

RYDER SYSTEM INC  
Form 10-Q  
April 25, 2007

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

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2007**

**OR**

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

**Commission File Number: 1-4364**

**RYDER SYSTEM, INC.**

*(Exact name of registrant as specified in its charter)*

**Florida**

*(State or other jurisdiction of incorporation or  
organization)*

**59-0739250**

*(I.R.S. Employer Identification No.)*

**11690 N.W. 105th Street**

**Miami, Florida 33178**

*(Address of principal executive offices, including zip  
code)*

**(305) 500-3726**

*(Registrant's telephone number, including area code)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO   
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

Ryder System, Inc. Common Stock (\$0.50 par value per share) outstanding at March 31, 2007 was 61,149,009.

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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,	
	<b>2007</b>	2006
	(In thousands, except per share amounts)	
Revenue	\$ <b>1,594,102</b>	1,496,291
Operating expense (exclusive of items shown separately)	<b>663,885</b>	660,543
Salaries and employee-related costs	<b>354,164</b>	337,513
Subcontracted transportation	<b>247,229</b>	202,223
Depreciation expense	<b>196,183</b>	178,176
Gains on vehicle sales, net	<b>(15,032)</b>	(12,812)
Equipment rental	<b>23,845</b>	25,567
Interest expense	<b>39,370</b>	31,422
Miscellaneous income, net	<b>(916)</b>	(5,386)
Restructuring and other charges (recoveries), net	<b>536</b>	(159)
	<b>1,509,264</b>	1,417,087
Earnings before income taxes	<b>84,838</b>	79,204
Provision for income taxes	<b>33,579</b>	31,622
Net earnings	\$ <b>51,259</b>	47,582
Earnings per common share:		
Basic	\$ <b>0.85</b>	0.78
Diluted	\$ <b>0.84</b>	0.77
Cash dividends per common share	\$ <b>0.21</b>	0.18

*See accompanying notes to consolidated condensed financial statements.*

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**RYDER SYSTEM, INC. AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**

	<b>(unaudited)</b>	December
	<b>March 31,</b>	31,
	<b>2007</b>	2006
	(Dollars in thousands, except per share amounts)	
Assets:		
Current assets:		
Cash and cash equivalents	\$ 93,603	128,639
Receivables, net	915,931	883,478
Inventories	57,725	59,318
Prepaid expenses and other current assets	165,750	190,381
<b>Total current assets</b>	<b>1,233,009</b>	<b>1,261,816</b>
Revenue earning equipment, net of accumulated depreciation of \$2,777,261 and \$2,825,876, respectively	4,698,190	4,509,332
Operating property and equipment, net of accumulated depreciation of \$781,820 and \$778,550, respectively	503,970	498,968
Goodwill	159,391	159,244
Intangible assets	14,188	14,387
Direct financing leases and other assets	390,093	385,176
<b>Total assets</b>	<b>\$ 6,998,841</b>	<b>6,828,923</b>
Liabilities and shareholders' equity:		
Current liabilities:		
Short-term debt and current portion of long-term debt	\$ 313,092	332,745
Accounts payable	549,429	515,121
Accrued expenses and other current liabilities	421,319	419,756
<b>Total current liabilities</b>	<b>1,283,840</b>	<b>1,267,622</b>
Long-term debt	2,565,084	2,484,198
Other non-current liabilities	464,576	449,158
Deferred income taxes	911,589	907,166
<b>Total liabilities</b>	<b>5,225,089</b>	<b>5,108,144</b>
Shareholders' equity:		
Preferred stock of no par value per share authorized, 3,800,917; none outstanding, March 31, 2007 or December 31, 2006		

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Common stock of \$0.50 par value per share authorized, 400,000,000; outstanding, March 31, 2007 61,149,009; December 31, 2006 60,721,528	<b>30,410</b>	30,220
Additional paid-in capital	<b>736,173</b>	713,264
Retained earnings	<b>1,147,860</b>	1,123,789
Accumulated other comprehensive loss	<b>(140,691)</b>	(146,494)
Total shareholders equity	<b>1,773,752</b>	1,720,779
Total liabilities and shareholders equity	<b>\$ 6,998,841</b>	6,828,923

*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,	
	2007	2006
	(In thousands)	
Cash flows from operating activities:		
Net earnings	\$ 51,259	47,582
Depreciation expense	196,183	178,176
Gains on vehicle sales, net	(15,032)	(12,812)
Share-based compensation expense	3,651	3,183
Amortization expense and other non-cash charges, net	6,655	378
Deferred income tax expense	19,258	14,835
Tax benefits from share-based compensation	758	1,298
Changes in operating assets and liabilities:		
Receivables	(31,569)	15,519
Inventories	1,639	(1,689)
Prepaid expenses and other assets	(17,123)	(57,152)
Accounts payable	46,322	15,912
Accrued expenses and other non-current liabilities	(8,808)	(87,991)
Net cash provided by operating activities	<b>253,193</b>	117,239
Cash flows from financing activities:		
Net change in commercial paper borrowings	(206,449)	200,734
Debt proceeds	343,881	14,730
Debt repaid, including capital lease obligations	(86,280)	(103,163)
Dividends on common stock	(12,783)	(10,973)
Common stock issued	19,556	15,782
Common stock repurchased	(9,036)	(65,861)
Excess tax benefits from share-based compensation	1,192	2,676
Net cash provided by financing activities	<b>50,081</b>	53,925
Cash flows from investing activities:		
Purchases of property and revenue earning equipment	(487,381)	(310,014)
Sales of revenue earning equipment	93,190	88,248
Sales of operating property and equipment	1,133	760
Acquisitions		(4,113)
Collections on direct finance leases	15,716	16,343
Changes in restricted cash	38,112	(17,896)
Other, net	750	1,609
Net cash used in investing activities	<b>(338,480)</b>	(225,063)

Effect of exchange rate changes on cash	<b>170</b>	793
Decrease in cash and cash equivalents	<b>(35,036)</b>	(53,106)
Cash and cash equivalents at January 1	<b>128,639</b>	128,727
Cash and cash equivalents at March 31	<b>\$ 93,603</b>	75,621
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	<b>\$ 11,899</b>	11,480
Income taxes, net of refunds	<b>10,816</b>	99,897
Non-cash investing activities:		
Changes in accounts payable related to purchases of revenue earning equipment	<b>(11,914)</b>	58,922
Revenue earning equipment acquired under capital leases	<b>5,768</b>	
<i>See accompanying notes to consolidated condensed financial statements.</i>		



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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, 2006	\$	60,721,528	\$ 30,220	713,264	1,123,789	(146,494)	1,720,779
Components of comprehensive income:							
Net earnings					51,259		51,259
Foreign currency translation adjustments						2,883	2,883
Unrealized gain related to derivative instruments						34	34
Amortization of transition obligation <sup>(1)</sup>						(5)	(5)
Amortization of net actuarial loss <sup>(1)</sup>						3,373	3,373
Amortization of prior service credit <sup>(1)</sup>						(482)	(482)
Total comprehensive income							57,062
Common stock dividends declared \$0.21 per share					(12,783)		(12,783)
Common stock issued under employee stock option and stock purchase plans <sup>(2)</sup>		596,928	274	19,282			19,556
Benefit plan stock purchases <sup>(3)</sup>		(732)		(18)			(18)
Common stock repurchases		(168,715)	(84)	(1,956)	(6,978)		(9,018)
Share-based compensation				3,651			3,651
Tax benefits from share-based compensation				1,950			1,950
Adoption of FIN 48 <sup>(4)</sup>					(7,427)		(7,427)
Balance at March 31, 2007	\$	61,149,009	\$ 30,410	736,173	1,147,860	(140,691)	1,773,752

*(1) Amounts pertain to our pension and postretirement benefit plans*

*and are presented net of tax.*

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

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

*(4) See Note (B), Accounting Change, in the Notes to Consolidated Condensed Financial Statements for additional information related to the adoption of FIN 48, Accounting for Uncertainty in Income Taxes.*

*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 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 2006 Annual Report on Form 10-K except for the accounting change described below relating to uncertain tax positions, and should be read in conjunction with the Consolidated Financial Statements and notes thereto. These statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included and the disclosures herein are adequate. The operating results for interim periods are unaudited and are not necessarily indicative of the results that can be expected for a full year. Certain prior year amounts have been reclassified to conform to the current period presentation.

**(B) ACCOUNTING CHANGE**

Prior to January 1, 2007, we recognized income tax accruals with respect to uncertain tax positions based upon Statement of Financial Accounting Standards (SFAS) No. 5, Accounting for Contingencies. Under SFAS No. 5, we recorded a liability associated with an uncertain tax position if the liability was both probable and estimable. Our liability under SFAS No. 5 included interest and penalties, which were recognized as incurred within Provision for income taxes in the Consolidated Condensed Statements of Earnings.

Effective January 1, 2007, we adopted FASB Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 requires that we determine whether the benefits of our tax positions are 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 recognize the largest amount of the benefit that is more likely than not of being sustained in our consolidated financial statements. For tax positions that are not more likely than not of being sustained upon audit, we do not recognize any portion of the benefit in our consolidated financial statements. The provisions of FIN 48 also provide guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure.

The cumulative effect of the adoption of the recognition and measurement provisions of FIN 48 resulted in a \$7.4 million reduction to the January 1, 2007 balance of retained earnings. Results of prior periods have not been restated. Our policy for interest and penalties related to income tax exposures was not impacted as a result of the adoption of the recognition and measurement provisions of FIN 48. Therefore, we continue to recognize interest and penalties as incurred within Provision for income taxes in the Consolidated Condensed Statements of Earnings. We expect the adoption of FIN 48 to increase our effective tax rate by approximately 0.3% in 2007.

**(C) 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 (restricted stock) and market-based nonvested stock. The non-management members of the Board of Directors also receive restricted stock units. Share-based compensation expense is recorded in Salaries and employee-related costs in the Consolidated Condensed Statement of Earnings.

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

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

	Three months ended March 31,	
	2007	2006
	(In thousands)	
Stock option and stock purchase plans	\$ 2,438	2,636
Nonvested stock (restricted stock)	1,213	547
Share-based compensation expense	3,651	3,183
Income tax benefit	(1,176)	(996)
Share-based compensation expense, net of tax	\$ 2,475	2,187

Total unrecognized compensation expense related to share-based compensation arrangements at March 31, 2007 was \$30.3 million and is expected to be recognized over a weighted-average period of approximately 3.2 years.

During the three months ended March 31, 2007 and 2006, 0.9 million and 1.0 million stock options were granted under the Plans, respectively. 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, 2007 and 2006 was \$12.81 and \$10.60, respectively.

During each of the three months ended March 31, 2007 and 2006, 0.1 million awards of restricted stock were granted under the Plans. The restricted stock awards entitle the holder to shares of common stock as the awards vest over a three-year period. The majority of the restricted stock awards 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 awards 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 granted during the three months ended March 31, 2007 and 2006 was \$30.32 and \$27.71, respectively.

**(D) EARNINGS PER SHARE INFORMATION**

Basic earnings per common share are computed by dividing net earnings by the weighted-average number of common shares outstanding. Nonvested stock (restricted stock) granted to employees and directors are not included in the computation of basic earnings per common share until the securities vest. Diluted earnings per common share reflect the dilutive effect of potential common shares from securities such as stock options and time-vested restricted stock. Diluted earnings per common share also reflects the dilutive effect of market-based restricted stock (contingently issuable shares) if the vesting conditions have been met as of the balance sheet date assuming the balance sheet date is the end of the contingency period. The dilutive effect of stock options and restricted stock is computed using the treasury stock method, which assumes any proceeds that could be obtained upon the exercise of stock options and vesting of restricted stock would be used to purchase common shares at the average market price for the period. The assumed proceeds include the purchase price the grantee pays and the windfall tax benefit that we receive upon assumed exercise as well as the unrecognized compensation expense at the end of each period. We calculate the assumed proceeds from excess tax benefits based on the deferred tax assets actually recorded without consideration of as if deferred tax assets calculated under the provision of SFAS No. 123R Share-Based Payment. A reconciliation of the number of shares used in computing basic and diluted earnings per common share follows:

	Three months ended March 31,	
	2007	2006
	(In thousands)	
Weighted-average shares outstanding Basic	<b>60,569</b>	60,722
Effect of dilutive options and nonvested stock	<b>596</b>	711
Weighted-average shares outstanding Diluted	<b>61,165</b>	61,433
Anti-dilutive options not included above	<b>553</b>	1,679

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

**(E) RESTRUCTURING AND OTHER CHARGES (RECOVERIES)**

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

	Three months ended March 31,	
	2007	2006
	(In thousands)	
Restructuring charges (recoveries), net:		
Severance and employee-related charges (recoveries)	\$ 259	(142)
Facility and related costs (recoveries)	(29)	(17)
	<b>230</b>	<b>(159)</b>
Other charges, net:		
Contract termination and transition costs	<b>306</b>	
Total	<b>\$ 536</b>	<b>(159)</b>

As noted in Note (N), 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 related to each segment was as follows:

	Three months ended March 31,	
	2007	2006
	(In thousands)	
Fleet Management Solutions	\$ 353	(95)
Supply Chain Solutions	183	(58)
Dedicated Contract Carriage		(4)
Central Support Services		(2)
Total	<b>\$ 536</b>	<b>(159)</b>

Restructuring and other charges (recoveries), net in the three months ended March 31, 2007 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. Restructuring charges (recoveries), net in the three months ended March 31, 2006 related primarily to employee severance and benefits and facility charges recorded in prior restructuring charges that were reversed due to subsequent refinements in estimates.

Activity related to restructuring reserves was as follows:

		<b>Deductions</b>	
December 31, 2006 Balance	<b>Additions</b>	<b>Non-Cash</b>	<b>March 31, 2007 Balance</b>
			&n

**Cash**      **Reductions**  
**Payments**      **(1)**