NAM TAI ELECTRONICS INC
Form F-3/A
May 16, 2003

As Filed with the Securities and Exchange Commission on May 16, 2003

Registration No. 333-103547

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 2 to

Form F-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Nam Tai Electronics, Inc.

(Exact Name of Registrant as Specified in its Charter)

British Virgin Islands	**None**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

116 Main Street
2nd Floor
Road Town, Tortola
British Virgin Islands
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(Address and telephone number of Registrant s principal executive offices)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If the only securities being registered on this Form are to be offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of securities to be registered	Amount to be Registered(1)	Proposed Maximum Offering Price per Share(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common Shares, $.01 par value per share	3,450,000 shares	$26.05	$89,872,500	$7,271*

(1) Includes 450,000 shares that may be issued pursuant to the underwriters over-allotment option.

(2) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(c) based on the average of the high and low prices reported on the New York Stock Exchange on February 24, 2003.

* Previously paid.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall hereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to such Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the Securities and Exchange Commission declares our registration statement effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

(Subject to Completion, dated May 16, 2003)

PROSPECTUS

3,000,000 shares

Common Shares

This is a public offering of 3,000,000 common shares of Nam Tai Electronics, Inc. We are selling 2,000,000 of the common shares offered under this prospectus and certain of our shareholders, referred to in this prospectus as the selling shareholders, are selling the remaining 1,000,000 shares.

Our common shares are listed on the New York Stock Exchange under the symbol NTE. The last reported sale price of our common shares on May 15, 2003, was $29.25 per share.

See Risk Factors beginning on page 8 to read about certain risks you should consider before buying our common shares.

	Per Share	**Total**
Public Offering Price	$	$
Underwriting Discount	$	$
Proceeds, Before expenses to us	$	$
Proceeds, Before expenses to the selling shareholders	$	$

We have granted the underwriters a 30-day option to purchase up to 450,000 additional common shares to cover any over-allotments.

Delivery of shares will be made on or about , 2003.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Bear, Stearns & Co. Inc.

The date of this Prospectus is , 2003

Our Advanced Manufacturing Facilities and Equipment

Below: Ultra Sonic Cleaning Machines for LCD Panels

[Picture of worker standing in front of Ultra Sonic Cleaning Machines for LCD Panels.]

Below: Testing of Graphic Calculators

[Close-up picture of gloved hands testing of Graphic Calculator.]

Below: Fully Automatic Assembly Machines for STN LCD Panels

[Picture of factory workers in front of Fully Automated Assembly Machines for STN LCD Panels.]

Below: Semi-automated Fine Pitch Heat Seal Machine

[Close-up picture of Semi-automated Fine Pitch Heat Seal Machine.]

Below: Factory Workers in Clean Room Environment

[Picture of a row of factory workers wearing protective suits and masks in clean room environment working in front of factory machines.]

Below: Semi-automated Chip on Glass Machine

[Close-up picture of work being done on Semi-automated Chip on Glass Machine.]

Below: Semi-automated Chip on Board Assembly Line

[Picture of several rows of factory workers sitting in front of Semi-automatic Chip on Board Assembly Line wearing protective suits.]

Below: Tape Automated Bonding with Anisotropic Conductive Film Machine

[Picture of Tape Automated Bonding with Anisotropic Conductive Film Machine.]

PROSPECTUS SUMMARY

This summary highlights information more fully described elsewhere in this prospectus. This summary is not complete and does not contain all the information you should consider before buying our common shares in this offering. You should read this entire prospectus carefully, including Risk Factors and our consolidated financial statements and the related notes included in this prospectus, before deciding to invest in our common shares.

Nam Tai Electronics, Inc.

Our Business

We are an electronics manufacturing and design services provider to a select group of the world s leading original equipment manufacturers, or OEMs, of telecommunications and consumer electronic products. Our largest customers include Epson Precision (HK) Ltd., Sony Ericsson Mobile Communications AB and Texas Instruments Incorporated. We were founded in 1975 as an electronic products trading company based in Hong Kong and shifted our focus to manufacturing of electronic products in 1978. We moved our manufacturing facilities to China in 1980 to take advantage of lower overhead costs, lower material costs and competitive labor rates.

Through our electronics manufacturing services, or EMS, operations, we manufacture electronic components and subassemblies, including liquid crystal display, or LCD, panels, transformers, LCD modules and radio frequency, or RF, modules. These components are used in numerous electronic products, including cellular phones, laptop computers, digital cameras, copiers, fax machines, electronic toys, handheld video game devices and microwave ovens. We also manufacture finished products, including palm-sized PC s, personal digital assistants, electronic dictionaries, calculators and digital camera accessories for use with cellular phones.

We assist our OEM customers in the design and development of their products and furnish full turnkey manufacturing services that utilize advanced manufacturing processes and production technologies. Our services include hardware and software design, component purchasing, assembly into finished products or electronic subassemblies and post-assembly testing. These services are value-added and assist us in obtaining new business but do not represent a material component of our revenue. We also provide original design manufacturing, or ODM, services, in which we design and develop proprietary products that are sold by our OEM customers using their brand name.

Our Strategy

We are focused on expanding our position as a China-based provider of electronic manufacturing services to major OEMs. To achieve this objective, we intend to continue to pursue the following strategies.

Maintain low-cost manufacturing in China. Our manufacturing facilities are all in China and have been there since 1980. We believe that our history and experience in China well position us to take advantage of the trend of shifting production of electronic products to China.

Focus on Asian OEMs. We have strong relationships with OEMs throughout Asia, particularly those in Japan and China. These OEMs produce a large portion of the electronic products used worldwide and, we believe, represent a significant opportunity for future outsourcing growth.

Manufacture small form factor consumer products. We focus on providing OEMs with services for small form factor electronic products. These products and their key components and subassemblies are easy to ship globally, thereby negating the need for regional manufacturing and sophisticated logistics support.

Produce high value-added electronic components and subassemblies. We produce components and subassemblies, like LCD modules and RF modules, which are central to several types of electronic

products. As a result, we are able to maintain relatively high gross profit margins in comparison with those of other EMS providers of electronic products.

Apply advanced manufacturing technologies. Our manufacturing and assembly processes apply advanced bonding and other sophisticated technologies, including using a clean room manufacturing environment. We believe that relatively few of our competitors possess our level of clean room manufacturing capability in their China-based facilities.

Develop improved production techniques. We focus on collaborating with our customers to refine and improve the production methods employed for complex, yet proven production technologies. These relationships allow us to focus our research and development efforts on process improvement and help limit our risks associated with new product introductions.

Produce high quality products at low cost. We seek to manufacture the highest-quality products at a low cost to our customers. Our location in China allows us to access one of the lowest cost engineering and production work forces in the world.

Invest strategically in key technology partners. We have made and will continue to make strategic investments in targeted and existing customers and providers of critical component technologies. We believe that such investments foster new or enhance existing customer and supplier relationships.

Our Risks

Our business is subject to risk and uncertainty. We are dependent on a few large customers. The electronics industry in which we participate is highly competitive, and we are subject to continuing pressure on our margins. Our operating results fluctuate and lack predictability. Because our operations are primarily located in China and Hong Kong, we are subject to risks arising from governmental policies, taxation, trade regulation, and currency exchange. As a foreign private issuer, we are not subject to the same regulation that applies to issuers domiciled in the U.S. We also are currently subject to pending litigation that may adversely affect us.

Our Headquarters And Website

We were incorporated as an International Business Company in the British Virgin Islands in 1987. Our principal executive offices are located in the British Virgin Islands at 116 Main Street, 2nd Floor, Road Town, Tortola, British Virgin Islands and our telephone and fax numbers are (284) 494-7752 and (284) 494-4957, respectively. We maintain the following toll-free telephone number for United States investor relations: (800) 661-8831, and our Internet website address is www.namtai.com. The information found on our website is not part of this prospectus.

References to Dollars

All dollar amounts in this prospectus are expressed in United States dollars, except where we state otherwise. In this prospectus, unless we state otherwise, all references to U.S.$ or $ are to U.S. dollars.

References to China

The People s Republic of China resumed sovereignty over Hong Kong effective July 1, 1997 and politically Hong Kong is an integral part of China. However, for the purposes of this prospectus and as a matter of definition only, our references to China or the PRC in this prospectus means the People s Republic of China and all of its territories excluding Hong Kong.

The Offering

Common shares offered:	
by us	2,000,000 shares
by the selling shareholders	1,000,000 shares
Common shares to be outstanding after this offering	14,130,668 shares
New York Stock Exchange Symbol	NTE
Use of Proceeds	We are raising funds in this offering primarily to increase our production capacity by using approximately $40.0 million to construct and equip a new factory adjacent to our principal manufacturing facilities in Shenzhen, China. We intend to use the balance of the net proceeds for working capital and other general corporate purposes. We will not receive any proceeds from the sale of common shares by the selling shareholders.
Risk Factors	Investing in our common shares involves certain risks, which are described under the heading Risk Factors , beginning on page 8 of this prospectus.

The number of shares of our common stock that will be outstanding after this offering is based on our shares outstanding as of March 31, 2003. The number of shares that will be outstanding after this offering excludes:

372,000 common shares issuable upon exercise of stock options outstanding as of March 31, 2003;

602,233 common shares available as of March 31, 2003 for future issuance under our stock option plans; and

450,000 common shares that we may issue upon exercise of the underwriters over-allotment option.

Summary Consolidated Financial Information

We derived the statements of income data presented below for the years ended December 31, 2000, 2001 and 2002 and the balance sheet data as of December 31, 2001 and 2002 presented below from our audited consolidated financial statements. We derived the statements of income data presented below for the three months ended March 31, 2002 and 2003 and the balance sheet data as of March 31, 2003 presented below from our unaudited consolidated financial statements. You should read this summary consolidated financial information with the Management s Discussion and Analysis of Financial Condition and Results of Operations, which is included elsewhere in this prospectus. The as adjusted balance sheet data gives effect to the proceeds to be received by us from our sale of 2,000,000 common shares in this offering at an assumed offering price of $29.25 per share, after payment of estimated underwriting discounts and commissions and other estimated offering expenses payable by us, and the application of such proceeds to our cash and cash equivalents, working capital, total assets and shareholders equity.

	Year ended December 31,			Three Months ended March 31,	
	2000	2001	2002	2002	2003
	(in thousands except per share data)				
Consolidated statements of income data:					
Net sales third parties	$207,456	$212,934	$228,167	$46,121	$85,050
Net sales related party	6,232	21,072	7,849	5,096	2,931
Total net sales	213,688	234,006	236,016	51,217	87,981
Cost of sales	182,096	203,974	197,956	43,466	72,835
Gross profit	31,592	30,032	38,060	7,751	15,146
Operating costs and expenses:					
Selling, general and administrative	17,646	21,974	17,983	3,952	5,471
Research and development	3,489	2,954	2,686	665	811
Impairment of goodwill			339		
Income from operations	10,457	5,104	17,052	3,134	8,864
Equity in (loss) income of affiliated companies	(189)	1,867	10,741	1,135	75
Other income (expense) net	13,853	2,709	(6,043)	358	2,305
Interest expense	(165)	(178)	(790)	(186)	(37)
Income before income taxes and minority interests	23,956	9,502	20,960	4,441	11,207
Income taxes benefit (expense)	33	(227)	(773)	(165)	(384)
Income before minority interests	23,989	9,275	20,187	4,276	10,823
Minority interests	12	(230)	(164)	(101)	(613)
Net income	$ 24,001	$ 9,045	$ 20,023	$ 4,175	$10,210
Earnings per share:					
Basic	$ 2.63	$ 0.88	$ 1.89	$ 0.41	$ 0.84
Diluted	$ 2.56	$ 0.87	$ 1.86	$ 0.40	$ 0.83
Weighted average shares:					
Basic	9,114	10,274	10,571	10,306	12,117
Diluted	9,375	10,393	10,736	10,476	12,266

	At December 31,		At March 31, 2003	
	2001	2002	Actual	As adjusted
Consolidated balance sheet data:				
Cash and cash equivalents	$ 58,676	$ 82,477	$ 61,114	$115,212
Working capital	83,982	87,408	88,892	142,990
Property, plant and equipment net	70,414	75,914	75,145	75,145
Total assets	224,573	275,086	288,725	342,823
Total debt	16,547	17,782	5,686	5,686
Shareholders equity	169,351	202,128	212,565	266,663

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This prospectus and the documents and information incorporated by reference in this prospectus, such as from Management s Discussion and Analysis of Financial Condition and Results of Operations and Business in this prospectus and Item 4 Information on the Company and Item 5 Operating and Financial Review and Prospects in our Annual Report on Form 20-F for the year ended December 31, 2002, include forward-looking statements within the meaning of section 27A of the Securities Act of 1933, as amended and section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include the information concerning our possible or assumed future operating results, business strategies, financing plans, competitive position, industry environment, the anticipated impact on our business and financial results of recent and future acquisitions, the effects of competition, our ability to produce new products in a cost-effective manner and projections relating to our and our industry s market share. Forward-looking statements may be identified by the use of words like believes, considers, intends, expects, may, will, should, forecast, or anticipates, or the negative equivalents of those words or comparable ter by discussions of strategies that involve risks and uncertainties.

Actual results may differ materially from those expressed or implied by forward-looking statements for a number of reasons, including those appearing elsewhere in this prospectus under the heading Risk Factors. In addition, we base forward-looking statements on assumptions about future events, which may not prove to be accurate. In light of these risks, uncertainties and assumptions, you should be aware that the forward-looking events described in this prospectus and the documents incorporated by reference in this prospectus may not occur.

RISK FACTORS

An investment in our common shares involves a substantial risk of loss. You should carefully consider the risks described below and the other information in this prospectus, including our financial statements and the related notes, before you purchase any of our common shares. If any such risks actually occur, our business and operating results could be materially and adversely affected. In such case, the trading price of our common shares could decline and you may lose all or part of your investment.

Risks Related to Our Business

We are dependent on a few large customers, the loss of any of which could substantially harm our business and operating results.

Historically, a substantial percentage of our sales have been to a small number of customers. During the years ended December 31, 2000, 2001 and 2002, sales to our customers accounting for 10% or more of our net sales aggregated approximately 72.4%, 44.1% and 60.2% respectively, of our net sales. The loss of Epson Precision (HK) Ltd., Sony Ericsson Mobile Communications AB or Texas Instruments Incorporated, each of which accounted for more than 10% of our net sales during 2002, or a substantial reduction in orders from any of them would materially and adversely impact our business and operating results.

Our quarterly and annual operating results are subject to significant fluctuations from a wide variety of factors.

Our quarterly and annual operating results are affected by a wide variety of factors that could materially and adversely affect our business and operating results during any period. This could result from any one or a combination of factors, such as:

- the timing, cancellation or postponement of orders,
- the type of product and related margins,
- our customers announcement and introduction of new products or new generations of products,
- the life cycles of our customers products,
- our timing of expenditures in anticipation of future orders,
- our effectiveness in managing manufacturing processes, including, interruptions or slowdowns in production and changes in cost and availability of components, and
- the mix of orders filled.

The volume and timing of orders received during a quarter are difficult to forecast. From time to time, our customers encounter uncertain and changing demand for their products. Customers generally order based on their forecasts. If demand falls below such forecasts or if customers do not control inventories effectively, they may reduce, cancel or postpone shipments of orders.

As a consequence of any of the above factors, results of operations in any period should not be considered indicative of results to be expected in any future period, and fluctuations in operating results may also result in fluctuations in the market price of our common shares. Our results of operations in future periods may fall below the expectations of public market analysts and investors. This failure to meet expectations could cause the trading price of our common shares to decline substantially.

Cancellations or delays in orders could materially and adversely affect our gross margins and operating income.

Sales to our OEM customers are primarily based on purchase orders we receive from time to time rather than firm, long-term purchase commitments. Although it is our general practice to purchase raw

materials only upon receiving a purchase order, for certain customers we will occasionally purchase raw materials based on such customers rolling forecasts. Further, during times of potential component shortages we have purchased, and may continue to purchase, raw materials and component parts in the expectation of receiving purchase orders for products that use these components. In the event actual purchase orders are delayed, are not received or are cancelled, we would experience increased inventory levels or possible write-downs of raw material inventory that could materially and adversely affect our business and operating results. In 2001, we made an inventory provision of $3.8 million for slow-moving raw materials relating to cancelled, reduced or delayed orders. Subsequently, we were able to use some of these raw materials in production or we received compensation for the unused raw materials from certain of our customers, resulting in a partial reversal of $2.0 million of the provision in 2002. Of the remaining $1.8 million of slow-moving inventory, $1.2 million was scrapped and $600,000 will be scrapped in the next six months.

If we are unable to produce our new products in a high quality and cost-effective manner, our gross margins and business and operating results could be materially and adversely affected.

We have experienced increased costs associated with developing advanced manufacturing techniques to produce our complex products on a mass scale and at a low cost. This has negatively impacted our gross margins. For example, our initial production runs of liquid crystal display, or LCD, modules experienced low production yields and other inefficiencies. We have currently commenced production of radio frequency, or RF, modules, thin film transistor, or TFT, modules and color LCD modules, in relation to which we have limited manufacturing experience. We expect that a substantial portion of our growth will come from our manufacture of these products. While we expect and plan for such increased costs in our new product manufacturing cycle, we cannot precisely predict the time and expense required to overcome initial problems and to ensure reliability and high quality at an acceptable cost. The increased costs and other difficulties associated with manufacturing RF modules, TFT modules and color LCD modules and other new products could have a negative impact on our future gross margins. In addition, even if we develop capabilities to manufacture new products, there can be no guarantee that a market will exist for such products or that such products will adequately respond to market trends. If we invest resources to develop capabilities to manufacture new products, like the investment in our new factory, for which a market does not develop, our business and operating results would be seriously harmed. Even if the market for our services grows, it may not grow at an adequate pace.

Our inability to utilize capacity at our new factory could materially and adversely affect our business and operating results.

In order to expand production capacity, we intend to use approximately $40 million of our net proceeds to construct and equip a new factory consisting of approximately 250,000 square feet on land adjacent to our principal manufacturing facilities in Shenzhen, China. Once our new factory is complete, we will have committed substantial expenditures and resources to constructing and equipping this factory, but cannot guarantee that we will fully utilize such additional capacity. Our factory utilization is dependent on our success in providing manufacturing services for new or other products that we intend to produce at that factory, including RF modules, TFT and color LCD modules, and handset assemblies for cellular phones, at a price and volume sufficient to absorb our increased overhead expenses. Demand for contract manufacturing of these products may not be as high as we expect, and we may fail to realize the expected benefit from our investment in our new factory.

We face increasing competition, which has had an adverse effect on our margins.

Competition in the EMS industry is intense and is characterized by price erosion, rapid technological change, and competition from major international companies. This intense competition has resulted in pricing pressures, lower sales and reduced margins. Over the last several years our margins have declined substantially, from 24.3% in 1998 to approximately 15.3% in 2002, as adjusted to take into account a

$2.0 million partial reversal of a provision we made in 2001. Continuing competitive pressures could materially and adversely affect our business and operating results.

We may not be able to compete successfully with our competitors, many of which have substantially greater resources than we do.

The electronics manufacturing services we provide are available from many independent sources as well as from our current and potential customers with in-house manufacturing capabilities. Our EMS competitors include Celestica, Inc., Flextronics International Ltd., Hon Hai Precision Industry Co., Ltd., Jabil Circuit, Inc., Sanmina-SCI Corporation and Solectron Corporation. Our principal competitors in the manufacture of our traditional product lines of calculators, personal organizers and linguistic products include Kinpo Electronics, Inc. and Inventec Co. Ltd. We have numerous competitors in the telecommunication, subassemblies and components product lines, including Philips, Samsung and Varitronix. Many of our competitors have greater financial, technical, marketing, manufacturing, regional shipping capabilities and logistics support and personnel resources than we do. As a result, we may be unable to compete successfully with these organizations in the future.

We must spend substantial amounts to maintain and develop advanced manufacturing processes and engage additional engineering personnel in order to attract new customers and business.

We operate in rapidly changing industries. Technological advances, the introduction of new products, and new manufacturing and design techniques could materially and adversely affect our business unless we are able to adapt to those changing conditions. As a result, we are continually required to commit substantial funds for, and significant resources to, engage additional engineering and other technical personnel and to purchase advanced design, production and test equipment.

Our future operating results will depend to a significant extent on our ability to continue to provide new manufacturing solutions that compare favorably on the basis of time to introduction, cost, and performance with the manufacturing capabilities of OEMs and competitive third-party suppliers. Our success in attracting new customers and developing new business depends on various factors, including:

utilization of advances in technology;

development of new or improved manufacturing processes for our customer s products;

delivery of efficient and cost-effective services; and

timely completion of the manufacture of new products.

We generally have no written agreements with suppliers to obtain components and our margins and operating results could suffer from increases in component prices.

We are typically responsible for purchasing components used in manufacturing products for our customers. We generally do not have written agreements with our suppliers of components. This typically results in our bearing the risk of component price increases because we may be unable to procure the required materials at a price level necessary to generate anticipated margins from the orders of our customers. Accordingly, increases in component prices could materially and adversely affect our gross margins and operating results.

Our business and operating results would be materially and adversely affected if our suppliers of needed components fail to meet our needs.

At various times, we have and continue to experience shortages of some of the electronic components that we use, and suppliers of some components lack sufficient capacity to meet the demand for these components. In some cases, supply shortages and delays in deliveries of particular components have resulted in curtailed production, or delays in production, of assemblies using that component, which contributed to an increase in our inventory levels and reduction in our gross margins. We expect that shortages and delays in deliveries of some components will continue. If we are unable to obtain sufficient

components on a timely basis, we may experience manufacturing delays, which could harm our relationships with current or prospective customers and reduce our sales. We also depend on a small number of suppliers for certain of the components that we use in our business. For example, we purchase most of our integrated circuits from Toshiba Corporation and Sharp Corporation and certain of their affiliates. If we were unable to continue to purchase components from these limited source suppliers, our business and operating results would be materially and adversely affected.

Factors affecting the electronics industry in general and our customers in particular could harm our operations.

Most of our sales are to customers in the electronics industry, which is subject to rapid technological change, product obsolescence and short product life cycles and has suffered from an industry-wide slowdown since 2000. The factors affecting the electronics industry in general, or any of our major customers or competitors in particular, could have a material adverse effect on our business and operating results. Our success will depend to a significant extent on the success achieved by our customers in developing and marketing their products, including their products that use RF modules and color STN modules and TFT modules, some of which may be new and untested. If our customers products become obsolete, fail to gain widespread commercial acceptance or become the subject of intellectual property disputes, this could harm our business and operating results.

Future acquisitions or strategic investments may not be successful and may harm our operating results.

An important element of our strategy is to review prospects for acquisition or strategic investments that would complement our existing companies and products, augment our market coverage and distribution ability or enhance our technological capabilities.

Future acquisitions or strategic investments could have a material adverse effect on our business and operating results because of:

- possible charges to operating results for purchased technology, restructuring or impairment charges related to goodwill or amortization expenses associated with intangible assets,
- potential increase in our expenses and working capital requirements and the incurrence of debt and contingent liabilities,
- difficulties in successfully integrating any acquired operations, technologies, customers products and businesses with our operations,
- diversion of our capital and management s attention to other business concerns,
- risks of entering markets or geographic areas in which we have limited prior experience, or
- potential loss of key employees of acquired organizations or inability to hire key employees necessary for expansion.

For example, in 1998, we made a provision for, and subsequently wrote-off, our entire $10.0 million investment in Albatronics.

Our customers are dependent on shipping companies for delivery of our products and interruptions to shipping could materially and adversely affect our business and operating results.

Typically, we sell our products F.O.B. Hong Kong and our customers are responsible for the transportation of products from Hong Kong to their final destinations. Our customers rely on a variety of carriers for product transportation through various world ports. A work stoppage, strike or shutdown of one or more major ports or airports could result in shipping delays materially and adversely affecting our customers, which in turn could have a material adverse effect on our business and operating results. Similarly, an increase in freight surcharges due to rising fuel costs or general price increases could materially and adversely affect our business and operating results.

Because our operations are international, we are subject to significant worldwide political, economic, legal and other uncertainties.

We are incorporated in the British Virgin Islands and have subsidiaries incorporated in the British Virgin Islands, the Cayman Islands, Hong Kong and China. Our executive and administrative offices are located in Hong Kong. We manufacture all of our products in China. As of December 31, 2002, approximately 72% of the net book value of our total fixed assets is located in China. We sell our products to customers in Hong Kong, North America, Europe, Japan, China and Southeast Asia. Our international operations may be subject to significant political and economic risks and legal uncertainties, including:

changes in economic and political conditions and in governmental policies,

changes in international and domestic customs regulations,

wars, civil unrest, acts of terrorism and other conflicts,

changes in tariffs, trade restrictions, trade agreements and taxation,

difficulties in managing or overseeing foreign operations, and

limitations on the repatriation of funds because of foreign exchange controls.

The occurrence or consequences of any of these factors may restrict our ability to operate in the affected region and decrease the profitability of our operations in that region.

Our operating results could be negatively impacted by seasonality.

Historically, our sales and operating results have been affected by seasonality. Sales of calculators, personal organizers and linguistic products are typically higher during the second and third quarters in anticipation of the start of the school year and the Christmas buying season. Similarly, our consumer services for electronics products have historically been lower in the first quarter from both the closing of our factories in China for the Chinese New Year holidays and the general reduction in sales following the holiday season. These sales patterns may not be indicative of future sales performance.

Our results could be harmed if we have to comply with new environmental regulations.

Our operations create some environmentally sensitive waste that may increase in the future depending on the nature of our manufacturing operations. The general issue of the disposal of hazardous waste has received increasing attention from the PRC national and local governments and foreign governments and agencies and has been subject to increasing regulation. Our business and operating results could be materially and adversely affected if we were to increase expenditures to comply with environmental regulations affecting our operations.

If there is an adverse outcome in class action litigation that has been filed against us, our business could be seriously harmed.

On March 11, 2003, we were served with a complaint in an action captioned Michael Rocco v. Nam Tai, et al., 03 Civ. 1148 (S.D.N.Y.) (the Rocco Action). Plaintiff in the Rocco Action purports to represent a putative class of persons who purchased the common stock of Nam Tai from July 29, 2002 through February 14, 2003. In addition to Nam Tai, certain directors are named as defendants. On or about April 9, 2003, a second complaint was filed in an action captioned A.J. & Celine Steigler v. Nam Tai, et al., 03 Civ. 2462 (S.D.N.Y.) (the Steigler Action) (together with the Rocco Action, the Actions). We have not yet been served in the Steigler Action. Plaintiff in the Steigler Action purports to represent a putative class of persons who purchased Nam Tai s common stock during the period December 13, 2002 through February 14, 2003. One director is also named as a defendant in the Steigler Action. Plaintiffs in the Actions assert claims under Section 10(b) of the Securities Exchange Act of 1934 and allege that misrepresentations and/or omissions were made during the alleged class periods concerning an accounting charge related to Nam Tai s JIC unit. The plaintiff in the Rocco Action also appears to

allege that Nam Tai failed to make timely disclosures concerning certain pending litigation related to a British Virgin Islands company known as Tele-Art. The Actions are in their preliminary stages, Nam Tai believes it has meritorious defenses and it intends to defend vigorously. Nam Tai is aware of no other actions that have been filed which relate to these matters. The ultimate outcome of this litigation cannot be presently determined. However, this litigation could be very costly and divert our management s attention and resources. In addition, we have no insurance covering our liability, if any, or that of our officers and directors, and we will have to pay the costs of defense. Any adverse determination in this litigation could also subject us to significant liabilities, any or all of which could materially and adversely affect our business and operating results.

We are dependent on certain members of our senior management.

We are substantially dependent upon the services of Mr. Tadao Murakami, our Chairman of the Board of Directors, Mr. Joseph Li, our Chief Executive Officer, and, Mr. M. K. Koo, our Chief Financial Officer. We have employment agreements with each of Mr. Murakami and Mr. Koo. Mr Murakami s employment may be terminated immediately and, pursuant to Mr. Koo s agreement, his employment may be terminated upon short notice. We also have entered into a Services Agreement with Mr. Li, which expires in October 2003. Mr. Li s Services Agreement provides that he may not compete with our business nor solicit customers or employees for a period of 36 months following termination for any reason under the Services Agreement. Neither Mr. Koo s nor Mr. Murakami s agreement has comparable provisions, and once Mr. Li s Service Agreement expires, and, if not renewed, Mr. Li will not be subject to the non-competition and non-solicitation provisions. Accordingly, each officer may engage in a business that is in competition with us after his termination, which may have a material adverse effect on our business and operating results. We maintain no key person insurance on these individuals. The loss of the services of any of these officers could have a material adverse effect on our business and operating results.

We may be unable to succeed in recovering on our judgment debts against Tele-Art.

We have two judgments in our favor against Tele-Art, Inc. awarded by The High Court of Justice in the British Virgin Islands for approximately $35.0 million plus interests and costs. Because Tele-Art, Inc. is in liquidation, we may not realize the entire amount of our judgments, and the actual amount of the recovery, if any, is uncertain and dependent on a number of factors. We may incur substantial additional costs in pursuing our recovery, and such costs may not be recoverable.

We could become involved in intellectual property disputes.

We do not have any patents, licenses, or trademarks material to our business. Instead, we rely on trade secrets, industry expertise and our customers sharing of intellectual property with us. We may be notified that we are infringing patents, copyrights or other intellectual property rights owned by other parties. In the event of an infringement claim, we may be required to spend a significant amount of money to develop a non-infringing alternative or to obtain licenses. We may not be successful in developing such an alternative or obtaining a license on reasonable terms, if at all. Any litigation, even without merit, could result in substantial costs and diversion of resources and could materially and adversely affect our business and operating results.

We may not pay dividends in the future.

Although we have declared dividends during each of the last nine years, we may not be able to declare them or may decide not to declare them in the future. Our China subsidiaries are required to reserve 10% of profits for future development, which may affect our ability to declare dividends. We will determine the amounts of the dividends when they are declared and even if dividends are declared in the future, we may not continue them in any future period.

Risks Related to Our Operations in China and Hong Kong

Our manufacturing facilities are located in China and our principal subsidiaries and several of our customers and suppliers are located in Hong Kong and China. As a result, our operations and assets are subject to significant political, economic, legal and other uncertainties associated with doing business in China and Hong Kong, which are discussed in more detail below.

The Chinese government could change its policies toward, or even nationalize, private enterprise, which could harm our business and operating results.

Over the past several years, the Chinese government has pursued economic reform policies including the encouragement of private economic activities and decentralization of economic deregulation. The Chinese government may not continue to pursue these policies or may significantly alter them to our detriment from time to time without notice. Changes in policies by the Chinese government resulting in changes in laws, regulations, or their interpretation, or the imposition of confiscatory taxation, restrictions on currency conversion or imports and sources of supply could materially and adversely affect our business and operating results. The nationalization or other expropriation of private enterprises by the Chinese government could result in the total loss of our investment in China.

The Chinese legal system has inherent uncertainties that could materially and adversely impact our ability to enforce the agreements governing our factories and to do business.

We do not own the land on which our factories in China are located. We occupy our principal manufacturing facilities under land use agreements with agencies of the Chinese government and we occupy other facilities under lease agreements with peasant collectives or other companies. The performance of these agreements and the operations of our factories are dependent on our relationship with the local government. Our operations and prospects would be materially and adversely affected by the failure of the local government to honor these agreements or an adverse change in the law governing them. In the event of a dispute, enforcement of these agreements could be difficult in China. Unlike the United States, China has a civil law system based on written statutes in which judicial decisions have limited precedential value. The Chinese government has enacted laws and regulations dealing with economic matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, its experience in implementing, interpreting and enforcing these laws and regulations is limited, and our ability to enforce commercial claims or to resolve commercial disputes in China is unpredictable. These matters may be subject to the exercise of considerable discretion by agencies of the Chinese government, and forces and factors unrelated to the legal merits of a particular matter or dispute may influence their determination.

Fire, severe weather, flood or earthquake could cause significant damage to our facilities in China and disrupt our business operations.

Our products are manufactured exclusively at our factories located in China. Fire fighting and disaster relief or assistance in China is not well developed. Material damage to, or the loss of, our factories due to fire, severe weather, flood, earthquake or other acts of God or cause may not be adequately covered by proceeds of our insurance coverage and could materially and adversely affect our business and operating results. In addition, any interruptions to our business caused by such disasters could harm our business and operating results.

Controversies affecting China s trade with the United States could harm our results of operations or depress our stock price.

While China has been granted permanent most favored nation trade status in the United States through its entry into the World Trade Organization, controversies between the United States and China may arise that threaten the status quo involving trade between the United States and China. These controversies could materially and adversely affect our business by, among other things, causing our

products in the United States to become more expensive resulting in a reduction in the demand for our products by customers in the United States. Political or trade friction between the United States and China, whether or not actually affecting our business, could also materially and adversely affect the prevailing market price of our common shares.

Changes to Chinese tax laws and heightened efforts by the Chinese tax authorities to increase revenues could subject us to greater taxes.

Under applicable Chinese law, we have been afforded a number of tax concessions by, and tax refunds from, the Chinese tax authorities on a substantial portion of our operations in China by reinvesting all or part of the profits attributable to our Chinese manufacturing operations. However, the Chinese tax system is subject to substantial uncertainties with respect to its interpretation and enforcement. Following the Chinese government s program of privatizing many state owned enterprises, the Chinese government has attempted to augment its revenues through heightened tax collection efforts. Continued efforts by the Chinese government to increase tax revenues could result in decisions or interpretations of the tax laws by the Chinese tax authorities that would increase our future tax liabilities or deny us expected concessions or refunds.

Our results have been affected by changes in currency exchange rates. Changes in currency rates involving the Japanese yen, Hong Kong dollar or Chinese renminbi could increase our expenses.

Our financial results have been affected by currency fluctuations, resulting in total foreign exchange losses of $345,000 during the year ended December 31, 2002 and total foreign exchange gains of $530,000 and $51,000 during the years ended December 31, 2001 and 2000, respectively. We sell most of our products in United States dollars and pay our expenses in United States dollars, Japanese yen, Hong Kong dollars, and Chinese renminbi. While we face a variety of risks associated with changes among the relative value of these currencies, we believe the most significant exchange risk presently results from material purchases we make in Japanese yen. Approximately 14%, 16% and 8% of our material costs have been in yen during the years ended December 31, 2000, 2001 and 2002, respectively, but sales made in yen accounted for less than 7% of sales for each of the last three years. An appreciation of yen against the U.S. dollar would increase our expenses when translated into U.S. dollars and would materially and adversely affect our margins unless we made sufficient sales in yen to offset against material purchases made in yen.

Approximately 4% and 10% of our revenues and 18% and 15% of our expenses were in Chinese renminbi and Hong Kong dollars, respectively, during the year ended December 31, 2002. Approximately 5% and 11% of our revenues and 15% and 19% of our expenses were in Chinese renminbi and Hong Kong dollars, respectively, in 2001. An appreciation of the renminbi or Hong Kong dollar against the U.S. dollar would increase our expenses when translated into U.S. dollars and could materially and adversely affect our margins. In addition, a significant devaluation in the renminbi or Hong Kong dollar could harm our business if it destabilizes the economy of China or Hong Kong, creates serious domestic problems or increases our borrowing costs.

We have suffered losses from hedging against our currency exchange risk.

From time to time, we have attempted to hedge our currency exchange risk. We recorded charges of $304,000 in 2000 and $566,000 in 1999 on the write-off of option premiums purchased as a hedge against the appreciation of the Japanese yen and the decline of the Hong Kong dollar, respectively. We did not engage in currency hedging transactions for fiscal year 2002. We have experienced in the past and may experience in the future losses as a result of currency hedging.

Political and economic instability in Hong Kong could harm our operations.

Some of our principal subsidiaries offices and several of our customers and suppliers are located in Hong Kong, formerly a British Crown Colony. Sovereignty over Hong Kong was resumed by China

effective July 1, 1997. Since then, Hong Kong has become a Special Administrative Region of China, enjoying a high degree of autonomy except for foreign and defense affairs. Moreover, China s political system and policies are not practiced in Hong Kong. Under the principle of one country, two systems, Hong Kong maintains a legal system that is based on the common law and is different from that of China. It is generally acknowledged as an open question whether Hong Kong s future prosperity in its role as a hub and gateway to China after China s recent accession to the World Trade Organization (introducing a market liberalization in China) will be diminished. The continued stability of political, economic or commercial conditions in Hong Kong remains uncertain, and any instability could materially and adversely impact our business and operating results.

The spread of severe acute respiratory syndrome may have a negative impact on our business and operating results.

There has been a recent outbreak of severe acute respiratory syndrome, or SARS, in Hong Kong and southern China, where our operations are located. This outbreak is being investigated by the World Health Organization, among other health agencies. To date, we are not aware of any of our employees having contracted this illness and have had no plant shutdowns due to workers being suspected of infection with SARS. For the personal safety of our employees, we have directed our employees to minimize business travel and we have distributed respiratory masks to our employees. We are continuing to monitor the possible implications of the SARS outbreak but at this time it is difficult to quantify the future impact on our business. For example, the SARS outbreak could result in quarantines or closures to some of our factories if our employees are infected with SARS and ongoing concerns regarding SARS, particularly its effect on travel, could negatively impact our China-based customers and suppliers and our business and operating results.

Risks Related to Our Industry

We are exposed to general economic conditions. The current slowdown in the technology products industry has affected and we expect it to continue to affect our business and operating results adversely.

As a result of recent unfavorable economic conditions and reduced capital spending, sales to OEMs in the electronics industry declined during 2002 and 2001. Lower consumer demand and high customer inventory levels have resulted in the delay and cancellation of orders for nearly all types of electronic products. As a result of order cancellations in 2001 we were required to make a provision for slow-moving inventory, which materially and adversely impacted our net income in 2001. If the economic conditions in the United States or Asia worsen generally or in the electronics and contract manufacturing businesses particularly, or if a wider or global economic slowdown occurs, this could materially and adversely impact our business and operating results.

The current economic downturn in the electronics manufacturing services industry could continue to have a material adverse effect on our business and operating results.

The EMS industry is currently in an economic slowdown with an uncertain outlook. Some of the major contract manufacturers and OEMs worldwide have announced job reductions and plant closures aimed at reducing costs. Industry analysts have reduced their projections of the future growth of the EMS segment. Furthermore, Wall Street analysts have reduced earnings and revenue estimates across the entire EMS sector and have reported that the EMS industry has excess capacity. For example, the EMS industry in which we operate experienced a decrease in demand in 2001 and 2002. Softening demand for our products and services caused by the ongoing economic downturn was responsible in part for a decline in our operating income in 2001, as well as our provision for slow-moving inventory.

The global economy may remain weak and market conditions continue to be challenging in the EMS industry. As a result, individuals and companies may continue delaying or reducing expenditures, including those for electronic products. Further delays or reductions in spending in our industry in particular, and economic weakness generally, could materially and adversely affect our business and operating results.

Risks Related to the Offering

The market price of our shares will likely be subject to substantial price and volume fluctuations.

The markets for equity securities have been volatile and the price of our common shares has been and could continue to be subject to wide fluctuations in response to variations in operating results, news announcements, trading volume, sales of common shares by our officers, directors and our principal shareholders, customers, suppliers or other publicly traded companies, general market trends both domestically and internationally, currency movements and interest rate fluctuations. Certain events, such as the issuance of common shares upon the exercise of our outstanding stock options could also materially and adversely affect the prevailing market price of our common shares.

Further, the stock markets have recently experienced extreme price and volume fluctuations that have affected the market prices of equity securities of many companies and that have been unrelated or disproportionate to the operating performance of such companies. These fluctuations may materially and adversely affect the market price of our common shares and your ability to resell your shares at or above the price you paid, or at any price.

The concentration of share ownership in our senior management allows them to control or substantially influence the outcome of matters requiring shareholder approval.

At March 31, 2003, members of our management and board of directors as a group beneficially owned approximately 46% of our common shares and will beneficially own approximately 33% immediately upon completion of this offering (assuming the underwriters over-allotment option is not exercised). As a result, acting together they may be able to control and substantially influence the outcome of all matters requiring approval by our shareholders, including the election of directors and approval of significant corporate transactions. This ability may have the effect of delaying or preventing a change in control of Nam Tai, or causing a change in control of Nam Tai that may not be favored by our other shareholders. We have agreed, subject to limited exceptions, not to sell or offer to sell or otherwise dispose of any common shares or securities convertible into or exercisable or exchangeable for our common shares, for a period of 90 days after the date of this prospectus, without the prior written consent of Bear, Stearns & Co. Inc., on behalf of the underwriters. Our executive officers, directors and selling shareholders have entered into similar agreements. Bear, Stearns & Co. Inc. may release some or all of these shares, or us, from these agreements at any time without public notice.

Risks Related to Our Foreign Private Issuer Status

It may be difficult to serve us with legal process or enforce judgments against our management or us.

We are a British Virgin Islands holding corporation having our principal subsidiaries in Hong Kong. We have appointed Stephen Seung, 2 Mott St., Suite 601, New York, New York 10013 as our agent upon whom process may be served in any action brought against us under the securities laws of the United States. However, outside the United States, it may be difficult for investors to enforce judgments against us obtained in the United States in any of these actions, including actions based upon civil liability provisions of the Federal securities laws. In addition, all of our officers and most of our directors reside outside the United States and all of our assets, and the assets of those persons who reside outside of the United States, are located outside of the United States. As a result, it may not be possible for investors to effect service of process within the United States upon those persons, or to enforce against those persons or us judgments obtained in United States courts grounded upon the liability provisions of the United States securities laws. There is substantial doubt as to the enforceability against us or any of our directors and officers located outside of the United States in original actions or in actions for enforcement of judgments of United States courts of liabilities based solely on the civil liability provisions of the securities laws of the United States.

No treaty exists between Hong Kong or the British Virgin Islands and the United States providing for the reciprocal enforcement of foreign judgments. However, the courts of Hong Kong and the British Virgin Islands are generally prepared to accept a foreign judgment as evidence of a debt due. An action may then

be commenced in Hong Kong or the British Virgin Islands for recovery of this debt. A Hong Kong or British Virgin Islands court will only accept a foreign judgment as evidence of a debt due if:

- the judgment is for a liquidated amount in a civil matter;
- the judgment is final and conclusive and has not been stayed or satisfied in full;
- the judgment is not, directly or indirectly, for the payment of foreign taxes, penalties, fines or charges of a like nature (in this regard, a Hong Kong or British Virgin Islands court is unlikely to accept a judgment for an amount obtained by doubling, trebling or otherwise multiplying a sum assessed as compensation for the loss or damage sustained by the person in whose favor the judgment was given);
- the judgment was not obtained by actual or constructive fraud or duress;
- the foreign court has taken jurisdiction on grounds that are recognized by the common law rules as to conflict of laws in Hong Kong or the British Virgin Islands;
- the proceedings in which the judgment was obtained were not contrary to natural justice (i.e., the concept of fair adjudication);
- the proceedings in which the judgment was obtained, the judgment itself and the enforcement of the judgment are not contrary to the public policy of Hong Kong or the British Virgin Islands;
- the person against whom the judgment is given is subject to the jurisdiction of the Hong Kong or the British Virgin Islands court; and
- the judgment is not on a claim for contribution in respect of damages awarded by a judgment, which does not satisfy the criteria stated previously.

Enforcement of a foreign judgment in Hong Kong or the British Virgin Islands may also be limited or affected by applicable bankruptcy, insolvency, liquidation, arrangement, and moratorium or similar laws relating to or affecting creditors rights generally, and will be subject to a statutory limitation of time within which proceedings may be brought.

Future issuances of preference shares could materially and adversely affect the holders of our common shares or delay or prevent a change of control.

Our board of directors may amend our Memorandum and Articles of Association without shareholder approval to create from time to time and issue one or more classes of preference shares (which are analogous to preferred stock of corporations organized in the United States). While currently no preference shares are issued or outstanding, we may issue preference shares in the future. Future issuance of preference shares could materially and adversely affect the rights of the holders of our common shares or delay or prevent a change of control.

Our status as a foreign private issuer exempts us from certain of the reporting requirements under the Exchange Act and corporate governance standards of the New York Stock Exchange, limiting the protections and information afforded to investors.

We are a foreign private issuer within the meaning of rules promulgated under the Securities Exchange Act of 1934. As such, we are exempt from certain provisions applicable to United States public companies including:

- the rules under the Exchange Act requiring the filing with the Commission of quarterly reports on Form 10-Q, current reports on Form 8-K or annual reports on Form 10-K;
- the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act;

- the provisions of Regulation FD aimed at preventing issuers from making selective disclosures of material information; and

- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and establishing insider liability for profits realized from any short-swing trading transaction (i.e., a purchase and sale, or sale and purchase, of the issuer s equity securities within less than six months).

In addition, because the Company is a foreign private issuer, certain of the corporate governance standards of the New York Stock Exchange that are applied to domestic companies listed on that exchange may not be applied to us.

Because of these exemptions, investors are not afforded the same protections or information generally available to investors holding shares in public companies organized in the United States or traded on the New York Stock Exchange.

USE OF PROCEEDS

We estimate that net proceeds from our sale of 2,000,000 common shares will be approximately $54.1 million, based on an assumed public offering price of $29.25 and after payment of estimated underwriting discounts and commissions and other estimated offering expenses payable by us. If the underwriter s over-allotment option is exercised in full, we estimate that net proceeds will be approximately $66.4 million. We will not receive any of the proceeds from the sale of common shares by the selling shareholders.

We intend to use approximately $40.0 million of the net proceeds to construct and equip a new factory of approximately 250,000 square feet and associated offices and facilities adjacent to our principal manufacturing facilities in Shenzhen, China. We currently expect to use this new facility, among other things, to manufacture RF modules, TFT and color LCD modules and handset assemblies for cellular phones. We intend to use the balance of the net proceeds for working capital and other general corporate purposes, which may include additional capital expenditures and possible acquisitions of, or strategic investments in, businesses, products or technologies that are complementary to our business. From time to time, we evaluate potential acquisitions of, or strategic investments in, such businesses, products or technologies; however, we have no current understandings, agreements or commitments with respect to any such transaction. Pending such uses, we intend to invest the net proceeds in short-term interest bearing obligations.

DIVIDEND POLICY

We have paid an annual dividend for the last nine consecutive years. On February 14, 2003, we announced that we were increasing our regular annual dividend to $0.60 per share to be declared and paid quarterly commencing with the first quarter 2003 dividend of $0.15 per share. The following table sets forth the total cash dividends and dividends per share we have declared for each of the five years in the period ended December 31, 2002:

	Year ended December 31,				
	1998	**1999**	**2000**	**2001**	**2002**
Total dividends declared (in thousands)	$2,829	$2,942	$12,190	$4,134	$17,056
Regular dividends per share	$ 0.28	$ 0.32	$ 0.36	$ 0.40	$ 0.48
Special dividends			1.00		1.00
Total dividends per share	$ 0.28	$ 0.32	$ 1.36	$ 0.40	$ 1.48

It is our general policy to determine the actual annual amount of future dividends, if any, based upon our growth during the preceding year. Future dividends, if any, will be in the form of cash or stock or a combination of both. We may not be able to pay dividends in the future or may decide not to declare them in any event. We will determine the amounts of the dividends when they are declared and even if dividends are declared in the future we may not continue them in any future period.

We declared special dividends in 2000 and 2002 for the reasons described below:

In 2000, as a result of a realized gain we made from our sale of our investment in Group Sense (International) Ltd.; and

In 2002, primarily as a result of a realized gain we made from our sale of approximately one-third of our indirect investment in Huizhou TCL Mobile Communication Company Ltd.

We do no business in the United States that subjects us to United States income taxes on our income and we do not expect to receive dividends from any United States company or any foreign company that has income effectively connected with a United States trade or business. Accordingly, we expect that any cash dividends we pay to our shareholders who are subject to United States income tax will remain taxable if the recent tax proposal relating to exempting dividends from United States income tax is enacted as proposed.

PRICE RANGE OF COMMON SHARES

Our common shares are traded exclusively in the United States. On January 23, 2003, our common shares were listed on the New York Stock Exchange under the symbol NTE. Prior to that, our common shares were quoted on the Nasdaq National Market under the symbol NTAI.

The following table sets forth the high and low closing sale prices for our common shares for the quarters indicated through March 31, 2003:

	2001			2002			2003		
	High	Low	Average Daily Trading Volume(1)	High	Low	Average Daily Trading Volume(1)	High	Low	Average Daily Trading Volume(1)
First Quarter	$19.13	$12.13	18,517	$19.04	$15.45	101,055	$33.68	$23.61	121,090
Second Quarter	$15.01	$12.25	21,319	$23.18	$18.30	18,768			
Third Quarter	$15.31	$11.30	24,724	$20.59	$16.00	47,936			
Fourth Quarter	$17.91	$12.50	44,555	$27.20	$18.50	51,105			

(1) Determined by dividing the sum of the reported daily volume for the quarter by the number of trading days in the quarter.

The following table sets forth the high and low closing sale prices for each of the last five years ended December 31:

Year ended	High	Low	Daily Trading Volume(1)
December 31, 2002	$27.20	$15.45	55,051
December 31, 2001	$19.125	$ 11.30	27,305
December 31, 2000	$20.625	$12.938	37,881
December 31, 1999	$ 19.00	$ 8.00	57,253
December 31, 1998	$17.625	$ 9.375	73,906

(1) Determined by dividing the sum of the reported daily volume for the year by the number of trading days in the year.

The following table sets forth the high and low closing sale prices during each of the most recent six months through March 31, 2003:

Month ended	High	Low	Daily Trading Volume(1)
March 31, 2003	$25.16	$23.61	44,848
February 28, 2003	$33.91	$24.18	152,342
January 31, 2003	$33.68	$25.50	169,057
December 31, 2002	$27.20	$22.45	134,719
November 30, 2002	$22.33	$20.25	148,740
October 31, 2002	$20.55	$18.50	28,852

(1) Determined by dividing the sum of the reported daily volume for the month by the number of trading days in the month.

On May 15, 2003, the last reported sale price of our common shares on the New York Stock Exchange was $29.25 per share. As of March 31, 2003, there were 845 holders of record of our common shares.

CAPITALIZATION

The following table sets forth our cash and cash equivalents, short-term indebtedness and capitalization:

as of March 31, 2003 on an actual basis; and

as adjusted to reflect the sale of 2,000,000 common shares offered by us at an assumed public offering price of $29.25 per share, less estimated underwriting discounts and estimated offering expenses and the application of such proceeds to our cash and cash equivalents, shareholders equity and total capitalization.

You should read this table in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the accompanying notes included elsewhere in this prospectus.

	At March 31, 2003	
	Actual	**As adjusted**
	(in thousands)	
Cash and cash equivalents	$ 61,114	$115,212
Notes payable	$ 2,030	$ 2,030
Current portion of long-term debt	1,125	1,125
Total short-term debt	$ 3,155	$ 3,155
Long-term debt, excluding current portion	$ 2,531	$ 2,531
Minority Interests	3,117	3,117
Shareholders equity:		
Common shares, $0.01 par value (20,000,000 shares authorized, 12,130,668 shares issued and outstanding actual and 14,130,668 shares issued and outstanding as adjusted)	121	141
Additional paid-in capital	149,874	203,952
Retained earnings	62,572	62,572
Accumulated other comprehensive loss	(2)	(2)
Total shareholders equity	212,565	266,663
Total capitalization	$218,213	$272,311

The preceding table does not give effect to the issuance of:

372,000 common shares issuable upon exercise of stock options outstanding as of March 31, 2003;

602,233 common shares available as of March 31, 2003 for future issuance under our stock option plans; and

450,000 common shares that we may issue upon exercise of the underwriters over-allotment option.

Our debt at March 31, 2003, including the current portion of $1.1 million and notes payable of $2.0 million, was not secured. None of our debt at March 31, 2003 was guaranteed by a third party.

SELECTED CONSOLIDATED FINANCIAL DATA

Our historical consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States and are presented in U.S. dollars. The following selected statements of income data for each of the three years in the period ended December 31, 2002 and the balance sheet data as of December 31, 2001 and 2002 are derived from our consolidated financial statements and notes thereto included later in this prospectus. The following selected statements of income data for the three months ended March 31, 2002 and 2003 and the balance sheet data as of March 31, 2003 are derived from our unaudited consolidated financial statements and notes. The selected statements of income data for each of the two years in the period ended December 31, 1999 and the balance sheet data as of December 31, 1998, 1999 and 2000 were derived from our audited financial statements, which are not included in this prospectus. The following data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements including the related footnotes.

	Year ended December 31,					Three Months ended March 31,	
	1998	1999	2000	2001	2002	2002	2003
	(in thousands except per share data)						
Consolidated statements of income data:							
Net sales third parties	$101,649	$145,054	$207,456	$212,934	$228,167	$46,121	$85,050
Net sales related party			6,232	21,072	7,849	5,096	2,931
Total net sales	101,649	145,054	213,688	234,006	236,016	51,217	87,981
Cost of sales	76,939	120,074	182,096	203,974	197,956	43,466	72,835
Gross profit	24,710	24,980	31,592	30,032	38,060	7,751	15,146
Operating costs and expenses:							
Selling, general and administrative	13,246	14,913	17,646	21,974	17,983	3,952	5,471
Research and development	1,691	2,624	3,489	2,954	2,686	665	811
Impairment of goodwill					339		
Non-recurring expense (income)	1,445	(848)					
Total operating expenses	16,382	16,689	21,135	24,928	21,008	4,617	6,282
Income from operations	8,328	8,291	10,457	5,104	17,052	3,134	8,864
Equity in income (loss) of affiliated companies	534	1,146	(189)	1,867	10,741	1,135	75
Equity in loss of an unconsolidated subsidiary	(1,708)						
Other income (expense) net	5,687	2,494	13,853	2,709	(6,043)	358	2,305
Interest expense	(1)	(192)	(165)	(178)	(790)	(186)	(37)
Provision for/write off of investment in an unconsolidated subsidiary	(8,271)	(1)					
Income before income taxes and minority interests	4,569	11,738	23,956	9,502	20,960	4,441	11,207
Income taxes (expense) benefit	(1,040)	60	33	(227)	(773)	(165)	(384)
Income before minority interests	3,529	11,798	23,989	9,275	20,187	4,276	10,823
Minority interests			12	(230)	(164)	(101)	(613)
Net income	$ 3,529	$ 11,798	$ 24,001	$ 9,045	$ 20,023	$ 4,175	$10,210

Earnings per share:							
Basic	$ 0.34	$ 1.26	$ 2.63	$ 0.88	$ 1.89	$ 0.41	$ 0.84
Diluted	$ 0.34	$ 1.25	$ 2.56	$ 0.87	$ 1.86	$ 0.40	$ 0.83
Weighted average shares:							
Basic	10,317	9,328	9,114	10,274	10,571	10,306	12,117
Diluted	10,351	9,417	9,375	10,393	10,736	10,476	12,266

	At December 31,					At March 31,
	1998	1999	2000	2001	2002	2003
	(in thousands)					
Consolidated balance sheet data:						
Cash and cash equivalents	$ 71,215	$ 54,215	$ 58,896	$ 58,676	$ 82,477	$ 61,114
Working capital	77,539	61,265	89,568	83,982	87,408	88,892
Property, plant and equipment net	32,445	44,717	44,599	70,414	75,914	75,145
Total assets	147,228	158,747	208,370	224,573	275,086	288,725
Short-term debt, including current portion of long-term debt	329	6,949	1,523	3,687	14,970	3,155
Long-term debt, less current portion				12,860	2,812	2,531
Total debt	329	6,949	1,523	16,547	17,782	5,686
Shareholders equity	127,696	125,568	162,364	169,351	202,128	212,565

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Except for statements of historical facts, this section contains forward-looking statements involving risks and uncertainties. You can identify these statements by forward-looking words including believes, considers, intends, expects, may, will, should, forecast, or anticipa negative equivalents of those words or comparable terminology, and by discussions of strategies that involve risks and uncertainties. Forward-looking statements are not guarantees of our future performance or results and our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under Risk Factors. This section should be read in conjunction with our consolidated financial statements.

Overview

We are an electronics manufacturing and design services provider to a select group of the world s leading original equipment manufacturers, or OEMs, of telecommunication and consumer electronic products. Our largest customers include Epson Precision (HK) Ltd., Sony Ericsson Mobile Communications AB and Texas Instruments Incorporated. Through our electronics manufacturing services, or EMS, operations, we manufacture electronic components and subassemblies, including liquid crystal display, or LCD, panels, transformers, LCD modules and radio frequency, or RF modules. These components are used in various electronic products, including cellular phones, laptop computers, digital cameras, copiers, fax machines, electronic toys, handheld video game devices and microwave ovens. We also manufacture finished products, including palm-sized PC s, personal digital assistants, electronic dictionaries, calculators and digital camera accessories for use with cellular phones.

We assist our OEM customers in the design and development of their products and furnish full turnkey manufacturing services that utilize advanced manufacturing processes and production technologies. Our services include hardware and software design, component purchasing, assembly into finished products or electronic subassemblies and post-assembly testing. These services are value-added and assist us in obtaining new business but do not represent a material component of our revenue. We also provide original design manufacturing, or ODM, services, in which we design and develop proprietary products that are sold by our OEM customers using their brand name.

Net Sales and Cost of Sales

We derive our net sales principally from manufacturing services that we provide to OEMs of telecommunications and consumer electronic products. The market for the products we manufacture is generally characterized by declining unit prices and short product life cycles. Sales to our OEM customers are primarily based on purchase orders we receive from time to time rather than firm, long-term purchase commitments from our customers. We recognize sales, net of product returns and warranty costs, typically at the time of product shipment or, in some cases, as services are rendered.

A substantial percentage of our net sales are to a small number of customers. During the years ended December 31, 2000, 2001 and 2002, sales to our ten largest customers were 90.2%, 83.7% and 84.8% of our net sales, respectively. Furthermore, our customers accounting for 10% or more of our net sales aggregated approximately 72.4%, 44.1% and 60.2% of our total sales, respectively, for the same three-year period. The loss of any of our largest customers or a substantial reduction in orders from any of them would materially and adversely affect our business and operating results.

Our production is typically based on purchase orders received from OEM customers. However, for certain customers we will occasionally purchase raw materials based on such customers rolling forecasts. Purchase orders are often supported by letters of credit or written confirmation from our OEM customer. We generally do not obtain firm, long-term commitments from our customers. Uncertain economic conditions and our general lack of long-term purchase commitments with our customers make it difficult for us to accurately predict our revenue over the longer term. Even in those cases where customers are contractually obligated to purchase products from us or to repurchase unused inventory from us, we may

elect not to immediately enforce our contractual rights because of the long-term nature of our customer relationships and for other business reasons, and instead may negotiate accommodations with customers regarding particular situations.

We did not suffer a material loss resulting from the cancellation of OEM customer orders in 2000 or 2002. In 2001 however, we made an inventory provision of $3.8 million to cost of sales for slow-moving raw materials relating to cancelled, reduced or delayed orders. Subsequently, we were able to use some of these raw materials in production or we received compensation for the unused raw materials from certain of our customers, resulting in a partial reversal of $2.0 million of the provision in 2002. Of the remaining $1.8 million of slow-moving inventory, $1.2 million was scrapped and $600,000 will be scrapped in the next six months.

Gross Margins

Our gross margins and operating income generally improve during periods of high-volume and high-capacity utilization in our manufacturing facilities and decline during periods of low-volume and low-capacity utilization. Over the last several years our gross profit margins have declined substantially, from 24.3% in 1998, to 17.2% for 1999, to 14.8% for 2000, to 12.8% in 2001 and increasing to 16.1% in 2002. Before the $3.8 million inventory provision in 2001 and our subsequent partial reversal of $2.0 million of this provision in 2002 discussed above, our gross margin was 14.5% in 2001 and 15.3% in 2002.

An increased mix of more complex products that generally have relatively high material costs as a percentage of total unit costs has historically been a factor that has adversely affected our gross margins. This is the primary reason for the decline in our gross margins between 1998 and 2001. During this period, we diversified our product mix from predominantly low complexity electronic products, including, calculators and electronic dictionaries, to include more complex components and subassemblies, like LCD modules. We believe our gross margin improved in 2002 as a result of the experience we acquired in manufacturing these more complex products as we changed our strategic focus. Despite the lower gross margin on more complex products, we believe that the opportunity for growth in the demand for these complex products justifies the shift in our strategic focus. Furthermore, we believe that the manufacturing processes and know-how that we have developed from producing more complex products are a competitive advantage for us relative to many of our competitors.

The increased costs associated with developing advanced manufacturing techniques to produce complex products on a mass scale and at a low cost has also negatively impacted our gross margins. For example, in our initial production runs of LCD modules we experienced low production yields and other inefficiencies that caused our gross margin to decrease. Although we believe we have improved the efficiency and quality of our manufacturing processes relating to LCD modules, we may not be able to improve or maintain our gross margin for these products. Furthermore, in December 2002 we began to produce RF modules, and, in January 2003, we began to produce color and thin film transistor, or TFT, LCD modules, each a complex component used in a variety of devices. The increased costs associated with manufacturing these products and other new complex products could have a negative impact on our future gross margins. The complex manufacturing processes involved in the production of complex products is also capital intensive thereby increasing our fixed overhead costs.

Selling, General and Administrative Expenses

Our selling, general and administrative, or SG&A, expenses, consist primarily of salary and benefits, depreciation and amortization of our non-manufacturing fixed and intangible assets, office expenses, and professional fees.

Research and Development

We invest in research and development for manufacturing and assembly technology that provide us with the potential to offer better and more technologically advanced services to our OEM customers or assist us in the design and development of future products for them. We plan to continue acquiring

advanced design equipment and to enhance our technological expertise through continued training of our engineers and further hiring of qualified system engineers. These investments are intended to improve the speed, efficiency and quality of our manufacturing processes.

Operating Realignment

In 2001, we restructured certain of our operations to better align our manufacturing, engineering and administrative resources. Related to this restructuring, we incurred approximately $300,000 of costs related to employee severance charges that were included in cost of sales. We also incurred severance charges of approximately $700,000 related to the elimination of certain administrative positions that were included in selling, general and administrative expenses in that year.

Due to the termination of the aforementioned employees, we anticipate that we will have yearly savings of approximately $1.7 million, although the benefit of these savings will be mitigated by the hiring of additional employees since the realignment and any future employees hired from time to time.

Income Taxes

Our principal operations, which are conducted through subsidiaries, are in Hong Kong and China. We calculate the provision for current income taxes of our subsidiaries operating in Hong Kong for the years ended December 31, 2000, 2001, and 2002 by applying the current rate of taxation of 16% to the estimated taxable income earned in or derived from Hong Kong during the period.

The basic corporate tax rate for Foreign Investment Enterprises in China, such as our China subsidiaries, is currently 33% (30% state tax and 3% local tax). However, because all of our China subsidiaries are located in Shenzhen and are involved in production operations, they qualify for a special reduced state tax rate of 15%. In addition, the local tax authorities in the regions in which our subsidiaries operate in Shenzhen are not currently assessing any local tax. Moreover, several of our China subsidiaries are entitled to certain tax benefits and certain of our China subsidiaries have qualified for tax refunds as a result of reinvesting their profits earned in previous years in China for a minimum period of five years.

Efforts by the Chinese government to increase tax revenues could result in decisions or interpretations of the tax laws by the Chinese tax authorities, which are unfavorable to us and which increase our future tax liabilities, or deny us expected refunds. Changes in Chinese tax laws or their interpretation or application may subject us to additional Chinese taxation in the future.

Our effective tax rates were 0%, 2%, and 4% for 2000, 2001, and 2002, respectively. The significant factors that cause our effective tax rates to differ from the applicable statutory rates of 15% were as follows:

	2000	**2001**	**2002**
Applicable statutory tax rates	15%	15%	15%
Effect of (income) loss for which no income tax benefit/ expense is receivable/ payable	(11%)	0%	(4%)
Tax holidays and incentives	(2%)	(8%)	(3%)
Effect of PRC tax concessions, giving rise to no PRC tax liability	(2%)	(6%)	(10%)
Others	0%	1%	6%
Effective tax rates	0%	2%	4%

Strategic Investments

An important element of our strategy is to make investments in companies that provide the potential to complement our existing products and services, become new customers, augment our market coverage and sales ability, enhance our technological capabilities and expand our service offerings. We account for

investments of less than 20% under the cost method and we account for investments between 20% and 50% under the equity method. Our material investments over the last five years include:

Alpha Star/ JCT Wireless. In January 2003 we invested $10.0 million for a 25% equity interest in Alpha Star Investments Ltd., the ultimate parent of Hong Kong based JCT Wireless Technology Company Limited, or JCT. JCT is engaged in the design, development and marketing of wireless communication terminals and wireless application software and is using us to manufacture wireless communication terminals and their related RF modules. We began selling RF modules to JCT in the first quarter of 2003. Through March 31, 2003 sales to JCT were $2.9 million.

TCL Group. Over the period from September 2000 through November 2002, we made three investments in the TCL Group of companies and disposed of a portion of one investment. The TCL Group of companies is a leading OEM for numerous consumer electronic and telecommunications products in the domestic Chinese market.

In September 2000, we made a strategic investment of $2.0 million to acquire a 5% indirect equity interest (through a 25% direct equity interest in Mate Fair Group Limited) in both TCL Mobile Communication (HK) Co., Ltd. and Huizhou TCL Mobile Communication Co., Ltd., or together known as TCL Mobile. TCL Mobile is engaged in manufacturing, distributing and trading of digital mobile phones and accessories in China and overseas markets. In October 2002, we began to provide TCL Mobile with LCD modules used in its mobile phones. However, sales to TCL Mobile were not material for 2002.

In January 2002, we acquired a 6% equity interest in TCL Corporation (formerly known as TCL Holdings Corporation Ltd.), the parent of the TCL Group of companies, for approximately $12.0 million.

In November 2002, Mate Fair Group Limited sold a portion of its equity interest in Huizhou TCL Mobile Communication Co. Ltd. for which we received proceeds of approximately $10.4 million, reducing our indirect equity interest (held through Mate Fair Group Limited) in TCL Mobile to approximately 3%.

In November 2002, we invested $5.1 million in 3% convertible notes of TCL International Holdings Limited that are due in November 2005. TCL International Holdings Limited is another company in the TCL Group and is publicly listed on the Hong Kong Stock Exchange.

Deswell Industries. In September 2000, we purchased 500,000 common shares in Deswell Industries Inc., a Nasdaq-listed company, representing approximately 9% of the outstanding shares of Deswell at the time of the purchase for an aggregate of $7.5 million. Deswell is a manufacturer of injection-molded plastic parts and components, electronic products and subassemblies and metallic molds and accessory parts for OEMs and contract manufacturers. During the first quarter of 2002, we sold our Deswell shares in the open market for aggregate proceeds of $10.1 million.

Group Sense. In May 1998, we acquired 20% of the outstanding shares of Group Sense (International) Limited, a Hong Kong public listed company, for cash of $16.3 million, which was reduced by a pre-acquisition dividend of $460,000. Group Sense and its subsidiaries manufacture consumer electronics products. During the period from February to November 2000, we disposed of our Group Sense shares for cash aggregating $28.1 million.

Albatronics. In December 1998, we acquired slightly over 50% of the outstanding shares of Albatronics (Far East) Company Limited, a Hong Kong public listed company, for cash of approximately $10.0 million. Albatronics and its subsidiaries were engaged in the trading of electronic components and manufacturing of consumer electronics products. Despite our direct cash investment, Albatronics financial position weakened dramatically and it became unable to pay its liabilities as they came due. As a result, we wrote off our entire investment in Albatronics.

The following details the impact of our strategic investments on our income statements for each of the years ended 2000, 2001, and 2002:

		2000	2001	2002
			(in thousands)	
Cost Investments				
Included in other income:				
Group Sense	Realized gain on disposal of investment, net	$ 9,435	$	$
Deswell	Realized gain on disposal of marketable securities			642
Deswell	Unrealized gain on marketable securities	433	1,568	
Deswell	Dividend income received from marketable securities	165	525	114
Group Sense	Dividend income received from investment	23		
TCL Corporation	Dividend income received from investment			803
		$10,056	$2,093	$ 1,559
Equity Investments				
Included in equity in (loss) income of affiliated companies:				
Shanghai Q&T Tech Co., Ltd				
Share of results		$ (93)	$	$
Amortization of goodwill		(28)		
Provision for unamortized balance of goodwill		(86)		
		$ (207)	$	$
Mate Fair Group Ltd.				
Share of results		$ 69	$2,020	$10,741
Amortization of goodwill		(51)	(153)	
		18	1,867	10,741
Equity in (loss) income of affiliated companies		$ (189)	$1,867	$10,741
Included in other income:				
Group Sense	Gain on disposal of investment in an affiliated company	$ 1,346	$	$
Mate Fair	Release of unamortized goodwill of affiliated companies			(520)
		1,346		(520)
		$ 1,157	$1,867	$10,221

Toshiba Joint Venture

In March 2000, we formed a joint venture with Toshiba Battery Company Ltd. called BPC (Shenzhen) Co., Ltd., or BPC, to manufacture rechargeable lithium ion battery packs at our manufacturing complex in Shenzhen, China. Toshiba Battery Company Ltd. owned a 13% interest in BPC and we owned the balance of BPC for a cash investment of $1.3 million. During 2000 and 2001 and from January 1 to April 30, 2002, we recognized net sales of $6.2 million, $21.1 million, and $7.8 million, respectively, from Toshiba and its related companies. In 2002, we sold our 87% joint venture interest in BPC and a related manufacturing license to a Toshiba related company for an aggregate of $2.9 million, resulting in a gain of $77,000.

Based on the 2001 full year results of BPC, we estimate that the sale of BPC will result in a reduction of annual revenues of approximately $21.1 million and a reduction in profits of $1.3 million. We further estimate that the BPC sale will result in a reduction of annual operating expenses of approximately $600,000. Future cash flows from operations will decline by approximately $1.7 million a year.

JIC Group Acquisition

We acquired J.I.C. Group (BVI) Limited, or the JIC Group, in October 2000 for $32.8 million. We paid a portion of the purchase price to the seller by issuing approximately 1.16 million of our common shares and paid $11.0 million in cash. The JIC Group is engaged in the manufacture and marketing of transformers and LCD panels, a key component for a variety of consumer electronic products. We accounted for the acquisition of the JIC Group under the purchase method of accounting and the results of the JIC Group s operations have been consolidated with our results since the date of its acquisition.

JIC Group Minority Interest

In June 2002, we arranged for the listing of the JIC Group on The Stock Exchange of Hong Kong Limited by way of a reverse merger with Albatronics. As a result, our effective interest in the JIC Group reduced from 100% to 92.9%. However, our interest in the JIC Group became publicly tradable shares on the Hong Kong Stock Exchange. In the second quarter of 2002, we accounted for the transaction by the creation of a minority interest and a comparable reduction in the value of the net assets of JIC. We discussed the accounting treatment of the JIC transaction in our consolidated financial statements for the six months ended June 30, 2002 with HLB Hodgson Impey Cheng, our auditor at the time. We believed, and HLB concurred, at the time we released our consolidated financial statements for the six months ended June 30, 2002 that our accounting treatment complied, where applicable, with the relevant generally accepted accounting principles of Hong Kong and the United States.

During the third quarter, in connection with this transaction we were then considering, we were requested to engage Deloitte Touche Tohmatsu to review our interim operations for the six months ended June 30, 2002. On October 23, 2002, Deloitte Touche Tohmatsu communicated that, based on its review, the financial results for the six months ended June 30, 2002 may be materially misstated as a result of a departure from generally accepted accounting principles with respect to the absence of a $1.5 million goodwill charge relating to the creation of the 7.1% minority interest in our subsidiary, JIC. As a result, management and our Board of Directors again discussed the accounting treatment with HLB. Shortly thereafter, HLB resigned as our auditors for unrelated reasons described in Change in Public Accountants . In doing so, HLB provided us with no additional information as to the appropriate accounting treatment for the $1.5 million goodwill in question and suggested that the issue would most appropriately be addressed by the independent auditors that succeeded them.

We brought the issue to the attention of Grant Thornton, whom we had retained as our independent auditors in December 2002. Based on the advice of HLB, our auditor at the time, we believed that our original accounting was accurate. However, upon consultation with Grant Thornton, we determined to include a charge of $1.5 million in other income/(expense), net in 2002. We then decided to revise our previously issued financial information issued in the second quarter of 2002 in order to reflect the charge for the 7.1% JIC minority interest, which we announced in a press release issued before the market opened on February 18, 2003.

Operating Segments

Our operations are generally organized in two segments, Consumer Electronics Products, or CEP, and LCD panels and transformers, or LPT. The activities of our LPT segment relate primarily to our JIC subsidiary that we acquired in October 2000. Prior to our acquisition of JIC, we operated as a single segment; therefore, our comparison of operating results for the years ended December 31, 2001 and 2000 presented below is not described on a segment basis.

Consumer Electronics Products. Our CEP segment is primarily engaged in the manufacture and assembly of electronic components, subassemblies and finished products for OEMs of electronic and telecommunications products. The electronic components and subassemblies that our CEP segment produces are primarily LCD modules used in a wide variety of consumer electronic products including cellular phones, personal digital assistants, or PDAs, digital cameras, handheld video game devices and microwave ovens. In December 2002, our CEP segment also began producing RF modules, used in cellular phones and other electronic devices with wireless features. The finished products that our CEP segment assembles include digital camera accessories for cellular phones, handheld electronic calculators, dictionaries and linguistic products. Within our CEP segment, we also provide software development services to our OEM customers.

LCD Panels and Transformers. Our LPT segment manufactures LCD panels for use in numerous electronic products, including watches, clocks, calculators, pocket games, PDAs and cellular and wireless telephones. The transformers produced by our LPT segment are used in home appliances, telecommunications equipment, computers and computer peripherals.

Seasonality

Historically, our sales and operating results are often affected by seasonality. Sales of calculators, personal organizers and linguistic products are often higher during the second and third quarters in anticipation of the start of the school year and the Christmas buying season. Similarly, our consumer services for electronics products have historically been lower in the first quarter resulting from both the closing of our factories in China for the Chinese New Year holidays and the general reduction in sales following the holiday season. As we have diversified our services for complex components, we expect that seasonality may be less of a factor affecting our business.

Application of Critical Accounting Policies

The preparation of our financial statements and related disclosures in conformity with generally accepted accounting principles in the United States requires management to make estimates and judgments that affect our reported amounts of assets and liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that our estimates and assumptions are reasonable under the circumstances; however, actual results may vary from these estimates and assumptions under different future circumstances. We have identified the following critical accounting policies that affect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

We recognize revenue from product sales in accordance with Staff Accounting Bulletin (SAB) No. 101 *Revenue Recognition in Financial Statements* . SAB No. 101 requires that revenue be recognized when all of the following conditions are met:

Persuasive evidence of an arrangement exists,

Delivery has occurred or services have been rendered,

Price to the customer is fixed or determinable, and

Collectibility is reasonably assured.

Revenue from sales of products is recognized when the title is passed to customers upon shipment and when collectibility is assured. Generally, we do not provide our customers with the right of return (except for quality), price protection, rebates or discounts. There are no customer acceptance provisions associated with our products, other than for quality. All sales are based on firm customer orders with fixed terms and conditions, which generally cannot be modified.

Inventory Reserves

Our inventories are stated at the lower of cost or market value. We determine cost on the first-in, first-out basis. Our industry is characterized by rapid technological change, short-term customer commitments and rapid changes in demand, as well as many other lower of cost or market considerations. We make provisions for estimated excess and obsolete inventory based on our regular reviews of inventory quantities on hand and the latest forecasts of product demand and production requirements from our customers. Generally, the Company orders inventory from its suppliers based on firm customer orders for product that is unique to each customer. The inventory is utilized in production as soon as all the necessary components are received. The only reason that inventory would not be utilized within six months is if a specific customer cancelled an order. As the inventory is typically unique to each customer s product it is unusual for the Company to be able to utilize the inventory for other customers product. Therefore, the Company s policy is to provide for all inventories, other than electronic parts and LCDs, that remain unused for six months. Prior to providing for inventory over six months old, management will determine if the inventory can be utilized in other products. We do not generally provide for electronic parts and LCDs as these customers are held to their purchase commitments. If actual market conditions or our customers product demands are less favorable than those projected, additional provisions may be required. Our current reserve for slow-moving or obsolete raw materials is $1.5 million. We did not make any material provisions relating to inventory for 2002.

We derive information concerning our customers inventory levels through constant communications with our significant customers. Customers that see indications of high inventory levels will communicate this fact to us and we will attempt to delay our production if we are able to reduce our own order commitments. Our ability to reduce orders from suppliers depends on the terms, conditions and timing of the request.

In 2001, we made an inventory provision of $3.8 million for slow-moving raw materials relating to cancelled, reduced or delayed orders. However, subsequently, we were able to use some of these raw materials in production in 2002 or we received compensation for the unused raw materials from certain of our customers, resulting in a partial reversal of $2.0 million of the provision in 2002. Of the remaining $1.8 million of slow-moving inventory, $1.2 million was scrapped and $600,000 will be scrapped in the next six months.

Impairment or disposal of long-lived assets

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* , that was applicable to financial statements issued for fiscal years beginning after December 15, 2001. The FASB s new rules on asset impairment supersede SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of* , and portions of Accounting Principles Board Opinion No. 30, *Reporting the Results for Operations* . The statement requires a single accounting model for long-lived assets to be disposed of and significantly changes the criteria that would have to be met to classify an asset as held-for-sale. Classification as held-for-sale is an important distinction since such assets are not depreciated and are stated at the lower of fair value or carrying amount. The statement also requires expected future operating losses from discontinued operations to be recorded in the period(s) in which the losses are incurred, rather than as of the measurement date as previously required. On January 1, 2002, we adopted SFAS No. 144. The adoption of SFAS No. 144 did not have any significant impact on our financial position and results of operations. We continually review our long-lived assets for impairment. In 2002, we determined that long-lived assets were not impaired.

Goodwill

The excess of the purchase price over the fair value of net assets acquired is recorded on our consolidated balance sheet as goodwill. As of December 31, 2002, we had goodwill of $21.3 million, the

majority of which was from our acquisition of JIC in 2000. Prior to January 1, 2002, we amortized goodwill to expense on a straight-line basis over various periods ranging from 4 to 15 years.

In June 2001, the Financial Accounting Standard Board (the FASB) issued Statement of Financial Accounting Standard (SFAS) No. 142, *Goodwill and Other Intangible Assets* . This statement provides that goodwill and other intangible assets with indefinite lives will not be amortized, but will be tested for impairment at the reporting unit level on an annual basis. A reporting unit is an operating segment or one level below an operating segment (i.e. a component) as defined in SFAS No. 131 *Disclosures about Segments of an Enterprise and Related Information* . A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. Through May 2002, we operated in two reporting units, which were the operating segments of CEP and LPT . Beginning in June 2002 we segregated our LPT segment into two reporting units: LCD panels and transformers.

The evaluation of goodwill for impairment involves two steps: (1) the identification of potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill and (2) the measurement of the amount of goodwill loss by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill and recognizing a loss by the excess of the latter over the former.

SFAS No. 142 was effective for fiscal years beginning after December 15, 2001. We adopted SFAS No. 142 on January 1, 2002. Upon adoption of SFAS No. 142, we evaluated goodwill for impairment at the reporting unit level and determined that there was no impairment at January 1, 2002. Later in 2002, we determined that goodwill was impaired by $339,000 related to Micro Business Systems Industries Company Limited (MBS). All remaining and future acquired goodwill will be subject to an annual impairment test on December 31st of each year or earlier if indications of a potential impairment exist. As of December 31, 2002, we completed our annual impairment evaluation and determined that there was no impairment.

Income Taxes

We provide for all taxes based on profits whether due at year end or estimated to become due in future periods but based on profits earned to date. However, under the current tax legislation in the PRC, we have reasonable grounds to believe that income taxes paid by Namtai Electronic (Shenzhen) Co., Ltd., Zastron Electronic (Shenzhen) Co., Ltd. (formerly known as Zastron Plastic & Metal Products (Shenzhen) Ltd.), Shenzhen Namtek Company Limited, Jieyao Electronics (Shenzhen) Co., Ltd. and Jetup Electronic (Shenzhen) Co., Ltd. in respect of any year would be refunded after the profits earned in that year are reinvested in the business by way of capital injection. Accordingly, any PRC tax paid by these subsidiaries during the year is recorded as an amount recoverable at the balance sheet date when an application for reinvestment of profits has been filed and a refund is expected unless there is an indication from the PRC tax authority that the refund will be refused. Deferred income taxes are provided to recognize the effect of the difference between the financial statement and income tax bases of measuring assets and liabilities.

Investments

We apply the equity method of accounting for investments in affiliates when we have a 20% to 50% interest in those entities. Under the equity method, original investments are recorded at cost and adjusted by our share of undistributed earnings or losses of these entities which results in our recording corresponding earnings or losses in our income statement. Nonmarketable investments in which we have a less than 20% interest and in which we do not have the ability to exercise significant influence over the investee are accounted for using the cost method and are initially recorded at cost and periodically reviewed for impairment. Income from these investments are recognized to the extent of dividends received and gains or losses are recognized upon disposition or impairment of the investments.

Operating Results

The following tables present selected consolidated financial information stated as a percentage of net sales for the years ended December 31, 2000, 2001, and 2002 and the three months ended March 31, 2002 and 2003 (certain amounts may not calculate due to rounding and amounts may not add due to rounding).

	&n" valign="bottom" align="center">				
	2009	2008	2007	**2008**	2007
	(Dollars in thousands)				
Interest expense	**$144,342**	152,448	155,970	**(5)%**	(2)%
Effective interest rate	**5.4%**	5.3%	5.5%		

Interest expense decreased 5% to $144 million in 2009 because of lower average debt balances partially offset by a higher effective interest rate. Interest expense decreased 2% to $152 million in 2008 because of lower average cost of debt principally from lower commercial paper borrowing rates. A hypothetical 10 basis point change in short-term market interest rates would change annual pre-tax earnings by $0.6 million.

	Years ended December 31		
	2009	2008	2007
		(In thousands)	
Miscellaneous (income) expense, net	**$ (3,657)**	2,564	(15,309)

Miscellaneous (income) expense, net consists of investment (income) losses on securities held to fund certain benefit plans, interest income, (gains) losses from sales of property, foreign currency transaction (gains) losses, and non-operating items. Miscellaneous (income) expense, net improved $6 million in 2009 due to better market performance of our investment securities partially offset by lower foreign currency transaction gains in 2009.

Miscellaneous expense (income), net decreased $18 million in 2008 primarily due to a $10 million gain on sale of property recognized in the prior year. See Note 26, Other Items Impacting Comparability, in the Notes to Consolidated Financial Statements for additional information on the property sale. Miscellaneous expense in 2008 was also negatively impacted by $6 million due to the decline in market performance of our investment securities and was partially offset by foreign currency transaction gains compared to losses in 2007.

	Years ended December 31		
	2009	2008	2007
		(In thousands)	
Restructuring and other charges, net	**$ 6,406**	21,480	10,795

See Note 5, Restructuring and Other Charges, in the Notes to Consolidated Financial Statements for further discussion around the charges related to these actions.

Years ended December 31	Change	
	2009/	2008/

	2009	2008	2007	**2008**	2007
	(Dollars in thousands)				
Provision for income taxes	**$53,652**	151,709	150,425	**(65)%**	1%
Effective tax rate from continuing operations	**37.3%**	37.1%	37.4%		

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The 2009 effective income tax rate benefited from enacted tax law changes in Ontario, Canada, the favorable settlement of a foreign tax audit and reversal of reserves for uncertain tax positions for which the statute of limitation in various jurisdictions had expired. In the aggregate, these items reduced the effective rate by 6.5% of pre-tax earnings. The current year tax rate benefits were partially offset by the impact of non-deductible expenses on lower pre-tax earnings from continuing operations. The 2008 effective income tax rate benefited from enacted tax law changes in Massachusetts and the reversal of reserves for uncertain tax positions for which the statute of limitation in various jurisdictions had expired which, in the aggregate, totaled 3.3% of pre-tax earnings. The benefits in 2008 were partially offset by the adverse impact of non-deductible restructuring and other charges. The 2007 effective income tax rate included a net tax benefit of $5 million (1.4% of pre-tax earnings) from the reduction of deferred income taxes as a result of enacted changes in tax laws in various jurisdictions.

	Years ended December 31		
	2009	2008	2007
	(In thousands)		
(Loss) earnings from discontinued operations, net of tax	**$ (28,172)**	(57,698)	2,082

Pre-tax (loss) earnings from discontinued operations in 2009, 2008 and 2007 included operating (losses) income of $(11) million, $(12) million and $6 million, respectively. During 2009, 2008 and 2007, we also incurred $17 million, $47 million, and $2 million, respectively, of pre-tax restructuring and other charges (primarily exit-related) related to discontinued operations. See Note 4, Discontinued Operations, in the Notes to Consolidated Financial Statements for further discussion.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

FULL YEAR OPERATING RESULTS BY BUSINESS SEGMENT

	Years ended December 31 (Dollars in thousands)			Change	
	2009	2008	2007	**2009/ 2008**	2008/ 2007
Revenue:					
Fleet Management Solutions	**$ 3,567,836**	4,454,251	4,167,301	**(20)%**	7%
Supply Chain Solutions	**1,139,911**	1,429,632	2,038,186	**(20)**	(30)
Dedicated Contract Carriage	**470,956**	547,751	567,640	**(14)**	(4)
Eliminations	**(291,449)**	(432,593)	(409,997)	**33**	(6)
Total	**$ 4,887,254**	5,999,041	6,363,130	**(19)%**	(6)%
Operating Revenue:					
Fleet Management Solutions	**$ 2,817,733**	3,038,923	2,983,398	**(7)%**	2%
Supply Chain Solutions	**955,409**	1,207,523	1,184,498	**(21)**	2
Dedicated Contract Carriage	**456,598**	536,754	552,891	**(15)**	(3)
Eliminations	**(167,228)**	(193,120)	(205,707)	**13**	6
Total	**$ 4,062,512**	4,590,080	4,515,080	**(11)%**	2%
NBT:					
Fleet Management Solutions	**$ 140,400**	395,909	370,503	**(65)%**	7%
Supply Chain Solutions	**35,700**	56,953	60,229	**(37)**	(5)
Dedicated Contract Carriage	**37,643**	49,628	47,409	**(24)**	5
Eliminations	**(21,058)**	(31,803)	(31,248)	**34**	(2)
	192,685	470,687	446,893	**(59)**	5
Unallocated Central Support Services	**(35,834)**	(38,302)	(44,004)	**6**	13
Restructuring and other charges, net and other items[1]	**(13,082)**	(23,097)	(685)	**NM**	NM
Earnings from continuing operations before income taxes	**$ 143,769**	409,288	402,204	**(65)%**	2%

(1) *See Note 5, Restructuring and Other Charges and Note 26, Other Items Impacting Comparability, in the Notes to Consolidated Financial Statements for a discussion of items excluded from our segment measure of profitability.*

As part of management s evaluation of segment operating performance, we define the primary measurement of our segment financial performance as Net Before Taxes (NBT) from continuing operations, which includes an allocation

of CSS and excludes restructuring and other charges, net.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

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

Description	Consolidated Statements of Earnings Line Item[1]	Years ended December 31 2009	2008 (In thousands)	2007
Severance and employee-related costs[2]	Restructuring	$ **(2,206)**	(11,209)	(8,924)
Contract termination costs[2]	Restructuring		(29)	(591)
Early retirement of debt[2]	Restructuring	**(4,178)**		(1,280)
Asset impairments[2]	Restructuring	**(22)**	(10,242)	
Restructuring and other charges, net		**(6,406)**	(21,480)	(10,795)
International asset impairment[3]	Depreciation expense	**(6,676)**	(1,617)	
Gain on sale of property[3]	Miscellaneous income			10,110
Restructuring and other charges, net and other items		$ **(13,082)**	(23,097)	(685)

(1) *Restructuring refers to the Restructuring and other charges, net; and Miscellaneous income refers to Miscellaneous (income) expense, net on our Consolidated Statements of Earnings.*

(2) *See Note 5, Restructuring and Other Charges, in the Notes to Consolidated Financial Statements for additional information.*

(3) *See Note 26, Other Items Impacting Comparability, in the Notes to Consolidated Financial Statements for additional information.*

Our FMS segment leases revenue earning equipment and provides fuel, maintenance and other ancillary services to our SCS and DCC segments. Inter-segment revenue and NBT are accounted for at rates similar to those executed with third parties. NBT 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).

The following table sets forth equipment contribution included in NBT for our SCS and DCC segments:

	Years ended December 31 2009	2008	2007

		(In thousands)	
Equipment Contribution:			
Supply Chain Solutions	**$ 9,461**	16,701	16,282
Dedicated Contract Carriage	**11,597**	15,102	14,966
Total	**$ 21,058**	31,803	31,248

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 and corporate communications. The objective of the NBT 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. See Note 29, Segment Reporting, in the Notes to Consolidated Financial Statements for a description of how the remainder of CSS costs is allocated to the business segments.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Fleet Management Solutions

	Years ended December 31			Change	
	2009	2008	2007	**2009/ 2008**	2008/ 2007
	(Dollars in thousands)				
Full service lease	**$ 1,989,676**	2,041,513	1,965,308	**(3)%**	4%
Contract maintenance	**167,182**	168,157	159,635	**(1)**	5
Contractual revenue	**2,156,858**	2,209,670	2,124,943	**(2)**	4
Contract-related maintenance	**163,306**	193,856	198,747	**(16)**	(2)
Commercial rental	**431,058**	557,491	583,336	**(23)**	(4)
Other	**66,511**	77,906	76,372	**(15)**	2
Operating revenue(1)	**2,817,733**	3,038,923	2,983,398	**(7)**	2
Fuel services revenue	**750,103**	1,415,328	1,183,903	**(47)**	20
Total revenue	**$ 3,567,836**	4,454,251	4,167,301	**(20)%**	7%
Segment NBT	**$ 140,400**	395,909	370,503	**(65)%**	7%
Segment NBT as a % of total revenue	**3.9%**	8.9%	8.9%	**(500) bps**	bps
Segment NBT as a % of operating revenue(1)	**5.0%**	13.0%	12.4%	**(800) bps**	60 bps

(1) We use operating revenue, a non-GAAP financial measure, to evaluate the operating performance of our FMS business segment and as a measure of sales activity. Fuel services revenue, which is directly impacted by fluctuations in market fuel prices, is excluded from our operating revenue computation as fuel is largely a pass-through to customers for which we realize minimal changes in profitability during periods of steady market fuel prices. However, profitability may be positively or negatively impacted by sudden increases or decreases in market fuel prices during a short period of time as customer pricing for fuel services is established based on market fuel costs.

2009 versus 2008

Total revenue decreased 20% in 2009 to $3.57 billion due primarily to lower fuel services revenue. Fuel services revenue decreased 47% in 2009 because of lower average fuel prices as well as reduced gallons pumped. Operating

revenue decreased 7% in 2009 to $2.82 billion reflecting declines in all product lines, especially commercial rental, in light of the deterioration in global economic conditions in the past year, partially offset by the benefit of acquisitions. Total and operating revenue in 2009 also included an unfavorable foreign exchange impact of 1.2% and 1.7%, respectively.

Full service lease revenue declined 3% and contract maintenance revenue declined 1% as a result of fleet downsizing decisions and lower variable revenue from fewer miles driven by our customers with their fleets. We expect unfavorable contractual revenue comparisons next year based on the carryover effect of 2009 fleet downsizings actions. Commercial rental revenue decreased 23% in 2009 reflecting weak global market demand and lower pricing. In 2009, we reduced the size and mix of our rental fleet in order to better align with market demand. The average global rental fleet size declined 13% in 2009 and year-end fleet counts decreased by 15% compared with 2008. As a result of our fleet right-sizing actions, rental fleet utilization in the fourth quarter of 2009 improved over the prior-year period for the first time in 2009. In light of current economic conditions, we expect favorable commercial rental comparisons next year driven by moderately higher demand, somewhat higher pricing and improved utilization.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The following table provides rental statistics on our global fleet:

	Years ended December 31			Change	
	2009	2008	2007	**2009/ 2008**	2008/ 2007
	(Dollars in thousands)				
Non-lease customer rental revenue	**$ 265,143**	329,875	330,198	**(20)%**	%
Lease customer rental revenue[1]	**$ 165,915**	227,616	253,138	**(27)%**	(10)%
Average commercial rental power fleet size in service[2],[3]	**22,900**	25,700	25,600	**(11)%**	%
Commercial rental utilization power fleet	**68.0%**	71.4%	71.0%	**(340) bps**	40 bps

(1) *Lease customer rental revenue is revenue from rental vehicles provided to our existing full service lease customers, generally during peak periods in their operations.*

(2) *Number of units rounded to nearest hundred and calculated using average counts.*

(3) *Fleet size excluding trailers.*

FMS NBT decreased 65% in 2009 to $140 million driven primarily by the current economic slowdown and freight recession, which resulted in a decline in global commercial rental demand, lower full service lease performance and lower used vehicle sales results. Results in 2009 were also impacted by significantly higher pension expense. These items were partially offset by cost reduction initiatives, including workforce reductions implemented in early 2009. Commercial rental results were impacted by weak global demand which drove lower utilization and, to a lesser extent, reduced pricing on a smaller fleet. Full service lease results were adversely impacted by the protracted length and severity of the current freight recession, which has resulted in reduced customer demand for new leases and downsizing of customer fleets. Customers also operated fewer miles with their existing fleets, which lowered our variable revenue and fuel gallons sold. However, lease mileage comparisons showed sequential improvement in the second half of the year. Used vehicle sales results declined primarily due to weak market demand which drove lower pricing, as well as higher average inventory levels. However, our used vehicle inventory levels improved during the second half of the year and our year-end inventory counts were 10% below the prior year. Pension expense significantly increased in 2009 because of poor performance in the overall stock market in 2008.

2008 versus 2007

Total revenue increased 7% in 2008 to $4.45 billion due to higher fuel services revenue and contractual revenue growth. Fuel services revenue increased 20% in 2008 because of higher fuel prices partially offset by reduced fuel volumes. Operating revenue increased 2% in 2008 to $3.04 billion as a result of contractual revenue growth, including acquisitions, which more than offset a decline in commercial rental revenue. Total and operating revenue in 2008 also included an unfavorable foreign exchange impact of 0.5% and 0.7%, respectively.

Revenue growth was realized in both contractual FMS product lines in 2008. Full service lease revenue grew 4% reflecting increases in the North American market primarily due to acquisitions. Contract maintenance revenue increased 5% due primarily to new contract sales. Commercial rental revenue decreased 4% in 2008, reflecting weak global market demand and reduced pricing particularly in the fourth quarter of 2008. The average global rental fleet size declined 5% in 2008 compared with 2007.

FMS NBT increased 7% in 2008 to $396 million due primarily to improved contractual business performance, including acquisitions, and to a lesser extent, from higher fuel margins associated with unusually volatile fuel prices and better used vehicle sales results. This improvement was partially offset by a decline in commercial rental results, especially in the fourth quarter of 2008, as weak market demand drove lower

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

pricing. Used vehicle sales results improved $9 million in 2008 primarily because of lower average used vehicle inventories.

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):

	December 31			Change	
	2009	2008	2007	**2009/ 2008**	2008/ 2007
End of period vehicle count					
By type:					
Trucks[1]	**63,600**	68,300	62,800	**(7)%**	9%
Tractors[2]	**50,300**	51,900	50,400	**(3)**	3
Trailers[3]	**35,400**	39,900	40,400	**(11)**	(1)
Other	**3,100**	3,300	7,100	**(6)**	(54)
Total	**152,400**	163,400	160,700	**(7)%**	2%
By ownership:					
Owned	**147,200**	158,100	155,100	**(7)%**	2%
Leased	**5,200**	5,300	5,600	**(2)**	(5)
Total	**152,400**	163,400	160,700	**(7)%**	2%
By product line:					
Full service lease	**115,100**	120,600	115,500	**(5)%**	4%
Commercial rental	**27,400**	32,300	34,100	**(15)**	(5)
Service vehicles and other	**3,000**	2,800	3,600	**7**	(22)
Active units	**145,500**	155,700	153,200	**(7)**	2
Held for sale	**6,900**	7,700	7,500	**(10)**	3
Total	**152,400**	163,400	160,700	**(7)**	2
Customer vehicles under contract maintenance	**34,400**	35,500	31,500	**(3)%**	13%
Average vehicle count					
By product line:					
Full service lease	**118,800**	118,100	116,400	**1%**	1%
Commercial rental	**29,400**	33,900	35,800	**(13)**	(5)
Service vehicles and other	**2,900**	3,300	3,500	**(9)**	(6)

Active units	**151,100**	155,300	155,700	**(2)**	
Held for sale	**8,400**	6,200	9,700	**35**	(36)
Total	**159,500**	161,500	165,400	**(1)**	(2)
Customer vehicles under contract maintenance	**35,200**	33,900	30,800	**4%**	10%

(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.

(4) Amounts were computed using a 24-point average based on monthly information.

Note: Prior year vehicle counts have been reclassified to conform to current year presentation.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The totals in the previous table include the following non-revenue earning equipment for the global fleet (number of units rounded to the nearest hundred):

	December 31			Change	
Number of Units	**2009**	2008	2007	**2009/ 2008**	2008/ 2007
Not yet earning revenue (NYE)	**700**	1,500	1,300	**(53)%**	15 %
No longer earning revenue (NLE):					
Units held for sale	**6,900**	7,700	7,500	**(10)**	3
Other NLE units	**2,900**	2,900	2,400		21
Total	**10,500**	12,100	11,200	**(13)%**	8 %

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. For 2009, the number of NYE units decreased compared with prior year consistent with lower new replacement lease activity. NLE units represent all 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. For 2009, the number of NLE units decreased compared with the prior year because of lower used vehicle inventory levels. For 2008, the number of NLE units increased slightly compared with the prior year because of the decline in commercial rental demand. We expect NLE levels in 2010 to be consistent with 2009.

Supply Chain Solutions

	Years ended December 31			Change	
	2009	2008	2007	**2009/ 2008**	2008/ 2007
	(Dollars in thousands)				
U.S. operating revenue:					
Automotive	$ **335,119**	499,389	506,264	**(33)%**	(1)%
High-tech and Consumer	**210,659**	257,591	234,931	**(18)**	10
Industrial and Other	**158,379**	139,095	132,044	**14**	5
U.S. operating revenue	**704,157**	896,075	873,239	**(21)**	3
International operating revenue	**251,252**	311,448	311,259	**(19)**	
Total operating revenue[1]	**955,409**	1,207,523	1,184,498	**(21)**	2
Subcontracted transportation	**184,502**	222,109	853,688	**(17)**	(74)

Total revenue	**$ 1,139,911**	1,429,632	2,038,186	**(20)%**	(30)%
Segment NBT	**$ 35,700**	56,953	60,229	**(37)%**	(5)%
Segment NBT as a % of total revenue	**3.1%**	4.0%	3.0%	**(90) bps**	100 bps
Segment NBT as a % of operating revenue(1)	**3.7%**	4.7%	5.1%	**(100) bps**	(40) bps
Memo: Fuel costs(2)	**$ 64,915**	136,400	114,773	**(52)%**	19 %

(1) We use operating revenue, a non-GAAP financial measure, to evaluate the operating performance of our SCS business segment and as a measure of sales activity. Subcontracted transportation is excluded from our operating revenue computation as subcontracted transportation is largely a pass-through to customers. We realize minimal changes in profitability as a result of fluctuations in subcontracted transportation.

(2) Fuel costs are largely a pass-through to customers and therefore have a direct impact on revenue.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

2009 versus 2008

Total revenue decreased 20% in 2009 to $1.14 billion and operating revenue decreased 21% in 2009 to $955 million. Total revenue and operating revenue decreased as a result of lower automotive production, overall freight volumes and fuel cost pass-throughs. For 2009, SCS total revenue and operating revenue included an unfavorable foreign currency exchange impact of 2.4% and 2.0%, respectively. We expect unfavorable operating revenue comparisons next year reflecting the impact of non-renewed automotive contracts. General Motors Corporation (GM) accounted for approximately 13% and 14% of SCS total and operating revenue in 2009, respectively, and is comprised of multiple contracts in North America. In the U.S., we provide supply chain management and other transportation-related solutions supporting twelve GM plants and operations; three of these operations closed in 2009 as a result of GM s U.S. reorganization plan. For 2009, revenue associated with the three closed Ryder-supported GM locations totaled approximately $20 million, representing 2% of SCS revenue and 14% of GM revenue.

SCS NBT decreased 37% in 2009 to $36 million primarily due to significantly reduced North American automotive volumes which decreased NBT by $19 million, including costs incurred upon the termination of certain automotive operations. During the second quarter of 2009, several of our automotive customers filed for bankruptcy, including our largest customer, GM. We did not realize any losses on our pre-petition accounts receivable with any of these customers.

2008 versus 2007

Total revenue decreased 30% in 2008 to $1.43 billion as a result of net reporting of a transportation management arrangement previously reported on a gross basis. Effective January 1, 2008, our contractual relationship with a significant customer for certain transportation management services changed, and we determined, after a formal review of the terms and conditions of the services, that we were acting as an agent based on the revised terms of the arrangement. As a result, total revenue and subcontracted transportation expense decreased by $640 million in 2008. Operating revenue grew 2% due to new and expanded business and higher fuel cost pass-throughs and was offset by lower automotive volumes, especially in the fourth quarter of 2008. For 2008, GM accounted for approximately 16% and 18% of SCS total and operating revenue, respectively.

SCS NBT decreased 5% in 2008 to $57 million largely driven by lower operating results related to the start-up of a U.S. based operation. NBT was also impacted by higher overhead spending from increased sales and marketing investments and facility relocation costs slightly offset by lower incentive-based compensation.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Dedicated Contract Carriage

	Years ended December 31			Change	
	2009	2008	2007	**2009/ 2008**	2008/ 2007
	(Dollars in thousands)				
Operating revenue[1]	**$ 456,598**	536,754	552,891	**(15)%**	(3)%
Subcontracted transportation	**14,358**	10,997	14,749	**31**	(25)
Total revenue	**$ 470,956**	547,751	567,640	**(14)%**	(4)%
Segment NBT	**$ 37,643**	49,628	47,409	**(24)%**	5%
Segment NBT as a % of total revenue	**8.0%**	9.1%	8.4%	**(110) bps**	70 bps
Segment NBT as a % of operating revenue[1]	**8.2%**	9.2%	8.6%	**(100) bps**	60 bps
Memo: Fuel costs[2]	**$ 69,858**	123,003	107,140	**(43)%**	15%

(1) *We use operating revenue, a non-GAAP financial measure, to evaluate the operating performance of our DCC business segment and as a measure of sales activity. Subcontracted transportation is excluded from our operating revenue computation as subcontracted transportation is largely a pass-through to customers. We realize minimal changes in profitability as a result of fluctuations in subcontracted transportation.*

(2) *Fuel costs are largely a pass-through to customers and therefore have a direct impact on revenue.*

2009 versus 2008

Total revenue declined 14% in 2009 to $471 million and operating revenue declined 15% in 2009 to $457 million as a result of lower fuel cost pass-throughs, lower freight volumes and non-renewal of customer contracts. We expect unfavorable operating revenue comparisons next year because of slightly lower freight volumes.

DCC NBT decreased 24% in 2009 to $38 million as a result of lower revenue, and to a lesser extent, increased self-insurance costs. The increase in self-insurance costs reflects less favorable development in estimated prior years self-insured loss reserves.

2008 versus 2007

Total revenue declined 4% in 2008 to $548 million and operating revenue declined 3% in 2008 to $537 million as a result of the non-renewal of certain customer contracts partially offset by the pass-through of higher fuel costs.

DCC NBT increased 5% in 2008 to $50 million as a result of better operating performance partially offset by higher safety and insurance costs. The increase in safety and insurance costs reflects less favorable development in estimated prior years self-insured loss reserves.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Central Support Services

	Years ended December 31			Change	
				2009/	2008/
	2009	2008	2007	**2008**	2007
	(Dollars in thousands)				
Human resources	**$ 14,707**	15,943	16,504	**(8)%**	(3)%
Finance	**51,353**	55,835	58,209	**(8)**	(4)
Corporate services and public affairs	**11,556**	13,117	12,124	**(12)**	8
Information technology	**52,826**	57,538	54,826	**(8)**	5
Health and safety	**6,673**	7,754	7,973	**(14)**	(3)
Other	**30,450**	34,847	40,383	**(13)**	(14)
Total CSS	**167,565**	185,034	190,019	**(9)**	(3)
Allocation of CSS to business segments	**(131,731)**	(146,732)	(146,015)	**10**	
Unallocated CSS	**$ 35,834**	38,302	44,004	**(6)%**	(13)%

2009 versus 2008

Total CSS costs decreased 9% in 2009 to $168 million reflecting lower spending across all functional areas as a result of cost reduction actions implemented in early 2009 and lower incentive-based compensation. These items were partially offset by higher professional fees on cost savings initiatives. Unallocated CSS costs decreased 6% in 2009 to $36 million due to lower incentive-based compensation offset slightly by higher spending on cost savings initiatives.

2008 versus 2007

Total and unallocated CSS costs decreased 3% and 13%, respectively, in 2008 to $185 million and $38 million, respectively, because of lower foreign currency transaction losses, reduced severance costs and lower share-based compensation expense due to a 2007 charge related to the accelerated amortization of restricted stock unit expense.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

FOURTH QUARTER CONSOLIDATED RESULTS

	Three months ended December 31		Change
	2009	2008	**2009/ 2008**
	(Dollars and shares in thousands, except per share amounts)		
Total revenue	**$ 1,246,968**	1,337,203	**(7)%**
Operating revenue	**$ 1,019,822**	1,087,253	**(6)%**
Earnings from continuing operations before income taxes	**$ 31,800**	75,351	**(58)%**
Provision for income taxes	**8,130**	24,889	**(67)**
Earnings from continuing operations	**23,670**	50,462	**(53)**
Loss from discontinued operations, net of tax	**(15,422)**	(39,817)	**(61)**
Net earnings	**$ 8,248**	10,645	**(23)%**
Earnings (loss) per common share Diluted			
Continuing operations	**$ 0.43**	0.91	**(53)%**
Discontinued operations	**(0.28)**	(0.71)	**(61)**
Net earnings	**$ 0.15**	0.19	**(21)%**
Weighted-average shares outstanding Diluted	**54,235**	55,233	**(2)%**

Total revenue decreased 7% in the fourth quarter of 2009 to $1.25 billion primarily due to lower operating revenue in all our business segments. The decrease in total revenue was also impacted by lower fuel volumes and, to a lesser extent, fuel prices, partially offset by favorable foreign exchange rate movements. Operating revenue decreased 6% to $1.02 billion in the fourth quarter of 2009 primarily due to lower full service lease and commercial rental revenue and lower automotive volumes partially offset by favorable exchange movements. Total revenue and operating revenue in the fourth quarter of 2009 included a favorable foreign exchange impact of 1.3% and 1.5%, respectively.

NBT from continuing operations decreased 58% in the fourth quarter of 2009 to $32 million which reflects significantly lower earnings in our FMS business segment. The decline was driven by decreased global full service lease results, higher pension expense, reduced global commercial rental performance and lower results from used vehicle sales operations. To a lesser extent, earnings in our SCS and DCC business segments were impacted by higher self-insurance costs.

Earnings from continuing operations in the fourth quarter of 2009 included an income tax benefit of $4 million or $0.07 per diluted common share related primarily to changes in Canadian income tax laws. Earnings from continuing operations in the fourth quarter of 2008 included an income tax benefit of $8 million, or $0.14 per diluted common share associated with reversal of reserves for uncertain tax positions due to the expiration of the statutes of limitation in various jurisdictions.

We previously announced a plan to discontinue SCS operations in South America and Europe. During the third quarter of 2009, we ceased customer operations in all South American markets and part of Europe. During the fourth quarter of 2009, we ceased SCS customer operations in all of Europe. Accordingly, results of these operations are reported as discontinued operations for all periods presented. Pre-tax losses from discontinued operations totaled $15 million ($15 million after-tax or $0.28 per diluted common share) in the fourth quarter of 2009 including accumulated foreign currency translation losses of $14 million ($14 million after-tax or $0.26 per diluted common share) associated with the substantial liquidation of investments in certain discontinued operations. Pre-tax losses from discontinued operations totaled $42 million in the fourth

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

quarter of 2008 and included $41 million of restructuring charges and other items primarily related to severance and employee-related costs, impairment charge and contract termination costs.

FOURTH QUARTER OPERATING RESULTS BY BUSINESS SEGMENT

	Three months ended December 31		**Change**
	2009	2008	**2009/2008**
	(Dollars in thousands)		
Revenue:			
Fleet Management Solutions	**$ 900,219**	977,122	**(8)%**
Supply Chain Solutions	**302,085**	319,040	**(5)**
Dedicated Contract Carriage	**119,267**	126,209	**(6)**
Eliminations	**(74,603)**	(85,168)	**12**
Total	**$ 1,246,968**	1,337,203	**(7)%**
Operating Revenue:			
Fleet Management Solutions	**$ 699,452**	737,498	**(5)%**
Supply Chain Solutions	**247,596**	271,069	**(9)**
Dedicated Contract Carriage	**113,444**	123,624	**(8)**
Eliminations	**(40,670)**	(44,938)	**9**
Total	**$ 1,019,822**	1,087,253	**(6)%**
NBT:			
Fleet Management Solutions	**$ 31,946**	86,071	**(63)%**
Supply Chain Solutions	**11,739**	17,126	**(31)**
Dedicated Contract Carriage	**6,922**	12,720	**(46)**
Eliminations	**(4,883)**	(8,399)	**42**
	45,724	107,518	**(57)**
Unallocated Central Support Services	**(11,253)**	(9,037)	**(25)**
Restructuring and other charges, net and other items	**(2,671)**	(23,130)	**NM**
Earnings from continuing operations before income taxes	**$ 31,800**	75,351	**(58)%**

Fleet Management Solutions

Total revenue decreased 8% to $900 million in the fourth quarter of 2009 reflecting lower operating revenue and lower fuel services revenue due to reduced volume and to a lesser extent lower prices. Operating revenue decreased 5% to $699 million in the fourth quarter of 2009 because of lower full service lease revenue from customer fleet

downsizings and lower commercial rental revenue reflecting weak global market demand and lower pricing. FMS total revenue and operating revenue in the fourth quarter of 2009 included a favorable foreign exchange impact of 1.3% and 1.6%, respectively.

FMS NBT decreased 63% to $32 million in the fourth quarter of 2009 reflecting lower global full service lease results, higher pension expense, a decline in commercial rental demand and lower used vehicle sales results. These items were partially offset by cost reduction initiatives, including workforce reductions implemented in early 2009.

Supply Chain Solutions

Total revenue decreased 5% to $302 million in the fourth quarter of 2009 and operating revenue decreased 9% to $248 million in the fourth quarter of 2009. Both total revenue and operating revenue declined

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primarily due to lower automotive and other freight volumes partially offset by favorable foreign exchange rate movements. In the fourth quarter of 2009, SCS total revenue and operating revenue both included a favorable foreign currency exchange impact of 2%.

SCS NBT decreased 31% to $12 million in the fourth quarter of 2009 because of higher self-insurance costs compared with favorable claims experience in the prior year and shutdown costs related to the termination of certain automotive operations.

Dedicated Contract Carriage

Total revenue decreased 6% to $119 million in the fourth quarter of 2009 and operating revenue decreased 8% to $113 million in the fourth quarter of 2009. Both total revenue and operating revenue decreased due to the non-renewal of customer contracts and reduced freight volumes.

DCC NBT decreased 46% to $7 million in the fourth quarter of 2009 because of higher self-insurance costs compared with favorable claims experience in the prior year and a decline in revenue.

Central Support Services

Unallocated CSS costs increased 25% to $11 million in the fourth quarter of 2009 because of higher professional fees associated with cost savings initiatives.

FINANCIAL RESOURCES AND LIQUIDITY

Cash Flows

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

	Years ended December 31		
	2009	2008	2007
	(In thousands)		
Net cash provided by (used in):			
Operating activities	**$ 984,956**	1,248,169	1,096,559
Financing activities	**(542,016)**	(148,152)	(304,600)
Investing activities	**(448,610)**	(1,103,468)	(811,202)
Effect of exchange rate changes on cash	**1,794**	1,408	6,734
Net change in cash and cash equivalents	**$ (3,876)**	(2,043)	(12,509)

Cash provided by operating activities from continuing operations decreased $263 million in 2009 because of lower cash-based earnings and higher pension contributions. Cash used in financing activities increased $394 million in

2009 reflecting higher net debt repayments resulting from less borrowing needs to fund capital spending, including acquisitions. Cash used in investing activities decreased $655 million in 2009 compared primarily due to lower vehicle capital spending and acquisition-related payments in 2009.

Cash provided by operating activities from continuing operations increased $152 million in 2008 because of higher cash-based earnings and reduced working capital needs primarily from improved accounts receivable collections. Cash used in financing activities decreased $156 million in 2008 because of higher borrowing needs to fund net capital spending, including acquisitions. Cash used in investing activities increased $292 million in 2008 primarily due to acquisition-related payments and lower proceeds from sales of revenue earning equipment which included proceeds of $150 million from a sale-leaseback transaction in 2007. This increase was partially offset by lower vehicle capital spending.

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 sales of revenue

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

earning equipment and operating property and equipment, sale and leaseback of revenue earning equipment, collections on direct finance leases and other cash inflows 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) 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 inflows generated from our ongoing business activities. We believe free cash flow provides investors with an important perspective on the cash available for debt service, acquisitions 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:

	Years ended December 31		
	2009	2008	2007
		(In thousands)	
Net cash provided by operating activities	**$ 984,956**	1,248,169	1,096,559
Sales of revenue earning equipment	**211,002**	257,679	354,736
Sales of operating property and equipment	**4,634**	3,727	18,725
Collections on direct finance leases	**65,242**	61,096	62,346
Sale and leaseback of revenue earning equipment			150,348
Other, net	**209**	395	1,588
Total cash generated	**1,266,043**	1,571,066	1,684,302
Purchases of property and revenue earning equipment	**(651,953)**	(1,230,401)	(1,304,033)
Free cash flow	**$ 614,090**	340,665	380,269

Free cash flow increased to $614 million in 2009 compared with $341 million in 2008 as lower net capital expenditures were partially offset by lower cash-based earnings and higher pension contributions. Free cash flow decreased to $341 million in 2008 compared with $380 million in 2007 because of lower proceeds from sales of revenue earning equipment, primarily from the $150 million sale-leaseback transaction in 2007. This decrease was partially offset by higher cash flows from operations and lower cash payments for vehicle capital spending. We expect free cash flow in 2010 to be approximately $250 million reflecting higher capital expenditures, partially offset by lower pension contributions.

Capital expenditures are generally used to purchase revenue earning equipment (trucks, tractors, trailers) within our FMS segment. These expenditures primarily support the full service lease product line and also the commercial rental product line. The level of capital required to support the full service lease product line varies directly with the customer contract signings for replacement vehicles and growth. These contracts are long-term agreements that result in predictable cash flows typically over a three to seven year term for trucks and tractors and up to ten years for trailers. The commercial rental product line utilizes capital for the purchase of vehicles to replenish and expand the fleet available for shorter-term use by contractual or occasional customers. Operating property and equipment

expenditures primarily relate to FMS and SCS spending on items such as vehicle maintenance facilities and equipment, computer and telecommunications equipment, investments in technologies and warehouse facilities and equipment.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The following is a summary of capital expenditures:

	Years ended December 31		
	2009	2008	2007
	(In thousands)		
Revenue earning equipment:			
Full service lease	**$ 547,750**	985,924	888,734
Commercial rental	**7,436**	171,128	218,830
	555,186	1,157,052	1,107,564
Operating property and equipment	**56,216**	108,284	74,069
Total capital expenditures(1)	**611,402**	1,265,336	1,181,633
Changes in accounts payable related to purchases of revenue earning equipment	**40,551**	(34,935)	122,400
Cash paid for purchases of property and revenue earning equipment	**$ 651,953**	1,230,401	1,304,033

(1) Capital expenditures exclude non-cash additions of approximately $2 million, $1 million, and $11 million in 2009, 2008, and 2007, respectively, in assets held under capital leases resulting from the extension of existing operating leases and other additions.

Capital expenditures decreased 52% to $611 million in 2009 as a result of reduced full service lease vehicle spending due to lower new and replacement sales in the current global economic environment, as well as increased use of lease term extensions and used vehicle redeployments. Additionally, the decrease reflects planned minimal spending on transactional commercial rental vehicles. Capital expenditures increased 7% to $1.27 billion in 2008 as a result of higher full service lease spending for replacement and expansion of customer fleets and reduced spending on transactional commercial rental vehicles to meet market demand. We expect capital expenditures to increase to approximately $1.1 billion, including an estimated $270 million to refresh an aging commercial rental fleet. We expect to fund 2010 capital expenditures with both internally generated funds and additional financing.

Working Capital

	December 31	
	2009	2008
	(Dollars in thousands)	
Current assets	**$ 880,373**	$ 957,581
Current liabilities	**850,274**	1,111,165

Working capital	**$ 30,099**	$ (153,584)

Our net working capital (current assets less current liabilities) was $30 million at December 31, 2009 compared with negative $154 million at December 31, 2008. The increase in net working capital was primarily due to a decrease of $152 million in short-term debt. Excluding the decline in short-term debt, working capital increased $32 million in 2009 because of the payment of restructuring related reserves and incentive compensation. This increase was partially offset by a decline in accounts receivables as we discontinued operations and experienced volume declines.

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 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.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Our ability to access unsecured debt in the capital markets is linked to both our short-term and long-term debt ratings. These ratings are intended to provide guidance to fixed income 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 downgrade of our short-term debt ratings to a lower tier would impair our ability to issue commercial paper. As a result, we would have to rely on alternative funding sources. A downgrade of our debt ratings would not affect our ability to borrow amounts under our revolving credit facility described below, given ongoing compliance with the terms and conditions of the credit facility.

Our debt ratings at December 31, 2009 were as follows:

	Short-term	Long-term	Outlook
Moody s Investors Service	**P2**	**Baa1**	**Stable (reaffirmed February 2009)**
Standard & Poor s Ratings Services	**A2**	**BBB+**	**Negative (lowered January 2009)**
Fitch Ratings	**F2**	**A−**	**Stable (reaffirmed March 2009)**

We believe that our operating cash flow, 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 entirely. 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.

In April 2009, we executed a new $875 million global revolving credit facility with a syndicate of thirteen lending institutions led by Bank of America N.A., Bank of Tokyo-Mitsubishi UFJ, Ltd, Mizuho Corporate Bank, Ltd., Royal Bank of Scotland Plc and Wells Fargo N.A. This facility replaced a $870 million credit facility that was scheduled to mature in May 2010. The new global credit facility matures in April 2012 and is used primarily to finance working capital and provide support for the issuance of unsecured commercial paper in the U.S. and Canada. This facility can also be used to issue up to $75 million in letters of credit (there were no letters of credit outstanding against the facility at December 31, 2009). 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 s current annual facility fee is 37.5 basis points, which applies to the total facility size of $875 million. This fee ranges from 22.5 basis points to 62.5 basis points and is based on Ryder s long-term credit ratings. The credit facility contains no provisions limiting its availability in the event of a material adverse change to Ryder s business operations; however, the credit facility does contain standard representations and warranties, events of default, cross-default provisions, and certain affirmative and negative covenants. In order to maintain availability of funding, we must maintain a ratio of debt to consolidated tangible net worth of less than or equal to 300%. Tangible net worth, as defined in the credit facility, includes 50% of our deferred federal income tax liability and excludes the book value of our intangibles. The ratio at December 31, 2009 was 155%. At December 31, 2009, $681 million was available under the credit facility. At December 31, 2009, no foreign borrowings were outstanding under the facility.

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 may sell, on a revolving basis, an ownership interest in certain of these accounts receivable to a receivables conduit or committed purchasers. 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. In October 2009, we renewed the trade receivables purchase and sale program. The available proceeds amount that may be received under the program was reduced at that time from $250 million to $175 million at our election based on our projected financing requirements. If no event occurs which causes early termination, the 364-day program will expire on October 29, 2010. The program contains provisions restricting its availability

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

in the event of a material adverse change to our business operations or the collectibility of the collateralized receivables. At December 31, 2009, no amounts were outstanding under the program. At December 31, 2008, $190 million was outstanding under the program and was included within Short-term debt and current portion of long-term debt on our Consolidated Balance Sheets. At December 31, 2008, the amount of collateralized receivables under the program was $210 million.

Historically, we have established asset-backed securitization programs whereby we sell beneficial interests in certain long-term vehicle leases and related vehicle residuals to a bankruptcy-remote special purpose entity that in turn transfers the beneficial interest to a special purpose securitization trust in exchange for cash. The securitization trust funds the cash requirement with the issuance of asset-backed securities, secured or otherwise collateralized by the beneficial interest in the long-term vehicle leases and the residual value of the vehicles. The securitization provides us with further liquidity and access to additional capital markets based on market conditions. On June 18, 2008, a special purpose bankruptcy-remote subsidiary wholly-owned by Ryder, filed a registration statement on Form S-3 with the Securities and Exchange Commission (SEC) for the registration of $600 million in asset-backed notes. The registration statement became effective on November 6, 2008 and allows us to access the public asset-backed securities market for three years, subject to market conditions. Based on current market conditions, we do not expect to utilize this program in the near term.

On February 27, 2007, Ryder filed an automatic shelf registration statement on Form S-3 with the Securities and Exchange Commission. 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. We intend to file a new shelf registration with the SEC before the current registration statement expires.

In August 2008, we issued $300 million of unsecured medium-term notes maturing in September 2015. The proceeds from the notes were used for general corporate purposes. If the notes are downgraded following, and as a result of, a change of control, the note holder can require us to repurchase all or a portion of the notes at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. Our other outstanding unsecured U.S. notes are not subject to change of control repurchase obligations. See Note 16, Debt, for other issuances under this registration statement.

In September 2009, we completed a $100 million debt tender offer at a total cost of $104 million. We purchased $50 million aggregate principal amount of outstanding 5.95% medium-term notes maturing May 2011 and $50 million aggregate principal amount of outstanding 4.625% medium-term notes maturing April 2010. We recorded a pre-tax debt extinguishment charge of $4 million which included $3 million for the premium paid, and $1 million for the write-off of unamortized original debt discount and issuance costs and fees on the transaction.

At December 31, 2009, we had the following amounts available to fund operations under the aforementioned facilities:

	(In millions)
Global revolving credit facility	**$ 681**
Trade receivables program	**175**

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The following table shows the movements in our debt balance:

	Years ended December 31	
	2009	2008
	(In thousands)	
Debt balance at January 1	**$ 2,862,799**	2,776,129
Cash-related changes in debt:		
Net change in commercial paper borrowings	**148,256**	(522,312)
Proceeds from issuance of medium-term notes		550,000
Proceeds from issuance of other debt instruments	**2,014**	194,004
Retirement of medium-term notes and debentures	**(276,000)**	(90,000)
Other debt repaid, including capital lease obligations	**(243,710)**	(28,641)
Net change from discontinued operations	**(9,427)**	(2,478)
	(378,867)	100,573
Non-cash changes in debt:		
Fair market value adjustment on notes subject to hedging	**(6,290)**	18,391
Addition of capital lease obligations	**1,949**	1,430
Changes in foreign currency exchange rates and other non-cash items	**18,100**	(33,724)
Total changes in debt	**(365,108)**	86,670
Debt balance at December 31	**$ 2,497,691**	2,862,799

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 and generally target a mix of 25% - 45% variable-rate debt as a percentage of total debt outstanding. The variable-rate portion of our total obligations (including notional value of swap agreements) was 26% at both December 31, 2009 and 2008.

Ryder s leverage ratios and a reconciliation of on-balance sheet debt to total obligations were as follows:

	December 31, 2009	**% of Equity**	December 31, 2008	% of Equity
	(Dollars in thousands)			
On-balance sheet debt	**$ 2,497,691**	**175%**	$ 2,862,799	213%
Off-balance sheet debt PV of minimum lease payments and guaranteed residual values under operating leases for vehicles[(1)]	**118,828**		163,039	

Total obligations	**$ 2,616,519**	**183%**	$ 3,025,838	225%

(1) *Present value (PV) does not reflect payments we would be required to make if we terminated the related leases prior to the scheduled expiration dates.*

On-balance sheet debt to equity consists of balance sheet debt divided by total equity. Total obligations to equity represents balance sheet debt plus the present value of minimum lease payments and guaranteed residual values under operating leases for vehicles, discounted based on our incremental borrowing rate at lease inception, all divided by total equity. Although total obligations is a non-GAAP financial measure, we believe that total obligations is useful as it provides a more complete analysis of our existing financial obligations and helps better assess our overall leverage position. The decrease in our leverage ratios in 2009 was driven by reduced funding needs to support our contractual full service lease business and our commercial rental business.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Off-Balance Sheet Arrangements

Sale and leaseback transactions. We periodically enter into sale and leaseback transactions in order to lower the total cost of funding our operations, to diversify our funding among different classes of investors (e.g., regional banks, pension plans, insurance companies, etc.) and to diversify our funding among different types of funding instruments. These sale-leaseback transactions are often executed with third-party financial institutions. In general, these sale-leaseback transactions result in a reduction in revenue earning equipment and debt on the balance sheet, as proceeds from the sale of revenue earning equipment are primarily used to repay debt. Accordingly, sale-leaseback transactions will result in reduced depreciation and interest expense and increased equipment rental expense.

Our sale-leaseback transactions contain limited guarantees by us of the residual values of the leased vehicles (residual value guarantees) that are conditioned upon disposal of the leased vehicles prior to the end of their lease term. The amount of future payments for residual value guarantees will depend on the market for used vehicles and the condition of the vehicles at time of disposal. See Note 19, Guarantees, in the Notes to Consolidated Financial Statements for additional information. In May 2007, we completed a sale-leaseback transaction of revenue earning equipment with a third party and this transaction qualified for off-balance sheet operating lease treatment. Proceeds from the sale-leaseback transaction totaled $150 million. We did not enter into any sale-leaseback transactions during the years ended December 31, 2009 and 2008.

Guarantees. We executed various agreements with third parties that contain standard indemnifications that may require us to indemnify a third party against losses arising from a variety of matters such as lease obligations, financing agreements, environmental matters, and agreements to sell business assets. In each of these instances, payment by us is contingent on the other party bringing about a claim under the procedures outlined in the specific agreement. Normally, these procedures allow us to dispute the other party s claim. Additionally, our obligations under these agreements may be limited in terms of the amount and/or timing of any claim. We have entered into individual indemnification agreements with each of our independent directors, through which we will indemnify such director acting in good faith against any and all losses, expenses and liabilities arising out of such director s service as a director of Ryder. The maximum amount of potential future payments under these agreements is generally unlimited.

We cannot predict the maximum potential amount of future payments under certain of these agreements, including the indemnification agreements, due to the contingent nature of the potential obligations and the distinctive provisions that are involved in each individual agreement. Historically, no such payments made by Ryder have had a material adverse effect on our business. We believe that if a loss were incurred in any of these matters, the loss would not result in a material adverse impact on our consolidated results of operations or financial position. The total amount of maximum exposure determinable under these types of provisions at December 31, 2009 and 2008 was $11 million and $14 million, respectively, and we accrued $9 million in 2009 and $1 million in 2008, as a corresponding liability. See Note 19, Guarantees, in the Notes to Consolidated Financial Statements for further discussion.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Contractual Obligations and Commitments

As part of our ongoing operations, we enter into arrangements that obligate us to make future payments under contracts such as debt agreements, lease agreements and unconditional purchase obligations. The following table summarizes our expected future contractual cash obligations and commitments at December 31, 2009:

	2010	2011- 2012	2013- 2014	Thereafter	Total
			(In thousands)		
Debt	$ 230,752	871,995	611,763	772,170	2,486,680
Capital lease obligations	1,865	3,356	3,456	2,334	11,011
Total debt, including capital leases(1)	232,617	875,351	615,219	774,504	2,497,691
Interest on debt(2)	122,191	192,125	122,864	167,551	604,731
Operating leases(3)	79,234	149,743	75,357	34,041	338,375
Purchase obligations(4)	214,829	20,100	10,997	12,674	258,600
Total contractual cash obligations	416,254	361,968	209,218	214,266	1,201,706
Insurance obligations(5)	111,144	90,779	34,568	25,698	262,189
Other long-term liabilities(6),(7),(8)	8,707	2,368	1,756	45,044	57,875
Total	$ 768,722	1,330,466	860,761	1,059,512	4,019,461

(1) *Net of unamortized discount.*

(2) *Total debt matures at various dates through fiscal year 2025 and bears interest principally at fixed rates. Interest on variable-rate debt is calculated based on the applicable rate at December 31, 2009. Amounts are based on existing debt obligations, including capital leases, and do not consider potential refinancings of expiring debt obligations.*

(3) *Represents future lease payments associated with vehicles, equipment and properties under operating leases. Amounts are based upon the general assumption that the leased asset will remain on lease for the length of time specified by the respective lease agreements. No effect has been given to renewals, cancellations, contingent rentals or future rate changes.*

(4) *The majority of our purchase obligations are pay-as-you-go transactions made in the ordinary course of business. Purchase obligations include agreements to purchase goods or services that are legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed minimum or variable price provisions; and the approximate timing of the transaction. The most significant item included in*

the above table are purchase obligations related to vehicles. Purchase orders made in the ordinary course of business that are cancelable are excluded from the above table. Any amounts for which we are liable under purchase orders for goods received are reflected in our Consolidated Balance Sheets as Accounts payable and Accrued expenses and other current liabilities.

(5) *Insurance obligations are primarily comprised of self-insurance accruals.*

(6) *Represents other long-term liability amounts reflected in our Consolidated Balance Sheets that have known payment streams. The most significant items included were asset retirement obligations and deferred compensation obligations.*

(7) *The amounts exclude our estimated pension contributions. For 2010, our pension contributions, including our minimum funding requirements as set forth by ERISA and international regulatory bodies, are expected to be $17 million. Our minimum funding requirements after 2010 are dependent on several factors. However, we estimate that the undiscounted required global contributions over the next five years is approximately $337 million (pre-tax) (assuming expected long-term rate of return realized and other assumptions remain unchanged). We also have payments due under our other postretirement benefit (OPEB) plans. These plans are not required to be funded in advance, but are pay-as-you-go. See Note 24, Employee Benefit Plans, in the Notes to Consolidated Financial Statements for further discussion.*

(8) *The amounts exclude $76 million of liabilities associated with uncertain tax positions as we are unable to reasonably estimate the ultimate amount or timing of settlement. See Note 14, Income Taxes, in the Notes to Consolidated Financial Statements for further discussion.*

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Pension Information

Over the past few years, we have made the following amendments to our defined benefit retirement plans:

In July 2009, our Board of Directors approved an amendment to freeze our United Kingdom (UK) retirement plan for all participants effective March 31, 2010.

In July 2008, our Board of Directors approved an amendment to freeze the defined benefit portion of our Canadian retirement plan effective January 1, 2010 for current participants who do not meet certain grandfathering criteria.

In January 2007, our Board of Directors approved the amendment to freeze the U.S. pension plans effective December 31, 2007 for current participants who did not meet certain grandfathering criteria.

As a result of these amendments, non-grandfathered plan participants will cease accruing benefits under the plan as of the respective amendment effective date and will begin receiving an enhanced benefit under a defined contribution plan. All retirement benefits earned as of the amendment effective date will be fully preserved and will be paid in accordance with the plan and legal requirements. The freeze of the Canadian defined benefit plan created a pre-tax curtailment gain in 2008 of $4 million. There was no material impact to our financial condition and operating results from the other plan amendments in 2009 or 2007.

Due to the underfunded status of our defined benefit plans, we had an accumulated net pension equity charge (after-tax) of $412 million and $480 million at December 31, 2009 and 2008, respectively. The lower equity charge in 2009 reflects higher actual returns compared to the expected asset returns during 2009. The total asset return for our U.S. qualified pension plan (our primary plan) was 23% in 2009.

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. During 2009, total pension contributions, including our international plans, were $131 million compared with $21 million in 2008. We made voluntary pension contributions of $102 million in 2009. We estimate 2010 required pension contributions will be $17 million. After considering the 2009 contributions and asset performance, the projected present value of estimated global pension contributions that would be required over the next 5 years totals approximately $286 million (pre-tax). Changes in interest rates and the market value of the securities held by the plans could materially change, positively or negatively, the underfunded status of the plans and affect the level of pension expense and required contributions in future years. The ultimate amount of contributions is also dependent upon the requirements of applicable laws and regulations. See Note 24, Employee Benefit Plans, in the Notes to Consolidated Financial Statements for additional information.

We participate in twelve U.S. multi-employer pension (MEP) plans that provide defined benefits to employees covered by collective bargaining agreements. At December 31, 2009, approximately 1,100 employees (approximately 5% of total employees) participated in these MEP plans. The annual net pension cost of the MEP plans is equal to the annual contribution determined in accordance with the provisions of negotiated labor contracts. Our current MEP plan contributions total approximately $5 million. Pursuant to current U.S. pension laws, if any MEP plan fails to meet

certain minimum funding thresholds, we could be required to make additional MEP plan contributions, until the respective labor agreement expires, of up to 10% of current contractual requirements. Several factors could cause MEP plans not to meet these minimum funding thresholds, including unfavorable investment performance, changes in participant demographics, and increased benefits to participants. The plan administrators and trustees of the MEP plans provide us with the annual funding notice as required by law. This notice sets forth the funded status of the plan as of the beginning of the prior year but does not provide any company-specific information.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Employers participating in MEP plans can elect to withdraw from the plans, contingent upon labor union consent, and be subject to a withdrawal obligation based on, among other factors, the MEP plan s unfunded vested benefits. U.S. pension regulations provide that an employer can fund its withdrawal obligation in a lump sum or over a time period of up to 20 years based on previous contribution rates. Based on the most recently available plan information, collectively as of January 2009, we estimate our pre-tax contingent MEP plan withdrawal obligation to be approximately $28 million. We have no current intention of taking any action that would subject us to the payment of material withdrawal obligations; however, under applicable law, in very limited circumstances, the plan trustee can impose these obligations on us.

Share Repurchase Programs and Cash Dividends

As discussed in Note 20, Shareholders Equity, in the Notes to Consolidated Financial Statements, in December 2009, 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 2009 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, 2009 through December 15, 2011. The December 2009 program limits aggregate share repurchases to no more than 2 million shares of Ryder common stock. Share repurchases of common stock are made periodically in open-market transactions and are subject to market conditions, legal requirements and other factors. Management may establish prearranged written plans for the Company under Rule 10b5-1 of the Securities Exchange Act of 1934 as part of the December 2009 program, which allow for share repurchases during Ryder s quarterly blackout periods as set forth in the trading plan. We did not repurchase any shares under this program in 2009.

In December 2007, our Board of Directors authorized a $300 million discretionary share repurchase program over a period not to exceed two years. Additionally, our Board of Directors authorized a separate two-year anti-dilutive repurchase program. The anti-dilutive program limited aggregate share repurchases to no more than 2 million shares of Ryder common stock. Towards the end of the third quarter of 2008, we paused purchases under both programs given market conditions at that time. We resumed purchases under both programs in the fourth quarter of 2009 through the end of the programs two year terms. In 2009 and 2008, we repurchased and retired 2,348,909 shares and 2,615,000 shares, respectively, under the $300 million program at an aggregate cost of $100 million and $170 million, respectively. In 2009 and 2008, we repurchased and retired 377,372 shares and 1,363,436 shares, respectively, under the anti-dilutive program at an aggregate cost of $16 million and $86 million, respectively.

Cash dividend payments to shareholders of common stock were $53 million in 2009, $52 million in 2008 and $50 million in 2007. During 2009, we increased our annual dividend to $1.00 per share of common stock.

Market Risk

In the normal course of business, we are exposed to fluctuations in interest rates, foreign currency exchange rates and fuel prices. We manage these exposures in several ways, including, in certain circumstances, the use of a variety of derivative financial instruments when deemed prudent. We do not enter into leveraged derivative financial transactions or use derivative financial instruments for trading purposes.

Exposure to market risk for changes in interest rates exists for our debt obligations. Our interest rate risk management program objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower overall

borrowing costs. We manage our exposure to interest rate risk primarily through the proportion of fixed-rate and variable-rate debt we hold in the total debt portfolio. From time to time, we also use interest rate swap and cap agreements to manage our fixed-rate and variable-rate exposure and to better match the repricing of debt instruments to that of our portfolio of assets. See Note 18, Financial Instruments and Risk Management, in the Notes to Consolidated Financial Statements for further discussion on interest rate swap agreements.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

At December 31, 2009, we had $1.90 billion of fixed-rate debt outstanding (excluding capital leases) with a weighted-average interest rate of 5.2% and a fair value of $1.99 billion. A hypothetical 10% decrease or increase in the December 31, 2009 market interest rates would impact the fair value of our fixed-rate debt by approximately $20 million at December 31, 2009. Changes in the relative sensitivity of the fair value of our financial instrument portfolio for these theoretical changes in the level of interest rates are primarily driven by changes in our debt maturities, interest rate profile and amount.

At December 31, 2009, we had $591 million of variable-rate debt, including the impact of interest rate swaps, which effectively changed $250 million of fixed-rate debt instruments with an interest rate of 6.0% to LIBOR-based floating-rate debt with an interest rate of 2.90%. Changes in the fair value of the interest rate swap were offset by changes in the fair value of the debt instruments and no net gain or loss was recognized in earnings. The fair value of our interest rate swap agreement at December 31, 2009 was recorded as an asset totaling $12 million. The fair value of our variable-rate debt at December 31, 2009 was $605 million. A hypothetical 10% increase in market interest rates would have impacted 2009 pre-tax earnings from continuing operations by approximately $1 million.

Exposure to market risk for changes in foreign currency exchange rates relates primarily to our foreign operations buying, selling and financing in currencies other than local currencies and to the carrying value of net investments in foreign subsidiaries. The majority of our transactions are denominated in U.S. dollars. The principal foreign currency exchange rate risks to which we are exposed include the Canadian dollar, British pound sterling and Mexican peso. We manage our exposure to foreign currency exchange rate risk related to our foreign operations buying, selling and financing in currencies other than local currencies by naturally offsetting assets and liabilities not denominated in local currencies to the extent possible. A hypothetical uniform 10% strengthening in the value of the dollar relative to all the currencies in which our transactions are denominated would result in a decrease to pre-tax earnings from continuing operations of approximately $2 million. We also use foreign currency option contracts and forward agreements from time to time to hedge foreign currency transactional exposure. We generally do not hedge the translation exposure related to our net investment in foreign subsidiaries, since we generally have no near-term intent to repatriate funds from such subsidiaries. However, we had a $78 million cross-currency swap in place to hedge our net investment in a foreign subsidiary which matured in 2007. As of December 31, 2009 the accumulated derivative net loss in Accumulated other comprehensive loss was $17 million, net of tax, and will be recognized in earnings upon sale or repatriation of our net investment. At December 31, 2008, we also had forward foreign currency exchange contracts with an aggregate fair value of negative $0.6 million used to hedge the variability of foreign currency equivalent cash flows.

Exposure to market risk for fluctuations in fuel prices relates to a small portion of our service contracts for which the cost of fuel is integral to service delivery and the service contract does not have a mechanism to adjust for increases in fuel prices. At December 31, 2009, we also had various fuel purchase arrangements in place to ensure delivery of fuel at market rates in the event of fuel shortages. We are exposed to fluctuations in fuel prices in these arrangements since none of the arrangements fix the price of fuel to be purchased. Increases and decreases in the price of fuel are generally passed on to our customers for which we realize minimal changes in profitability during periods of steady market fuel prices. However, profitability may be positively or negatively impacted by sudden increases or decreases in market fuel prices during a short period of time as customer pricing for fuel services is established based on market fuel costs. We believe the exposure to fuel price fluctuations would not materially impact our results of operations, cash flows or financial position.

ENVIRONMENTAL MATTERS

Refer to Note 25, Environmental Matters, in the Notes to Consolidated Financial Statements for a discussion surrounding environmental matters.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions. Our significant accounting policies are described in the Notes to Consolidated Financial Statements. Certain of these policies require the application of subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. These estimates and assumptions are based on historical experience, changes in the business environment and other factors that we believe to be reasonable under the circumstances. Different estimates that could have been applied in the current period or changes in the accounting estimates that are reasonably likely can result in a material impact on our financial condition and operating results in the current and future periods. We periodically review the development, selection and disclosure of these critical accounting estimates with Ryder s Audit Committee.

The following discussion, which should be read in conjunction with the descriptions in the Notes to Consolidated Financial Statements, is furnished for additional insight into certain accounting estimates that we consider to be critical.

Depreciation and Residual Value Guarantees. We periodically review and adjust the residual values and useful lives of revenue earning equipment of our FMS business segment as described in Note 1, Summary of Significant Accounting Policies Revenue Earning Equipment, Operating Property and Equipment, and Depreciation and Summary of Significant Accounting Policies Residual Value Guarantees and Deferred Gains, in the Notes to Consolidated Financial Statements. Reductions in residual values (i.e., the price at which we ultimately expect to dispose of revenue earning equipment) or useful lives will result in an increase in depreciation expense over the life of the equipment. Based on the mix of revenue earning equipment at December 31, 2009, a 10% decrease in expected vehicle residual values would increase depreciation expense in 2010 by approximately $98 million. We review residual values and useful lives of revenue earning equipment on an annual basis or more often if deemed necessary for specific groups of our revenue earning equipment. Reviews are performed based on vehicle class, generally subcategories of trucks, tractors and trailers by weight and usage. Our annual review is established with a long-term view considering historical market price changes, current and expected future market price trends, expected life of vehicles included in the fleet and extent of alternative uses for leased vehicles (e.g., rental fleet, and SCS and DCC applications). As a result, future depreciation expense rates are subject to change based upon changes in these factors. At the end of each year, we complete our annual review of the residual values and useful lives of revenue earning equipment. Based on the results of our analysis in 2009, we will adjust the residual values of certain classes of our revenue earning equipment effective January 1, 2010. The residual value change will decrease earnings in 2010 by approximately $14 million compared with 2009. Factors that could cause actual results to materially differ from the estimated results include significant changes in the used-equipment market brought on by unforeseen changes in technology innovations and any resulting changes in the useful lives of used equipment.

We also lease vehicles under operating lease agreements. Certain of these agreements contain limited guarantees for a portion of the residual values of the equipment. Results of the reviews described above for owned equipment are also applied to equipment under operating lease. The amount of residual value guarantees expected to be paid is recognized as rent expense over the expected remaining term of the lease. At December 31, 2009, total liabilities for residual value guarantees of $4 million were included in Accrued expenses and other current liabilities (for those payable in less than one year) and in Other non-current liabilities. Based on the existing mix of vehicles under operating lease agreements at December 31, 2009, a 10% decrease in expected vehicle residual values would increase rent expense in 2010 by approximately $2 million.

Pension Plans. We apply actuarial methods to determine the annual net periodic pension expense and pension plan liabilities on an annual basis, or on an interim basis if there is an event requiring remeasurement. Each December, we review actual experience compared with the more significant assumptions used and make adjustments to our assumptions, if warranted. In determining our annual estimate of periodic pension cost, we

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

are required to make an evaluation of critical factors such as discount rate, expected long-term rate of return, expected increase in compensation levels, retirement rate and mortality. Discount rates are based upon a duration analysis of expected benefit payments and the equivalent average yield for high quality corporate fixed income investments as of our December 31 annual measurement date. In order to provide a more accurate estimate of the discount rate relevant to our plan, we use models that match projected benefits payments of our primary U.S. plan to coupons and maturities from a hypothetical portfolio of high quality corporate bonds. Long-term rate of return assumptions are based on actuarial review of our asset allocation strategy and long-term expected asset returns. Investment management and other fees paid using plan assets are factored into the determination of asset return assumptions. In 2009, we adjusted our long-term expected rate of return assumption for our primary U.S. plan down to 7.9% from 8.4% based on the factors reviewed. The composition of our pension assets was 66% equity securities and 34% debt securities and other investments, considering the reallocation of excess cash. As part of our strategy to manage future pension costs and net funded status volatility, we regularly assess our pension investment strategy. We evaluate our mix of investments between equity and fixed income securities and may adjust the composition of our pension assets when appropriate. The rate of increase in compensation levels and retirement rates are based primarily on actual experience.

Accounting guidance applicable to pension plans does not require immediate recognition of the effects of a deviation between these assumptions and actual experience or the revision of an estimate. This approach allows the favorable and unfavorable effects that fall within an acceptable range to be netted and recorded within Accumulated other comprehensive loss. We had a pre-tax actuarial loss of $638 million at the end of 2009 compared with a loss of $750 million at the end of 2008. The decrease in the net actuarial loss in 2009 resulted primarily from higher than expected pension asset returns. To the extent the amount of actuarial gains and losses exceed 10% of the larger of the benefit obligation or plan assets, such amount is amortized over the average remaining service life of active participants or the remaining life expectancy of inactive participants if all or almost all of a plan s participants are inactive. The freeze of the qualified U.S. pension plan caused almost all of the plan s participants to become inactive on January 1, 2008. Consequently, by rule, the amortization period for actuarial losses on the qualified U.S. pension plan was changed to the average remaining life expectancy of plan participants (28 years) resulting in an extended amortization period. The amount of the actuarial loss subject to amortization in 2010 and future years will be $478 million. The effect on years beyond 2010 will depend substantially upon the actual experience of our plans.

Disclosure of the significant assumptions used in arriving at the 2009 net pension expense is presented in Note 24, Employee Benefit Plans, in the Notes to Consolidated Financial Statements. A sensitivity analysis of projected 2010 net pension expense to changes in key underlying assumptions for our primary plan, the U.S. pension plan, is presented below.

	Assumed Rate	Change	Impact on 2010 Net Pension Expense	Effect on December 31, 2009 Projected Benefit Obligation
Expected long-term rate of return on assets	**7.65%**	**+/– 0.25%**	**–/+ $2.0 million**	
Discount rate increase	**6.20%**	**+ 0.25%**	**– $0.5 million**	**– $37 million**
Discount rate decrease	**6.20%**	**– 0.25%**	**+ $0.3 million**	**+ $37 million**

Self-Insurance Accruals. Self-insurance accruals were $243 million and $256 million as of December 31, 2009 and 2008, respectively. The majority of our self-insurance relates to vehicle liability and workers compensation. We use a variety of statistical and actuarial methods that are widely used and accepted in the insurance industry to estimate amounts for claims that have been reported but not paid and claims incurred but not reported. In applying these methods and assessing their results, we consider such factors as frequency and severity of claims, claim development and payment patterns and changes in the nature of our business, among other factors. Such factors are analyzed for each of our business segments. Our estimates may

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

be impacted by such factors as increases in the market price for medical services, unpredictability of the size of jury awards and limitations inherent in the estimation process.

In recent years, our actual claim development has been favorable compared with historical selected loss development factors because of improved safety performance, payment patterns and settlement patterns. During 2009, 2008, and 2007, we recorded a benefit of $1 million, $23 million, and $24 million, respectively, to reduce estimated prior years self-insured loss reserves. Based on self-insurance accruals at December 31, 2009, a 5% adverse change in actuarial claim loss estimates would increase operating expense in 2010 by approximately $11 million.

Goodwill Impairment. We assess goodwill for impairment, as described in Note 1, Summary of Significant Accounting Policies Goodwill and Other Intangible Assets, in the Notes to Consolidated Financial Statements, on an annual basis or more often if deemed necessary. At December 31, 2009, goodwill totaled $216 million. To determine whether goodwill impairment indicators exist, we are required to assess the fair value of the reporting unit and compare it to the carrying value. A reporting unit is a component of an operating segment for which discrete financial information is available and management regularly reviews its operating performance.

Our valuation of fair value for each reporting unit is determined based on an average of discounted future cash flow models that use ten years of projected cash flows and various terminal values based on multiples, book value or growth assumptions. We considered the current trading multiples for comparable publicly-traded companies and the historical pricing multiples for comparable merger and acquisition transactions that have occurred in our industry. Rates used to discount cash flows are dependent upon interest rates and the cost of capital at a point in time. Our discount rates reflect a weighted average cost of capital based on our industry and capital structure adjusted for equity risk premiums and size risk premiums based on market capitalization. Estimates of future cash flows are dependent on our knowledge and experience about past and current events and assumptions about conditions we expect to exist, including long-term growth rates, capital requirements and useful lives. Our estimates of cash flows are also based on historical and future operating performance, economic conditions and actions we expect to take. In addition to these factors, our SCS reporting units are dependent on several key customers or industry sectors. The loss of a key customer may have a significant impact to one of our SCS reporting units, causing us to assess whether or not the event resulted in a goodwill impairment loss. While we believe our estimates of future cash flows are reasonable, there can be no assurance that deterioration in economic conditions, customer relationships or adverse changes to expectations of future performance will not occur, resulting in a goodwill impairment loss. Our annual impairment test performed as of April 1, 2009 did not result in any impairment of goodwill. The excess of fair value over carrying value for each of our reporting units as of April 1, 2009, our annual testing date, ranged from approximately $4 million to approximately $315 million. In order to evaluate the sensitivity of the fair value calculations on the goodwill impairment test, we applied a hypothetical 5% decrease to the fair values of each reporting unit. This hypothetical 5% decrease would result in excess fair value over carrying value ranging from approximately $3 million to approximately $214 million for each of our reporting units.

Revenue Recognition. In the normal course of business, we may act as or use an agent in executing transactions with our customers. The accounting issue encountered in these arrangements is whether we should report revenue based on the gross amount billed to the customer or on the net amount received from the customer after payments to third parties. To the extent revenues are recorded on a gross basis, any payments to third parties are recorded as expenses so that the net amount is reflected in net earnings. Accordingly, the impact on net earnings is the same whether we record revenue on a gross or net basis.

Determining whether revenue should be reported as gross or net is based on an assessment of whether we are acting as the principal or the agent in the transaction and involves judgment based on the terms of the arrangement. To the extent we are acting as the principal in the transaction, revenue is reported on a gross basis. To the extent we are acting as an agent in the transaction, revenue is reported on a net basis. In the

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

majority of our arrangements, we are acting as a principal and therefore report revenue on a gross basis. However, our SCS business segment engages in some transactions where we act as agents and thus record revenue on a net basis.

In transportation management arrangements where we act as principal, revenue is reported on a gross basis for subcontracted transportation billed to our customers. From time to time, the terms and conditions of our transportation management arrangements may change, which could require a change in revenue recognition from a gross basis to a net basis or vice versa. Our non-GAAP measure of operating revenue would not be impacted from this change in revenue reporting. Effective January 1, 2008, our contractual relationship for certain transportation management services changed, and we determined, after a formal review of the terms and conditions of the services, that we were acting as an agent in the arrangement. As a result, total revenue and subcontracted transportation expense decreased in 2008 due to the reporting of revenue net of subcontracted transportation expense. During 2007, revenue associated with this portion of the contract was $640 million.

Income Taxes. Our overall tax position is complex and requires careful analysis by management to estimate the expected realization of income tax assets and liabilities.

Tax regulations require items to be included in the tax return at different times than the items are reflected in the financial statements. As a result, the effective tax rate reflected in the financial statements is different than that reported in the tax return. Some of these differences are permanent, such as expenses that are not deductible on the tax return, and some are timing differences, such as depreciation expense. Timing differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in the tax return in future years for which we have already recorded the tax benefit in the financial statements. Deferred tax assets amounted to $320 million and $405 million at December 31, 2009 and 2008, respectively. We record a valuation allowance for deferred tax assets to reduce such assets to amounts expected to be realized. At December 31, 2009 and 2008, the deferred tax valuation allowance, principally attributed to foreign tax loss carryforwards in the SCS business segment, was $37 million and $35 million, respectively. In determining the required level of valuation allowance, we consider whether it is more likely than not that all or some portion of deferred tax assets will not be realized. This assessment is based on management s expectations as to whether sufficient taxable income of an appropriate character will be realized within tax carryback and carryforward periods. Our assessment involves estimates and assumptions about matters that are inherently uncertain, and unanticipated events or circumstances could cause actual results to differ from these estimates. Should we change our estimate of the amount of deferred tax assets that we would be able to realize, an adjustment to the valuation allowance would result in an increase or decrease to the provision for income taxes in the period such a change in estimate was made.

We are subject to tax audits in numerous jurisdictions in the U.S. and around the world. Tax audits by their very nature are often complex and can require several years to complete. In the normal course of business, we are subject to challenges from the Internal Revenue Service (IRS) and other tax authorities regarding amounts of taxes due. These challenges may alter the timing or amount of taxable income or deductions, or the allocation of income among tax jurisdictions. As part of our calculation of the provision for income taxes on earnings, we determine whether the benefits of our tax positions are at least more likely than not of being sustained upon audit based on the technical merits of the tax position. For tax positions that are more likely than not of being sustained upon audit, we accrue the largest amount of the benefit that is more likely than not of being sustained in our consolidated financial statements. Such accruals require management to make estimates and judgments with respect to the ultimate outcome of a tax audit. Actual results could vary materially from these estimates. See Note 14, Income Taxes, in the Notes to Consolidated Financial Statements for further discussion of the status of tax audits and uncertain tax positions.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1, Summary of Significant Accounting Policies Recent Accounting Pronouncements, in the Notes to Consolidated Financial Statements for a discussion of recent accounting pronouncements.

NON-GAAP FINANCIAL MEASURES

This Annual Report on Form 10-K includes information extracted from consolidated financial information but not required by generally accepted accounting principles (GAAP) to be presented in the financial statements. Certain of this information are considered non-GAAP financial measures as defined by SEC rules. Specifically, we refer to adjusted return on average capital, operating revenue, salaries and employee-related costs as a percentage of operating revenue, FMS operating revenue, FMS NBT as a % of operating revenue, SCS operating revenue, SCS NBT as a % of operating revenue, DCC operating revenue, DCC NBT as a % of operating revenue, total cash generated, free cash flow, total obligations, total obligations to equity, and comparable earnings from continuing operations and comparable earnings per diluted common share from continuing operations. We believe that the comparable earnings from continuing operations and comparable earnings per diluted common share from continuing operations measures provide useful information to investors because they exclude significant items that are unrelated to our ongoing business operations. As required by SEC rules, we provide a reconciliation of each non-GAAP financial measure 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. 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 numerical reconciliation of earnings from continuing operations before income taxes to comparable earnings from continuing operations before income taxes for the years ended December 31, 2007, 2006 and 2005 which was not provided within the MD&A discussion:

	Years ended December 31		
	2007	2006	2005
	(In thousands)		
Earnings from continuing operations before income taxes	**$ 402,204**	390,275	357,377
Net restructuring charges	**9,290**		
Pension accounting charge		5,872	
Gain on sale of property	**(10,110)**		
Comparable earnings from continuing operations before income taxes	**$ 401,384**	396,147	357,377

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The following table provides a numerical reconciliation of earnings from continuing operations and earnings per diluted common share from continuing operations to comparable earnings from continuing operations and comparable earnings per diluted common share from continuing operations for the years ended December 31, 2007, 2006 and 2005 which was not provided within the MD&A discussion:

	Years ended December 31		
	2007	2006	2005
	(In thousands)		
Earnings from continuing operations	**$ 251,779**	246,694	228,768
Net restructuring charges	**5,935**		
Tax law changes	**(3,333)**	(6,796)	(7,627)
Pension accounting charge		3,720	
Gain on sale of property	**(6,154)**		
Comparable earnings from continuing operations	**$ 248,227**	243,618	221,141
Earnings per diluted common share from continuing operations	**$ 4.19**	3.99	3.53
Net restructuring charges	**0.10**		
Tax law changes	**(0.06)**	(0.11)	(0.12)
Pension accounting charge		0.06	
Gain on sale of property	**(0.10)**		
Comparable earnings per diluted common share from continuing operations	**$ 4.13**	3.94	3.41

The following table provides a numerical reconciliation of total revenue to operating revenue for the years ended December 31, 2009, 2008 and 2007 which was not provided within the MD&A discussion:

	Years ended December 31		
	2009	2008	2007
	(In thousands)		
Total revenue	**$ 4,887,254**	5,999,041	6,363,130
FMS fuel services and SCS/DCC subcontracted transportation revenue	**(948,963)**	(1,648,434)	(2,052,340)
Fuel eliminations	**124,221**	239,473	204,290
Operating revenue	**$ 4,062,512**	4,590,080	4,515,080

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The following table provides a numerical reconciliation of return on average shareholders equity to adjusted return on average capital for the years ended December 31, 2009, 2008, 2007, 2006 and 2005 which was not provided within the MD&A discussion:

	Years ended December 31				
	2009	2008	2007	2006	2005
	(Dollars in thousands)				
Net earnings **[A]**	**$ 61,945**	199,881	253,861	248,959	226,929
Cumulative effect of change in accounting principle					2,440
Restructuring and other charges (recoveries), net and other items(1)	**29,943**	70,447	1,467		(1,741)
Income taxes	**53,737**	150,075	151,603	144,014	129,460
Adjusted net earnings before income taxes	**145,625**	420,403	406,931	392,973	357,088
Adjusted interest expense(2)	**149,968**	164,975	169,060	146,565	127,072
Adjusted income taxes(3)	**(121,758)**	(230,456)	(219,971)	(207,183)	(185,917)
Adjusted net earnings **[B]**	**$ 173,835**	354,922	356,020	332,355	298,243
Average total debt	**$ 2,691,569**	2,881,931	2,847,692	2,480,314	2,147,836
Average off-balance sheet debt	**141,629**	170,694	150,124	98,767	147,855
Average obligations **[C]**	**2,833,198**	3,052,625	2,997,816	2,579,081	2,295,691
Average shareholders equity **[D]**	**1,395,629**	1,778,489	1,790,814	1,610,328	1,554,718
Average adjustments to shareholders equity(4)	**15,645**	9,608	855	(5,114)	(4,680)
Average adjusted shareholders equity **[E]**	**1,411,274**	1,788,097	1,791,669	1,605,214	1,550,038
Average adjusted capital	**$ 4,244,473**	4,840,722	4,789,485	4,184,295	3,845,729
Return on average shareholders equity (%) **[A/D]**	**4.4**	11.2	14.2	15.5	14.6
	4.1	7.3	7.4	7.9	7.8

Adjusted return on average capital (%)
[B]/[C+E]

(1) *For 2009 and 2008, see Note 4, Discontinued operations, Note 5, Restructuring and Other Charges and Note 26, Other Items Impacting Comparability, in the Notes to Consolidated Financial Statements; 2007 includes restructuring and other charges (recoveries) of $11 million in the second half of 2007 and a gain of $10 million related to the sale of property in the third quarter. Restructuring and other charges (recoveries), net and other items not presented in this reconciliation were not significant in the respective periods.*

(2) *Includes interest on off-balance sheet vehicle obligations.*

(3) *Calculated by excluding taxes related to restructuring and other charges (recoveries), net and other items, impacts of tax law changes or reserve reversals and interest expense.*

(4) *Represents comparable earnings adjustments for respective periods.*

SPECIAL NOTE REGARDING 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

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

similar expressions. This Annual Report contains forward-looking statements including, but not limited to, statements regarding:

the status of our unrecognized tax benefits for 2009 related to the U.S. federal, state and foreign tax positions and the impact of recent state tax law changes;

our expectations as to anticipated revenue and earnings trends and future economic conditions specifically, earnings per share, operating revenue, used vehicle sales results, contract revenue declines, non-renewal of automotive contracts, commercial rental growth and freight volume projections;

the economic and business impact of our strategy to continue supply chain operations in the U.S., Canada, Mexico and Asia markets, discontinue supply chain operations in South America and Europe and carry out workforce reductions;

the anticipated pre-tax cost annual savings from our global cost savings initiatives;

our ability to successfully achieve the operational goals that are the basis of our business strategies, including offering competitive pricing and value-added differentiation, diversifying our customer base, optimizing asset utilization, leveraging the expertise of our various business segments, serving our customers global needs and expanding our support services;

impact of losses from conditional obligations arising from guarantees;

number of NLE vehicles in inventory, and the size of our commercial rental fleet, for the remainder of the year;

estimates of free cash flow and capital expenditures for 2010;

the adequacy of our accounting estimates and reserves for pension expense, depreciation and residual value guarantees, self-insurance reserves, goodwill impairment, accounting changes and income taxes;

our ability to fund all of our operations for the foreseeable future through internally generated funds and outside funding sources;

our expected level of use of outside funding sources;

the anticipated impact of fuel price fluctuations;

our expectations as to future pension expense and contributions, the impact of pension legislation, as well as the effect of the freeze of our pension plans on our benefit funding requirements;

our expectations relating to withdrawal liability and funding levels of multi-employer plans;

the anticipated deferral of tax gains on disposal of eligible revenue earning equipment pursuant to our vehicle like-kind exchange program;

our expectations regarding the completion and ultimate outcome of certain tax audits;

the anticipated effects of our decision to resume our share repurchase program;

the ultimate disposition of legal proceedings and estimated environmental liabilities;

our expectations relating to compliance with new regulatory requirements; and

our expectations regarding the effect of the adoption of recent accounting pronouncements.

These statements, as well as other forward-looking statements contained in this Annual 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

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

expressed in any forward-looking statements. For a detailed description of certain of these risk factors, please see Item 1A. Risk Factors of this Annual Report.

The risks included in the Annual Report are not exhaustive. 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 Annual Report. We do not intend, or assume any obligation, to update or revise any forward-looking statements contained in this Annual Report, whether as a result of new information, future events or otherwise.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by ITEM 7A is included in ITEM 7 (page 50) of PART II of this report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

FINANCIAL STATEMENTS

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All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

TO THE SHAREHOLDERS OF RYDER SYSTEM, INC.:

Management of Ryder System, Inc., together with its consolidated subsidiaries (Ryder), is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a- 15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Ryder s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Ryder s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Ryder; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of Ryder s management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Ryder s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Ryder s internal control over financial reporting as of December 31, 2009. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control Integrated Framework. Based on our assessment and those criteria, management determined that Ryder maintained effective internal control over financial reporting as of December 31, 2009.

Ryder s independent registered certified public accounting firm has audited the effectiveness of Ryder s internal control over financial reporting. Their report appears on page 63.

REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF
RYDER SYSTEM, INC.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings, shareholders equity, and cash flows present fairly, in all material respects, the financial position of Ryder System, Inc. and its subsidiaries at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, in 2007 the Company changed its method of accounting for uncertainty in income taxes.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become

inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

February 12, 2010
Miami, Florida

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RYDER SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	Years ended December 31		
	2009	2008	2007
	(In thousands, except per share amounts)		
Revenue	$ **4,887,254**	5,999,041	6,363,130
Operating expense (exclusive of items shown separately)	**2,229,539**	2,959,518	2,739,952
Salaries and employee-related costs	**1,233,243**	1,345,216	1,348,212
Subcontracted transportation	**198,860**	233,106	868,437
Depreciation expense	**881,216**	836,149	810,544
Gains on vehicle sales, net	**(12,292)**	(39,020)	(44,090)
Equipment rental	**65,828**	78,292	86,415
Interest expense	**144,342**	152,448	155,970
Miscellaneous (income) expense, net	**(3,657)**	2,564	(15,309)
Restructuring and other charges, net	**6,406**	21,480	10,795
	4,743,485	5,589,753	5,960,926
Earnings from continuing operations before income taxes	**143,769**	409,288	402,204
Provision for income taxes	**53,652**	151,709	150,425
Earnings from continuing operations	**90,117**	257,579	251,779
(Loss) earnings from discontinued operations, net of tax	**(28,172)**	(57,698)	2,082
Net earnings	$ **61,945**	199,881	253,861
Earnings (loss) per common share Basic			
Continuing operations	$ **1.62**	4.54	4.22
Discontinued operations	**(0.51)**	(1.02)	0.03
Net earnings	$ **1.11**	3.52	4.25
Earnings (loss) per common share Diluted			
Continuing operations	$ **1.62**	4.51	4.19
Discontinued operations	**(0.51)**	(1.01)	0.03
Net earnings	$ **1.11**	3.50	4.22

See accompanying notes to consolidated financial statements.

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RYDER SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2009	2008
	(Dollars in thousands, except per share amount)	
Assets:		
Current assets:		
Cash and cash equivalents	$ **98,525**	120,305
Receivables, net	**598,661**	635,376
Inventories	**50,146**	48,324
Prepaid expenses and other current assets	**133,041**	153,576
Total current assets	**880,373**	957,581
Revenue earning equipment, net of accumulated depreciation of $3,013,179 and $2,749,654, respectively	**4,178,659**	4,565,224
Operating property and equipment, net of accumulated depreciation of $855,657 and $842,427, respectively	**543,910**	546,816
Goodwill	**216,444**	198,253
Intangible assets	**39,120**	36,705
Direct financing leases and other assets	**401,324**	384,929
Total assets	$ **6,259,830**	6,689,508
Liabilities and shareholders equity:		
Current liabilities:		
Short-term debt and current portion of long-term debt	$ **232,617**	384,262
Accounts payable	**262,712**	295,083
Accrued expenses and other current liabilities	**354,945**	431,820
Total current liabilities	**850,274**	1,111,165
Long-term debt	**2,265,074**	2,478,537
Other non-current liabilities	**681,613**	837,280
Deferred income taxes	**1,035,874**	917,365
Total liabilities	**4,832,835**	5,344,347
Shareholders equity:		
Preferred stock of no par value per share authorized, 3,800,917; none outstanding, December 31, 2009 or 2008		
Common stock of $0.50 par value per share authorized, 400,000,000; outstanding, 2009 53,419,721; 2008 55,658,059	**26,710**	27,829
Additional paid-in capital	**743,026**	756,190
Retained earnings	**1,036,178**	1,105,369
Accumulated other comprehensive loss	**(378,919)**	(544,227)

Total shareholders equity	**1,426,995**	1,345,161
Total liabilities and shareholders equity	**$ 6,259,830**	6,689,508

See accompanying notes to consolidated financial statements.

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RYDER SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31		
	2009	2008	2007
	(In thousands)		
Cash flows from operating activities of continuing operations:			
Net earnings	**$ 61,945**	199,881	253,861
Less: (Loss) earnings from discontinued operations, net of tax	**(28,172)**	(57,698)	2,082
Earnings from continuing operations	**90,117**	257,579	251,779
Depreciation expense	**881,216**	836,149	810,544
Gains on vehicle sales, net	**(12,292)**	(39,020)	(44,090)
Goodwill impairment		10,322	
Share-based compensation expense	**16,404**	17,076	16,754
Amortization expense and other non-cash charges, net	**41,301**	14,941	14,995
Deferred income tax expense	**92,683**	128,800	64,198
Tax (charge) benefits from share-based compensation	**(425)**	1,151	1,458
Changes in operating assets and liabilities, net of acquisitions:			
Receivables	**19,478**	173,872	63,494
Inventories	**(1,087)**	10,497	1,409
Prepaid expenses and other assets	**(11,583)**	(33,360)	5,319
Accounts payable	**15,570**	(109,143)	(19,043)
Accrued expenses and other non-current liabilities	**(146,426)**	(20,695)	(70,258)
Net cash provided by operating activities of continuing operations	**984,956**	1,248,169	1,096,559
Cash flows from financing activities of continuing operations:			
Net change in commercial paper borrowings	**148,256**	(522,312)	(159,771)
Debt proceeds	**2,014**	744,004	506,105
Debt repaid, including capital lease obligations	**(519,710)**	(118,641)	(435,399)
Dividends on common stock	**(53,334)**	(52,238)	(50,152)
Common stock issued	**7,442**	54,713	42,340
Common stock repurchased	**(116,281)**	(256,132)	(209,018)
Excess tax benefits from share-based compensation	**775**	6,471	3,377
Debt issuance costs	**(11,178)**	(4,017)	(2,082)
Net cash used in financing activities of continuing operations	**(542,016)**	(148,152)	(304,600)
Cash flows from investing activities of continuing operations:			
Purchases of property and revenue earning equipment	**(651,953)**	(1,230,401)	(1,304,033)
Sales of revenue earning equipment	**211,002**	257,679	354,736
Sales of operating property and equipment	**4,634**	3,727	18,725
Sale and leaseback of revenue earning equipment			150,348
Acquisitions	**(88,873)**	(246,993)	(75,226)
Collections on direct finance leases	**65,242**	61,096	62,346

Changes in restricted cash	**11,129**	51,029	(19,686)
Other, net	**209**	395	1,588
Net cash used in investing activities of continuing operations	**(448,610)**	(1,103,468)	(811,202)
Effect of exchange rate changes on cash	**1,794**	1,408	6,734
Decrease in cash and cash equivalents from continuing operations	**(3,876)**	(2,043)	(12,509)
Cash flows from discontinued operations:			
Operating cash flows	**(25,737)**	7,362	6,380
Financing cash flows	**(9,427)**	(2,478)	5,397
Investing cash flows	**16,669**	678	(12,017)
Effect of exchange rate changes on cash	**591**	327	569
(Decrease) increase in cash and cash equivalents from discontinued operations	**(17,904)**	5,889	329
(Decrease) increase in cash and cash equivalents	**(21,780)**	3,846	(12,180)
Cash and cash equivalents at January 1	**120,305**	116,459	128,639
Cash and cash equivalents at December 31	**$ 98,525**	120,305	116,459

See accompanying notes to consolidated financial statements.

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RYDER SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	Preferred Stock Amount	Common Stock Shares	Common Stock Par	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(Dollars in thousands, except per share amounts)						
Balance at January 1, 2007	$	60,721,528	$ 30,220	713,264	1,123,789	(146,494)	1,720,779
Components of comprehensive income:							
Net earnings					253,861		253,861
Foreign currency translation adjustments						62,051	62,051
Unrealized loss related to derivatives						(52)	(52)
Amortization of pension and postretirement items, net of tax of $(5,808)						11,269	11,269
Pension curtailment gain, net of tax of $(5,971)						10,510	10,510
Change in net actuarial loss, net of tax of $(14,137)						31,839	31,839
Total comprehensive income							369,478
Common stock dividends paid $0.84 per share					(50,152)		(50,152)
Common stock issued under employee stock option and stock purchase plans[(1)]		1,202,169	604	41,690			42,294
Benefit plan stock sales[(2)]		364		46			46
Common stock repurchases		(3,882,498)	(1,941)	(47,138)	(159,939)		(209,018)
Share-based compensation				16,754			16,754
Tax benefits from share-based compensation				4,835			4,835
Adoption of accounting guidance for uncertain tax positions[(3)]					(7,427)		(7,427)
Balance at December 31, 2007		58,041,563	28,883	729,451	1,160,132	(30,877)	1,887,589

Components of comprehensive income:						
Net earnings				199,881		199,881
Foreign currency translation adjustments					(180,819)	(180,819)
Net unrealized loss related to derivatives					(119)	(119)
Amortization of pension and postretirement items, net of tax of $(1,344)					2,564	2,564
Pension curtailment loss, net of tax of $634					(1,287)	(1,287)
Change in net actuarial loss, net of tax of $188,654					(333,689)	(333,689)
Total comprehensive loss						(313,469)
Common stock dividends paid $0.92 per share				(52,238)		(52,238)
Common stock issued under employee stock option and stock purchase plans[1]	1,593,073	934	53,496			54,430
Benefit plan stock sales[2]	1,859	1	282			283
Common stock repurchases	(3,978,436)	(1,989)	(51,737)	(202,406)		(256,132)
Share-based compensation			17,076			17,076
Tax benefits from share-based compensation			7,622			7,622
Balance at December 31, 2008	55,658,059	27,829	756,190	1,105,369	(544,227)	1,345,161
Components of comprehensive income:						
Net earnings				**61,945**		**61,945**
Foreign currency translation adjustments					**96,899**	**96,899**
Net unrealized gain related to derivatives					**149**	**149**
Amortization of pension and postretirement items, net of tax of $(7,930)					**14,287**	**14,287**
Pension curtailment loss, net of tax of $4,689					**(12,058)**	**(12,058)**
Change in net actuarial loss, net of tax of $(38,906)					**66,031**	**66,031**
Total comprehensive income						**227,253**
Common stock dividends paid $0.96 per share				**(53,334)**		**(53,334)**
	483,270	**242**	**6,906**			**7,148**

Common stock issued under employee stock option and stock purchase plans[1]								
Benefit plan stock sales[2]		**4,673**		**2**	**292**			**294**
Common stock repurchases		**(2,726,281)**		**(1,363)**	**(37,116)**	**(77,802)**		**(116,281)**
Share-based compensation					**16,404**			**16,404**
Tax benefits from share-based compensation					**350**			**350**
Balance at December 31, 2009	**$**	**53,419,721**	**$**	**26,710**	**743,026**	**1,036,178**	**(378,919)**	**1,426,995**

(1) Net of common shares delivered as payment for the exercise price or to satisfy the 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.

(3) See Note 2, Accounting Changes, in the Notes to Consolidated Financial Statements for additional information related to the adoption of accounting guidance on uncertain tax positions.

See accompanying notes to consolidated financial statements.

RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation and Presentation

The consolidated 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) where Ryder is determined to be the primary beneficiary. Ryder is deemed to be the primary beneficiary if we bear a majority of the risk to the entities potential losses or stand to gain from a majority of the entities expected returns. All significant intercompany accounts and transactions between consolidated companies have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current period presentation. In connection with preparation of the consolidated financial statements, we evaluated subsequent events after the balance sheet date of December 31, 2009 through the date of issuance, February 12, 2010.

In December of 2008, we announced strategic initiatives to improve our competitive advantage and drive long-term profitable growth. As part of these initiatives, we decided to discontinue Supply Chain Solutions (SCS) operations in South America and Europe. In the second half of 2009, we ceased service operations in South America and Europe. Accordingly, results of these operations, financial position and cash flows are separately reported as discontinued operations for all periods presented either in the Consolidated Financial Statements or notes thereto.

Use of Estimates

The preparation of our consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on management s best knowledge of historical trends, actions that we may take in the future, and other information available when the consolidated financial statements are prepared. Changes in estimates are recognized in accordance with the accounting rules for the estimate, which is typically in the period when new information becomes available. Areas where the nature of the estimate make it reasonably possible that actual results could materially differ from the amounts estimated include: depreciation and residual value guarantees, employee benefit plan obligations, self-insurance accruals, impairment assessments on long-lived assets (including goodwill and indefinite-lived intangible assets), revenue recognition, allowance for accounts receivable, income tax liabilities and contingent liabilities.

Cash Equivalents

Cash equivalents represent cash in excess of current operating requirements invested in short-term, interest-bearing instruments with maturities of three months or less at the date of purchase and are stated at cost.

Restricted Cash

Restricted cash primarily consists of cash proceeds from the sale of eligible vehicles or operating property set aside for the acquisition of replacement vehicles or operating property under our like-kind exchange tax programs. See Note 14, Income Taxes, for a complete discussion of the vehicle like-kind exchange tax program. We classify restricted cash within Prepaid expenses and other current assets if the restriction is expected to expire in the twelve months following the balance sheet date or within Direct financing leases and other assets if the restriction is expected to expire more than twelve months after the balance sheet date. The changes in restricted cash balances are reflected as

an investing activity in our Consolidated Statements of Cash Flows as they relate to the sales and purchases of revenue earning equipment and operating property and equipment.

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

Revenue Recognition

We generate revenue primarily through the lease, rental and maintenance of revenue earning equipment and services rendered under service contracts. We recognize revenue when persuasive evidence of an arrangement exists, the services have been rendered to customers or delivery has occurred, the pricing is fixed or determinable, and collectibility is reasonably assured. We are required to make judgments about whether pricing is fixed or determinable and whether or not collectibility is reasonably assured.

Revenue is recorded on a gross basis, without deducting third-party services costs, when we are acting as a principal with substantial risks and rewards of ownership. Revenue is recorded on a net basis, after deducting third-party services costs, when we are acting as an agent without substantial risks and rewards of ownership. Sales tax collected from customers and remitted to the applicable taxing authorities is accounted for on a net basis, with no impact on revenue.

In addition to the aforementioned general policy, the following are the specific revenue recognition policies for our reportable business segments by major revenue arrangement:

Fleet Management Solutions (FMS)

Our full service lease arrangements include lease deliverables such as the lease of a vehicle and the executory agreement for the maintenance, insurance and taxes of the leased equipment during the lease term and non-lease deliverables. Arrangement consideration is allocated between lease deliverables and non-lease deliverables based on management s best estimate of the relative fair value of each deliverable. The arrangement consideration allocated to lease deliverables is accounted for pursuant to accounting guidance on leases. Our full service lease arrangements provide for a fixed charge billing and a variable charge billing based on mileage or time usage. Fixed charges are typically billed at the beginning of the month for the services to be provided that month. Variable charges are typically billed a month in arrears. Costs associated with the activities performed under our full service leasing arrangements are primarily comprised of labor, parts, outside work, depreciation, interest, licenses, insurance, operating taxes and vehicle rent. These costs are expensed as incurred except for depreciation. Refer to Summary of Significant Accounting Policies Revenue Earning Equipment, Operating Property and Equipment, and Depreciation for information regarding our depreciation policies.

Revenue from lease and rental agreements is driven by the classification of the arrangement typically as either an operating or direct finance lease (DFL).

The majority of our leases and all of our rental arrangements are classified as operating leases and therefore, we recognize lease and rental revenue on a straight-line basis as it becomes receivable over the term of the lease or rental arrangement. Lease and rental agreements do not usually provide for scheduled rent increases or escalations. However, lease agreements allow for rate changes based upon changes in the Consumer Price Index (CPI). Lease and rental agreements provide for a time charge plus a fixed per-mile charge. The fixed time charge, the fixed per-mile charge and the changes in rates attributed to changes in the CPI are considered contingent rentals and recognized as earned.

The non-lease deliverables of our full service lease arrangements are comprised of access to substitute vehicles, emergency road service, and safety services. These services are available to our customers

throughout the lease term. Accordingly, revenue is recognized on a straight-line basis over the lease term.

Direct financing lease revenue is recognized using the effective interest method, which provides a constant periodic rate of return on the outstanding investment on the lease.

Under our contract maintenance arrangements, we provide maintenance and repairs required to keep a vehicle in good operating condition, schedule mechanical preventive maintenance inspections and access to

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

emergency road service and substitute vehicles. The vast majority of our services are routine services performed on a recurring basis throughout the term of the arrangement. From time to time, we provide non-routine major repair services in order to place a vehicle back in service. Revenue from maintenance service contracts is recognized on a straight-line basis as maintenance services are rendered over the terms of the related arrangements. Contract maintenance arrangements are generally cancelable, without penalty, after one year with 60 days prior written notice. Our maintenance service arrangement provides for a monthly fixed charge and a monthly variable charge based on mileage or time usage. Fixed charges are typically billed at the beginning of the month for the services to be provided that month. Variable charges are typically billed a month in arrears. Contract maintenance agreements allow for rate changes based upon changes in the CPI. The fixed per-mile charge and the changes in rates attributed to changes in the CPI are recognized as earned. Costs associated with the activities performed under our contract maintenance arrangements are primarily comprised of labor, parts, outside work, licenses, insurance and operating taxes. These costs are expensed as incurred.

Revenue from fuel services is recognized when fuel is delivered to customers.

Supply Chain Solutions (SCS) and Dedicated Contract Carriage (DCC)

Revenue from service contracts is recognized as services are rendered in accordance with contract terms, which typically include discrete billing rates for the services. In transportation management arrangements where we act as principal, revenue is reported on a gross basis, without deducting third-party purchased transportation costs. To the extent that we are acting as an agent in the arrangement, revenue is reported on a net basis, after deducting purchased transportation costs. Effective January 1, 2008, our contractual relationship for certain transportation management services changed, and we determined, after a formal review of the terms and conditions of the services, that we were acting as an agent in the arrangement. As a result, the amount of total revenue and subcontracted transportation expense decreased due to the reporting of revenue net of subcontracted transportation expense. During 2007, revenue associated with this portion of the contract was $640 million.

Accounts Receivable Allowance

We maintain an allowance for uncollectible customer receivables and an allowance for billing adjustments related to certain discounts and billing corrections. Estimates are updated regularly based on historical experience of bad debts and billing adjustments processed, current collection trends and aging analysis. Accounts are charged against the allowance when determined to be uncollectible. The allowance is maintained at a level deemed appropriate based on loss experience and other factors affecting collectibility. Historical results may not necessarily be indicative of future results.

Inventories

Inventories, which consist primarily of fuel, tires and vehicle parts, are valued using the lower of weighted-average cost or market.

Revenue Earning Equipment, Operating Property and Equipment, and Depreciation

Revenue earning equipment, comprised of vehicles and operating property and equipment are initially recorded at cost inclusive of vendor rebates. Revenue earning equipment and operating property and equipment under capital lease are

initially recorded at the lower of the present value of minimum lease payments or fair value. Vehicle repairs and maintenance that extend the life or increase the value of a vehicle are capitalized, whereas ordinary maintenance and repairs are expensed as incurred. The cost of vehicle replacement tires and tire repairs are expensed as incurred. Direct costs incurred in connection with developing or obtaining internal-use software are capitalized. Costs incurred during the preliminary software development project stage, as well as maintenance and training costs, are expensed as incurred.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Leasehold improvements are depreciated over the shorter of their estimated useful lives or the term of the related lease, which may include one or more option renewal periods where failure to exercise such options would result in an economic penalty in such amount that renewal appears, at the inception of the lease, to be reasonably assured. If a substantial additional investment is made in a leased property during the term of the lease, we re-evaluate the lease term to determine whether the investment, together with any penalties related to non-renewal, would constitute an economic penalty in such amount that renewal appears to be reasonably assured.

Provision for depreciation is computed using the straight-line method on all depreciable assets. We periodically review and adjust, as appropriate, the residual values and useful lives of revenue earning equipment. Our review of the residual values and useful lives of revenue earning equipment, is established with a long-term view considering historical market price changes, current and expected future market price trends, expected life of vehicles and extent of alternative uses. Factors that could cause actual results to materially differ from estimates include but are not limited to unforeseen changes in technology innovations.

We routinely dispose of used revenue earning equipment as part of our FMS business. Revenue earning equipment held for sale is stated at the lower of carrying amount or fair value less costs to sell. For revenue earning equipment held for sale, we stratify our fleet by vehicle type (tractors, trucks, and trailers), weight class, age and other relevant characteristics and create classes of similar assets for analysis purposes. Fair value is determined based upon recent market prices obtained from our own sales experience for sales of each class of similar assets and vehicle condition. Reductions in the carrying values of vehicles held for sale are recorded within Depreciation expense in the Consolidated Statements of Earnings. While we believe our estimates of residual values and fair values of revenue earning equipment are reasonable, changes to our estimates of values may occur due to changes in the market for used vehicles, the condition of the vehicles, and inherent limitations in the estimation process.

Gains and losses on sales of operating property and equipment are reflected in Miscellaneous (income) expense, net.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets with indefinite useful lives are not amortized, but rather, are tested for impairment at least annually (April 1st). In addition to the annual goodwill impairment test, an interim test for goodwill impairment is completed when an event or circumstances change between annual tests that would more likely than not reduce the fair value of the reporting unit below its carrying value. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of each of our reporting units with its carrying amount. If a reporting unit s carrying amount exceeds its fair value, the second step is performed. The second step involves a comparison of the implied fair value and carrying value of that reporting unit s goodwill. To the extent that a reporting unit s carrying amount exceeds the implied fair value of its goodwill, an impairment loss is recognized. Identifiable intangible assets not subject to amortization are assessed for impairment by comparing the fair value of the intangible asset to its carrying amount. An impairment loss is recognized for the amount by which the carrying value exceeds fair value.

In making our assessments of fair value, we rely on our knowledge and experience about past and current events and assumptions about conditions we expect to exist. These assumptions are based on a number of factors including future operating performance, economic conditions, actions we expect to take, and present value techniques. Rates used to discount future cash flows are dependent upon interest rates and the cost of capital at a point in time. There are inherent uncertainties related to these factors and management s judgment in applying them to the analysis of goodwill

impairment. It is possible that assumptions underlying the impairment analysis will change in such a manner that impairment in value may occur in the future.

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

Intangible assets with finite lives are amortized over their respective estimated useful lives to their estimated residual values. Identifiable intangible assets that are subject to amortization are evaluated for impairment using a process similar to that used to evaluate long-lived assets described below.

Impairment of Long-Lived Assets Other than Goodwill

Long-lived assets held and used, including revenue earning equipment, operating property and equipment and intangible assets with finite lives, are tested for recoverability when circumstances indicate that the carrying amount of assets may not be recoverable. Recoverability of long-lived assets is evaluated by comparing the carrying amount of an asset or asset group to management s best estimate of the undiscounted future operating cash flows (excluding interest charges) expected to be generated by the asset or asset group. If these comparisons indicate that the asset or asset group is not recoverable, an impairment loss is recognized for the amount by which the carrying value of the asset or asset group exceeds fair value. Fair value is determined by quoted market price, if available, or an estimate of projected future operating cash flows, discounted using a rate that reflects the related operating segment s average cost of funds. Long-lived assets to be disposed of including revenue earning equipment, operating property and equipment and indefinite-lived intangible assets, are reported at the lower of carrying amount or fair value less costs to sell.

Debt Issuance Costs

Costs incurred to issue debt are deferred and amortized as a component of interest expense over the estimated term of the related debt using the effective interest rate method.

Contract Incentives

Payments made to or on behalf of a lessee or customer upon entering into a lease of our revenue earning equipment or contract are deferred and recognized on a straight-line basis as a reduction of revenue over the contract term. Amounts to be amortized in the next year have been classified as Prepaid expenses and other current assets with the remainder included in Direct financing leases and other assets.

Self-Insurance Accruals

We retain a portion of the accident risk under vehicle liability, workers compensation and other insurance programs. Under our insurance programs, we retain the risk of loss in various amounts up to $3 million on a per occurrence basis. Self-insurance accruals are based primarily on an actuarially estimated, undiscounted cost of claims, which includes claims incurred but not reported. Such liabilities are based on estimates. Historical loss development factors are utilized to project the future development of incurred losses, and these amounts are adjusted based upon actual claim experience and settlements. While we believe that the amounts are adequate, there can be no assurance that changes to our estimates may not occur due to limitations inherent in the estimation process. Changes in the estimates of these accruals are charged or credited to earnings in the period determined. Amounts estimated to be paid within the next year have been classified as Accrued expenses and other current liabilities with the remainder included in Other non-current liabilities.

We also maintain additional insurance at certain amounts in excess of our respective underlying retention. Amounts recoverable from insurance companies are not offset against the related accrual as our insurance policies do not extinguish or provide legal release from the obligation to make payments related to such risk-related losses. Amounts

expected to be received within the next year from insurance companies have been included within Receivables, net with the remainder included in Direct financing leases and other assets and are recognized only when realization of the claim for recovery is considered probable. The accrual for the related claim has been classified within Accrued expenses and other current liabilities if it is estimated to be paid within the next year, otherwise it has been classified in Other non-current liabilities.

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

Residual Value Guarantees and Deferred Gains

We periodically enter into agreements for the sale and operating leaseback of revenue earning equipment. These leases contain purchase and (or) renewal options as well as limited guarantees of the lessor s residual value (residual value guarantees). We review the residual values of revenue earning equipment that we lease from third parties and our exposures under residual value guarantees. The review is conducted in a manner similar to that used to analyze residual values and fair values of owned revenue earning equipment. The residual value guarantees are conditioned on termination of the lease prior to its contractual lease term. The amount of residual value guarantees expected to be paid is recognized as rent expense over the expected remaining term of the lease. Adjustments in the estimate of residual value guarantees are recognized prospectively over the expected remaining lease term. While we believe that the amounts are adequate, changes to our estimates of residual value guarantees may occur due to changes in the market for used vehicles, the condition of the vehicles at the end of the lease and inherent limitations in the estimation process. See Note 19, Guarantees, for additional information.

Gains on the sale and operating leaseback of revenue earning equipment are deferred and amortized on a straight-line basis over the term of the lease as a reduction of rent expense.

Income Taxes

Our provision for income taxes is based on reported earnings before income taxes. Deferred taxes are recognized for the future tax effects of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using tax rates in effect for the years in which the differences are expected to reverse. The effects of changes in tax laws on deferred tax balances are recognized in the period the new legislation is enacted. Valuation allowances are recognized to reduce deferred tax assets to the amount that is more likely than not to be realized. In assessing the likelihood of realization, management considers estimates of future taxable income. We calculate our current and deferred tax position based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed in subsequent years. Adjustments based on filed returns are recorded when identified.

We are subject to tax audits in numerous jurisdictions in the U.S. and around the world. Tax audits by their very nature are often complex and can require several years to complete. In the normal course of business, we are subject to challenges from the IRS and other tax authorities regarding amounts of taxes due. These challenges may alter the timing or amount of taxable income or deductions, or the allocation of income among tax jurisdictions. We determine whether the benefits of our tax positions are more likely than not of being sustained upon audit based on the technical merits of the tax position. For tax positions that are at least more likely than not of being sustained upon audit, we recognize the largest amount of the benefit that is more likely than not of being sustained in our consolidated financial statements. For all other tax positions, we do not recognize any portion of the benefit in our consolidated financial statements. To the extent that our assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made.

Interest and penalties related to income tax exposures are recognized as incurred and included in Provision for income taxes in our Consolidated Statements of Earnings. Accruals for income tax exposures, including penalties and interest, expected to be settled within the next year are included in Accrued expenses and other current liabilities with the remainder included in Other non-current liabilities in our Consolidated Balance Sheets. The federal benefit from state income tax exposures is included in Deferred income taxes in our Consolidated Balance Sheets.

Severance and Contract Termination Costs

We recognize liabilities for severance and contract termination costs based upon the nature of the cost to be incurred. For involuntary separation plans that are completed within the guidelines of our written

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

involuntary separation plan, we record the liability when it is probable and reasonably estimable. For one-time termination benefits, such as additional severance pay or benefit payouts, and other exit costs, such as contract termination costs, the liability is measured and recognized initially at fair value in the period in which the liability is incurred, with subsequent changes to the liability recognized as adjustments in the period of change. Severance related to position eliminations that are part of a restructuring plan are recorded within Restructuring and other charges, net in the Consolidated Statements of Earnings, otherwise severance is recorded within Salaries and employee-related costs in the Consolidated Statements of Earnings.

Environmental Expenditures

We record liabilities for environmental assessments and (or) cleanup when it is probable a loss has been incurred and the costs can be reasonably estimated. Environmental liability estimates may include costs such as anticipated site testing, consulting, remediation, disposal, post-remediation monitoring and legal fees, as appropriate. The liability does not reflect possible recoveries from insurance companies or reimbursement of remediation costs by state agencies, but does include estimates of cost sharing with other potentially responsible parties. Estimates are not discounted, as the timing of the anticipated cash payments is not fixed or readily determinable. Subsequent adjustments to initial estimates are recorded as necessary based upon additional information developed in subsequent periods. In future periods, new laws or regulations, advances in remediation technology and additional information about the ultimate remediation methodology to be used could significantly change our estimates. Claims for reimbursement of remediation costs are recorded when recovery is deemed probable.

Asset Retirement Obligations

Asset retirement obligations (ARO) are legal obligations associated with the retirement of long-lived assets. Our ARO s are associated with underground tanks, tires and leasehold improvements. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, we record period-to-period changes in the ARO liability resulting from the passage of time within Interest expense in the Consolidated Statements of Earnings and revisions to either the timing or the amount of the original expected cash flows to the related assets.

Derivative Instruments and Hedging Activities

We use financial instruments, including forward exchange contracts, futures, swaps and cap agreements to manage our exposures to movements in interest rates and foreign currency exchange rates. The use of these financial instruments modifies the exposure of these risks with the intent to reduce the risk or cost to us. We do not enter into derivative financial instruments for trading purposes. We limit our risk that counterparties to the derivative contracts will default and not make payments by entering into derivative contracts only with counterparties comprised of large banks and financial institutions (primarily J.P. Morgan) that meet established credit criteria. We do not expect to incur any losses as a result of counterparty default.

On the date a derivative contract is entered into, we formally document, among other items, the intended hedging designation and relationship, along with the risk management objectives and strategies for entering into the derivative contract. We also formally assess, both at inception and on an ongoing basis, whether the derivatives we used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Cash flows

from derivatives that are accounted for as hedges are classified in the Consolidated Statements of Cash Flows in the same category as the items being hedged. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, we discontinue hedge accounting prospectively.

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

The hedging designation may be classified as one of the following:

No Hedging Designation. The gain or loss on a derivative instrument not designated as an accounting hedging instrument is recognized in earnings.

Fair Value Hedge. A hedge of a recognized asset or liability or an unrecognized firm commitment is considered a fair value hedge. For fair value hedges, both the effective and ineffective portions of the changes in the fair value of the derivative, along with the gain or loss on the hedged item that is attributable to the hedged risk, are both recorded in earnings.

Cash Flow Hedge. A hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability is considered a cash flow hedge. The effective portion of the change in the fair value of a derivative that is declared as a cash flow hedge is recorded in Accumulated other comprehensive loss until earnings are affected by the variability in cash flows of the designated hedged item.

Net Investment Hedge. A hedge of a net investment in a foreign operation is considered a net investment hedge. The effective portion of the change in the fair value of the derivative used as a net investment hedge of a foreign operation is recorded in the currency translation adjustment account within Accumulated other comprehensive loss. The ineffective portion, if any, on the hedged item that is attributable to the hedged risk is recorded in earnings and reported in Miscellaneous (income) expense, net in the Consolidated Statements of Earnings.

Foreign Currency Translation

Our foreign operations generally use the local currency as their functional currency. Assets and liabilities of these operations are translated at the exchange rates in effect on the balance sheet date. If exchangeability between the functional currency and the U.S. dollar is temporarily lacking at the balance sheet date, the first subsequent rate at which exchanges can be made is used to translate assets and liabilities. Income statement items are translated at the average exchange rates for the year. The impact of currency fluctuations is recorded in Accumulated other comprehensive loss as a currency translation adjustment. Upon sale or upon complete or substantially complete liquidation of an investment in a foreign operation, the currency translation adjustment attributable to that operation is removed from accumulated other comprehensive loss and is reported as part of the gain or loss on sale or liquidation of the investment for the period during which the sale or liquidation occurs. Gains and losses resulting from foreign currency transactions are recorded in Miscellaneous (income) expense, net in the Consolidated Statements of Earnings.

Share-Based Compensation

The fair value of stock option awards granted after January 1, 2006 and nonvested stock awards, is expensed on a straight-line basis over the vesting period of the awards. The fair value of stock option awards granted prior to January 1, 2006 is expensed based on their graded vesting schedule. Share-based compensation expense is generally reported in Salaries and employee-related costs in our Consolidated Statements of Earnings. Cash flows from the tax benefits resulting from tax deductions in excess of the compensation expense recognized for those options (windfall tax benefits) are classified as financing cash flows. Tax benefits resulting from tax deductions in excess of share-based compensation expense recognized are credited to additional paid-in capital in the Consolidated Balance Sheets. Realized tax shortfalls are first offset against the cumulative balance of windfall tax benefits, if any, and then charged

directly to income tax expense. We have applied the long-form method for determining the pool of windfall tax benefits and had a pool of windfall tax benefits for all periods presented.

RYDER SYSTEM, INC. AND SUBSIDIARIES
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Defined Benefit Pension and Postretirement Benefit Plans

The funded status of our defined benefit pension plans and postretirement benefit plans are recognized in the Consolidated Balance Sheets. The funded status is measured as the difference between the fair value of plan assets and the benefit obligation at December 31, the measurement date. The fair value of plan assets represents the current market value of contributions made to irrevocable trust funds, held for the sole benefit of participants, which are invested by the trust funds. For defined benefit pension plans, the benefit obligation represents the actuarial present value of benefits expected to be paid upon retirement based on estimated future compensation levels. For the postretirement benefit plans, the benefit obligation represents the actuarial present value of postretirement benefits attributed to employee services already rendered. Overfunded plans, with the fair value of plan assets exceeding the benefit obligation, are aggregated and recorded as a prepaid pension asset equal to this excess. Underfunded plans, with the benefit obligation exceeding the fair value of plan assets, are aggregated and recorded as a pension and postretirement benefit liability equal to this excess.

The current portion of pension and postretirement benefit liabilities represent the actuarial present value of benefits payable in the next 12 months exceeding the fair value of plan assets (if funded), measured on a plan-by-plan basis. These liabilities are recorded in Accrued expenses and other current liabilities in the Consolidated Balance Sheets.

Pension and postretirement benefit expense is recorded in Salaries and employee-related costs in the Consolidated Statements of Earnings and includes service cost, interest cost, expected return on plan assets (if funded), and amortization of prior service credit and net actuarial loss. Service cost represents the actuarial present value of participant benefits earned in the current year. Interest cost represents the time value of money cost associated with the passage of time. The expected return on plan assets represents the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the obligation. Prior service credit represents the impact of negative plan amendments. Net actuarial loss arises as a result of differences between actual experience and assumptions or as a result of changes in actuarial assumptions. Net actuarial loss and prior service credit not recognized as a component of pension and postretirement benefit expense as they arise are recognized as a component of accumulated comprehensive loss in the Consolidated Statements of Shareholders Equity, net of tax. These pension and postretirement items are subsequently amortized as a component of pension and postretirement benefit expense over the remaining service period, if the majority of the employees are active, otherwise over the remaining life expectancy, provided such amounts exceed thresholds which are based upon the benefit obligation or the value of plan assets.

The measurement of benefit obligations and pension and postretirement benefit expense is based on estimates and assumptions approved by management. These valuations reflect the terms of the plans and use participant-specific information such as compensation, age and years of service, as well as certain assumptions, including estimates of discount rates, expected return on plan assets, rate of compensation increases, interest rates and mortality rates.

Fair Value Measurements

We carry various assets and liabilities at fair value in the Consolidated Balance Sheets. The most significant assets and liabilities are vehicles held for sale, which are stated at the lower of carrying amount or fair value less costs to sell, investments held in Rabbi Trusts and derivatives.

Beginning in 2008, we applied new accounting guidance which defined fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Prior to 2008, fair value was defined as the amount at which an asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a

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

forced or liquidation sale. Fair value measurements under the new guidance are classified based on the following fair value hierarchy:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or model-derived valuations or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs for the asset or liability. These inputs reflect our own assumptions about the assumptions a market participant would use in pricing the asset or liability.

When available, we use unadjusted quoted market prices to measure fair value and classify such measurements within Level 1. If quoted prices are not available, fair value is based upon model-driven valuations that use current market-based or independently sourced market parameters such as interest rates and currency rates. Items valued using these models are classified according to the lowest level input or value driver that is significant to the valuation.

Revenue earning equipment held for sale is measured at fair value on a nonrecurring basis and is stated at the lower of carrying amount or fair value less costs to sell. Investments held in Rabbi Trusts and derivatives are carried at fair value on a recurring basis. Investments held in Rabbi Trusts include exchange-traded equity securities and mutual funds. Fair values for these investments are based on quoted prices in active markets. For derivatives, fair value is based on model-driven valuations using the LIBOR rate or observable forward foreign exchange rates, which are observable at commonly quoted intervals for the full term of the financial instrument.

Earnings Per Share

Earnings per share is computed using the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for common stock and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. Our nonvested stock (time-vested restricted stock rights, market-based restricted stock rights and restricted stock units) are considered participating securities since the share-based awards contain a non-forfeitable right to dividend equivalents irrespective of whether the awards ultimately vest. Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities based on the weighted average shares outstanding during the period.

Diluted earnings per common share reflect the dilutive effect of potential common shares from stock options. The dilutive effect of stock options is computed using the treasury stock method, which assumes any proceeds that could be obtained upon the exercise of stock options would be used to purchase common shares at the average market price for the period. The assumed proceeds include the purchase price the grantee pays, the windfall tax benefit that we receive upon assumed exercise and the unrecognized compensation expense at the end of each period. We calculate

the assumed proceeds from excess tax benefits based on the deferred tax assets actually recorded without consideration of as if deferred tax assets.

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Share Repurchases

Repurchases of shares of common stock are made periodically in open-market transactions and are subject to market conditions, legal requirements and other factors. The cost of share repurchases is allocated between common stock and retained earnings based on the amount of additional paid-in capital at the time of the share repurchase.

Comprehensive Income (Loss)

Comprehensive income (loss) presents a measure of all changes in shareholders equity except for changes resulting from transactions with shareholders in their capacity as shareholders. Our total comprehensive income (loss) presently consists of net earnings, currency translation adjustments associated with foreign operations that use the local currency as their functional currency, adjustments for derivative instruments accounted for as cash flow hedges and various pension and other postretirement benefits related items.

Recent Accounting Pronouncements

In September 2009, the Financial Accounting Standards Board (FASB) issued accounting guidance which amends the criteria for allocating a contract s consideration to individual services or products in multiple-deliverable arrangements. The guidance requires that the best estimate of selling price be used when vendor specific objective or third-party evidence for deliverables cannot be determined. This guidance is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. We are in the process of evaluating the impact of this accounting guidance but do not expect it to have a material impact on our consolidated financial position, results of operations or cash flows.

In June 2009, the FASB issued accounting guidance which addresses the accounting and disclosure requirements for transfers of financial assets. The guidance is effective for new transfers of financial assets occurring in fiscal years beginning after November 15, 2009, and interim periods within those years. The adoption of this accounting guidance did not have a material impact on our consolidated financial position, results of operations or cash flows.

In June 2009, the FASB issued accounting guidance which amends the consolidation principles for VIEs by requiring consolidation of VIEs based on which party has control of the entity. The guidance is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. The adoption of this accounting guidance did not have a material impact on our consolidated financial position, results of operations or cash flows.

2. ACCOUNTING CHANGES

Earnings Per Share

In June 2008, the FASB issued earnings per share guidance stating that unvested share-based payment awards which contain non-forfeitable rights to dividends are considered participating securities and should be included in the computation of earnings per share pursuant to the two-class method. We adopted the provisions of this accounting guidance effective January 1, 2009 and computed earnings per common share using the two-class method for all periods presented. The two-class method of computing earnings per share reduced both full year 2008 and 2007 diluted earnings per common share by $0.02.

Business Combinations

In December 2007, the FASB revised the accounting guidance for recognizing and measuring assets acquired and liabilities assumed in a business combination and requires, among other things, that transaction

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

costs in a business combination be expensed as incurred. This guidance was effective for business combinations closing after January 1, 2009. Effective January 1, 2009, we adopted the accounting guidance without a material impact to our consolidated financial position, results of operations or cash flows.

Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued accounting guidance on the fair value option for financial assets and financial liabilities. This accounting guidance permits companies to choose to measure many financial instruments and certain other items at fair value in order to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Effective January 1, 2008, we adopted the accounting guidance; however, we did not elect to measure any financial instruments and other items at fair value under the provisions of this accounting guidance. Consequently, this accounting guidance had no impact on our consolidated financial position, results of operations or cash flows.

Fair Value Measurements

In September 2006, the FASB issued accounting guidance on fair value measurements, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. We adopted the accounting guidance on January 1, 2008 for all financial assets and liabilities and for all nonfinancial assets and liabilities recognized or disclosed at fair value in our Consolidated Financial Statements on a recurring basis (at least annually). We adopted the accounting guidance on January 1, 2009 for all other nonfinancial assets and liabilities recognized or disclosed at fair value on a nonrecurring basis, including our vehicles held for sale. The adoption of this accounting guidance did not have a material impact on our consolidated financial position, results of operations or cash flows.

Accounting for Uncertainty in Income Taxes

Effective January 1, 2007, we adopted new accounting guidance related to uncertainty in income tax positions, which is described in Note 1, Summary of Significant Accounting Policies. The adoption of this accounting guidance decreased the January 1, 2007 balance of retained earnings by $7 million and deferred income taxes by $18 million with a corresponding increase of $25 million to the liability for uncertain tax positions.

3. ACQUISITIONS

Edart Leasing LLC Acquisition On February 2, 2009, we acquired the assets of Edart Leasing LLC (Edart), which included Edart s fleet of approximately 1,600 vehicles and more than 340 contractual customers from Edart s five locations in Connecticut for a purchase price of $86 million of which $81 million was paid as of December 31, 2009. The purchase price consisted mainly of revenue earning equipment and operating property. The combined network operates under the Ryder name, complementing our FMS business segment market coverage in the Northeast. We also acquired approximately 525 vehicles for remarketing, the majority of which were sold by the end of 2009.

Transpacific Container Terminals Ltd. and CRSA Logistics Ltd. Acquisition On December 19, 2008, we acquired all of the assets of Transpacific Container Terminals Ltd. and CRSA Logistics Ltd. (CRSA) located in Port Coquitlam, British Columbia, as well as CRSA s operations in Hong Kong and Shanghai, China. The companies specialize in trans-Pacific, end-to-end transportation management and supply chain services primarily for Canadian retailers. This

acquisition adds complementary solutions to our capabilities including consolidation services in key Asian hub and off-dock deconsolidation operations in Canada. The purchase price was $15 million of which $12 million was paid in 2008 and $2 million was paid in 2009. The terms of the asset purchase agreement provide for up to $4 million in contingent consideration to be paid to

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the seller if certain financial metrics are achieved. The contingent consideration will be accounted for as additional purchase price when the contingency is resolved.

Gordon Truck Leasing Acquisition On August 29, 2008, we acquired the assets of Gordon Truck Leasing (Gordon), which included Gordon s fleet of approximately 500 vehicles and nearly 130 contractual customers for a purchase price of $24 million, of which $23 million was paid in 2008. The combined network operates under the Ryder name, complementing our FMS market coverage and service network in Pennsylvania.

Gator Leasing Acquisition On May 12, 2008, we acquired the assets of Gator Leasing, Inc. (Gator), which included Gator s fleet of approximately 2,300 vehicles and nearly 300 contractual customers for a purchase price of $117 million, of which $114 million was paid in 2008 and $3 million was paid in 2009. The combined network operates under the Ryder name, complementing our FMS market coverage and service network in Florida.

Lily Acquisition On January 11, 2008, we completed an asset purchase agreement with Lily Transportation Corporation (Lily), under which we acquired Lily s fleet of approximately 1,600 vehicles and over 200 contractual customers for a purchase price of $99 million, of which $97 million was paid in 2008 and $2 million was paid in 2009. The combined network operates under the Ryder name, complementing our FMS market coverage and service network in the Northeast United States.

The following table provides a rollforward of the preliminary estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition for all 2008 acquisitions to the amounts of the final allocation:

	Preliminary Amount Disclosed in 2008 Annual Report	Purchase Price and Accounting Adjustments	Final Allocation
		(In thousands)	
Assets:			
Revenue earning equipment	$ 148,184	**84**	**148,268**
Goodwill	58,994	**1,522**	**60,516**
Tradename	398		**398**
Customer relationship intangibles	21,907	**(273)**	**21,634**
Other assets	29,285	**(307)**	**28,978**
	258,768	**1,026**	**259,794**
Liabilities	(4,984)	**42**	**(4,942)**
Net assets acquired	$ 253,784	**1,068**	**254,852**

The change in purchase price related to an additional $1 million paid in connection with a contractual net working capital adjustment as well as transaction costs. The purchase accounting adjustments related primarily to the completion of the valuation of customer relationship intangibles and evaluations of the physical and market conditions of revenue earning equipment.

Pollock Acquisition On October 5, 2007, we acquired the assets of Pollock NationaLease (Pollock), which included Pollock s fleet of approximately 2,000 vehicles and nearly 200 contractual customers for a purchase price of $77 million of which $1 million was paid in 2009, $1 million was paid in 2008 and $75 million was paid in 2007. The combined network operates under the Ryder name, complementing our FMS and SCS market coverage and service network in Canada.

All asset purchases in 2009, 2008 and 2007 were accounted for as an acquisition of a business. Goodwill on these acquisitions represents the excess of the purchase price over the fair value of the underlying acquired

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net tangible and intangible assets. The factors that contributed to the recognition of goodwill included securing buyer-specific synergies that increase revenue and profits and are not otherwise available to a market participant and significant cost savings opportunities.

Pro Forma Information The operating results of the acquired companies have been included in our consolidated financial statements from the dates of acquisitions. The following table provides the unaudited pro forma revenue, net earnings and earnings per diluted common share as if the results of the 2008 and 2007 acquisitions had been included in operations commencing January 1, 2007. This pro forma information is not necessarily indicative either of the combined results of operations that actually would have been realized had the acquisitions been consummated during the periods for which the pro forma information is presented, or of future results.

	Unaudited December 31	
	2008	2007
	(In thousands, except per share amounts)	
Revenue	$ **6,049,390**	6,511,130
Net earnings	$ **201,712**	256,748
Net earnings per common share:		
Basic	$ **3.56**	4.30
Diluted	$ **3.54**	4.27

4. DISCONTINUED OPERATIONS

In December 2008, we announced strategic initiatives to improve our competitive advantage and drive long-term profitable growth. As part of these initiatives, we decided to discontinue SCS operations in South America and Europe. During the second half of 2009, we ceased SCS service operations in Brazil, Argentina, Chile and European markets. Accordingly, results of these operations, financial position and cash flows are separately reported as discontinued operations for all periods presented either in the Consolidated Financial Statements or notes thereto.

Summarized results of discontinued operations were as follows:

	Years ended December 31		
	2009	2008	2007
		(In thousands)	
Total revenue	$ **70,357**	207,195	217,834
Pre-tax (loss) earnings from discontinued operations	$ **(28,087)**	(59,367)	3,260
Income tax (benefit) expense	**(85)**	1,669	(1,178)
(Loss) earnings from discontinued operations, net of tax	$ **(28,172)**	(57,698)	2,082

Results of discontinued operations included operating (losses) income of $(11) million, $(12) million and $6 million in 2009, 2008 and 2007, respectively. During 2009, 2008 and 2007, we incurred restructuring and other charges (primarily exit-related) of $17 million, $47 million and $2 million, respectively. These charges included the following:

Net severance and employee-related costs of $1 million in 2009, $15 million in 2008 and $1 million in 2007, related to approximately 2,500 employees associated with these operations. In 2009, we had severance and employee-related costs of $5 million offset by $4 million of non-cash reductions as we refined our prior year estimates.

Termination costs of $1 million in 2009, $4 million in 2008 and $1 million in 2007 representing the contractual penalty for terminating leases and customer contracts before the end of the contract term.

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In 2009, we incurred contract termination costs of $3 million as we continued to negotiate with our counterparties. The charges in 2009 were offset by $2 million of non-cash reductions as we refined our prior year estimates.

Asset impairments totaled $18 million in 2008 in conjunction with our decision to discontinue operations in these regions. The review of assets for impairment was triggered by our restructuring initiatives. The asset impairments included $11 million of SCS U.K. goodwill which represented the entire goodwill related to this reporting unit. The asset impairment charges also included $7 million primarily for revenue earning equipment and operating property and equipment.

Restructuring plan implementation costs of $2 million in 2009, mostly professional service fees.

In the fourth quarter of 2009, we substantially liquidated our investment in several foreign subsidiaries where we ceased operations. As a result, we recognized a charge of $14 million related to accumulated foreign currency translation losses.

In the fourth quarter of 2008, a customer in the SCS business segment in the U.K. declared bankruptcy. A portion of our services to this customer included the long-term financing of assets used to support the operations. As a result of the bankruptcy, we determined that this finance lease receivable was not recoverable and recorded a $4 million pre-tax charge. During 2009, we recovered approximately $1 million of the receivable.

In the second quarter of 2008, we recorded a pre-tax charge of $6.5 million ($6.8 million after-tax) for prior years adjustments associated with our Brazilian SCS operation. The charge was identified in the course of a detailed business and financial review in Brazil, which occurred following certain adverse tax and legal developments. We determined that accruals of $3.7 million, primarily for carrier transportation and loss contingencies related to tax and legal matters, were not established in the appropriate period; and deferrals of $3.1 million, primarily for indirect value-added taxes, were overstated. The charges related primarily to the period from 2004 to 2007. After considering the qualitative and quantitative effects of the charges, we determined the charges were not material to our consolidated financial statements in any individual prior period, and the cumulative amount was not material to 2008 results. Therefore, we recorded the adjustment for the cumulative amount in the second quarter of 2008.

We are subject to various claims, tax assessments and administrative proceedings associated with our discontinued operations. We have established loss provisions for matters in which losses are deemed probable and can be reasonably estimated. However, at this time, it is not possible for us to determine fully the ultimate effect of all unasserted claims and assessments on our consolidated financial condition, results of operations or liquidity. Additional adjustments and expenses may be recorded through discontinued operations in future periods as further relevant information becomes available. Although it is not possible to predict the ultimate outcome of these matters, we do not expect that any resulting liability will have a material adverse effect upon our financial condition, results of operations or liquidity.

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

	December 31,	December 31,

	2009	2008
	(In thousands)	
Assets:		
Total current assets	**$ 3,675**	$ 34,401
Total assets	**$ 7,635**	$ 51,792
Liabilities:		
Total current liabilities	**$ 7,713**	$ 51,088
Total liabilities	**$ 8,957**	$ 54,891

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At December 31, 2009, the net carrying value of operating property and equipment and revenue earning equipment held for sale recorded at fair value was not significant. Fair value was determined based upon recent market prices for sales of each class of similar assets and vehicle condition. Therefore, our equipment held for sale was classified within Level 3 of the fair value hierarchy. During 2009, losses to reflect changes in fair value were not significant.

5. RESTRUCTURING AND OTHER CHARGES

The components of restructuring and other charges, net in 2009, 2008 and 2007 were as follows:

	Years ended December 31		
	2009	2008	2007
		(In thousands)	
Restructuring charges, net:			
Severance and employee-related costs	**$ 2,206**	11,209	8,924
Contract termination costs		29	591
	2,206	11,238	9,515
Other charges:			
Early retirement of debt	**4,178**		1,280
Asset impairments	**22**	10,242	
Total	**$ 6,406**	21,480	10,795

As mentioned in Note 29, Segment Reporting, our primary measure of segment financial performance excludes, among other items, restructuring and other charges, net. However, the applicable portion of the restructuring and other charges, net that related to each segment in 2009, 2008, and 2007 were as follows:

	Years ended December 31		
	2009	2008	2007
		(In thousands)	
Fleet Management Solutions	**$ 5,631**	16,643	5,595
Supply Chain Solutions	**618**	2,820	3,170
Dedicated Contract Carriage	**41**	533	1,135
Central Support Services	**116**	1,484	895
Total	**$ 6,406**	21,480	10,795

2009 Activity

In the first quarter of 2009, we eliminated approximately 30 positions as part of workforce reductions under cost containment initiatives, which began in the fourth quarter of 2008. Workforce reductions resulted in a pre-tax restructuring charge of $3 million, and was offset by $1 million of refinements in estimates from prior restructuring charges.

Other charges, net in 2009 consisted primarily of debt extinguishment charges of $4 million incurred as part of a $100 million debt tender offer completed in September 2009 and described in Note 16, Debt. The charge consists of $3 million premium paid on the purchase of the $100 million outstanding and $1 million for the write-off of unamortized original debt discount and issuance costs and fees on the transaction.

2008 Activity

During the fourth quarter of 2008, we approved a plan to eliminate approximately 700 positions, primarily in the U.S. The workforce reduction resulted in a pre-tax restructuring charge of $11 million in the

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fourth quarter of 2008, all of which related to the payment of severance and other termination benefits. These actions were substantially completed in the first quarter of 2009.

In connection with the decision to transition out of European supply chain contracts and a declining economic environment, we performed an impairment analysis relating to our U.K. FMS business segment. Based on our analysis, given current market conditions and business expectations, we concluded that the fair value of FMS U.K. was less than the carrying amount of that reporting unit. In the fourth quarter of 2008, we recorded a non-cash pre-tax impairment charge of $10 million related to the write-off of goodwill related to this reporting unit as the implied fair value of the goodwill was less than the carrying amount.

2007 Activity

During 2007, we approved a plan to eliminate approximately 300 positions as a result of cost management and process improvement actions throughout our domestic and international operations and Central Support Services (CSS). The charge related to these actions included employee severance and benefits totaling $9 million. During 2007, we also recorded a charge of $0.6 million primarily related to costs that will continue to be incurred on a lease facility in our international operations, which we no longer operate.

Other charges, net in 2007, included a $1 million charge incurred to extinguish debentures that were originally set to mature in 2017. The charge related to the premium paid on the early extinguishment of debt and the write-off of related debt discount and issuance costs. See Note 16, Debt, for further discussion on the early extinguishment of debt.

The following table presents a roll-forward of the activity and balances of our restructuring reserves, including discontinued operations for the years ended December 31, 2009 and 2008:

	Beginning Balance	Additions	Deductions Cash Payments	Deductions Non-Cash Reductions[1]	Foreign Translation Adjustment	Ending Balance
			(In thousands)			
Year ended December 31, 2009:						
Employee severance and benefits	**$ 26,541**	**8,162**	**29,668**	**4,790**	**825**	**1,070**
Contract termination costs	**3,482**	**3,098**	**4,851**	**1,687**	**130**	**172**
Total	**$ 30,023**	**11,260**	**34,519**	**6,477**	**955**	**1,242**
Year ended December 31, 2008:						
Employee severance and benefits	$ 7,829	26,795	7,465	325	(293)	26,541
Contract termination costs	814	3,800	1,102	13	(17)	3,482
Total	$ 8,643	30,595	8,567	338	(310)	30,023

(1) Non-cash reductions represent adjustments to the restructuring reserve as actual costs were less than originally estimated.

At December 31, 2009, outstanding restructuring obligations are generally required to be paid over the next three months.

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6. RECEIVABLES

	December 31	
	2009	2008
	(In thousands)	
Trade	**$ 493,203**	559,923
Direct financing leases	**68,296**	69,520
Income tax	**31,859**	2,912
Insurance	**6,830**	4,253
Vendor rebates	**2,464**	3,942
Other	**9,817**	10,303
	612,469	650,853
Allowance	**(13,808)**	(15,477)
Total	**$ 598,661**	635,376

7. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	December 31	
	2009	2008
	(In thousands)	
Current deferred tax asset	**$ 12,790**	21,733
Restricted cash	**21,365**	32,494
Prepaid vehicle licenses	**37,349**	39,254
Prepaid operating taxes	**10,999**	12,702
Prepaid real estate rent	**8,530**	10,577
Prepaid contract incentives	**7,668**	6,385
Prepaid software maintenance costs	**3,151**	2,780
Prepaid benefits	**8,633**	3,512
Prepaid insurance	**6,710**	5,762
Prepaid sales commissions	**3,807**	4,774
Other	**12,039**	13,603
Total	**$ 133,041**	153,576

8. REVENUE EARNING EQUIPMENT

	Estimated Useful Lives (In years)		**December 31, 2009**			December 31, 2008		
			Cost	**Accumulated Depreciation**	**Net Book Value[(1)]**	Cost	Accumulated Depreciation	Net Book Value[(1)]
					(In thousands)			
Held for use:								
Full service lease	3	12	**$ 5,616,102**	**(2,173,693)**	**3,442,409**	5,338,834	(1,794,475)	3,544,359
Commercial rental	4.5	12	**1,235,404**	**(577,839)**	**657,565**	1,639,520	(713,738)	925,782
Held for sale			**340,332**	**(261,647)**	**78,685**	336,524	(241,441)	95,083
Total			**$ 7,191,838**	**(3,013,179)**	**4,178,659**	7,314,878	(2,749,654)	4,565,224

(1) Revenue earning equipment, net includes vehicles under capital leases of $20 million, less accumulated amortization of $7 million at December 31, 2009, and $20 million, less accumulated amortization of $5 million at December 31, 2008. Amortization expense attributed to vehicles under capital leases is combined with depreciation expense.

RYDER SYSTEM, INC. AND SUBSIDIARIES
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Revenue earning equipment captioned as Full service lease and Commercial rental is differentiated exclusively by the service line in which the equipment is employed. Two core service offerings of our FMS business segment are full service leasing and short-term commercial rental. Under a full service lease, we provide customers with vehicles, maintenance, supplies (including fuel), ancillary services and related equipment necessary for operation, while our customers exercise control of the related vehicles over the lease term (generally three to seven years for trucks and tractors and up to ten years for trailers). We also provide short-term rentals, which tend to be seasonal, to customers to supplement their fleets during peak business periods.

In 2009, based on current and expected market conditions, we accelerated depreciation on certain classes of vehicles expected to be sold through 2010. The impact of this change increased depreciation by $10 million in 2009. The residual value and useful life review in 2008 did not significantly impact earnings compared to 2007.

9. OPERATING PROPERTY AND EQUIPMENT

	Estimated Useful Lives (In years)	December 31 2009	2008
		(In thousands)	
Land		$ **161,300**	147,245
Buildings and improvements	10 40	**647,128**	622,894
Machinery and equipment	3 10	**481,603**	499,444
Other	3 10	**109,536**	119,660
		1,399,567	1,389,243
Accumulated depreciation		**(855,657)**	(842,427)
Total		$ **543,910**	546,816

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RYDER SYSTEM, INC. AND SUBSIDIARIES
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10. GOODWILL

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

	Fleet Management Solutions	Supply Chain Solutions	Dedicated Contract Carriage	Total
		(In thousands)		
Balance at January 1, 2008				
Goodwill	$ 135,550	45,019	4,900	185,469
Accumulated impairment losses[1]		(18,899)		(18,899)
	135,550	26,120	4,900	166,570
Acquisition[2]	60,034	2,656		62,690
Impairment losses	(10,322)	(10,938)		(21,260)
Foreign currency translation adjustment	(5,758)	(3,989)		(9,747)
Balance at December 31, 2008				
Goodwill	189,826	43,686	4,900	238,412
Accumulated impairment losses	(10,322)	(29,837)		(40,159)
	179,504	13,849	4,900	198,253
Acquisitions[2]	**14,871**	**1,365**		**16,236**
Foreign currency translation adjustment	**1,388**	**567**		**1,955**
Balance at December 31, 2009[3]				
Goodwill	**206,085**	**34,680**	**4,900**	**245,665**
Accumulated impairment losses	**(10,322)**	**(18,899)**		**(29,221)**
	$ 195,763	**15,781**	**4,900**	**216,444**

(1) *Accumulated impairment losses were calculated from January 1, 2002, which was the adoption date for the accounting guidance on goodwill impairment, through January 1, 2008.*

(2) *See Note 3, Acquisitions, for additional information on acquisitions and purchase price adjustments.*

(3)

Adjusted for write-off of SCS UK goodwill and accumulated impairment loss upon discontinuance of operations in 2009.

On April 1st of this year, we completed our annual goodwill impairment test and determined there was no impairment. However, based on market conditions in the fourth quarter of 2008 and our decision to exit certain contracts in SCS Europe we performed an interim impairment test as of December 31, 2008. We determined that goodwill associated with our U.K. reporting units was impaired and we recorded an impairment charge of $21 million for all goodwill in the U.K. as of December 31, 2008. The impairment charge for the FMS UK goodwill was recorded within Restructuring and other charges, net in our Consolidated Statements of Earnings and the impairment charge for the SCS UK goodwill was recorded within (Loss) earnings from discontinued operations, net of tax in our Consolidated Statements of Earnings.

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11. INTANGIBLE ASSETS

	December 31	
	2009	2008
	(In thousands)	
Indefinite lived intangible assets Trade name	$ **9,084**	9,084
Finite lived intangible assets:		
Customer relationship intangibles	**37,497**	33,470
Accumulated amortization	**(8,252)**	(5,027)
	29,245	28,443
Foreign currency translation adjustment	**791**	(822)
Total	$ **39,120**	36,705

The Ryder trade name has been identified as having an indefinite useful life. Customer relationship intangibles are being amortized on a straight-line basis over their estimated useful lives, generally 10-15 years. We recorded amortization expense associated with finite lived intangible assets of approximately $3 million in 2009, $2 million in 2008 and $1 million in 2007. The future amortization expense for each of the five succeeding years related to all intangible assets that are currently recorded in the Consolidated Balance Sheets is estimated to be as follows at December 31, 2009:

	(In thousands)
2010	**$ 3,233**
2011	**3,056**
2012	**3,056**
2013	**3,056**
2014	**2,248**
Total	**$ 14,649**

12. DIRECT FINANCING LEASES AND OTHER ASSETS

	December 31	
	2009	2008
	(In thousands)	

Direct financing leases, net	**$ 285,273**	285,506
Investments held in Rabbi Trusts	**19,686**	16,950
Insurance receivables	**13,300**	10,401
Debt issuance costs	**17,009**	11,731
Prepaid pension asset	**10,588**	5,270
Contract incentives	**21,776**	21,896
Swap agreement	**12,101**	18,391
Other	**21,591**	14,784
Total	**$ 401,324**	384,929

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RYDER SYSTEM, INC. AND SUBSIDIARIES
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13. ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31, 2009			December 31, 2008		
	Accrued Expenses	**Non-Current Liabilities**	**Total**	Accrued Expenses	Non-Current Liabilities	Total
			(In thousands)			
Salaries and wages	**$ 45,349**		**45,349**	69,697		69,697
Deferred compensation	**5,068**	**16,970**	**22,038**	1,453	18,050	19,503
Pension benefits	**2,695**	**328,571**	**331,266**	2,501	504,714	507,215
Other postretirement benefits	**3,214**	**46,115**	**49,329**	3,350	43,027	46,377
Employee benefits	**2,346**		**2,346**	5,185		5,185
Insurance obligations(1)	**111,144**	**151,045**	**262,189**	109,167	164,372	273,539
Residual value guarantees	**2,177**	**1,872**	**4,049**	651	1,738	2,389
Vehicle rent	**129**	**8,568**	**8,697**	16,680	7,167	23,847
Deferred vehicle gains	**790**	**2,259**	**3,049**	808	3,120	3,928
Environmental liabilities	**5,285**	**9,578**	**14,863**	3,848	11,623	15,471
Asset retirement obligations	**4,881**	**11,435**	**16,316**	4,544	11,146	15,690
Operating taxes	**70,370**		**70,370**	73,280		73,280
Income taxes	**459**	**73,311**	**73,770**	4,183	52,700	56,883
Restructuring	**1,114**	**128**	**1,242**	29,857	166	30,023
Interest	**29,123**		**29,123**	34,547		34,547
Customer deposits	**29,511**		**29,511**	27,017		27,017
Foreign exchange contracts				607		607
Other	**41,290**	**31,761**	**73,051**	44,445	19,457	63,902
Total	**$ 354,945**	**681,613**	**1,036,558**	431,820	837,280	1,269,100

(1) Insurance obligations are comprised primarily of self-insurance accruals.

We retain a portion of the accident risk under vehicle liability and workers compensation insurance programs. Self-insurance accruals are based primarily on actuarially estimated, undiscounted cost of claims, and include claims incurred but not reported. Such liabilities are based on estimates. Historical loss development factors are utilized to project the future development of incurred losses, and these amounts are adjusted based upon actual claim experience and settlements. While we believe the amounts are adequate, there can be no assurance that changes to our estimates may not occur due to limitations inherent in the estimation process. In recent years, our development has been favorable compared with historical selected loss development factors because of improved safety performance, payment patterns and settlement patterns. During 2009, 2008 and 2007, we recorded a benefit of $1 million, $23 million, and $24 million, respectively, within Operating expense in our Consolidated Statements of Earnings, to reduce estimated prior years self-insured loss reserves for the reasons noted above.

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RYDER SYSTEM, INC. AND SUBSIDIARIES
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14. INCOME TAXES

The components of earnings from continuing operations before income taxes and the provision for income taxes from continuing operations were as follows:

	Years ended December 31		
	2009	2008	2007
	(In thousands)		
Earnings from continuing operations before income taxes:			
United States	$ **132,235**	352,180	356,155
Foreign	**11,534**	57,108	46,049
Total	$ **143,769**	409,288	402,204
Current tax (benefit) expense from continuing operations:			
Federal[1]	$ **(44,832)**	1,084	58,225
State[1]	**6,037**	4,444	9,348
Foreign	**(236)**	17,381	18,654
	(39,031)	22,909	86,227
Deferred tax expense (benefit) from continuing operations:			
Federal	**90,433**	114,778	64,412
State	**2,736**	11,776	10,424
Foreign	**(486)**	2,246	(10,638)
	92,683	128,800	64,198
Provision for income taxes from continuing operations:	$ **53,652**	151,709	150,425

(1) Excludes federal and state tax benefits resulting from the exercise of stock options and vesting of restricted stock awards, which were credited directly to Additional paid-in capital and excludes federal and state tax benefits resulting from the expiration of a cross-currency swap in 2007, which was credited directly to Accumulated other comprehensive loss.

A reconciliation of the federal statutory tax rate with the effective tax rate from continuing operations follows:

Years ended December 31		
2009	2008	2007

	(Percentage of pre-tax earnings)		
Federal statutory tax rate	**35.0**	35.0	35.0
Impact on deferred taxes for changes in tax rates	**(3.7)**	(0.6)	(1.4)
State income taxes, net of federal income tax benefit	**6.0**	4.0	3.7
Tax reviews and audits	**(2.8)**	(2.7)	(0.8)
Restructuring and other charges, net	**1.7**	1.1	
Miscellaneous items, net	**1.1**	0.3	0.9
Effective tax rate	**37.3**	37.1	37.4

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Tax Law Changes

The effects of changes in tax laws on deferred tax balances are recognized in the period the new legislation is enacted. The following provides a summary of the impact of changes in tax laws on net earnings from continuing operations and net earnings per diluted common share from continuing operations by tax jurisdiction:

Tax Jurisdiction	Enactment Date	Net Earnings (In thousands)	Diluted Earnings Per Share
2009			
Ontario, Canada	**December 15, 2009**	**$ 4,100**	**$ 0.07**
State of Wisconsin	**February 19, 2009**	**$ 513**	**$ 0.01**
2008			
State of Massachusetts	July 2, 2008	$ 1,759	$ 0.03
2007			
Canada	December 14, 2007	$ 3,837	$ 0.06
State of Maryland	November 19, 2007	$ (504)	$ (0.01)
United Kingdom	July 19, 2007	$ 810	$ 0.01
State of New York	April 1, 2007	$ 970	$ 0.02

Deferred Income Taxes

The components of the net deferred income tax liability were as follows:

	December 31 **2009**	2008
	(In thousands)	
Deferred income tax assets:		
Self-insurance accruals	$ **33,139**	50,999
Net operating loss carryforwards	**69,807**	69,251
Alternative minimum taxes	**9,679**	12,493
Accrued compensation and benefits	**38,024**	36,367
Federal benefit on state tax positions	**17,987**	16,203
Pension benefits	**121,115**	186,507
Miscellaneous other accruals	**30,143**	33,644
	319,894	405,464
Valuation allowance	**(36,573)**	(34,549)

	283,321	370,915
Deferred income tax liabilities:		
Property and equipment bases difference	**(1,292,691)**	(1,254,567)
Other items	**(13,714)**	(11,980)
	(1,306,405)	(1,266,547)
Net deferred income tax liability[1]	**$ (1,023,084)**	(895,632)

(1) Deferred tax assets of $13 million and $22 million have been included in Prepaid expenses and other current assets at December 31, 2009 and 2008, respectively.

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

We do not provide for U.S. deferred income taxes on temporary differences related to our foreign investments that are considered permanent in duration. These temporary differences consist primarily of undistributed foreign earnings of $429 million at December 31, 2009. A full foreign tax provision has been made on these undistributed foreign earnings. Determination of the amount of deferred taxes on these temporary differences is not practicable due to foreign tax credits and exclusions.

At December 31, 2009, various U.S. subsidiaries have state net operating loss carryforwards of $39 million expiring through tax year 2029. We also have foreign net operating losses of $31 million that are available to reduce future income tax payments in several countries, subject to varying expiration rules. We had unused alternative minimum tax credits, for tax purposes, of $10 million at December 31, 2009 available to reduce future income tax liabilities. The alternative minimum tax credits may be carried forward indefinitely. A valuation allowance has been established to reduce deferred income tax assets, principally foreign tax loss carryforwards to amounts more likely than not to be realized.

Uncertain Tax Positions

We are subject to tax audits in numerous jurisdictions in the U.S. and around the world. Tax audits by their very nature are often complex and can require several years to complete. In the normal course of business, we are subject to challenges from the Internal Revenue Service (IRS) and other tax authorities regarding amounts of taxes due. These challenges may alter the timing or amount of taxable income or deductions, or the allocation of income among tax jurisdictions. As part of our calculation of the provision for income taxes on earnings, we determine whether the benefits of our tax positions are at least more likely than not of being sustained upon audit based on the technical merits of the tax position. For tax positions that are more likely than not of being sustained upon audit, we accrue the largest amount of the benefit that is more likely than not of being sustained in our Consolidated Financial Statements. Such accruals require management to make estimates and judgments with respect to the ultimate outcome of a tax audit. Actual results could vary materially from these estimates.

The following is a summary of tax years that are no longer subject to examination:

Federal audits of our U.S. federal income tax returns are closed through fiscal year 2006. In the first quarter of 2009, the IRS completed their examination of our U.S. income tax returns for 2004 through 2006. The statute of limitations for the 2006 years will expire on September 15, 2010.

State for the majority of states, we are no longer subject to tax examinations by tax authorities for tax years before 2006.

Foreign we are no longer subject to foreign tax examinations by tax authorities for tax years before 2001 in Canada and Brazil, and 2003 and 2007 in Mexico and the U.K., respectively, which are our major foreign tax jurisdictions. In Brazil, we were assessed $15 million, including penalties and interest, related to the tax due on the sale of our outbound auto carriage business in 2001. We believe it is more likely than not that our tax position will ultimately be sustained and no amounts have been reserved for this matter.

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

The following table summarizes the activity related to unrecognized tax benefits (excluding the federal benefit received from state positions):

	December 31		
	2009	2008	2007
	(In thousands)		
Balance at January 1	**$ 51,741**	65,306	65,415
Additions based on tax positions related to the current year	**12,422**	6,840	5,571
Additions for tax positions of prior years	**9,615**		772
Reductions for tax positions of prior years		(11,296)	(4,637)
Settlements	**(1,995)**	(1,664)	
Reductions due to lapse of applicable statute of limitations	**(2,289)**	(7,445)	(1,815)
Gross balance at December 31	**69,494**	51,741	65,306
Interest and penalties	**6,709**	3,996	9,792
Balance at December 31	**$ 76,203**	55,737	75,098

Of the total unrecognized tax benefits, $58 million (net of the federal benefit on state issues) represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate in future periods. The total amount of accrued interest and penalties, net of the federal benefit on state issues, resulting from such unrecognized tax benefits was $6 million and $4 million at December 31, 2009 and 2008, respectively. For the years ended December 31, 2009, 2008 and 2007, we recognized an income tax benefit related to interest and penalties of $0.6 million, $2 million and $0.1 million, respectively, within Provision for income taxes in our Consolidated Statements of Earnings. Unrecognized tax benefits related to federal, state and foreign tax positions may decrease by $2 million by December 31, 2010, if audits are completed or tax years close during 2010.

Like-Kind Exchange Program

We have a like-kind exchange program for certain of our revenue earning equipment operating in the U.S. Pursuant to the program, we dispose of vehicles and acquire replacement vehicles in a form whereby tax gains on disposal of eligible vehicles are deferred. To qualify for like-kind exchange treatment, we exchange, through a qualified intermediary, eligible vehicles being disposed of with vehicles being acquired allowing us to generally carryover the tax basis of the vehicles sold (like-kind exchanges). The program is expected to result in a material deferral of federal and state income taxes. As part of the program, the proceeds from the sale of eligible vehicles are restricted for the acquisition of replacement vehicles and other specified applications. Due to the structure utilized to facilitate the like-kind exchanges, the qualified intermediary that holds the proceeds from the sales of eligible vehicles and the entity that holds the vehicles to be acquired under the program are required to be consolidated in the accompanying Consolidated Financial Statements in accordance with U.S. GAAP. At December 31, 2009 and 2008, these consolidated entities had total assets of $29 million and $70 million, respectively.

15. LEASES

Leases as Lessor

We lease revenue earning equipment to customers for periods generally ranging from three to seven years for trucks and tractors and up to ten years for trailers. From time to time, we may also lease facilities to third parties. The majority of our leases are classified as operating leases. However, some of our revenue earning

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RYDER SYSTEM, INC. AND SUBSIDIARIES
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equipment leases are classified as direct financing leases and, to a lesser extent, sales-type leases. The net investment in direct financing and sales-type leases consisted of:

	December 31	
	2009	2008
	(In thousands)	
Total minimum lease payments receivable	$ **582,532**	602,577
Less: Executory costs	**(189,057)**	(204,601)
Minimum lease payments receivable	**393,475**	397,976
Less: Allowance for uncollectibles	**(813)**	(4,724)
Net minimum lease payments receivable	**392,662**	393,252
Unguaranteed residuals	**59,049**	58,989
Less: Unearned income	**(98,142)**	(97,215)
Net investment in direct financing and sales-type leases	**353,569**	355,026
Current portion	**(68,296)**	(69,520)
Non-current portion	$ **285,273**	285,506

Leases as Lessee

We lease vehicles, facilities and office equipment under operating lease agreements. Rental payments on certain vehicle lease agreements vary based on the number of miles run during the period. Generally, vehicle lease agreements specify that rental payments be adjusted periodically based on changes in interest rates and provide for early termination at stipulated values. None of our leasing arrangements contain restrictive financial covenants.

We periodically enter into sale and leaseback transactions in order to lower the total cost of funding our operations, to diversify our funding among different classes of investors (e.g., regional banks, pension plans, insurance companies, etc.) and to diversify our funding among different types of funding instruments. These sale-leaseback transactions are often executed with third-party financial institutions. In general, these sale-leaseback transactions result in a reduction in revenue earning equipment and debt on the balance sheet, as proceeds from the sale of revenue earning equipment are used primarily to repay debt. Sale-leaseback transactions will result in reduced depreciation and interest expense and increased equipment rental expense. During 2007, we completed a sale-leaseback transaction of revenue earning equipment with a third-party and this transaction qualified for off-balance sheet operating lease treatment. Proceeds from the sale-leaseback transaction totaled $150 million. This lease contains limited guarantees by us of the residual values of the leased vehicles (residual value guarantees) that are conditioned upon disposal of the leased vehicles prior to the end of their lease term. We did not enter into any sale-leaseback transactions during 2009 and 2008.

Certain leases contain purchase and (or) renewal options, as well as limited guarantees for a portion of the lessor s residual value. The residual value guarantees are conditional on termination of the lease prior to its contractual lease

term. The amount of residual value guarantees expected to be paid is recognized as rent expense over the expected remaining term of the lease. Facts and circumstances that impact management s estimates of residual value guarantees include the market for used equipment, the condition of the equipment at the end of the lease and inherent limitations in the estimation process. See Note 19, Guarantees, for additional information.

During 2009, 2008 and 2007, rent expense (including rent of facilities classified within Operating expense, in our Consolidated Statements of Earnings but excluding contingent rentals) was $163 million, $171 million, and $173 million, respectively. During 2009, 2008 and 2007 contingent rental expense (income) comprised of residual value guarantees, payments based on miles run and adjustments to rental payments for

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RYDER SYSTEM, INC. AND SUBSIDIARIES
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changes in interest rates on all other leased vehicles were $(2) million, $(1) million and $2 million, respectively.

Lease Payments

Future minimum payments for leases in effect at December 31, 2009 were as follows:

	As Lessor[(1)]		As Lessee
	Operating Leases	Direct Financing Leases	Operating Leases
		(In thousands)	
2010	**$ 1,251,376**	**135,064**	**79,234**
2011	**982,272**	**114,134**	**100,338**
2012	**684,694**	**97,583**	**49,405**
2013	**411,772**	**78,391**	**34,594**
2014	**215,836**	**62,747**	**40,763**
Thereafter	**149,272**	**94,613**	**34,041**
Total	**$ 3,695,222**	**582,532**	**338,375**

(1) Amounts do not include contingent rentals, which may be received under certain leases on the basis of miles of use or changes in the Consumer Price Index. Contingent rentals from operating leases included in revenue during 2009, 2008 and 2007 were $326 million, $354 million and $383 million, respectively. Contingent rentals from direct financing leases included in revenue during 2009, 2008 and 2007 were $13 million, $14 million and $16 million, respectively.

The amounts in the previous table related to the lease of revenue earning equipment are based upon the general assumption that revenue earning equipment will remain on lease for the length of time specified by the respective lease agreements. The future minimum payments presented above related to the lease of revenue earning equipment are not a projection of future lease revenue or expense; no effect has been given to renewals, new business, cancellations, contingent rentals or future rate changes. Total future sublease rentals from revenue earning equipment under operating leases as lessee of $125 million are included within the future minimum rental payments for operating leases as lessor.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. DEBT

	Weighted-Average Interest Rate December 31			December 31		
	2009	2008	**Maturities**	**2009**		2008
				(In thousands)		
Short-term debt and current portion of long-term debt:						
Unsecured foreign obligations	**6.98%**	9.03%	**2010**	**$**	**5,369**	14,635
Trade receivables program	**%**	2.77%				190,000
Current portion of long-term debt, including capital leases					**227,248**	179,627
Total short-term debt and current portion of long-term debt					**232,617**	384,262
Long-term debt:						
U.S. commercial paper [1],[2]	**0.43%**	3.63%	**2012**		**191,934**	34,804
Canadian commercial paper [1],[2]	**%**	2.80%				8,283
Unsecured U.S. notes Medium-term notes[1]	**5.89%**	5.73%	**2010-2025**		**2,032,344**	2,306,751
Unsecured U.S. obligations, principally bank term loans	**1.45%**	3.40%	**2010-2013**		**132,150**	157,150
Unsecured foreign obligations	**5.22%**	5.07%	**2010-2012**		**112,782**	120,944
Capital lease obligations	**8.26%**	9.31%	**2010-2017**		**11,011**	11,841
Total before fair market value adjustment					**2,480,221**	2,639,773
Fair market value adjustment on notes subject to hedging[3]					**12,101**	18,391
					2,492,322	2,658,164
Current portion of long-term debt, including capital leases					**(227,248)**	(179,627)
Long-term debt					**2,265,074**	2,478,537
Total debt				**$**	**2,497,691**	2,862,799

(1) We had unamortized original issue discounts of $12 million at both December 31, 2009 and 2008.

(2) Commercial paper borrowings are supported by the long-term revolving credit facility; therefore, we have classified the commercial paper as long-term debt.

(3) The notional amount of executed interest rate swaps designated as fair value hedges was $250 million at both December 31, 2009 and 2008.

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

Maturities of debt were as follows:

	Capital Leases	Debt
	(In thousands)	
2010	**$ 2,676**	**230,752**
2011	**2,297**	**419,448**
2012	**2,223**	**452,547**
2013	**2,036**	**361,784**
2014	**2,030**	**249,979**
Thereafter	**2,486**	**772,170**
Total	**13,748**	**2,486,680**
Imputed interest	**(2,737)**	
Present value of minimum capitalized lease payments	**11,011**	
Current portion	**(1,865)**	
Long-term capitalized lease obligation	**$ 9,146**	

Debt Facilities

In April 2009, we executed a new $875 million global revolving credit facility with a syndicate of thirteen lending institutions led by Bank of America N.A., Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Corporate Bank, Ltd., Royal Bank of Scotland Plc and Wells Fargo N.A. This facility replaced a $870 million credit facility that was scheduled to mature in May 2010. The new global credit facility matures in April 2012 and is used primarily to finance working capital and provide support for the issuance of unsecured commercial paper in the U.S. and Canada. This facility can also be used to issue up to $75 million in letters of credit (there were no letters of credit outstanding against the facility at December 31, 2009). 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 s current annual facility fee is 37.5 basis points, which applies to the total facility size of $875 million. This fee ranges from 22.5 basis points to 62.5 basis points and is based on Ryder s long-term credit ratings. The credit facility contains no provisions limiting its availability in the event of a material adverse change to Ryder s business operations; however, the credit facility does contain standard representations and warranties, events of default, cross-default provisions, and certain affirmative and negative covenants. In order to maintain availability of funding, we must maintain a ratio of debt to consolidated tangible net worth, of less than or equal to 300%. Tangible net worth, as defined in the credit facility, includes 50% of our deferred federal income tax liability and excludes the book value of our intangibles. The ratio at December 31, 2009 was 155%. At December 31, 2009, $681 million was available under the credit facility.

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 may sell, on a revolving

basis, an ownership interest in certain of these accounts receivable to a receivables conduit or committed purchasers. 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. In October 2009, we renewed the trade receivables purchase and sale program. The available proceeds amount that may be received under the program was reduced at that time from $250 million to $175 million at our election based on our projected financing requirements. If no event occurs which causes early termination, the 364-day program will expire on October 29, 2010. The program contains provisions restricting its availability in the event of a material adverse change to our business operations or the collectibility of the collateralized receivables. At December 31, 2009, no amounts were outstanding under the program. At December 31, 2008, $190 million was outstanding under the program and was included within

Short-term debt and current portion

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of long-term debt on our Consolidated Balance Sheets. At December 31, 2008, the amount of collateralized receivables under the program was $210 million.

In August 2008, we issued $300 million of unsecured medium-term notes maturing in September 2015. If the notes are downgraded following, and as a result of, a change of control, the note holder can require us to repurchase all or a portion of the notes at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. Our other outstanding unsecured U.S. notes are not subject to change of control repurchase obligations. In February 2008, we issued $250 million of unsecured medium-term notes maturing in March 2013. The proceeds from the notes were used for general corporate purposes.

In February 2007, Ryder filed an automatic shelf registration statement on Form S-3 with the Securities and Exchange Commission. 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.

Debt Retirements

In September 2009, we completed a $100 million debt tender offer at a total cost of $104 million. We purchased $50 million aggregate principal amount of outstanding 5.95% medium-term notes maturing May 2011 and $50 million aggregate principal amount of outstanding 4.625% medium-term notes maturing April 2010. We recorded a pre-tax debt extinguishment charge of $4 million which included $3 million for the premium paid and $1 million for the write-off of unamortized original debt discount and issuance costs and fees on the transaction. These charges have been included within Restructuring and other charges, net.

In 1987, we issued at a discount $100 million principal amount of unsecured debentures due May 2017 at a stated interest rate of 97/8%, payable semi-annually. In 1986, we issued at a discount $100 million principal amount of unsecured debentures due May 2016, with a stated interest rate of 9.0%, payable semi-annually. During 2007, we retired the remaining $53 million principal amount of the 2017 debentures at a premium. Also during 2007, we made a sinking fund payment to retire the remaining $10 million principal amount of the 2016 debentures. We recognized pre-tax charges of $1 million in 2007 related to the premium paid on the early extinguishment and the write-off of related debt discount and issuance costs in connection with these retirements. These charges have been included within Restructuring and other charges, net.

17. FAIR VALUE MEASUREMENTS

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

		Fair Value Measurements At December 31, 2009 Using			
	Balance Sheet Location	**Level 1**	**Level 2**	**Level 3**	**Total**
			(In thousands)		

Assets:				
Investments held in Rabbi Trusts	DFL and other assets	**$ 19,686**		**19,686**
Interest rate swap	DFL and other assets		**12,101**	**12,101**
Total assets at fair value		**$ 19,686**	**12,101**	**31,787**

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	Balance Sheet Location	Fair Value Measurements At December 31, 2008 Using Level 1	Level 2	Level 3	Total
			(In thousands)		
Assets:					
Investments held in Rabbi Trusts	DFL and other assets	$ 16,950			16,950
Interest rate swap	DFL and other assets		18,391		18,391
Total assets at fair value		$ 16,950	18,391		35,341
Liabilities:					
Foreign exchange contracts	Accrued expenses	$	607		607
Total liabilities at fair value		$	607		607

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

	Fair Value Measurements At December 31, 2009 Using Level 1	Level 2	Level 3	Total Losses(1) December 31, 2009
Assets:				
Revenue earning equipment held for sale	$		**44,276**	**$ 52,284**
Operating property and equipment held for sale			**8,753**	**6,676**
Total assets at fair value	$		**53,029**	**$ 58,960**

(1) *Total losses represent fair value adjustments for all vehicles and property 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. For revenue earning equipment held for sale, we stratify our fleet by vehicle type (tractors, trucks, 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. At December 31, 2009, the net carrying value of revenue earning equipment held for sale was $79 million, of which $44 million was recorded at fair value less costs to sell of $0.8 million. In 2009, 2008 and 2007, we recorded a loss to reflect changes in fair value of $52 million, $29 million and $42 million, respectively, within Depreciation expense in the Consolidated Statements of Earnings.

Operating property and equipment held for sale represents a SCS facility in Singapore for which the carrying amount was required to be written down to fair value of $9 million, resulting in an impairment loss of $7 million. Fair value was based on an appraisal of the facility determined using observable market data and adjusted for recent offers. Therefore, our operating property and equipment held for sale is classified within Level 3 of the fair value hierarchy.

Total fair value of debt at December 31, 2009 and 2008 was $2.60 billion and $2.55 billion, respectively. For publicly-traded debt, estimates of fair value are based on market prices. For other debt, fair value is estimated based on rates currently available to us for debt with similar terms and remaining maturities. The carrying amounts reported in the Consolidated Balance Sheets for cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the immediate or short-term maturities of these financial instruments.

RYDER SYSTEM, INC. AND SUBSIDIARIES
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18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Interest Rate Risk

From time to time, we enter into interest rate swap and cap agreements to manage our fixed and variable interest rate exposure and to better match the repricing of debt instruments to that of our portfolio of assets. We assess the risk that changes in interest rates will have either on the fair value of debt obligations or on the amount of future interest payments by monitoring changes in interest rate exposures and by evaluating hedging opportunities. We regularly monitor interest rate risk attributable to both our outstanding or forecasted debt obligations as well as our offsetting hedge positions. This risk management process involves the use of analytical techniques, including cash flow sensitivity analysis, to estimate the expected impact of changes in interest rates on our future cash flows.

In February 2008, we entered into an interest rate swap with a notional amount of $250 million maturing in March 2013. The swap was designated as a fair value hedge whereby we receive fixed interest rate payments in exchange for making variable interest rate payments. The differential to be paid or received is accrued and recognized as interest expense. The interest rate swap agreement effectively changed $250 million of fixed-rate debt with an interest rate of 6.00% to LIBOR-based floating-rate debt at a rate of 2.90% and 5.25% at December 31, 2009 and 2008, respectively. Changes in the fair value of the interest rate swap are offset by changes in the fair value of the debt instrument. Accordingly, there is no ineffectiveness related to the interest rate swap.

Currency Risk

From time to time, we use forward foreign currency exchange contracts and cross-currency swaps to manage our exposure to movements in foreign currency exchange rates.

During 2009 and 2008, we entered into forward foreign currency exchange contracts to mitigate the risk of foreign currency movements on intercompany transactions. At December 31, 2009, there were no forward foreign currency exchange contracts outstanding. At December 31, 2008, the aggregate notional value of the outstanding contracts was $13 million. These forward foreign currency exchange contracts were accounted for as cash flow hedges. The fair values of the forward foreign currency exchange contracts were recognized as an adjustment to Accumulated other comprehensive loss. Amounts reclassified to earnings from Accumulated other comprehensive loss were immaterial.

During 2002, we entered into a five-year $78 million cross-currency swap to hedge our net investment in a foreign subsidiary. The swap matured in November 2007. The hedge was effective in eliminating the risk of foreign currency movements on the investment and, as such, was accounted for under the net investment hedging rules. Losses associated with changes in the fair value of the cross-currency swap for the year ended December 31, 2007 were $6 million and were reflected in the currency translation adjustment within Accumulated other comprehensive loss. The accumulated derivative net loss for the cross-currency swap was $17 million, net of tax of $9 million, and will be recognized in earnings upon sale or repatriation of our net investment in the foreign subsidiary. By rule, interest costs associated with the cross-currency swap were required to be reflected in Accumulated other comprehensive loss and totaled $4 million at December 31, 2009. These interest costs will also be recognized in earnings upon sale or repatriation of our net investment in the foreign subsidiary.

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The location and amount of gains (losses) on derivative instruments and related hedged items reported in the Consolidated Statements of Earnings were as follows:

Fair Value Hedging Relationship	Location of Gain (Loss) Recognized in Income	**2009**	December 31 2008	2007
			(In thousands)	
Derivative: Interest rate swap	Interest expense	**$ (6,290)**	18,391	(96)
Hedged item: Fixed-rate debt	Interest expense	**6,290**	(18,391)	96
Total		**$**		

19. GUARANTEES

We have executed various agreements with third parties that contain standard indemnifications that may require us to indemnify a third party against losses arising from a variety of matters such as lease obligations, financing agreements, environmental matters, and agreements to sell business assets. In each of these instances, payment by Ryder is contingent on the other party bringing about a claim under the procedures outlined in the specific agreement. Normally, these procedures allow us to dispute the other party s claim. Additionally, our obligations under these agreements may be limited in terms of the amount and (or) timing of any claim. We have entered into individual indemnification agreements with each of our independent directors, through which we will indemnify such director acting in good faith against any and all losses, expenses and liabilities arising out of such director s service as a director of Ryder. The maximum amount of potential future payments under these agreements is generally unlimited.

We cannot predict the maximum potential amount of future payments under certain of these agreements, including the indemnification agreements, due to the contingent nature of the potential obligations and the distinctive provisions that are involved in each individual agreement. Historically, no such payments made by us have had a material adverse effect on our business. We believe that if a loss were incurred in any of these matters, the loss would not have a material adverse impact on our consolidated results of operations or financial position.

At December 31, 2009 and 2008, the maximum determinable exposure of each type of guarantee and the corresponding liability, if any, recorded on the Consolidated Balance Sheets were as follows:

Guarantee	**December 31, 2009** Maximum Exposure of Guarantee	Carrying Amount of Liability	December 31, 2008 Maximum Exposure of Guarantee	Carrying Amount of Liability
		(In thousands)		
	$ 2,285	**1,255**	2,332	935

Vehicle residual value guarantees finance lease programs[1]				
Used vehicle financing	**1,595**	**104**	4,162	472
Standby letters of credit	**7,506**	**7,527**	7,778	
Total	**$ 11,386**	**8,886**	14,272	1,407

(1) Amounts exclude contingent rentals associated with residual value guarantees on certain vehicles held under operating leases for which the guarantees are conditioned upon disposal of the leased vehicles prior to the end of their lease term. At December 31, 2009 and 2008, our maximum exposure for such guarantees was approximately $159 million and $200 million, respectively, with $4 million and $2 million recorded as a liability at 2009 and 2008, respectively.

We have provided vehicle residual value guarantees to independent third parties for certain finance lease programs made available to customers. If the sales proceeds from the final disposition of the assets are less than the residual value guarantee, we are required to pay the difference to the independent third party. The

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RYDER SYSTEM, INC. AND SUBSIDIARIES
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individual customer finance leases expire periodically through 2017 but may be extended at the end of each lease term. At both December 31, 2009 and 2008, our maximum exposure for such guarantees was approximately $2 million, with $1 million recorded as a liability in both 2009 and 2008.

We maintain agreements with independent third parties for the financing of used vehicle purchases by customers. Certain agreements require that we provide financial guarantees on defaulted customer contracts up to a maximum exposure amount. The individual used vehicle purchase contracts expire periodically through 2012. At December 31, 2009 and 2008, our maximum exposure for such guarantees was approximately $2 million and $4 million, respectively, with approximately $0.1 million and $0.5 million recorded as a liability at December 31, 2009 and 2008, respectively.

At December 31, 2009 and 2008, we had letters of credit and surety bonds outstanding, which primarily guarantee various insurance activities as noted in the following table:

	December 31	
	2009	2008
	(In thousands)	
Letters of credit	**$ 179,507**	199,643
Surety bonds	**83,231**	49,523

Certain of these letters of credit and surety bonds guarantee insurance activities associated with insurance claim liabilities transferred in conjunction with the sale of our automotive transport business, reported as discontinued operations in previous years. To date, the insurance claims representing per-claim deductibles payable under third-party insurance policies have been paid and continue to be paid by the company that assumed such liabilities. However, if all or a portion of the estimated outstanding assumed claims of approximately $8 million at December 31, 2009 are unable to be paid, the third-party insurers may have recourse against certain of the outstanding letters of credit provided by Ryder in order to satisfy the unpaid claim deductibles. In order to reduce our potential exposure to these claims, during 2009 we drew upon an $8 million outstanding letter of credit provided by the purchaser and recorded a deposit and corresponding liability at December 31, 2009. Periodically, an actuarial valuation will be made in order to better estimate the amount of outstanding insurance claim liabilities.

20. SHAREHOLDERS EQUITY

In December 2009, 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 2009 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, 2009 through December 15, 2011. The December 2009 program limits aggregate share repurchases to no more than 2 million shares of Ryder common stock. Share repurchases of common stock are made periodically in open-market transactions and are subject to market conditions, legal requirements and other factors. Management may establish prearranged written plans for the Company under Rule 10b5-1 of the Securities Exchange Act of 1934 as part of the December 2009 program, which allow for share repurchases during Ryder s quarterly blackout periods as set forth in the trading plan. We did not repurchase any

shares under this program in 2009.

In December 2007, our Board of Directors authorized a $300 million discretionary share repurchase program over a period not to exceed two years. Additionally, our Board of Directors authorized a separate two-year anti-dilutive repurchase program. The anti-dilutive program limited aggregate share repurchases to no more than 2 million shares of Ryder common stock. Towards the end of the third quarter of 2008, we paused purchases under both programs given market conditions at that time. We resumed purchases under both programs in the fourth quarter of 2009 through the end of the programs two year terms. In 2009 and 2008,

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

we repurchased and retired 2,348,909 shares and 2,615,000 shares, respectively, under the $300 million program at an aggregate cost of $100 million and $170 million, respectively. In 2009 and 2008, we repurchased and retired 377,372 shares and 1,363,436 shares, respectively, under the anti-dilutive program at an aggregate cost of $16 million and $86 million, respectively.

In May 2007, our Board of Directors authorized a $200 million share repurchase program over a period not to exceed two years. This program was completed during the third quarter of 2007 and we repurchased and retired 3,713,783 shares at an aggregate cost of $200 million.

In May 2006, our Board of Directors authorized a two-year share repurchase program intended to mitigate the dilutive impact of shares issued under our various employee stock option and stock purchase plans. The May 2006 program limited aggregate share repurchases to no more than 2 million shares of Ryder common stock. This program was completed during the first quarter of 2007. In 2007, we repurchased and retired 168,715 shares under the May 2006 program at an aggregate cost of $9 million.

21. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	Currency Translation Adjustments	Net Actuarial Loss[1]	Prior Service Credit[1]	Transition Obligation[1]	Unrealized Gain (Loss) on Derivatives	Accumulated Other Comprehensive Loss
			(In thousands)			
January 1, 2007	$ 54,847	(216,470)	14,979	114	36	(146,494)
Amortization		13,280	(1,988)	(23)		11,269
Pension curtailment		10,510				10,510
Current period change[2]	62,051	31,839			(52)	93,838
December 31, 2007	116,898	(160,841)	12,991	91	(16)	(30,877)
Amortization		4,350	(1,765)	(21)		2,564
Pension curtailment		1,031	(2,318)			(1,287)
Current period change	(180,819)	(333,689)			(119)	(514,627)
December 31, 2008	(63,921)	(489,149)	8,908	70	(135)	(544,227)
Amortization		**15,855**	**(1,550)**	**(18)**		**14,287**
Pension curtailment		**(12,182)**	**124**			**(12,058)**
Realized currency translation loss, net[3]	**14,212**					**14,212**
Current period change	**82,687**	**66,031**			**149**	**148,867**

December 31, 2009	**$ 32,978**	**(419,445)**	**7,482**	**52**	**14**	**(378,919)**

(1) Amounts pertain to our pension and (or) postretirement benefit plans.

(2) The 2007 currency translation adjustment amount includes a $9 million tax benefit from the settlement of our cross-currency swap.

(3) Amount pertains to liquidation of our investments in several discontinued operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. EARNINGS PER SHARE INFORMATION

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

	Years ended December 31		
	2009	2008	2007
	(In thousands, except per share amounts)		
Earnings per share Basic:			
Earnings from continuing operations	**$ 90,117**	257,579	251,779
Less: Distributed and undistributed earnings allocated to nonvested stock	**(964)**	(2,353)	(1,570)
Earnings from continuing operations available to common shareholders Basic	**$ 89,153**	255,226	250,209
Weighted average common shares outstanding Basic	**55,035**	56,204	59,324
Earnings from continuing operations per common share Basic	**$ 1.62**	4.54	4.22
Earnings per share Diluted:			
Earnings from continuing operations	**$ 90,117**	257,579	251,779
Less: Distributed and undistributed earnings allocated to nonvested stock	**(964)**	(2,341)	(1,561)
Earnings from continuing operations available to common shareholders Diluted	**$ 89,153**	255,238	250,218
Weighted average common shares outstanding Basic	**55,035**	56,204	59,324
Effect of dilutive options	**59**	335	404
Weighted average common shares outstanding Diluted	**55,094**	56,539	59,728
Earnings from continuing operations per common share Diluted	**$ 1.62**	4.51	4.19
Anti-dilutive equity awards not included above	**2,632**	1,109	871

23. SHARE-BASED COMPENSATION PLANS

The following table provides information on share-based compensation expense and income tax benefits recognized in 2009, 2008 and 2007:

	Years ended December 31		
	2009	2008	2007
	(In thousands)		
Stock option and stock purchase plans	**$ 9,887**	10,617	9,717
Nonvested stock	**6,517**	6,459	7,037
Share-based compensation expense	**16,404**	17,076	16,754
Income tax benefit	**(5,412)**	(5,673)	(5,608)
Share-based compensation expense, net of tax	**$ 10,992**	11,403	11,146

Total unrecognized pre-tax compensation expense related to share-based compensation arrangements at December 31, 2009 was $22 million and is expected to be recognized over a weighted-average period of approximately 1.7 years. The total fair value of equity awards vested during the years ended December 31, 2009, 2008, and 2007 was $14 million, $14 million, and $15 million, respectively.

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

Share-Based Incentive Awards

Share-based incentive awards are provided to employees under the terms of six 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 and nonvested stock. The amount of shares authorized to be issued under the Plans was 8.0 million at December 31, 2009. There were 4.1 million unused shares available to be granted under the Plans as of December 31, 2009.

A majority of share-based compensation expense is generated from stock options. Stock options are awards which allow employees to purchase shares of our stock at a fixed price. Stock option awards are granted at an exercise price equal to the market price of our stock at the time of grant. These awards, which generally vest one-third each year, are fully vested three years from the grant date and generally have contractual terms of seven years.

Restricted stock awards are nonvested stock rights that are granted to employees and entitle the holder to shares of common stock as the award vests. Participants are entitled to non-forfeitable dividend equivalents on such awarded shares, but the sale or transfer of these shares is restricted during the vesting period. Time-vested restricted stock rights typically vest in three years regardless of company performance. The fair value of the time-vested awards is determined and fixed on the grant date based on Ryder s stock price on the date of grant. Market-based restricted stock awards include a market-based vesting provision. For the 2009 grant, employees only receive the grant of stock if Ryder s cumulative average total shareholder return (TSR) at least meets the S&P 500 cumulative average TSR over an applicable three-year period. For the grants issued prior to 2009, employees only receive the grant of stock if Ryder s total shareholder return (TSR) at least meets the S&P 500 TSR over an applicable three-year period. The fair value of the market-based awards is determined on the date of grant and is based on the likelihood of Ryder achieving the market-based condition. Expense on the market-based restricted stock awards is recognized regardless of whether the awards vest.

Employees granted market-based restricted stock rights also received market-based cash awards. The cash awards granted during 2009 and 2008 have the same vesting provisions as the market-based restricted stock rights except that Ryder s TSR must at least meet the TSR of the 33rd percentile of the S&P 500. The cash awards granted in 2007 are expected to approximate the amount of the tax liability relating to the vesting of the restricted stock awards and will vest on the same date as the market-based restricted stock awards. The cash awards are accounted for as liability awards as the cash settlement amount is based upon the price of our common stock. As a result, the liability is adjusted to reflect fair value at the end of each reporting period. The fair value of the cash awards was estimated using a lattice-based option pricing valuation model that incorporates a Monte-Carlo simulation. The liability related to the cash awards was $4 million at both December 31, 2009 and 2008. In addition to the share-based compensation expense noted in the previous table, we recognized compensation expense of $2 million, $3 million, and $0.1 million during the years ended December 31, 2009, 2008, and 2007, respectively, related to cash awards.

We grant restricted stock units (RSUs) to non-management members of the Board of Directors. Once granted, RSUs are eligible for non-forfeitable dividend equivalents but have no voting rights. The fair value of the awards is determined and fixed on the grant date based on Ryder s stock price on the date of grant. The board member receives the RSUs upon their departure from the Board. The initial grant of RSUs will not vest unless the director has served a minimum of one year. When the board member receives the RSUs, they are redeemed for an equivalent number of shares of Ryder s common stock. Compensation expense for RSUs was historically based on assumed years of service to retirement at age 72. However, because the RSUs do not contain an explicit service vesting period, except for the

initial grant, compensation expense should have been recognized in the year the RSUs were granted rather than over the assumed years of service. The one-time impact of accelerating the recognition of compensation expense on previously issued RSUs was a pre-tax charge of $2 million for 2007.

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Option Awards

The following is a summary of option activity under our stock option plans as of December 31, 2009, and changes during the year ended December 31, 2009:

	Shares (In thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Options outstanding at January 1	2,418	$ 47.34		
Granted	922	32.75		
Exercised	(96)	19.85		
Forfeited or expired	(215)	48.35		
Options outstanding at December 31	3,029	$ 43.70	4.3	$ 11,024
Vested and expected to vest at December 31	2,937	$ 44.04	4.2	$ 9,641
Exercisable at December 31	1,558	$ 45.00	3.0	$ 3,192

The aggregate intrinsic values in the table above represent the total pre-tax intrinsic value (the difference between the market price of Ryder s stock on the last trading day of the year and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options at year-end. The amount changes based on the fair market value of Ryder s stock.

Information about options in various price ranges at December 31, 2009 follows:

	Options Outstanding			Options Exercisable	
Price Ranges	Shares (In thousands)	Weighted-Average Remaining Contractual Term (In years)	Weighted-Average Exercise Price	Shares (In thousands)	Weighted-Average Exercise Price

Less than $35.00	**969**	**5.6**	**$**	**31.35**	**100**	**$**	**19.95**
35.00-40.00	**212**	**1.6**		**37.00**	**212**		**37.00**
40.00-45.00	**708**	**2.8**		**43.46**	**700**		**43.48**
45.00 and over	**1,140**	**4.6**		**55.46**	**546**		**54.64**
Total	**3,029**	**4.3**	**$**	**43.70**	**1,558**	**$**	**45.00**

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

Stock Awards

The following is a summary of the status of Ryder s nonvested stock awards as of December 31, 2009 and changes during the year ended December 31, 2009:

	Time-Vested		Market-Based Vested	
	Shares (In thousands)	Weighted-Average Grant Date Fair Value	Shares (In thousands)	Weighted-Average Grant Date Fair Value
Nonvested stock outstanding at January 1	276	$ 53.84	266	$ 36.55
Granted	60	32.44	201	16.49
Vested	(48)	51.82	(72)	25.59
Forfeited	(30)	52.87	(31)	33.40
Nonvested stock outstanding at December 31	258	$ 49.32	364	$ 29.13

Stock Purchase Plan

Ryder maintains an Employee Stock Purchase Plan (ESPP), which enables eligible participants in the U.S. and Canada to purchase full or fractional shares of Ryder common stock through payroll deductions of up to 15% of eligible compensation. The ESPP provides for quarterly offering periods during which shares may be purchased at 85% of the fair market value on either the first or the last trading day of the quarter, whichever is less. Stock purchased under the ESPP must generally be held for 90 days. The amount of shares authorized to be issued under the existing ESPP was 2.7 million at December 31, 2009. There were 0.3 million unused shares available to be granted under the ESPP at December 31, 2009.

The following table summarizes the status of Ryder s stock purchase plan:

	Shares (In thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1		$		

Granted	**239**	**25.42**		
Exercised	**(239)**	**25.42**		
Forfeited or expired				
Outstanding at December 31		**$**		**$**
Exercisable at December 31		**$**		**$**

Share-Based Compensation Fair Value Assumptions

The fair value of each option award is estimated on the date of grant using a Black-Scholes-Merton option-pricing valuation model that uses the weighted-average assumptions noted in the table below. Expected volatility is based on historical volatility of Ryder s stock and implied volatility from traded options on Ryder s stock. The risk-free rate for periods within the contractual life of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the stock option award is granted with a maturity equal to the expected term of the stock option award. We use historical data to estimate stock option exercises and forfeitures within the valuation model. The expected term of stock option awards granted is derived from historical exercise experience under the share-based employee compensation arrangements and represents the period of time that stock option awards granted are expected to be outstanding. The fair value

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

of market-based stock awards is estimated using a lattice-based option-pricing valuation model that incorporates a Monte-Carlo simulation. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by Ryder.

The following table presents the weighted-average assumptions used for options granted:

	Years ended December 31		
	2009	2008	2007
Option plans:			
Expected dividends	**1.5%**	1.6%	1.6%
Expected volatility	**46.4%**	31.9%	26.9%
Risk-free rate	**2.8%**	2.4%	4.8%
Expected term	**3.1 years**	3.7 years	3.9 years
Grant-date fair value	**$ 9.26**	$ 14.00	$ 12.82
Purchase plan:			
Expected dividends	**2.8%**	1.6%	1.6%
Expected volatility	**67.6%**	45.7%	25.0%
Risk-free rate	**0.2%**	1.9%	4.7%
Expected term	**0.25 years**	0.25 years	0.25 years
Grant-date fair value	**$ 9.43**	$ 14.00	$ 10.40

Exercise of Employee Stock Options and Purchase Plans

The total intrinsic value of options exercised during the years ended December 31, 2009, 2008, and 2007 was $2 million, $29 million, and $17 million, respectively. The total cash received from employees as a result of exercises under all share-based employee compensation arrangements for the years ended December 31, 2009, 2008, and 2007 was $7 million, $55 million, and $42 million, respectively. In connection with these exercises, the tax benefits realized from share-based employee compensation arrangements were $0.4 million, $8 million, and $5 million for the years ended December 31, 2009, 2008, and 2007, respectively.

24. EMPLOYEE BENEFIT PLANS

Pension Plans

Ryder historically sponsored several defined benefit pension plans covering most employees not covered by union-administered plans, including certain employees in foreign countries. These plans generally provided participants with benefits based on years of service and career-average compensation levels. The funding policy for these plans were to make contributions based on annual service costs plus amortization of unfunded past service liability, but not greater than the maximum allowable contribution deductible for federal income tax purposes. We may, from time to time, make voluntary contributions to our pension plans, which exceed the amount required by statute. The majority of the plans assets are invested in a master trust that, in turn, is invested primarily in listed stocks and bonds. As discussed under Pension Curtailments, we have frozen all of our major defined benefit pension plans.

Ryder has a non-qualified supplemental pension plan covering certain U.S. employees, which provides for incremental pension payments from Ryder s funds so that total pension payments equal the amounts that would have been payable from Ryder s principal pension plans if it were not for limitations imposed by income tax regulations. The accrued pension liability related to this plan was $37 million at both December 31, 2009 and 2008.

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Ryder also participates in multi-employer plans that provide defined benefits to certain employees covered by collective-bargaining agreements. Such plans are usually administered by a board of trustees comprised of the management of the participating companies and labor representatives. The net pension cost of these plans is equal to the annual contribution determined in accordance with the provisions of negotiated labor contracts. Assets contributed to such plans are not segregated or otherwise restricted to provide benefits only to employees of Ryder.

Pension Expense

Pension expense for continuing operations was as follows:

	Years ended December 31		
	2009	2008	2007
		(In thousands)	
Company-administered plans:			
Service cost	$ **21,022**	25,162	37,689
Interest cost	**93,008**	92,468	86,614
Expected return on plan assets	**(74,925)**	(120,627)	(118,529)
Curtailment loss (gain)	**58**	(3,607)	
Amortization of:			
Transition obligation	**(25)**	(29)	(32)
Net actuarial loss	**24,028**	5,947	19,400
Prior service credit	**(2,192)**	(2,524)	(2,898)
	60,974	(3,210)	22,244
Union-administered plans	**5,256**	4,886	4,843
Net pension expense	$ **66,230**	1,676	27,087
Company-administered plans:			
U.S.	$ **50,863**	(5,568)	11,182
Foreign	**10,111**	2,358	11,062
	60,974	(3,210)	22,244
Union-administered plans	**5,256**	4,886	4,843
	$ **66,230**	1,676	27,087

The following table sets forth the weighted-average actuarial assumptions used for Ryder s pension plans in determining annual pension expense:

U.S. Plans	Foreign Plans

	Years ended December 31			Years ended December 31		
	2009	2008	2007	**2009**	2008	2007
Discount rate	**6.25%**	6.35%	6.00%	**6.81%**	5.66%	4.84%
Rate of increase in compensation levels	**4.00%**	4.00%	4.00%	**4.24%**	4.13%	3.33%
Expected long-term rate of return on plan assets	**7.90%**	8.40%	8.50%	**7.15%**	7.50%	7.50%
Transition amortization in years				**2**	4	5
Gain and loss amortization in years	**27**	28	8	**17**	11	8

The return on plan assets assumption reflects the weighted-average of the expected long-term rates of return for the broad categories of investments held in the plans. The expected long-term rate of return is

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adjusted when there are fundamental changes in expected returns or in asset allocation strategies of the plan assets.

Pension Curtailments

Over the past few years, we have made the following major amendments to our defined benefit retirement plans:

In July 2009, our Board of Directors approved an amendment to freeze our United Kingdom (UK) retirement plan for all participants effective March 31, 2010.

In July 2008, our Board of Directors approved an amendment to freeze the defined benefit portion of our Canadian retirement plan effective January 1, 2010 for current participants who do not meet certain grandfathering criteria.

In January 2007, our Board of Directors approved the amendment to freeze the U.S. pension plans effective December 31, 2007 for current participants who did not meet certain grandfathering criteria.

As a result of these amendments, non-grandfathered plan participants will cease accruing benefits under the plan as of the respective amendment effective date and will begin receiving an enhanced benefit under a defined contribution plan. All retirement benefits earned as of the amendment effective date will be fully preserved and will be paid in accordance with the plan and legal requirements. The freeze of the Canadian defined benefit plan created a pre-tax curtailment gain in 2008 of $4 million. There was no material impact to our financial condition and operating results from the other plan amendments in 2009 or 2007.

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

Obligations and Funded Status

The following table sets forth the benefit obligations, assets and funded status associated with Ryder s pension and supplemental pension plans:

	December 31	
	2009	2008
	(In thousands)	
Change in benefit obligations:		
Benefit obligations at January 1	$ **1,477,485**	1,522,482
Service cost, including discontinued operations	**21,405**	26,601
Interest cost	**93,008**	92,468
Actuarial loss (gain)	**58,236**	(24,446)
Benefits paid	**(67,335)**	(58,653)
Curtailment	**(7,677)**	(1,033)
Foreign currency exchange rate changes	**28,438**	(79,934)
Benefit obligations at December 31	**1,603,560**	1,477,485
Change in plan assets:		
Fair value of plan assets at January 1	**975,540**	1,521,387
Actual return on plan assets	**213,768**	(428,573)
Employer contribution	**130,931**	20,694
Participants contributions	**1,303**	1,827
Benefits paid	**(67,335)**	(58,653)
Foreign currency exchange rate changes	**28,675**	(81,142)
Fair value of plan assets at December 31	**1,282,882**	975,540
Funded status	$ **(320,678)**	(501,945)

Amounts recognized in the consolidated balance sheets consisted of:

	December 31	
	2009	2008
	(In thousands)	
Noncurrent asset	$ **10,588**	5,270
Current liability	**(2,695)**	(2,501)
Noncurrent liability	**(328,571)**	(504,714)

Net amount recognized	**$ (320,678)**	(501,945)

Amounts recognized in accumulated other comprehensive loss (pre-tax) consisted of:

	December 31	
	2009	2008
	(In thousands)	
Transition obligation	**$ (76)**	(101)
Prior service credit	**(9,886)**	(11,905)
Net actuarial loss	**638,385**	750,325
Net amount recognized	**$ 628,423**	738,319

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In 2010, we expect to recognize approximately $2 million of the prior service credit and $19 million of the net actuarial loss as a component of pension expense.

The following table sets forth the weighted-average actuarial assumptions used for Ryder s pension plans in determining funded status:

	U.S. Plans December 31		Foreign Plans December 31	
	2009	2008	**2009**	2008
Discount rate	**6.20%**	6.25%	**5.93%**	6.77%
Rate of increase in compensation levels	**4.00%**	4.00%	**3.54%**	4.04%

At December 31, 2009 and 2008, our pension obligations (accumulated benefit obligations (ABO) and projected benefit obligations (PBO)) greater than the fair value of related plan assets for our U.S. and foreign plans were as follows:

	U.S. Plans December 31		Foreign Plans December 31		Total December 31	
	2009	2008	**2009**	2008	**2009**	2008
			(In thousands)			
Accumulated benefit obligations	**$ 1,254,161**	1,215,254	**313,470**	218,467	**1,567,631**	1,433,721
Plans with ABO in excess of plan assets:						
PBO	**$ 1,287,929**	1,249,751	**6,406**	5,157	**1,294,335**	1,254,908
ABO	**$ 1,254,161**	1,215,254	**5,664**	4,436	**1,259,825**	1,219,690
Fair value of plan assets	**$ 963,068**	747,694			**963,068**	747,694
Plans with PBO in excess of plan assets:						
PBO	**$ 1,287,929**	1,249,751	**6,406**	5,157	**1,294,335**	1,254,908
ABO	**$ 1,254,161**	1,215,254	**5,664**	4,436	**1,259,825**	1,219,690
Fair value of plan assets	**$ 963,068**	747,694			**963,068**	747,694

Plan Assets

Ryder s pension investment strategy is to maximize the long-term rate of return on plan assets within an acceptable level of risk in order to minimize the cost of providing pension benefits. The plans utilize several investment strategies, including actively and passively managed equity and fixed income strategies. The investment policy establishes a target allocation for each asset class. Deviations between actual pension plan asset allocations and targeted asset allocations may occur as a result of investment performance during a month. Rebalancing of our pension plan asset portfolios is evaluated each month based on the prior month s ending balances and rebalanced if

actual allocations exceed an acceptable range. Our U.S. plans account for approximately 75% of Ryder s total pension plan assets. The target allocations for our U.S. plans are 65% equity securities, 30% fixed income and 5% to all other types of investments. Equity securities primarily include investments in large-cap and mid-cap companies primarily in the United States and both domestic and international mutual funds. Fixed income securities include corporate bonds, U.S. Treasuries, mutual funds and other fixed income investments, primarily mortgage-backed securities. Other types of investments include private equity funds. The target allocations for our international plans are 67% equity securities and 33% fixed income. Equity and fixed income securities in our international plans include actively and passively managed mutual funds.

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The following table presents the fair value of each major category of pension plan assets and the level of inputs used to measure fair value as of December 31, 2009:

		Fair Value Measurements at December 31, 2009		
Asset Category	**Total**	**Level 1**	**Level 2**	**Level 3**
		(In thousands)		
Cash[1]	**$ 102,389**	**102,389**		
Equity Securities:				
U.S. companies	**72,881**	**72,881**		
U.S. mutual funds	**412,386**		**412,386**	
Foreign mutual funds	**321,633**		**321,633**	
Fixed income securities:				
Corporate bonds	**38,726**	**38,726**		
Mutual funds	**306,355**		**306,355**	
Other (primarily mortgage-backed securities)	**9,321**		**9,321**	
Private equity funds	**19,191**			**19,191**
Total	**$ 1,282,882**	**213,996**	**1,049,695**	**19,191**

(1) We made voluntary pension contributions at the end of December 2009 of $102 million, which had not yet been invested in target asset classes.

The following is a description of the valuation methodologies used for our pension assets as well as the level of input used to measure fair value:

Cash and cash equivalents These investments are short term investment funds that invest in government securities that have a maturity of 90 days or less. Fair values for these investments were based on quoted prices in active markets and were therefore classified within Level 1 of the fair value hierarchy.

Equity securities These investments include common and preferred stocks and index mutual funds that track U.S. and foreign indices. Fair values for the common and preferred stocks were based on quoted prices in active markets and were therefore classified within Level 1 of the fair value hierarchy. The mutual funds were valued at the unit prices established by the funds sponsors based on the fair value of the assets underlying the funds. Since the units of the funds are not actively traded, the fair value measurements have been classified within Level 2 of the fair value hierarchy.

Fixed income securities These investments include investment grade bonds of U.S. issuers from diverse industries, index mutual funds that track the Barclays Aggregate Index and other fixed income investments (primarily mortgage-backed securities). Fair values for the corporate bonds were based on quoted prices in active markets and were therefore classified within Level 1 of the fair value hierarchy. The mutual funds were valued at the unit prices

established by the funds sponsors based on the fair value of the assets underlying the funds. Since the units of the funds are not actively traded, the fair value measurements have been classified within Level 2 of the fair value hierarchy. The other investments are not actively traded and fair values are estimated using bids provided by brokers, dealers or quoted prices of similar securities with similar characteristics or pricing models. Therefore, the other investments have been have been classified within Level 2 of the fair value hierarchy.

Private equity funds These investments represent limited partnership interests in private equity funds. The partnership interests are valued by the general partners based on the underlying assets in each fund. The limited partnership interests are valued using unobservable inputs and have been classified within Level 3 of the fair value hierarchy.

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

The following table presents a summary of changes in the fair value of the pension plans Level 3 assets for the year ended December 31, 2009:

	(In thousands)
Beginning balance at January 1, 2009	$ **24,333**
Return on plan assets:	
Relating to assets still held at the reporting date	**(6,265)**
Relating to assets sold during the period	**2,420**
Purchases, sales, settlements and expenses	**(1,297)**
Ending balance at December 31, 2009	$ **19,191**

The following table details pension benefits expected to be paid in each of the next five fiscal years and in aggregate for the five fiscal years thereafter:

	(In thousands)
2010	**$ 73,324**
2011	**77,478**
2012	**82,135**
2013	**87,267**
2014	**92,141**
2015-2019	**539,642**

For 2010, pension contributions to Ryder s pension plans are estimated to be $17 million.

Savings Plans

U.S. employees who do not actively participate in our U.S. pension plans are eligible to participate in an enhanced Savings Plan (Enhanced Savings Plan). The Enhanced Savings Plan provides for (i) a company contribution even if employees do not make contributions, (ii) a company match of employee contributions of eligible pay, subject to IRS limits and (iii) a discretionary company match based on our performance. Our original Savings Plan only provided for a discretionary company match based on our performance. Savings plan costs totaled $22 million in 2009, $29 million in 2008, and $9 million in 2007.

Deferred Compensation and Long-Term Compensation Plans

We have deferred compensation plans that permit eligible U.S. employees, officers and directors to defer a portion of their compensation. The deferred compensation liability, including Ryder matching amounts and accumulated earnings, totaled $22 million and $20 million at December 31, 2009 and 2008, respectively.

We also had long-term incentive compensation plans under which the Compensation Committee of the Board of Directors was authorized to reward key executives with additional compensation contingent upon attainment of critical business objectives. Long-term awards were made from 2002 to 2005. In 2006, the Compensation Committee decided to allocate more of our executive officers long-term compensation from cash to equity. As a result, the Compensation Committee ceased granting long-term cash awards. For the 2005 plan year, performance was measured based on achieving certain levels of net operating revenue growth, earnings per common share growth and return on capital over an approximate three-year period, and not on an annual basis. If certain performance levels were achieved, the amounts earned under the plan vested six months subsequent to the end of the plan s cycle. Compensation expense under the plans was recognized in earnings over the vesting period. Total compensation expense recognized under the plans was $0.5 million in 2008, and $0.2 million in 2007. During 2009, no compensation expense was recognized under the plans.

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

Ryder has established grantor trusts (Rabbi Trusts) to provide funding for benefits payable under the supplemental pension plan, deferred compensation plans and long-term incentive compensation plans. The assets held in the trusts at December 31, 2009 and 2008 amounted to $22 million and $19 million, respectively. The Rabbi Trusts assets consist of short-term cash investments and a managed portfolio of equity securities, including Ryder s common stock. These assets, except for the investment in Ryder s common stock, are included in Direct financing leases and other assets because they are available to the general creditors of Ryder in the event of Ryder s insolvency. The equity securities are classified as trading securities and stated at fair value. Both realized and unrealized gains and losses are included in Miscellaneous (income) expense, net. The Rabbi Trusts investment of $2 million in Ryder s common stock, at both December 31, 2009 and 2008 is reflected at historical cost and recorded against shareholders equity.

Other Postretirement Benefits

Ryder sponsors plans that provide retired U.S. and Canadian employees with certain healthcare and life insurance benefits. Substantially all U.S. and Canadian employees not covered by union-administered health and welfare plans are eligible for the healthcare benefits. Healthcare benefits for our principal plan are generally provided to qualified retirees under age 65 and eligible dependents. Generally, this plan requires employee contributions that vary based on years of service and include provisions that limit our contributions.

Total postretirement benefit expense was as follows:

	Years ended December 31		
	2009	2008	2007
	(In thousands)		
Service cost	$ **1,455**	1,437	1,476
Interest cost	**2,828**	2,727	2,576
Amortization of:			
Net actuarial loss	**637**	743	837
Prior service credit	**(231)**	(231)	(231)
Postretirement benefit expense	$ **4,689**	4,676	4,658
U.S.	$ **3,537**	3,776	3,731
Foreign	**1,152**	900	927
	$ **4,689**	4,676	4,658

The following table sets forth the weighted-average discount rates used in determining annual postretirement benefit expense:

U.S. Plan	Foreign Plan
Years ended December 31	Years ended December 31

	2009	2008	2007	**2009**	2008	2007
Discount rate	**6.25%**	6.35%	6.00%	**6.75%**	5.25%	5.00%

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

Ryder s postretirement benefit plans are not funded. The following table sets forth the benefit obligations associated with Ryder s postretirement benefit plans:

	December 31	
	2009	2008
	(In thousands)	
Benefit obligations at January 1	**$ 46,377**	44,292
Service cost	**1,455**	1,437
Interest cost	**2,828**	2,727
Actuarial (gain) loss	**(171)**	2,588
Benefits paid	**(2,292)**	(3,378)
Foreign currency exchange rate changes	**1,132**	(1,289)
Benefit obligations at December 31	**$ 49,329**	46,377

Amounts recognized in the consolidated balance sheets consisted of:

	December 31	
	2009	2008
	(In thousands)	
Current liability	**$ (3,214)**	(3,350)
Noncurrent liability	**(46,115)**	(43,027)
Amount recognized	**$ (49,329)**	(46,377)

Amounts recognized in accumulated other comprehensive loss (pre-tax) consisted of:

	December 31	
	2009	2008
	(In thousands)	
Prior service credit	**$ (2,000)**	(2,231)
Net actuarial loss	**12,074**	12,816
Net amount recognized	**$ 10,074**	10,585

In 2010, we expect to recognize approximately $0.2 million of the prior service credit and $0.6 million of the net actuarial loss as a component of total postretirement benefit expense.

Our annual measurement date is December 31 for both U.S. and foreign postretirement benefit plans. Assumptions used in determining accrued postretirement benefit obligations were as follows:

	U.S. Plan December 31		Foreign Plan December 31	
	2009	2008	**2009**	2008
Discount rate	**6.20%**	6.25%	**6.00%**	6.75%
Rate of increase in compensation levels	**4.00%**	4.00%	**3.50%**	3.50%
Healthcare cost trend rate assumed for next year	**8.00%**	8.50%	**8.50%**	9.00%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	**5.00%**	5.60%	**5.00%**	5.00%
Year that the rate reaches the ultimate trend rate	**2016**	2015	**2017**	2017

Changing the assumed healthcare cost trend rates by 1% in each year would not have a material effect on the accumulated postretirement benefit obligation at December 31, 2009 or annual postretirement benefit expense for 2009.

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

The following table details other postretirement benefits expected to be paid in each of the next five fiscal years and in aggregate for the five fiscal years thereafter:

	(In thousands)
2010	**$ 3,214**
2011	**3,518**
2012	**3,627**
2013	**3,894**
2014	**4,071**
2015-2019	**21,139**

25. ENVIRONMENTAL MATTERS

Our operations involve storing and dispensing petroleum products, primarily diesel fuel, regulated under environmental protection laws. These laws require us to eliminate or mitigate the effect of such substances on the environment. In response to these requirements, we continually upgrade our operating facilities and implement various programs to detect and minimize contamination. In addition, we have received notices from the Environmental Protection Agency (EPA) and others that we have been identified as a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act, the Superfund Amendments and Reauthorization Act and similar state statutes and may be required to share in the cost of cleanup of 17 identified disposal sites.

Our environmental expenses which are presented within Operating expense in our Consolidated Statements of Earnings, consist of remediation costs as well as normal recurring expenses such as licensing, testing and waste disposal fees. These expenses totaled $8 million, $9 million, and $7 million, in 2009, 2008, and 2007, respectively. The carrying amount of our environmental liabilities was $15 million at both December 31, 2009 and 2008. Capital expenditures related to our environmental programs totaled approximately $4 million, $3 million, and $2 million in 2009, 2008, and 2007, respectively. Our asset retirement obligations related to fuel tanks to be removed are not included above and are recorded within Accrued expenses and Other non-current liabilities in our Consolidated Balance Sheets.

The ultimate cost of our environmental liabilities cannot presently be projected with certainty due to the presence of several unknown factors, primarily the level of contamination, the effectiveness of selected remediation methods, the stage of investigation at individual sites, the determination of our liability in proportion to other responsible parties and the recoverability of such costs from third parties. Based on information presently available, we believe that the ultimate disposition of these matters, although potentially material to the results of operations in any one year, will not have a material adverse effect on our financial condition or liquidity.

26. OTHER ITEMS IMPACTING COMPARABILITY

Our primary measure of segment performance excludes certain items we do not believe are representative of the ongoing operations of the segment. Excluding these items from our segment measure of performance allows for better year over year comparison.

2009

In the fourth quarter of 2008, we were notified that a significant customer in Singapore would not renew their contract, which was set to expire in 2009. The notification required us to assess the recoverability of the facility used in this customer s operation. During the fourth quarter of 2008, we recorded an impairment charge to reduce the carrying value of the facility to its fair value. Conditions in the real estate market in

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

Singapore continued to deteriorate during the first quarter of 2009. As a result, we recorded an additional pre-tax impairment charge of $4 million to write-down the facility to its estimated fair value during the first quarter of 2009. During the fourth quarter of 2009, we recorded an additional pre-tax impairment charge of $3 million to reflect the impact of the continued deterioration in the real estate market. The charges were recorded within Depreciation expense in our Consolidated Statements of Earnings.

2008

As mentioned above, in the fourth quarter of 2008, we were notified that a significant customer in Singapore would not renew their contract, which was set to expire in 2009. The notification triggered an impairment analysis, which required us to assess the recoverability of the facility used in this customer s operation. We concluded that the carrying value of the facility was not recoverable and that the carrying value exceeded the fair value. Consequently, we recorded a pre-tax impairment charge of $2 million to write the carrying value of the facility down to fair value. The charge was recorded within Depreciation expense in the accompanying Consolidated Statements of Earnings.

2007

In the third quarter of 2007, we completed the sale of a FMS property located in Nevada for $12 million in cash. In conjunction with this sale, we entered into a lease agreement with the purchaser to lease back the property until we relocated to another property. The terms of the leaseback met the criteria for a normal leaseback and full gain recognition. For the year ended December 31, 2007, the gain on the sale of the property of $10 million was included in Miscellaneous (income) expense, net in the accompanying Consolidated Statements of Earnings.

27. OTHER MATTERS

We are a party to various claims, complaints and proceedings arising in the ordinary course of business including but not limited to those relating to litigation matters, 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. It is not possible at this time for us to determine fully the effect of all unasserted claims and assessments on our consolidated financial condition, results of operations or liquidity; however, to the extent possible, where unasserted claims can be estimated and where such claims are considered probable we have recorded a liability. Litigation is subject to many uncertainties, and the outcome of any individual litigated matter is not predictable with assurance. It is possible that certain of the actions, claims, inquiries or proceedings could be decided unfavorably to Ryder. Although the final resolution of any such matters could have a material effect on our consolidated operating results for the particular reporting period in which an adjustment of the estimated liability is recorded, we believe that any resulting liability should not materially affect our consolidated financial position.

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

28. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information was as follows:

	Years ended December 31		
	2009	2008	2007
	(In thousands)		
Interest paid	$ **144,998**	141,406	154,261
Income taxes (refunded) paid	**(15,452)**	26,142	57,991
Changes in accounts payable related to purchases of revenue earning equipment	**(40,551)**	34,935	(122,400)
Revenue earning equipment acquired under capital leases	**1,949**	1,430	10,920

29. SEGMENT REPORTING

Our operating segments are aggregated into reportable business segments based upon similar economic characteristics, products, services, customers and delivery methods. We operate in three reportable business segments: (1) FMS, which provides full service leasing, contract maintenance, contract-related maintenance and commercial rental of trucks, tractors and trailers to customers, principally in the U.S., Canada and the U.K.; (2) SCS, which provides comprehensive supply chain consulting including distribution and transportation services throughout North America and in Asia; and (3) DCC, which provides vehicles and drivers as part of a dedicated transportation solution in the U.S.

Our primary measurement of segment financial performance, defined as Net Before Taxes (NBT) from continuing operations, includes an allocation of CSS and excludes restructuring and other charges, net described in Note 5, Restructuring and Other Charges and excludes the items discussed in Note 26, 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 and corporate communications. The objective of the NBT 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. CSS costs attributable to the business segments are predominantly allocated to FMS, SCS and DCC as follows:

Finance, corporate services, and health and safety allocated based upon estimated and planned resource utilization;

Human resources individual costs within this category are allocated in several ways, including allocation based on estimated utilization and number of personnel supported;

Information technology principally allocated based upon utilization-related metrics such as number of users or minutes of CPU time. Customer-related project costs and expenses are allocated to the business segment

responsible for the project; and

Other represents legal and other centralized costs and expenses including certain share-based incentive compensation costs. Expenses, where allocated, are based primarily on the number of personnel supported.

Our FMS segment leases revenue earning equipment and provides fuel, maintenance and other ancillary services to the SCS and DCC segments. Inter-segment revenue and NBT are accounted for at rates similar to those executed with third parties. NBT related to inter-segment equipment and services billed to customers

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

(equipment contribution) is included in both FMS and the business segment which served the customer and then eliminated (presented as Eliminations).

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. Each business segment follows the same accounting policies as described in Note 1, Summary of Significant Accounting Policies.

Business segment revenue and NBT from continuing operations is as follows:

	Years ended December 31		
	2009	2008	2007
		(In thousands)	
Revenue:			
Fleet Management Solutions:			
Full service lease	**$ 1,851,713**	1,891,138	1,815,051
Contract maintenance	**155,638**	153,981	158,209
Contractual revenue	**2,007,351**	2,045,119	1,973,260
Contract-related maintenance	**162,499**	192,763	180,780
Commercial rental	**414,144**	530,072	546,790
Other	**66,511**	77,849	77,680
Fuel services revenue	**625,882**	1,175,855	978,794
Total Fleet Management Solutions from external customers	**3,276,387**	4,021,658	3,757,304
Inter-segment revenue	**291,449**	432,593	409,997
Fleet Management Solutions	**3,567,836**	4,454,251	4,167,301
Supply Chain Solutions from external customers	**1,139,911**	1,429,632	2,038,186
Dedicated Contract Carriage from external customers	**470,956**	547,751	567,640
Eliminations	**(291,449)**	(432,593)	(409,997)
Total revenue	**$ 4,887,254**	5,999,041	6,363,130
NBT:			
Fleet Management Solutions	**$ 140,400**	395,909	370,503
Supply Chain Solutions	**35,700**	56,953	60,229
Dedicated Contract Carriage	**37,643**	49,628	47,409
Eliminations	**(21,058)**	(31,803)	(31,248)
	192,685	470,687	446,893
Unallocated Central Support Services	**(35,834)**	(38,302)	(44,004)
Restructuring and other charges, net and other items[1]	**(13,082)**	(23,097)	(685)

Earnings before income taxes from continuing operations	$ **143,769**	409,288	402,204

(1) See Note 26, Other Items Impacting Comparability, for a discussion of items, in addition to restructuring and other charges, net that are excluded from our primary measure of segment performance.

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

The following table sets forth share-based compensation, depreciation expense, gains on vehicle sales, net, other non-cash charges (credits), net, interest expense (income), capital expenditures and total assets for the years ended December 31, 2009, 2008 and 2007 as provided to the chief operating decision-maker for each of Ryder s reportable business segments:

		FMS	SCS	DCC	CSS	Eliminations	Total
				(In thousands)			
2009							
Share-based compensation expense	**$**	**4,692**	**3,295**	**480**	**7,937**		**16,404**
Depreciation expense [1]	**$**	**850,214**	**28,692**	**1,335**	**975**		**881,216**
Gains on vehicles sales, net	**$**	**(12,282)**	**(10)**				**(12,292)**
Other non-cash charges, net[2]	**$**	**14,017**	**710**	**15**	**26,559**		**41,301**
Interest expense (income)[3]	**$**	**144,605**	**1,707**	**(2,085)**	**115**		**144,342**
Capital expenditures paid [4]	**$**	**635,135**	**8,550**	**1,436**	**6,832**		**651,953**
Total assets	**$**	**5,809,086**	**366,920**	**105,484**	**116,632**	**(138,292)**	**6,259,830**
2008							
Share-based compensation expense	$	5,749	3,011	432	7,884		17,076
Depreciation expense[1]	$	809,681	24,101	1,619	748		836,149
Gains on vehicles sales, net	$	(38,974)	(46)				(39,020)
Other non-cash charges (credits), net[2]	$	16,710	2,243	(3)	6,313		25,263
Interest expense (income)[3]	$	155,436	12	(2,914)	(86)		152,448
Capital expenditures paid[4]	$	1,181,006	33,177	3,476	12,742		1,230,401
Total assets	$	6,204,130	421,572	110,552	136,396	(183,142)	6,689,508
2007							
Share-based compensation expense	$	4,940	3,436	400	7,978		16,754
Depreciation expense[1]	$	791,112	17,170	1,613	649		810,544
Gains on vehicle sales, net	$	(43,732)	(358)				(44,090)
Other non-cash charges (credits), net[2]	$	3,273	749	(2)	10,975		14,995
Interest expense (income)[3]	$	158,261	912	(3,334)	131		155,970
Capital expenditures paid[4]	$	1,273,140	21,752	846	8,295		1,304,033
Total assets	$	6,212,038	557,581	129,068	87,362	(131,400)	6,854,649

(1)

Depreciation expense associated with CSS assets was allocated to business segments based upon estimated and planned asset utilization. Depreciation expense totaling $12 million, $13 million, and $12 million during 2009, 2008, and 2007, respectively, associated with CSS assets was allocated to other business segments.

(2) *Includes amortization expense and impairment of goodwill.*

(3) *Interest expense was primarily allocated to the FMS segment since such borrowings were used principally to fund the purchase of revenue earning equipment used in FMS; however, interest expense (income) was also reflected in SCS and DCC based on targeted segment leverage ratios.*

(4) *Excludes FMS and SCS acquisition payments of $89 million, $247 million, and $75 million in 2009, 2008, and 2007, respectively, comprised primarily of long-lived assets. See Note 3, Acquisitions, for additional information.*

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

Geographic Information

	Years ended December 31		
	2009	2008	2007
	(In thousands)		
Revenue:			
United States	**$ 4,126,973**	5,058,954	5,243,185
Foreign:			
Canada	**424,148**	485,219	646,400
Europe	**223,879**	290,697	316,116
Mexico	**97,649**	140,543	136,124
Asia	**14,605**	23,628	21,305
	760,281	940,087	1,119,945
Total	**$ 4,887,254**	5,999,041	6,363,130
Long-lived assets:			
United States	**$ 3,985,166**	4,343,687	4,051,517
Foreign:			
Canada	**478,091**	462,140	545,545
Europe	**232,320**	256,563	350,338
Mexico	**16,832**	18,497	22,672
South America	**531**	14,147	28,599
Asia	**9,629**	17,006	21,454
	737,403	768,353	968,608
Total	**$ 4,722,569**	5,112,040	5,020,125

Certain Concentrations

We have a diversified portfolio of customers across a full array of transportation and logistics solutions and across many industries. We believe this will help to mitigate the impact of adverse downturns in specific sectors of the economy. Our portfolio of full service lease and commercial rental customers is not concentrated in any one particular industry or geographic region. We derive a significant portion of our SCS revenue (approximately 42%, 47% and 59% in 2009, 2008 and 2007, respectively) from the automotive industry, mostly from manufacturers and suppliers of original equipment parts. Our largest customer, General Motors Corporation (GM), accounted for approximately 3%, 4% and 14% of consolidated revenue in 2009, 2008 and 2007, respectively. GM also accounted for approximately

13%, 16% and 44% of SCS total revenue in 2009, 2008 and 2007, respectively. Effective January 1, 2008, our contractual relationship for certain transportation management services changed, and we determined, after a formal review of the terms and conditions of the services, that we were acting as an agent in the arrangement. As a result, total revenue and subcontracted transportation expense decreased in 2008 due to the reporting of revenue net of subcontracted transportation expense. During 2007, revenue associated with this portion of the contract was $640 million.

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

30. QUARTERLY INFORMATION (UNAUDITED)

	Revenue	Earnings from Continuing Operations	Net Earnings	Earnings from Continuing Operations per Common Share		Net Earnings per Common Share	
				Basic	Diluted	Basic	Diluted
	(In thousands, except per share amounts)						
2009							
First quarter	**$ 1,174,396**	**10,938**	**6,838**	**0.20**	**0.20**	**0.12**	**0.12**
Second quarter	**1,212,036**	**27,070**	**22,888**	**0.48**	**0.48**	**0.41**	**0.41**
Third quarter	**1,253,854**	**28,439**	**23,971**	**0.51**	**0.51**	**0.43**	**0.43**
Fourth quarter	**1,246,968**	**23,670**	**8,248**	**0.43**	**0.43**	**0.15**	**0.15**
Full year	**$ 4,887,254**	**90,117**	**61,945**	**1.62**	**1.62**	**1.11**	**1.11**
2008							
First quarter	$ 1,490,191	56,034	56,082	0.96	0.96	0.97	0.96
Second quarter	1,604,311	78,620	62,946	1.38	1.37	1.10	1.09
Third quarter	1,567,336	72,463	70,208	1.29	1.28	1.25	1.24
Fourth quarter	1,337,203	50,462	10,645	0.91	0.91	0.19	0.19
Full year	$ 5,999,041	257,579	199,881	4.54	4.51	3.52	3.50

Quarterly and year-to-date computations of per share amounts are made independently; therefore, the sum of per-share amounts for the quarters may not equal per-share amounts for the year.

See Note 4, Discontinued Operations, Note 5, Restructuring and Other Charges, and Note 26, Other Items Impacting Comparability, for items included in pre-tax earnings during 2009 and 2008.

Earnings in the fourth quarter of 2009 included an income tax benefit of $4 million, or $0.07 per diluted common share, associated with the reduction of deferred income taxes due to enacted changes in Ontario, Canada tax laws. Earnings in the third quarter of 2008 included an income tax benefit of $2 million, or $0.03 per diluted common share, associated with the reduction of deferred income taxes due to enacted changes in Massachusetts tax laws. Earnings in the fourth quarter of 2008 included an income tax benefit of $8 million, or $0.14 per diluted common share, due to reversal of reserves for uncertain tax positions as a result of the expiration of statutes of limitation in various jurisdictions.

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RYDER SYSTEM, INC. AND SUBSIDIARIES
SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to Earnings	Transferred from Other Accounts[1]	Deductions[2]	Balance at End of Period
		(In thousands)			
2009					
Accounts receivable allowance	**$ 15,477**	**13,703**		**15,372**	**13,808**
Direct finance lease allowance	**$ 4,724**	**1,011**		**4,922**	**813**
Self-insurance accruals[3]	**$ 256,002**	**201,273**	**47,726**	**262,096**	**242,905**
Reserve for residual value guarantees	**$ 2,389**	**3,015**		**1,355**	**4,049**
Valuation allowance on deferred tax assets	**$ 34,549**	**4,443**		**2,419**	**36,573**
2008					
Accounts receivable allowance	$ 16,954	15,934		17,411	15,477
Direct finance lease allowance	$ 1,327	3,870		473	4,724
Self-insurance accruals[3]	$ 277,815	201,145	47,034	269,992	256,002
Reserve for residual value guarantees	$ 2,425	244		280	2,389
Valuation allowance on deferred tax assets	$ 21,741	12,903		95	34,549
2007					
Accounts receivable allowance	$ 14,744	13,238		11,028	16,954
Direct finance lease allowance	$ 1,121	1,472		1,266	1,327
Self-insurance accruals[3]	$ 283,372	176,507	44,021	226,085	277,815
Reserve for residual value guarantees	$ 2,227	1,106		908	2,425
Valuation allowance on deferred tax assets	$ 20,475	(27)		(1,293)	21,741

(1) Transferred from other accounts includes employee contributions made to the medical and dental self-insurance plans.

(2) Deductions represent receivables written-off, lease termination payments, insurance claim payments during the period and net foreign currency translation adjustments.

(3) Self-insurance accruals include vehicle liability, workers compensation, property damage, cargo and medical and dental, which comprise our self-insurance programs. Amount charged to earnings include favorable development in prior year selected loss development factors which benefited earnings by $1 million, $23 million, and $24 million in 2009, 2008, and 2007, respectively.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, 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 at December 31, 2009, Ryder s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) were effective.

Management s Report on Internal Control over Financial Reporting

Management s Report on Internal Control over Financial Reporting and the Report of Independent Registered Certified Public Accounting Firm thereon are set out in Item 8 of Part II of this Form 10-K Annual Report.

Changes in Internal Controls over Financial Reporting

During the three months ended December 31, 2009, there were no changes in Ryder s internal control over financial reporting that has materially affected or is reasonably likely to materially affect such internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 with respect to executive officers is included within Item 1 in Part I under the caption Executive Officers of the Registrant of this Form 10-K Annual Report.

The information required by Item 10 with respect to directors, audit committee, audit committee financial experts and Section 16(a) beneficial ownership reporting compliance is included under the captions Election of Directors, Audit Committee and Section 16(a) Beneficial Ownership Reporting Compliance in our definitive proxy statement, which will be filed with the Commission within 120 days after the close of the fiscal year, and is incorporated herein by reference.

Ryder has adopted a code of ethics applicable to its Chief Executive Officer, Chief Financial Officer, Controller and Senior Financial Management. The Code of Ethics forms part of Ryder s Principles of Business Conduct which are posted on the Corporate Governance page of Ryder s website at www.ryder.com.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is included under the captions Compensation Discussion and Analysis, Executive Compensation, Compensation Committee, Compensation Committee Report on Executive Compensation and Director Compensation in our definitive proxy statement, which will be filed with the Commission within 120 days after the close of the fiscal year, and is incorporated herein by reference.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 with respect to security ownership of certain beneficial owners and management is included under the captions Security Ownership of Officers and Directors and Security Ownership of Certain Beneficial Owners in our definitive proxy statement, which will be filed with the Commission within 120 days after the close of the fiscal year, and is incorporated herein by reference.

The information required by Item 12 with respect to related stockholder matters is included within Item 6 in Part I under the caption Securities Authorized for Issuance under Equity Compensation Plans of this Form 10-K Annual Report.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is included under the captions Board of Directors and Related Person Transactions in our definitive proxy statement, which will be filed with the Commission within 120 days after the close of the fiscal year, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is included under the caption Ratification of Independent Auditor in our definitive proxy statement, which will be filed with the Commission within 120 days after the close of the fiscal year, and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Items A through G and Schedule II are presented on the following pages of this Form 10-K Annual Report:

	Page No.
1. Financial Statements for Ryder System, Inc. and Consolidated Subsidiaries:	
A) Management s Report on Internal Control over Financial Reporting	62
B) Report of Independent Registered Certified Public Accounting Firm	63
C) Consolidated Statements of Earnings	64
D) Consolidated Balance Sheets	65
E) Consolidated Statements of Cash Flows	66
F) Consolidated Statements of Shareholders Equity	67
G) Notes to Consolidated Financial Statements	68
2. Consolidated Financial Statement Schedule for the Years Ended December 31, 2009, 2008 and 2007:	
Schedule II Valuation and Qualifying Accounts	124

All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

Supplementary Financial Information consisting of selected quarterly financial data is included in Item 8 of this report.

3. Exhibits:

The following exhibits are filed with this report or, where indicated, incorporated by reference (Forms 10-K, 10-Q and 8-K referenced herein have been filed under the Commission s file No. 1-4364). Ryder will provide a copy of the exhibits filed with this report at a nominal charge to those parties requesting them.

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EXHIBIT INDEX

Exhibit Number	Description
3.1(a)	The Ryder System, Inc. Restated Articles of Incorporation, dated November 8, 1985, as amended through May 18, 1990, previously filed with the Commission as an exhibit to Ryder s Annual Report on Form 10-K for the year ended December 31, 1990, are incorporated by reference into this report.
3.1(b)	Articles of Amendment to Ryder System, Inc. Restated Articles of Incorporation, dated November 8, 1985, as amended, previously filed with the Commission on April 3, 1996 as an exhibit to Ryder s Form 8-A are incorporated by reference into this report.
3.2	The Ryder System, Inc. By-Laws, as amended through December 15, 2009, previously filed with the Commission as an exhibit to Ryder s Current Report on Form 8-K filed with the Commission on December 21, 2009, are incorporated by reference into this report.
4.1	Ryder hereby agrees, pursuant to paragraph(b)(4)(iii) of Item 601 of Regulation S-K, to furnish the Commission with a copy of any instrument defining the rights of holders of long-term debt of Ryder, where such instrument has not been filed as an exhibit hereto and the total amount of securities authorized thereunder does not exceed 10% of the total assets of Ryder and its subsidiaries on a consolidated basis.
4.2(a)	The Form of Indenture between Ryder System, Inc. and The Chase Manhattan Bank (National Association) dated as of June 1, 1984, filed with the Commission on November 19, 1985 as an exhibit to Ryder s Registration Statement on Form S-3 (No. 33-1632), is incorporated by reference into this report.
4.2(b)	The First Supplemental Indenture between Ryder System, Inc. and The Chase Manhattan Bank (National Association) dated October 1, 1987, previously filed with the Commission as an exhibit to Ryder s Annual Report on Form 10-K for the year ended December 31, 1994, is incorporated by reference into this report.
4.3	The Form of Indenture between Ryder System, Inc. and The Chase Manhattan Bank (National Association) dated as of May 1, 1987, and supplemented as of November 15, 1990 and June 24, 1992, filed with the Commission on July 30, 1992 as an exhibit to Ryder s Registration Statement on Form S-3 (No. 33-50232), is incorporated by reference into this report.
4.4	The Form of Indenture between Ryder System, Inc. and J.P. Morgan Trust Company (National Association) dated as of October 3, 2003 filed with the Commission on August 29, 2003 as an exhibit to Ryder s Registration Statement on Form S-3 (No. 333-108391), is incorporated by reference into this report.
10.1(b)	The form of Severance Agreement for executive officers effective as of January 1, 2000, previously filed with the Commission as an exhibit to Ryder s Annual Report on Form 10-K for the year ended December 31, 2003, is incorporated by reference into this report.
10.1(c)	The Ryder System, Inc. Executive Severance Plan, amended and restated effective as of January 1, 2009, previously filed with the Commission as an exhibit to Ryder s Current Report on Form 8-K filed with the Commission on February 11, 2009, is incorporated by reference into this report.
10.1(d)	The form of Amended and Restated Severance Agreement for executive officers, effective as of December 19, 2008, previously filed with the Commission as an exhibit to Ryder s Current Report on Form 8-K filed with the Commission on February 11, 2009, is incorporated by reference into this report.
10.4(a)	

	The Ryder System, Inc. 1980 Stock Incentive Plan, as amended and restated as of August 15, 1996, previously filed with the Commission as an exhibit to Ryder s Annual Report on Form 10-K for the year ended December 31, 1997, is incorporated by reference into this report.
10.4(b)	The form of Ryder System, Inc. 1980 Stock Incentive Plan, United Kingdom Section, dated May 4, 1995, previously filed with the Commission as an exhibit to Ryder s Annual Report on Form 10-K for the year ended December 31, 1995, is incorporated by reference into this report.
10.4(c)	The form of Ryder System, Inc. 1980 Stock Incentive Plan, United Kingdom Section, dated October 3, 1995, previously filed with the Commission as an exhibit to Ryder s Annual Report on Form 10-K for the year ended December 31, 1995, is incorporated by reference into this report.
10.4(f)	The Ryder System, Inc. 1995 Stock Incentive Plan, as amended and restated at May 4, 2001, previously filed with the Commission as an exhibit to Ryder s report on Form 10-Q for the quarter ended September 30, 2001, is incorporated by reference into this report.

Exhibit Number	Description
10.4(g)	The Ryder System, Inc. 1995 Stock Incentive Plan, as amended and restated as of July 25, 2002, previously filed with the Commission as an exhibit to Ryder s Annual Report on Form 10-K for the year ended December 31, 2003, is incorporated by reference into this report.
10.4(h)	The Ryder System, Inc. 2005 Equity Compensation Plan, previously filed with the Commission on March 30, 2005 as Appendix A to the Proxy Statement for the 2005 Annual Meeting of Shareholders of the Company is incorporated by reference into this report.
10.4(i)	Terms and Conditions applicable to non-qualified stock options granted under the Ryder System, Inc. 2005 Equity Compensation Plan, previously filed with the Commission as an exhibit to Ryder s Current Report on Form 8-K filed with the Commission on February 14, 2007, are incorporated by reference into this report.
10.4(j)	Terms and Conditions applicable to restricted stock rights granted under the Ryder System, Inc. 2005 Equity Compensation Plan, previously filed with the Commission as an exhibit to Ryder s Current Report on Form 8-K filed with the Commission on May 11, 2005, are incorporated by reference into this report.
10.4(k)	Terms and Conditions applicable to restricted stock units granted under the Ryder System, Inc. 2005 Equity Compensation Plan, previously filed with the Commission as an exhibit to Ryder s Current Report on Form 8-K filed with the Commission on May 11, 2005, are incorporated by reference into this report.
10.4(p)	Terms and Conditions applicable to performance-based restricted stock rights and related cash awards granted in 2007 under the Ryder System, Inc. 2005 Equity Compensation Plan, previously filed with the Commission as an exhibit to Ryder s Current Report on Form 8-K filed with the Commission on February 14, 2007, are incorporated by reference into this report.
10.4(q)	Terms and Conditions applicable to performance-based restricted stock rights granted in 2008 under the Ryder System, Inc. 2005 Equity Compensation Plan, previously filed with the Commission as an exhibit to Ryder s Current Report on Form 8-K filed with the Commission on February 14, 2008, are incorporated by reference into this report.
10.4(r)	Terms and Conditions applicable to annual incentive cash awards granted in 2009 under the Ryder System, Inc. 2005 Equity Compensation Plan, previously filed with the Commission as an exhibit to Ryder s Current Report on Form 8-K filed with the Commission on February 11, 2009, are incorporated by reference into this report.
10.4(s)	Terms and Conditions applicable to performance-based restricted stock rights granted in 2009 under the Ryder System, Inc. 2005 Equity Compensation Plan, previously filed with the Commission as an exhibit to Ryder s Current Report on Form 8-K filed with the Commission on February 11, 2009, are incorporated by reference into this report.
10.4(t)	Terms and Conditions applicable to performance-based cash awards granted in 2009 under the Ryder System, Inc. 2005 Equity Compensation Plan, previously filed with the Commission as an exhibit to Ryder s Current Report on Form 8-K filed with the Commission on February 11, 2009, are incorporated by reference into this report.
10.5(b)	The Ryder System, Inc. Directors Stock Award Plan, as amended and restated at February 10, 2005, previously filed with the Commission as an exhibit to Ryder s Annual Report on Form 10-K for the year ended December 31, 2004, is incorporated by reference into this report.
10.5(c)	The Ryder System, Inc. Directors Stock Plan, as amended and restated at May 7, 2004, previously filed with the Commission as an exhibit to Ryder s Annual Report on Form 10-K for the year ended December 31, 2004, is incorporated by reference into this report.
10.6(a)	

	The Ryder System Benefit Restoration Plan, amended and restated effective January 2, 2005, previously filed with the Commission as an exhibit to Ryder s Current Report on Form 8-K filed with the Commission on February 11, 2009, is incorporated by reference into this report.
10.10	The Ryder System, Inc. Deferred Compensation Plan, effective as of January 1, 2009, previously filed with the Commission as an exhibit to Ryder s Current Report on Form 8-K filed with the Commission on February 11, 2009, is incorporated by reference to this report.
10.14	Global Revolving Credit Agreement dated as of April 30, 2009, by and among, Ryder System, Inc., certain subsidiaries of Ryder System, Inc., and the lenders and agents named therein, previously filed with the Commission as an exhibit to Ryder s Current Report on Form 8-K filed with the Commission on May 1, 2009, is incorporated by reference into this report.

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Exhibit Number	Description
21.1	List of subsidiaries of the registrant, with the state or other jurisdiction of incorporation or organization of each, and the name under which each subsidiary does business.
23.1	PricewaterhouseCoopers LLP consent to incorporation by reference in certain Registration Statements on Forms S-3 and S-8 of their report on Consolidated Financial Statements financial statement schedule and effectiveness of internal controls over financial reporting of Ryder System, Inc.
24.1	Manually executed powers of attorney for each of:

James S. Beard	John M. Berra
David I. Fuente	L. Patrick Hassey
Lynn M. Martin	Luis P. Nieto, Jr.
Eugene A. Renna	Abbie J. Smith
E. Follin Smith	Hansel E. Tookes, II

31.1	Certification of Gregory T. Swienton pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31.2	Certification of Robert E. Sanchez pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32	Certification of Gregory T. Swienton and Robert E. Sanchez pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350.

(b) Executive Compensation Plans and Arrangements:

Please refer to the description of Exhibits 10.1 through 10.10 set forth under Item 15(a)3 of this report for a listing of all management contracts and compensation plans and arrangements filed with this report pursuant to Item 601(b)(10) of Regulation S-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: February 12, 2010	RYDER SYSTEM, INC.
	By: /s/ Gregory T. Swienton Gregory T. Swienton Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 12, 2010	By: /s/ Gregory T. Swienton Gregory T. Swienton Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
Date: February 12, 2010	By: /s/ Robert E. Sanchez Robert E. Sanchez Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Date: February 12, 2010	By: /s/ Art A. Garcia Art A. Garcia Senior Vice President and Controller (Principal Accounting Officer)
Date: February 12, 2010	By: James S. Beard* James S. Beard Director
Date: February 12, 2010	By: John M. Berra*

	John M. Berra Director
Date: February 12, 2010	By: David I. Fuente* David I. Fuente Director
Date: February 12, 2010	By: L. Patrick Hassey* L. Patrick Hassey Director
Date: February 12, 2010	By: Lynn M. Martin* Lynn M. Martin Director
Date: February 12, 2010	By: Luis P. Nieto, Jr.* Luis P. Nieto, Jr. Director

Date: February 12, 2010	By: Eugene A. Renna* Eugene A. Renna Director
Date: February 12, 2010	By: Abbie J. Smith* Abbie J. Smith Director
Date: February 12, 2010	By: E. Follin Smith* E. Follin Smith Director
Date: February 12, 2010	By: Hansel E. Tookes, II* Hansel E. Tookes, II Director
Date: February 12, 2010	*By: /s/ David Beilin David Beilin Attorney-in-Fact