

RYDER SYSTEM INC
Form 10-Q
July 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 JUNE 30, 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 June 30, 2014 was 53,067,722.

RYDER SYSTEM, INC.
 FORM 10-Q QUARTERLY REPORT
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(In thousands, except per share amounts)			
Lease and rental revenues	\$733,763	688,048	\$1,423,445	1,347,756
Services revenue	741,427	707,666	1,451,126	1,397,127
Fuel services revenue	209,381	208,285	420,737	422,133
Total revenues	1,684,571	1,603,999	3,295,308	3,167,016
Cost of lease and rental	508,091	476,662	1,001,134	949,739
Cost of services	625,276	590,311	1,231,505	1,173,900
Cost of fuel services	203,613	204,626	410,818	414,919
Other operating expenses	31,007	32,876	67,652	70,475
Selling, general and administrative expenses	200,430	195,033	392,132	384,106
Gains on vehicle sales, net	(34,365	) (23,197	) (63,183	) (46,203
Interest expense	35,302	33,901	70,411	68,355
Miscellaneous income, net	(4,828	) (3,575	) (10,210	) (8,145
	1,564,526	1,506,637	3,100,259	3,007,146
Earnings from continuing operations before income taxes	120,045	97,362	195,049	159,870
Provision for income taxes	44,351	34,787	70,257	56,493
Earnings from continuing operations	75,694	62,575	124,792	103,377
Loss from discontinued operations, net of tax	(336	) (381	) (1,202	) (1,259
Net earnings	\$75,358	62,194	\$123,590	102,118
Earnings (loss) per common share — Basic				
Continuing operations	\$1.43	1.21	\$2.36	2.00
Discontinued operations	—	(0.01	) (0.02	) (0.02
Net earnings	\$1.43	1.20	\$2.34	1.98
Earnings (loss) per common share — Diluted				
Continuing operations	\$1.42	1.19	\$2.34	1.98
Discontinued operations	(0.01	) —	(0.02	) (0.02
Net earnings	\$1.41	1.19	\$2.32	1.96
Cash dividends declared per common share	\$0.34	0.31	\$0.68	0.62

See accompanying notes to consolidated condensed financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Net earnings	\$75,358	62,194	\$123,590	102,118
Other comprehensive income (loss):				
Changes in cumulative translation adjustment and other, before and after tax	26,273	(16,239)	11,681	(49,943)
Amortization of pension and postretirement items	4,295	8,180	9,328	16,534
Income tax expense related to amortization of pension and postretirement items	(1,302)	(2,782)	(3,208)	(5,717)
Amortization of pension and postretirement items, net of taxes	2,993	5,398	6,120	10,817
Change in net actuarial loss	(3,144)	(5,762)	(3,144)	(5,762)
Income tax benefit related to change in net actuarial loss	1,096	2,048	1,096	2,048
Change in net actuarial loss, net of taxes	(2,048)	(3,714)	(2,048)	(3,714)
Other comprehensive income (loss), net of taxes	27,218	(14,555)	15,753	(42,840)
Comprehensive income	\$102,576	47,639	\$139,343	59,278
See accompanying notes to consolidated condensed financial statements.				

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

	June 30, 2014	December 31, 2013
	(Dollars in thousands, except per share amount)	
Assets:		
Current assets:		
Cash and cash equivalents	\$86,888	61,562
Receivables, net of allowance of \$17,322 and \$16,955, respectively	827,274	777,370
Inventories	65,490	64,298
Prepaid expenses and other current assets	157,818	159,263
Total current assets	1,137,470	1,062,493
Revenue earning equipment, net of accumulated depreciation of \$3,606,141 and \$3,596,102, respectively	6,930,465	6,490,837
Operating property and equipment, net of accumulated depreciation of \$1,015,764 and \$991,117, respectively	687,714	633,826
Goodwill	383,879	383,719
Intangible assets	69,224	72,406
Direct financing leases and other assets	478,915	460,501
Total assets	\$9,687,667	9,103,782
Liabilities and shareholders' equity:		
Current liabilities:		
Short-term debt and current portion of long-term debt	\$557,681	259,438
Accounts payable	479,952	475,364
Accrued expenses and other current liabilities	479,047	496,337
Total current liabilities	1,516,680	1,231,139
Long-term debt	4,159,472	3,929,987
Other non-current liabilities	566,242	616,305
Deferred income taxes	1,480,313	1,429,637
Total liabilities	7,722,707	7,207,068
Shareholders' equity:		
Preferred stock of no par value per share — authorized, 3,800,917; none outstanding, June 30, 2014 or December 31, 2013	—	—
Common stock of \$0.50 par value per share — authorized, 400,000,000; outstanding, June 30, 2014 — 53,067,722; December 31, 2013 — 53,335,386	26,533	26,667
Additional paid-in capital	944,064	917,539
Retained earnings	1,416,858	1,390,756
Accumulated other comprehensive loss	(422,495)	(438,248)
Total shareholders' equity	1,964,960	1,896,714
Total liabilities and shareholders' equity	\$9,687,667	9,103,782
See accompanying notes to consolidated condensed financial statements.		

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

	Six months ended June 30,	
	2014	2013
	(In thousands)	
Cash flows from operating activities from continuing operations:		
Net earnings	\$ 123,590	102,118
Less: Loss from discontinued operations, net of tax	(1,202)	(1,259)
Earnings from continuing operations	124,792	103,377
Depreciation expense	505,997	465,979
Gains on vehicle sales, net	(63,183)	(46,203)
Share-based compensation expense	9,989	9,602
Amortization expense and other non-cash charges, net	25,727	27,289
Deferred income tax expense	59,956	48,176
Changes in operating assets and liabilities:		
Receivables	(40,579)	(16,591)
Inventories	(1,178)	2,089
Prepaid expenses and other assets	(19,163)	(17,392)
Accounts payable	1,771	23,708
Accrued expenses and other non-current liabilities	(67,629)	(36,257)
Net cash provided by operating activities from continuing operations	536,500	563,777
Cash flows from financing activities from continuing operations:		
Net change in commercial paper borrowings	21,377	180,777
Debt proceeds	765,713	254,371
Debt repaid, including capital lease obligations	(271,248)	(320,862)
Dividends on common stock	(35,915)	(32,055)
Common stock issued	34,129	41,428
Common stock repurchased	(79,488)	—
Excess tax benefits from share-based compensation	411	3,289
Debt issuance costs	(5,026)	(2,008)
Net cash provided by financing activities from continuing operations	429,953	124,940
Cash flows from investing activities from continuing operations:		
Purchases of property and revenue earning equipment	(1,255,222)	(948,114)
Sales of revenue earning equipment	274,394	225,749
Sales of operating property and equipment	2,780	3,296
Acquisitions	(1,649)	(1,420)
Collections on direct finance leases	32,355	39,854
Changes in restricted cash	8,774	(15,142)
Insurance recoveries and other	(1,250)	8,173
Net cash used in investing activities from continuing operations	(939,818)	(687,604)
Effect of exchange rate changes on cash	48	6,966
Increase in cash and cash equivalents from continuing operations	26,683	8,079
Cash flows from discontinued operations:		

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Operating cash flows	(1,329)	(1,031)
Effect of exchange rate changes on cash	(28)	(11)
Decrease in cash and cash equivalents from discontinued operations	(1,357	)	(1,042)
Increase in cash and cash equivalents	25,326		7,037	
Cash and cash equivalents at January 1	61,562		66,392	
Cash and cash equivalents at June 30	\$86,888		73,429	
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	—	—	—	—	123,590	—	123,590
Other comprehensive income	—	—	—	—	—	15,753	15,753
Comprehensive income							139,343
Common stock dividends declared — \$0.68 per share	—	—	—	—	(36,158)	—	(36,158)
Common stock issued under employee stock option and stock purchase plans ⁽¹⁾	—	753,684	377	33,301	—	—	33,678
Benefit plan stock sales ⁽²⁾	—	5,724	3	448	—	—	451
Common stock repurchases	—	(1,027,072)	(514)	(17,644)	(61,330)	—	(79,488)
Share-based compensation	—	—	—	9,989	—	—	9,989
Tax benefits from share-based compensation	—	—	—	431	—	—	431
Balance at June 30, 2014	\$—	53,067,722	\$26,533	944,064	1,416,858	(422,495)	1,964,960

(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.

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

(B) ACCOUNTING CHANGES

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued accounting guidance on the recognition of revenue from contracts with customers. Under the new standard, revenue will be measured and recognized using a performance obligation approach. The guidance will be effective on January 1, 2017. We are currently evaluating the impact of this guidance on our consolidated financial position and results of operations.

Unrecognized Tax Benefits

In July 2013, the FASB 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 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. 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 June 30,		Six months ended June 30,	
2014	2013	2014	2013

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	(In thousands)				
Pre-tax loss from discontinued operations	\$(323) (298) \$(1,278) (1,199)
Income tax (expense) benefit	(13) (83) 76	(60)
Loss from discontinued operations, net of tax	\$(336) (381) \$(1,202) (1,259)

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

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:

	June 30, 2014	December 31, 2013
	(In thousands)	
Total assets, primarily deposits	\$3,452	3,627
Total liabilities, primarily contingent accruals	\$4,476	4,501

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 \$5.3 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 nonvested stock 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 June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Stock option and stock purchase plans	\$2,241	2,193	\$4,478	4,303
Nonvested stock	2,890	2,799	5,511	5,299
Share-based compensation expense	5,131	4,992	9,989	9,602
Income tax benefit	(1,713	) (1,640		