RYDER SYSTEM INC
Form 10-K
February 14, 2013

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

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012
OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission File Number: 1-4364
RYDER SYSTEM, INC.
(Exact name of registrant as specified in its charter)

Florida (State or other jurisdiction of incorporation or organization)	59-0739250 (I.R.S. Employer Identification No.)
11690 N.W. 105th Street, Miami, Florida 33178 (Address of principal executive offices, including zip code)	(305) 500-3726 (Telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Ryder System, Inc. Common Stock ($0.50 par value)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES þ NO ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO þ

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES þ NO ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ¨ NO þ

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant computed by reference to the price at which the common equity was sold at June 30, 2012 was $1,802,526,311. The number of shares of Ryder System, Inc. Common Stock ($0.50 par value per share) outstanding at January 31, 2013 was 51,477,492.

Documents Incorporated by Reference into this Report	Part of Form 10-K into which Document is Incorporated
Ryder System, Inc. 2013 Proxy Statement	Part III

RYDER SYSTEM, INC.
FORM 10-K ANNUAL REPORT
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PART I
ITEM 1. BUSINESS
OVERVIEW
Ryder System, Inc. (Ryder), a Florida corporation founded in 1933, is a global leader in transportation and supply chain management solutions. We operate in two business segments: Fleet Management Solutions (FMS), which provides full service leasing, contract maintenance, contract-related maintenance and commercial rental of trucks, tractors and trailers to customers principally in the U.S., Canada and the U.K.; and Supply Chain Solutions (SCS), which provides comprehensive supply chain consulting including distribution and transportation services in North America and Asia. The SCS segment also provides dedicated services, which includes vehicles and drivers as part of a dedicated transportation solution in the U.S. Our customers range from small businesses to large international enterprises. These customers operate in a wide variety of industries, the most significant of which include automotive, food service, electronics, transportation, consumer packaged goods, grocery, lumber and wood products, and home furnishings.
For financial information and other information relating to each of our business segments, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Item 8, “Financial Statements and Supplementary Data,” of this report.
INDUSTRY AND OPERATIONS
Fleet Management Solutions

Value Proposition
Through our FMS business, we provide our customers with one-stop simplicity by offering fleet solutions that are designed to improve their competitive position by allowing them to focus on their core business and lower their costs. Our FMS product offering is comprised primarily of contractual-based full service leasing and contract maintenance services. We also offer transactional fleet solutions including maintenance services, commercial truck rental and value-added fleet support services such as insurance, vehicle administration and fuel services. In addition, we provide our customers with access to a large selection of used trucks, tractors and trailers through our used vehicle sales program.
Market Trends
The U.S. fleet market is estimated to include approximately 7.2 million vehicles[1]. The Canadian private commercial fleet market is estimated to be approximately 500,000 vehicles[2] and the Canadian commercial lease and rental market is estimated to include approximately 20,000 vehicles[3]. The U.K. commercial lease and rental market is estimated to include approximately 200,000 vehicles [4]. A significant portion of the fleet market consists of vehicles privately-owned by companies that provide all or a portion of the transportation services for themselves rather than outsourcing those services to third parties such as Ryder.
Over the last several years, many key trends have been reshaping the transportation industry, all of which we believe increase the value of our product offering. Because of increased demand for efficiency and reliability, companies that own and manage their own fleet of vehicles have put greater emphasis on the quality of their preventive maintenance and safety programs. The maintenance and operation of commercial vehicles has become more complicated and expensive requiring companies to spend a significant amount of time and money to keep up with new technology, diagnostics, retooling and training. Increased regulation and active enforcement efforts by federal and state governments require more stringent and costly operational processes and oversight. Fluctuating energy prices make it difficult for businesses to predict and manage fleet costs. Finally, the tightened credit market has limited some businesses’ access to capital.
Operations
For the year ended December 31, 2012, our global FMS business accounted for 64% of our consolidated revenue.
U.S. Our FMS customers in the U.S. range from small businesses to large national enterprises operating in a wide variety of industries. At December 31, 2012, we had 537 operating locations, excluding ancillary storage locations, in 49 states and Puerto Rico. A location typically consists of a maintenance facility or “shop,” offices for sales and other personnel, and in many cases, a commercial rental vehicle counter. Our maintenance facilities typically include a service island for fueling, safety inspections and preliminary maintenance checks as well as a shop for preventive

maintenance and repairs. We also operated 164 locations on-site at customer properties, which primarily provide vehicle maintenance.

(1) US Fleet as as of June 2012, Class 3-8, Source: RL Polk

(2) Canada Private Fleet as of December 2012, Class 3-8, Source: RL Polk

(3) Canada Outsourced Fleet Market as of December 2012 Class 3-8, Source: RL Polk

(4) UK Lease and Rental HGV Market, Projection for December 2012, Source: The Society of Motor Manufacturers & Traders (SMMT) 2010

Canada. We have been operating in Canada for over 50 years. At December 31, 2012, we had 34 operating locations throughout 8 Canadian provinces. We also operate 11 maintenance facilities on-site at customer properties in Canada.

Europe. We began operating in the U.K. in 1971 and expanded into Germany in 1987 by leveraging our operations in the U.S. and the U.K. At December 31, 2012, we had 55 operating locations throughout the U.K. and Germany. We also manage a network of 495 independent maintenance facilities in the U.K. to serve our customers when it is more effective than providing the service in a Ryder location. In addition to our typical FMS operations, we supply and manage vehicles, equipment and personnel for military organizations in the U.K. and Germany.

FMS Product Offerings

Full Service Leasing. Under a typical full service lease, we provide vehicle maintenance, supplies and related equipment necessary for operation of the vehicles while our customers furnish and supervise their own drivers and dispatch and exercise control over the vehicles. Our full service lease includes all the maintenance services that are part of our contract maintenance service offering. We target customers that would benefit from outsourcing their fleet management function or upgrading their fleet without having to dedicate a significant amount of their own capital or resources. We will tailor a leasing program that best suits the customer’s needs after we assess a customer’s business needs and after considering the size of the customer, residual risk and other factors. Once we have signed an agreement, we acquire vehicles and components that are custom engineered to the customer’s requirements and lease the vehicles to the customer for periods generally ranging from three to seven years for trucks and tractors and up to ten years for trailers. Because we purchase a large number of vehicles from a limited number of manufacturers, we are able to leverage our buying power for the benefit of our customers. In addition, given our continued focus on improving the efficiency and effectiveness of our maintenance services, particularly in light of changing technology and increased regulation, we can provide our customers with a cost effective alternative to maintaining their own fleet of vehicles. We also offer our leasing customers additional fleet support services described below.

Contract Maintenance. Our contract maintenance customers utilize our extensive network of maintenance facilities and trained technicians to maintain the vehicles they own or lease from third parties. The contract maintenance service offering is designed to reduce vehicle downtime through preventive maintenance based on vehicle type and time or mileage intervals. The service also provides vehicle repairs including parts and labor, 24-hour emergency roadside service and replacement vehicles for vehicles that are temporarily out of service. Vehicles covered under this offering are typically serviced at our own facilities. However, based on the size and complexity of a customer’s fleet, we may operate an on-site maintenance facility at the customer’s location.

Commercial Rental. We target rental customers that have a need to supplement their private fleet of vehicles on a short-term basis (one day up to one year in length) either because of seasonal increases in their business or discrete projects that require additional transportation resources. Full service lease customers utilize our commercial rental fleet to handle their peak or seasonal business needs. In addition to isolated commercial rental transactions, we build national relationships with large customers to become their preferred source of commercial vehicle rentals. Our rental representatives assist in selecting a vehicle that satisfies a customer’s needs and supervise the rental process, which includes execution of a rental agreement and a vehicle inspection. In addition to vehicle rental, we extend liability insurance coverage under our existing policies to our rental customers as well as the benefits of our comprehensive fuel services program.

The following table provides information regarding the number of vehicles and customers by FMS product offering at December 31, 2012:

	U.S.		Foreign		Total	
	Vehicles	Customers	Vehicles	Customers	Vehicles	Customers
Full service leasing	96,900	10,600	25,500	2,400	122,400	13,000
Contract maintenance [(1)]	33,100	1,300	4,700	200	37,800	1,500
Commercial rental [(2)]	27,800	32,200	10,200	6,500	38,000	38,700

(1) Contract maintenance customers include approximately 820 full service lease customers

(2) Commercial rental customers include customers who rented a vehicle for more than 3 days during the year and includes approximately 8,800 full service lease customers

Contract-Related Maintenance. Our full service lease and contract maintenance customers periodically require additional maintenance and repair services that are not included in their contracts. For example, additional maintenance and repair services may arise when a customer damages a leased vehicle. In addition, because of our existing relationship with the customer, we may provide service on their owned vehicles and charge the customer on an hourly basis for work performed. We may also contract with customers who have large private fleets to provide maintenance on demand. Although the contract includes the basic terms and conditions of the maintenance program that is designed to meet the customers' specific needs, all maintenance is performed only when and as requested by the customer. Providing on-demand maintenance allows us to establish relationships with customers that are not ready to commit to a longer term lease or maintenance contract.

Fleet Support Services. We have developed a variety of fleet support services tailored to the needs of our large base of lease customers. Customers may elect to include these services as part of their full service lease or contract maintenance agreements. We offer the following fleet support services:

Service	Description
Fuel	Full service diesel fuel and natural gas dispensing at competitive prices; fuel planning; fuel tax reporting; centralized billing; and fuel cards
Insurance	Liability insurance coverage under our existing insurance policies which includes monthly invoicing, flexible deductibles, claims administration and discounts based on driver performance and vehicle specifications; physical damage waivers; gap insurance; and fleet risk assessment
Safety	Establishing safety standards; providing safety training, driver certification, prescreening and road tests; safety audits; instituting procedures for transport of hazardous materials; coordinating drug and alcohol testing; and loss prevention consulting
Administrative	Vehicle use and other tax reporting; permitting and licensing; and regulatory compliance (including hours of service administration)
Environmental Management	Storage tank monitoring; storm water management; environmental training; and ISO 14001 certification
Information Technology	RydeSmart® is a full-featured GPS fleet location, tracking, and vehicle performance management system designed to provide our customers improved fleet operations and cost controls. Ryder FleetCARE is our web based tool that provides customers with 24/7 access to key operational and maintenance management information about their fleets.

Used Vehicles. We primarily sell our used vehicles at one of our 59 retail sales centers throughout North America (18 of which are co-located at an FMS shop), at our branch locations or through our website at www.Usedtrucks.Ryder.com. Typically, before we offer used vehicles for sale, our technicians assure that it is Road Ready®, which means that the vehicle has passed a comprehensive, multi-point performance inspection based on specifications formulated through our contract maintenance program. Our retail sales centers throughout North America allow us to leverage our expertise and in turn realize higher sales proceeds than in the wholesale market. Although we generally sell our used vehicles for prices in excess of book value, the extent to which we are able to realize a gain on the sale of used vehicles is dependent upon various factors including the general state of the used vehicle market, the age and condition of the vehicle at the time of its disposal and depreciation rates with respect to the vehicle.

FMS Business Strategy

Our FMS business mission is to be the leading leasing and maintenance service provider for light, medium and heavy duty vehicles. Our mission will be achieved if we successfully achieve the following goals and priorities:

- Drive fleet growth by (1) successfully implementing sales initiatives designed to penetrate private fleet markets and expand into adjacent markets; (2) offering innovative products, solutions and support services that will create and strengthen customer relationships; and (3) completing strategic and selective acquisitions;
- Deliver a consistent, industry-leading and cost-effective maintenance program to our customer through continued process improvement and re-design, productivity initiatives, and technology improvements; and
- Optimize asset utilization and management, particularly with respect to our rental fleet, used vehicle operations and maintenance facility infrastructure.

Competition

As an alternative to using our services, most companies choose to provide these services for themselves, although some may choose to obtain similar or alternative services from other third-party vendors.

Our FMS business segment competes with companies providing similar services on a national, regional and local level. Many regional and local competitors provide services on a national level through their participation in various cooperative programs. Competitive factors include price, equipment, maintenance, service and geographic coverage. We compete with finance lessors and also with truck and trailer manufacturers, and independent dealers, who provide

full service lease products, finance leases, extended warranty maintenance, rental and other transportation services. Value-added differentiation of the full service leasing, maintenance and commercial rental service, as well as continued commitment to offer innovative products and solutions such as natural gas vehicles, has been, and will continue to be, our emphasis.

Supply Chain Solutions
Value Proposition
Through our SCS business, we offer a broad range of innovative logistics management services that are designed to optimize a customer's supply chain and address key customer business requirements. The organization is aligned by industry verticals (Automotive, Hi-Tech, Retail, Consumer Packaged Goods and Industrial) to enable the teams to focus on the specific needs of their customers. Our SCS product offerings are organized into four categories: distribution management, transportation management, dedicated services and professional services. These offerings are supported by a variety of information technology and engineering solutions which are an integral part of our other SCS services. These product offerings can be offered independently or as an integrated solution to optimize supply chain effectiveness. A key aspect of our value proposition is our operational execution which is an important differentiator in the marketplace.
Market Trends
Global logistics is approximately an $8 trillion[1] market, of which approximately $620 billion[1] is outsourced. Logistics spending in the markets we are targeting in North America and Asia equates to approximately $3 trillion, of which $250 billion is outsourced. Outsourced logistics is a market with significant growth opportunity. As supply chains expand, product needs continue to proliferate and more sophisticated supply chain practices are required. In addition, disruptions such as Superstorm Sandy and the West Coast Port Strike have caused companies to focus on risk management of their supply chains. The more complicated the supply chain or the product requirements, the greater the need for companies to utilize the expertise of supply chain providers.

Operations

For the year ended December 31, 2012, our SCS business accounted for 36% of our consolidated revenue.

U.S. At December 31, 2012, we had 434 SCS customer accounts in the U.S., most of which are large enterprises that maintain large, complex supply chains. These customers operate in a variety of industries including automotive, high-tech,
retail industries, consumer packaged goods, and industrial. We continue to diversify our customer base by expanding into new industry verticals, most recently retail and consumer packaged goods. Most of our core SCS business operations are geographically located to maximize efficiencies and reduce costs. At December 31, 2012, managed warehouse space totaled approximately 26 million square feet for the U.S. and Puerto Rico. We also concentrate certain logistics expertise in locations not associated with specific customer sites. For example, our carrier procurement, contract management, and freight bill audit and payment services groups operate out of our carrier management center. Additionally, our transportation optimization and execution groups operate out of our logistics center, both of which have locations in Novi, Michigan and Fort Worth, Texas.
Canada. At December 31, 2012, we had 56 SCS customer accounts and managed warehouse space totaling approximately 1 million square feet. Given the proximity of this market to our U.S. and Mexico operations, the Canadian operations are highly coordinated with their U.S. and Mexico counterparts, managing cross-border transportation and freight movements.
Mexico. We began operating in Mexico in the mid-1990s. At December 31, 2012, we had 90 SCS customer accounts and managed warehouse space totaling approximately 4 million square feet. Our Mexico operations offer a full range of SCS services and manage approximately 11,300 border crossings each month between Mexico and the U.S. and Canada, often highly integrated with our distribution and transportation operations.
Asia. We began operating in Asia in 2000. Asia is a key component of our retail strategy, where we have a network of owned and agent offices, with headquarters in Shanghai. At December 31, 2012, we had 43 SCS customer accounts and managed warehouse space totaling approximately 280,000 square feet.
SCS Product Offerings
Distribution Management. Our SCS business offers a wide range of services relating to a customer's distribution operations from designing a customer's distribution network to managing distribution facilities. Services within the

facilities generally include managing the flow of goods from the receiving function to the shipping function, coordinating warehousing and transportation for inbound and outbound material flows, handling import and export for international shipments, coordinating just-in-time replenishment of component parts to manufacturing and final assembly, and providing shipments to customer distribution centers or end-customer delivery points. Additional value-added services such as light assembly of components into defined units (kitting), packaging and refurbishment are also provided. For the year ended December 31, 2012, distribution management solutions accounted for 30% of our SCS revenue.

(1) Armstrong & Associates Global logistics costs & third-party logistics revenue report, July 2012

Transportation Management. Our SCS business offers services relating to all aspects of a customer's transportation network. Our team of transportation specialists provides shipment planning and execution, which includes shipment optimization, load scheduling and delivery confirmation all through a series of technological and web-based solutions. Our transportation consultants, including our freight brokerage department, focus on carrier procurement of all modes of transportation with an emphasis on truck-based transportation, rate negotiation, and freight bill audit and payment services. In addition, our SCS business provides customers as well as our FMS business with capacity management services that are designed to meet backhaul opportunities and minimize excess miles. For the year ended December 31, 2012, we purchased and/or executed over $4.4 billion in freight moves on our customers behalf. For the year ended December 31, 2012, transportation management solutions accounted for 9% of our SCS revenue.
Dedicated Services. Dedicated services are generally offered on a stand-alone basis or as part of an integrated supply chain solution to our customers. The dedicated services offerings combine the equipment, maintenance and administrative services of a full service lease with drivers and additional services. This combination provides a customer with a dedicated transportation solution that is designed to increase their competitive position, improve risk management and integrate their transportation needs with their overall supply chain. Additional services include routing and scheduling, fleet sizing, safety, regulatory compliance, risk management, technology and communication systems support including on-board computers, and other technical support. These additional services allow us to provide high service levels and efficient routing. They also address the labor issues associated with maintaining a private fleet of vehicles, such as driver turnover, government regulation, including hours of service regulations, DOT audits and workers' compensation. Our dedicated services solution offers a high degree of specialization to meet the needs of customers with sophisticated service requirements such as tight delivery windows, high-value or time-sensitive freight, closed-loop distribution, multi-stop shipments, specialized equipment or integrated transportation needs. Although a significant portion of our dedicated services operations are located at customer facilities, our dedicated business utilizes and benefits from our extensive network of FMS facilities. For the year ended December 31, 2012, approximately 57% of our SCS revenue was related to dedicated services.

Professional Services. Our SCS business offers a variety of knowledge-based services that support every aspect of a customer's supply chain. Our SCS professionals are available to evaluate a customer's existing supply chain to identify inefficiencies, as well as opportunities for integration and improvement. Once the assessment is complete, we work with the customer to develop a supply chain strategy that will create the most value for the customer and their target clients. Once a customer has adopted a supply chain strategy, our SCS logistics team, supported by functional experts, and representatives from our information technology, real estate and finance groups work together to design a strategically focused supply chain solution. The solution may include both a network design that sets forth the number, location and function of key components of the network and a transportation solution that optimizes the mode or modes of transportation and route selection. In addition to providing the distribution and transportation expertise necessary to implement the supply chain solution, our SCS representatives can coordinate and manage all aspects of the customer's supply chain provider network to assure consistency, efficiency and flexibility. For the year ended December 31, 2012, knowledge-based professional services accounted for 4% of our SCS revenue.

SCS Business Strategy

Our SCS business strategy is to offer our customers differentiated functional execution, and proactive solutions from deep expertise in key industry verticals. The strategy revolves around the following interrelated goals and priorities:

- Providing customers with a differentiated quality of service and best execution through reliable and flexible supply chain solutions;
- Developing capabilities that can be applied and utilized in all industry verticals;
- Creating a culture of innovation that fosters new and high value solutions for our customers' supply chain needs;
- Focusing on continuous improvement and standardization; and
- Successfully implement targeted sales and marketing strategies.

Competition

In the SCS business segment, we compete with a large number of companies providing similar services, each of which has a different set of core competencies. We compete with a handful of large, multi-service companies across all of

our service offerings and industries. We also compete against other companies only on a specific service offering (for example, in transportation management, distribution management or dedicated services) or in a specific industry. We face different competitors in each country or region where they may have a greater operational presence. Competitive factors include price, service, market knowledge, expertise in logistics-related technology, and overall performance (e.g. timeliness, accuracy, and flexibility).

ACQUISITIONS

In addition to our continued focus on organic growth, acquisitions play an important role in enhancing our growth strategy. In assessing potential acquisition targets in our FMS business segment, we look for companies that would create value through operating synergies, leveraging our existing facility infrastructure, improving our geographic coverage, diversifying our customer base and improving our competitive position in target markets. In our SCS business segment, we focus on adding capabilities and product offerings, diversifying our customer base within various industries and improving our competitive position.

We completed five FMS acquisitions from 2010 to 2012, under which we acquired the company's fleets and contractual customers. The FMS acquisitions operate under Ryder's name and complement our existing market coverage and service network. On August 1, 2012, we acquired all of the common stock of Euroway Ltd., a U.K.-based, full service leasing, rental and maintenance company which included Euroway's fleet of approximately 560 full service lease vehicles as well as 800 contract maintenance vehicles. On June 8, 2011, we acquired all of the common stock of Hill Hire plc (Hill Hire), a U.K. based full service leasing, rental and maintenance company which included Hill Hire's fleet of approximately 8,000 full service lease and 5,700 rental vehicles, and approximately 400 contractual customers.

In SCS, we acquired Total Logistic Control, a leading provider of comprehensive supply chain solutions to food, beverage, and consumer packaged goods manufacturers with significant supply chains in the U.S.

CYCLICALITY

Ryder's business is impacted by economic and market conditions. In a strong economic cycle, there is generally more demand for our truck leasing/rental services and supply chain services. In a weak or volatile economy, including the recent economic downturn, demand for our services decreases and is inconsistent and considerably more unpredictable. Because of these factors, we have continued to focus on increasing the diversity of our customer base and growing contractual revenue, which can mitigate the immediate impact of an economic downturn. However, notwithstanding the level of customer/industry diversity or the amount of our contractual revenue, during a protracted or severe economic downturn, customers are often unwilling to commit to a full-service lease or long-term supply chain contract, demand for our commercial rental product and used vehicles declines. Because commercial rental and used vehicle sales are transactional, they are more cyclical in nature, and results can vary significantly in both the short- and long-term. We have a disciplined and centralized approach to asset management that allows us to manage the size, mix and location of our rental fleet and used vehicle inventories. These strategies allowed us to mitigate some of the impact of the recent deterioration in economic and market conditions.

ADMINISTRATION

Our financial administrative functions for the U.S. and Canada, including credit, billing and collections are consolidated into our Shared Services Center operations, a centralized processing center located in Alpharetta, Georgia. Our Shared Services Center also manages contracted third parties providing administrative finance and support services outside of the U.S. in order to reduce ongoing operating expenses and maximize our technology resources. This centralization results in more efficient and consistent centralized processing of selected administrative operations. Certain administrative functions are also performed at the Shared Services Center for our customers. The Shared Services Center's main objectives are to mitigate the impact of the transactional busines, enhance customer service through process standardization, create an organizational structure that will improve market flexibility and allow future reengineering efforts to be more easily attained at lower implementation costs.

REGULATION

Our business is subject to regulation by various federal, state and foreign governmental entities. The Department of Transportation and various federal and state agencies exercise broad powers over certain aspects of our business, generally governing such activities as authorization to engage in motor carrier operations, safety and financial reporting. We are also subject to a variety of requirements of national, state, provincial and local governments, including the U.S. Environmental Protection Agency and the Occupational Safety and Health Administration, that regulate safety, the management of hazardous materials, water discharges and air emissions, solid waste disposal and the release and cleanup of regulated substances. We may also be subject to licensing and other requirements imposed by the U.S. Department of Homeland Security and U.S. Customs Service as a result of increased focus on homeland

security and our Customs-Trade Partnership Against Terrorism certification. We may also become subject to new or more restrictive regulations imposed by these agencies, or other authorities relating to carbon controls and reporting, engine exhaust emissions, drivers' hours of service, security and ergonomics.

ENVIRONMENTAL

We have always been committed to sound environmental practices that reduce risk and build value for us and our customers. We have a history of adopting "green" designs and processes because they are efficient, cost effective transportation solutions that improve our bottom line and bring value to our customers. We adopted our first worldwide Environmental Policy mission in 1991 and have updated it periodically as regulatory and customer needs have changed. Our environmental policy

reflects our commitment to supporting the goals of sustainable development, environmental protection and pollution prevention in our business. We have adopted pro-active environmental strategies that have advanced business growth and continued to improve our performance in ways that reduce emission outputs and environmental impact. Our environmental team works with operating employees to develop and administer programs in support of our environmental policy and to help ensure that environmental considerations are integrated into all business processes and decisions.

In establishing appropriate environmental objectives and targets for our wide range of business activities around the world, we focus on (i) the needs of our customers; (ii) the communities in which we provide services; and (iii) relevant laws and regulations. We regularly review and update our environmental management procedures, and information regarding our environmental activities is routinely disseminated throughout Ryder. In 2012, we substantially expanded our environmental sustainability reporting with the publication of our 2011 Corporate Sustainability Report that includes expanded and enhanced disclosures, as well as new metrics related to the our environmental performance for the years 2009 through 2011. The Report details our sustainable business practices and environmental strategies to improve energy use, fuel costs and reduce overall carbon emissions. In addition, we have voluntarily responded to the Carbon Disclosure Project (CDP) since 2008, disclosing direct and indirect emissions resulting from our operations. Both of these reports are publicly available on the company website at www.ryder.com by clicking on About Us and then selecting Sustainability.

SAFETY

Our safety culture is founded upon a core commitment to the safety, health and well-being of our employees, customers, and the community, a commitment that has made us an industry leader in safety throughout our history. Safety is an integral part of our business strategy because preventing injuries and collisions improves employee quality of life, eliminates service disruptions to our customers, increases efficiency and improves customer satisfaction. As a core value, our focus on safety is a daily regimen, reinforced by many safety programs and continuous operational improvement and supported by a talented and dedicated safety organization.

Training is a critical component of our safety program. Monthly safety training delivered by location safety committees cover specific and relevant safety topics and managers receive annual safety leadership training. Quarterly and remedial training is also delivered online to each driver through our highly interactive Ryder Pro-TREAD comprehensive lesson platform. Regular safety behavioral observations are conducted by managers throughout the organization everyday and remedial training and coaching takes place on-the-spot. We also deploy state-of-the-art safety technologies in Ryder vehicles and our safety policies require that all managers, supervisors and employees incorporate safe processes in all aspects of our business. Monthly safety scorecards are tracked and reviewed by management for progress toward key safety objectives. Our proprietary web-based safety tracking system, RyderStar, delivers proactive safety programs tailored to every location and helps measure safety activity effectiveness across the organization.

EMPLOYEES

At December 31, 2012, we had approximately 27,700 full-time employees worldwide, of which 26,100 were employed in North America, 1,300 in Europe and 300 in Asia. We have approximately 17,000 hourly employees in the U.S., approximately 3,000 of which are organized by labor unions. Those employees organized by labor unions are principally represented by the International Brotherhood of Teamsters, the International Association of Machinists and Aerospace Workers, and the United Auto Workers, and their wages and benefits are governed by 87 labor agreements that are renegotiated periodically. Some of the businesses in which we currently engage have experienced a material work stoppage, slowdown or strike. We consider that our relationship with our employees is good.

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	Position
Gregory T. Swienton	63	Chairman of the Board
Robert E. Sanchez	47	President and Chief Executive Officer
Art A. Garcia	51	Executive Vice President and Chief Financial Officer
Dennis C. Cooke	48	President, Global Fleet Management Solutions
Robert D. Fatovic	47	Executive Vice President, Chief Legal Officer and Corporate Secretary
Cristina A. Gallo-Aquino	39	Vice President, Controller and Chief Accounting Officer
Gregory F. Greene	53	Executive Vice President and Chief Administrative Officer
John H. Williford	56	President, Global Supply Chain Solutions

Gregory T. Swienton has been Chairman since May 2002. Previously Mr. Swienton served as Chief Executive Officer from November 2000 to December 2012. He also served as President from June 1999 to June 2005. Before joining Ryder, Mr. Swienton was Senior Vice President of Growth Initiatives of Burlington Northern Santa Fe Corporation (BNSF) and before that Mr. Swienton was BNSF's Senior Vice President, Coal and Agricultural Commodities Business Unit.

Robert E. Sanchez was promoted to Chief Executive Officer in February 2012. Previously, Mr. Sanchez served as Chief Operating Officer from February 2012 to December 2012. He also previously served as President, Global Fleet Management Solutions from September 2010 to February 2012 and as Executive Vice President and Chief Financial Officer from October 2007 to September 2010. He also previously served as Executive Vice President of Operations, U.S. Fleet Management Solutions from October 2005 to October 2007 and as Senior Vice President and Chief Information Officer from January 2003 to October 2005. Mr. Sanchez joined Ryder in 1993 and has held various other positions.

Art A. Garcia has served as Executive Vice President and Chief Financial Officer since September 2010. Previously, Mr. Garcia served as Senior Vice President and Controller since October 2005 and as Vice President and Controller since February 2002. Mr. Garcia joined Ryder in December 1997 and has held various other positions within Corporate Accounting.

Dennis C. Cooke has served as President, Global Fleet Management Solutions since February 2012. Previously, Mr. Cooke served as Senior Vice President and Chief of Operations, U.S. and Canada Fleet Management Solutions since July 2011. Prior to joining Ryder, Mr. Cooke held various positions with General Electric (GE) including Vice President and General Manager of GE Healthcare's Global MRI business and Chief Executive Officer of GE's Security's Homeland Protection business.

Robert D. Fatovic has served as Executive Vice President, Chief Legal Officer and Corporate Secretary since May 2004. He previously served as Senior Vice President, U.S. Supply Chain Operations, Hi-Tech and Consumer Industries from December 2002 to May 2004. Mr. Fatovic joined Ryder's Law department in 1994 as Assistant Division Counsel and has held various other positions within the Law department including Vice President and Deputy General Counsel.

Cristina A. Gallo-Aquino has served as Vice President, Controller and Chief Accounting Officer since September 2010. Previously, Ms. Gallo-Aquino served as Assistant Controller from November 2009 to September 2010, where she was responsible for Ryder's Corporate Accounting, Benefits Accounting and Payroll Accounting departments. Ms. Gallo-Aquino joined Ryder in 2004 and has held various positions within Corporate Accounting.

Gregory F. Greene has served as Chief Administrative Officer since September 2010, as Executive Vice President since December 2006 and as Chief Human Resources Officer since February 2006. Previously, Mr. Greene served as Senior Vice President, Strategic Planning and Development from April 2003 to February 2006. Mr. Greene joined Ryder in August 1993 and has since held various positions within Human Resources.

John H. Williford has served as President, Global Supply Chain Solutions since June 2008. Prior to joining Ryder, Mr. Williford founded and served as President and Chief Executive Officer of Golden Gate Logistics LLC from 2006 to June 2008. From 2002 to 2005, he served as President and Chief Executive Officer of Menlo Worldwide, Inc., the supply chain business of CNF, Inc. From 2005 to 2006, Mr. Williford was engaged as an advisor to Menlo Worldwide subsequent to the sale of Menlo Forwarding to United Parcel Service.

FURTHER INFORMATION

For further discussion concerning our business, see the information included in Items 7 and 8 of this report. Industry and market data used throughout Item 1 was obtained through a compilation of surveys and studies conducted by industry sources, consultants and analysts.

We make available free of charge through the Investor Relations page on our website at www.ryder.com our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange

Commission. The public may read and copy any materials we have filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains our reports, proxy and information statements, and our other SEC filings. The address of the SEC's web site is www.sec.gov.
In addition, our Corporate Governance Guidelines, Principles of Business Conduct (including our Finance Code of Conduct), and Board committee charters are posted on the Corporate Governance page of our website at www.ryder.com.

ITEM 1A. RISK FACTORS

The following contains all known material risks that could affect our business.

Our business and operating results could be adversely affected by uncertain or unfavorable economic and industry conditions.

Ryder's operating results are affected by cyclical economic and market conditions in the U.S. and globally. In a weak or volatile economy, demand for our contractual services decreases and may be inconsistent and less predictable as customers are often unwilling to commit to full-service leases or long-term supply chain contracts. Accordingly, any sustained weakness in demand or a protracted economic downturn can negatively impact our business. Although customer uncertainty can serve to increase demand for our transactional services, including commercial rental and used vehicles sales, which do not involve long-term commitments, these product lines are generally more cyclical due to their transactional nature, and results can vary in both the short- and long-term.
2012 was a period of economic softness and uncertainty. We experienced unexpected weakness in commercial rental demand, particularly in the first half of the year. Although demand for commercial rental has appeared to stabilize, given the volatility in the market, rental demand may again decline unexpectedly, and possibly significantly, in 2013. As the year progressed, we saw signs of a general economic slowdown and reports of negative impacts on the transportation industry. Despite facing a challenging economic environment, our full service contractual lease business improved in 2012. Although we experienced growth in full service lease, our customers still remain cautious about entering into long-term leases. Uncertainty and lack of customer confidence around macroeconomic and transportation industry conditions may continue to impact our future growth prospects.
Challenging economic and market conditions may also result in:

- difficulty forecasting, budgeting and planning due to limited visibility into the spending plans of current or prospective customers;
- increased competition for fewer projects and sales opportunities;
- pressure that may adversely affect revenue and gross margin;
- higher overhead costs as a percentage of revenue;
- increased risk of charges relating to asset impairments, including goodwill and other intangible assets;
- customer financial difficulty and increased risk of uncollectible accounts receivable;
- additional fleet downsizing which could adversely impact profitability;
- increased risk of declines in the residual values of our vehicles; and
- sudden changes in fuel prices and fuel shortages, which may adversely impact total vehicle miles driven by our customers.

In addition, volatility in the global credit and financial markets may lead to:

- unanticipated interest rate and currency exchange rate fluctuations;
- increased risk of default by counterparties under derivative instruments and hedging agreements; and
- diminished liquidity and credit availability resulting in higher short-term borrowing costs and more stringent borrowing terms.

Because of the uncertain economic environment, we may continue to be impacted by the residual effects of the unfavorable macroeconomic and industry conditions that have persisted over the last few years. If these conditions continue or further weaken, our business and results of operations could be materially adversely affected.

We bear the residual risk on the value of our vehicles.

We generally bear the residual risk on the value of our vehicles. Therefore, if the market for used vehicles declines, or our vehicles are not properly maintained, we may obtain lower sales proceeds upon the sale of used vehicles. We sell our used vehicles through various channels, including retail sales centers, at our branch locations, through our website

at www.UsedTrucks.Ryder.com, as well as through the wholesale market. Pricing and demand for used vehicles varies among selling channels, particularly between the retail and wholesale markets, as we generally obtain lower proceeds on vehicles sold

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wholesale. If we are unable to meet our targeted fleet counts through our projected mix of retail versus wholesale sales, we may be required to sell more vehicles than planned by wholesale, which will impact our sales proceeds. Changes in residual values also impact the overall competitiveness of our full service lease product line, as estimated sales proceeds are a significant component of the overall price of the lease. Additionally, technology changes and sudden changes in supply and demand together with other market factors beyond our control vary from year to year and from vehicle to vehicle, making it difficult to accurately predict residual values used in calculating our depreciation expense. Although we have developed disciplines related to the management and maintenance of our vehicles that are designed to prevent these losses, there is no assurance that these practices will sufficiently reduce the residual risk. For a detailed discussion on our accounting policies and assumptions relating to depreciation and residual values, please see the section titled "Critical Accounting Estimates - Depreciation and Residual Value Guarantees" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our profitability could be adversely impacted by our inability to maintain appropriate commercial rental utilization rates through our asset management initiatives.

We typically do not purchase vehicles for our full service lease product line until we have an executed contract with a customer. However, in our commercial rental product line, we purchase vehicles and optimize the size and mix of the commercial rental fleet based upon our expectations of overall market demand. As a result, we bear the risk for ensuring that we have the proper vehicles in the right condition and location to effectively capitalize on market demand in order to drive the highest levels of utilization and revenue per unit. We employ a sales force and operations team on a full-time basis to manage and optimize this product line; however, their efforts may not be sufficient to overcome a significant change in market demand in the rental business.

Volatility in assumptions and asset values related to our pension plans may reduce our profitability and adversely impact current funding levels.

We historically sponsored a number of defined benefit plans for employees in the U.S., U.K. and other foreign locations. In recent years, we made amendments to defined benefit plans which froze the retirement benefits for non-grandfathered and certain non-union employees. Our major defined benefit plans are funded, with trust assets invested in a diversified portfolio. The cash contributions made to our defined benefit plans are required to comply with minimum funding requirements imposed by employee benefit and tax laws. The projected benefit obligation and assets of our global defined benefit plans as of December 31, 2012 were $2.2 billion and $1.6 billion, respectively. The difference between plan obligations and assets, or the funded status of the plans, is a significant factor in determining pension expense and the ongoing funding requirements of those plans. Macroeconomic factors, as well as changes in investment returns and discount rates used to calculate pension expense and related assets and liabilities can be volatile and may have an unfavorable impact on our costs and funding requirements. Although we have actively sought to control increases in these costs and funding requirements through investment policies and plan contributions, there can be no assurance that we will succeed, and continued cost pressure could reduce the profitability of our business and negatively impact our cash flows.

We also participate in eleven U.S. multi-employer pension (MEP) plans that provide defined benefits to employees covered by collective bargaining agreements. In the event that we withdraw from participation in one of these plans, then applicable law could require us to make an additional lump-sum contribution to the plan. Our withdrawal liability for any MEP plan would depend on the extent of the plan's funding of vested benefits. Economic conditions have caused MEP plans to be significantly underfunded. If the financial condition of the MEP plans were to continue to deteriorate, participating employers could be subject to additional assessments.

We operate in a highly regulated industry, and costs of compliance with, or liability for violation of, existing or future regulations could significantly increase our costs of doing business.

Our business is subject to regulation by various federal, state and foreign governmental agencies. These agencies could institute new laws, rules or regulations or issue interpretation changes to existing regulations at any time. We have also seen an increase in proactive enforcement of existing regulations by some entities. Compliance with new laws, rules or regulations could substantially impair labor and equipment productivity and increase our costs. Conversely, our failure to comply with any applicable laws, rules or regulations to which we are subject, whether actual or alleged, could expose us to fines, penalties or potential litigation liabilities, including costs, settlements, and judgments. We are also subject to reputational risk and other detrimental business consequences associated with

noncompliance, such as employees, customers, agents, suppliers or other persons using our supply chain or assets to commit illegal acts, including the use of company assets for terrorist activities, or a breach of data privacy laws, the ongoing development of which in the U.S. and other jurisdictions may require changes to our data security policies and procedures to comply with new standards.

DOT and Other Regulatory Authorities. The U.S. Department of Transportation and various state and federal agencies exercise broad powers over our motor carrier operations, safety, and the generation, handling, storage, treatment and disposal of waste materials. We may also become subject to new or more restrictive regulations imposed by the Department of Transportation, the Occupational Safety and Health Administration, the Department of Homeland Security and U.S. Customs Service, the Environmental Protection Agency or other authorities, relating to the hours of service that our drivers may provide in any one-time period, homeland security, carbon emissions and reporting and other matters.

Federal Motor Carrier Safety Administration CSA Program. In 2010, the Federal Motor Carrier Safety Administration (FMCSA) began implementation of the Compliance, Safety, Accountability program (CSA), a compliance and enforcement initiative partnering with State agencies designed to monitor and improve commercial vehicle motor safety. The CSA program includes a Safety Measurement System (SMS) that uses roadside inspections and violations to measure motor carriers and drivers and publishes scores related to these inspections and violation that compare the motor carriers and drivers against peers. The FMCSA established thresholds for each of seven different measurement areas that identify potential safety risks and result in direct intervention or enforcement action. Ryder's published scores are below the thresholds, but if performance changed, we could risk intervention that may create risk to the businesses operating authority.

Labor. We maintain operations and employees in numerous states throughout the U.S., which are governed by federal and state labor and employment laws and regulations relating to compensation, benefits, healthcare and various workplace issues, all of which are applicable to our employees, and in some cases, independent contractors. State labor and employment rules vary from state to state and in some states, require us to meet much stricter standards than required in other states. Although we are generally protected from previous action taken by the sellers of these businesses, any existing regulatory deficiencies could impact the value of the business purchased. Also, we are or may become subject to various class-action lawsuits related to wage and hour violations and improper pay in certain states. Unfavorable or unanticipated outcomes in any of the lawsuits could subject us to increased costs and impact our profitability. Also we are or may become subject to various class-action lawsuits related to wage and hour violations and improper pay in certain states.

International. We currently operate in Canada, Europe, Mexico and Asia, where we are subject to compliance with local laws and regulatory requirements of foreign jurisdictions, including local tax laws, and compliance with the Federal Corrupt Practices Act. Local laws and regulatory requirements may vary significantly from country to country. Customary levels of compliance with local regulations and the tolerance for noncompliance by regulatory authorities may also vary in different countries and geographical locations, and impact our ability to successfully implement our compliance and business initiatives in certain jurisdictions. Also, adherence to rigorous local laws and regulatory requirements may limit our ability to expand into certain international markets and result in residual liability for legal claims and tax disputes arising out of previously discontinued operations.

Environmental. Regulations governing exhaust emissions that have been enacted over the last few years could adversely impact our business. The Environmental Protection Agency (EPA) issued regulations that required progressive reductions in exhaust emissions from certain diesel engines from 2007 through 2010. Emissions standards require reductions in the sulfur content of diesel fuel since June 2006. Also, the first phase of progressively stringent emissions standards relating to emissions after-treatment devices was introduced on newly-manufactured engines and vehicles utilizing engines built after January 1, 2007. The second phase, which required an additional after-treatment system, became effective after January 1, 2010. We face additional technology changes under EPA regulations that will go into effect in 2014 and 2017, which will require modifications to existing vehicle chassis and engine combinations. The 2014 and 2017 regulations will require reductions in carbon dioxide, which can only be reduced by improving fuel economy, and which requires compliance with different emissions standards for both engines and chassis, based on vocation. OEMs may be required to install additional engine componentry, additional aerodynamics on chassis, and low-rolling resistance tires to comply with the upcoming regulations
which may result in a shorter useful tread life and increased operating costs for us. Although customers may see reduced fuel consumption under the new standards, this could be offset by increased fuel costs on a per gallon basis. Each of these requirements could result in higher prices for vehicles, diesel engines, fuel vehicle maintenance, which are passed on to our customers, as well as higher maintenance costs and uncertainty as to reliability of the new

engines, all of which could, over time, increase our costs and adversely affect our business and results of operations. The new technology may also impact the residual values of these vehicles when sold in the future. Future regulation of other environmental matters, including potential limits on carbon emissions under climate-change legislation, could also impact our business and profitability if enacted.

We and the vehicle and equipment manufacturers in our FMS business rely on a small number of suppliers.
We buy vehicles and related equipment from a relatively small number of original equipment manufacturers (OEMs) in our FMS business to purchase our vehicles and vehicle parts. Further, some of our vehicle manufacturers rely on a small concentration of suppliers for certain vehicle parts, components and equipment. A discrete event in a particular OEM's or supplier's industry or location, or adverse regional economic conditions impacting an OEM or supplier's ability to provide vehicles or a particular component could adversely impact our FMS business and profitability. In addition, our business and

reputation could also be negatively impacted if any parts, components or equipment from one of our suppliers suffer from broad-based quality control issues or become the subject of a product recall and we are unable to obtain replacement parts from another supplier in a timely manner.

We derive a significant portion of our SCS revenue from a relatively small number of customers.

During 2012, sales to our top ten SCS customers representing all of the industry groups we service, accounted for 43% of our SCS total revenue and 41% of our SCS operating revenue (revenue less subcontracted transportation). Additionally, approximately 30% of our global SCS revenue is from the automotive industry and is directly impacted by automotive vehicle production. The loss of any of these customers or a significant reduction in the services provided to any of these customers could impact our operations and adversely affect our SCS financial results. In addition, our largest SCS customers can exert downward pricing pressure and often require modifications to our standard commercial terms. While we believe our ongoing cost reduction initiatives have helped mitigate the effect of price reduction pressures from our SCS customers, there is no assurance that we will be able to maintain or improve profitability in those accounts. In 2010, we further diversified our customer base with the acquisition of TLC, which is concentrated in the consumer packaged goods industry. While we continue to focus our efforts on diversifying our customer base we may not be successful in doing so in the short-term.

We are also subject to credit risk associated with the concentration of our accounts receivable from our SCS customers. If one or more of these customers were to become bankrupt, insolvent or otherwise were unable to pay for the services provided by us, we may incur significant write-offs of accounts receivable or incur lease or asset impairment charges that could adversely affect our operating results and financial condition.

In addition, many of our customers operate in cyclical or seasonal industries, or operate in industries, including the food and beverage industry, that may be impacted by unanticipated weather, growing conditions (such as drought, insects or disease), natural disasters and other conditions over which we have no control. A downturn in our customers' business cycles or unanticipated events impacting their businesses could cause a reduction in freight volume shipped by those customers or a reduction in their need for our SCS services.

We operate in a highly competitive industry and our business may suffer if we are unable to adequately address potential downward pricing pressures and other competitive factors.

Numerous competitive factors could impair our ability to maintain our current profitability. These factors include the following:

- our inability to obtain expected customer retention levels or sales growth targets;
- advances in technology require increased investments to remain competitive, and our customers may not be willing to accept higher prices to cover the cost of these investments, and our reputation with our customers may suffer if outages, system failures or delays in timely access to data occur in legacy information technology systems that support key business processes;
- we compete with many other transportation and logistics service providers, some of which have greater capital resources than we do;
- customers may choose to provide the services we provide for themselves;
- some of our competitors periodically reduce their prices to gain business, and some of our smaller competitors may have lower cost structures than we do, which may limit our ability to maintain or increase prices; and
- because cost of capital is a significant competitive factor, any increase in either our debt or equity cost of capital as a result of reductions in our debt rating or stock price volatility could have a significant impact on our competitive position.

Our profitability could be negatively impacted if the key assumptions and pricing structure prove to be invalid.

Substantially all of our lease and maintenance services and our SCS services are provided under contractual arrangements with our customers. The pricing structure for our lease and contract maintenance business is based on certain assumptions regarding capital costs, maintenance expense over the life of the contract, residual values, productivity and and the mix of fixed and variable costs, many of which are derived from historical data and trends. Under most of our SCS contracts, all or a portion of our pricing is based on certain assumptions regarding the scope of services, production volumes, operational efficiencies, the mix of fixed versus variable costs, productivity and other factors.

If we are incorrect in our assumptions, or as a result of subsequent changes in our customers' business needs or operations or market forces that are outside of our control, these assumptions prove to be invalid, we could have lower margins than anticipated. Although certain of our SCS contracts provide for renegotiation upon a material change, there is no assurance that we will be successful in obtaining the necessary price adjustments.

We establish self-insurance reserves based on historical loss development factors, which could lead to adjustments in the future based on actual development experience.

We retain a portion of the accident risk under vehicle liability and workers' compensation insurance programs. Our self-insurance accruals are based on actuarially estimated, undiscounted cost of claims, which includes claims incurred but not reported. While we believe that our estimation processes are well designed, every estimation process is inherently subject to limitations. Fluctuations in the frequency or severity of accidents make it difficult to precisely predict the ultimate cost of claims. The actual cost of claims can be different than the historical selected loss development factors because of safety performance, payment patterns and settlement patterns. For a detailed discussion on our accounting policies and assumptions relating to our self-insurance reserves, please see the section titled "Critical Accounting Estimates - Self-Insurance Accruals" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

We may face difficulties in attracting and retaining drivers and technicians and may face issues with our union employees.

We hire drivers primarily for our SCS business segment and the DCC product line. There is significant competition for qualified drivers in the transportation industry. Additionally, interventions and enforcement under the CSA program may shrink the industry's pool of drivers as those drivers with unfavorable scores could leave the industry. As a result of driver shortages, we could be required to increase driver compensation, let trucks sit idle, utilize lower quality drivers or face difficulty meeting customer demands, all of which could adversely affect our growth and profitability.

Similarly, we hire technicians in our FMS business segment to perform vehicle maintenance services on our lease, contract maintenance and rental fleets. Recently there has been a decrease in the overall supply of skilled maintenance technicians, particularly new technicians with qualifications from technical programs and schools, which could make it more difficult to attract and retain skilled technicians. We have 3,000 employees that are organized by labor unions whose wages and benefits are governed by 87 labor agreements that are renegotiated periodically. Some of the businesses in which we currently engage have experienced a material work stoppage, slowdown or strike. Our business and operations could be impacted in the event of labor strikes or work stoppages involving our employees organized by labor unions in our FMS or SCS business segments.

Changes in lease accounting or other regulations may impact our customers' leasing decisions.

Demand for our full service lease product line is based in part on customers' decisions to lease rather than buy vehicles. A number of factors can impact whether customers decide to lease or buy vehicles, including accounting considerations, tax treatment, interest rates and operational flexibility. In 2010, the Financial Accounting Standards Board issued a proposed update to accounting standards that would involve a new approach to lease accounting that differs from current practice. Most notably, the new approach would eliminate off-balance sheet treatment of leases and require lessees to record leased assets on their balance sheets. If the proposed accounting standard becomes effective in its current form, it could be perceived to make leasing a less attractive option for some of our full service lease customers.

Other changes in accounting rules, estimates, assumptions and accruals and changes in current financial, tax or regulatory requirements to which we are subject could also negatively impact our business.

Our international operations subject us to operational and financial risks.

We provide services outside of the U.S., which subjects our business to various risks, including changes in tariffs, trade restrictions, trade agreements and taxes; difficulties in managing or overseeing foreign operations and agents; foreign currency fluctuations and limitations on the repatriation of funds due to foreign currency controls; different liability standards; and intellectual property laws of countries that do not protect our rights in intellectual property to the same extent as the laws of the U.S. The occurrence or consequences of any of these factors may restrict our ability to operate in the affected region and/or decrease the profitability of our operations in that region. Also, if we do not correctly anticipate changes in international economic and political conditions, we may not alter our business practices in time to avoid adverse effects.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

Our properties consist primarily of vehicle maintenance and repair facilities, warehouses and other real estate and improvements.

We maintain 612 FMS properties in the U.S., Puerto Rico and Canada; we own 392 of these and lease the remaining 220. Our FMS properties are primarily comprised of maintenance facilities generally including a repair shop, rental counter, fuel service island administrative offices, and used vehicle retail sales centers.

Additionally, we manage 175 on-site maintenance facilities, located at customer locations.

We also maintain 128 locations in the U.S. and Canada in connection with our domestic SCS business. Almost all of our SCS locations are leased and generally include a warehouse and administrative offices.

We maintain 105 international locations (locations outside of the U.S. and Canada) for our international businesses. These locations are in the U.K., Luxembourg, Germany, Mexico, China and Singapore. The majority of these locations are leased and may be a repair shop, warehouse or administrative office.

Additionally, we maintain 8 U.S. locations primarily used for Central Support Services. These facilities are generally administrative offices, of which we own one and lease the remaining seven.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various claims, lawsuits and administrative actions arising in the normal course of our businesses. Some involve claims for substantial amounts of money and/or claims for punitive damages. While any proceeding or litigation has an element of uncertainty, management believes that the disposition of such matters, in the aggregate, will not have a material impact on our consolidated financial condition or liquidity.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Ryder Common Stock Prices

	Stock Price		Dividends per Common Share
	High	Low	
2012			
First quarter	$57.63	51.41	0.29
Second quarter	54.28	33.95	0.29
Third quarter	43.36	32.76	0.31
Fourth quarter	51.01	38.69	0.31
2011			
First quarter	$53.63	45.93	0.27
Second quarter	57.04	49.32	0.27
Third quarter	60.38	37.51	0.29
Fourth quarter	54.35	34.28	0.29

Our common shares are listed on the New York Stock Exchange under the trading symbol "R." At January 31, 2013, there were 8,608 common stockholders of record and our stock price on the New York Stock Exchange was $56.78.

Performance Graph

The following graph compares the performance of our common stock with the performance of the Standard & Poor's 500 Composite Stock Index and the Dow Jones Transportation 20 Index for a five year period by measuring the changes in common stock prices from December 31, 2007 to December 31, 2012.

The stock performance graph assumes for comparison that the value of the Company's Common Stock and of each index was $100 on December 31, 2007 and that all dividends were reinvested. Past performance is not necessarily an indicator of future results.

Purchases of Equity Securities

The following table provides information with respect to purchases we made of our common stock during the three months ended December 31, 2012:

	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares That May Yet Be Purchased Under the Anti-Dilutive Program[2]
October 1 through October 31, 2012	3,933	$44.40	—	1,456,077
November 1 through November 30, 2012	5,697	45.40	—	1,456,077
December 1 through December 31, 2012	4,164	42.53	—	1,456,077
Total	13,794	$44.25	—	

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(1) During the three months ended December 31, 2012, we purchased an aggregate of 13,794 shares of our common stock in employee-related transactions. Employee-related transactions may include: (i) shares of common stock delivered as payment for the exercise price of options exercised or to satisfy the option holders' tax withholding liability associated with our share-based compensation programs and (ii) open-market purchases by the trustee of Ryder's deferred compensation plans relating to investments by employees in our stock, one of the investment options available under the plans.

(2) In December 2011, our Board of Directors authorized a share repurchase program intended to mitigate the dilutive impact of shares issued under our various employee stock, stock option and employee stock purchase plans. Under the December 2011 program, management 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, 2011 through December 13, 2013. The December 2011 program limits aggregate share repurchases to no more than 2 million shares of Ryder common stock. Share repurchases of common stock are made periodically in open-market transactions and are subject to market conditions, legal requirements and other factors. Management established prearranged written plans for the Company under Rule 10b5-1 of the Securities Exchange Act of 1934 as part of the December 2011 program, which allow for share repurchases during Ryder's quarterly blackout periods as set forth in the trading plan. For the three months ended December 31, 2012, we did not repurchase any shares under this program.

Securities Authorized for Issuance under Equity Compensation Plans

The following table includes information as of December 31, 2012 about certain plans which provide for the issuance of common stock in connection with the exercise of stock options and other share-based awards.

Plans	Number of Securities to be issued upon Exercise of Outstanding Options, Warrants and Rights		Weighed-Average Exercise Price of Outstanding Options, Warrants and Rights		Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans Excluding Securities Reflected in Column (a)
	(a)		(b)		(c)
Equity compensation plans approved by security holders:					
Broad based employee stock plans	3,804,932	(1)	$46.43	(3)	3,450,340
Employee stock purchase plan	—		—		655,759
Non-employee directors' stock plans	169,721	(2)	37.24	(3)	39,802
Equity compensation plans not approved by security holders	—		—		—
Total	3,974,653		$46.36		4,145,901

(1) Includes 681,333 time-vested and performance-based restricted stock awards
(2) Includes 144,721 restricted stock units
(3) Weighted-average exercise price of outstanding options, excludes restricted stock awards and restricted stock units

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial information should be read in conjunction with Items 7 and 8 of this report.

	Years ended December 31				
	2012	2011	2010	2009	2008
	(Dollars and shares in thousands, except per share amounts)				
Operating Data:					
Revenue	$6,256,967	6,050,534	5,136,435	4,887,254	5,999,041
Earnings from continuing operations	$200,899	171,368	124,608	90,117	257,579
Comparable earnings from continuing operations [(1)]	$207,445	180,630	116,988	94,630	267,144
Net earnings [(2)]	$209,979	169,777	118,170	61,945	199,881
Per Share Data:					
Earnings from continuing operations -Diluted	$3.91	3.31	2.37	1.62	4.51
Comparable earnings from continuing operations -Diluted [(1)]	$4.04	3.49	2.22	1.70	4.68
Net earnings -Diluted [(2)]	$4.09	3.28	2.25	1.11	3.50
Cash dividends	$1.20	1.12	1.04	0.96	0.92
Book value [(3)]	$28.57	25.77	27.44	26.71	24.17
Financial Data:					
Total assets	$8,318,979	7,617,835	6,652,374	6,259,830	6,689,508
Average assets [(4)]	$8,123,506	7,251,854	6,366,647	6,507,432	6,924,342
Return on average assets (%) [(4)]	2.6	2.3	1.9	1.0	2.9
Long-term debt	$3,452,821	3,107,779	2,326,878	2,265,074	2,478,537
Total debt	$3,820,796	3,382,145	2,747,002	2,497,691	2,862,799
Shareholders' equity[(3)]	$1,467,487	1,318,153	1,404,313	1,426,995	1,345,161
Debt to equity (%) [(3)]	260	257	196	175	213
Average shareholders' equity[(3), (4)]	$1,406,606	1,428,048	1,401,681	1,395,629	1,778,489
Return on average shareholders' equity (%)[(3), (4)]	14.9	11.9	8.4	4.4	11.2
Adjusted return on average capital (%) [(4), (5)]	5.6	5.7	4.8	4.1	7.3
Net cash provided by operating activities of continuing operations	$1,134,124	1,041,956	1,028,034	984,956	1,248,169
Free cash flow [(6)]	$(384,240)	(256,773)	257,574	614,090	340,665
Capital expenditures paid	$2,133,235	1,698,589	1,070,092	651,953	1,230,401
Other Data:					
Average common shares — Diluted	50,740	50,878	51,884	55,094	56,539
Number of vehicles — Owned and leased	172,500	169,900	148,700	152,400	163,400
Average number of vehicles — Owned and leased	173,700	160,900	150,700	159,500	161,500
Number of employees	27,700	27,500	25,900	22,900	28,000

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(1) Non-GAAP financial Measure. Refer to the section titled "Overview" and "Non-GAAP Financial Measures" in Item 7 of this report for a reconciliation of comparable earnings from continuing operations to net earning from continuing operations.

(2) Net earnings in 2012, 2011, 2010, 2009 and 2008 included earnings (losses) from discontinued operations of $9 million, or $0.18 per diluted common share, $(2) million, or $(0.03) per diluted common share, $(6) million, or $(0.12) per diluted common share, $(28) million, or $(0.51) per diluted common share, and $(58) million, or $(1.01) per diluted common share, respectively.

(3) Shareholders' equity at December 31, 2012, 2011, 2010, 2009 and 2008 reflected after-tax equity charges of $645 million, $595 million, $423 million, $412 million, and $480 million, respectively, related to our pension and postretirement plans.

(4) Amounts were computed using an 8-point average based on quarterly information.

(5) Our adjusted return on capital (ROC), a non-GAAP financial measure, represents the rate of return generated by the capital deployed in our business. We use ROC as an internal measure of how effectively we use the capital invested (borrowed or owned) in our operations. Refer to the section titled “Non-GAAP Financial Measures” in Item 7 of this report for a reconciliation of return on average shareholders’ equity to adjusted return on average capital.

(6) Refer to the section titled “Financial Resources and Liquidity” in Item 7 of this report for a reconciliation of net cash provided by operating activities to free cash flow.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with our consolidated financial statements and related notes contained in Item 8 of this report on Form 10-K. The following MD&A describes the principal factors affecting results of operations, financial resources, liquidity, contractual cash obligations, and critical accounting estimates. The information presented in the MD&A is for the years ended December 31, 2012, 2011 and 2010 unless otherwise noted.

OVERVIEW

Ryder System, Inc. (Ryder) is a global leader in transportation and supply chain management solutions. Our business operates in highly competitive markets. Our customers select us based on numerous factors including service quality, price, technology, and service offerings. As an alternative to using our services, customers may choose to provide these services for themselves, or may choose to obtain similar or alternative services from other third-party vendors. Our customer base includes enterprises operating in a variety of industries including automotive, food service, electronics, transportation, consumer packaged goods, grocery, lumber and wood products, and home furnishing.

We operate in two business segments: Fleet Management Solutions (FMS), which provides full service leasing, contract maintenance, contract-related maintenance and commercial rental of trucks, tractors and trailers to customers principally in the U.S., Canada and the U.K.; and Supply Chain Solutions (SCS), which provides comprehensive supply chain consulting including distribution and transportation services in North America and Asia. The SCS segment also provides dedicated contract carriage (DCC) services, which includes vehicles and drivers as part of a dedicated transportation solution in the U.S. Prior to 2012, DCC was reported as a separate business segment. In 2012, SCS and DCC were combined as a result of aligning our internal reporting with how we operate our business. While this change did not impact our consolidated results, segment data for prior periods have been recast to be consistent with the current year presentation.

The FMS business segment is our largest segment. FMS revenue and assets in 2012 were $3.98 billion and $7.56 billion, respectively, representing 64% of our consolidated revenue and 90% of consolidated assets. SCS revenue in 2012 was $2.28 billion, representing 36% of our consolidated revenue.

In 2012, we delivered revenue and earnings growth in both business segments despite an uncertain economic climate. Consolidated revenue grew 3% and earnings from continuing operations grew 17%. In our contractual business, the largest product line, full service lease, showed organic fleet growth and our SCS business segment showed solid revenue growth. Used vehicle sales continued to perform exceptionally well, showing improvement not only in volumes, but commanding better pricing as well. We also achieved a positive spread between our return on capital and cost of capital, and our return on equity improved by 300 basis points to 14.9%.

Total revenue was $6.26 billion, up 3% from $6.05 billion in 2011. Operating revenue (total revenue less FMS fuel and subcontracted transportation) was $5.07 billion in 2012, up 5%. Operating revenue increased primarily due to organic growth in both the FMS and SCS business segments.

Earnings before income taxes (EBT) from continuing operations increased 8% in 2012 to $303 million. The improvement in EBT was primarily due to organic growth in the FMS and SCS segments and the Hill Hire acquisition completed in June 2011. Acquisitions accounted for 5% of year-over-year EBT growth. However, these increases were partially offset by lower commercial rental performance and higher pension costs. EBT also included restructuring and other items of $17 million. Earnings from continuing operations increased 17% to $201 million in 2012 and earnings per diluted common share (EPS) from continuing operations increased 18% to $3.91 per diluted common share reflecting a lower income tax rate on higher EBT.

EBT, earnings and EPS from continuing operations included certain items we do not consider indicative of our ongoing operations and have been excluded from our comparable earnings measure. The following discussion provides a summary of the 2012 and 2011 items which are discussed in more detail throughout our MD&A and within the Notes to Consolidated Financial Statements:

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

	Continuing Operations Earnings Before Income Taxes (EBT)	Earnings	Diluted Earnings per Share (EPS)
	(Dollars in thousands except per share amounts)		
2012			
Earnings/EPS from Continuing Operations	$303,117	$200,899	$3.91
Restructuring and other charges	8,070	5,263	0.11
Superstorm Sandy vehicle-related losses [(1)]	8,230	5,117	0.10
Acquisition-related transaction costs [(1)]	368	277	—
Charge related to tax law change in the U.K.	—	856	0.02
Tax benefit associated with resolution of prior year tax item	—	(4,967)	(0.10)
Comparable [(2)]	$319,785	$207,445	$4.04
2011			
Earnings/EPS from Continuing Operations	$279,387	$171,368	$3.31
Restructuring and other charges	3,655	2,489	0.05
Acquisition-related transaction costs [(1)]	2,134	1,991	0.04
Charge related to tax law change in Michigan	—	5,350	0.10
Tax benefit from acquisition-related transaction costs	—	(568)	(0.01)
Comparable [(2)]	$285,176	$180,630	$3.49

(1) Refer to Note 26, "Other Items Impacting Comparability," in the Notes to Consolidated Financial Statements.
(2) Non-GAAP financial measure. We believe 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.

Excluding the items listed above, comparable earnings from continuing operations increased 15% to $207 million in 2012 and increased 54% to $181 million in 2011. Comparable EPS from continuing operations increased 16% to $4.04 in 2012 and 57% to $3.49 per diluted common share, respectively.
Net earnings (including discontinued operations) increased 24% in 2012 to $210 million or $4.09 per diluted common share.
Free cash flow from continuing operations was negative $384 million in 2012 compared to negative $257 million in 2011. The decline was driven by higher vehicle spending. We made pension contributions of approximately $81 million and increased our annual dividend by 11% to $1.24 per share of common stock.
Capital expenditures increased 23% to $2.16 billion in 2012 and reflects planned investments to fulfill contractual full service lease sales made to customers that are renewing and growing their fleets with Ryder. Our debt balance increased 13% to $3.82 billion at December 31, 2012 due to higher vehicle capital spending levels. Our debt to equity ratio also increased to 260% from 257% in 2011. Our total obligations (including off-balance sheet debt) to equity ratio also increased to 270% from 261% in 2011.

2013 Outlook
Although customers' confidence levels and their willingness to sign long-term contracts are still affected by soft and uncertain economic conditions, we are confident that we can profitably grow contractual revenue in both our business segments in 2013. In addition, we believe that our ongoing focus on new capabilities and innovation will continue to enhance our value propositions across both business segments in ways that appeal to companies that have not outsourced before. Overall, we expect the forward momentum of our business will enable us to deliver organic growth and strong earnings, while continuing strategic investments and overcoming headwinds including higher insurance, medical and compensation costs.

In FMS, we expect continued growth in our full service lease and contractual maintenance product offerings. Given continued strong lease fleet replacement activity, our fleet is becoming newer, and therefore, less costly to maintain. Although rental demand is expected to be modestly lower, we should see improved utilization levels and pricing on a smaller fleet. In used vehicle sales, we expect higher volumes with continued strong pricing, although modestly lower than 2012. In addition, we expect depreciation benefits associated with strong used vehicle pricing realized the past few years. In SCS, our growth from new business and improved retention levels is expected to more than offset modest anticipated volume declines in the high-tech and consumer packaged goods sectors. This growth and the resulting overhead leverage is forecast to lead to continued margin expansion.

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

Total revenue for the full-year 2013 is forecast to be $6.5 billion, an increase of 4% compared with 2012. Operating revenue for the full-year 2013 is forecast to increase 4% to $5.3 billion compared with 2012. In FMS, contractual leasing and maintenance revenue is expected to increase 4%. Commercial rental revenue is forecast to decrease by 2% due to lower demand on a smaller fleet. Total SCS revenue is forecast to increase by 5% and SCS operating revenue is anticipated to increase by 6%, reflecting new sales activity and higher retention.

ACQUISITIONS

We completed the following FMS acquisitions from 2010 to 2012, under which we acquired a company's fleet and contractual customers. The acquisitions operate under Ryder's name and complement our existing market coverage and service network. The results of these acquisitions have been included in our consolidated results since the dates of acquisition. See Note 3, "Acquisitions," for further discussion.

Company Acquired	Date	Vehicles	Contractual Customers	Market
Euroway Ltd.	August 1, 2012	1,360	60	U.K.
Hill Hire plc	June 8, 2011	13,700	400	U.K.
B.I.T. Leasing	April 1, 2011	490	130	California
The Scully Companies	January 28, 2011	2,100	200	Western U.S.
Carmenita Leasing, Inc.	January 10, 2011	190	60	California

On December 31, 2010, we acquired all of the common stock of Total Logistic Control (TLC), a leading provider of comprehensive supply chain solutions to food, beverage, and consumer packaged goods manufacturers in the U.S. TLC provides customers a broad suite of end-to-end services, including distribution management, contract packaging services and solutions engineering. This acquisition enhances our SCS capabilities and growth prospects in the areas of packaging and warehousing, including temperature-controlled facilities.

FULL YEAR CONSOLIDATED RESULTS

	2012	2011	2010	Change 2012/2011		2011/2010	
	(Dollars in thousands, except per share amounts)						
Total revenue	$ 6,256,967	6,050,534	5,136,435	3	%	18	%
Operating revenue [(1)]	5,066,322	4,814,557	4,158,239	5		16	
Pre-tax earnings from continuing operations	$ 303,117	279,387	186,305	8		50	
Earnings from continuing operations	200,899	171,368	124,608	17		38	
Net earnings	209,979	169,777	118,170	24		44	
Earnings per common share — Diluted							
Continuing operations	$ 3.91	3.31	2.37	18	%	40	%
Net earnings	4.09	3.28	2.25	25	%	46	%

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

reconciliation of total revenue to operating revenue.

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

Revenue and cost of revenue by source

Total revenue increased 3% in 2012 to $6.26 billion and increased 18% in 2011 to $6.05 billion. Operating revenue (revenue excluding FMS fuel and all subcontracted transportation) increased 5% in 2012 to $5.07 billion and increased 16% in 2011 to $4.81 billion. The following table summarizes the components of the change in revenue on a percentage basis versus the prior year:

	2012		2011	
	Total	Operating	Total	Operating
Organic including price and volume	2 %	3 %	3 %	5 %
Acquisitions	1	2	9	10
FMS fuel	—	—	4	—
Subcontracted transportation	—	—	1	—
Foreign exchange	—	—	1	1
Total increase	3 %	5 %	18 %	16 %

See “Operating Results by Business Segment” for a further discussion of the revenue impact from organic growth and acquisitions.

Lease and Rental

				Change	
	2012	2011	2010	2012/2011	2011/2010
	(Dollars in thousands)				
Lease and rental revenues	$2,695,376	2,553,877	2,309,816	6%	11%
Cost of lease and rental	1,890,659	1,746,057	1,604,253	8%	9%
Gross margin	804,717	807,820	705,563	—%	14%
Gross margin %	30%	32%	31%		

Lease and rental revenues represent full service lease and commercial rental product offerings within our FMS business segment. Revenues increased 6% in 2012 to $2.70 billion and increased 11% in 2011 to $2.55 billion. In 2012, the increase was primarily driven by higher prices on lease and commercial rental vehicles, organic full service lease fleet growth and the impact of the Hill Hire acquisition partially offset by lower commercial rental demand. Improved full service lease pricing on new and replacement vehicles was driven by higher costs on new engine technology. In 2011, the increase was primarily driven by acquisitions and improved global rental demand and pricing. Pricing on commercial rental power vehicles increased 4% in 2012 and 10% in 2011.

Cost of lease and rental represents the direct costs related to lease and rental revenues. These costs are comprised of depreciation of revenue earning equipment, maintenance costs (primarily repair parts and labor), and other fixed costs such as licenses, insurance and operating taxes. Cost of lease and rental excludes interest costs from vehicle financing. Cost of lease and rental increased 8% in 2012 to $1.89 billion and increased 9% in 2011 to $1.75 billion. In 2012, the cost increase was due to the growth in the lease fleet and refreshment of the lease and rental fleets. The increase in 2011 was due to an increase in revenue and 12% higher maintenance costs on an older lease fleet.

Gross margin declined slightly to $805 million and gross margin as a percentage of revenue decreased to 30% in 2012. These decreases were due to lower commercial rental performance from lower fleet utilization partially offset by the impact of the Hill Hire acquisition and improved full service lease performance. Gross margin increased 14% to $808 million in 2011 as a result of an increase in rental pricing partially offset by higher maintenance costs on an older lease fleet.

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

Services

	2012	2011	2010	Change 2012/2011	2011/2010
	(Dollars in thousands)				
Services revenue	$2,707,013	2,609,174	2,109,748	4%	24%
Cost of services	2,274,118	2,186,353	1,763,018	4%	24%
Gross margin	432,895	422,821	346,730	2%	22%
Gross margin %	16%	16%	16%		

Services revenue represents all the revenues associated with our SCS business segment as well as contract maintenance, contract-related maintenance and fleet support services associated with our FMS business segment. Services revenue increased 4% in 2012 to $2.71 billion and increased 24% in 2011 to $2.61 billion. In 2012, the revenue increase was primarily driven by increased volumes and new business in our SCS automotive sector and higher fuel costs passed through to our SCS segment customers. In 2011, the revenue increase was primarily driven by acquisitions in our SCS business segment.

Cost of services represent the direct costs related to services revenue and is primarily comprised of salaries and employee-related costs, SCS subcontracted transportation (purchased transportation from third parties) and maintenance costs. Cost of services increased 4% in 2012 to $2.27 billion and increased 24% in 2011 to $2.19 billion. In 2012 and 2011, the cost increase was due to an increase in revenue. The increase in 2012 also reflects higher medical benefit costs as well as $8 million of vehicle-related losses from Superstorm Sandy. Subcontracted transportation costs, which are passed through to our customers, decreased $12 million in 2012 and increased $87 million in 2011.

Services gross margin increased 2% to $433 million in 2012 and increased 22% to $423 million in 2011. Services gross margin as a percentage of revenue remained at 16% in 2012 and 2011.

Fuel

	2012	2011	2010	Change 2012/2011	2011/2010
	(Dollars in thousands)				
Fuel services revenue	$854,578	887,483	716,871	(4)%	24%
Cost of fuel services	838,673	873,466	699,107	(4)%	25%
Gross margin	15,905	14,017	17,764	13%	(21)%
Gross margin %	2%	2%	2%		

Fuel services revenue decreased 4% in 2012 to $855 million and increased 24% in 2011 to $887 million. In 2012, the revenue decrease was due to fewer gallons sold partially offset by higher fuel prices passed through to customers. In 2011, the increase in revenue was due to higher fuel prices passed through to customers.

Cost of fuel services includes the direct costs associated with providing our customers with fuel. These costs include fuel, salaries and employee-related costs of fuel island attendants and depreciation of our fueling facilities and equipment. Cost of fuel decreased 4% in 2012 to $839 million and increased 25% in 2011 to $873 million. In 2012, the cost decrease was due to fewer gallons sold partially offset by an increase in fuel prices. In 2011, the increase was due an increase in fuel prices.

Fuel services gross margin increased 13% to $16 million in 2012 and decreased 21% to $14 million in 2011. Fuel is largely a pass-through to customers for which we realize minimal changes in margin during periods of steady market fuel prices. However, fuel services margin is impacted by sudden increases or decreases in market fuel prices during a short period of time as customer pricing for fuel is established based on market fuel costs.

2012	2011	2010	Change 2012/2011	2011/2010
(In thousands)				

Other operating expenses	$135,904	129,180	134,224	5 %	(4)%

Other operating expenses includes costs related to our owned and leased facilities within the FMS business segment such as depreciation, rent, insurance, utilities and taxes. These facilities are utilized to provide maintenance to our lease, rental,

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

contract maintenance and fleet support services customers. Other operating expenses also include the costs associated with used vehicle sales such as writedowns of used vehicles to fair market value and facilities costs. Other operating expenses increased in 2012 due to higher writedowns on vehicles held for sale of $10 million. Other operating expenses decreased in 2011 due to lower writedowns on vehicles held for sale of $14 million.

	2012	2011	2010	Change 2012/2011	2011/2010
	(Dollars in thousands)				
Selling, general and administrative expenses (SG&A)	$766,704	771,244	655,375	(1)%	18%
Percentage of total revenue	12%	13%	13%		
Percentage of operating revenue	15%	16%	16%		

SG&A expenses decreased 1% to $767 million in 2012 and increased 18% to $771 million in 2011. SG&A expenses as a percent of total revenue decreased to 12% in 2012 and remained at 13% in 2011. SG&A expenses in 2012 reflect lower incentive-based compensation of $31 million partially offset by higher pension expense and commissions from new sales activity as well as an increase in salaries and employee-related costs from organic growth and acquisitions. SG&A expenses increased in 2011 due primarily to an increase in incentive-based compensation of $37 million. SG&A expenses were also impacted by significant investments in information technology and sales initiatives. Pension expense, which primarily impacts SG&A expenses, increased $15 million in 2012 and decreased $7 million in 2011. The increase in pension expense in 2012 primarily reflects lower than expected pension asset returns in 2011 and lower assumed returns in 2012.

	2012	2011	2010	Change 2012/2011	2011/2010
	(In thousands)				
Gains on vehicle sales, net	$89,108	62,879	28,727	42%	119%

Gains on vehicle sales, net increased 42% to $89 million in 2012 due to higher sales volume and improved pricing. Increased sales volume in 2012 (up 31%) includes higher wholesaling activity to maintain inventories at appropriate levels. Despite increased wholesaling activity, average pricing on vehicles sold grew 8% in 2012. Gains on vehicle sales, net increased 119% to $63 million in 2011 due to a 30% increase in average pricing on vehicles sold.

	2012	2011	2010	Change 2012/2011	2011/2010
	(Dollars in thousands)				
Interest expense	$140,557	133,164	129,994	6%	2%
Effective interest rate	3.8%	4.3%	5.2%		

Interest expense increased 6% to $141 million in 2012 and increased 2% to $133 million in 2011. The increase in 2012 and in 2011 reflects higher average outstanding debt partially offset by a lower effective interest rate. The increase in average outstanding debt is due to high levels of capital spending and funding for acquisitions. The lower effective interest rate reflects the replacement of higher interest rate debt with debt issuances at lower rates as well as an increased percentage of variable rate debt. A hypothetical 100 basis point change in short-term market interest rates would change annual pre-tax earnings by $10 million.

	2012	2011	2010
	(In thousands)		
Miscellaneous income, net	$11,727	9,093	7,114

Miscellaneous income, net consists of investment income on securities held to fund certain benefit plans, interest income, gains and losses from sales of property, foreign currency transaction gains, and non-operating items. Miscellaneous income, net improved $3 million in 2012 primarily due to gains on insurance related-recoveries and

higher income on investment securities. Miscellaneous income, net improved $2 million in 2011 primarily due to gains from sales of facilities and insurance-related recoveries, partially offset by lower income on our investment securities.

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

	2012	2011	2010
	(In thousands)		
Restructuring and other charges, net	$8,070	3,655	—

Refer to Note 5, “Restructuring and Other Charges,” in the Notes to Consolidated Financial Statements for a discussion of these charges.

				Change	
	2012	2011	2010	2012/2011	2011/2010
	(Dollars in thousands)				
Provision for income taxes	$102,218	108,019	61,697	(5)%	75 %
Effective tax rate from continuing operations	33.7 %	38.7 %	33.1 %		

Our provision for income taxes and effective income tax rates are impacted by such items as enacted tax law changes, settlement of tax audits and the reversal of reserves for uncertain tax positions due to the expiration of statutes of limitation. In the aggregate, these items increased the effective rate by 2.6% in 2011 and reduced the effective rate by 5.7% in 2010. In 2012, we had a tax benefit of $5 million relating to the favorable resolution of a tax item from prior periods, which reduced the effective rate by 1.6% of pre-tax earnings from continuing operations in 2012. Excluding these items, our effective tax rate in 2012 and 2011 benefited from a higher proportionate amount of earnings in lower tax rate jurisdictions.

On December 17, 2010, the U.S. enacted the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act and on September 27, 2010, the U.S. enacted the Small Business Job Act of 2010. On January 2, 2013, the U.S. enacted the American Taxpayer Relief Act of 2012 (collectively, the “Acts”). These Acts expanded and extended bonus depreciation to qualified property placed in service during 2010 through 2013. These changes will significantly reduce our U.S. federal tax payments through 2014.

	2012	2011	2010
	(In thousands)		
Earnings (Loss) from discontinued operations, net of tax	$9,080	(1,591)	(6,438)

Refer to Note 4, “Discontinued Operations,” in the Notes to Consolidated Financial Statements for a discussion of results from discontinued operations.

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

FULL YEAR OPERATING RESULTS BY BUSINESS SEGMENT

	2012	2011	2010	Change 2012/2011	2011/2010
	(In thousands)				
Revenue:					
Fleet Management Solutions	$4,405,325	4,218,330	3,712,153	4 %	14 %
Supply Chain Solutions	2,280,586	2,206,038	1,734,834	3	27
Eliminations	(428,944)	(373,834)	(310,552)	(15)	(20)
Total	$6,256,967	6,050,534	5,136,435	3 %	18 %
Operating Revenue:					
Fleet Management Solutions	$3,321,150	3,135,857	2,846,532	6 %	10 %
Supply Chain Solutions	1,944,518	1,857,544	1,473,509	5	26
Eliminations	(199,346)	(178,844)	(161,802)	(11)	(11)
Total	$5,066,322	4,814,557	4,158,239	5 %	16 %
EBT:					
Fleet Management Solutions	$307,628	265,691	194,909	16 %	36 %
Supply Chain Solutions	115,193	104,898	81,683	10	28
Eliminations	(29,265)	(24,212)	(19,275)	(21)	(26)
	393,556	346,377	257,317	14	35
Unallocated Central Support Services	(42,348)	(42,549)	(41,310)	—	(3)
Non-operating pension costs	(31,423)	(18,652)	(26,551)	(68)	30
Restructuring and other charges, net and other items [(1)]	(16,668)	(5,789)	(3,151)	NM	NM
Earnings from continuing operations before income taxes	$303,117	279,387	186,305	8 %	50 %

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(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 "Earnings Before Tax" (EBT) from continuing operations, which includes an allocation of Central Support Services (CSS) and excludes non-operating pension costs, restructuring and other charges, net and other items we do not believe are representative of the ongoing operations of the segment.

In 2012, the EBT measurement was adjusted to exclude the non-operating components of pension and other postretirement benefit costs in order to more accurately reflect the operating performance of the business segments. The non-operating components include the amortization of actuarial loss, interest cost and expected return on plan assets. All prior period segment results have been recast to present results on a comparable basis. This change had no impact on our consolidated results. The objective of the EBT measurement is to provide clarity on the profitability of each business segment and, ultimately, to hold leadership of each business segment and each operating segment within each business segment accountable for their allocated share of CSS costs. 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. 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 are allocated to the business segments.

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

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

related to inter-segment equipment and services billed to customers (equipment contribution) are included in both FMS and SCS and then eliminated (presented as "Eliminations").

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

Description	Consolidated Statements of Earnings Line Item	2012	2011	2010
		(In thousands)		
Severance and employee-related costs [1]	Restructuring and other charges	$(7,205)	(3,162)	—
Contract termination costs [1]	Restructuring and other charges	(865)	(493)	—
Restructuring and other charges, net		(8,070)	(3,655)	—
Superstorm Sandy vehicle-related losses [2]	Cost of services	(8,230)	—	—
Non-operating pension costs	SG&A	(31,423)	(18,652)	(26,551)
Gain on sale of property [2]	Miscellaneous income	—	—	946
Acquisition transaction costs [2]	SG&A	(368)	(2,134)	(4,097)
		$(48,091)	(24,441)	(29,702)

(1) See Note 5, "Restructuring and Other Charges," in the Notes to Consolidated Financial Statements for additional information.
(2) See Note 26, "Other Items Impacting Comparability" in the Notes to Consolidated Financial Statements for additional information.

The following table reconciles FMS segment revenue to revenue from external customers:

	2012	2011	2010
	(In thousands)		
Full service lease revenue	$2,102,212	1,996,273	1,934,346
Commercial rental revenue	772,799	722,557	525,083
Full service lease and commercial rental revenue	2,875,011	2,718,830	2,459,429
Intercompany revenue	(179,635)	(164,953)	(149,613)
Full service lease and commercial rental revenue from external customers	$2,695,376	2,553,877	2,309,816
FMS services revenue	$446,139	417,027	387,103
Intercompany revenue	(19,712)	(13,891)	(12,189)
FMS services revenue from external customers	$426,427	403,136	374,914
FMS fuel services revenue	$1,084,175	1,082,473	865,621
Intercompany revenue	(229,597)	(194,990)	(148,750)
Fuel services revenue from external customers	$854,578	887,483	716,871

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

Fleet Management Solutions

	2012	2011	2010	Change 2012/2011	2011/2010
	(Dollars in thousands)				
Full service lease	$2,102,212	1,996,273	1,934,346	5%	3%
Contract maintenance	187,229	182,282	179,745	3	1
Contractual revenue	2,289,441	2,178,555	2,114,091	5	3
Contract-related maintenance	186,955	165,621	139,910	13	18
Commercial rental	772,799	722,557	525,083	7	38
Other	71,955	69,124	67,448	4	2
Operating revenue (1)	3,321,150	3,135,857	2,846,532	6	10
Fuel services revenue	1,084,175	1,082,473	865,621	—	25
Total revenue	$4,405,325	4,218,330	3,712,153	4%	14%
Segment EBT	$307,628	265,691	194,909	16%	36%
Segment EBT as a % of total revenue	7.0%	6.3%	5.3%	70 bps	100 bps
Segment EBT as a % of operating revenue (1)	9.3%	8.5%	6.8%	80 bps	170 bps

(1) We use operating revenue and EBT as a percent of operating revenue, non-GAAP financial measures, to evaluate the operating performance of our FMS business segment and as a measure of sales activity. 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 rapid changes in market fuel prices during a short period of time as customer pricing for fuel services is established based on market fuel costs.

Total revenue increased 4% in 2012 to $4.41 billion and increased 14% in 2011 to $4.22 billion. Operating revenue (revenue excluding fuel) increased 6% in 2012 to $3.32 billion and increased 10% in 2011 to $3.14 billion. The following table summarizes the components of the change in revenue on a percentage basis versus the prior year:

	2012 Total	Operating	2011 Total	Operating
Organic including price and volume	2%	4%	4%	4%
Acquisitions	2	2	4	5
FMS fuel	—	—	5	—
Foreign exchange	—	—	1	1
Total increase	4%	6%	14%	10%

2012 versus 2011

Full service lease revenue increased 5% in 2012 reflecting higher prices on replacement vehicles and organic fleet growth as well as the impact of the Hill Hire acquisition. The higher pricing on new and replacement vehicles was driven by higher costs on new engine technology. We expect favorable full service lease comparisons to continue next year primarily due to organic growth. Commercial rental revenue increased 7% in 2012 reflecting acquisitions and higher pricing (up 4% in 2012) partially offset by lower market demand. We expect unfavorable commercial rental revenue comparisons next year driven by lower demand on a smaller fleet. Fuel services revenue was $1.1 billion in

2012, unchanged from the prior year, as higher fuel prices passed through to customers were offset by fewer gallons sold.

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

FMS EBT increased 16% in 2012 to $308 million primarily due to lower compensation-related expenses, organic growth of the lease fleet and the impact of the Hill Hire acquisition. Year over year comparisons also benefited from improved used vehicle sales results. The increase in EBT was partially offset by lower commercial rental results. Acquisitions increased FMS EBT by 5%. Used vehicle sales results improved primarily due to stronger volumes on 8% higher pricing, partially offset by increased carrying costs on a larger inventory. Although pricing increased, commercial rental performance decreased 3% as a result of lower utilization on a 10% larger average fleet (including trailers). FMS EBT in 2012 includes a benefit of $18 million resulting from residual value changes on revenue earning equipment.

2011 versus 2010

Full service lease revenue increased 3% reflecting the impact of acquisitions. Commercial rental revenue increased 38% in 2011 reflecting improving global market demand and higher pricing (up 10% in 2011). Fuel services revenue increased 25% in 2011 due to higher fuel prices passed through to customers.

FMS EBT increased 36% in 2011 to $266 million primarily due to significantly better commercial rental performance, improved used vehicle sales results, and the impact of acquisitions. The increase in EBT was partially offset by higher compensation-related expenses as well as higher maintenance costs on an older fleet. Commercial rental performance improved 66% as a result of increased market demand and higher pricing on a 23% larger average fleet. The increase in the average fleet reflects organic growth of 13% and an acquisition-related impact of 10%. Used vehicle sales results improved by $49 million primarily due to higher pricing. The improvements in our commercial rental and used vehicle sales activities allowed us to better leverage our fixed costs. Acquisitions increased FMS EBT by 15%.

The following table provides rental statistics on our global fleet:

	2012	2011	2010	Change 2012/2011	2011/2010
	(Dollar in thousands)				
Non-lease customer rental revenue	$442,520	434,043	332,077	2%	31%
Lease customer rental revenue [(1)]	$330,279	288,514	193,006	14%	49%
Average commercial rental power fleet size – in service [(2), (3)]	30,200	28,500	23,800	6%	20%
Commercial rental utilization – power fleet	74.9 %	77.6 %	76.1 %	(270) bps	150 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.

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

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

	2012	2011	2010	Change 2012/ 2011	2011/2010
End of period vehicle count					
By type:					
Trucks[1]	68,800	68,400	63,000	1%	9%
Tractors [2]	58,800	55,700	49,600	6	12
Trailers [3], [4]	42,700	43,300	33,000	(1)	31
Other	2,200	2,500	3,100	(12)	(19)
Total	172,500	169,900	148,700	2%	14%
By ownership:					
Owned	168,000	166,500	145,000	1%	15%
Leased	4,500	3,400	3,700	32	(8)
Total	172,500	169,900	148,700	2%	14%
By product line:					
Full service lease [4]	122,400	121,000	111,100	1%	9%
Commercial rental [4]	38,000	39,600	29,700	(4)	33
Service vehicles and other	2,900	3,000	2,700	(3)	11
Active units	163,300	163,600	143,500	—	14
Held for sale	9,200	6,300	5,200	46	21
Total	172,500	169,900	148,700	2	14
Customer vehicles under contract maintenance	37,800	35,300	33,400	7	6
Total vehicles under service	210,300	205,200	182,100	2%	13%
Average vehicle count					
By product line:					
Full service lease	121,900	116,200	112,500	5%	3%
Commercial rental	40,100	36,600	29,800	10	23
Service vehicles and other	2,900	2,900	2,600	—	12
Active units	164,900	155,700	144,900	6	7
Held for sale	8,800	5,200	5,800	69	(10)
Total	173,700	160,900	150,700	8	7
Customer vehicles under contract maintenance	36,500	34,100	33,700	7%	1%

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(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) Includes 8,500 trailers (5,300 full service lease and 3,200 commercial rental) and 9,500 trailers (6,100 full service lease and 3,400 commercial rental) as of December 31, 2012 and 2011, respectively, acquired as part of the Hill Hire acquisition.

Note: Average vehicle counts were computed using 24-point average based on monthly information.

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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):

				Change	
Number of Units	2012	2011	2010	2012/2011	2011/2010
Not yet earning revenue (NYE)	2,200	2,600	800	(15)%	225%
No longer earning revenue (NLE):					
Units held for sale	9,200	6,300	5,200	46	21
Other NLE units	2,800	2,600	2,000	8	30
Total	14,200	11,500	8,000	23%	44%

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 2012, the number of NYE units decreased compared with prior year reflecting lower rental replacement 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 2012, the number of NLE units grew because of increased levels of lease replacement activity and rental fleet downsizing due to reduced demand. We expect NLE units to remain at similar levels in 2013.

Supply Chain Solutions

				Change	
	2012	2011	2010	2012/2011	2011/2010
	(Dollars in thousands)				
Operating revenue:					
Automotive	$563,493	469,245	448,670	20%	5%
High-tech	317,480	333,603	308,814	(5)	8
Retail and CPG	711,189	711,037	394,749	—	80
Industrial and other	352,356	343,659	321,276	3	7
Total operating revenue [1]	1,944,518	1,857,544	1,473,509	5	26
Subcontracted transportation	336,068	348,494	261,325	(4)	33
Total revenue	$2,280,586	2,206,038	1,734,834	3%	27%
Segment EBT	$115,193	104,898	81,683	10%	28%
Segment EBT as a % of total revenue	5.1%	4.8%	4.7%	30 bps	10 bps
Segment EBT as a % of operating revenue [1]	5.9%	5.6%	5.5%	30 bps	10 bps
Memo:					
Dedicated services total revenue	$1,295,094	1,192,967	1,031,138	9%	16%
Dedicated services operating revenue [1] [2]	$1,137,379	1,027,192	912,684	11%	13%
Average fleet	11,500	11,100	10,500	4%	6%
Fuel costs [3]	$258,881	223,664	162,734	16%	37%

———————

(1) We use operating revenue and EBT as a percent of operating revenue, non-GAAP financial measures, to evaluate the operating performance of our SCS business segment and as a measure of sales activity and profitability. In SCS transportation management arrangements, we may act as a principal or as an agent in purchasing transportation on behalf of our customer. We record revenue on a gross basis when acting as principal and we record revenue on a net basis when acting as an agent. As a result, total revenue may fluctuate depending on our role in subcontracted transportation arrangements yet our profitability remains unchanged as we typically realize minimal profitability from subcontracting transportation. We deduct subcontracted transportation expense from SCS total revenue to

arrive at SCS operating revenue, and from dedicated services total revenue to arrive at dedicated services operating revenue.

(2) Operating revenue excludes dedicated subcontracted transportation as follows: $158 million, $166 million and $118 million for 2012, 2011 and 2010, respectively.

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

Total revenue increased 3% in 2012 to $2.28 billion and increased 27% in 2011 to $2.21 billion. Operating revenue (revenue excluding subcontracted transportation) increased 5% in 2012 to $1.94 billion and increased 26% in 2011 to $1.86 billion.

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

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

	2012 Total	2012 Operating	2011 Total	2011 Operating
Organic including price and volume	1 %	3 %	2 %	2 %
Fuel cost pass-throughs	2	2	2	3
Acquisition	—	—	19	20
Subcontracted transportation	—	—	3	—
Foreign exchange	—	—	1	1
Total increase	3 %	5 %	27 %	26 %

We expect favorable revenue comparisons to continue next year primarily due to actual and planned new sales activity.

2012 versus 2011

SCS EBT increased 10% in 2012 to $115.2 million due to stronger earnings in the automotive sector and lower compensation-related expenses partially offset by higher medical benefit costs and lower results in the consumer packaged goods and high tech sectors.

2011 versus 2010

SCS EBT increased 28% in 2011 to $104.9 million. The TLC acquisition increased SCS EBT by 16% during 2011. SCS EBT also benefited from higher freight volumes across all industries, new business, and favorable insurance development. These benefits were partially offset by increased compensation-related expenses.

Central Support Services

	2012	2011	2010	Change 2012/ 2011	Change 2011/ 2010
	(In thousands)				
Human resources	$19,259	19,416	15,504	(1)%	25%
Finance	51,262	49,771	50,871	3	(2)
Corporate services and public affairs	14,132	12,964	13,979	9	(7)
Information technology	60,093	61,591	56,873	(2)	8
Health and safety	7,887	7,540	7,126	5	6
Other	41,369	51,378	38,226	(19)	34
Total CSS	194,002	202,660	182,579	(4)	11
Allocation of CSS to business segments	(151,654)	(160,111)	(141,269)	(5)	13
Unallocated CSS	$42,348	42,549	41,310	—%	3%

2012 versus 2011

Total CSS costs decreased 4% in 2012 to $194 million due to lower compensation-related expenses. Unallocated CSS costs decreased slightly in 2012 to $42 million due to lower compensation related expenses offset by higher higher professional fees and medical benefits.

2011 versus 2010

Total CSS costs increased 11% in 2011 to $203 million primarily due to increased compensation costs, information technology investments and professional services from strategic initiatives. Unallocated CSS costs increased 3% in 2011 to $43 million due to higher compensation costs.

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
	2012	2011	2012/ 2011
	(Dollars in thousands, except per share amounts)		
Total revenue	$1,583,536	1,541,094	3%
Operating revenue	1,287,571	1,236,992	4
Pre-tax earnings from continuing operations (EBT)	$81,840	73,112	12
Earnings from continuing operations	54,945	47,664	15
Net earnings	53,844	48,095	12
Earnings per common share — Diluted			
Continuing operations	$1.07	0.92	16%
Net earnings	$1.05	0.93	13%

Revenue

Total revenue increased 3% in the fourth quarter of 2012 to $1.58 billion. Operating revenue (revenue excluding FMS fuel and all subcontracted transportation) increased 4% in the fourth quarter of 2012 to $1.29 billion. The following table summarizes the components of the change in revenue on a percentage basis versus the prior year:

	Three months ended December 31, 2012			
	Total		Operating	
Organic including price and volume	3	%	3	%
Acquisitions	—		1	
Total increase	3	%	4	%

EBT increased 12% in the fourth quarter of 2012 to $82 million. The increase in EBT was primarily driven by strong performance in both the FMS and SCS business segments. See “Fourth Quarter Operating Results by Business Segment” for further discussion of operating results. EBT also included a charge of $8 million associated with certain vehicle-related losses from Superstorm Sandy. Excluding these charges, comparable EBT increased 18% in the fourth quarter of 2012 to $90 million.

Earnings and Diluted Earnings Per Share (EPS) from Continuing Operations

Earnings from continuing operations increased 15% to $55 million and EPS from continuing operations increased 16% to $1.07 in the fourth quarter of 2012. Earnings and EPS from continuing operations in the fourth quarter of 2012 included $5.1 million, or $0.10 per diluted common share, of Superstorm Sandy vehicle-related losses. Earnings and EPS from continuing operations in the fourth quarter of 2011 included $2 million, or $0.05 per diluted common share, of acquisition-related restructuring and other charges. Excluding these items, comparable earnings and EPS from continuing operations increased 20% to $60 million and 21% to $1.17 per diluted common share, respectively.

We believe that comparable EBT, comparable earnings from continuing operations and comparable EPS from continuing operations measures provide useful information to investors because they exclude significant items that are unrelated to our ongoing business operations. See Note 26, “Other Items Impacting Comparability,” for information regarding items excluded from the 2012 results.

Net Earnings and EPS

Net earnings increased 12% in the fourth quarter of 2012 to $54 million or $1.05 per diluted common share. Net earnings in the fourth quarter were impacted by losses from discontinued operations of $1 million in 2012 versus

earnings of $0.4 million in 2011. The losses from discontinued operations in 2012 were due to adverse legal and insurance reserve developments. The earnings from discontinued operations in 2011 were due to $1 million of favorable insurance reserve developments.

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

FOURTH QUARTER OPERATING RESULTS BY BUSINESS SEGMENT

	Three months ended December 31,		Change
	2012	2011	2012/2011
	(In thousands)		
Revenue:			
Fleet Management Solutions	$1,117,679	1,074,655	4%
Supply Chain Solutions	575,254	565,297	2
Eliminations	(109,397)	(98,858)	(11)
Total	$1,583,536	1,541,094	3%
Operating Revenue:			
Fleet Management Solutions	$849,457	813,313	4%
Supply Chain Solutions	489,113	471,803	4
Eliminations	(50,999)	(48,124)	(6)
Total	$1,287,571	1,236,992	4%
EBT:			
Fleet Management Solutions	$86,044	73,793	17%
Supply Chain Solutions	31,010	25,520	22
Eliminations	(8,637)	(7,115)	(21)
	108,417	92,198	18
Unallocated Central Support Services	(10,500)	(11,125)	6
Non-operating pension costs	(7,858)	(4,667)	(68)
Restructuring and other charges, net and other items	(8,219)	(3,294)	NM
Earnings from continuing operations before income taxes	$81,840	73,112	12%

Fleet Management Solutions

Total revenue increased 4% to $1.12 billion in the fourth quarter of 2012. Operating revenue (revenue excluding fuel) increased 4% in the fourth quarter of 2012 to $849 million. The following table summarizes the components of the change in revenue on a percentage basis versus the prior year.

	Three months ended December 31, 2012	
	Total	Operating
Organic including price and volume	2%	3%
Acquisitions	1	1
FMS fuel	1	—
Total increase	4%	4%

Fuel services revenue increased 3% in the fourth quarter of 2012 due to higher prices passed through to customers. Full service lease revenue increased 6% in the fourth quarter of 2012 due to higher prices on replacement vehicles and organic fleet growth. Commercial rental revenue decreased 1% in the fourth quarter of 2012 reflecting lower market demand partially offset by higher pricing.

FMS EBT increased 17% in the fourth quarter of 2012 to $86 million primarily due to lower lease maintenance costs on a newer fleet, organic growth in the lease fleet, and lower compensation-related expenses. The increase in EBT was partially offset by lower commercial rental performance as a result of lower market demand on a 3% smaller average fleet.

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

Supply Chain Solutions

Total revenue increased 2% in the fourth quarter of 2012 to $575 million. Operating revenue (revenue excluding subcontracted transportation) increased 4% in the fourth quarter of 2012 to $489 million. The following table summarizes the components of the change in revenue on a percentage basis versus the prior year:

	Three months ended December 31, 2012	
	Total	Operating
Organic including price and volume	1%	3%
Fuel cost pass-throughs	1	1
Subcontracted transportation	(1)	—
Foreign exchange	1	—
Total increase	2%	4%

SCS EBT increased 22% in the fourth quarter of 2012 to $31 million reflecting higher volumes and new business in both the automotive sector and dedicated services partially offset by higher medical costs.

Central Support Services

Total CSS costs decreased 6% in the fourth quarter of 2012 to $49 million primarily due to lower compensation-related expenses and professional fees. Unallocated CSS costs decreased 6% in the fourth quarter of 2012 to $11 million primarily due to lower compensation-related expenses.

FINANCIAL RESOURCES AND LIQUIDITY

Cash Flows

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

	2012	2011	2010
	(In thousands)		
Net cash provided by (used in):			
Operating activities	$1,134,124	1,041,956	1,028,034
Financing activities	333,805	504,202	78,166
Investing activities	(1,504,273)	(1,657,172)	(982,464)
Effect of exchange rate changes on cash	1,344	3,219	1,723
Net change in cash and cash equivalents	$(35,000)	(107,795)	125,459

Cash provided by operating activities from continuing operations increased to $1.13 billion in 2012 compared with $1.04 billion in 2011 because of higher cash-based earnings. Cash provided by financing activities decreased to $334 million in 2012 from $504 million in 2011 due to lower borrowing needs to fund acquisitions and capital spending. Cash used in investing activities decreased to $1.50 billion in 2012 compared with $1.66 billion in 2011 primarily due to lower acquisition-related spending partially offset by higher vehicle capital spending.

Cash provided by operating activities from continuing operations increased to $1.04 billion in 2011 compared with $1.03 billion in 2010 because of higher cash-based earnings partially offset by an increase in working capital needs. Cash provided by financing activities increased to $504 million in 2011 from $78 million in 2010 due to higher borrowing needs to fund acquisitions and capital spending. Cash used in investing activities increased to $1.66 billion in 2011 compared with $982 million in 2010 primarily due to higher vehicle capital spending and acquisition-related payments in 2011.

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 earning equipment and operating property and equipment, collections on direct finance leases, sale and leaseback of revenue earning equipment 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

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

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:

	2012	2011	2010
	(In thousands)		
Net cash provided by operating activities	$1,134,124	1,041,956	1,028,034
Sales of revenue earning equipment	405,440	290,336	220,843
Sales of operating property and equipment	7,350	9,905	13,844
Collections on direct finance leases	71,897	62,224	61,767
Sale and leaseback of revenue earning equipment	130,184	37,395	—
Other, net	—	—	3,178
Total cash generated	1,748,995	1,441,816	1,327,666
Purchases of property and revenue earning equipment	(2,133,235)	(1,698,589)	(1,070,092)
Free cash flow	$(384,240)	(256,773)	257,574

Free cash flow decreased to negative $384 million in 2012 compared with negative $257 million in 2011 primarily due to higher vehicle capital spending partially offset by higher proceeds from sale (and lease-back) of revenue earning equipment. Free cash flow decreased to negative $257 million in 2011 compared with positive $258 million in 2010 primarily due to higher vehicle capital spending partially offset by higher proceeds from sale of revenue earning equipment. We expect free cash flow in 2013 to improve to negative $130 to $190 million reflecting continued higher capital spending but below 2012 levels.

Capital expenditures are generally used to purchase revenue earning equipment (trucks, tractors and trailers) within our FMS segment. These expenditures primarily support the full service lease product line as well as 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 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.

The following is a summary of capital expenditures:

	2012	2011	2010
	(In thousands)		
Revenue earning equipment:			
Full service lease	$1,548,318	1,067,025	646,671
Commercial rental	542,301	622,181	378,678
	2,090,619	1,689,206	1,025,349
Operating property and equipment	70,144	70,673	62,302
Total capital expenditures [(1)]	2,160,763	1,759,879	1,087,651
Changes in accounts payable related to purchases of revenue earning equipment	(27,528)	(61,290)	(17,559)
Cash paid for purchases of property and revenue earning equipment	$2,133,235	1,698,589	1,070,092

(1) Capital expenditures exclude non-cash additions of approximately $20 million in 2012 and $37 million in 2011 in assets held under capital leases resulting from the Euroway acquisition in 2012 and a sale-leaseback transaction in 2011. Non-cash additions also exclude approximately $1 million, $2 million and $2 million in 2012, 2011 and

2010, respectively, in assets held under capital leases resulting from the extension of existing operating leases and other additions.

Capital expenditures (accrual basis) increased 23% to $2.16 billion in 2012 reflecting investments to fulfill contractual sales made to customers renewing and growing their full service lease fleets with us. Capital expenditures (accrual basis) increased 62% to $1.76 billion in 2011. We expect capital expenditures to decrease to $1.8 to $1.9 billion in 2013, reflecting significantly lower commercial rental spending partially offset by continued investments in the lease fleet. We expect to fund 2013 capital expenditures with both internally generated funds and additional debt financing.

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

Working Capital

	2012	2011
	(In thousands)	
Current assets	$1,040,237	$1,088,173
Current liabilities	1,272,665	1,173,823
Working capital	$(232,428)	$(85,650)

Our net working capital (current assets less current liabilities) was negative $232 million at December 31, 2012 compared with negative $86 million at December 31, 2011. The decrease in net working capital was primarily due to increased current debt balances and reduced cash balances. Excluding debt, other working capital components decreased $53 million primarily due to lower cash balances. We have a global revolving credit facility which is used primarily to finance working capital and provide support for the issuance of of unsecured commercial paper in the U.S. and Canada. See "Financing and Other Funding Transactions" for further discussion on the adequacy of our funding sources to meet our operating, investing and financing needs.

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.

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 and ratings outlook at December 31, 2012 were as follows:

	Short-term		Long-term	
	Rating	Outlook	Rating	Outlook
Moody’s Investors Service	P2	Stable	Baa1	Stable
Standard & Poor’s Ratings Services	A2	Stable	BBB	Stable [1]
Fitch Ratings	F2	Stable	A-	Stable

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(1) On August 10, 2012, Standard & Poor's Rating Services lowered its rating on our long-term debt from BBB+ to BBB, with a stable outlook.

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

At December 31, 2012, we had the following amounts available to fund operations under the following facilities:

	(In millions)
Global revolving credit facility	$538
Trade receivables program	175

We have a $900 million global revolving credit facility with a syndicate of twelve lending institutions which matures in June 2016 and is used primarily to finance working capital and provide support for the issuance of unsecured

commercial paper in the U.S. and Canada. In order to maintain availability of funding, we must maintain a ratio of debt to consolidated net worth, of less than or equal to 300%. Net worth, as defined in the credit facility and amended in April 2012, represents shareholders' equity excluding any accumulated other comprehensive income or loss associated with our pension and other postretirement plans. The ratio at December 31, 2012 was 180%.
We also have a $175 million trade receivables purchase and sale program, pursuant to which we ultimately sell certain ownership interests in certain of our domestic trade accounts receivable to a receivables conduit or committed purchasers. In

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October 2012, we renewed the trade receivables purchase and sale program. The program contains provisions restricting its availability in the event of a material adverse change to our business operations or the collectibility of the collateralized receivables. If no event occurs which causes early termination, the 364-day program will expire on October 25, 2013.

On February 6, 2013, Ryder filed an automatic shelf registration statement on Form S-3 with the SEC. The registration is for an indeterminate number of securities and is effective for three years. Under this universal shelf registration statement, we have the capacity to offer and sell from time to time various types of securities, including common stock, preferred stock and debt securities, subject to market demand and ratings status.

Refer to Note 16, “Debt,” in the Notes to Consolidated Financial Statements for a discussion around the global revolving credit facility as well as the issuance of medium-term notes and debt maturities.

The following table shows the movements in our debt balance:

	2012	2011
	(In thousands)	
Debt balance at January 1	$3,382,145	2,747,002
Cash-related changes in debt:		
Net change in commercial paper borrowings	(64,751)	46,749
Proceeds from issuance of medium-term notes	698,635	699,244
Proceeds from issuance of other debt instruments	47,142	267,158
Retirement of medium-term notes and debentures	(214,000)	(375,000)
Other debt repaid, including capital lease obligations	(69,937)	(44,427)
	397,089	593,724
Non-cash changes in debt:		
Fair market value of debt and capital leases assumed on acquisition	20,308	—
Fair market value adjustment on notes subject to hedging	(5,118)	6,414
Addition of capital lease obligations	740	39,279
Changes in foreign currency exchange rates and other non-cash items	25,632	(4,274)
Total changes in debt	438,651	635,143
Debt balance at December 31	$3,820,796	3,382,145

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 33% and 40% at December 31, 2012 and 2011, respectively.

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

	2012	% of Equity	2011	% of Equity
	(Dollars in thousands)			
On-balance sheet debt	$3,820,796	260%	$3,382,145	257%
Off-balance sheet debt — PV of minimum lease payments and guaranteed residual values under operating leases for vehicles [(1)]	147,987		63,960	
Total obligations	$3,968,783	270%	$3,446,105	261%

(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 increase in our leverage ratios in 2012 was due to increased investments in vehicles as well as a pension equity charge.

Off-Balance Sheet Arrangements

Sale and leaseback transactions. Refer to Note 15, “Leases,” in the Notes to Consolidated Financial Statements for a

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discussion of our sale-leaseback transactions.
Guarantees. Refer to Note 19, “Guarantees,” in the Notes to Consolidated Financial Statements for a discussion of our agreements involving guarantees.
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, 2012:

	2013	2014-2015	2016-2017	Thereafter	Total
			(In thousands)		
Debt	$359,821	1,067,236	1,821,351	513,645	3,762,053
Capital lease obligations	6,841	12,623	11,854	10,700	42,018
Total debt, including capital leases [1]	366,662	1,079,859	1,833,205	524,345	3,804,071
Interest on debt [2]	127,190	210,215	100,476	88,069	525,950
Operating leases [3]	106,688	150,816	55,626	58,765	371,895
Purchase obligations [4]	320,036	20,129	10,546	346	351,057
Total contractual cash obligations	553,914	381,160	166,648	147,180	1,248,902
Insurance obligations (primarily self-insurance)	133,459	103,679	40,109	34,926	312,173
Other long-term liabilities [5], [6], [7]	2,438	3,353	2,814	50,337	58,942
Total	$1,056,473	1,568,051	2,042,776	756,788	5,424,088

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(1) Net of unamortized discount and excludes the fair market value adjustment on notes subject to hedging.

(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, 2012. Amounts are based on existing debt obligations, including capital leases, and do not consider potential refinancing 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” and are excluded from the above table.

(5) 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.

(6) The amounts exclude our estimated pension contributions. For 2013, our pension contributions, including our minimum funding requirements as set forth by ERISA and international regulatory bodies, are expected to be $66 million. Our minimum funding requirements after 2013 are dependent on several factors. However, we estimate that the undiscounted required global contributions over the next five years are approximately $533 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.

(7) The amounts exclude $58 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.

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Pension Information

In recent years, we made amendments to defined benefit retirement plans which froze the retirement benefits for non-grandfathered and certain non-union employees in the U.S., Canada and the United Kingdom. As a result of these amendments, non-grandfathered plan participants ceased accruing benefits under the plan as of the respective amendment effective date and began receiving an enhanced benefit under a defined contribution plan. All retirement benefits earned as of the amendment effective date were fully preserved and will be paid in accordance with the plan and legal requirements. There was no material impact to our financial condition and operating results from the plan amendments.

Due to the underfunded status of our defined benefit plans, we had an accumulated net pension equity charge (after-tax) of $645 million and $595 million at December 31, 2012 and 2011, respectively. The higher equity charge in 2012 reflects the impact of a lower discount rate. The total asset return for our U.S. qualified pension plan (our primary plan) was 12.8% in 2012.

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 2012, total pension contributions, including our international plans, were $81 million compared with $65 million in 2011. We estimate 2013 required pension contributions will be $66 million. After considering the 2012 contributions and asset performance, the projected present value of estimated global pension contributions that would be required over the next 5 years totals approximately $496 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 funded 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.

Pension expense totaled $49 million in 2012 compared to $34 million in 2011. The increase in pension expense primarily reflects lower than expected pension asset returns in 2011 and lower assumed returns in 2012. We expect 2013 pension expense to decrease approximately $8 million primarily because of a higher than expected actual return on plan assets in 2012. Our 2013 pension expense estimates are subject to change based upon the completion of the actuarial analysis for all pension plans. See the section titled “Critical Accounting Estimates — Pension Plans” for further discussion on pension accounting estimates.

We participate in eleven U.S. multi-employer pension (MEP) plans that provide defined benefits to employees covered by collective bargaining agreements. At December 31, 2012, approximately 1,000 employees (approximately 4% 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 annualized MEP plan contributions total approximately $7 million. Pursuant to current U.S. pension laws, if any MEP plans fail 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. 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, obtained in 2012, we estimate our pre-tax contingent MEP plan withdrawal obligation to be approximately $35 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. See Note 24, “Employee Benefit Plans,” in the Notes to Consolidated Financial Statements for

additional information.

Share Repurchase Programs and Cash Dividends
Refer to Note 20, “Share Repurchase Programs,” in the Notes to Consolidated Financial Statements for a discussion on our share repurchase programs. We plan to temporarily pause our anti-dilutive share repurchase program in order to appropriately manage our leverage and to allow us to maintain near-term balance sheet flexibility.
Cash dividend payments to shareholders of common stock were $61 million in 2012, $58 million in 2011, and $54 million in 2010. During 2012, we increased our annual dividend to $1.24 per share of common stock.

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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, “Derivatives,” in the Notes to Consolidated Financial Statements for further discussion on interest rate swap agreements.

At December 31, 2012, we had $2.47 billion of fixed-rate debt outstanding (excluding capital leases) with a weighted-average interest rate of 4.4% and a fair value of $2.68 billion. A hypothetical 10% decrease or increase in the December 31, 2012 market interest rates would impact the fair value of our fixed-rate debt by approximately $22 million at December 31, 2012. 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, 2012, we had $1.29 billion of variable-rate debt, including the impact of interest rate swaps, which effectively changed $550 million of fixed-rate debt instruments to LIBOR-based floating-rate debt. Changes in the fair value of the interest rate swaps 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 agreements at December 31, 2012 was recorded as an asset totaling $17 million. The fair value of our variable-rate debt at December 31, 2012 was $1.31 billion. A hypothetical 10% increase in market interest rates would have impacted 2012 pre-tax earnings from continuing operations by approximately $2 million.

We also are subject to interest rate risk with respect to our pension and postretirement benefit obligations, as changes in interest rates will effectively increase or decrease our liabilities associated with these benefit plans, which also results in changes to the amount of pension and postretirement benefit expense recognized each period.

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 $7 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.

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, 2012, 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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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 review the development, selection and disclosure of these critical accounting estimates with Ryder’s Audit Committee on an annual basis.

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, 2012, a 10% decrease in expected vehicle residual values would increase depreciation expense in 2013 by approximately $120 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 applications). As a result, future depreciation expense rates are subject to change based upon changes in these factors. While we believe that the carrying values and estimated sales proceeds for revenue earning equipment are appropriate, there can be no assurance that deterioration in economic conditions or adverse changes to expectations of future sales proceeds will not occur, resulting in lower gains or losses on sales.

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 2012, we will adjust the residual values and useful lives of certain classes of our revenue earning equipment effective January 1, 2013. The change will increase earnings in 2013 by approximately $28 million compared with 2012. 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. Based on the results of the 2011 review, we adjusted the residual values and useful lives of certain classes of revenue earning equipment effective January 1, 2012. The residual value changes increased pre-tax earnings for 2012 by approximately $18 million compared with 2011. Based on the results of our 2010 analysis, we adjusted the residual values of certain classes of our revenue earning equipment effective January 1, 2011. The residual value changes decreased pre-tax earnings for 2011 by approximately $5 million compared with 2010.

Depreciation expense was $940 million, $872 million and $834 million in 2012, 2011 and 2010, respectively. Depreciation expense relates primarily to FMS revenue earning equipment. Depreciation expense increased 8% in 2012 driven by higher average net vehicle investments and higher writedowns of $10 million on vehicles held for sale. The increase was partially offset by $18 million from changes in residual values. Depreciation expense increased 5% in 2011 driven by $41 million from acquisitions, foreign exchange movements of $7 million and higher average net vehicle investments. The increase was partially offset by $15 million of lower write-downs of vehicles held for sale and $10 million from both changes in residual values and accelerated depreciation.

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, 2012, total liabilities for residual value guarantees of $2 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, 2012, a 10% decrease in expected vehicle residual values would increase rent expense in 2013 by approximately $1 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 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.

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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 2012, we adjusted our long-term expected rate of return assumption for our primary U.S. plan down to 7.05% from 7.45% based on the factors reviewed. The composition of our pension assets was 64% equity securities and 36% debt securities and other investments. 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. In the fourth quarter of 2012, we modified our U.S. pension investment policy and strategy to reduce the effects of future volatility on the fair value of our pension assets relative to our pension liabilities as a result of an asset-liability study. Under the new strategy, we will increase our allocation to high quality, longer-term fixed income securities and reduce our allocation of equity investments as the funded status of the plan improves.

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 $1.01 billion at the end of 2012 compared with a loss of $927 million at the end of 2011. The increase in the net actuarial loss in 2012 resulted primarily from a lower discount rate. 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 life expectancy of active participants or the remaining life expectancy of inactive participants if all or almost all of a plan’s participants are inactive. The amount of the actuarial loss subject to amortization in 2013 and future years will be $787 million. We expect to recognize approximately $36 million of the net actuarial loss as a component of pension expense in 2013. The effect on years beyond 2013 will depend substantially upon the actual experience of our plans.

Disclosure of the significant assumptions used in arriving at the 2012 net pension expense is presented in Note 24, “Employee Benefit Plans,” in the Notes to Consolidated Financial Statements. A sensitivity analysis of 2012 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 2012 Net Pension Expense	Effect on December 31, 2012 Projected Benefit Obligation
Expected long-term rate of return on assets	7.05 %	+/– 0.25	–/+ $ 3.0 million	
Discount rate increase	4.90 %	+ 0.25	– $ 0.4 million	– $43 million
Discount rate decrease	4.90 %	– 0.25	+ $ 0.2 million	+ $43 million
Actual return on assets	7.05 %	+/– 0.25	–/+ $ 0.3 million	

Self-Insurance Accruals. Self-insurance accruals were $279 million and $253 million as of December 31, 2012 and 2011, 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 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. During 2012, 2011, and 2010, we recorded a benefit (charge) within earnings from continuing operations of $1 million, $4

million, and $(3) million, respectively, from development in estimated prior years' self-insured loss reserves. Based on self-insurance accruals at December 31, 2012, a 5% adverse change in actuarial claim loss estimates would increase operating expense in 2013 by approximately $12 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, 2012, goodwill totaled $384 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. In evaluating goodwill for impairment, we have the option to first assess qualitative factors to determine whether further impairment testing is necessary.

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If a quantitative test is performed, 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, 2012 did not result in any impairment of goodwill. We performed a qualitative test for one of our reporting units. Due to acquisitions and volatility in the economic environment, we believed it was appropriate to have recent fair values for the remaining two reporting units with goodwill. The total goodwill for these two reporting units was $369 million and the excess of fair value over carrying value ranged from approximately $421 million to approximately $595 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 $182 million to approximately $552 million for each of our reporting units.

Revenue Recognition. 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. In the normal course of business, we may act as or use an agent in executing transactions with our customers. In these arrangements, we evaluate 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.

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 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. The impact on net earnings is the same whether we record revenue on a gross or net basis. 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.

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 $643 million and $626 million at December 31, 2012 and 2011, respectively. We record a

valuation allowance for deferred tax assets to reduce such assets to amounts expected to be realized. At December 31, 2012 and 2011, the deferred tax valuation allowance, principally attributed to foreign tax loss carryforwards in the SCS business segment, was $38 million and $41 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

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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. We adjust these reserves, including any impact on the related interest and penalties, in light of changing facts and circumstances, such as progress of a tax audit.
A number of years may elapse before a particular matter for which we have established a reserve is audited and finally resolved. The number of years with open tax audits varies depending on the tax jurisdiction. The tax benefit that has been previously reserved because of a failure to meet the “more likely than not” recognition threshold would be recognized in our income tax expense in the first interim period when the uncertainty is resolved under any one of the following conditions: (1) the tax position is “more likely than not” to be sustained, (2) the tax position, amount, and/or timing is ultimately settled through negotiation or litigation, or (3) the statute of limitations for the tax position has expired. Settlement of any particular issue would usually require the use of cash. 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.

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, FMS operating revenue, FMS EBT as a % of operating revenue, SCS operating revenue, SCS EBT as a % of operating revenue, dedicated services operating revenue, total cash generated, free cash flow, total obligations, total obligations to equity, comparable earnings from continuing operations and comparable earnings per diluted common share from continuing 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, 2010, 2009 and 2008 which was not provided within the MD&A discussion:

	2010	2009	2008
	(In thousands)		
Earnings from continuing operations before income taxes	$186,305	143,769	409,288
Net restructuring charges	—	6,406	21,480
International asset (gain on sale)/impairment	(946)	6,676	1,617
Acquisition transaction costs	4,097	—	—
Comparable earnings from continuing operations before income taxes	$189,456	156,851	432,385

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The following table provides a numerical reconciliation of net cash provided by operating activities to free cash flow for the years ended December 31, 2009 and 2008 which was not provided within the MD&A discussion:

	2009	2008
	(In thousands)	
Net cash provided by operating activities	$984,956	1,248,169
Sales of revenue earning equipment	211,002	257,679
Sales of operating property and equipment	4,634	3,727
Collections on direct finance leases	65,242	61,096
Other, net	209	395
Total cash generated	1,266,043	1,571,066
Purchases of property and revenue earning equipment	(651,953)	(1,230,401)
Free cash flow	$614,090	340,665

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, 2010, 2009 and 2008 which was not provided within the MD&A discussion:

	2010	2009	2008
	(Dollars in thousands, except per share amounts)		
Earnings from continuing operations	$124,608	90,117	257,579
Net restructuring charges	—	4,176	17,493
Tax law changes and/or benefits from reserve reversals	(10,771)	(6,339)	(9,545)
International (gain on sale)/impairment	(946)	6,676	1,617
Acquisition transaction costs	4,097	—	—
Comparable earnings from continuing operations	$116,988	94,630	267,144
Earnings per diluted common share from continuing operations	$2.37	1.62	4.51
Net restructuring charges	—	0.07	0.31
Tax law changes/or benefits from reserve reversals	(0.21)	(0.11)	(0.17)
International (gain on sale)/impairment	(0.02)	0.12	0.03
Acquisition transaction costs	0.08	—	—
Comparable earnings per diluted common share from continuing operations	$2.22	1.70	4.68

The following table provides a numerical reconciliation of total revenue to operating revenue for the years ended December 31, 2012, 2011 and 2010 which was not provided within the MD&A discussion:

	2012	2011	2010
	(In thousands)		
Total revenue	$6,256,967	6,050,534	5,136,435
FMS fuel services and SCS subcontracted transportation revenue	(1,420,243)	(1,430,967)	(1,126,946)
Fuel eliminations	229,598	194,990	148,750
Operating revenue	$5,066,322	4,814,557	4,158,239

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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The following table provides a numerical reconciliation of total revenue to operating revenue for the three months ended December 31, 2012 and 2011 which was not provided within the MD&A discussion:

	Three months ended December 31,	
	2012	2011
	(In thousands)	
Total revenue	$1,583,536	1,541,094
FMS fuel services and SCS subcontracted transportation revenue	(354,363)	(354,836)
Fuel eliminations	58,398	50,734
Operating revenue	$1,287,571	1,236,992

The following table provides a numerical reconciliation of net earnings to adjusted net earnings and average total debt to adjusted average total capital for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 which was not provided within the MD&A discussion:

	2012	2011	2010	2009	2008
	(Dollars in thousands)				
Net earnings [A]	$209,979	169,777	118,170	61,945	199,881
Restructuring and other charges, net and other items [(1)]	16,668	5,748	6,225	29,943	70,447
Income taxes	90,912	108,425	60,610	53,737	150,075
Adjusted net earnings before income taxes	317,559	283,950	185,005	145,625	420,403
Adjusted interest expense [(2)]					