

RYDER SYSTEM INC  
Form 10-Q  
October 22, 2015

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 SEPTEMBER 30, 2015  
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 September 30, 2015 was 53,425,097.



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<br>September 30,      |           | Nine months ended<br>September 30, |           |
|---|--|-----------|------------------------------------|-----------|
|   | 2015                                     | 2014      | 2015                               | 2014      |
|   | (In thousands, except per share amounts) |           |                                    |           |
| Lease and rental revenues                               | \$802,881                                | 756,733   | \$2,310,951                        | 2,180,178 |
| Services revenue  | 734,803                                  | 732,049   | 2,165,677                          | 2,183,175 |
| Fuel services revenue                                   | 131,382                                  | 198,368   | 422,522                            | 619,105   |
| Total revenues  | 1,669,066                                | 1,687,150 | 4,899,150                          | 4,982,458 |
| Cost of lease and rental                                | 550,541                                  | 522,202   | 1,600,271                          | 1,522,394 |
| Cost of services  | 606,364                                  | 607,530   | 1,792,182                          | 1,839,035 |
| Cost of fuel services                                   | 129,562                                  | 194,926   | 408,027                            | 605,744   |
| Other operating expenses                                | 31,286                                   | 28,889    | 98,864                             | 96,541    |
| Selling, general and administrative expenses            | 203,093                                  | 202,001   | 624,566                            | 594,133   |
| Gains on vehicle sales, net                             | (29,294 )                                | (33,691 ) | (92,110 )                          | (96,874 ) |
| Interest expense  | 38,986                                   | 36,681    | 114,863                            | 107,948   |
| Miscellaneous income, net                               | (1,372 )                                 | (996 )    | (5,037 )                           | (11,206 ) |
|   | 1,529,166                                | 1,557,542 | 4,541,626                          | 4,657,715 |
| Earnings from continuing operations before income taxes | 139,900                                  | 129,608   | 357,524                            | 324,743   |
| Provision for income taxes                              | 49,089                                   | 45,713    | 127,470                            | 116,001   |
| Earnings from continuing operations                     | 90,811                                   | 83,895    | 230,054                            | 208,742   |
| Loss from discontinued operations, net of tax           | (192 )                                   | (278 )    | (1,487 )                           | (1,480 )  |
| Net earnings  | \$90,619                                 | 83,617    | \$228,567                          | 207,262   |
| Earnings (loss) per common share — Basic                |  |           |                                    |           |
| Continuing operations                                   | \$1.71                                   | 1.60      | \$4.35                             | 3.96      |
| Discontinued operations                                 | —  | (0.01 )   | (0.03 )                            | (0.03 )   |
| Net earnings  | \$1.71                                   | 1.59      | \$4.32                             | 3.93      |
| Earnings (loss) per common share — Diluted              |  |           |                                    |           |
| Continuing operations                                   | \$1.70                                   | 1.58      | \$4.31                             | 3.92      |
| Discontinued operations                                 | —  | (0.01 )   | (0.03 )                            | (0.03 )   |
| Net earnings  | \$1.69                                   | 1.57      | \$4.28                             | 3.89      |
| Cash dividends declared per common share                | \$0.41                                   | 0.37      | \$1.15                             | 1.05      |

See accompanying notes to consolidated condensed financial statements.

Note: EPS amounts may not be additive due to rounding.



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

|  | Three months ended<br>September 30,<br>2015 |   | 2014    |   | Nine months ended<br>September 30,<br>2015 |   | 2014    |   |
|--|---|---|---------|---|--|---|---------|---|
|  | (In thousands)                              |   |         |   |  |   |         |   |
| Net earnings   | \$90,619                                    |   | 83,617  |   | \$228,567                                  |   | 207,262 |   |
| Other comprehensive loss:  |   |   |         |   |  |   |         |   |
| Changes in cumulative translation adjustment and other                         | (42,748                                     | ) | (46,879 | ) | (73,093                                    | ) | (35,198 | ) |
| Amortization of pension and postretirement items                               | 6,873                                       |   | 4,658   |   | 20,765                                     |   | 13,986  |   |
| Income tax expense related to amortization of pension and postretirement items | (2,412                                      | ) | (1,603  | ) | (7,226                                     | ) | (4,811  | ) |
| Amortization of pension and postretirement items, net of taxes                 | 4,461                                       |   | 3,055   |   | 13,539                                     |   | 9,175   |   |
| Change in net actuarial loss   | —   |   | (148    | ) | (8,526                                     | ) | (3,292  | ) |
| Income tax benefit related to change in net actuarial loss                     | —   |   | 44      |   | 3,205                                      |   | 1,140   |   |
| Change in net actuarial loss, net of taxes                                     | —   |   | (104    | ) | (5,321                                     | ) | (2,152  | ) |
| Other comprehensive loss, net of taxes   | (38,287                                     | ) | (43,928 | ) | (64,875                                    | ) | (28,175 | ) |
| Comprehensive income   | \$52,332                                    |   | 39,689  |   | \$163,692                                  |   | 179,087 |   |
| See accompanying notes to consolidated condensed financial statements.         |   |   |         |   |  |   |         |   |

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

|  | September 30,<br>2015                           | December 31,<br>2014 |
|--|---|----------------------|
|  | (Dollars in thousands, except per share amount) |                      |
| Assets:  |   |                      |
| Current assets:  |   |                      |
| Cash and cash equivalents  | \$75,387  | 50,092               |
| Receivables, net of allowance of \$17,708 and \$16,388, respectively   | 814,160   | 794,864              |
| Inventories  | 64,087  | 66,007               |
| Prepaid expenses and other current assets  | 163,893   | 165,234              |
| Total current assets   | 1,117,527                                       | 1,076,197            |
| Revenue earning equipment, net of accumulated depreciation of \$3,876,682 and \$3,689,016 respectively   | 8,036,710                                       | 7,201,886            |
| Operating property and equipment, net of accumulated depreciation of \$1,078,471 and \$1,035,028, respectively                                   | 712,169   | 699,594              |
| Goodwill   | 390,853   | 393,029              |
| Intangible assets  | 60,551  | 66,619               |
| Direct financing leases and other assets   | 502,376   | 446,099              |
| Total assets   | \$10,820,186                                    | 9,883,424            |
| Liabilities and shareholders' equity:  |   |                      |
| Current liabilities:   |   |                      |
| Short-term debt and current portion of long-term debt  | \$305,759                                       | 36,284               |
| Accounts payable   | 550,305   | 560,852              |
| Accrued expenses and other current liabilities   | 511,198   | 513,679              |
| Total current liabilities  | 1,367,262                                       | 1,110,815            |
| Long-term debt   | 5,144,938                                       | 4,694,335            |
| Other non-current liabilities  | 780,415   | 783,342              |
| Deferred income taxes  | 1,575,507                                       | 1,475,845            |
| Total liabilities  | 8,868,122                                       | 8,064,337            |
| Shareholders' equity:  |   |                      |
| Preferred stock, no par value per share — authorized, 3,800,917; none outstanding, September 30, 2015 or December 31, 2014                       | —   | —                    |
| Common stock, \$0.50 par value per share — authorized, 400,000,000; outstanding, September 30, 2015 — 53,425,097; December 31, 2014 — 53,039,688 | 26,712  | 26,520               |
| Additional paid-in capital   | 997,753   | 962,328              |
| Retained earnings  | 1,612,744                                       | 1,450,509            |
| Accumulated other comprehensive loss   | (685,145)                                       | (620,270)            |
| Total shareholders' equity   | 1,952,064                                       | 1,819,087            |
| Total liabilities and shareholders' equity   | \$10,820,186                                    | 9,883,424            |
| See accompanying notes to consolidated condensed financial statements.   |   |                      |

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

|  | Nine months ended September 30, |              |
|--|---------------------------------|--------------|
|  | 2015                            | 2014         |
|  | (In thousands)                  |              |
| Cash flows from operating activities from continuing operations:     |                                 |              |
| Net earnings   | \$228,567                       | 207,262      |
| Less: Loss from discontinued operations, net of tax                  | (1,487 )                        | (1,480 )     |
| Earnings from continuing operations                                  | 230,054                         | 208,742      |
| Depreciation expense   | 838,100                         | 781,367      |
| Gains on vehicle sales, net  | (92,110 )                       | (96,874 )    |
| Share-based compensation expense                                     | 16,112                          | 15,446       |
| Amortization expense and other non-cash charges, net                 | 46,272                          | 35,850       |
| Deferred income tax expense  | 111,609                         | 99,418       |
| Changes in operating assets and liabilities:                         |                                 |              |
| Receivables  | (23,751 )                       | (37,408 )    |
| Inventories  | 1,275                           | (731 )       |
| Prepaid expenses and other assets                                    | (33,334 )                       | (23,385 )    |
| Accounts payable   | (19,506 )                       | 44,976       |
| Accrued expenses and other non-current liabilities                   | (3,385 )                        | (46,357 )    |
| Net cash provided by operating activities from continuing operations | 1,071,336                       | 981,044      |
| Cash flows from financing activities from continuing operations:     |                                 |              |
| Net change in commercial paper borrowings                            | 184,750                         | (164,944 )   |
| Debt proceeds  | 1,329,810                       | 895,733      |
| Debt repaid  | (795,837 )                      | (284,811 )   |
| Dividends on common stock  | (61,436 )                       | (55,408 )    |
| Common stock issued  | 20,397                          | 38,990       |
| Common stock repurchased   | (6,141 )                        | (92,343 )    |
| Excess tax benefits from share-based compensation                    | 723                             | 514          |
| Debt issuance costs  | (7,483 )                        | (5,230 )     |
| Net cash provided by financing activities from continuing operations | 664,783                         | 332,501      |
| Cash flows from investing activities from continuing operations:     |                                 |              |
| Purchases of property and revenue earning equipment                  | (2,087,294 )                    | (1,741,173 ) |
| Sales of revenue earning equipment                                   | 319,766                         | 392,572      |
| Sales of operating property and equipment                            | 1,203                           | 3,091        |
| Acquisitions   | —                               | (9,785 )     |
| Collections on direct finance leases                                 | 51,166                          | 48,920       |
| Changes in restricted cash   | 7,781                           | 10,344       |
| Other  | —                               | (1,250 )     |
| Net cash used in investing activities from continuing operations     | (1,707,378 )                    | (1,297,281 ) |
| Effect of exchange rate changes on cash                              | (2,006 )                        | (1,210 )     |
| Increase in cash and cash equivalents from continuing operations     | 26,735                          | 15,054       |



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|  |          |          |   |
|--|----------|----------|---|
| Decrease in cash and cash equivalents from discontinued operations     | (1,440   | ) (1,614 | ) |
| Increase in cash and cash equivalents                                  | 25,295   | 13,440   |   |
| Cash and cash equivalents at January 1                                 | 50,092   | 61,562   |   |
| Cash and cash equivalents at September 30                              | \$75,387 | 75,002   |   |
| See accompanying notes to consolidated condensed financial statements. |          |          |   |

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

|   | Preferred<br>Stock<br>Amount | Common Stock<br>Shares | Stock<br>Par | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total     |
|---|------------------------------|------------------------|--------------|----------------------------------|----------------------|---|-----------|
| (Dollars in thousands, except per share amount)   |                              |                        |              |                                  |                      |   |           |
| Balance at December 31, 2014  | \$—                          | 53,039,688             | \$26,520     | 962,328                          | 1,450,509            | (620,270 )                                    | 1,819,087 |
| Comprehensive income (loss)   | —                            | —                      | —            | —                                | 228,567              | (64,875 )                                     | 163,692   |
| Common stock dividends<br>declared — \$1.15 per share   | —                            | —                      | —            | —                                | (61,441 )            | —   | (61,441 ) |
| Common stock issued under<br>employee stock option and stock<br>purchase plans <sup>(1)</sup> | —                            | 453,555                | 227          | 20,081                           | —                    | —   | 20,308    |
| Benefit plan stock sales <sup>(2)</sup>   | —                            | 961                    | —            | 89                               | —                    | —   | 89        |
| Common stock repurchases  | —                            | (69,107 )              | (35 )        | (1,215 )                         | (4,891 )             | —   | (6,141 )  |
| Share-based compensation  | —                            | —                      | —            | 16,112                           | —                    | —   | 16,112    |
| Tax benefits from share-based<br>compensation   | —                            | —                      | —            | 358                              | —                    | —   | 358       |
| Balance at September 30, 2015   | \$—                          | 53,425,097             | \$26,712     | 997,753                          | 1,612,744            | (685,145 )                                    | 1,952,064 |

(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) GENERAL

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 2014 Annual Report on Form 10-K and should be read in conjunction with the Consolidated Financial Statements and notes thereto. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. In the opinion of management, all adjustments (consisting of normal recurring accruals and items referenced under "Revision of Prior Period Financial Statements") 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.

During the first quarter of 2015, our management structure changed within the supply chain business. We created the role of President of Dedicated Transportation Solutions (DTS) for the dedicated product offering which was previously within Supply Chain Solutions (SCS). We are now reporting our financial performance as follows: (1) Fleet Management Solutions (FMS), which provides full service leasing, commercial rental, contract maintenance, and contract-related maintenance of trucks, tractors and trailers to customers principally in the U.S., Canada and the U.K.; (2) DTS, which provides vehicles and drivers as part of a dedicated transportation solution in the U.S.; and (3) SCS, which provides comprehensive supply chain solutions including distribution and transportation services in North America and Asia. Dedicated transportation services provided as part of an integrated, multi-service, supply chain solution to SCS customers are reported in the SCS business segment. Prior period amounts have been recast to conform to the new presentation. This change impacted Note (P), "Segment Reporting," with no impact on consolidated revenues, net income or cash flows.

Revision of Prior Period Financial Statements

The Company periodically enters into sale and leaseback transactions to lower the total cost of funding our operations and to diversify funding among different classes of investors and among different types of funding instruments. These transactions historically resulted in a reduction of revenue earning equipment and debt on the balance sheet, as proceeds from the sale of revenue earning equipment were used to repay debt. During the second quarter of 2015, we reviewed and evaluated the structure of these transactions and determined that they should be accounted for as issuances of financial interests that do not qualify for deconsolidation. We evaluated the materiality of this revision, quantitatively and qualitatively, and concluded it was not material to any of our previously issued consolidated financial statements. However, we elected to revise previously issued financial statements to avoid inconsistencies in our financial statements. Accordingly, we revised previously reported results for the years ended December 31, 2014, 2013 and 2012 as well as previously reported results for the three and nine months ended September 30, 2014, the three and six months ended June 30, 2014, and the three months ended March 31, 2015 and 2014 in our Form 10-Q for the quarter ended June 30, 2015. The effects of this revision for the three and nine months ended September 30, 2014, and as of December 31, 2014 are presented in the tables below. Adjustments may not be additive and may have minor differences within the tables due to rounding.

The effects of this revision on our Consolidated Condensed Statements of Earnings were as follows (in millions):

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|  | Three months ended September 30,<br>2014 |            |            | Nine months ended September 30,<br>2014 |            |            |
|--|--|------------|------------|---|------------|------------|
|  | As                                       |            |            | As                                      |            |            |
|  | Previously<br>Reported                   | Adjustment | As Revised | Previously<br>Reported                  | Adjustment | As Revised |
| Cost of lease and rental                                   | \$522.9                                  | (0.7       | ) 522.2    | \$1,524.0                               | (1.6       | ) 1,522.4  |
| Interest expense   | 35.9                                     | 0.8        | 36.7       | 106.3                                   | 1.6        | 107.9      |
| Earnings from continuing operations before<br>income taxes | 129.7                                    | (0.1       | ) 129.6    | 324.8                                   | (0.1       | ) 324.7    |
| Provision for income taxes                                 | 45.8                                     | (0.1       | ) 45.7     | 116.0                                   | —          | 116.0      |
| Earnings from continuing operations                        | 84.0                                     | (0.1       | ) 83.9     | 208.8                                   | (0.1       | ) 208.7    |
| Net earnings   | 83.7                                     | (0.1       | ) 83.6     | 207.3                                   | —          | 207.3      |

## RYDER SYSTEM, INC. AND SUBSIDIARIES

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

(unaudited)

The effects of this revision on our Consolidated Condensed Statements of Comprehensive Income were as follows (in millions):

|                                       | Comprehensive Income |            |            |
|---------------------------------------|----------------------|------------|------------|
|                                       | As                   |            |            |
|                                       | Previously Reported  | Adjustment | As Revised |
| Three months ended September 30, 2014 | \$39.8               | (0.1       | ) 39.7     |
| Nine months ended September 30, 2014  | 179.1                | —          | 179.1      |

The effects of this revision on our Consolidated Balance Sheets were as follows (in millions):

|   | December 31, 2014   |            |            |
|---|---------------------|------------|------------|
|   | As                  |            |            |
|   | Previously Reported | Adjustment | As Revised |
| Revenue earning equipment, net                        | \$6,994.4           | 207.4      | 7,201.9    |
| Total assets  | 9,676.0             | 207.4      | 9,883.4    |
| Short-term debt and current portion of long-term debt | 12.2                | 24.1       | 36.3       |
| Accrued expenses and other current liabilities        | 520.5               | (6.8       | ) 513.7    |
| Total current liabilities                             | 1,093.6             | 17.2       | 1,110.8    |
| Long-term debt  | 4,500.3             | 194.0      | 4,694.3    |
| Other non-current liabilities                         | 786.7               | (3.4       | ) 783.3    |
| Deferred income taxes                                 | 1,476.0             | (0.2       | ) 1,475.8  |
| Total liabilities                                     | 7,856.5             | 207.8      | 8,064.3    |
| Retained earnings                                     | 1,450.9             | (0.4       | ) 1,450.5  |
| Total shareholders' equity                            | 1,819.5             | (0.4       | ) 1,819.1  |
| Total liabilities and shareholders' equity            | 9,676.0             | 207.4      | 9,883.4    |

The effects of this revision on the individual line items within our Consolidated Condensed Statements of Cash Flows were as follows (in millions):

|  | Nine months ended September 30, 2014 |            |            |
|--|--------------------------------------|------------|------------|
|  | As                                   |            |            |
|  | Previously Reported                  | Adjustment | As Revised |
| Net earnings   | \$207.3                              | —          | 207.3      |
| Depreciation expense   | 770.1                                | 11.3       | 781.4      |
| Accrued expenses and other non-current liabilities                   | (41.5                                | ) (4.9     | ) (46.4    |
| Net cash provided by operating activities from continuing operations | 974.7                                | 6.3        | 981.0      |
| Debt proceeds  | 769.9                                | 125.8      | 895.7      |
| Debt repaid  | (278.4                               | ) (6.4     | ) (284.8   |
| Net cash provided by financing activities from continuing operations | 213.1                                | 119.4      | 332.5      |

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|  |          |         |             |
|--|----------|---------|-------------|
| Sale and leaseback of revenue earning equipment                  | 125.8    | (125.8  | )—          |
| Net cash used in investing activities from continuing operations | (1,171.5 | )(125.8 | )(1,297.3 ) |

RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

(B) RECENT ACCOUNTING PRONOUNCEMENTS

Accounting for Measurement Period Adjustments

On September 25, 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-16, Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments, which requires an acquirer to recognize adjustments identified during the measurement period in the reporting period in which the adjustment amounts are determined. The adjustment must include the cumulative effect of the adjustment as if the accounting had been completed on the acquisition date. The update should be applied prospectively and becomes effective January 1, 2016. Early application is permitted. The adoption of ASU 2015-16 will not have an impact on our consolidated financial position, results of operations or cash flows.

Inventory Valuation

On July 22, 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory, which applies to inventory that is measured using first-in, first-out or average cost. Under the updated guidance, an entity should measure inventory that is within scope at the lower of cost and net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Subsequent measurement is unchanged for inventory that is measured using last-in, first-out. The update becomes effective January 1, 2017 and should be applied prospectively with early adoption permitted at the beginning of an interim or annual reporting period. We are in the process of determining the effect of the standard on our consolidated financial position and results of operations.

Presentation of Debt Issuance Costs

On April 7, 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires an entity to present debt issuance costs as a direct reduction from the carrying amount of the related debt liability on the balance sheet. On August 30, 2015, the FASB issued ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which clarifies the treatment of debt issuance costs from line-of-credit arrangements after adoption of ASU 2015-03. The SEC Staff announced they would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The update requires retrospective application and represents a change in accounting principle. The update becomes effective January 1, 2016. Based on the balances as of September 30, 2015, we expect to reclassify \$20.0 million of unamortized debt issuance costs from "Direct financing leases and other assets" to "Long-term debt."

Revenue Recognition

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance. The update was originally effective January 1, 2017. On August 12, 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the effective date by one year to January 1, 2018.

Early application is permitted but not before January 1, 2017. The standard permits the use of either the modified retrospective or cumulative effect transition methods. We have not yet selected a transition method. We are in the process of determining the effect of the standard on our consolidated financial position and results of operations.



## RYDER SYSTEM, INC. AND SUBSIDIARIES

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

(unaudited)

## (C) SHARE-BASED COMPENSATION PLANS

Share-based incentive awards are provided to employees under the terms of various share-based compensation plans (collectively, the “Plans”). The Plans are administered by the Compensation Committee of the Board of Directors. Awards under the Plans principally include at-the-money stock options, nonvested stock 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 but 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 grant date 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<br>September 30, |         | Nine months ended<br>September 30, |         |
|--|-------------------------------------|---------|------------------------------------|---------|
|  | 2015                                | 2014    | 2015                               | 2014    |
|  | (In thousands)                      |         |                                    |         |
| Stock option and stock purchase plans        | \$1,948                             | 2,353   | \$6,205                            | 6,831   |
| Nonvested stock                              | 2,995                               | 3,104   | 9,907                              | 8,615   |
| Share-based compensation expense             | 4,943                               | 5,457   | 16,112                             | 15,446  |
| Income tax benefit                           | (1,652)                             | (1,864) | (5,395)                            | (5,253) |
| Share-based compensation expense, net of tax | \$3,291                             | 3,593   | \$10,717                           | 10,193  |

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<br>September 30, |      | Nine months ended<br>September 30, |       |
|-------------|-------------------------------------|------|------------------------------------|-------|
|             | 2015                                | 2014 | 2015                               | 2014  |
|             | (In thousands)                      |      |                                    |       |
| Cash awards | \$197                               | 389  | \$661                              | 1,655 |

Total unrecognized pre-tax compensation expense related to all share-based compensation arrangements at September 30, 2015 was \$24.5 million and is expected to be recognized over a weighted-average period of 1.8 years.

The following table is a summary of the awards granted under the Plans during the periods presented:

|   | Nine months ended September<br>30, |      |
|---|------------------------------------|------|
|   | 2015                               | 2014 |
|   | (In thousands)                     |      |
| Stock options                             | 362                                | 406  |
| Market-based restricted stock rights      | 19                                 | 22   |
| Performance-based restricted stock rights | 42                                 | 30   |
| Time-vested restricted stock rights       | 87                                 | 184  |
| Total                                     | 510                                | 642  |



## RYDER SYSTEM, INC. AND SUBSIDIARIES

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

(unaudited)

## (D) EARNINGS PER SHARE

The following table presents the calculation of basic and diluted earnings per common share from continuing operations:

|  | Three months ended<br>September 30,<br>2015 |  | 2014 |  | Nine months ended<br>September 30,<br>2015 |  | 2014 |  |
|--|---|--|------|--|--|--|------|--|
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## RYDER SYSTEM, INC. AND SUBSIDIARIES

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

(unaudited)

## (E) REVENUE EARNING EQUIPMENT

|                    | September 30, 2015 |                             |                                  | December 31, 2014 |                             |                                  |
|--------------------|--------------------|-----------------------------|----------------------------------|-------------------|-----------------------------|----------------------------------|
|                    | Cost               | Accumulated<br>Depreciation | Net Book<br>Value <sup>(1)</sup> | Cost              | Accumulated<br>Depreciation | Net Book<br>Value <sup>(1)</sup> |
|                    | (In thousands)     |                             |                                  |                   |                             |                                  |
| Held for use:      |                    |                             |                                  |                   |                             |                                  |
| Full service lease | \$8,612,790        | (2,699,055 )                | 5,913,735                        | \$8,008,122       | (2,598,140 )                | 5,409,982                        |
| Commercial rental  | 2,932,196          | (924,004 )                  | 2,008,192                        | 2,570,081         | (864,543 )                  | 1,705,538                        |
| Held for sale      | 368,406            | (253,623 )                  | 114,783                          | 312,699           | (226,333 )                  | 86,366                           |
| Total              | \$11,913,392       | (3,876,682 )                | 8,036,710                        | \$10,890,902      | (3,689,016 )                | 7,201,886                        |

Revenue earning equipment, net includes vehicles acquired under capital leases of \$47.5 million, less accumulated (1)depreciation of \$21.0 million, at September 30, 2015, and \$47.8 million, less accumulated depreciation of \$22.5 million, at December 31, 2014.

At the end of 2014, 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, 2015. The change in estimated residual values and useful lives increased pre-tax earnings for the three and nine months ended September 30, 2015 by approximately \$10.0 million and \$30.0 million, respectively.

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 September 30, 2015 and December 31, 2014, the net investment in direct financing and sales-type leases was \$442.6 million and \$417.0 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 vehicles, based on their estimated fair values, which further mitigates our credit risk.

As of September 30, 2015 and December 31, 2014, the amount of direct financing lease receivables 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 \$0.3 million as of September 30, 2015 and December 31, 2014.

## RYDER SYSTEM, INC. AND SUBSIDIARIES

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

(unaudited)

## (F) ACCRUED EXPENSES AND OTHER LIABILITIES

|                                      | September 30, 2015  |                            |           | December 31, 2014   |                            |           |
|--------------------------------------|---------------------|----------------------------|-----------|---------------------|----------------------------|-----------|
|                                      | Accrued<br>Expenses | Non-Current<br>Liabilities | Total     | Accrued<br>Expenses | Non-Current<br>Liabilities | Total     |
|                                      | (In thousands)      |                            |           |                     |                            |           |
| Salaries and wages                   | \$ 101,036          | —                          | 101,036   | \$ 114,446          | —                          | 114,446   |
| Deferred compensation                | 2,120               | 39,221                     | 41,341    | 3,209               | 37,093                     | 40,302    |
| Pension benefits                     | 3,644               | 440,800                    | 444,444   | 3,739               | 444,657                    | 448,396   |
| Other postretirement benefits        | 2,084               | 25,440                     | 27,524    | 2,112               | 26,889                     | 29,001    |
| Other employee benefits              | 9,059               | 9,360                      | 18,419    | 7,172               | 19,276                     | 26,448    |
| Insurance obligations <sup>(1)</sup> | 134,407             | 202,258                    | 336,665   | 132,246             | 189,431                    | 321,677   |
| Environmental liabilities            | 3,836               | 7,177                      | 11,013    | 3,877               | 8,002                      | 11,879    |
| Operating taxes                      | 95,311              | —                          | 95,311    | 92,330              | —                          | 92,330    |
| Income taxes                         | 2,782               | 23,620                     | 26,402    | 5,066               | 22,843                     | 27,909    |
| Interest                             | 32,460              | —                          | 32,460    | 33,509              | —                          | 33,509    |
| Deposits, mainly from customers      | 65,995              | 6,193                      | 72,188    | 59,388              | 5,929                      | 65,317    |
| Deferred revenue                     | 13,377              | —                          | 13,377    | 11,759              | —                          | 11,759    |
| Acquisition holdbacks                | 2,134               | —                          | 2,134     | 3,817               | 2,187                      | 6,004     |
| Other                                | 42,953              | 26,346                     | 69,299    | 41,009              | 27,035                     | 68,044    |
| Total                                | \$ 511,198          | 780,415                    | 1,291,613 | \$ 513,679          | 783,342                    | 1,297,021 |

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

## RYDER SYSTEM, INC. AND SUBSIDIARIES

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

(unaudited)

## (G) DEBT

|   | Weighted-Average<br>Interest Rate |                      |           | Maturities            |                      |
|---|-----------------------------------|----------------------|-----------|-----------------------|----------------------|
|   | September 30,<br>2015             | December 31,<br>2014 |           | September 30,<br>2015 | December 31,<br>2014 |
| (In thousands)  |                                   |                      |           |                       |                      |
| Short-term debt and current portion of long-term debt:                  |                                   |                      |           |                       |                      |
| Short-term debt   | —%                                | 1.30%                |           | \$—                   | 3,773                |
| Current portion of long-term debt                                       |                                   |                      |           | 305,759               | 32,511               |
| Total short-term debt and current portion of long-term debt             |                                   |                      |           | 305,759               | 36,284               |
| Long-term debt:   |                                   |                      |           |                       |                      |
| U.S. commercial paper <sup>(1)</sup>                                    | 0.44%                             | 0.35%                | 2020      | 461,414               | 276,694              |
| Global revolving credit facility  | 2.68%                             | 1.60%                | 2020      | 43,553                | 11,190               |
| Unsecured U.S. notes — Medium-term notes <sup>(2)</sup>                 | 2.74%                             | 3.29%                | 2016-2025 | 4,112,089             | 3,772,159            |
| Unsecured U.S. obligations  | 1.51%                             | 0.76%                | 2018      | 50,000                | 110,500              |
| Unsecured foreign obligations   | 1.92%                             | 2.01%                | 2015-2020 | 283,433               | 295,776              |
| Asset-backed U.S. obligations <sup>(2)</sup>                            | 1.81%                             | 1.81%                | 2018-2022 | 448,331               | 218,137              |
| Capital lease obligations   | 1.92%                             | 1.73%                | 2015-2022 | 36,083                | 37,560               |
| Total before fair market value adjustment                               |                                   |                      |           | 5,434,903             | 4,722,016            |
| Fair market value adjustment on notes subject to hedging <sup>(3)</sup> |                                   |                      |           | 15,794                | 4,830                |
|   |                                   |                      |           | 5,450,697             | 4,726,846            |
| Current portion of long-term debt                                       |                                   |                      |           | (305,759 )            | (32,511 )            |
| Long-term debt  |                                   |                      |           | 5,144,938             | 4,694,335            |
| Total debt  |                                   |                      |           | \$5,450,697           | 4,730,619            |

(1) We had unamortized original issue discounts of \$8.0 million and \$7.9 million at September 30, 2015 and December 31, 2014, respectively.

(2) Asset-backed U.S. obligations of \$448.3 million at September 30, 2015 and \$218.1 million at December 31, 2014 are related to financing transactions involving revenue earning equipment. See Note (A), General, Revision of Prior Period Financial Information for further information related to our evaluation of accounting for these transactions.

(3) The notional amount of executed interest rate swaps designated as fair value hedges was \$825 million at September 30, 2015 and \$600 million at December 31, 2014.

We maintain a \$1.2 billion 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, Lloyds Bank Plc, U.S. Bank National Association and Wells Fargo Bank, N.A. The facility matures in January 2020. The agreement provides for annual facility fees which range from 7.5 basis points to 25 basis points based on Ryder's long-term credit ratings. The annual facility fee is currently 10 basis points, which applies to the total facility size of \$1.2 billion. The credit 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 September 30, 2015). At our option, the interest rate on borrowings under the credit facility is based on LIBOR, prime, federal funds or local equivalent rates. 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 September 30, 2015 was 215%. At September 30, 2015, there was \$694.9 million available under the credit facility, net of outstanding commercial paper borrowings.

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. In addition, we have the intent and ability to refinance the current portion of long-term debt on a long-term basis. At September 30, 2015, we classified \$461.4 million of short-term commercial paper, \$300.0 million of the current portion of long-term debt and \$41 million of short-term borrowings under our global revolving credit facility as long-term debt. At December 31, 2014, we classified \$276.7 million of short-term commercial

RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

paper, \$60.0 million of trade receivables borrowings and \$698.5 million of the current portion of long-term debt as long-term debt.

In September and April 2015, we received \$92.9 million and \$156.4 million, respectively, from financing transactions backed by a portion of our revenue earning equipment. The proceeds from these transactions were used to fund capital expenditures. We have provided end of term guarantees for the residual value of the revenue earning equipment in these transactions. The transaction proceeds, along with the end of term residual value guarantees, have been included within "asset-backed U.S. obligations" in the preceding table.

In August 2015, we issued \$300 million of unsecured medium-term notes maturing in September 2020. In May 2015, we issued \$300 million of unsecured medium-term notes maturing in May 2020. In February 2015, we issued \$400 million of unsecured medium-term notes maturing in March 2020. The proceeds from these notes were used to payoff maturing debt and for general corporate purposes. If these notes are downgraded below investment grade 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 committed purchaser. 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 that causes early termination, the 364-day program will expire during October 2015. We are currently in the process of renewing the program through October 2016. 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. No amounts were outstanding under the program at September 30, 2015. At December 31, 2014, \$60.0 million was outstanding under the program. Sales of receivables under this program are accounted for as secured borrowings based on our continuing involvement in the transferred assets.

At September 30, 2015 and December 31, 2014, we had letters of credit and surety bonds outstanding totaling \$339.3 million and \$334.3 million, respectively, which primarily guarantee the payment of insurance claims.



## RYDER SYSTEM, INC. AND SUBSIDIARIES

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

(unaudited)

## (H) FAIR VALUE MEASUREMENTS

The assets and liabilities measured at fair value on a recurring basis consist primarily of interest rate swaps and investments held in Rabbi Trusts. These amounts as of September 30, 2015 are not material to our consolidated financial position and operations and have not changed significantly from the amounts reported as of December 31, 2014.

The following tables present our assets that are measured at fair value on a nonrecurring basis and considered a Level 3 fair value measurement:

|   | Fair Value Measurements at | Total Losses <sup>(2)</sup>           |                                      |
|---|----------------------------|---------------------------------------|--------------------------------------|
|   | September 30, 2015         | Three months ended September 30, 2015 | Nine months ended September 30, 2015 |
|   | (In thousands)             |                                       |                                      |
| Assets held for sale:                     |                            |                                       |                                      |
| Revenue earning equipment: <sup>(1)</sup> |                            |                                       |                                      |
| Trucks                                    | \$7,701                    | \$1,657                               | \$4,400                              |
| Tractors                                  | 10,093                     | 2,062                                 | 3,970                                |
| Trailers                                  | 1,195                      | 610                                   | 1,582                                |
| Total assets at fair value                | \$18,989                   | \$4,329                               | 9,952                                |

|   | Fair Value Measurements at | Total Losses <sup>(2)</sup>           |                                      |
|---|----------------------------|---------------------------------------|--------------------------------------|
|   | September 30, 2014         | Three months ended September 30, 2014 | Nine months ended September 30, 2014 |
|   | (In thousands)             |                                       |                                      |
| Assets held for sale:                     |                            |                                       |                                      |
| Revenue earning equipment: <sup>(1)</sup> |                            |                                       |                                      |
| Trucks                                    | \$8,437                    | \$1,527                               | \$4,981                              |
| Tractors                                  | 4,666                      | 530                                   | 2,824                                |
| Trailers                                  | 682                        | 320                                   | 762                                  |
| Total assets at fair value                | \$13,785                   | \$2,377                               | \$8,567                              |

(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 on vehicles held for sale for which carrying values exceeded fair value are recognized at the time they arrive at our used truck centers and 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 (trucks, tractors 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.

## RYDER SYSTEM, INC. AND SUBSIDIARIES

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

(unaudited)

Fair value of total debt (excluding capital lease and asset-backed U.S. obligations) at September 30, 2015 and December 31, 2014 was approximately \$5.35 billion and \$4.59 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.

## (I) 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. 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. The fair value amounts of the interest rate swaps are reported in the Consolidated Condensed Balance Sheets within "Prepaid expenses and other current assets," "Direct financing leases and other assets," and "Other non-current liabilities." As of September 30, 2015, these amounts are not material to our consolidated financial position or results of operations and have not changed significantly from the amounts reported at December 31, 2014.

The following table provides a detail of the swaps outstanding and the related hedged items as of September 30, 2015:

| 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 September 30, |       |
|---------------|----------------|---------------------------------|--|---------------------|--|-------|
|               |                |                                 |  |                     | 2015   | 2014  |
|               |                | (Dollars in thousands)          |  |                     |  |       |
| May 2011      | June 2017      | \$350,000                       | \$150,000  | 3.50%               | 1.52%  | 1.42% |
| November 2013 | November 2018  | \$300,000                       | \$100,000  | 2.45%               | 1.28%  | 1.18% |
| February 2014 | June 2019      | \$350,000                       | \$100,000  | 2.55%               | 1.19%  | 1.10% |
| May 2014      | September 2019 | \$400,000                       | \$100,000  | 2.45%               | 0.95%  | 0.86% |
| February 2015 | March 2020     | \$400,000                       | \$150,000  | 2.65%               | 1.21%  | —     |
| August 2015   | September 2020 | \$300,000                       | \$225,000  | 2.88%               | 1.52%  | —     |

The amount of gains (losses) on interest rate swap agreements designated as fair value hedges and related hedged items are reported in the Consolidated Condensed Statements of Earnings within "Interest expense." 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.

(J) 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 (collectively, the employee stock 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 under the employee stock plans from December 1, 2013 through December 10, 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 established 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. Early in the first quarter of 2015, due to the increase in leverage, we temporarily paused anti-dilutive share repurchase activity. For the nine months ended September 30, 2015 and 2014, we repurchased and retired 69,107 shares and 1,170,123 shares, respectively, under the program at an aggregate cost of \$6.1 million and \$92.3 million, respectively.

## RYDER SYSTEM, INC. AND SUBSIDIARIES

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

(unaudited)

## (K) ACCUMULATED OTHER COMPREHENSIVE LOSS

The following summary sets forth the components of accumulated other comprehensive loss, net of tax:

|                             | Currency<br>Translation<br>Adjustments<br>and Other<br>(In thousands) | Net Actuarial<br>Loss <sup>(1)</sup> | Prior Service<br>Credit <sup>(1)</sup> | Accumulated<br>Other<br>Comprehensive<br>Loss |
|-----------------------------|---|--------------------------------------|--|---|
| December 31, 2014           | \$(36,087 )   | (585,941 )                           | 1,758                                  | (620,270 )                                    |
| Amortization                | —   | 14,605                               | (1,066 )                               | 13,539  |
| Other current period change | (73,093 )   | (5,321 )                             | —                                      | (78,414 )                                     |
| September 30, 2015          | \$(109,180 )  | (576,657 )                           | 692                                    | (685,145 )                                    |

|                             | Currency<br>Translation<br>Adjustments<br>and Other<br>(In thousands) | Net Actuarial<br>Loss <sup>(1)</sup> | Prior Service<br>Credit <sup>(1)</sup> | Accumulated<br>Other<br>Comprehensive<br>Loss |
|-----------------------------|---|--------------------------------------|--|---|
| December 31, 2013           | \$35,875  | (477,883 )                           | 3,760                                  | (438,248 )                                    |
| Amortization                | —   | 11,183                               | (2,008 )                               | 9,175   |
| Other current period change | (35,198 )   | (2,043 )                             | (109 )                                 | (37,350 )                                     |
| September 30, 2014          | \$677   | (468,743 )                           | 1,643                                  | (466,423 )                                    |

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(1) These amounts are included in the computation of net periodic benefit cost. See Note (L), "Employee Benefit Plans," for further information.

The loss from currency translation adjustments in the nine months ended September 30, 2015 of \$73.1 million was due primarily to the weakening of the Canadian Dollar and British Pound against the U.S. Dollar.

## RYDER SYSTEM, INC. AND SUBSIDIARIES

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

(unaudited)

## (L) EMPLOYEE BENEFIT PLANS

Components of net periodic benefit cost/(credit) were as follows:

|                                | Three months ended September 30, |           | Nine months ended September 30, |           |
|--------------------------------|----------------------------------|-----------|---------------------------------|-----------|
|                                | 2015                             | 2014      | 2015                            | 2014      |
|                                | (In thousands)                   |           |                                 |           |
| Pension Benefits               |                                  |           |                                 |           |
| Company-administered plans:    |                                  |           |                                 |           |
| Service cost                   | \$3,612                          | 3,297     | \$10,805                        | 9,892     |
| Interest cost                  | 21,777                           | 25,280    | 65,712                          | 75,990    |
| Expected return on plan assets | (24,697                          | ) (28,900 | ) (74,618                       | ) (86,916 |
| Amortization of:               |                                  |           |                                 |           |
| Net actuarial loss             | 7,665                            | 5,900     | 23,137                          | 17,714    |
| Prior service credit           | (80                              | ) (445    | ) (230                          | ) (1,340  |
|                                | 8,277                            | 5,132     | 24,806                          | 15,340    |
| Union-administered plans       | 1,772                            | 3,475     | 6,057                           | 7,744     |
| Net periodic benefit cost      | \$10,049                         | 8,607     | \$30,863                        | 23,084    |
|                                |                                  |           |                                 |           |
| Company-administered plans:    |                                  |           |                                 |           |
| U.S.                           | \$8,746                          | 5,389     | \$26,237                        | 16,190    |
| Non-U.S.                       | (469                             | ) (257    | ) (1,431                        | ) (850    |
|                                | 8,277                            | 5,132     | 24,806                          | 15,340    |
| Union-administered plans       | 1,772                            | 3,475     | 6,057                           | 7,744     |
|                                | \$10,049                         | 8,607     | \$30,863                        | 23,084    |
|                                |                                  |           |                                 |           |
| Postretirement Benefits        |                                  |           |                                 |           |
| Company-administered plans:    |                                  |           |                                 |           |
| Service cost                   | \$88                             | 112       | \$278                           | 336       |
| Interest cost                  | 270                              | 356       | 829                             | 1,069     |
| Amortization of:               |                                  |           |                                 |           |
| Net actuarial gain             | (235                             | ) (181    | ) (709                          | ) (544    |
| Prior service credit           | (477                             | ) (616    | ) (1,433                        | ) (1,844  |
| Net periodic benefit credit    | \$(354                           | ) (329    | ) \$(1,035                      | ) (983    |
|                                |                                  |           |                                 |           |
| Company-administered plans:    |                                  |           |                                 |           |
| U.S.                           | \$(469                           | ) (460    | ) \$(1,415                      | ) (1,379  |
| Non-U.S.                       | 115                              | 131       | 380                             | 396       |
|                                | \$(354                           | ) (329    | ) \$(1,035                      | ) (983    |

During the nine months ended September 30, 2015, we contributed \$29.9 million to our pension plans. In 2015, we expect total contributions to our pension plans to be approximately \$35 million.



## RYDER SYSTEM, INC. AND SUBSIDIARIES

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

(unaudited)

## (M) OTHER ITEMS IMPACTING COMPARABILITY

|  | Three months ended September 30, |         | Nine months ended September 30, |         |
|--|----------------------------------|---------|---------------------------------|---------|
|  | 2015                             | 2014    | 2015                            | 2014    |
|  | (In thousands)                   |         |                                 |         |
| Pension settlement adjustments                       | \$(509                           | ) 1,262 | \$(509                          | ) 1,262 |
| Professional fees                                    | 63                               | —       | 3,843                           | —       |
| Acquisition transaction costs                        | —                                | 566     | —                               | 566     |
| Restructuring and other charges, net and other items | \$(446                           | ) 1,828 | \$3,334                         | 1,828   |

During the three and nine months ended September 30, 2015, we incurred charges of \$0.1 million and \$3.8 million, respectively, related to professional fees associated with cost savings initiatives. During the three and nine months ended September 30, 2015, we recorded adjustments of \$0.5 million to previously recorded estimated pension settlement charges related to the exit from U.S. multi-employer pension plans. These items are reflected within "Selling, general and administrative expenses" in our Consolidated Condensed Statements of Earnings.

During the three and nine months ended September 30, 2014, we recorded estimated pension settlement charges of \$1.3 million for the exit of certain U.S. multi-employer pension plans. During the three and nine months ended September 30, 2014, transaction costs related to the Bullwell acquisition were \$0.6 million. These items were reflected within "Selling, general and administrative expenses" in our Consolidated Condensed Statements of Earnings.

## (N) SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information was as follows:

|   | Nine months ended September 30, |         |
|---|---------------------------------|---------|
|   | 2015                            | 2014    |
|   | (In thousands)                  |         |
| Interest paid   | \$110,141                       | 110,192 |
| Income taxes paid   | 13,635                          | 9,878   |
| Changes in accounts payable related to purchases of revenue earning equipment | 18,307                          | 3,902   |
| Operating and revenue earning equipment acquired under capital leases         | 5,956                           | 3,788   |

## (O) MISCELLANEOUS INCOME, NET

|   | Three months ended September 30, |        | Nine months ended September 30, |         |
|---|----------------------------------|--------|---------------------------------|---------|
|   | 2015                             | 2014   | 2015                            | 2014    |
|   | (In thousands)                   |        |                                 |         |
| Gain on sales of operating property and equipment | \$1,516                          | 135    | \$1,597                         | 2,725   |
| Gain/(loss) on foreign currency transactions      | 1,363                            | 11     | 1,629                           | (376)   |
| Rabbi trust investment (loss)/income              | (1,504                           | ) (177 | ) (318                          | ) 1,400 |



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|                     |         |       |         |        |
|---------------------|---------|-------|---------|--------|
| Insurance proceeds  | —       | —     | 314     | 756    |
| Contract settlement | —       | 64    | 56      | 2,972  |
| Other, net          | (3      | ) 963 | 1,759   | 3,729  |
| Total               | \$1,372 | 996   | \$5,037 | 11,206 |

RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

(P) SEGMENT REPORTING

Our operating segments are aggregated into reportable business segments based upon similar economic characteristics, products, services, customers and delivery methods. During the first quarter of 2015, our management structure changed within the supply chain business. We created the role of President of DTS for the dedicated product offering which previously was within SCS. We are now reporting our financial performance as follows: (1) FMS, which provides full service leasing, commercial rental, contract maintenance, and contract-related maintenance of trucks, tractors and trailers to customers principally in the U.S., Canada and the U.K.; (2) DTS, which provides vehicles and drivers as part of a dedicated transportation solution in the U.S.; and (3) SCS, which provides comprehensive supply chain solutions including distribution and transportation services in North America and Asia. Dedicated transportation services provided as part of an integrated, multi-service, supply chain solution to SCS customers are reported in the SCS business segment.

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 other items discussed in Note (M), "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 DTS and SCS segments. 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 the business segment which served the customer and then eliminated (presented as "Eliminations").

## RYDER SYSTEM, INC. AND SUBSIDIARIES

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

(unaudited)

The following tables set forth financial information for each of our business segments and provide a reconciliation between segment EBT and earnings from continuing operations before income taxes for the three and nine months ended September 30, 2015 and 2014. 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.

|   | FMS            | DTS     | SCS     | Eliminations | Total     |
|---|----------------|---------|---------|--------------|-----------|
|   | (in thousands) |         |         |              |           |
| For the three months ended September 30, 2015                       |                |         |         |              |           |
| Revenue from external customers                                     | \$1,054,840    | 226,921 | 387,305 | —            | 1,669,066 |
| Inter-segment revenue   | 102,738        | —       | —       | (102,738 )   | —         |
| Total revenue   | \$1,157,578    | 226,921 | 387,305 | (102,738 )   | 1,669,066 |
| Segment EBT   | \$126,433      | 13,296  | 26,573  | (11,998 )    | 154,304   |
| Unallocated CSS   |                |         |         |              | (10,070 ) |
| Non-operating pension costs   |                |         |         |              | (4,780 )  |
| Restructuring and other charges, net and other items <sup>(1)</sup> |                |         |         |              | 446       |
| Earnings from continuing operations before income taxes             |                |         |         |              | \$139,900 |
| Segment capital expenditures paid <sup>(2)</sup>                    | \$740,049      | 1,175   | 4,195   | —            | 745,419   |
| Unallocated CSS   |                |         |         |              | 12,657    |
| Capital expenditures paid   |                |         |         |              | \$758,076 |
| For the three months ended September 30, 2014                       |                |         |         |              |           |
| Revenue from external customers                                     | \$1,069,333    | 227,568 | 390,249 | —            | 1,687,150 |
| Inter-segment revenue   | 117,589        | —       | —       | (117,589 )   | —         |
| Total revenue   | \$1,186,922    | 227,568 | 390,249 | (117,589 )   | 1,687,150 |
| Segment EBT   | \$120,867      | 11,850  | 24,302  | (9,564 )     | 147,455   |
| Unallocated CSS   |                |         |         |              | (13,564 ) |
| Non-operating pension costs   |                |         |         |              | (2,455 )  |
| Restructuring and other charges, net and other items <sup>(1)</sup> |                |         |         |              | (1,828 )  |
| Earnings from continuing operations before income taxes             |                |         |         |              | \$129,608 |
| Segment capital expenditures paid <sup>(2), (3)</sup>               | \$470,552      | 432     | 7,052   | —            | 478,036   |
| Unallocated CSS   |                |         |         |              | 7,915     |
| Capital expenditures paid   |                |         |         |              | \$485,951 |

(1) See Note (M), "Other Items Impacting Comparability," for additional information.

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

(3) Excludes acquisition payments of \$8.1 million during the three months ended September 30, 2014.



## RYDER SYSTEM, INC. AND SUBSIDIARIES

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

(unaudited)

|   | FMS<br>(in thousands) | DTS     | SCS       | Eliminations | Total        |
|---|-----------------------|---------|-----------|--------------|--------------|
| For the nine months ended September 30, 2015                        |                       |         |           |              |              |
| Revenue from external customers                                     | \$ 3,080,756          | 663,094 | 1,155,300 | —            | 4,899,150    |
| Inter-segment revenue   | 313,321               | —       | —         | (313,321 )   | —            |
| Total revenue   | \$ 3,394,077          | 663,094 | 1,155,300 | (313,321 )   | 4,899,150    |
| Segment EBT   | \$ 338,603            | 34,701  | 69,961    | (35,120 )    | 408,145      |
| Unallocated CSS   |                       |         |           |              | (32,936 )    |
| Non-operating pension costs   |                       |         |           |              | (14,351 )    |
| Restructuring and other charges, net and other items <sup>(1)</sup> |                       |         |           |              | (3,334 )     |
| Earnings from continuing operations before income taxes             |                       |         |           |              | \$ 357,524   |
| Segment capital expenditures paid <sup>(2)</sup>                    | \$ 2,040,334          | 2,530   | 13,752    | —            | 2,056,616    |
| Unallocated CSS   |                       |         |           |              | 30,678       |
| Capital expenditures paid   |                       |         |           |              | \$ 2,087,294 |
| For the nine months ended September 30, 2014                        |                       |         |           |              |              |
| Revenue from external customers                                     | \$ 3,139,721          | 677,544 | 1,165,193 | —            | 4,982,458    |
| Inter-segment revenue   | 363,510               | —       | —         | (363,510 )   | —            |
| Total revenue   | \$ 3,503,231          | 677,544 | 1,165,193 | (363,510 )   | 4,982,458    |
| Segment EBT   | \$ 311,453            | 33,534  | 55,130    | (29,715 )    | 370,402      |
| Unallocated CSS   |                       |         |           |              | (36,518 )    |
| Non-operating pension costs   |                       |         |           |              | (7,313 )     |
| Restructuring and other charges, net and other items <sup>(1)</sup> |                       |         |           |              | (1,828 )     |
| Earnings from continuing operations before income taxes             |                       |         |           |              | \$ 324,743   |
| Segment capital expenditures paid <sup>(2), (3)</sup>               | \$ 1,661,929          | 1,090   | 14,515    | —            | 1,677,534    |
| Unallocated CSS   |                       |         |           |              | 63,639       |
| Capital expenditures paid   |                       |         |           |              | \$ 1,741,173 |

(1) See Note (M), "Other Items Impacting Comparability," for additional information.

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

(3) Excludes acquisition payments of \$9.8 million during the nine months ended September 30, 2014.

RYDER SYSTEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(unaudited)

(Q) 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.

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. Other than with respect to the matters discussed below, 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 million in prior years for various federal income taxes and social contribution taxes for the 1997 and 1998 tax years. We 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 amount of any potential loss.

## 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 2014 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. During the first quarter of 2015, our management structure changed within the supply chain business. We created the role of President of Dedicated Transportation Solutions (DTS) for the dedicated product offering which was previously within Supply Chain Solutions (SCS). Beginning with the current year, we are reporting our financial performance based on three business segments: (1) Fleet Management Solutions (FMS), which provides full service leasing, commercial rental, contract maintenance, and contract-related maintenance of trucks, tractors and trailers to customers principally in the U.S., Canada and the U.K.; (2) DTS, which provides vehicles and drivers as part of a dedicated transportation solution in the U.S.; and (3) SCS, which provides comprehensive supply chain solutions including distribution and transportation services in North America and Asia. Dedicated transportation services provided as part of an integrated, multi-service, supply chain solution to SCS customers are reported in the SCS business segment.

The Company periodically enters into sale and leaseback transactions to lower the total cost of funding our operations and to diversify funding among different classes of investors and among different types of funding instruments. The related leasebacks were historically treated as off-balance sheet operating leases and were included in our reported leverage ratios. During the second quarter of 2015, we reviewed and evaluated the structure of the leasebacks and determined that they did not qualify for deconsolidation. The prior year amounts, which were not material, have been revised to conform to the current period presentation. Refer to Note (A), "General," in the Notes to Consolidated Condensed Financial Statements for further discussion of the revision to our historical financial statements.

At the beginning of this year, we also revised the reporting of operating revenue, a non-GAAP financial measure. In addition to excluding FMS fuel services revenue and subcontracted transportation from the calculation of operating revenue, we also now exclude DTS and SCS fuel costs. Prior year amounts have been revised to conform to the current period presentation. The revisions were not material and did not impact segment earnings.

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 (CPG), transportation and warehousing, technology and healthcare, retail, housing, business and personal services, and paper and publishing.

|   | Three months ended<br>September 30,<br>2015 |           | Nine months ended<br>September 30,<br>2015 |           | Change 2015/2014 |             |
|---|---|-----------|--|-----------|------------------|-------------|
|   | 2014  |           | 2014                                       |           | Three Months     | Nine Months |
|   | (In thousands, except per share amounts)    |           |  |           |                  |             |
| Total revenue   | \$ 1,669,066                                | 1,687,150 | \$ 4,899,150                               | 4,982,458 | (1)%             | (2)%        |
| Operating revenue <sup>(1)</sup>                              | 1,426,465                                   | 1,344,465 | 4,119,369                                  | 3,902,874 | 6%               | 6%          |
| EBT   | \$ 139,900                                  | 129,608   | \$ 357,524                                 | 324,743   | 8%               | 10%         |
| Comparable EBT <sup>(2)</sup>                                 | 144,234                                     | 133,891   | 375,209                                    | 333,884   | 8%               | 12%         |
| Earnings from continuing operations                           | 90,811                                      | 83,895    | 230,054                                    | 208,742   | 8%               | 10%         |
| Comparable earnings from continuing operations <sup>(2)</sup> | 93,268                                      | 86,464    | 238,499                                    | 212,221   | 8%               | 12%         |
| Net earnings  | 90,619                                      | 83,617    | 228,567                                    | 207,262   | 8%               | 10%         |

|                           |        |      |        |      |    |     |
|---------------------------|--------|------|--------|------|----|-----|
| Continuing operations     | \$1.70 | 1.58 | \$4.31 | 3.92 | 8% | 10% |
| Comparable <sup>(2)</sup> | 1.74   | 1.63 | 4.47   | 3.98 | 7% | 12% |
| Net earnings              | 1.69   | 1.57 | 4.28   | 3.89 | 8% | 10% |

(2) Non-GAAP financial measure. We believe comparable EBT, comparable earnings and comparable earnings per diluted common share, all from continuing operations, provide useful information to investors because 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. Refer to the section titled “Non-GAAP Financial Measures” for a reconciliation of EBT, net earnings and earnings per diluted common share to the comparable measures.

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and SCS operating revenue growth was due to new business and increased volumes. EBT increased 8% in the third quarter of 2015 to \$139.9 million. For the nine months ended September 30, 2015, EBT increased 10% to \$357.5 million. EBT increased from higher full service lease and commercial rental performance in FMS and new business and increased pricing in SCS and DTS. The strong EBT performance in the three and nine months ended September 30, 2015 was partially offset by a 100 basis point negative impact of foreign exchange.

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

## CONSOLIDATED RESULTS

## Lease and Rental

|                           | Three months ended<br>September 30, |         | Nine months ended<br>September 30, |           | Change 2015/2014 |                |
|---------------------------|-------------------------------------|---------|------------------------------------|-----------|------------------|----------------|
|                           | 2015                                | 2014    | 2015                               | 2014      | Three<br>Months  | Nine<br>Months |
|                           | (Dollars in thousands)              |         |                                    |           |                  |                |
| Lease and rental revenues | \$802,881                           | 756,733 | \$2,310,951                        | 2,180,178 | 6%               | 6%             |
| Cost of lease and rental  | 550,541                             | 522,202 | 1,600,271                          | 1,522,394 | 5%               | 5%             |
| Gross margin              | 252,340                             | 234,531 | 710,680                            | 657,784   | 8%               | 8%             |
| Gross margin %            | 31                                  | % 31    | % 31                               | % 30      | %                |                |

Lease and rental revenues represent full service lease and commercial rental product offerings within our FMS business segment. Revenues increased 6% in both the third quarter and the nine months ended September 30, 2015 primarily driven by higher prices on full service lease vehicles, a 6% larger average full service lease fleet and increased commercial rental revenue. Foreign exchange negatively impacted revenue growth by 200 basis points. Commercial rental revenue grew due to increased North American demand and higher rental pricing (up 2% in the third quarter and 4% in the nine months ended September 30, 2015).

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 costs such as licenses, insurance and operating taxes. Cost of lease and rental excludes interest costs from vehicle financing. Cost of lease and rental increased 5% in both the third quarter and nine months ended September 30, 2015 due to higher depreciation, insurance and maintenance costs from a larger average lease fleet and a 7% larger average rental fleet. Cost of lease and rental benefited by \$10.0 million in the third quarter of 2015 and by \$30.0 million in the nine months ended September 30, 2015 due to changes in estimated residual values and useful lives of revenue earning equipment effective January 1, 2015. For the third quarter and nine months ended September 30, 2015, foreign exchange also reduced cost of lease and rental by 300 basis points and 200 basis points, respectively.

Lease and rental gross margin increased 8% in the third quarter of 2015 to \$252.3 million and increased 8% to \$710.7 million in the nine months ended September 30, 2015. Lease and rental gross margin as a percentage of revenue remained at 31% in the third quarter and increased to 31% for the nine months ended September 30, 2015. The increase in gross margin dollars was due to higher per-vehicle pricing as well as benefits from improved residual values. The increase in gross margin as a percentage of revenue was due to benefits from improved residual values.

## Services

|                  | Three months ended<br>September 30, |         | Nine months ended<br>September 30, |           | Change 2015/2014 |                |
|------------------|-------------------------------------|---------|------------------------------------|-----------|------------------|----------------|
|                  | 2015                                | 2014    | 2015                               | 2014      | Three<br>Months  | Nine<br>Months |
|                  | (Dollars in thousands)              |         |                                    |           |                  |                |
| Services revenue | \$734,803                           | 732,049 | \$2,165,677                        | 2,183,175 | —%               | (1)%           |
| Cost of services | 606,364                             | 607,530 | 1,792,182                          | 1,839,035 | —%               | (3)%           |
| Gross margin     | 128,439                             | 124,519 | 373,495                            | 344,140   | 3%               | 9%             |
| Gross margin %   | 17                                  | % 17    | % 17                               | % 16      | %                |                |

Services revenue represents all the revenues associated with our DTS and SCS business segments as well as contract maintenance, contract-related maintenance and fleet support services associated with our FMS business segment. Services revenue in the third quarter of 2015 was consistent with the third quarter of 2014, and decreased 1% in the nine months ended September 30, 2015 primarily due to the effects of lower fuel prices passed through to our DTS and SCS customers and foreign exchange, partially offset by new business, increased pricing, and higher volumes in our DTS and SCS business segments. Foreign exchange negatively impacted revenue growth by 300 basis points in the third quarter and 200 basis points in the nine months ended September 30, 2015.

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

Cost of services represents the direct costs related to services revenue and is primarily comprised of salaries and employee-related costs, subcontracted transportation (purchased transportation from third parties) and maintenance costs. Cost of services remained consistent in the third quarter of 2015 and decreased 3% in the nine months ended September 30, 2015 due to lower fuel costs as well as lower shutdown costs in our SCS business partially offset by increased insurance costs. The decrease in cost of services in the nine months ended September 30, 2015 also reflects prior year start-up and severe winter weather-related costs, partially offset by higher compensation-related costs. For the third quarter and nine months ended September 30, 2015, foreign exchange reduced cost of services by 300 basis points and 200 basis points, respectively.

Services gross margin increased 3% to \$128.4 million in the third quarter of 2015 and increased 9% to \$373.5 million in the nine months ended September 30, 2015. Services gross margin as a percentage of revenue remained at 17% in the third quarter of 2015 and increased to 17% in the nine months ended September 30, 2015. The increase in gross margin dollars and gross margin as a percentage of revenue reflects improved operating performance and pricing in our SCS business segment. Gross margin dollars also benefited from new business in our DTS business segment. Prior year SCS gross margin was negatively impacted by start-up and shutdown costs and severe winter weather during the first quarter.

| Fuel                  | Three months ended<br>September 30, |         | Nine months ended<br>September 30, |         | Change 2015/2014 |                |
|-----------------------|-------------------------------------|---------|------------------------------------|---------|------------------|----------------|
|                       | 2015                                | 2014    | 2015                               | 2014    | Three<br>Months  | Nine<br>Months |
|                       | (Dollars in thousands)              |         |                                    |         |                  |                |
| Fuel services revenue | \$131,382                           | 198,368 | \$422,522                          | 619,105 | (34)%            | (32)%          |
| Cost of fuel services | 129,562                             | 194,926 | 408,027                            | 605,744 | (34)%            | (33)%          |
| Gross margin          | 1,820                               | 3,442   | 14,495                             | 13,361  | (47)%            | 8%             |
| Gross margin %        | 1                                   | % 2     | % 3                                | % 2     | %                |                |

Fuel services revenue represents fuel services provided to our FMS customers. Fuel services revenue decreased 34% in the third quarter of 2015 to \$131.4 million and decreased 32% in the nine months ended September 30, 2015 to \$422.5 million due to lower fuel prices passed through to customers.

Cost of fuel services includes the direct costs associated with providing our customers with fuel. These costs include fuel, salaries and employee-related costs of fuel island attendants and depreciation of our fueling facilities and equipment. Cost of fuel services decreased 34% in the third quarter of 2015 and decreased 33% in the nine months ended September 30, 2015 caused by lower fuel prices.

Fuel services gross margin decreased 47% to \$1.8 million in the third quarter of 2015 and increased 8% to \$14.5 million in the nine months ended September 30, 2015. Fuel services gross margin as a percentage of revenue decreased to 1% in the third quarter of 2015 and increased to 3% in the nine months ended September 30, 2015. Fuel is largely a pass-through to customers for which we realize minimal changes in margin during periods of steady market fuel prices. However, fuel services margin is impacted by sudden increases or decreases in market fuel prices during a short period of time as customer pricing for fuel is established based on market fuel costs. Fuel services gross margin was adversely affected by these price-change dynamics in the third quarter of 2015 and favorably impacted during the earlier part of the year.

| Three months ended September<br>30, | Nine months ended<br>September 30, | Change 2015/2014 |
|-------------------------------------|------------------------------------|------------------|
|-------------------------------------|------------------------------------|------------------|

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|                          | 2015           | 2014   | 2015     | 2014   | Three<br>Months | Nine<br>Months |
|--------------------------|----------------|--------|----------|--------|-----------------|----------------|
|                          | (In thousands) |        |          |        |                 |                |
| Other operating expenses | \$31,286       | 28,889 | \$98,864 | 96,541 | 8%              | 2%             |

Other operating expenses include costs related to our owned and leased facilities within the FMS business segment, such as facility depreciation, rent, insurance, utilities and taxes. These facilities are utilized to provide maintenance to our lease, rental, contract maintenance, contract-related maintenance and on-demand customers. Other operating expenses also include the costs associated with used vehicle sales, including write-downs of used vehicles to fair market value. Other operating expenses increased 8% to \$31.3 million in the third quarter of 2015 largely due to a \$2.0 million increase in write-downs on vehicles held for sale. Other operating expenses increased 2% to \$98.9 million in the nine months ended September 30, 2015 due to a \$1.4 million increase in write-downs on vehicles held for sale.

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

|   | Three months ended<br>September 30, |         | Nine months ended<br>September 30, |         | Change 2015/2014 |                |
|---|-------------------------------------|---------|------------------------------------|---------|------------------|----------------|
|   | 2015                                | 2014    | 2015                               | 2014    | Three<br>Months  | Nine<br>Months |
|   | (Dollars in thousands)              |         |                                    |         |                  |                |
| Selling, general and administrative expenses (SG&A) | \$203,093                           | 202,001 | \$624,566                          | 594,133 | 1%               | 5%             |
| Percentage of total revenue                         | 12                                  | % 12    | % 13                               | % 12    | %                |                |
| Percentage of operating revenue                     | 14                                  | % 15    | % 15                               | % 15    | %                |                |

SG&A expenses increased 1% in the third quarter of 2015 primarily due to strategic investments in information technology and increased pension expenses, partially offset by lower compensation-related expenses and foreign exchange. SG&A expenses increased 5% in the nine months ended September 30, 2015 primarily driven by higher compensation-related expenses, including pension, strategic investments in information technology, and higher professional fees partially offset by foreign exchange. Foreign exchange reduced the growth in SG&A expenses by 200 basis points. Pension expense, which primarily impacts SG&A expenses, increased \$1.4 million in the third quarter and \$7.8 million in the nine months ended September 30, 2015 due to a lower asset return assumption and the adoption of new mortality assumptions at the end of 2014 that reflected improved trends in longevity. SG&A expenses as a percent of total revenue remained at 12% and as a percentage of operating revenue decreased to 14% during the third quarter of 2015. SG&A expenses as a percent of total revenue and as a percent of operating revenue increased to 13% and remained at 15%, respectively, in the nine months ended September 30, 2015. The decrease as a percent of operating revenue in the third quarter was a result of operating revenue growth. The increase as a percent of total revenue in the nine months ended September 30, 2015, was a result of the decline in total revenue from fluctuating fuel prices.

|                             | Three months ended September<br>30, |        | Nine months ended September<br>30, |        | Change 2015/2014 |             |
|-----------------------------|-------------------------------------|--------|------------------------------------|--------|------------------|-------------|
|                             | 2015                                | 2014   | 2015                               | 2014   | Three<br>Months  | Nine Months |
|                             | (In thousands)                      |        |                                    |        |                  |             |
| Gains on vehicle sales, net | \$29,294                            | 33,691 | \$92,110                           | 96,874 | (13)%            | (5)%        |

Gains on vehicle sales, net decreased 13% in the third quarter of 2015 and decreased 5% in the nine months ended September 30, 2015 due to lower sales volume, partially offset by higher average proceeds per unit. Lower sales volume in 2015 (down 12% in the third quarter of 2015 and down 17% in the first nine months of 2015) reflects lower average used vehicle inventories during the year and, to a lesser extent, reduced market demand in the third quarter. Global average proceeds per unit increased 6% in the third quarter of 2015 reflecting increases in average truck and tractor proceeds per unit with moderating pricing toward the end of the quarter. Global average proceeds per unit increased 12% in the nine months ended September 30, 2015 reflecting increases in average truck, tractor and trailer proceeds per unit.

|                         | Three months ended<br>September 30, |        | Nine months ended September<br>30, |         | Change 2015/2014 |                |
|-------------------------|-------------------------------------|--------|------------------------------------|---------|------------------|----------------|
|                         | 2015                                | 2014   | 2015                               | 2014    | Three<br>Months  | Nine<br>Months |
|                         | (Dollars in thousands)              |        |                                    |         |                  |                |
| Interest expense        | \$38,986                            | 36,681 | \$114,863                          | 107,948 | 6%               | 6%             |
| Effective interest rate | 2.9                                 | % 3.1  | % 3.0                              | % 3.1   | %                |                |

Interest expense increased 6% in both the third quarter of 2015 and the nine months ended September 30, 2015 reflecting higher average outstanding debt. The increase in average outstanding debt reflects planned higher vehicle capital spending. The lower effective interest rate in 2015 reflects the replacement of higher interest rate debt with debt issuances at lower rates.

|                           | Three months ended<br>September 30, |      | Nine months ended<br>September 30, |        | Change 2015/2014 |                |
|---------------------------|-------------------------------------|------|------------------------------------|--------|------------------|----------------|
|                           | 2015                                | 2014 | 2015                               | 2014   | Three<br>Months  | Nine<br>Months |
|                           | (Dollars in thousands)              |      |                                    |        |                  |                |
| Miscellaneous income, net | \$ 1,372                            | 996  | \$ 5,037                           | 11,206 | 38%              | (55)%          |

Refer to Note (O), "Miscellaneous Income, Net" in the Notes to Consolidated Condensed Financial Statements for detail of the components within miscellaneous income.

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

|  | Three months ended<br>September 30, |        | Nine months ended<br>September 30, |         | Change 2015/2014 |                |
|--|-------------------------------------|--------|------------------------------------|---------|------------------|----------------|
|  | 2015                                | 2014   | 2015                               | 2014    | Three<br>Months  | Nine<br>Months |
|  | (Dollars in thousands)              |        |                                    |         |                  |                |
| Provision for income taxes                       | \$49,089                            | 45,713 | \$127,470                          | 116,001 | 7%               | 10%            |
| Effective tax rate from<br>continuing operations | 35.1                                | % 35.3 | % 35.7                             | % 35.7  | %                |                |

Our effective income tax rate from continuing operations for the third quarter of 2015 was 35.1% compared with 35.3% in the same period of the prior year. Our effective income tax rate from continuing operations for the nine months ended September 30, 2015 was 35.7%, consistent with the rate in the same period of the prior year. The effective tax rate in the nine months ended September 30, 2015 benefited from tax law changes in the states of Connecticut and Texas, and the city of New York, which decreased the provision for income taxes by \$1.9 million (0.5% of pre-tax earnings). The effective tax rate in the nine months ended September 30, 2014 benefited from tax law changes in the state of New York, which decreased the provision for income taxes by \$1.8 million (0.5% of pre-tax earnings).

|  | Three months ended<br>September 30, |        | Nine months ended<br>September 30, |          | Change 2015/2014 |                |
|--|-------------------------------------|--------|------------------------------------|----------|------------------|----------------|
|  | 2015                                | 2014   | 2015                               | 2014     | Three<br>Months  | Nine<br>Months |
|  | (Dollars in thousands)              |        |                                    |          |                  |                |
| Loss from discontinued<br>operations, net of tax | \$(192                              | ) (278 | ) \$(1,487                         | ) (1,480 | ) (31)%          | —%             |

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



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

## OPERATING RESULTS BY BUSINESS SEGMENT

|   | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |            | Change 2015/2014 |                |
|---|-------------------------------------|------------|------------------------------------|------------|------------------|----------------|
|   | 2015                                | 2014       | 2015                               | 2014       | Three<br>Months  | Nine<br>Months |
|   | (Dollars in thousands)              |            |                                    |            |                  |                |
| Revenue:  |                                     |            |                                    |            |                  |                |
| Fleet Management Solutions                              | \$1,157,578                         | 1,186,922  | \$3,394,077                        | 3,503,231  | (2)%             | (3)%           |
| Dedicated Transportation Solutions                      | 226,921                             | 227,568    | 663,094                            | 677,544    | —                | (2)            |
| Supply Chain Solutions                                  | 387,305                             | 390,249    | 1,155,300                          | 1,165,193  | (1)              | (1)            |
| Eliminations  | (102,738 )                          | (117,589 ) | (313,321 )                         | (363,510 ) | (13)             | (14)           |
| Total   | \$1,669,066                         | 1,687,150  | \$4,899,150                        | 4,982,458  | (1)%             | (2)%           |
| Operating Revenue:                                      |                                     |            |                                    |            |                  |                |
| Fleet Management Solutions                              | \$988,424                           | 931,889    | \$2,846,661                        | 2,699,726  | 6%               | 5%             |
| Dedicated Transportation Solutions                      | 184,247                             | 168,694    | 526,882                            | 491,856    | 9                | 7              |
| Supply Chain Solutions                                  | 318,759                             | 304,806    | 934,253                            | 890,402    | 5                | 5              |
| Eliminations  | (64,965 )                           | (60,924 )  | (188,427 )                         | (179,110 ) | 7                | 5              |
| Total   | \$1,426,465                         | 1,344,465  | \$4,119,369                        | 3,902,874  | 6%               | 6%             |
| EBT:  |                                     |            |                                    |            |                  |                |
| Fleet Management Solutions                              | \$126,433                           | 120,867    | \$338,603                          | 311,453    | 5%               | 9%             |
| Dedicated Transportation Solutions                      | 13,296                              | 11,850     | 34,701                             | 33,534     | 12               | 3              |
| Supply Chain Solutions                                  | 26,573                              | 24,302     | 69,961                             | 55,130     | 9                | 27             |
| Eliminations  | (11,998 )                           | (9,564 )   | (35,120 )                          | (29,715 )  | 25               | 18             |
|   | 154,304                             | 147,455    | 408,145                            | 370,402    | 5                | 10             |
| Unallocated Central Support Services                    | (10,070 )                           | (13,564 )  | (32,936 )                          | (36,518 )  | (26)             | (10)           |
| Non-operating pension costs                             | (4,780 )                            | (2,455 )   | (14,351 )                          | (7,313 )   | 95               | 96             |
| Restructuring and other charges, net and other items    | 446                                 | (1,828 )   | (3,334 )                           | (1,828 )   | NM               | NM             |
| Earnings from continuing operations before income taxes | \$139,900                           | 129,608    | \$357,524                          | 324,743    | 8%               | 10%            |

As part of management's evaluation of segment operating performance, we define the primary measurement of our segment financial performance as "Earnings Before Taxes" (EBT) from continuing operations, which includes an allocation of Central Support Services (CSS), and excludes non-operating pension costs, restructuring and other charges, net and other items discussed in Note (M), "Other Items Impacting Comparability," in the Notes to Consolidated Condensed Financial Statements. CSS represents those costs incurred to support all business segments, including human resources, finance, corporate services and 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. 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. Certain costs are considered to be overhead not attributable to any segment and remain unallocated in CSS. Included within the unallocated overhead remaining within CSS are the costs for investor relations, public affairs and certain executive compensation.

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 FMS, DTS and SCS and then eliminated (presented as “Eliminations” in the table above). Prior year amounts have been revised to conform to the current period presentation.

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

The following table sets forth equipment contribution included in EBT for our DTS and SCS business segments:

|                                    | Three months ended<br>September 30, |       | Nine months ended<br>September 30, |        | Change 2015/2014 |                |
|------------------------------------|-------------------------------------|-------|------------------------------------|--------|------------------|----------------|
|                                    | 2015                                | 2014  | 2015                               | 2014   | Three<br>Months  | Nine<br>Months |
|                                    | (Dollars in thousands)              |       |                                    |        |                  |                |
| Equipment Contribution:            |                                     |       |                                    |        |                  |                |
| Dedicated Transportation Solutions | \$8,527                             | 6,931 | \$24,351                           | 20,533 | 23%              | 19%            |
| Supply Chain Solutions             | 3,471                               | 2,633 | 10,769                             | 9,182  | 32               | 17             |
| Total                              | \$11,998                            | 9,564 | \$35,120                           | 29,715 | 25%              | 18%            |

The following table provides a reconciliation of items excluded from our segment EBT measure to their classification within our Consolidated Condensed Statements of Earnings:

| Description                                  | Consolidated<br>Condensed Statements of Earnings<br>Line Item | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |          |
|--|---|-------------------------------------|----------|------------------------------------|----------|
|  |   | 2015                                | 2014     | 2015                               | 2014     |
|  |   | (In thousands)                      |          |                                    |          |
| Non-operating pension costs                  | SG&A  | \$(4,780 )                          | (2,455 ) | \$(14,351 )                        | (7,313 ) |
| Professional fees <sup>(1)</sup>             | SG&A  | (63 )                               | —        | (3,843 )                           | —        |
| Pension settlement adjustment <sup>(1)</sup> | SG&A  | 509                                 | (1,262 ) | 509                                | (1,262 ) |
| Acquisition transaction costs <sup>(1)</sup> | SG&A  | —                                   | (566 )   | —                                  | (566 )   |
|  |   | \$(4,334 )                          | (4,283 ) | \$(17,685 )                        | (9,141 ) |

(1) See Note (M), "Other Items Impacting Comparability" for additional information.

### Fleet Management Solutions

|                                      | Three months ended<br>September 30, |           | Nine months ended<br>September 30, |           | Change 2015/2014 |                |
|--------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|------------------|----------------|
|                                      | 2015                                | 2014      | 2015                               | 2014      | Three<br>Months  | Nine<br>Months |
|                                      | (Dollars in thousands)              |           |                                    |           |                  |                |
| Full service lease                   | \$609,300                           | 575,806   | \$1,782,106                        | 1,694,138 | 6%               | 5%             |
| Contract maintenance                 | 48,623                              | 46,927    | 143,559                            | 136,859   | 4                | 5              |
| Contractual revenue                  | 657,923                             | 622,733   | 1,925,665                          | 1,830,997 | 6                | 5              |
| Commercial rental                    | 250,601                             | 234,231   | 694,745                            | 646,110   | 7                | 8              |
| Contract-related maintenance         | 59,904                              | 56,798    | 169,585                            | 169,425   | 5                | —              |
| Other                                | 19,996                              | 18,127    | 56,666                             | 53,194    | 10               | 7              |
| Operating revenue <sup>(1)</sup>     | 988,424                             | 931,889   | 2,846,661                          | 2,699,726 | 6                | 5              |
| Fuel services revenue <sup>(2)</sup> | 169,154                             | 255,033   | 547,416                            | 803,505   | (34)             | (32)           |
| Total revenue                        | \$1,157,578                         | 1,186,922 | \$3,394,077                        | 3,503,231 | (2)%             | (3)%           |

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|  |           |         |           |         |            |         |
|--|-----------|---------|-----------|---------|------------|---------|
| Segment EBT  | \$126,433 | 120,867 | \$338,603 | 311,453 | 5%         | 9%      |
| Segment EBT as a % of total revenue                    | 10.9      | % 10.2  | % 10.0    | % 8.9   | % 70 bps   | 110 bps |
| Segment EBT as a % of operating revenue <sup>(1)</sup> | 12.8      | % 13.0  | % 11.9    | % 11.5  | % (20) bps | 40 bps  |

- 
- We use operating revenue and EBT as a percent of operating revenue, non-GAAP financial measures, to evaluate the operating performance of our FMS business segment and as a measure of sales activity. FMS fuel services revenue is an ancillary service that we provide our customers and is impacted by fluctuations in market fuel prices. (1) Therefore, this item is excluded from operating revenue as the costs are largely a pass-through to our customers, resulting in minimal changes in our 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. (2) Includes intercompany fuel sales from FMS to DTS and SCS.

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

The following table summarizes the components of the change in revenue on a percentage basis versus the prior year:

|                                    | Three months ended September 30, 2015 |           | Nine months ended September 30, 2015 |           |
|------------------------------------|---------------------------------------|-----------|--------------------------------------|-----------|
|                                    | Total                                 | Operating | Total                                | Operating |
| Organic including price and volume | 7%                                    | 8%        | 6%                                   | 7%        |
| Fuel                               | (7)                                   | —         | (7)                                  | —         |
| Foreign exchange                   | (2)                                   | (2)       | (2)                                  | (2)       |
| Total (decrease)/increase          | (2)%                                  | 6%        | (3)%                                 | 5%        |

Total revenue decreased 2% in the third quarter and 3% in the nine months ended September 30, 2015 due to lower fuel prices passed through to customers. Operating revenue (revenue excluding fuel) increased 6% in the third quarter and 5% in the nine months ended September 30, 2015 as a result of organic growth primarily in the full service lease and commercial rental product lines. Foreign exchange negatively impacted both total and operating revenue growth in the third quarter of 2015 and the nine months ended September 30, 2015 by 200 basis points in each period.

Full service lease revenue increased 6% in the third quarter and 5% in the nine months ended September 30, 2015 due to growth in the fleet size and higher prices on replacement vehicles. Foreign exchange negatively impacted full service lease revenue growth by 200 basis points in both the third quarter and the nine months ended September 30, 2015. The average number of full service lease vehicles increased 6% from the prior year, reflecting continued strong sales activity. We expect favorable full service lease revenue comparisons to continue through the end of the year based on strong sales activity. Commercial rental revenue increased 7% in the third quarter of 2015 and 8% in the nine months ended September 30, 2015 reflecting higher North American demand and pricing (up 2% in the third quarter of 2015 and 4% in the nine months ended September 30, 2015). Foreign exchange negatively impacted commercial rental revenue growth by 200 basis points in both the third quarter and the nine months ended September 30, 2015. We expect favorable commercial rental revenue comparisons to continue throughout the year based on recent trends and growth in our customer base.

The following table provides commercial rental statistics on our global fleet:

|  | Three months ended September 30, |         | Nine months ended September 30, |         | Change 2015/2014 |             |
|--|----------------------------------|---------|---------------------------------|---------|------------------|-------------|
|  | 2015                             | 2014    | 2015                            | 2014    | Three Months     | Nine Months |
|  | (Dollars in thousands)           |         |                                 |         |                  |             |
| Rental revenue from non-lease customers <sup>(1)</sup>                 | \$ 159,912                       | 141,023 | \$ 420,356                      | 382,983 | 13%              | 10%         |
| Rental revenue from lease customers <sup>(2)</sup>                     | \$ 90,689                        | 93,208  | \$ 274,389                      | 263,127 | (3)%             | 4%          |
| Average commercial rental power fleet size — in service <sup>(3)</sup> | 35,500                           | 32,200  | 33,400                          | 30,900  | 10%              | 8%          |
| Commercial rental utilization — power fleet <sup>(3)</sup>             | 76.4                             | % 78.0  | % 76.0                          | % 76.7  | % (160) bps      | (70) bps    |

(1) Also includes extra vehicles for lease customers

(2) Represents revenue from rental vehicles provided to our existing full service lease customers, generally in place of a lease vehicle

(3) Number of units rounded to nearest hundred and calculated using quarterly average unit counts.

(4) Excluding trailers.

FMS EBT increased 5% in the third quarter of 2015 to \$126.4 million and increased 9% in the nine months ended September 30, 2015 to \$338.6 million reflecting higher full service lease results and strong commercial rental performance, partially offset by lower used vehicle sales results. Higher spending on strategic investments primarily in sales and marketing and technology, in order to accelerate growth, adversely impacted FMS EBT in the three and nine months ended September 30, 2015. Commercial rental performance improved in the third quarter and year to date 2015 as a result of increased North American demand and higher pricing. Results benefited from \$10.0 million and \$30.0 million of lower depreciation in the three and nine months ended September 30, 2015, respectively, due to residual value policy changes implemented January 1, 2015, driven by higher sales proceeds realized on used vehicles, as well as growth in average lease and rental fleet size. Used vehicle sales results decreased due to lower sales volume, partially offset by higher, but moderating, pricing compared to the prior year.

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

Our global fleet of owned and leased revenue earning equipment and contract maintenance vehicles is summarized as follows (number of units rounded to the nearest hundred):

|  | September 30,<br>2015 | December 31,<br>2014 | September 30,<br>2014 | Change<br>Sept. 2015/Dec.<br>2014 | Sept.<br>2015/Sept.<br>2014 |
|--|-----------------------|----------------------|-----------------------|-----------------------------------|-----------------------------|
| End of period vehicle count                                  |                       |                      |                       |                                   |                             |
| By type:   |                       |                      |                       |                                   |                             |
| Trucks <sup>(1)</sup>  | 72,900                | 68,900               | 68,700                | 6%                                | 6%                          |
| Tractors <sup>(2)</sup>                                      | 67,100                | 62,400               | 61,500                | 8                                 | 9                           |
| Trailers <sup>(3) (4)</sup>                                  | 42,500                | 41,400               | 41,300                | 3                                 | 3                           |
| Other  | 1,300                 | 1,400                | 1,400                 | (7)                               | (7)                         |
| Total  | 183,800               | 174,100              | 172,900               | 6%                                | 6%                          |
| By ownership:  |                       |                      |                       |                                   |                             |
| Owned  | 182,200               | 172,300              | 171,200               | 6%                                | 6%                          |
| Leased   | 1,600                 | 1,800                | 1,700                 | (11)                              | (6)                         |
| Total  | 183,800               | 174,100              | 172,900               | 6%                                | 6%                          |
| By product line: <sup>(4)</sup>                              |                       |                      |                       |                                   |                             |
| Full service lease   | 130,600               | 125,500              | 123,200               | 4%                                | 6%                          |
| Commercial rental  | 43,800                | 39,900               | 40,700                | 10                                | 8                           |
| Service vehicles and other                                   | 3,300                 | 3,200                | 3,200                 | 3                                 | 3                           |
| Active units   | 177,700               | 168,600              | 167,100               | 5                                 | 6                           |
| Held for sale  | 6,100                 | 5,500                | 5,800                 | 11                                | 5                           |
| Total  | 183,800               | 174,100              | 172,900               | 6%                                | 6%                          |
| Customer vehicles under contract maintenance                 | 41,500                | 42,400               | 41,300                | (2)%                              | —%                          |
| Quarterly average vehicle count                              |                       |                      |                       |                                   |                             |
| By product line:   |                       |                      |                       |                                   |                             |
| Full service lease   | 129,900               | 124,200              | 123,000               | 5%                                | 6%                          |
| Commercial rental  | 43,800                | 40,400               | 40,800                | 8                                 | 7                           |
| Service vehicles and other                                   | 3,300                 | 3,200                | 3,100                 | 3                                 | 6                           |
| Active units   | 177,000               | 167,800              | 166,900               | 5                                 | 6                           |
| Held for sale  | 5,900                 | 5,600                | 6,000                 | 5                                 | (2)                         |
| Total  | 182,900               | 173,400              | 172,900               | 5%                                | 6%                          |
| Customer vehicles under contract maintenance                 | 41,400                | 41,600               | 40,200                | —%                                | 3%                          |
| Customer vehicles under on-demand maintenance <sup>(5)</sup> | 8,200                 | 5,600                | 6,200                 | 46%                               | 32%                         |
| Total vehicles under service                                 | 232,500               | 220,600              | 219,300               | 5%                                | 6%                          |
| Year-to-date average vehicle count                           |                       |                      |                       |                                   |                             |

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By product line:

|                            |         |         |         |      |      |
|----------------------------|---------|---------|---------|------|------|
| Full service lease         | 128,000 | 123,400 | 123,100 | 4%   | 4%   |
| Commercial rental          | 42,100  | 39,800  | 39,600  | 6    | 6    |
| Service vehicles and other | 3,200   | 3,100   | 3,100   | 3    | 3    |
| Active units               | 173,300 | 166,300 | 165,800 | 4    | 5    |
| Held for sale              | 5,800   | 6,500   | 6,800   | (11) | (15) |
| Total                      | 179,100 | 172,800 | 172,600 | 4%   | 4%   |

|  |        |        |        |    |     |
|--|--------|--------|--------|----|-----|
| Customer vehicles under contract maintenance | 42,600 | 39,500 | 38,800 | 8% | 10% |
|--|--------|--------|--------|----|-----|

|  |        |        |        |      |     |
|--|--------|--------|--------|------|-----|
| Customer vehicles under on-demand maintenance <sup>(5)</sup> | 16,900 | 17,000 | 13,000 | (1)% | 30% |
|--|--------|--------|--------|------|-----|

(1) Generally comprised of Class 1 through Class 6 type vehicles with a Gross Vehicle Weight (GVW) up to 26,000 pounds.

(2) Generally comprised of over the road on highway tractors and are primarily comprised of Classes 7 and 8 type vehicles with a GVW of over 26,000 pounds.

(3) Generally comprised of dry, flatbed and refrigerated type trailers.

Includes 6,500 UK trailers (4,300 full service lease and 2,200 commercial rental), 6,800 UK trailers (4,400 full service lease and 2,400 commercial rental) and 6,900 UK trailers (4,300 full service lease and 2,600 commercial rental) as of September 30, 2015, December 31, 2014, and September 30, 2014, respectively.

(5) Comprised of the number of unique vehicles serviced under on-demand maintenance agreements for the quarterly and year-to-date periods. This does not represent averages for the periods. Vehicles included in the count may have been serviced more than one time during the respective period.

Note: Quarterly and year-to-date amounts were computed using a 6 and 18-point average, respectively, based on monthly information.



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

The following table provides a breakdown of our non-revenue earning equipment included in our global fleet count (number of units rounded to nearest hundred):

|                                  | September 30,<br>2015 | December 31,<br>2014 | September 30,<br>2014 | Change<br>Sept. 2015/<br>Dec. 2014 | Sept. 2015/<br>Sept. 2014 |
|----------------------------------|-----------------------|----------------------|-----------------------|------------------------------------|---------------------------|
| Not yet earning revenue (NYE)    | 2,800                 | 2,300                | 1,800                 | 22%                                | 56%                       |
| No longer earning revenue (NLE): |                       |                      |                       |                                    |                           |
| Units held for sale              | 6,100                 | 5,500                | 5,800                 | 11                                 | 5                         |
| Other NLE units                  | 3,900                 | 3,000                | 3,500                 | 30                                 | 11                        |
| Total                            | 12,800                | 10,800               | 11,100                | 19%                                | 15%                       |

NYE units represent new vehicles on hand that are being prepared for deployment to a lease customer or into the rental fleet. Preparations include activities such as adding lift gates, paint, decals, cargo area and refrigeration equipment. NYE units increased 56% compared to September 30, 2014, due to high levels of lease sales activity. NLE units represent vehicles held for sale and vehicles for which no revenue has been earned in the previous 30 days. Accordingly, these vehicles may be temporarily out of service, being prepared for sale or awaiting redeployment. NLE units increased compared to September 30, 2014, reflecting higher used vehicle inventories and an increased number of vehicles out of service, as maintenance technicians supported higher levels of fleet growth. We expect NLE levels to decline by the end of the year in conjunction with our initiatives to reduce out-of-service vehicles.

### Dedicated Transportation Solutions

|  | Three months ended<br>September 30, |         | Nine months ended<br>September 30, |         | Change 2015/2014 |                |
|--|-------------------------------------|---------|------------------------------------|---------|------------------|----------------|
|  | 2015                                | 2014    | 2015                               | 2014    | Three<br>Months  | Nine<br>Months |
| Operating revenue <sup>(1)</sup>                       | \$184,247                           | 168,694 | \$526,882                          | 491,856 | 9%               | 7%             |
| Subcontracted transportation                           | 13,657                              | 17,057  | 42,817                             | 56,471  | (20)%            | (24)%          |
| Fuel costs <sup>(2)</sup>                              | 29,017                              | 41,817  | 93,395                             | 129,217 | (31)%            | (28)%          |
| Total revenue  | \$226,921                           | 227,568 | \$663,094                          | 677,544 | —%               | (2)%           |
| Segment EBT  | \$13,296                            | 11,850  | \$34,701                           | 33,534  | 12%              | 3%             |
| Segment EBT as a % of total revenue                    | 5.9                                 | % 5.2   | % 5.2                              | % 4.9   | % 70 bps         | 30 bps         |
| Segment EBT as a % of operating revenue <sup>(1)</sup> | 7.2                                 | % 7.0   | % 6.6                              | % 6.8   | % 20 bps         | (20) bps       |
| Memo:  |                                     |         |                                    |         |                  |                |
| Average fleet  | 7,600                               | 7,200   | 7,400                              | 7,000   | 6%               | 6%             |

(1) We use operating revenue and EBT as a percent of operating revenue, non-GAAP financial measures, to evaluate the operating performance of our DTS business segment and as a measure of sales activity. Fuel costs and subcontracted transportation are excluded from the calculation of DTS operating revenue. DTS fuel is an ancillary service we provide our customers and is impacted by fluctuations in market fuel prices. Therefore, this item is excluded from operating revenue as the costs are largely a pass-through to our customers, resulting in minimal changes in our 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 trailing market fuel costs. We also exclude subcontracted transportation from the calculation of DTS operating revenue as this service is also typically a pass-through to our customers and therefore fluctuations result in minimal changes to our profitability.

(2) Includes intercompany fuel sales from FMS to DTS.

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

The following table summarizes the components of the change in revenue on a percentage basis versus the prior year:

|                                    | Three months ended September 30, 2015 |           | Nine months ended September 30, 2015 |           |
|------------------------------------|---------------------------------------|-----------|--------------------------------------|-----------|
|                                    | Total                                 | Operating | Total                                | Operating |
| Organic including price and volume | 7%                                    | 9%        | 5%                                   | 7%        |
| Subcontracted transportation       | (1)                                   | —         | (2)                                  | —         |
| Fuel costs                         | (6)                                   | —         | (5)                                  | —         |
| Total increase/(decrease)          | —%                                    | 9%        | (2)%                                 | 7%        |

In the third quarter of 2015, total revenue was \$226.9 million, consistent with the same period of the prior year, as increased operating revenue was offset by declining fuel prices. Operating revenue (revenue excluding subcontracted transportation and fuel costs) increased 9% due to new business as well as increased pricing. DTS EBT increased 12% in the third quarter of 2015 due to the benefits of higher operating revenue partially offset by higher volumes and unfavorable self-insurance developments, which negatively impacted EBT as a percentage of operating revenue by 80 basis points.

In the nine months ended September 30, 2015, total revenue decreased 2% primarily reflecting lower fuel and subcontracted transportation costs passed through to customers, partially offset by operating revenue growth. Operating revenue (revenue excluding subcontracted transportation and fuel costs) in the nine months ended September 30, 2015 increased 7% due to new business, increased pricing and higher volumes. We expect favorable operating revenue comparisons to continue through the end of the year. DTS EBT increased 3% in the nine months ended September 30, 2015 due to the benefits of higher operating revenue partially offset by unfavorable self-insurance developments, which negatively impacted EBT as a percentage of operating revenue by 70 basis points.

## Supply Chain Solutions

|  | Three months ended September 30, |         | Nine months ended September 30, |           | Change 2015/2014 |             |
|--|----------------------------------|---------|---------------------------------|-----------|------------------|-------------|
|  | 2015                             | 2014    | 2015                            | 2014      | Three Months     | Nine Months |
|  | (Dollars in thousands)           |         |                                 |           |                  |             |
| Automotive   | \$118,786                        | 112,045 | \$347,284                       | 344,116   | 6%               | 1%          |
| Technology and healthcare                              | 62,456                           | 60,652  | 185,762                         | 168,059   | 3                | 11          |
| CPG and Retail   | 109,550                          | 105,463 | 322,977                         | 298,956   | 4                | 8           |
| Industrial and other                                   | 27,967                           | 26,646  | 78,230                          | 79,271    | 5                | (1)         |
| Operating revenue <sup>(1)</sup>                       | 318,759                          | 304,806 | 934,253                         | 890,402   | 5                | 5           |
| Subcontracted transportation                           | 53,960                           | 63,731  | 171,957                         | 200,318   | (15)             | (14)        |
| Fuel costs <sup>(2)</sup>                              | 14,586                           | 21,712  | 49,090                          | 74,473    | (33)%            | (34)%       |
| Total revenue  | \$387,305                        | 390,249 | \$1,155,300                     | 1,165,193 | (1)%             | (1)%        |
| Segment EBT  | \$26,573                         | 24,302  | \$69,961                        | 55,130    | 9%               | 27%         |
| Segment EBT as a % of total revenue                    | 6.9                              | % 6.2   | % 6.1                           | % 4.7     | % 70 bps         | 140 bps     |
| Segment EBT as a % of operating revenue <sup>(1)</sup> | 8.3                              | % 8.0   | % 7.5                           | % 6.2     | % 30 bps         | 130 bps     |
| Memo:  |                                  |         |                                 |           |                  |             |
| Average fleet  | 6,100                            | 5,300   | 5,800                           | 5,500     | 15%              | 5%          |

---

We use operating revenue and EBT as a percent of operating revenue, non-GAAP financial measures, to evaluate the operating performance of our SCS business segment and as a measure of sales activity. In addition to excluding subcontracted transportation from the calculation of SCS operating revenue, we will also exclude SCS fuel costs. SCS fuel is an ancillary service we provide our customers and is impacted by fluctuations in market fuel prices.

- (1) Therefore, this item is excluded from operating revenue as the costs are largely a pass-through to our customers, resulting in minimal changes in our 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 trailing market fuel costs. We also exclude subcontracted transportation from the calculation of SCS operating revenue as this service is also typically a pass-through to our customers and therefore fluctuations result in minimal changes to our profitability.
- (2) Includes intercompany fuel sales from FMS to SCS.

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

The following table summarizes the components of the change in revenue on a percentage basis versus the prior year:

|                                    | Three months ended September 30, 2015 |           | Nine months ended September 30, 2015 |           |
|------------------------------------|---------------------------------------|-----------|--------------------------------------|-----------|
|                                    | Total                                 | Operating | Total                                | Operating |
| Organic including price and volume | 6%                                    | 9%        | 6%                                   | 8%        |
| Subcontracted transportation       | (1)                                   | —         | (1)                                  | —         |
| Fuel costs                         | (2)                                   | —         | (2)                                  | —         |
| Foreign exchange                   | (4)                                   | (4)       | (4)                                  | (3)       |
| Total increase/(decrease)          | (1)%                                  | 5%        | (1)%                                 | 5%        |

Total revenue decreased 1% in both the third quarter and nine months ended September 30, 2015, which primarily reflects negative impacts from foreign exchange and lower fuel costs passed through to customers, substantially offset by operating revenue growth. Operating revenue (revenue excluding subcontracted transportation and fuel costs) increased 5% in both the third quarter and the nine months ended September 30, 2015. Operating revenue growth in the third quarter of 2015 was due to new business and higher volumes, primarily in CPG/retail and technology/healthcare, and pricing increases, partially offset by a negative impact from foreign exchange. Operating revenue growth in the nine months ended September 30, 2015 was due to new business, higher volumes and pricing increases, primarily in the CPG/retail and technology/healthcare industry groups, partially offset by a negative impact from foreign exchange. We expect operating revenue comparisons to remain favorable through the end of the year, however at a lower growth rate.

SCS EBT increased 9% in the third quarter of 2015 and increased 27% in the nine months ended September 30, 2015 due to increased operating revenue. The increases in the third quarter and nine months ended September 30, 2015 were partially offset by foreign exchange and favorable insurance developments that benefited the prior year. Favorable comparisons to the prior year for the nine months ended September 30, 2015 also reflect negative impacts from severe winter weather-related costs during the first quarter of 2014.

## Central Support Services

|  | Three months ended September 30, |          | Nine months ended September 30, |           | Change 2015/2014 |             |
|--|----------------------------------|----------|---------------------------------|-----------|------------------|-------------|
|  | 2015                             | 2014     | 2015                            | 2014      | Three Months     | Nine Months |
|  | (Dollars in thousands)           |          |                                 |           |                  |             |
| Human resources                        | \$4,596                          | 4,536    | \$14,976                        | 14,142    | 1%               | 6%          |
| Finance                                | 13,728                           | 12,878   | 39,776                          | 38,255    | 7                | 4           |
| Corporate services and public affairs  | 2,694                            | 2,379    | 7,803                           | 7,056     | 13               | 11          |
| Information technology                 | 22,104                           | 19,352   | 63,228                          | 59,481    | 14               | 6           |
| Legal and safety                       | 5,589                            | 5,915    | 18,021                          | 17,938    | (6)              | —           |
| Marketing                              | 7,049                            | 7,667    | 17,177                          | 16,615    | (8)              | 3           |
| Other                                  | 6,559                            | 9,025    | 24,665                          | 25,086    | (27)             | (2)         |
| Total CSS                              | 62,319                           | 61,752   | 185,646                         | 178,573   | 1                | 4           |
| Allocation of CSS to business segments | (52,249)                         | (48,188) | (152,710)                       | (142,055) | 8                | 8           |
| Unallocated CSS                        | \$10,070                         | 13,564   | \$32,936                        | 36,518    | (26)%            | (10)%       |

Total CSS costs increased 1% in the third quarter of 2015 to \$62.3 million primarily due to planned investments in information technology, partially offset by lower compensation-related expenses. Total CSS costs increased 4% in the nine months ended September 30, 2015 to \$185.6 million primarily due to planned investments in information technology and higher compensation-related expenses. Unallocated CSS decreased 26% in the third quarter of 2015 to \$10.1 million and 10% in the nine months ended September 30, 2015 to \$32.9 million due to marketing-related costs now being allocated to the business segments.

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

FINANCIAL RESOURCES AND LIQUIDITY

Cash Flows

The following is a summary of our cash flows from operating, financing and investing activities from continuing operations:

|   | Nine months ended September<br>30,<br>2015 |   | 2014       |   |
|---|--|---|------------|---|
|   | (In thousands)                             |   |            |   |
| Net cash provided by (used in):         |  |   |            |   |
| Operating activities                    | \$1,071,336                                |   | 981,044    |   |
| Financing activities                    | 664,783                                    |   | 332,501    |   |
| Investing activities                    | (1,707,378                                 | ) | (1,297,281 | ) |
| Effect of exchange rate changes on cash | (2,006                                     | ) | (1,210     | ) |
| Net change in cash and cash equivalents | \$26,735                                   |   | 15,054     |   |

A detail of the individual items contributing to the cash flow changes is included in the Consolidated Condensed Statements of Cash Flows.

Cash provided by operating activities from continuing operations increased to \$1.07 billion in the nine months ended September 30, 2015 compared with \$981.0 million in 2014, reflecting higher earnings adjusted for non-cash items and lower pension contributions. Cash provided by financing activities increased to \$664.8 million in the nine months ended September 30, 2015 compared with \$332.5 million in 2014 due to increased borrowing needs to fund investing activities. Cash used in investing activities increased to \$1.71 billion in the nine months ended September 30, 2015 compared with \$1.30 billion in 2014 primarily due to higher net capital spending and lower proceeds generated from revenue earning equipment sales.

Our principal sources of operating liquidity are cash from operations and proceeds from the sale of revenue earning equipment. We refer to the sum of operating cash flows, proceeds from the sale of revenue earning equipment and operating property and equipment, collections on direct finance leases and other investing cash inflows from continuing operations as "total cash generated." We refer to the net amount of cash generated from operating and investing activities (excluding changes in restricted cash and acquisitions) from continuing operations as "free cash flow." Although total cash generated and free cash flow are non-GAAP financial measures, we consider them to be important measures of comparative operating performance. We also believe total cash generated to be an important measure of total cash flows generated from our ongoing business activities. We believe free cash flow provides investors with an important perspective on the cash available for debt service and for shareholders after making capital investments required to support ongoing business operations. Our calculation of free cash flow may be different from the calculation used by other companies and therefore comparability may be limited.

The following table shows the sources of our free cash flow computation:

|  | Nine months ended September<br>30,<br>2015 |  | 2014    |  |
|--|--|--|---------|--|
|  | (In thousands)                             |  |         |  |
| Net cash provided by operating activities from continuing operations | \$1,071,336                                |  | 981,044 |  |
| Sales of revenue earning equipment                                   | 319,766                                    |  | 392,572 |  |

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|   |              |              |
|---|--------------|--------------|
| Sales of operating property and equipment           | 1,203        | 3,091        |
| Collections on direct finance leases                | 51,166       | 48,920       |
| Other   | —            | (1,250 )     |
| Total cash generated                                | 1,443,471    | 1,424,377    |
| Purchases of property and revenue earning equipment | (2,087,294 ) | (1,741,173 ) |
| Free cash flow                                      | \$(643,823 ) | (316,796 )   |



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

The following table provides a summary of capital expenditures:

|   | Nine months ended<br>September 30,<br>2015                  2014<br>(In thousands) |           |
|---|--|-----------|
| Revenue earning equipment:  |  |           |
| Full service lease  | \$ 1,509,420   | 1,224,182 |
| Commercial rental   | 513,307  | 391,472   |
|   | 2,022,727  | 1,615,654 |
| Operating property and equipment  | 82,874   | 121,617   |
| Total capital expenditures <sup>(1)</sup>                                     | 2,105,601  | 1,737,271 |
| Changes in accounts payable related to purchases of revenue earning equipment | (18,307 )  | 3,902     |
| Cash paid for purchases of property and revenue earning equipment             | \$ 2,087,294   | 1,741,173 |

Capital expenditures exclude non-cash additions of approximately \$6.0 million and \$3.8 million during the nine (1) months ended September 30, 2015 and 2014, respectively, in assets held under capital leases resulting from the extension of existing operating leases and other additions.

Capital expenditures (accrual basis) increased 21% in the nine months ended September 30, 2015 to \$2.1 billion reflecting planned higher investments in the full service lease and commercial rental fleets. We continue to expect full-year 2015 accrual basis capital expenditures from continuing operations to be \$2.63 billion. We expect to fund 2015 capital expenditures primarily with internally generated funds and additional debt financing.

#### Financing and Other Funding Transactions

We utilize external capital primarily to support working capital needs and growth in our asset-based product lines. The variety of debt financing alternatives typically available to fund our capital needs include commercial paper, long-term and medium-term public and private debt, asset-backed securities, bank term loans, leasing arrangements and bank credit facilities. Our principal sources of financing are issuances of commercial paper and medium-term notes.

Our ability to access unsecured debt in the capital markets is impacted by both our short-term and long-term debt ratings. These ratings are intended to provide guidance to investors in determining the credit risk associated with particular Ryder securities based on current information obtained by the rating agencies from us or from other sources. Lower ratings generally result in higher borrowing costs as well as reduced access to unsecured capital markets. A significant downgrade of our short-term debt ratings would impair our ability to issue commercial paper and likely require us to rely on alternative funding sources. A significant downgrade would not affect our ability to borrow amounts under our revolving credit facility described below, assuming ongoing compliance with the terms and conditions of the credit facility.

Our debt ratings and rating outlooks at September 30, 2015 were as follows:

|                                    | Short-term |         | Long-term |                                |
|------------------------------------|------------|---------|-----------|--------------------------------|
|                                    | Rating     | Outlook | Rating    | Outlook                        |
| Moody's Investors Service          | P2         | Stable  | Baa1      | Stable                         |
| Standard & Poor's Ratings Services | A2         | Stable  | BBB       | Positive                       |
| Fitch Ratings                      | F2         | Stable  | A-        | Stable (affirmed October 2015) |



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

Cash and equivalents totaled \$75.4 million as of September 30, 2015, which is available to meet our needs. As of September 30, 2015, approximately \$41.2 million was held outside the U.S. and is available to fund operations and other growth of non-U.S. subsidiaries. If we decide to repatriate cash and equivalents held outside the U.S., we may be subject to additional U.S. income taxes and foreign withholding taxes. However, our intent is to permanently reinvest these foreign amounts outside the U.S. and our current plans do not demonstrate a need to repatriate these foreign amounts to fund our U.S. operations.

We believe that our operating cash flows, together with our access to commercial paper markets and other available debt financing, will be adequate to meet our operating, investing and financing needs in the foreseeable future. However, there can be no assurance that unanticipated volatility and disruption in commercial paper markets would not impair our ability to access these markets on terms commercially acceptable to us or at all. If we cease to have access to commercial paper and other sources of unsecured borrowings, we would meet our liquidity needs by drawing upon contractually committed lending agreements as described below and/or by seeking other funding sources.

At September 30, 2015, we had the following amounts available to fund operations under the following facilities:

|                                  | (In millions) |
|----------------------------------|---------------|
| Global revolving credit facility | \$695         |
| Trade receivables program        | \$175         |

We maintain a global revolving credit facility used to finance working capital. The availability under our global revolving credit facility is \$1.2 billion and the facility matures in January 2020. The credit facility is used primarily to finance working capital. 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 September 30, 2015 was 215%.

We also have a \$175 million trade receivables purchase and sale program, pursuant to which we ultimately sell certain ownership interests in certain of our domestic trade accounts receivable to committed purchasers. We use this program to provide additional liquidity to fund our operations, particularly when it is cost effective to do so. 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. If no event occurs that causes early termination, the 364-day program will expire during October 2015. We are currently in the process of renewing the program through October 2016.

In February 2013, Ryder filed an automatic shelf registration statement on Form S-3 with the SEC. The registration is for an indeterminate number of securities and is effective for three years. Under this universal shelf registration statement, we have the capacity to offer and sell from time to time various types of securities, including common stock, preferred stock and debt securities, subject to market demand and ratings status.

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

The following table shows the movements in our debt balance:

|   | Nine months ended September 30, |            |
|---|---------------------------------|------------|
|   | 2015                            | 2014       |
|   | (In thousands)                  |            |
| Debt balance at January 1   | \$4,730,619                     | 4,295,179  |
| Cash-related changes in debt:                                       |                                 |            |
| Net change in commercial paper borrowings                           | 184,750                         | (164,944 ) |
| Proceeds from issuance of medium-term notes                         | 998,551                         | 748,676    |
| Proceeds from issuance of other debt instruments                    | 331,259                         | 147,057    |
| Retirement of medium term notes                                     | (660,000 )                      | (250,000 ) |
| Other debt repaid   | (135,837 )                      | (34,811 )  |
|   | 718,723                         | 445,978    |
| Non-cash changes in debt:   |                                 |            |
| Fair market value adjustment on notes subject to hedging            | 10,964                          | (4,924 )   |
| Addition of capital lease obligations                               | 5,956                           | 3,792      |
| Changes in foreign currency exchange rates and other non-cash items | (15,565 )                       | (7,277 )   |
| Total changes in debt   | 720,078                         | 437,569    |
| Debt balance at September 30  | \$5,450,697                     | 4,732,748  |

In accordance with our funding philosophy, we attempt to match the aggregate average remaining re-pricing life of our debt with the aggregate average remaining re-pricing life of our assets. We utilize both fixed-rate and variable-rate debt to achieve this match. We revised our target mix of variable-rate debt as a percentage of total debt outstanding from 25% to 45% to 20% to 40% in October 2015. The variable-rate portion of our total debt (including notional value of swap agreements) was 28% and 25% at September 30, 2015 and December 31, 2014, respectively.

Refer to Note (G), "Debt," in the Notes to Consolidated Condensed Financial Statements for further discussion around the global revolving credit facility, the trade receivables program, the issuance of medium-term notes under this shelf registration statement, asset-backed financing obligations and debt maturities.

Ryder's debt to equity ratios were 279% and 260% as of September 30, 2015 and December 31, 2014, respectively.

The debt to equity ratio represents total debt divided by total equity. Additional obligations, including the present value of minimum lease payments under operating leases for vehicles, were not significant as of September 30, 2015 or December 31, 2014. Our debt to equity ratio increased as of September 30, 2015 due to increased debt to fund planned capital expenditures and the impact of foreign exchange rates.

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

Pension Information

The funded status of our pension plans is dependent upon many factors, including returns on invested assets and the level of certain market interest rates. We review pension assumptions regularly and we may from time to time make voluntary contributions to our pension plans, which exceed the amounts required by statute. In 2015, we expect total contributions to our pension plans to be approximately \$35 million. During the nine months ended September 30, 2015, we contributed \$29.9 million to our pension plans. Changes in interest rates and the market value of the securities held by the plans during 2015 could materially change, positively or negatively, the funded status of the plans and affect the level of pension expense and contributions in 2015 and beyond. See Note (L), "Employee Benefit Plans," in the Notes to Consolidated Condensed Financial Statements for additional information.

Share Repurchases and Cash Dividends

Early in the first quarter of 2015, due to the increase in leverage, we temporarily paused anti-dilutive share repurchase activity for the first nine months of 2015. We do not expect to resume anti-dilutive share repurchase activity during the remainder of 2015. See Note (J), "Share Repurchase Programs," in the Notes to Consolidated Condensed Financial Statements for a discussion of share repurchases.

In October 2015, our Board of Directors declared a quarterly cash dividend of \$0.41 per share of common stock.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note (B), "Recent Accounting Pronouncements," in the Notes to Consolidated Condensed Financial Statements for a discussion of recent accounting pronouncements.

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

NON-GAAP FINANCIAL MEASURES

This Quarterly Report on Form 10-Q includes information extracted from consolidated condensed financial information but not required by generally accepted accounting principles (GAAP) to be presented in the financial statements. Certain elements of this information are considered "non-GAAP financial measures" as defined by SEC rules. Specifically, we refer to comparable earnings from continuing operations before taxes, comparable earnings from continuing operations, comparable earnings per diluted common share, operating revenue, FMS operating revenue, FMS EBT as a % of operating revenue, DTS operating revenue, DTS EBT as a % of operating revenue, SCS operating revenue, SCS EBT as a % of operating revenue, total cash generated and free cash flow. We provide a reconciliation of each of these non-GAAP financial measures to the most comparable GAAP measure and an explanation why management believes that presentation of the non-GAAP financial measure provides useful information to investors within the management's discussion and analysis and in the table below. Non-GAAP financial measures should be considered in addition to, but not as a substitute for or superior to, other measures of financial performance prepared in accordance with GAAP.

The following table provides a reconciliation of GAAP earnings before taxes (EBT), earnings, and earnings per diluted shares (EPS) from continuing operations to comparable EBT, earnings and EPS from continuing operations, which was not provided within the MD&A discussion:

EBT, earnings and EPS from continuing operations in the nine months ended September 30, 2015 and 2014 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 |         |
|---|--|---------|------------|----------|-------------|---------|
|   | 2015                                     | 2014    | 2015       | 2014     | 2015        | 2014    |
| Three months ended September 30               | (In thousands, except per share amounts) |         |            |          |             |         |
| EBT/Earnings/EPS                              | \$ 139,900                               | 129,608 | \$ 90,811  | 83,895   | \$ 1.70     | 1.58    |
| Non-operating pension costs <sup>(1)</sup>    | 4,780                                    | 2,455   | 2,727      | 1,359    | 0.05        | 0.03    |
| Pension settlement adjustments <sup>(2)</sup> | (509 )                                   | 1,262   | (309 )     | 766      | (0.01 )     | 0.01    |
| Acquisition transaction costs <sup>(2)</sup>  | —  | 566     | —          | 444      | —           | 0.01    |
| Professional fees <sup>(2)</sup>              | 63                                       | —       | 39         | —        | —           | —       |
| Comparable                                    | \$ 144,234                               | 133,891 | \$ 93,268  | 86,464   | \$ 1.74     | 1.63    |
| Nine months ended September 30,               |  |         |            |          |             |         |
| EBT/Earnings/EPS                              | \$ 357,524                               | 324,743 | \$ 230,054 | 208,742  | \$ 4.31     | 3.92    |
| Non-operating pension costs <sup>(1)</sup>    | 14,351                                   | 7,313   | 8,190      | 4,045    | 0.15        | 0.07    |
| Pension settlement adjustments <sup>(2)</sup> | (509 )                                   | 1,262   | (309 )     | 766      | (0.01 )     | 0.01    |
| Professional fees <sup>(2)</sup>              | 3,843                                    | —       | 2,424      | —        | 0.04        | —       |
| Tax law change <sup>(3)</sup>                 | —  | —       | (1,860 )   | (1,776 ) | (0.03 )     | (0.03 ) |
| Acquisition transaction costs <sup>(2)</sup>  | —  | 566     | —          | 444      | —           | 0.01    |
| Comparable                                    | \$ 375,209                               | 333,884 | \$ 238,499 | 212,221  | \$ 4.47     | 3.98    |

Includes the amortization of net actuarial loss, interest cost and expected return on plan assets components of (1)pension 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 (M), "Other Items Impacting Comparability," for additional information.

(3)

In the second quarter of 2015, the states of Connecticut and Texas and the city of New York enacted changes to their tax system, which decreased the provision for income taxes by \$1.9 million. 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.

Note: EPS amounts may not be additive due to rounding.

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

The following table provides a reconciliation of total revenue to operating revenue, which was not provided within the MD&A discussion:

|                              | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |            |
|------------------------------|-------------------------------------|------------|------------------------------------|------------|
|                              | 2015                                | 2014       | 2015                               | 2014       |
|                              | (In thousands)                      |            |                                    |            |
| Total revenue                | \$1,669,066                         | 1,687,150  | \$4,899,150                        | 4,982,458  |
| Fuel                         | (174,984 )                          | (261,897 ) | (565,007 )                         | (822,795 ) |
| Subcontracted transportation | (67,617 )                           | (80,788 )  | (214,774 )                         | (256,789 ) |
| Operating revenue            | \$1,426,465                         | 1,344,465  | \$4,119,369                        | 3,902,874  |



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

FORWARD-LOOKING STATEMENTS

Forward-looking statements (within the meaning of the Federal Private Securities Litigation Reform Act of 1995) are statements that relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends concerning matters that are not historical facts. These statements are often preceded by or include the words "believe," "expect," "intend," "estimate," "anticipate," "will," "may," "could," "should" or similar expressions. This Quarterly Report on 10-Q contains forward-looking statements including, but not limited to, statements regarding:

- our expectations in our FMS business segment regarding anticipated full service lease, commercial rental revenue and sales activity;
- our expectations in our DTS and SCS business segment regarding anticipated operating revenue trends;
- our expectations of the long-term residual values of revenue earning equipment;
- the anticipated levels of NLE vehicles in inventory through the end of the year;
- our expectations of operating cash flow and capital expenditures through the end of 2015;
- the adequacy of our accounting estimates and reserves for pension expense, compensation expense and employee benefit plan obligations, depreciation and residual value guarantees and income taxes;
- the adequacy of our fair value estimates of employee incentive awards under our share-based compensation plans, publicly traded debt and other debt;
- our beliefs regarding the default risk of our direct financing lease receivables;
- our ability to fund all of our operating, investing and financial needs for the foreseeable future through internally generated funds and outside funding sources;
- the anticipated impact of fuel price fluctuations;
- our expectations as to return on pension plan assets, future pension expense and estimated contributions;
- our expectations regarding the scope, anticipated outcomes and the adequacy of our loss provisions with respect to certain claims, proceedings and lawsuits;
- our ability to access commercial paper and other available debt financing in the capital markets;
- our expectations regarding the future use and availability of funding sources;
- the anticipated impact of recent accounting pronouncements; and
- the expected resumption of our anti-dilutive share repurchase program.

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

These statements, as well as other forward-looking statements contained in this Quarterly Report, are based on our current plans and expectations and are subject to risks, uncertainties and assumptions. We caution readers that certain important factors could cause actual results and events to differ significantly from those expressed in any forward-looking statements. These risk factors include, but are not limited to, the following:

Market Conditions:

Changes in general economic and financial conditions in the U.S. and worldwide leading to decreased demand for our services, lower profit margins, increased levels of bad debt and reduced access to credit

Decreases in freight demand or setbacks in the recovery of the freight recession which would impact both our transactional and variable-based contractual business

Changes in our customers' operations, financial condition or business environment that may limit their need for, or ability to purchase, our services

Decreases in market demand affecting the commercial rental market and used vehicle sales as well as economic conditions in the U.K.

Volatility in customer volumes and shifting customer demand in the industries serviced by our SCS business

Changes in current financial, tax or regulatory requirements that could negatively impact the leasing market

Competition:

Advances in technology may require increased investments to remain competitive, and our customers may not be willing to accept higher prices to cover the cost of these investments

Competition from other service providers, some of which have greater capital resources or lower capital costs, or from our customers, who may choose to provide services themselves

Continued consolidation in the markets in which we operate which may create large competitors with greater financial resources

Our inability to maintain current pricing levels due to economic conditions, demand for services, customer acceptance or competition

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

Profitability:

Our inability to obtain adequate profit margins for our services  
Lower than expected sales volumes or customer retention levels  
Lower full service lease sales activity  
Decreases in commercial rental fleet utilization  
Lower than expected used vehicle sales pricing levels and fluctuations in the anticipated proportion of retail versus wholesale sales  
Loss of key customers in our DTS and SCS business segments  
Our inability to adapt our product offerings to meet changing consumer preferences on a cost-effective basis  
The inability of our legacy information technology systems to provide timely access to data  
Sudden changes in fuel prices and fuel shortages  
Higher prices for vehicles, diesel engines and fuel as a result of exhaust emissions standards enacted over the last few years  
Higher than expected maintenance costs and lower than expected benefits associated with a younger fleet and maintenance initiatives  
Our inability to successfully implement our asset management initiatives, return out of service vehicles to our fleet and maintain our fleet at normalized levels  
Our key assumptions and pricing structure of our DTS and SCS contracts prove to be invalid  
Increased unionizing, labor strikes and work stoppages  
Difficulties in attracting and retaining drivers and technicians due to driver and technician shortages, which may result in higher costs to procure drivers and technicians and higher turnover rates affecting our customers  
Our inability to manage our cost structure  
Our inability to limit our exposure for customer claims  
Unfavorable or unanticipated outcomes in legal proceedings or uncertain positions  
Business interruptions or expenditures due to severe weather or natural occurrences

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

Financing Concerns:

- Higher borrowing costs and possible decreases in available funding sources caused by an adverse change in our debt ratings
- Unanticipated interest rate and currency exchange rate fluctuations
- Negative funding status of our pension plans caused by lower than expected returns on invested assets and unanticipated changes in interest rates
- Withdrawal liability as a result of our participation in multi-employer plans
- Instability in U.S. and worldwide credit markets, resulting in higher borrowing costs and/or reduced access to credit

Accounting Matters:

- Impact of unusual items resulting from ongoing evaluations of business strategies, asset valuations, acquisitions, divestitures and our organizational structure
- Reductions in residual values or useful lives of revenue earning equipment
- Increases in compensation levels, retirement rate and mortality resulting in higher pension expense; regulatory changes affecting pension estimates, accruals and expenses
- Increases in health care costs resulting in higher insurance costs
- Changes in accounting rules, assumptions and accruals
- Impact of actual insurance claim and settlement activity compared to historical loss development factors used to project future development

Other risks detailed from time to time in our SEC filings

New risk factors emerge from time to time and it is not possible for management to predict all such risk factors or to assess the impact of such risk factors on our business. As a result, no assurance can be given as to our future results or achievements. You should not place undue reliance on the forward-looking statements contained herein, which speak only as of the date of this Quarterly Report. We do not intend, or assume any obligation, to update or revise any forward-looking statements contained in this Quarterly Report, whether as a result of new information, future events or otherwise.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to Ryder's exposures to market risks since December 31, 2014. Please refer to the 2014 Annual Report on Form 10-K for a complete discussion of Ryder's exposures to market risks.

## ITEM 4. CONTROLS AND PROCEDURES

## Evaluation of Disclosure Controls and Procedures

As of the end of the third quarter of 2015, we carried out an evaluation, under the supervision and with the participation of management, including Ryder's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Ryder's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of the end of the third quarter of 2015, Ryder's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) were effective.

## Changes in Internal Controls over Financial Reporting

During the nine months ended September 30, 2015, there were no changes in Ryder's internal control over financial reporting that have materially affected or are reasonably likely to materially affect such internal control over financial reporting.

## PART II. OTHER INFORMATION

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information with respect to purchases we made of our common stock during the three months ended September 30, 2015:

|  | Total Number<br>of Shares<br>Purchased <sup>(1)</sup> | Average Price<br>Paid per Share | Total Number of<br>Shares<br>Purchased as<br>Part of Publicly<br>Announced<br>Programs | Maximum<br>Number of<br>Shares That May<br>Yet Be<br>Purchased<br>Under the<br>Anti-Dilutive<br>Program <sup>(2)</sup> |
|--|---|---------------------------------|--|--|
| July 1 through July 31, 2015           | —   | \$—                             | —  | 607,615  |
| August 1 through August 31, 2015       | 72  | 80.99                           | —  | 607,615  |
| September 1 through September 30, 2015 | 150   | 82.94                           | —  | 607,615  |
| Total                                  | 222   | \$82.31                         | —  |  |

(1) During the three months ended September 30, 2015, we purchased an aggregate of 222 shares of our common stock in employee-related transactions. Employee-related transactions may include: (i) shares of common stock delivered as payment for the exercise price of options exercised or to satisfy the option holders' tax withholding liability associated with our share-based compensation programs and (ii) open-market purchases by the trustee of Ryder's deferred compensation plans relating to investments by employees in our stock, one of the investment options available under the plans.

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 10, 2015. The December 2013 program (2)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 September 30, 2015, we did not repurchase any shares under this program.

ITEM 6. EXHIBITS

- |      |   |
|------|---|
| 12.1 | Calculation of Ratio of Earnings to Fixed Charges   |
| 31.1 | Certification of Robert E. Sanchez pursuant to Rule 13a-14(a) or Rule 15d-14(a).  |
| 31.2 | Certification of Art A. Garcia pursuant to Rule 13a-14(a) or Rule 15d-14(a).  |
| 32   | Certification of Robert E. Sanchez and Art A. Garcia pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350. |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RYDER SYSTEM, INC.  
(Registrant)

Date: October 22, 2015

By: /s/ Art A. Garcia  
Art A. Garcia  
Executive Vice President and Chief Financial  
Officer  
(Principal Financial Officer)

Date: October 22, 2015

By: /s/ Scott R. Allen  
Scott R. Allen  
Vice President and Controller  
(Principal Accounting Officer)