

RYDER SYSTEM INC  
Form 10-Q  
April 23, 2014

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, 2014  
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 (I.R.S. Employer Identification No.)  
organization)

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  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  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  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  NO

The number of shares of Ryder System, Inc. Common Stock (\$0.50 par value per share) outstanding at March 31, 2014 was 53,184,496.



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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,	
	2014	2013
	(In thousands, except per share amounts)	
Lease and rental revenues	\$689,682	659,708
Services revenue	709,699	689,461
Fuel services revenue	211,356	213,848
Total revenues	1,610,737	1,563,017
Cost of lease and rental	493,043	473,077
Cost of services	606,229	583,589
Cost of fuel services	207,205	210,293
Other operating expenses	36,645	37,599
Selling, general and administrative expenses	191,702	189,073
Gains on vehicle sales, net	(28,818)	(23,006)
Interest expense	35,109	34,454
Miscellaneous income, net	(5,382)	(4,570)
	1,535,733	1,500,509
Earnings from continuing operations before income taxes	75,004	62,508
Provision for income taxes	25,906	21,706
Earnings from continuing operations	49,098	40,802
Loss from discontinued operations, net of tax	(866)	(878)
Net earnings	\$48,232	39,924
Earnings (loss) per common share — Basic		
Continuing operations	\$0.93	0.79
Discontinued operations	(0.02)	(0.02)
Net earnings	\$0.91	0.77
Earnings (loss) per common share — Diluted		
Continuing operations	\$0.92	0.79
Discontinued operations	(0.02)	(0.02)
Net earnings	\$0.90	0.77
Cash dividends declared per common share	\$0.34	0.31

See accompanying notes to consolidated condensed financial statements.

RYDER SYSTEM, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME  
(unaudited)

	Three months ended March 31,	
	2014	2013
	(In thousands)	
Net earnings	\$48,232	39,924
Other comprehensive income:		
Changes in cumulative translation adjustment and other, before and after tax	(14,592	) (33,704
Amortization of pension and postretirement items	5,033	8,354
Income tax expense related to amortization of pension and postretirement items	(1,906	) (2,935
Amortization of pension and postretirement items, net of taxes	3,127	5,419
Other comprehensive loss, net of taxes	(11,465	) (28,285
Comprehensive income	\$36,767	11,639
See accompanying notes to consolidated condensed financial statements.		

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

	March 31, 2014	December 31, 2013
	(Dollars in thousands, except per share amount)	
Assets:		
Current assets:		
Cash and cash equivalents	\$72,786	61,562
Receivables, net	822,010	777,370
Inventories	64,758	64,298
Prepaid expenses and other current assets	157,562	159,263
Total current assets	1,117,116	1,062,493
Revenue earning equipment, net of accumulated depreciation of \$3,587,031 and \$3,596,102, respectively	6,687,976	6,490,837
Operating property and equipment, net of accumulated depreciation of \$1,006,105 and \$991,117, respectively	636,632	633,826
Goodwill	383,200	383,719
Intangible assets	70,411	72,406
Direct financing leases and other assets	472,148	460,501
Total assets	\$9,367,483	9,103,782
Liabilities and shareholders' equity:		
Current liabilities:		
Short-term debt and current portion of long-term debt	\$400,846	259,438
Accounts payable	505,779	475,364
Accrued expenses and other current liabilities	465,997	496,337
Total current liabilities	1,372,622	1,231,139
Long-term debt	4,045,751	3,929,987
Other non-current liabilities	617,281	616,305
Deferred income taxes	1,433,288	1,429,637
Total liabilities	7,468,942	7,207,068
Shareholders' equity:		
Preferred stock of no par value per share — authorized, 3,800,917; none outstanding, _____ March 31, 2014 or December 31, 2013	—	—
Common stock of \$0.50 par value per share — authorized, 400,000,000; outstanding, _____ March 31, 2014 — 53,184,496; December 31, 2013 — 53,335,386	26,591	26,667
Additional paid-in capital	931,353	917,539
Retained earnings	1,390,310	1,390,756
Accumulated other comprehensive loss	(449,713 )	(438,248 )
Total shareholders' equity	1,898,541	1,896,714
Total liabilities and shareholders' equity	\$9,367,483	9,103,782
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,	
	2014	2013
	(In thousands)	
Cash flows from operating activities from continuing operations:		
Net earnings	48,232	39,924
Less: Loss from discontinued operations, net of tax	(866)	(878)
Earnings from continuing operations	49,098	40,802
Depreciation expense	248,815	231,541
Gains on vehicle sales, net	(28,818)	(23,006)
Share-based compensation expense	4,858	4,609
Amortization expense and other non-cash charges, net	14,097	13,432
Deferred income tax expense	21,653	18,593
Changes in operating assets and liabilities:		
Receivables	(41,526)	(8,677)
Inventories	(629)	902
Prepaid expenses and other assets	(14,410)	(17,353)
Accounts payable	14,423	36,405
Accrued expenses and other non-current liabilities	(29,901)	(48,320)
Net cash provided by operating activities from continuing operations	237,660	248,928
Cash flows from financing activities from continuing operations:		
Net change in commercial paper borrowings	142,834	112,938
Debt proceeds	366,612	249,723
Debt repaid, including capital lease obligations	(252,845)	(317,344)
Dividends on common stock	(18,005)	(15,980)
Common stock issued	18,526	22,529
Common stock repurchased	(40,437)	(104)
Excess tax benefits from share-based compensation	293	1,575
Debt issuance costs	(1,809)	(1,767)
Net cash provided by financing activities from continuing operations	215,169	51,570
Cash flows from investing activities from continuing operations:		
Purchases of property and revenue earning equipment	(578,722)	(420,054)
Sales of revenue earning equipment	125,673	112,425
Sales of operating property and equipment	2,004	916
Acquisitions	(1,649)	(1,420)
Collections on direct finance leases	16,184	27,411
Changes in restricted cash	(4,087)	(18,979)
Insurance recoveries and other	(1,250)	3,767
Net cash used in investing activities from continuing operations	(441,847)	(295,934)
Effect of exchange rate changes on cash	1,369	6,257
Increase in cash and cash equivalents from continuing operations	12,351	10,821
Cash flows from discontinued operations:		

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Operating cash flows	(906	)	(726	)
Effect of exchange rate changes on cash	(221	)	2	)
Decrease in cash and cash equivalents from discontinued operations	(1,127	)	(724	)
Increase in cash and cash equivalents	11,224		10,097	
Cash and cash equivalents at January 1	61,562		66,392	
Cash and cash equivalents at March 31	\$72,786		76,489	
See accompanying notes to consolidated condensed financial statements.				



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, 2013	\$—	53,335,386	\$26,667	917,539	1,390,756	(438,248 )	1,896,714
Net earnings	—	—	—	—	48,232	—	48,232
Other comprehensive loss	—	—	—	—	—	(11,465 )	(11,465 )
Comprehensive income							36,767
Common stock dividends declared — \$0.34 per share	—	—	—	—	(18,124 )	—	(18,124 )
Common stock issued under employee stock option and stock purchase plans <sup>(1)</sup>	—	409,203	204	18,125	—	—	18,329
Benefit plan stock sales <sup>(2)</sup>	—	2,590	1	196	—	—	197
Common stock repurchases	—	(562,683 )	(281 )	(9,602 )	(30,554 )	—	(40,437 )
Share-based compensation	—	—	—	4,858	—	—	4,858
Tax benefits from share-based compensation	—	—	—	237	—	—	237
Balance at March 31, 2014	\$—	53,184,496	\$26,591	931,353	1,390,310	(449,713 )	1,898,541

(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 2013 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. These reclassifications were immaterial to the financial statements taken as a whole.

Prior year amounts related to intercompany profit allocations between Fleet Management Solutions (FMS) and Supply Chain Solutions (SCS) have been reclassified to conform to the current period presentation. These reclassifications were immaterial to the financial statements taken as a whole.

(B) ACCOUNTING CHANGES

In July 2013, the Financial Accounting Standards Board issued accounting guidance on the balance sheet presentation of an unrecognized tax benefit when a net operating loss carryforward exists. Under this guidance, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward. This guidance became effective for us on January 1, 2014 and resulted in a reclassification of \$38.8 million from other non-current liabilities to deferred income taxes in our December 31, 2013 balance sheet. Prior year amounts have been reclassified to conform to the current period presentation. Other than the change in presentation within the Consolidated Condensed Balance Sheets, this accounting guidance did not have an impact on our consolidated financial position, results of operations or cash flows.

(C) 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,	
	2014	2013
	(In thousands)	
Pre-tax loss from discontinued operations	\$ (955 )	(901 )
Income tax benefit	89	23
Loss from discontinued operations, net of tax	\$ (866 )	(878 )

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Results of discontinued operations in 2014 and 2013 reflected losses related to adverse legal developments and professional and administrative fees associated with our discontinued South American operations.

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

	March 31, 2014 (In thousands)	December 31, 2013
Total assets, primarily deposits	\$3,541	3,627
Total liabilities, primarily contingent accruals	\$4,477	4,501

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

Although we discontinued our South American operations in 2009, we continue to be party to various federal, state and local legal proceedings involving labor matters, tort claims and tax assessments. We have established loss provisions for any matters where we believe a loss is probable and can be reasonably estimated. For matters where a reserve has not been established and for which we believe a loss is reasonably possible, as well as for matters where a reserve has been recorded but for which an exposure to loss in excess of the amount accrued is reasonably possible, we believe that such losses will not have a material effect on our consolidated financial statements.

In Brazil, we were assessed \$5.0 million (before and after tax) in prior years for various federal income taxes and social contribution taxes for the 1997 and 1998 tax years. We have successfully overturned these federal tax assessments in the lower courts; however, there is a reasonable possibility that these rulings could be reversed and we would be required to pay the assessments. We believe it is more likely than not that our position will ultimately be sustained if appealed and no amounts have been reserved for these matters. We are entitled to indemnification for a portion of any resulting liability on these federal tax claims which, if honored, would reduce the estimated loss.

(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 and cash awards. Nonvested stock awards include grants of market-based, performance-based, and time-vested restricted stock rights. Under the terms of our Plans, dividends may be paid on our stock options and nonvested stock awards. We have historically paid dividends on nonvested stock awards but not on our stock option awards. Dividends on nonvested stock granted after 2011 are not paid unless the award vests. Upon vesting, the amount of the dividends paid is equal to the aggregate dividends declared on common shares during the period from the date of grant of the award until the date the shares underlying the award are delivered.

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

	Three months ended March 31,	
	2014	2013
	(In thousands)	
Stock option and stock purchase plans	\$2,237	2,110
Nonvested stock	2,621	2,499
Share-based compensation expense	4,858	4,609
Income tax benefit	(1,676)	(1,687)
Share-based compensation expense, net of tax	\$3,182	2,922

During the three months ended March 31, 2014 and 2013, approximately 405,000 and 377,000 stock options, respectively, were granted under the Plans. These awards generally vest evenly over a three year period beginning on the date of grant. The stock options have contractual terms of ten years. The fair value of each option award at the date of grant was estimated using a Black-Scholes-Merton option-pricing valuation model. Share-based compensation expense is recognized on a straight-line basis over the vesting period. The weighted-average fair value per option granted during the three months ended March 31, 2014 and 2013 was \$14.99 and \$13.99, respectively.

During each of the three months ended March 31, 2014 and 2013, approximately 22,000 market-based restricted stock rights were granted under the Plans. The awards are segmented into three 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 TSR of a custom peer group over the applicable performance period. If earned, employees will receive the grant of stock at the end of the relevant three year performance period provided they continue to be employed with Ryder, subject to Compensation Committee approval. 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 on the grant date and considers the likelihood of Ryder achieving the market-based condition. Share-based compensation expense is recognized on a straight-line basis over the vesting period. The weighted-average fair value per market-based restricted stock right granted during the three months ended March 31, 2014 and 2013 was \$61.07 and \$53.32, respectively.

## RYDER SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

During the three months ended March 31, 2014 and 2013, approximately 42,000 and 45,000 performance-based restricted stock rights (PBRSRs), respectively, were awarded under the Plans. The awards are segmented into three one-year performance periods. For these awards, 25%-125% of the awards may be earned based on Ryder's one-year adjusted return on capital (ROC) measured against an annual ROC target. If earned, employees will receive the grant of stock three years after the grant date, provided they continue to be employed with Ryder, subject to Compensation Committee approval. For accounting purposes, these awards are not considered granted until the Compensation Committee approves the annual ROC target. During the three months ended March 31, 2014 and 2013, approximately 30,000 and 15,000 PBRSRs, respectively, were considered granted for accounting purposes. The fair value of the PBRSRs is determined and fixed on the grant date based on Ryder's stock price on the date of grant. Share-based compensation expense is recognized on a straight-line basis over the vesting period, based upon the probability that the performance target will be met. The weighted-average fair value per PBRSR granted during the three months ended March 31, 2014 and 2013 was \$71.43 and \$58.21, respectively.

During the three months ended March 31, 2014 and 2013, approximately 87,000 and 127,000 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 generally vest at the end of the three-year period after the grant date. 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. Share-based compensation expense is recognized on a straight-line basis over the vesting period. The weighted-average fair value per time-vested restricted stock right granted during the three months ended March 31, 2014 and 2013 was \$71.40 and \$58.00, respectively.

During the three months ended March 31, 2014 and 2013, employees who received market-based restricted stock rights also received market-based cash awards. The cash awards have the same vesting provisions as the market-based restricted stock rights. 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 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. Share-based compensation expense is recognized on a straight-line basis over the vesting period.

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

	Three months ended March 31,	
	2014	2013
	(In thousands)	
Cash awards	\$523	1,274

Total unrecognized pre-tax compensation expense related to all share-based compensation arrangements at March 31, 2014 was \$34.4 million and is expected to be recognized over a weighted-average period of 2.0 years.

## RYDER SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

## (E) 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 and restricted stock units granted to our Board of Directors are considered participating securities since the share-based awards contain a non-forfeitable right to dividend cash payments prior to vesting. 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,	
	2014	2013
	(In thousands, except per share amounts)	
Earnings per share — Basic:		
Earnings from continuing operations	\$49,098	40,802
Less: Distributed and undistributed earnings allocated to nonvested stock	(255	) (403
Earnings from continuing operations available to common shareholders — Basic	\$48,843	40,399
Weighted average common shares outstanding — Basic	52,660	50,958
Earnings from continuing operations per common share — Basic	\$0.93	0.79
Earnings per share — Diluted:		
Earnings from continuing operations	\$49,098	40,802
Less: Distributed and undistributed earnings allocated to nonvested stock	(255	) (403
Earnings from continuing operations available to common shareholders — Diluted	\$48,843	40,399
Weighted average common shares outstanding — Basic	52,660	50,958
Effect of dilutive equity awards	463	435
Weighted average common shares outstanding — Diluted	53,123	51,393
Earnings from continuing operations per common share — Diluted	\$0.92	0.79
Anti-dilutive equity awards not included above	215	1,413

## RYDER SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

## (F) REVENUE EARNING EQUIPMENT

	March 31, 2014			December 31, 2013		
	Cost	Accumulated Depreciation	Net Book Value <sup>(1)</sup>	Cost	Accumulated Depreciation	Net Book Value <sup>(1)</sup>
	(In thousands)					
Held for use:						
Full service lease	\$7,579,461	(2,531,559 )	5,047,902	\$7,436,093	(2,537,077 )	4,899,016
Commercial rental	2,309,828	(781,005 )	1,528,823	2,210,863	(747,283 )	1,463,580
Held for sale	385,718	(274,467 )	111,251	439,983	(311,742 )	128,241
Total	\$10,275,007	(3,587,031 )	6,687,976	\$10,086,939	(3,596,102 )	6,490,837

Revenue earning equipment, net includes vehicles acquired under capital leases of \$53.9 million, less accumulated (1)depreciation of \$22.7 million, at March 31, 2014, and \$54.2 million, less accumulated depreciation of \$22.0 million, at December 31, 2013.

At the end of 2013, 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, 2014. The change in estimated residual values and useful lives increased pre-tax earnings for the three months ended March 31, 2014 by approximately \$6.3 million.

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. As of March 31, 2014 and December 31, 2013, the net investment in direct financing and sales-type leases was \$407.8 million and \$400.1 million, respectively. 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 upon signing of a full service lease contract. 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.

As of March 31, 2014 and December 31, 2013, 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. The allowance for credit losses was \$0.4 million and \$0.5 million as of March 31, 2014 and December 31, 2013, respectively.

## (G) 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
Balance at January 1, 2014:			

(In thousands)



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Goodwill	\$223,204	189,736	412,940
Accumulated impairment losses	(10,322 )	(18,899 )	(29,221 )
	212,882	170,837	383,719
Foreign currency translation adjustments	(202 )	(317 )	(519 )
Balance at March 31, 2014:			
Goodwill	223,002	189,419	412,421
Accumulated impairment losses	(10,322 )	(18,899 )	(29,221 )
	\$212,680	170,520	383,200

## RYDER SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

## (H) ACCRUED EXPENSES AND OTHER LIABILITIES

	March 31, 2014			December 31, 2013		
	Accrued Expenses	Non-Current Liabilities	Total	Accrued Expenses	Non-Current Liabilities	Total
	(In thousands)					
Salaries and wages	\$69,064	—	69,064	106,281	—	106,281
Deferred compensation	2,790	32,097	34,887	2,505	31,896	34,401
Other employee benefits	4,646	4,200	8,846	3,809	6,712	10,521
Pension benefits	3,582	293,074	296,656	3,660	292,155	295,815
Other postretirement benefits	2,405	28,200	30,605	2,414	28,374	30,788
Insurance obligations <sup>(1)</sup>	130,734	187,307	318,041	125,835	186,700	312,535
Accrued rent	7,198	2,721	9,919	4,373	3,372	7,745
Environmental liabilities	4,416	8,853	13,269	4,515	8,548	13,063
Asset retirement obligations	5,851	19,834	25,685	6,144	19,403	25,547
Operating taxes	100,519	—	100,519	94,188	—	94,188
Income taxes	2,566	24,682	27,248	2,623	23,813	26,436
Interest	25,600	—	25,600	33,654	—	33,654
Deposits, mainly from customers	56,156	6,240	62,396	55,854	6,239	62,093
Deferred revenue	15,013	—	15,013	15,123	—	15,123
Other	35,457	10,073	45,530	35,359	9,093	44,452
Total	\$465,997	617,281	1,083,278	496,337	616,305	1,112,642

(1) Insurance obligations are primarily comprised of self-insured claim liabilities.

## (I) 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. We reevaluate uncertain tax positions each quarter based on factors including, but not limited to, changes in facts or circumstances, expiration of statutes of limitations, changes in tax law, effectively settled issues under audit, and new audit activity. Depending on the jurisdiction, such a change in recognition or measurement may result in the recognition of a tax benefit or an additional charge to the tax provision in the period.

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 2008.

State — for the majority of states, tax returns are closed through fiscal year 2008.

Foreign — we are no longer subject to foreign tax examinations by tax authorities for tax years before 2006 in Canada, 2009 in Brazil, 2008 in Mexico and 2011 in the U.K., which are our major foreign tax jurisdictions. Refer to Note (C), “Discontinued Operations,” for further discussion on various assessments related to our former South American operations.

At March 31, 2014 and December 31, 2013, the total amount of gross unrecognized tax benefits (excluding the federal benefit received from state positions) was \$57.8 million and \$56.8 million, respectively. Unrecognized tax benefits related to federal, state and foreign tax positions may decrease by \$2.7 million by March 31, 2015, if audits are completed or tax years close.

RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

Like-Kind Exchange Program

We have a like-kind exchange program for certain of our U.S.-based revenue earning equipment. 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, and a decrease in cash taxes in periods when we are not in a net operating loss (NOL) position. 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. These proceeds are classified as restricted cash, which is included within “Prepaid expenses and other current assets” if the restriction is expected to expire in the twelve months following the balance sheet date or within “Direct financing leases and other assets” if the restriction is expected to expire more than twelve months after the balance sheet date. 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. The total assets, primarily revenue earning equipment, and the total liabilities, primarily vehicle accounts payable, held by these consolidated entities are equal in value as these entities are solely structured to facilitate the like-kind exchanges. At March 31, 2014 and December 31, 2013, these consolidated entities had total assets, primarily revenue earning equipment, and total liabilities, primarily accounts payable of \$249.2 million and \$246.3 million, respectively.

In the first quarter of 2013, once we had completed a restructuring of the administrative processes for purchasing and selling vehicles, we reinstated our like-kind exchange program. The reinstated program operates, and will provide cash tax benefits, in the same manner as it did prior to suspension once we are no longer in a NOL position. Our cash flow declined \$19.0 million in the first quarter of 2013 as a result of the program's restricted cash. There were no other impacts to cash flow as a result of the program's reinstatement.

Effective Tax Rate

Our effective income tax rate from continuing operations for the first quarter of 2014 was 34.5% compared with 34.7% in the same period of the prior year. The decrease in our effective tax rate in the first quarter of 2014 reflects a benefit from a tax law change in the state of New York partially offset by a higher proportionate amount of 2014 earnings in higher tax rate jurisdictions.

On March 31, 2014, the State of New York enacted changes to its tax system, which impacted net operating loss provisions and reduced the corporate income tax rate from 7.1% to 6.5%. The impact of these changes resulted in a non-cash benefit to deferred income taxes of \$1.8 million.

## RYDER SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

## (J) DEBT

	Weighted-Average Interest Rate		Maturities	(In thousands)	
	March 31, 2014	December 31, 2013		March 31, 2014	December 31, 2013
Short-term debt and current portion of long-term debt:					
Short-term debt	1.02%	1.70%	2014	\$1,590	1,315
Current portion of long-term debt, including capital leases				399,256	258,123
Total short-term debt and current portion of long-term debt				400,846	259,438
Long-term debt:					
U.S. commercial paper <sup>(1)</sup>	0.26%	0.28%	2018	640,940	486,939
Canadian commercial paper <sup>(1)</sup>	—%	1.13%	2018	—	11,297
Global revolving credit facility	3.00%	—%	2018	16,290	—
Unsecured U.S. notes — Medium-term notes <sup>(2)</sup>	3.44%	3.76%	2015-2025	3,371,707	3,271,734
Unsecured U.S. obligations, principally bank term loans	1.45%	1.45%	2015-2018	55,500	55,500
Unsecured foreign obligations	1.99%	1.99%	2015-2016	315,681	315,558
Capital lease obligations	3.78%	3.81%	2014-2019	38,701	38,911
Total before fair market value adjustment				4,438,819	4,179,939
Fair market value adjustment on notes subject to hedging <sup>(2)</sup>				6,188	8,171
				4,445,007	4,188,110
Current portion of long-term debt, including capital leases				(399,256 )	(258,123 )
Long-term debt				4,045,751	3,929,987
Total debt				\$4,446,597	4,189,425

(1) We had unamortized original issue discounts of \$8.4 million and \$8.3 million at March 31, 2014 and December 31, 2013, respectively.

(2) The notional amount of executed interest rate swaps designated as fair value hedges was \$500 million and \$400 million at March 31, 2014 and December 31, 2013, respectively.

We maintain a \$900 million 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. The global credit facility matures in October 2018. The global facility is used primarily to finance working capital but 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, 2014). 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 8.0 basis points to 27.5 basis points and are based on Ryder's long-term credit ratings. This annual facility fee is 12.5 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 net

worth of less than or equal to 300%. Net worth, as defined in the credit facility, represents shareholders' equity excluding any accumulated other comprehensive income or loss associated with our pension and other postretirement plans. The ratio at March 31, 2014 was 188%. At March 31, 2014, \$242.7 million was available under the credit facility.

Our global revolving credit facility enables us to refinance short-term 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, 2014 and December 31, 2013, we classified \$640.9 million and \$498.2 million, respectively, of short-term commercial paper as long-term debt.

RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

In February 2014, we issued \$350 million of unsecured medium-term notes maturing in June 2019. 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 24, 2014. The program contains provisions restricting its availability in the event of a material adverse change to our business operations or the collectibility of the collateralized receivables. At March 31, 2014 and December 31, 2013, 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, 2014 and December 31, 2013, we had letters of credit and surety bonds outstanding totaling \$308.9 million and \$310.5 million, respectively, which primarily guarantee the payment of insurance claims.

## RYDER SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

## (K) 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, 2014 Using			Total
		Level 1	Level 2	Level 3	
(In thousands)					
Assets:					
Interest rate swaps	Prepaid expenses and other current assets	\$—	2,509	—	2,509
Interest rate swaps	DFL and other assets	—	5,625	—	5,625
Investments held in Rabbi Trusts:					
Cash and cash equivalents		3,719	—	—	3,719
U.S. equity mutual funds		20,005	—	—	20,005
Foreign equity mutual funds		4,383	—	—	4,383
Fixed income mutual funds		5,000	—	—	5,000
Investments held in Rabbi Trusts	DFL and other assets	33,107	—	—	33,107
Total assets at fair value		\$33,107	8,134	—	41,241
Liabilities:					
Interest rate swaps	Other non-current liabilities	\$—	1,946	—	1,946
Total liabilities at fair value		\$—	1,946	—	1,946
	Balance Sheet Location	Fair Value Measurements At December 31, 2013 Using			Total
		Level 1	Level 2	Level 3	
(In thousands)					
Assets:					
Interest rate swaps	DFL and other assets	—	9,333	—	9,333
Investments held in Rabbi Trusts:					
Cash and cash equivalents		7,101	—	—	7,101
U.S. equity mutual funds		16,479	—	—	16,479
Foreign equity mutual funds		4,323	—	—	4,323
Fixed income mutual funds		4,616	—	—	4,616
Investments held in Rabbi Trusts	DFL and other assets	32,519	—	—	32,519
Total assets at fair value		\$32,519	9,333	—	41,852
Liabilities:					
Interest rate swaps	Other non-current liabilities	\$—	1,162	—	1,162
Total liabilities at fair value		\$—	1,162	—	1,162

The following is a description of the valuation methodologies used for these items, as well as the level of inputs used to measure fair value:

Interest rate swaps — The derivatives are pay-variable, receive-fixed interest rate swaps based on the LIBOR rate and are designated as fair value hedges. Fair value was based on a model-driven income approach using the LIBOR rate at each interest payment date, which was observable at commonly quoted intervals for the full term of the swaps.



Therefore, our interest rate swaps were classified within Level 2 of the fair value hierarchy.

Investments held in Rabbi Trusts — The investments primarily include mutual funds that invest in equity and fixed income securities. Shares of mutual funds were valued based on quoted market prices, which represent the net asset value of the shares and were therefore classified within Level 1 of the fair value hierarchy.

## RYDER SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

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

	Fair Value Measurements At March 31, 2014 Using			Total Losses <sup>(2)</sup>
	Level 1	Level 2	Level 3	Three months ended
	(In thousands)			
Assets held for sale:				
Revenue earning equipment: <sup>(1)</sup>				
Trucks	\$—	—	11,928	\$1,882
Tractors	—	—	7,495	1,632
Trailers	—	—	742	161
Total assets at fair value	\$—	—	20,165	\$3,675

	Fair Value Measurements At March 31, 2013 Using			Total Losses <sup>(2)</sup>
	Level 1	Level 2	Level 3	Three months ended
	(In thousands)			
Assets held for sale:				
Revenue earning equipment <sup>(1)</sup>				
Trucks	\$—	—	13,229	\$3,029
Tractors	—	—	14,943	1,095
Trailers	—	—	989	597
Total assets at fair value	\$—	—	29,161	\$4,721

(1) Represents the portion of all revenue earning equipment held for sale that is recorded at fair value, less costs to sell.

(2) Total losses represent fair value adjustments for all vehicles held for sale throughout the period for which fair value was less than carrying value.

Revenue earning equipment held for sale is stated at the lower of carrying amount or fair value less costs to sell. Losses to reflect changes in fair value are presented within “Other operating expenses” in the Consolidated Condensed Statements of Earnings. For revenue earning equipment held for sale, we stratify our fleet by vehicle type (tractors, trucks and trailers), weight class, age and other relevant characteristics and create classes of similar assets for analysis purposes. Fair value was determined based upon recent market prices obtained from our own sales experience for sales of each class of similar assets and vehicle condition. Therefore, our revenue earning equipment held for sale was classified within Level 3 of the fair value hierarchy.

Fair value of total debt (excluding capital lease obligations) at March 31, 2014 and December 31, 2013 was approximately \$4.45 billion and \$4.28 billion, respectively. For publicly-traded debt, estimates of fair value were based on market prices. Since our publicly-traded debt is not actively traded, the fair value measurement was classified within Level 2 of the fair value hierarchy. For other debt, fair value was estimated based on a model-driven approach using rates currently available to us for debt with similar terms and remaining maturities. Therefore, the fair value measurement of our other debt was classified within Level 2 of the fair value hierarchy. The carrying amounts reported in the Consolidated Condensed Balance Sheets for “Cash and cash equivalents,” “Receivables, net” and “Accounts payable” approximate fair value because of the immediate or short-term maturities of these financial instruments.



## RYDER SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

## (L) DERIVATIVES

We have interest rate swaps outstanding which are designated as fair value hedges 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 following table provides a detail of the swaps outstanding and the related hedged items as of March 31, 2014:

Issuance date	Maturity date	Face value of medium-term notes	Aggregate notional amount of interest rate swaps	Fixed interest rate	Weighted-average variable interest rate on hedged debt as of March 31,	
					2014	2013
		(Dollars in thousands)				
February 2011	March 2015	\$350,000	\$150,000	3.15%	1.28%	1.41%
May 2011	June 2017	\$350,000	\$150,000	3.50%	1.44%	1.62%
November 2013	November 2018	\$300,000	\$100,000	2.45%	1.19%	—%
February 2014	June 2019	\$350,000	\$100,000	2.55%	1.10%	—%

Changes in the fair value of our interest rate swaps are offset by changes in the fair value of the debt instrument. Accordingly, there is no ineffectiveness related to the interest rate swaps. The location and amount of gains (losses) on interest rate swap agreements designated as fair value hedges and related hedged items reported in the Consolidated Condensed Statements of Earnings were as follows:

Fair Value Hedging Relationship	Location of Gain (Loss) Recognized in Income	Three months ended March 31,	
		2014	2013
		(In thousands)	
Derivatives: Interest rate swaps	Interest expense	\$(1,983	) (2,781
Hedged items: Fixed-rate debt	Interest expense	1,983	2,781
Total		\$—	—

Refer to Note (K), "Fair Value Measurements," for disclosures of the fair value and line item caption of derivative instruments recorded on the Consolidated Condensed Balance Sheets.

## (M) SHARE REPURCHASE PROGRAMS

In December 2013, our Board of Directors authorized a share repurchase program intended to mitigate the dilutive impact of shares issued under our various employee stock, stock option and employee stock purchase plans. Under the December 2013 program, management is authorized to repurchase shares of common stock in an amount not to exceed the number of shares issued to employees under the Company's various employee stock, stock option and employee stock purchase plans from December 1, 2013 through December 31, 2015. The December 2013 program limits aggregate share repurchases to no more than 2 million shares of Ryder common stock. Share repurchases of common stock are made periodically in open-market transactions and are subject to market conditions, legal requirements and other factors. Management may establish prearranged written plans for the Company under Rule 10b5-1 of the Securities Exchange Act of 1934 as part of the December 2013 program, 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, 2014, we repurchased and retired 562,683 shares under the program at an aggregate cost of \$40.4 million. We did not repurchase any shares under this program in 2013.

In December 2011, our Board of Directors authorized a share repurchase program intended to mitigate the dilutive impact of shares issued under our various employee stock, stock option and employee stock purchase plans. Under the December 2011 program, management was authorized to repurchase shares of common stock in an amount not to exceed the number of shares issued to employees under the Company's various employee stock, stock option and employee stock purchase plans from December 1, 2011 through December 13, 2013. The December 2011 program limited aggregate share repurchases to no more than 2 million shares of Ryder common stock. In 2013, we temporarily paused our anti-dilutive share repurchase program to appropriately manage our leverage and to allow us to maintain near-term balance sheet flexibility.

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

## (N) ACCUMULATED OTHER COMPREHENSIVE LOSS

The following summaries set forth the components of accumulated other comprehensive loss, net of tax:

	Currency Translation Adjustments and Other (In thousands)	Net Actuarial Loss <sup>(1)</sup>	Prior Service Credit <sup>(1)</sup>	Accumulated Other Comprehensive Loss
December 31, 2013	\$35,875	(477,883	) 3,760	(438,248 )
Amortization	—	3,807	(680 )	3,127
Current period change	(14,592 )	—	—	(14,592 )
March 31, 2014	\$21,283	(474,076	) 3,080	(449,713 )
	Currency Translation Adjustments and Other (In thousands)	Net Actuarial Loss <sup>(1)</sup>	Prior Service Credit <sup>(1)</sup>	Accumulated Other Comprehensive Loss
December 31, 2012	\$57,860	(648,113	) 2,634	(587,619 )
Amortization	—	5,754	(335 )	5,419
Current period change	(33,704 )	—	—	(33,704 )
March 31, 2013	\$24,156	(642,359	) 2,299	(615,904 )

<sup>(1)</sup> These amounts are included in the computation of net periodic pension cost. See Note (O), "Employee Benefit Plans," for further information.

## (O) EMPLOYEE BENEFIT PLANS

Components of net periodic benefit cost were as follows:

	Pension Benefits		Postretirement Benefits	
	Three months ended March 31,			
	2014	2013	2014	2013
	(In thousands)			
Company-administered plans:				
Service cost	\$3,423	4,252	\$135	263
Interest cost	25,561	22,419	365	395
Expected return on plan assets	(28,718 )	(26,448 )	—	—
Amortization of:				
Net actuarial loss (credit)	6,235	8,880	(129 )	(2 )
Prior service credit	(458 )	(466 )	(615 )	(58 )
	6,043	8,637	(244 )	598
Union-administered plans	2,091	1,984	—	—
Net periodic benefit cost	\$8,134	10,621	\$(244	) 598

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Company-administered plans:				
U.S.	\$6,287	8,741	\$(397	) 406
Non-U.S.	(244	) (104	) 153	192
	6,043	8,637	(244	) 598
Union-administered plans	2,091	1,984	—	—
	\$8,134	10,621	\$(244	) 598

During the three months ended March 31, 2014, we contributed \$4.3 million to our pension plans. In 2014, we expect total contributions to our pension plans to be approximately \$75 million.

## RYDER SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

## (P) OTHER ITEMS IMPACTING COMPARABILITY

Our primary measure of segment performance excludes certain items we do not believe are representative of the ongoing operations of the segment. We believe that excluding these items from our segment measure of performance allows for better comparison of results.

During the three months ended March 31, 2013, we recognized a benefit of \$1.9 million (before and after tax) from the recognition of the accumulated currency translation adjustment from a FMS foreign operation which has substantially liquidated its net assets. This benefit was recorded within "Miscellaneous income, net" in our Consolidated Condensed Statement of Earnings.

## (Q) SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information was as follows:

	Three months ended March 31,	
	2014	2013
	(In thousands)	
Interest paid	\$41,180	45,425
Income taxes paid	1,534	3,721
Changes in accounts payable related to purchases of revenue earning equipment	16,918	29,381
Operating and revenue earning equipment acquired under capital leases	2,245	458

During the three months ended March 31, 2014 and 2013, we paid \$1.6 million and \$1.4 million, respectively, related to acquisitions completed in prior years.

## (R) MISCELLANEOUS INCOME, NET

	Three months ended March 31,	
	2014	2013
	(In thousands)	
Contract settlement	\$2,908	—
Gains on sales of operating property and equipment	1,304	273
Foreign currency translation benefit <sup>(1)</sup>	—	1,904
Rabbi trust investment income	500	1,459
Other, net	670	934
Total	\$5,382	4,570

(1) Refer to Note (P), "Other Items Impacting Comparability," for additional information.



RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

(S) 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 two 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.; and (2) SCS, which provides comprehensive supply chain management solutions including distribution and transportation services in North America and Asia. The SCS segment also provides dedicated services, which includes vehicles and drivers as part of a dedicated transportation solution in the U.S.

Our primary measurement of segment financial performance, defined as “Earnings Before Tax” (EBT) from continuing operations, includes an allocation of Central Support Services (CSS) and excludes non-operating pension costs, restructuring and other charges, net and the items discussed in Note (P), “Other Items Impacting Comparability.” CSS represents those costs incurred to support all business segments, including human resources, finance, corporate services, public affairs, information technology, health and safety, legal, marketing and corporate communications. The objective of the EBT 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, public affairs and certain executive compensation.

Our FMS segment leases revenue earning equipment and provides fuel, maintenance and other ancillary services to the SCS segment. Inter-segment revenue and EBT are accounted for at rates similar to those executed with third parties. EBT related to inter-segment equipment and services billed to customers (equipment contribution) are included in both FMS and SCS and then eliminated (presented as “Eliminations”).

The following tables set forth financial information for each of our business segments and provides a reconciliation between segment EBT and earnings from continuing operations before income taxes for the three months ended March 31, 2014 and 2013. 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.

## RYDER SYSTEM, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

	FMS	SCS	Eliminations	Total
	(In thousands)			
For the three months ended March 31, 2014				
Revenue from external customers	\$ 1,013,396	597,341	—	1,610,737
Inter-segment revenue	121,691	—	(121,691 )	—
Total revenue	\$ 1,135,087	597,341	(121,691 )	1,610,737
Segment EBT	\$ 76,991	21,784	(9,628 )	89,147
Unallocated CSS				(10,829 )
Non-operating pension costs				(3,314 )
Earnings from continuing operations before income taxes				\$ 75,004
Segment capital expenditures paid <sup>(1), (2)</sup>	\$ 568,239	3,872	—	572,111
Unallocated CSS				6,611
Capital expenditures paid				\$ 578,722
For the three months ended March 31, 2013				
Revenue from external customers	\$ 986,538	576,479	—	1,563,017
Inter-segment revenue	113,194	—	(113,194 )	—
Total revenue	\$ 1,099,732	576,479	(113,194 )	1,563,017
Segment EBT	\$ 60,745	24,436	(7,958 )	77,223
Unallocated CSS				(11,375 )
Non-operating pension costs				(5,244 )
Restructuring and other charges, net and other items				1,904
Earnings from continuing operations before income taxes				\$ 62,508
Segment capital expenditures paid <sup>(1), (2)</sup>	\$ 406,511	5,800	—	412,311
Unallocated CSS				7,743
Capital expenditures paid				\$ 420,054

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

(2) Excludes acquisition payments of \$1.6 million and \$1.4 million during the three months ended March 31, 2014, and 2013, respectively.

RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

(T) OTHER MATTERS

We are a party to various claims, complaints and proceedings arising in the ordinary course of our continuing business operations including but not limited to those relating to commercial and employment claims, environmental matters, risk management matters (e.g. vehicle liability, workers' compensation, etc.) and administrative assessments primarily associated with operating taxes. We have established loss provisions for matters in which losses are probable and can be reasonably estimated. For matters from continuing operations where a reserve has not been established and for which we believe a loss is reasonably possible, as well as for matters where a reserve has been recorded but for which an exposure to loss in excess of the amount accrued is reasonably possible, we believe that such losses will not have a material effect on our consolidated financial statements.

Our estimates regarding potential losses and materiality are based on our judgment and assessment of the claims utilizing currently available information. Although we will continue to reassess our reserves and estimates based on future developments, our objective assessment of the legal merits of such claims may not always be predictive of the outcome and actual results may vary from our current estimates.

Refer to Note (C), "Discontinued Operations," for additional matters.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The following discussion should be read in conjunction with the unaudited Consolidated Condensed Financial Statements and notes thereto included under Item 1. In addition, reference should be made to our audited Consolidated Financial Statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 2013 Annual Report on Form 10-K.

Ryder System, Inc. (Ryder) is a global leader in transportation and supply chain management solutions. Our operating segments are aggregated into reportable business segments based upon similar economic characteristics, products, services, customers and delivery methods. We operate in two 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.; and (2) SCS, which provides comprehensive supply chain management solutions including distribution and transportation services in North America and Asia. The SCS segment also provides dedicated services, which includes vehicles and drivers as part of a dedicated transportation solution in the U.S.

We operate in highly competitive markets. Our customers select us based on numerous factors including service quality, price, technology and service offerings. As an alternative to using our services, customers may choose to provide these services for themselves, or may choose to obtain similar or alternative services from other third-party vendors. Our customer base includes enterprises operating in a variety of industries including automotive, industrial, food and beverage service, consumer packaged goods, transportation and warehousing, hi-tech and electronics, retail, housing, business and personal services, and paper and publishing.

Total revenue increased 3% in the first quarter of 2014 to \$1.61 billion. Operating revenue (revenue excluding FMS fuel and all subcontracted transportation) increased 4% in the first quarter of 2014 to \$1.32 billion. The increase in total and operating revenue for both periods was driven by growth in both the FMS and SCS business segments. See "Consolidated Results" for further discussion of operating revenue, a non-GAAP financial measure.

Earnings from continuing operations before taxes (EBT) increased 20% in the first quarter of 2014 to \$75.0 million. The increase in EBT in the first quarter of 2014 reflects improved performance in the FMS business segment.



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

EBT, earnings and EPS from continuing operations in the first quarter of 2014 and 2013 included certain items we do not consider indicative of our ongoing operations and have been excluded from our comparable EBT, earnings and EPS measures. The following discussion provides a summary of these items, which are discussed in more detail throughout our MD&A and within the Notes to Consolidated Condensed Financial Statements:

	EBT		Earnings		Diluted EPS	
	2014	2013	2014	2013	2014	2013
Three months ended March 31	(In thousands, except per share amounts)					
EBT/Earnings/EPS	\$75,004	62,508	\$49,098	40,802	\$0.92	0.79
Non-operating pension costs <sup>(1)</sup>	3,314	5,244	1,888	3,081	0.03	0.06
Foreign currency translation benefit <sup>(2)</sup>	—	(1,904 )	—	(1,904 )	—	(0.04 )
Benefit from tax law change <sup>(3)</sup>	—	—	(1,776 )	—	(0.03 )	—
Comparable <sup>(4)</sup>	\$78,318	65,848	\$49,210	41,979	\$0.92	0.81

Includes the amortization of actuarial loss, interest cost and expected return on plan assets components of pension (1) and postretirement costs, which are tied to financial market performance. We consider these costs to be outside the operational performance of the business.

(2) See Note (P), "Other Items Impacting Comparability," for additional information.

(3) See Note (I), "Income Taxes," for additional information.

Non-GAAP financial measure. We believe comparable EBT, comparable earnings and comparable earnings per diluted common share all from continuing operations measures provide useful information to investors because (4) they exclude non-operating pension costs, which we consider to be those impacted by financial market performance and outside the operational performance of the business, and other significant items that are unrelated to our ongoing business operations.

Excluding the special items listed above, comparable earnings and comparable EPS from continuing operations in the first quarter of 2014 increased 17% to \$49.2 million and increased 14% to \$0.92 per diluted common share, respectively. EBT growth exceeded the EPS growth during the first quarter of 2014 because the average number of shares outstanding has increased 3% over prior year reflecting the impact of stock issuances under employee stock option and stock purchase plans.

In the first quarter of 2014, net earnings and EPS increased 21% to \$48.2 million and 17% to \$0.90 per diluted common share, respectively. Net earnings in the first quarter of 2014 and 2013 were negatively impacted by losses from discontinued operations of \$0.9 million, or \$0.02 per diluted share in both periods.

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

## CONSOLIDATED RESULTS

	Three months ended March 31,		Change
	2014	2013	2014/2013
	(In thousands, except per share amounts)		
Total revenue	\$1,610,737	1,563,017	3%
Operating revenue <sup>(1)</sup>	1,322,478	1,267,521	4%
EBT	\$75,004	62,508	20%
Earnings from continuing operations	49,098	40,802	20%
Net earnings	48,232	39,924	21%
Earnings per common share — Diluted			
Continuing operations	\$0.92	0.79	16%
Net earnings	0.90	0.77	17%

We use operating revenue, a non-GAAP financial measure, to evaluate the operating performance of our businesses and as a measure of sales activity. FMS fuel services revenue, which is directly impacted by fluctuations in market fuel prices, is excluded from the operating revenue computation as fuel is largely a pass-through to our customers for which we realize minimal changes in profitability during periods of steady market fuel prices. However, profitability may be positively or negatively impacted by rapid changes in market fuel prices during a short period of time as customer pricing for fuel services is established based on market fuel costs. Subcontracted transportation is deducted from total revenue to arrive at operating revenue as subcontracted transportation is typically a pass-through to our customers. We realize minimal changes in profitability as a result of fluctuations in subcontracted transportation. Refer to the section titled "Non-GAAP Financial Measures" for a reconciliation of total revenue to operating revenue.

## Revenue and Cost of Revenue by Source

Total revenue increased 3% in the first quarter of 2014 to \$1.61 billion. Operating revenue increased 4% in the first quarter of 2014 to \$1.32 billion. The increase in total and operating revenue reflects growth in both FMS and SCS. The FMS growth was primarily driven by higher lease and commercial rental revenue and the SCS growth was driven by new business and higher volumes.

## Lease and Rental

	Three months ended March 31,		Change
	2014	2013	2014/2013
	(Dollars in thousands)		
Lease and rental revenues	\$689,682	659,708	5%
Cost of lease and rental	493,043	473,077	4%
Gross margin	196,639	186,631	5%
Gross margin %	29	% 28	%

Lease and rental revenues represent full service lease and commercial rental product offerings within our FMS business segment. Revenues increased 5% in the first quarter of 2014 to \$689.7 million driven by full service lease fleet growth, higher prices on full service lease vehicles and increased commercial rental revenue. Commercial rental revenue increased due to higher rental pricing (up 5% in the first quarter of 2014) and North American demand.

Cost of lease and rental represents the direct costs related to lease and rental revenues. These costs are comprised of depreciation of revenue earning equipment, maintenance costs (primarily repair parts and labor), and other fixed costs such as licenses, insurance and operating taxes. Cost of lease and rental excludes interest costs from vehicle financing. Cost of lease and rental grew 4% to \$493.0 million in the first quarter of 2014 due to depreciation from increased lease vehicle investments and higher maintenance costs on a larger average lease fleet. Cost of lease and rental benefited by \$6.3 million in the first quarter of 2014 from changes in the residual value policy effective January 1, 2014.



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

Lease and rental gross margin increased 5% in the first quarter of 2014 to \$196.6 million and lease and rental gross margin as a percentage of revenue increased to 29% in the first quarter of 2014. The increase was due to higher rental pricing and demand as well as benefits from depreciation policy changes.

## Services

	Three months ended March		Change 2014/2013
	31, 2014	2013	
	(Dollars in thousands)		
Services revenue	\$709,699	689,461	3%
Cost of services	606,229	583,589	4%
Gross margin	103,470	105,872	(2)%
Gross margin %	15	% 15	%

Services revenue represents all the revenues associated with our SCS business segment as well as contract maintenance, contract-related maintenance and fleet support services associated with our FMS business segment. Services revenue increased 3% in the first quarter of 2014 to \$709.7 million primarily due to higher volumes and new business in our SCS business segment, especially in our dedicated services.

Cost of services represents the direct costs related to services revenue and is primarily comprised of salaries and employee-related costs, SCS subcontracted transportation (purchased transportation from third parties) and maintenance costs. Cost of services increased 4% in the first quarter of 2014 to \$606.2 million primarily due to higher revenue and, to a lesser extent, downtime and other costs related to severe winter weather in our SCS business segment.

Services gross margin decreased 2% to \$103.5 million in the first quarter of 2014 primarily due to the impact of severe winter weather-related downtime and associated costs in SCS. Services gross margin as a percentage of revenue remained at 15% in the first quarter of 2014.

## Fuel

	Three months ended March		Change 2014/2013
	31, 2014	2013	
	(Dollars in thousands)		
Fuel services revenue	\$211,356	213,848	(1)%
Cost of fuel services	207,205	210,293	(1)%
Gross margin	4,151	3,555	17%
Gross margin %	2	% 2	%

Fuel services revenue decreased 1% in the first quarter of