RYDER SYSTEM INC
Form 10-Q
April 24, 2012

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, 2012
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO
Commission File Number: 1-4364

RYDER SYSTEM, INC.
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant 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 þ NO ¨

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

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

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

The number of shares of Ryder System, Inc. Common Stock ($0.50 par value per share) outstanding at March 31, 2012 was 51,273,569.

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 COMPREHENSIVE INCOME
(unaudited)

	Three months ended March 31,	
	2012	2011
	(In thousands, except per share amounts)	
Lease and rental revenues	$637,858	579,415
Services revenue	678,352	632,738
Fuel services revenue	220,066	213,223
Total revenues	1,536,276	1,425,376
Cost of lease and rental	455,630	408,515
Cost of services	577,948	537,857
Cost of fuel services	215,573	208,960
Other operating expenses	34,249	34,629
Selling, general and administrative expenses	196,019	173,109
Gains on vehicle sales, net	(21,991)	(12,349)
Interest expense	34,765	34,419
Miscellaneous income, net	(4,480)	(4,142)
Restructuring and other charges, net	865	768
	1,488,578	1,381,766
Earnings from continuing operations before income taxes	47,698	43,610
Provision for income taxes	12,822	17,753
Earnings from continuing operations	34,876	25,857
Loss from discontinued operations, net of tax	(555)	(732)
Net earnings	$34,321	25,125
Earnings (loss) per common share — Basic		
Continuing operations	$0.68	0.50
Discontinued operations	(0.01)	(0.01)
Net earnings	$0.67	0.49
Earnings (loss) per common share — Diluted		
Continuing operations	$0.68	0.50
Discontinued operations	(0.01)	(0.02)
Net earnings	$0.67	0.48
Comprehensive income	$61,812	52,424
Cash dividends declared per common share	$0.29	0.27

See accompanying notes to consolidated condensed financial statements.

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

	March 31, 2012	December 31, 2011
	(Dollars in thousands, except per share amount)	
Assets:		
Current assets:		
Cash and cash equivalents	$113,621	104,572
Receivables, net	789,256	754,644
Inventories	67,283	65,912
Prepaid expenses and other current assets	152,181	163,045
Total current assets	1,122,341	1,088,173
Revenue earning equipment, net of accumulated depreciation of $3,523,771 and $3,462,359, respectively	5,529,793	5,049,671
Operating property and equipment, net of accumulated depreciation of $929,173 and $911,717, respectively	625,504	624,180
Goodwill	377,829	377,306
Intangible assets	83,126	84,820
Direct financing leases and other assets	410,049	393,685
Total assets	$8,148,642	7,617,835
Liabilities and shareholders' equity:		
Current liabilities:		
Short-term debt and current portion of long-term debt	$586,872	274,366
Accounts payable	720,599	391,827
Accrued expenses and other current liabilities	454,277	507,630
Total current liabilities	1,761,748	1,173,823
Long-term debt	3,006,302	3,107,779
Other non-current liabilities	891,283	896,587
Deferred income taxes	1,117,929	1,121,493
Total liabilities	6,777,262	6,299,682
Shareholders' equity:		
Preferred stock of no par value per share — authorized, 3,800,917; none outstanding, March 31, 2012 or December 31, 2011	—	—
Common stock of $0.50 par value per share — authorized, 400,000,000; outstanding, March 31, 2012 — 51,273,569; December 31, 2011 — 51,143,946	25,637	25,572
Additional paid-in capital	784,108	769,383
Retained earnings	1,101,309	1,090,363
Accumulated other comprehensive loss	(539,674)	(567,165)
Total shareholders' equity	1,371,380	1,318,153
Total liabilities and shareholders' equity	$8,148,642	7,617,835

See accompanying notes to consolidated condensed financial statements.

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

	Three months ended March 31,	
	2012	2011
	(In thousands)	
Cash flows from operating activities from continuing operations:		
Net earnings	$34,321	25,125
Less: Loss from discontinued operations, net of tax	(555)	(732)
Earnings from continuing operations	34,876	25,857
Depreciation expense	226,608	205,937
Gains on vehicle sales, net	(21,991)	(12,349)
Share-based compensation expense	4,437	4,105
Amortization expense and other non-cash charges, net	9,101	7,724
Deferred income tax expense	14,356	12,781
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	(26,520)	(51,090)
Inventories	(1,166)	(3,750)
Prepaid expenses and other assets	(5,644)	(8,174)
Accounts payable	9,448	31,408
Accrued expenses and other non-current liabilities	(57,229)	5,115
Net cash provided by operating activities from continuing operations	186,276	217,564
Cash flows from financing activities from continuing operations:		
Net change in commercial paper borrowings	(164,298)	(290,132)
Debt proceeds	369,920	349,867
Debt repaid, including capital lease obligations	(2,784)	(820)
Dividends on common stock	(14,853)	(13,945)
Common stock issued	13,156	5,222
Common stock repurchased	(11,920)	(12,036)
Excess tax benefits from share-based compensation	789	548
Debt issuance costs	(2,211)	(1,732)
Net cash provided by financing activities from continuing operations	187,799	36,972
Cash flows from investing activities from continuing operations:		
Purchases of property and revenue earning equipment	(470,969)	(313,218)
Sales of revenue earning equipment	91,341	66,150
Sales of operating property and equipment	2,898	5,030
Acquisitions	(2,076)	(83,776)
Collections on direct finance leases	15,475	14,828
Changes in restricted cash	(2,438)	(281)
Net cash used in investing activities from continuing operations	(365,769)	(311,267)
Effect of exchange rate changes on cash	1,660	341
Increase (decrease) in cash and cash equivalents from continuing operations	9,966	(56,390)
Cash flows from discontinued operations:		
Operating cash flows	(933)	(1,048)
Financing cash flows	—	11

Investing cash flows	—	—
Effect of exchange rate changes on cash	16	14
Decrease in cash and cash equivalents from discontinued operations	(917)	(1,023)
Increase (decrease) in cash and cash equivalents	9,049	(57,413)
Cash and cash equivalents at January 1	104,572	213,053
Cash and cash equivalents at March 31	$113,621	155,640

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	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Amount	Shares	Par				
	(Dollars in thousands, except per share amount)						
Balance at December 31, 2011	$—	51,143,946	$25,572	769,383	1,090,363	(567,165)	1,318,153
Components of comprehensive income:							
Net earnings	—	—	—	—	34,321	—	34,321
Foreign currency translation adjustments	—	—	—	—	—	22,803	22,803
Amortization of pension and postretirement items, net of tax	—	—	—	—	—	4,688	4,688
Total comprehensive income							61,812
Common stock dividends declared — $0.29 per share	—	—	—	—	(14,908)	—	(14,908)
Common stock issued under employee stock option and stock purchase plans [1]	—	352,533	177	12,957	—	—	13,134
Benefit plan stock sales [2]	—	290	—	22	—	—	22
Common stock repurchases	—	(223,200)	(112)	(3,341)	(8,467)	—	(11,920)
Share-based compensation	—	—	—	4,437	—	—	4,437
Tax benefits from share-based compensation	—	—	—	650	—	—	650
Balance at March 31, 2012	$—	51,273,569	$25,637	784,108	1,101,309	(539,674)	1,371,380

(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 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 2011 Annual Report on Form 10-K and should be read in conjunction with the Consolidated Financial Statements and notes thereto. These financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included and the disclosures herein are adequate. The operating results for interim periods are unaudited and are not necessarily indicative of the results that can be expected for a full year.

Prior year amounts have been reclassified to conform to the current period presentation. In the fourth quarter of 2011, we revised our Consolidated Condensed Statements of Comprehensive Income presentation to disaggregate our revenues and direct costs into three categories: full service lease and rental, services and fuel. In addition, we changed our business segments and our primary measure of segment operating performance. Prior to 2012, our business was divided into three business segments: Fleet Management Solutions (FMS), Supply Chain Solutions (SCS), and Dedicated Contract Carriage (DCC). In 2012, the SCS and DCC reportable business segments were combined as a result of aligning our internal reporting with how we operate our business. Our primary measurement of segment operating performance, “Earnings Before Taxes” (EBT) from continuing operations, was changed in 2012 to exclude the non-service components of pension costs in order to more accurately reflect the operating performance of the business segments.

(B) ACCOUNTING CHANGES

In June 2011, the Financial Accounting Standards Board (FASB) issued accounting guidance on the presentation of comprehensive income. Under this guidance, entities have the option to present the components of net income and other comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance was amended in December 2011 to defer the requirement to present the effects of reclassification adjustments out of accumulated other comprehensive income on the components of net income. We adopted this guidance in the first quarter of 2012 and have presented total comprehensive income in a single continuous statement which contains two sections, net earnings and comprehensive income. This accounting guidance only impacted presentation and did not have an impact on our consolidated financial position, results of operations or cash flows.

(C) ACQUISITIONS

Hill Hire plc — On June 8, 2011, we acquired all of the common stock of Hill Hire plc (Hill Hire), a U.K. based full service leasing, rental and maintenance company for a purchase price of $251.5 million, net of cash acquired, all of which was paid in 2011. The acquisition included Hill Hire’s fleet of approximately 8,000 full service lease vehicles and 5,700 rental vehicles, and approximately 400 contractual customers. The acquired fleet included 9,700 trailers. The combined network operates under the Ryder name, complementing our FMS business segment market coverage in the U.K. During the three months ended March 31, 2012, purchase price adjustments totaled $1.8 million and related to adjustments to the fair value of liabilities assumed and revenue earning equipment.

Pro Forma Information — The operating results of Hill Hire have been included in the consolidated condensed financial statements from the date of acquisition. The following table provides the unaudited pro forma revenues, net earnings and earnings per common share for the three months ended March 31, 2011 as if the results of the Hill Hire acquisition had been included in operations commencing January 1, 2010. This pro forma information is not necessarily indicative either of the combined results of operations that actually would have been realized had the acquisition been consummated during the period for which the pro forma information is presented, or of future results.

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

	Three months ended March 31, 2011 (In thousands, except per share amounts)
Revenue — As reported	$1,425,376
Revenue — Pro forma	$1,463,205
Net earnings — As reported	$25,125
Net earnings — Pro forma	$32,213
Net earnings per common share:	
Basic — As reported	$0.49
Basic — Pro forma	$0.63
Diluted — As reported	$0.48
Diluted — Proforma	$0.62

Other Acquisitions—During 2011, we completed three other acquisitions of full service leasing and fleet service companies, one of which included the assets of the seller's dedicated contract carriage business. The combined networks operate under the Ryder name, complementing our FMS and SCS business segment market coverage throughout the United States. The purchase price of these acquisitions totaled $113.8 million, of which $1.2 million and $79.6 million was paid during the three months ended March 31, 2012 and March 31, 2011, respectively. Goodwill and customer relationship intangibles related to these acquisitions totaled $28.4 million and $11.9 million, respectively. The following table provides further information regarding each of these acquisitions:

Company Acquired	Date Acquired	Segment	Purchase Price	Vehicles	Contractual Customers
Carmenita Leasing, Inc.	January 10, 2011	FMS	$9.0 million	190	60
The Scully Companies	January 28, 2011	FMS/SCS	$91.0 million	2,100	200
B.I.T Leasing	April 1, 2011	FMS	$13.8 million	490	130

During the three months ended March 31, 2012 and March 31, 2011, we paid $0.9 million and $4.2 million, respectively, related to acquisitions completed in years prior to 2011.

(D) DISCONTINUED OPERATIONS

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

Summarized results of discontinued operations were as follows:

	Three months ended March 31, 2012	2011
	(In thousands)	
Pre-tax loss from discontinued operations	$(575)	(747)

Income tax benefit	20	15
Loss from discontinued operations, net of tax	$(555)	(732)

Results of discontinued operations in 2012 and 2011 included losses related to adverse legal developments and professional and administrative fees associated with our discontinued South American operations.

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

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

	March 31, 2012	December 31, 2011
	(In thousands)	
Total assets, primarily deposits	$5,042	4,600
Total liabilities, primarily contingent accruals	$7,459	6,502

(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.

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

	Three months ended March 31, 2012	2011
	(In thousands)	
Stock option and stock purchase plans	$2,364	2,247
Nonvested stock	2,073	1,858
Share-based compensation expense	4,437	4,105
Income tax benefit	(1,484)	(1,372)
Share-based compensation expense, net of tax	$2,953	2,733

During the three months ended March 31, 2012 and 2011, approximately 460,000 and 700,000 stock options, respectively, were granted under the Plans. These awards generally vest evenly over a three year period from the date of grant 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 three months ended March 31, 2012 and 2011 was $14.07 and $12.84, respectively.

During the three months ended March 31, 2012 and 2011, approximately 93,000 and 140,000 market-based restricted stock rights, respectively, were granted under the Plans. For the 2012 grant, the awards were segmented into three equal performance periods of one, two and three years. At the end of each performance period, 25%-125% of the award may be earned based on Ryder's total shareholder return (TSR) compared to the target TSR of the S&P 500 over the applicable performance period. Employees will receive the grant of stock at the end of the three year period provided they continue to be employed with Ryder, subject to Compensation Committee approval. For grants prior to 2012, employees only receive the grant of stock if Ryder's cumulative average TSR at least meets the S&P 500 cumulative average TSR over an applicable three-year period. The fair value of the market-based restricted stock rights was estimated using a lattice-based option-pricing valuation model that incorporates a Monte-Carlo simulation. The fair value of the market-based awards was determined and fixed on the grant date and considers the likelihood of Ryder achieving the market-based condition. The weighted-average fair value per market-based restricted stock right granted during the three months ended March 31, 2012 and 2011 was $43.39 and $25.29, respectively.

During the three months ended March 31, 2012 and 2011, approximately 104,000 and 120,000 time-vested restricted stock rights, respectively, were granted under the plans. The time-vested restricted stock rights entitle the holder to shares of common stock when the awards vest at the end of a three-year period. The fair value of the time-vested awards is determined and fixed on the date of grant based on Ryder’s stock price on the date of grant. The weighted-average fair value per time-vested restricted stock right granted during the three months ended March 31, 2012 and 2011 was $53.62 and $50.62, respectively.

During the three months ended March 31, 2012 and 2011, employees who received market-based restricted stock rights also received market-based cash awards. In addition, in 2012, employees who received time-vested restricted stock also received market-based cash awards. For the 2012 grant, the cash awards have the same vesting provisions as the market-based restricted stock rights. For grants prior to 2012, the awards have the same vesting provisions as the market-based restricted stock rights except that Ryder’s TSR must at least meet the TSR of the 33rd percentile of the S&P 500. The cash awards are accounted for as liability awards under the share-based compensation accounting guidance as the awards are based upon the performance of

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

our common stock and are settled in cash. As a result, the liability is adjusted to reflect fair value at the end of each reporting period. The fair value of the cash awards was estimated using a lattice-based option-pricing valuation model that incorporates a Monte-Carlo simulation.

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

	Three months ended March 31,	
	2012	2011
	(In thousands)	
Cash awards	$597	460

Total unrecognized pre-tax compensation expense related to all share-based compensation arrangements at March 31, 2012 was $43.8 million and is expected to be recognized over a weighted-average period of 2.3 years.

(F) EARNINGS PER SHARE

We compute earnings per share using the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for common stock and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. Our nonvested stock granted prior to 2012 are considered participating securities since the share-based awards contain a non-forfeitable right to dividend equivalents irrespective of whether the awards ultimately vest. Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings 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 March 31,	
	2012	2011
	(In thousands, except per share amounts)	
Earnings per share — Basic:		
Earnings from continuing operations	$34,876	25,857
Less: Distributed and undistributed earnings allocated to nonvested stock	(462)	(405)
Earnings from continuing operations available to common shareholders — Basic	$34,414	25,452
Weighted average common shares outstanding — Basic	50,485	50,626
Earnings from continuing operations per common share — Basic	$0.68	0.50
Earnings per share — Diluted:		
Earnings from continuing operations	$34,876	25,857
Less: Distributed and undistributed earnings allocated to nonvested stock	(460)	(403)
Earnings from continuing operations available to common shareholders — Diluted	$34,416	25,454

Weighted average common shares outstanding — Basic	50,485	50,626
Effect of dilutive options	436	385
Weighted average common shares outstanding — Diluted	50,921	51,011
Earnings from continuing operations per common share — Diluted	$0.68	0.50
Anti-dilutive equity awards and market-based restricted stock rights not included above	1,453	1,442

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

(G) RESTRUCTURING AND OTHER CHARGES

Restructuring charges, net of $0.9 million for the three months ended March 31, 2012 primarily represented exit costs associated with non-essential leased facilities assumed in the Hill Hire acquisition. Restructuring charges, net of $0.8 million for the three months ended March 31, 2011 represented employee severance and benefit costs related to workforce reductions and termination costs associated with non-essential equipment contracts assumed in the Scully acquisition.

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

	December 31, 2011 Balance	Additions	Cash Payments	Foreign Translation Adjustments	March 31, 2012 Balance
	(In thousands)				
Employee severance and benefits	$2,607	—	755	74	1,926
Contract termination costs	2,639	865	384	(97)	3,023
Total	$5,246	865	1,139	(23)	4,949

At March 31, 2012, the majority of outstanding restructuring obligations are required to be paid over the next two years.

(H) DIRECT FINANCING LEASE RECEIVABLES

We lease revenue earning equipment to customers for periods typically ranging from three to seven years for trucks and tractors and up to ten years for trailers. The majority of our leases are classified as operating leases. However, some of our revenue earning equipment leases are classified as direct financing leases and, to a lesser extent, sales-type leases. The net investment in direct financing and sales-type leases consisted of:

	March 31, 2012	December 31, 2011
	(In thousands)	
Total minimum lease payments receivable	$615,486	561,772
Less: Executory costs	(202,017)	(181,820)
Minimum lease payments receivable	413,469	379,952
Less: Allowance for uncollectibles	(807)	(903)
Net minimum lease payments receivable	412,662	379,049
Unguaranteed residuals	64,499	63,472
Less: Unearned income	(101,042)	(92,637)
Net investment in direct financing and sales-type leases	376,119	349,884
Current portion	(72,028)	(68,896)
Non-current portion	$304,091	280,988

Our direct financing lease customers operate in a wide variety of industries, and we have no significant customer concentrations in any one industry. We assess credit risk for all of our customers including those who lease equipment under direct financing leases. Credit risk is assessed using an internally developed model which incorporates credit scores from third party providers and our own custom risk ratings and is updated on a monthly basis. The external credit scores are developed based on the customer’s historical payment patterns and an overall assessment of the likelihood of delinquent payments. Our internal ratings are weighted based on the industry that the customer operates, company size, years in business, and other credit-related indicators (i.e. profitability, cash flow, liquidity, tangible net worth, etc.). Any one of the following factors may result in a customer being classified as high risk: i) the customer has a history of late payments; ii) the customer has open lawsuits, liens or judgments; iii) the customer has been in business less than 3 years; and iv) the customer operates in an industry with low barriers to entry. For those customers who are designated as high risk, we typically require deposits to be paid in advance in order to mitigate our credit risk. Additionally, our receivables are collateralized by the vehicle’s fair value, which further mitigates our credit risk.

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

The following table presents the credit risk profile by creditworthiness category of our direct financing lease receivables:

	March 31, 2012	December 31, 2011
	(In thousands)	
Very low risk to low risk	$153,452	121,836
Moderate risk	198,689	190,070
Moderately high risk to high risk	61,328	68,046
	$413,469	379,952

The following table is a rollforward of the allowance for credit losses on direct financing lease receivables for the three months ended March 31, 2012:

	(In thousands)
Balance at December 31, 2011	$903
Charged to earnings	783
Deductions	(879)
Balance at March 31, 2012	$807

As of March 31, 2012, the amount of direct financing lease receivables which were past due was not significant and there were no impaired receivables. Accordingly, we do not believe there is a material risk of default with respect to the direct financing lease receivables as of March 31, 2012.

(I) REVENUE EARNING EQUIPMENT

	March 31, 2012			December 31, 2011		
	Cost	Accumulated Depreciation	Net Book Value[1]	Cost	Accumulated Depreciation	Net Book Value[1]
	(In thousands)					
Held for use:						
Full service lease	$6,326,070	(2,527,246)	3,798,824	6,010,335	(2,518,830)	3,491,505
Commercial rental	2,268,130	(666,758)	1,601,372	2,175,003	(708,052)	1,466,951
Held for sale	459,364	(329,767)	129,597	326,692	(235,477)	91,215
Total	$9,053,564	(3,523,771)	5,529,793	8,512,030	(3,462,359)	5,049,671

(1) Revenue earning equipment, net includes vehicles acquired under capital leases of $59.4 million, less accumulated depreciation of $15.1 million, at March 31, 2012, and $60.7 million, less accumulated depreciation of $14.4 million, at December 31, 2011.

At the end of 2011, we completed our annual review of residual values and useful lives of revenue earning equipment. Based on the results of our analysis, we adjusted the estimated residual values of certain classes of revenue earning equipment effective January 1, 2012. The change in estimated residual values increased pre-tax earnings for the three months ended March 31, 2012 by approximately $4.5 million.

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

(J) GOODWILL

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

	Fleet Management Solutions	Supply Chain Solutions	Total
	(In thousands)		
Balance at January 1, 2012:			
Goodwill	$216,559	189,968	406,527
Accumulated impairment losses	(10,322)	(18,899)	(29,221)
	206,237	171,069	377,306
Purchase accounting adjustments	72	97	169
Foreign currency translation adjustment	155	199	354
Balance at March 31, 2012:			
Goodwill	216,786	190,264	407,050
Accumulated impairment losses	(10,322)	(18,899)	(29,221)
	$206,464	171,365	377,829

Purchase accounting adjustments primarily related to changes in the fair value of acquired revenue earning equipment. We did not recast the December 31, 2011 balance sheet as the adjustments are not material.

(K) ACCRUED EXPENSES AND OTHER LIABILITIES

	March 31, 2012			December 31, 2011		
	Accrued Expenses	Non-Current Liabilities	Total	Accrued Expenses	Non-Current Liabilities	Total
	(In thousands)					
Salaries and wages	$62,043	—	62,043	121,087	—	121,087
Deferred compensation	1,508	22,943	24,451	1,405	21,285	22,690
Pension benefits	3,140	547,417	550,557	3,120	546,681	549,801
Other postretirement benefits	2,842	40,143	42,985	2,838	40,154	42,992
Insurance obligations, primarily self-insurance	119,453	163,660	283,113	120,045	157,390	277,435
Residual value guarantees	2,872	693	3,565	3,093	1,125	4,218
Accrued rent	13,952	8,138	22,090	4,088	14,686	18,774
Environmental liabilities	4,539	9,541	14,080	4,368	9,171	13,539
Asset retirement obligations	5,847	12,546	18,393	5,702	12,364	18,066
Operating taxes	87,163	—	87,163	81,820	—	81,820
Income taxes	3,197	70,011	73,208	4,160	74,147	78,307
Interest	25,973	—	25,973	30,410	—	30,410
Deposits, mainly from customers	54,621	7,546	62,167	50,951	7,544	58,495

Deferred revenue	17,182	138	17,320	20,698	476	21,174
Acquisition holdbacks	4,992	—	4,992	7,422	—	7,422
Other	44,953	8,507	53,460	46,423	11,564	57,987
Total	$454,277	891,283	1,345,560	507,630	896,587	1,404,217

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(L) INCOME TAXES

Uncertain Tax Positions

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

The following is a summary of tax years that are no longer subject to examination:
Federal — audits of our U.S. federal income tax returns are closed through fiscal year 2007.
State — for the majority of states, tax returns are closed through fiscal year 2007.
Foreign — we are no longer subject to foreign tax examinations by tax authorities for tax years before 2004 in Canada, 2006 in Brazil, 2007 in Mexico and 2009 in the U.K., which are our major foreign tax jurisdictions. Refer to Note (T), "Other Matters," for further discussion on the resolution of a Brazil tax assessment in the first quarter of 2012.

At March 31, 2012 and December 31, 2011, the total amount of gross unrecognized tax benefits (excluding the federal benefit received from state positions) was $70.3 million and $69.2 million, respectively. Unrecognized tax benefits related to federal, state and foreign tax positions may decrease by $13.9 million by March 31, 2013, 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 results in a material deferral of federal and state income taxes. As part of the program, the proceeds from the sale of eligible vehicles are restricted for the acquisition of replacement vehicles and other specified applications. Due to the structure utilized to facilitate the like-kind exchanges, the qualified intermediary that holds the proceeds from the sales of eligible vehicles and the entity that holds the vehicles to be acquired under the program are required to be consolidated in the accompanying Consolidated Condensed Financial Statements in accordance with U.S. GAAP. At March 31, 2012 and December 31, 2011, these consolidated entities had total assets, primarily revenue earning equipment, and total liabilities, primarily accounts payable, of $190.9 million and $142.0 million, respectively.

Tax Law Changes

On January 13, 2011, the State of Illinois enacted changes to its tax system, which included an increase to the corporate income tax rate from 4.8% to 7.0%. The impact of this change resulted in a non-cash charge to deferred income taxes and a decrease to earnings for the three months ended March 31, 2011 of $1.2 million.

Effective Tax Rate

Our effective income tax rate from continuing operations for the first quarter of 2012 was 26.9% compared with 40.7% in the same period of the prior year. The decrease in the effective tax rate from continuing operations was mainly due to a tax benefit of $5.0 million (10.4% of earnings before tax) relating to the favorable resolution of a tax item from prior periods and a higher proportionate amount of earnings in lower rate jurisdictions. The 2011 tax rate included an unfavorable impact related to a tax law change in Illinois of $1.2 million (2.8% of earnings before tax).

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(M) DEBT

	Weighted-Average Interest Rate March 31, 2012		Weighted-Average Interest Rate December 31, 2011		Maturities	March 31, 2012 (In thousands)	December 31, 2011
Short-term debt and current portion of long-term debt:							
Short-term debt	1.44	%	1.45	%	2012	$4,451	5,091
Current portion of long-term debt, including capital leases						582,421	269,275
Total short-term debt and current portion of long-term debt						586,872	274,366
Long-term debt:							
U.S. commercial paper [1]	0.44	%	0.40	%	2016	239,968	415,936
Canadian commercial paper [1]	1.12	%	—	%	2016	12,026	—
Global revolving credit facility	1.71	%	1.52	%	2016	21,114	1,000
Unsecured U.S. notes — Medium-term notes [1]	4.28	%	4.49	%	2012-2025	2,834,647	2,484,712
Unsecured U.S. obligations, principally bank term loans	1.66	%	1.78	%	2012-2015	105,500	105,000
Unsecured foreign obligations	2.36	%	2.71	%	2014-2016	309,302	300,516
Capital lease obligations	4.23	%	4.24	%	2012-2018	46,493	48,047
Total before fair market value adjustment						3,569,050	3,355,211
Fair market value adjustment on notes subject to hedging [2]						19,673	21,843
						3,588,723	3,377,054
Current portion of long-term debt, including capital leases						(582,421)	(269,275)
Long-term debt						3,006,302	3,107,779
Total debt						$3,593,174	3,382,145

(1) We had unamortized original issue discounts of $8.9 million and $8.7 million at March 31, 2012 and December 31, 2011, respectively.

(2) The notional amount of executed interest rate swaps designated as fair value hedges was $550 million at March 31, 2012 and December 31, 2011.

We can borrow up to $900 million under a global revolving credit facility with a syndicate of twelve lending institutions led by Bank of America N.A., Bank of Tokyo-Mitsubishi UFJ, Ltd., BNP Paribas, Mizuho Corporate Bank, Ltd., Royal Bank of Canada, Royal Bank of Scotland Plc, U.S. Bank National Association and Wells Fargo Bank, N.A. This facility matures in June 2016 and is used primarily to finance working capital and provide support for the issuance of unsecured commercial paper in the U.S. and Canada. This facility can also be used to issue up to $75 million in letters of credit (there were no letters of credit outstanding against the facility at March 31, 2012). At our option, the interest rate on borrowings under the credit facility is based on LIBOR, prime, federal funds or local equivalent rates. The agreement provides for annual facility fees, which range from 10.0 basis points to 32.5 basis points, and are based on Ryder's long-term credit ratings. The current annual facility fee is 15.0 basis points, which applies to the total facility size of $900 million. The credit facility contains no provisions limiting its availability in the event of a material adverse change to Ryder's business operations; however, the credit facility does contain standard representations and warranties, events of default, cross-default provisions and certain affirmative and negative covenants. In order to maintain availability of funding, we must maintain a ratio of debt to consolidated tangible net worth, of less than or equal to 300%. Tangible net worth, as defined in the credit facility, includes 50% of our deferred federal income tax liability and excludes the book value of our intangibles. The ratio at March 31, 2012 was 259%. On April 20, 2012, we amended our debt to net worth covenant. As amended, our net worth is defined as shareholders' equity excluding any accumulated other comprehensive income or loss associated with pension and other post-retirement plans. Had this amendment been in place as of March 31, 2012, the ratio would have been 183%. At March 31, 2012, $626.9 million was available under the credit facility, net of the support for commercial paper borrowings.

Our global revolving credit facility permits us to refinance short-term commercial paper obligations on a long-term basis. Settlement of short-term commercial paper obligations not expected to require the use of working capital are classified as long-term as we have both the intent and ability to refinance on a long-term basis. At March 31, 2012 and December 31, 2011, we

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classified $252.0 million and $415.9 million, respectively, of short-term commercial paper as long-term debt.

In February 2012, we issued $350 million of unsecured medium-term notes maturing in March 2017. The proceeds from the notes were used to pay down commercial paper and for general corporate purposes. If the notes are downgraded following, and as a result of, a change in control, the note holder can require us to repurchase all or a portion of the notes at a purchase price equal to 101% of principal plus accrued and unpaid interest.

We have a trade receivables purchase and sale program, pursuant to which we sell certain of our domestic trade accounts receivable to a bankruptcy remote, consolidated subsidiary of Ryder, that in turn sells, on a revolving basis, an ownership interest in certain of these accounts receivable to a receivables conduit or committed purchasers. The subsidiary is considered a VIE and is consolidated based on our control of the entity's activities. We use this program to provide additional liquidity to fund our operations, particularly when it is cost effective to do so. The costs under the program may vary based on changes in interest rates. The available proceeds that may be received under the program are limited to $175 million. If no event occurs which causes early termination, the 364-day program will expire on October 26, 2012. The program contains provisions restricting its availability in the event of a material adverse change to our business operations or the collectability of the collateralized receivables. At March 31, 2012 and December 31, 2011, no amounts were outstanding under the program. Sales of receivables under this program will be accounted for as secured borrowings based on our continuing involvement in the transferred assets.

At March 31, 2012 and December 31, 2011, we had letters of credit and surety bonds outstanding totaling $271.3 million and $271.0 million, respectively, which primarily guarantee the payment of insurance claims.

(N) FAIR VALUE MEASUREMENTS

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

	Balance Sheet Location	Fair Value Measurements At March 31, 2012 Using			Total
		Level 1	Level 2	Level 3	
		(In thousands)			
Assets:					
Interest rate swap	Prepaid expenses and other current assets	$—	7,080	—	7,080
Interest rate swaps	DFL and other assets	—	12,593	—	12,593
Investments held in Rabbi Trusts:					
Cash and cash equivalents					