

RYDER SYSTEM INC
Form 10-Q
July 27, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011
OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____
Commission File Number: 1-4364
RYDER SYSTEM, INC.
(Exact name of registrant as specified in its charter)**

Florida
(State or other jurisdiction of incorporation or
organization)

59-0739250
(I.R.S. Employer Identification No.)

11690 N.W. 105th Street
Miami, Florida 33178
(Address of principal executive offices, including zip
code)

(305) 500-3726
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant 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
(Do not check if a smaller
reporting company)

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 June 30, 2011 was 51,132,027.

**RYDER SYSTEM, INC.
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
RYDER SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	(In thousands, except per share amounts)			
Revenue	\$ 1,513,344	1,286,123	\$ 2,938,720	2,506,061
Operating expense (exclusive of items shown separately)	738,466	611,495	1,432,889	1,189,109
Salaries and employee-related costs	370,367	310,241	735,762	614,953
Subcontracted transportation	83,193	64,585	166,275	124,922
Depreciation expense	214,858	206,761	420,795	417,766
Gains on vehicle sales, net	(15,658)	(6,587)	(28,007)	(11,105)
Equipment rental	14,729	16,614	28,962	33,069
Interest expense	32,974	31,152	67,393	64,488
Miscellaneous income, net	(595)	(345)	(4,737)	(1,840)
Restructuring and other charges, net			768	
	1,438,334	1,233,916	2,820,100	2,431,362
Earnings from continuing operations before income taxes	75,010	52,207	118,620	74,699
Provision for income taxes	34,096	21,607	51,849	31,227
Earnings from continuing operations	40,914	30,600	66,771	43,472
Loss from discontinued operations, net of tax	(881)	(759)	(1,613)	(1,258)
Net earnings	\$ 40,033	29,841	\$ 65,158	42,214
Earnings (loss) per common share Basic				
Continuing operations	\$ 0.80	0.58	\$ 1.30	0.82
Discontinued operations	(0.02)	(0.01)	(0.03)	(0.02)
Net earnings	\$ 0.78	0.57	\$ 1.27	0.80
Earnings (loss) per common share Diluted				
Continuing operations	\$ 0.79	0.58	\$ 1.29	0.82
Discontinued operations	(0.02)	(0.02)	(0.03)	(0.03)
Net earnings	\$ 0.77	0.56	\$ 1.26	0.79

Cash dividends declared and paid per common share	\$	0.27	0.25	\$	0.54	0.50
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See accompanying notes to consolidated condensed financial statements.

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

	June 30, 2011	December 31, 2010
	(Dollars in thousands, except per share amount)	
Assets:		
Current assets:		
Cash and cash equivalents	\$ 130,156	213,053
Receivables, net	752,863	615,003
Inventories	64,884	58,701
Prepaid expenses and other current assets	157,558	136,544
Total current assets	1,105,461	1,023,301
Revenue earning equipment, net of accumulated depreciation of \$3,363,654 and \$3,247,400, respectively	4,817,487	4,201,218
Operating property and equipment, net of accumulated depreciation of \$902,966 and \$880,757, respectively	632,989	606,843
Goodwill	381,499	355,842
Intangible assets	85,975	72,269
Direct financing leases and other assets	420,878	392,901
Total assets	\$ 7,444,289	6,652,374
Liabilities and shareholders' equity:		
Current liabilities:		
Short-term debt and current portion of long-term debt	\$ 293,882	420,124
Accounts payable	395,490	294,380
Accrued expenses and other current liabilities	495,808	417,015
Total current liabilities	1,185,180	1,131,519
Long-term debt	2,947,899	2,326,878
Other non-current liabilities	692,566	680,808
Deferred income taxes	1,159,365	1,108,856
Total liabilities	5,985,010	5,248,061
Shareholders' equity:		
Preferred stock of no par value per share authorized, 3,800,917; none outstanding, June 30, 2011 or December 31, 2010		
Common stock of \$0.50 par value per share authorized, 400,000,000; outstanding, June 30, 2011 51,132,027; December 31, 2010 51,174,757	25,566	25,587

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Additional paid-in capital	752,911	735,540
Retained earnings	1,027,281	1,019,785
Accumulated other comprehensive loss	(346,479)	(376,599)
Total shareholders' equity	1,459,279	1,404,313
Total liabilities and shareholders' equity	\$ 7,444,289	6,652,374

See accompanying notes to consolidated condensed financial statements.

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

	Six months ended June 30,	
	2011	2010
	(In thousands)	
Cash flows from operating activities from continuing operations:		
Net earnings	\$ 65,158	42,214
Less: Loss from discontinued operations, net of tax	(1,613)	(1,258)
Earnings from continuing operations	66,771	43,472
Depreciation expense	420,795	417,766
Gains on vehicle sales, net	(28,007)	(11,105)
Share-based compensation expense	8,340	8,017
Amortization expense and other non-cash charges, net	18,766	19,567
Deferred income tax expense (benefit)	40,123	(22,994)
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	(84,408)	(30,740)
Inventories	(4,717)	(1,169)
Prepaid expenses and other assets	(12,029)	4,946
Accounts payable	21,521	17,941
Accrued expenses and other non-current liabilities	25,638	85,494
Net cash provided by operating activities from continuing operations	472,793	531,195
Cash flows from financing activities from continuing operations:		
Net change in commercial paper borrowings	163,395	187,700
Debt proceeds	701,542	13,588
Debt repaid, including capital lease obligations	(376,450)	(226,411)
Dividends on common stock	(27,825)	(26,554)
Common stock issued	20,257	6,941
Common stock repurchased	(42,047)	(57,665)
Excess tax benefits from share-based compensation	1,398	533
Debt issuance costs	(6,781)	(156)
Net cash provided by (used in) financing activities from continuing operations	433,489	(102,024)
Cash flows from investing activities from continuing operations:		
Purchases of property and revenue earning equipment	(817,377)	(544,389)
Sales of revenue earning equipment	136,578	102,027
Sales of operating property and equipment	6,180	1,414
Acquisitions	(348,584)	(2,409)
Collections on direct finance leases	30,046	30,914
Changes in restricted cash	2,662	1,935
Other, net		1,950

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Net cash used in investing activities from continuing operations	(990,495)	(408,558)
Effect of exchange rate changes on cash	2,862	(3,623)
(Decrease) increase in cash and cash equivalents from continuing operations	(81,351)	16,990
Cash flows from discontinued operations:		
Operating cash flows	(1,603)	(5,676)
Financing cash flows	27	(2,940)
Investing cash flows		1,544
Effect of exchange rate changes on cash	30	(29)
Decrease in cash and cash equivalents from discontinued operations	(1,546)	(7,101)
(Decrease) increase in cash and cash equivalents	(82,897)	9,889
Cash and cash equivalents at January 1	213,053	98,525
Cash and cash equivalents at June 30	\$ 130,156	108,414

See accompanying notes to consolidated condensed financial statements.

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RYDER SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENT OF SHAREHOLDERS EQUITY
(unaudited)

	Preferred Stock Amount	Common Stock Shares	Common Stock Par	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(Dollars in thousands, except per share amount)						
Balance at December 31, 2010	\$	51,174,757	\$ 25,587	735,540	1,019,785	(376,599)	1,404,313
Components of comprehensive income:							
Net earnings					65,158		65,158
Foreign currency translation adjustments						25,988	25,988
Unrealized loss related to derivatives						(136)	(136)
Amortization of pension and postretirement items, net of tax						5,788	5,788
Change in net actuarial loss, net of tax						(1,520)	(1,520)
Total comprehensive income							95,278
Common stock dividends declared and paid \$0.54 per share					(27,825)		(27,825)
Common stock issued under employee stock option and stock purchase plans ⁽¹⁾		780,170	390	19,867			20,257
Benefit plan stock purchases ⁽²⁾		(2,900)	(1)	(146)			(147)
Common stock repurchases		(820,000)	(410)	(11,653)	(29,837)		(41,900)
Share-based compensation				8,340			8,340
Tax benefits from share-based compensation				963			963
Balance at June 30, 2011	\$	51,132,027	\$ 25,566	752,911	1,027,281	(346,479)	1,459,279

- (1) *Net of common shares delivered as payment for the exercise price or to satisfy the option holders' withholding tax liability upon exercise of options.*
- (2) *Represents open-market transactions of common shares by the trustee of Ryder's deferred compensation plans. See accompanying notes to consolidated condensed financial statements.*

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

(A) INTERIM FINANCIAL STATEMENTS

The accompanying unaudited Consolidated Condensed Financial Statements include the accounts of Ryder System, Inc. (Ryder) and all entities in which Ryder has a controlling voting interest (subsidiaries), and variable interest entities (VIEs) required to be consolidated in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The accompanying unaudited Consolidated Condensed Financial Statements have been prepared in accordance with the accounting policies described in our 2010 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.

(B) ACCOUNTING CHANGES

In September 2009, the Financial Accounting Standards Board (FASB) issued accounting guidance which amends the criteria for allocating a contract s consideration to individual services or products in multiple-deliverable arrangements. The guidance requires that the best estimate of selling price be used when vendor specific objective or third-party evidence for deliverables cannot be determined. This guidance is effective for us for revenue arrangements entered into or materially modified after December 31, 2010. The adoption of this accounting guidance did not have a material 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 as of June 30, 2011. The acquisition included Hill Hire s fleet of approximately 8,000 full service lease and 5,700 rental vehicles, and approximately 400 contractual customers. The fleet included 9,700 trailers. The initial recording of the transaction was based on preliminary valuation assessments and is subject to change. The combined network operates under the Ryder name, complementing our Fleet Management Solutions (FMS) business segment market coverage in the U.K. Transaction costs related to the Hill Hire acquisition, all of which were included in Operating expense in the Consolidated Condensed Statement of Earnings, totaled \$1.9 million for the six months ended June 30, 2011.

The preliminary purchase price allocations and resulting impact on the June 30, 2011 Consolidated Condensed Balance Sheet relating to the Hill Hire acquisition were as follows:

	(In thousands)
Assets:	
Revenue earning equipment	\$ 201,429
Operating property and equipment	18,780
Customer relationships and other intangibles	5,567
Other assets, primarily accounts receivable	60,988
	286,764
Liabilities, primarily accrued liabilities	(35,269)
Net assets acquired	\$ 251,495

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 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 periods for which the pro forma information is presented, or of future results.

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

		Three months ended June 30,		Six months ended June 30,	
		2011	2010	2011	2010
(In thousands, except per share amounts)					
Revenue	As reported	\$ 1,513,344	1,286,123	\$ 2,938,720	2,506,061
Revenue	Pro forma	\$ 1,543,084	1,321,924	\$ 3,006,290	2,578,223
Net earnings	As reported	\$ 40,033	29,841	\$ 65,158	42,214
Net earnings	Pro forma ⁽¹⁾	\$ 47,791	28,637	\$ 77,773	42,433
Net earnings per common share:					
Basic	As reported	\$ 0.78	0.57	\$ 1.27	0.80
Basic	Pro forma	\$ 0.93	0.54	\$ 1.51	0.80
Diluted	As reported	\$ 0.77	0.56	\$ 1.26	0.79
Diluted	Pro forma	\$ 0.92	0.54	\$ 1.50	0.80

(1) For the three and six months ended June 30, 2010, the pro forma net earnings include restructuring and integration-related transition and transaction costs of \$5.1 million and \$7.6 million, respectively.

B.I.T. Leasing Inc. On April 1, 2011, we acquired the assets of B.I.T. Leasing, Inc. (BIT), a full service truck leasing and fleet services company located in Hayward, California, for a purchase price of \$13.8 million, of which \$13.2 million was paid as of June 30, 2011. This agreement complements a 2010 acquisition whereby we acquired a portion of BIT 's fleet of full service lease and rental vehicles and contractual customers. The combination of both acquisitions included BIT 's fleet of approximately 490 full service lease and rental vehicles, 70 contract maintenance vehicles and 130 contractual customers. The initial recording of the transaction was based on preliminary valuation assessments and is subject to change. As of June 30, 2011, goodwill and customer relationship intangibles related to the BIT acquisition were \$1.4 million and \$0.5 million, respectively. The combined network operates under the Ryder name, complementing our FMS business segment market coverage in California.

The Scully Companies On January 28, 2011, we acquired the common stock of The Scully Companies, Inc. (Scully) FMS business and the assets of Scully 's Dedicated Contract Carriage (DCC) business. The acquisition included Scully 's fleet of approximately 1,800 full service lease and 300 rental vehicles, and approximately 200 contractual customers. The purchase price was \$91.2 million, of which \$71.2 million was paid as of June 30, 2011. During 2011, the purchase price was increased by \$0.5 million due to the settlement of working capital related items. The purchase price includes \$14.4 million in contingent consideration to be paid to the seller provided acquired customers are retained for a specified period. The contingent consideration is expected to be paid by the end of the year. As of June 30, 2011, the fair value of the contingent consideration has been reflected within Accrued expenses and other current liabilities in our Consolidated Condensed Balance Sheet. See Note (N), Fair Value Measurements, for additional information. The initial recording of the transaction was based on preliminary valuation assessments and is subject to change. As of June 30, 2011, goodwill and customer relationship intangibles related to the Scully acquisition were \$27.8 million and \$11.1 million, respectively. The combined network operates under the Ryder name, complementing our FMS and DCC business segments market coverage in the Western United States.

Carmenita Leasing, Inc. On January 10, 2011, we acquired the assets of Carmenita Leasing, Inc. (Carmenita), a full service leasing and rental business located in Santa Fe Springs, California, which included a fleet of approximately 190 full service lease and rental vehicles, and 60 contractual customers for a purchase price of \$9.0 million, of which \$8.6 million was paid as of June 30, 2011. The initial recording of the transaction was based on

preliminary valuation assessments and is subject to change. As of June 30, 2011, goodwill and customer relationship intangibles related to the Carmenita acquisition were \$0.3 million and \$0.3 million, respectively. The combined network operates under the Ryder name, complementing our FMS business segment market coverage in California.

Total Logistic Control On December 31, 2010, we acquired all of the common stock of Total Logistic Control (TLC), a leading provider of comprehensive supply chain solutions to food, beverage, and consumer packaged goods manufacturers in the U.S.

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

TLC provides customers a broad suite of end-to-end services, including distribution management, contract packaging service