, SFAS No. 157 will be adopted for our vehicles held for sale as well as other nonfinancial assets and liabilities recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The following table presents the fair value of our financial assets and liabilities for which we have adopted SFAS No. 157 as of March 31, 2008, segregated among the appropriate levels within the fair value hierarchy:

	Fair Value Measurements At March 31, 2008 Using			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Derivative asset	**$**	**5,941**		**5,941**
Investments held in Rabbi Trusts	**23,875**			**23,875**
Total assets at fair value	**$ 23,875**	**5,941**		**29,816**
Liabilities:				
Other liabilities	**$ 25,067**			**25,067**

The following is a description of the valuation methodologies used for these items, as well as the general classification of such items pursuant to the fair value hierarchy of SFAS No. 157:

Derivative asset the derivative is a pay-variable, receive-fixed interest rate swap based on a LIBOR rate. Fair value is based on a model-derived valuation using the LIBOR rate, which is observable at commonly quoted intervals for the full term of the swap. Therefore, our derivative is classified within Level 2 of the fair value hierarchy.

Investments held in Rabbi Trusts the investments include exchange-traded equity securities and mutual funds. Fair values for these investments are based on quoted prices in active markets and are therefore classified within Level 1 of the fair value hierarchy.

Other liabilities other liabilities represent deferred compensation and incentive-based compensation obligations to employees under certain plans. The liabilities related to these plans are adjusted based on changes in the fair value of the underlying employee-directed investments. Since the employee-directed investments are exchange traded equity securities and mutual funds with quoted prices in active markets, the liabilities are classified within Level 1 of the fair value hierarchy.

(L) GUARANTEES

We have executed various agreements with third parties that contain standard indemnifications that may require us 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, our obligations under these agreements may be limited in terms of the amount and (or) timing of any claim. We have entered into individual indemnification agreements with each of our independent directors, through which we will indemnify such director acting in good faith against any and all losses, expenses and liabilities arising out of such director s service as a director of Ryder. The maximum amount of potential future payments under these agreements is generally unlimited.

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We cannot predict the maximum potential amount of future payments under certain of these agreements, including the indemnification 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 March 31, 2008 and December 31, 2007, the maximum determinable exposure of each type of guarantee and the corresponding liability, if any, recorded on the Consolidated Condensed Balance Sheets were as follows:

	March 31, 2008		December 31, 2007	
Guarantee	**Maximum Exposure of Guarantee**	**Carrying Amount of Liability**	Maximum Exposure of Guarantee	Carrying Amount of Liability
	(In thousands)			
Vehicle residual value guarantees finance lease programs [1]	**$ 3,420**	**946**	3,450	1,066
Used vehicle financing	**5,530**	**991**	5,679	1,340
Standby letters of credit	**6,010**		6,540	
Total	**$ 14,960**	**1,937**	15,669	2,406

(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 March 31, 2008 and December 31, 2007, Ryder s maximum exposure for such guarantees was $217 million and $218 million, respectively, with $2 million recorded as a liability at March 31, 2008 and December 31, 2007.*

At March 31, 2008 and December 31, 2007, we had letters of credit and surety bonds outstanding totaling $260 million and $263 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 a discontinued operation since 1997. 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 $6 million at March 31, 2008 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 $8 million at March 31, 2008. Periodically, an actuarial valuation will be made in order to better estimate the amount of outstanding insurance claim liabilities.

(M) SHARE REPURCHASE PROGRAMS

In December 2007, our Board of Directors authorized a $300 million discretionary share repurchase program over a period not to exceed two years. Additionally, our Board of Directors also authorized a separate two-year anti-dilutive repurchase program. Under the anti-dilutive program, management is authorized to repurchase shares of common stock in an amount not to exceed the lesser of the number of shares issued to employees upon the exercise of stock options or through the employee stock purchase plan from the period beginning on September 1, 2007 to December 12, 2009, or 2 million shares. Share repurchases of common stock under both plans may be made periodically in open-market transactions and are subject to market conditions, legal requirements and other factors. Management has established prearranged written plans for the Company under Rule 10b5-1 of the Securities Exchange Act of 1934 as part of the December 2007 programs, which allow for share repurchases during Ryder s quarterly blackout periods as set forth in the trading plan. For the three months ended March 31, 2008, we repurchased and retired 840,000 shares under the $300 million program at an aggregate cost of $50 million. For the three months ended March 31, 2008, we repurchased and retired 750,951 shares under the anti-dilutive repurchase program at an aggregate cost of $44 million.

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. The May 2006 program limited aggregate share repurchases to no more than 2 million shares of Ryder common stock. This program was completed during the first quarter of 2007. In 2007, we repurchased and retired 168,715 shares under the May 2006 program at an aggregate cost of $9 million.

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(N) COMPREHENSIVE INCOME

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

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

	Three months ended March 31,	
	2008	2007
	(In thousands)	
Net earnings	$ **56,082**	51,259
Other comprehensive income:		
Foreign currency translation adjustments	**(4,973)**	2,883
Net unrealized gain on derivative instruments	**6**	34
Amortization of transition obligation [1]	**(6)**	(5)
Amortization of net actuarial loss [1]	**1,048**	3,373
Amortization of prior service credit [1]	**(516)**	(482)
Total comprehensive income	$ **51,641**	57,062

(1) Amounts pertain to our pension and/or postretirement benefit plans and are presented net of tax.

(O) EMPLOYEE BENEFIT PLANS

Components of net periodic benefit cost were as follows:

	Pension Benefits		Postretirement Benefits	
	Three months ended March 31,			
	2008	2007	**2008**	2007
	(In thousands)			
Company-administered plans:				
Service cost	$ **7,685**	10,365	**387**	340
Interest cost	**23,337**	21,506	**691**	696
Expected return on plan assets	**(30,689)**	(29,241)		

Amortization of:				
Transition obligation	**(8)**	(8)		
Net actuarial loss	**1,405**	4,872	**201**	279
Prior service credit	**(742)**	(696)	**(58)**	(58)
	988	6,798	**1,221**	1,257
Union-administered plans	**1,183**	1,211		
Net periodic benefit cost	**$ 2,171**	8,009	**1,221**	1,257
Company-administered plans:				
U.S.	**$ (913)**	3,467	**983**	1,126
Non-U.S.	**1,901**	3,331	**238**	131
	988	6,798	**1,221**	1,257
Union-administered plans	**1,183**	1,211		
	$ 2,171	8,009	**1,221**	1,257

Pension Contributions

As previously disclosed in our 2007 Annual Report, we expect to contribute approximately $22 million to our pension plans during 2008. During the three months ended March 31, 2008, global contributions of $6 million had been made to our pension plans.

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Pension Curtailment

On January 5, 2007, our Board of Directors approved an amendment to freeze U.S. pension plans effective December 31, 2007 for current participants who did not meet certain grandfathering criteria. As a result, these employees ceased accruing further benefits under the pension plans after December 31, 2007 and began participating in an enhanced 401(k) plan. Those participants that met the grandfathering criteria were given the option to either continue to earn benefits in the U.S. pension plans or transition into the enhanced 401(k) plan. All retirement benefits earned as of December 31, 2007 will be fully preserved and will be paid in accordance with the plan and legal requirements. Employees hired after January 1, 2007 are not eligible to participate in the U.S. pension plans. The freeze of the U.S. pension plans did not create a curtailment gain or loss.

Enhanced 401(k) Plan

Effective January 1, 2008, employees who did not meet the grandfathering criteria for continued participation in the U.S. pension plan are eligible to participate in a new enhanced 401(k) Savings Plan (Enhanced 401(k) Savings Plan). The Enhanced 401(k) Savings Plan provides for a (i) company contribution even if employees do not make contributions, (ii) a company match of employee contributions of eligible pay, subject to IRS limits and (iii) a discretionary company match based on our performance. Our original 401(k) Plan only provided for a discretionary Ryder match based on Ryder s performance. We did not change the savings plans available to non-pensionable employees. During the three months ended March 31, 2008 and 2007, we recognized total savings plan costs of $10 million and $4 million, respectively.

(P) SEGMENT REPORTING

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

Our primary measurement of segment financial performance, defined as Net Before Taxes (NBT), includes an allocation of Central Support Services (CSS) and excludes restructuring and other (charges), net. CSS represents those costs incurred to support all business segments, including human resources, finance, corporate services, public affairs, information technology, health and safety, legal and corporate communications. The objective of the NBT measurement is to provide clarity on the profitability of each business segment and, ultimately, to hold leadership of each business segment and each operating segment within each business segment accountable for their allocated share of CSS costs. Certain costs are considered to be overhead not attributable to any segment and remain unallocated in CSS. Included among the unallocated overhead remaining within CSS are the costs for investor relations, 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;

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

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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 months ended March 31, 2008 and 2007. 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					
March 31, 2008					
Revenue from external customers	**$ 992,227**	**414,177**	**137,178**		**1,543,582**
Inter-segment revenue	**113,384**			**(113,384)**	
Total revenue	**$ 1,105,611**	**414,177**	**137,178**	**(113,384)**	**1,543,582**
Segment NBT	**$ 91,438**	**8,313**	**11,316**	**(7,518)**	**103,549**
Unallocated CSS					**(11,540)**
Restructuring and other recoveries, net					**78**
Earnings before income taxes					**$ 92,087**
Segment capital expenditures [1]	**$ 255,474**	**14,590**	**395**		**270,459**
Unallocated CSS					**3,354**
Capital expenditures[2]					**$ 273,813**
March 31, 2007					
Revenue from external customers	$ 889,197	566,406	138,499		1,594,102
Inter-segment revenue	98,893			(98,893)	
Total revenue	$ 988,090	566,406	138,499		