RYDER SYSTEM INC
Form 10-K
February 11, 2009

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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, 2008**
	OR
o	**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 o

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 o 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 o

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 þ

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o 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, 2008 was $3,876,375,009. The number of shares of Ryder System, Inc. Common Stock ($0.50 par value per share) outstanding at January 31, 2009 was 55,638,154.

Documents Incorporated by Reference into this Report	Part of Form 10-K into which Document is Incorporated
Ryder System, Inc. 2009 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. Our business is divided into three 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.; Supply Chain Solutions (SCS), which provides comprehensive supply chain solutions including distribution and transportation services throughout North America and in Europe, South America and Asia; and Dedicated Contract Carriage (DCC), which provides 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, electronics, transportation, grocery, lumber and wood products, food service, and home furnishings.

On December 17, 2008, we announced strategic initiatives to increase our competitiveness and drive long-term profitable growth. As part of these initiatives, during 2009 we will discontinue current SCS operations in certain international markets and transition out of specific SCS customer contracts in order to focus the organization and resources on the industries, accounts, and geographical regions that present the greatest opportunities for competitive advantage and long-term sustainable profitable growth. This will include discontinuing current operations in the markets of Brazil, Argentina, and Chile, and transitioning out of SCS customer contracts in Europe. We believe these changes will allow us to focus on enhancing the competitiveness and growth of our service offerings in the U.S., Canada, Mexico, the U.K. and Asia markets.

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 flexible fleet solutions that are designed to improve their competitive position by allowing them to focus on their core business, lower their costs and redirect their capital to other parts of their business. Our FMS product offering is comprised primarily of contractual-based full service leasing and contract maintenance services. We also offer transactional fleet solutions including commercial truck rental, maintenance services, 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

Over the last several years, many key trends have been reshaping the transportation industry, particularly the $63 billion U.S. private commercial fleet market and the $26 billion U.S. commercial fleet lease and rental market.

The maintenance and operation of commercial vehicles has become more complicated requiring companies to spend a significant amount of time and money to keep up with new technology, diagnostics, retooling and training. 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. More recently, fluctuating energy prices have made it difficult for businesses to predict and manage fleet costs and the tightened credit market has limited businesses access to capital.

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Operations

For the year ended December 31, 2008, our global FMS business accounted for 65% of our consolidated revenue.

U.S. Our FMS customers in the U.S. range from small businesses to large national enterprises. These customers operate in a wide variety of industries, including transportation, grocery, lumber and wood products, food service and home furnishings. At December 31, 2008, we had 636 locations in 49 states and Puerto Rico and operated 217 maintenance facilities on-site at customer properties. A location typically consists of a maintenance facility or shop, offices for sales and other personnel, and in many cases, a commercial rental 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.

Canada. We have been operating in Canada for over 50 years. The Canadian private commercial fleet market is estimated to be $8 billion and the Canadian commercial fleet lease and rental market is estimated to be $2 billion. At December 31, 2008, we had 41 locations throughout 9 Canadian provinces. We also have 5 on-site maintenance facilities in Canada.

Europe. We began operating in the U.K. in 1971 and since then have expanded into Ireland and Germany by leveraging our operations in the U.S. and the U.K. The U.K. commercial fleet lease and rental market is estimated to be $6 billion. At December 31, 2008, we had 40 locations throughout the U.K., Ireland and Germany, 29 of which are owned or leased by Ryder. We also manage a network of 344 independent maintenance facilities in the U.K. to serve our customers where it is more effective than providing the service in a Ryder managed location. In addition to our typical FMS operations, we also 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 leasing 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. We will assess a customer s situation, and after considering the size of the customer, residual risk and other factors, will tailor a leasing program that best suits the customer s needs. Once we have agreed on a leasing program, 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, we can provide our customers with a cost effective alternative to maintaining their own fleet of vehicles. We also offer our leasing customers the additional fleet support services described below.

Contract Maintenance. Our contract maintenance customers include non-Ryder owned vehicles related to our full service lease customers as well as other customers that want to 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 and predictive 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 (typically from less than one month up to one year in length) either because of seasonal increases in their business or discrete projects that require additional transportation resources. Our commercial rental fleet also provides additional vehicles to our full service lease customers to handle their peak or seasonal business needs. In addition to one-off commercial rental transactions, we seek to build national relationships with large national customers to become their preferred source of commercial vehicle rentals. Our rental representatives assist in selecting a vehicle that satisfies the 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 to our rental customers liability insurance coverage under our existing policies and 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, 2008:

	U.S.		Foreign		Total	
	Vehicles	Customers	Vehicles	Customers	Vehicles	Customers
Full service leasing	100,300	12,400	20,100	2,300	120,400	14,700
Contract maintenance[(1)]	31,000	1,400	4,500	200	35,500	1,600
Commercial rental	26,300	10,400	6,000	4,000	32,300	14,400

(1) Contract maintenance customers include 700 full service lease customers.

Contract-Related Maintenance. Our full service lease and contract maintenance customers periodically require additional maintenance services that are not included in their contracts. For example, additional maintenance services may arise when a customer s driver damages the vehicle and these services are performed or managed by Ryder. Some customers also periodically require maintenance work on vehicles that are not covered by a long-term lease or maintenance contract. Ryder may provide service on these vehicles and charge the customer on an hourly basis for work performed. We obtain contract-related maintenance work because of our contractual relationship with the customers; however, the service provided is in addition to that included in their contractual agreements.

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. Currently, we offer the following fleet support services:

Service	***Description***
Fuel	Full service diesel fuel 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; stormwater 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. *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 57 retail sales centers throughout North America, 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 strategy revolves around the following interrelated goals and priorities:

- improve customer retention levels and focus on conversion of private fleets and commercial rental customers to full service lease customers;
- successfully implement sales growth initiatives in our contractual product offerings;
- focus on contractual revenue growth strategies, including the evaluation of selective acquisitions;
- deliver unparalleled maintenance to our customers while continuing to implement process designs, productivity improvements and compliance discipline;
- optimize asset utilization and management;
- leverage infrastructure;
- offer a wide range of support services that complement our leasing, rental and maintenance businesses; and
- offer competitive pricing through cost management initiatives and maintain pricing discipline on new business.

Competition

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 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, contract maintenance, contract-related maintenance and commercial rental service has been, and will continue to be, our emphasis.

Acquisitions

In addition to our continued focus on organic growth, acquisitions play an important role in enhancing our growth strategy in the U.S., Canada and the U.K. In assessing potential acquisition targets, we look for companies that would create value for the Company through the creation of operating synergies, leveraging our existing facility infrastructure and fixed costs, improving our geographic coverage, diversifying our customer base and improving our competitive position in target markets.

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During 2008, we took several actions to enhance our growth, including the following acquisitions:

On January 11, 2008, we acquired the assets of Lily Transportation Corporation (Lily) which included Lily s fleet of approximately 1,600 vehicles and over 200 contractual customers, complementing our FMS market coverage and service network in the Northeast United States.

On May 12, 2008, we acquired the assets of Gator Leasing, Inc. (Gator) which included Gator s fleet of approximately 2,300 vehicles and nearly 300 contractual customers, complementing our FMS market coverage and service network in Florida.

On August 29, 2008, we acquired the assets of Gordon Truck Leasing (Gordon) which included Gordon s fleet of approximately 500 vehicles and approximately 130 contractual customers complementing our FMS market coverage and service network in Pennsylvania.

On February 2, 2009, we acquired the assets of Edart Leasing LLC (Edart), which included Edart s fleet of approximately 1,600 vehicles and more than 340 contractual customers, complementing our FMS market coverage in the Northeast. We also acquired approximately 525 vehicles that will be re-marketed.

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 global supply chain and address key customer business requirements. The term supply chain refers to a strategically designed process that directs the movement of materials, funds and related information from the acquisition of raw materials to the delivery of finished products to the end-user. Our SCS product offerings are organized into three categories: professional services, distribution operations and transportation solutions. These offerings are supported by a variety of information technology 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.

Market Trends

The global supply chain logistics market is estimated to be $487 billion. Several key trends are affecting the market for third-party logistics services. Outsourcing all or a portion of a customer s supply chain is becoming a more attractive alternative for several reasons including: (1) the lengthening of the global supply chain due to the location of manufacturing activities further away from the point of consumption, (2) the increasing complexity of customers supply chains, and (3) the need for new and innovative technology-based solutions. In addition, industry consolidation is increasing as providers look to expand their service offerings and create economies of scale in order to be competitive and satisfy customers global needs. To meet our customers demands in light of these trends, we provide an integrated suite of global supply chain solutions with sophisticated technologies and industry-leading engineering services, designed to help our customers manage their supply chains more efficiently.

Operations

For the year ended December 31, 2008, our global SCS business accounted for 26% of our consolidated revenue. For the year ended December 31, 2008, approximately 50% of our global SCS revenue was related to dedicated contract carriage services.

U.S. At December 31, 2008, we had 102 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, electronics, high-tech, telecommunications, industrial, consumer goods, paper and paper products, office equipment, food and beverage, and general retail industries. We continue to further diversify our customer base by expanding into new industry verticals, including retail/consumer goods. Most of our core SCS business operations in the U.S. revolve around our customers supply chains and are geographically located to maximize efficiencies and reduce costs. At December 31, 2008, managed warehouse space totaled approximately 15 million square feet for the U.S. and Puerto Rico. Along with those core customer specific locations, 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, and 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, 2008, we had 57 SCS customer accounts and managed warehouse space totaling approximately 900,000 square feet. Given the proximity of this market to our U.S. operations, the Canadian operations are highly coordinated with their U.S. counterparts, managing cross-border transportation and freight movements.

Mexico. We began operating in Mexico in the mid-1990s. At December 31, 2008, we operated and maintained 700 vehicles in Mexico. At December 31, 2008, we had 77 SCS customer accounts and managed warehouse space totaling approximately 2 million square feet. Our Mexico operations offer a full range of SCS services and manages approximately 3,000 border crossings each week between Mexico and the U.S., often highly integrated with our domestic distribution and transportation operations.

Asia. We began operating in Asia in 2001. Although our Asian operations are headquartered in Singapore, we also provide services in China via our Shanghai office and coordinate logistics activities in countries such as Malaysia. At December 31, 2008, we had 47 SCS customer accounts and managed warehouse space totaling approximately 795,000 square feet. As part of our strategy to expand with our customers into major markets, we will continue to refine our strategy in China and focus our efforts on growing our operations in that region.

Europe. At December 31, 2008, we had 21 SCS customer accounts and managed warehouse space totaling approximately 400,000 square feet. In addition to the full range of SCS services, we operate a comprehensive shipment, planning and execution system through our European transportation management services center located in Düsseldorf, Germany. Due to current global economic conditions, we plan to transition out of SCS contracts during 2009.

South America. We began operating in Brazil and Argentina in the mid-1990s and in Chile in 2004. At December 31, 2008, we operated and maintained 700 vehicles in South America. At December 31, 2008, we had 129 SCS customer accounts and managed warehouse space totaling approximately 4 million square feet. In all of these markets we offer a full range of SCS services. In our Argentina and Brazil operations, we also offered international transportation services for freight moving between these markets, including transportation, backhaul and customs procedure management. Due to current global economic conditions, we plan to discontinue our operations in South America during 2009.

Our largest customer, General Motors Corporation (GM), is comprised of multiple contracts in various geographic regions. In 2008, GM accounted for approximately 17% of SCS total revenue and 4% of consolidated revenue. We derive approximately 48% of our SCS revenue from the automotive industry, mostly from manufacturers and suppliers of original equipment parts.

SCS Product Offerings

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, 2008, knowledge-based professional services accounted for 5% of our U.S. SCS revenue.

Distribution Operations. 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 the customer s existing distribution facilities or a facility we acquire. 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, 2008, distribution operations accounted for 28% of our U.S. SCS revenue.

Transportation Solutions. Our SCS business offers services relating to all aspects of a customer s transportation network including equipment maintenance and drivers. Our team of transportation specialists provides shipment planning and execution, which includes shipment optimization, load scheduling and delivery confirmation 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 and DCC businesses with capacity management services that are designed to meet backhaul opportunities and minimize excess miles. For the year ended December 31, 2008, we purchased and (or) executed over $4 billion in freight moves on our customers behalf. For the year ended December 31, 2008, transportation solutions accounted for 67% of our U.S. SCS revenue.

SCS Business Strategy

Our SCS business strategy revolves around the following interrelated goals and priorities:

- further diversify customer base through expansion into new industry verticals;
- offer comprehensive supply chain solutions to our customers;
- enhance distribution management as a core platform to grow integrated solutions;
- leverage our transportation management capabilities including the expertise and resources of our FMS business;
- achieve strong partnering relationships with our customers;
- be a market innovator by continuously improving the effectiveness and efficiency of our solution delivery model; and
- serve our customer s global needs as lead manager, integrator and high-value operator.

Competition

In the SCS business segment, we compete with a large number of companies providing similar services on an international, national, regional and local level, each of which has a different set of core competencies. Additionally, this business is subject to potential competition in most of the regions it serves from air cargo, shipping, railroads, motor carriers and other companies that are expanding logistics services such as freight forwarders, contract manufacturers and integrators. Competitive factors include price, service, equipment, maintenance, geographic coverage, market knowledge, expertise in logistics-related technology, and overall performance (e.g., timeliness, accuracy and flexibility). Value-added differentiation of these service offerings across the global supply chain continues to be our overriding strategy.

Acquisitions

On December 19, 2008, we completed the acquisition of substantially all of the assets of Transpacific Container Terminal Ltd. (TCTL) and CRSA Logistics Ltd. (CRSA) in Canada, as well as CRSA Logistics operations in Hong Kong and Shanghai, China. This strategic acquisition adds complementary solutions to our SCS capabilities including consolidation services in key Asian hubs, as well as deconsolidation operations in Vancouver, Toronto and Montreal.

Dedicated Contract Carriage

Value Proposition

Through our DCC business segment, we combine the equipment, maintenance and administrative services of a full service lease with drivers and additional services to provide 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. Such 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 address, on behalf of our customers, high service levels, efficient routing and 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 DCC solution offers a high degree of specialization to meet the needs of customers with high service requirements such as tight delivery windows, high-value or time-sensitive freight, closed-loop distribution, and multi-stop shipments.

Market Trends

The U.S. dedicated contract carriage market is estimated to be $12 billion. This market is affected by many of the trends that impact our FMS business such as the increased cost associated with purchasing and maintaining a fleet of vehicles. The administrative burden relating to regulations issued by the Department of Transportation (DOT) regarding driver screening, training and testing, as well as record keeping and other costs associated with the hours of service requirements, make our DCC product an attractive alternative to private fleet management. In addition, market demand for just-in-time delivery creates a need for well-defined routing and scheduling plans that are based on comprehensive asset utilization analysis and fleet rationalization studies.

Operations/Product Offerings

For the year ended December 31, 2008, our DCC business accounted for 9% of our consolidated revenue. At December 31, 2008, we had 182 DCC customer accounts in the U.S. Because it is highly customized, our DCC product is particularly attractive to companies that operate in industries that have time-sensitive deliveries or special handling requirements, such as newspapers (6% of U.S. DCC revenue), as well as to companies whose distribution systems involve multiple stops within a closed loop highway route. These customers operate in a wide variety of industries, the most significant of which include retail (38% of DCC revenue). Because DCC accounts typically operate in a limited geographic area, most of the drivers assigned to these accounts are short haul drivers, meaning they return home at the end of each work day. Although a significant portion of our DCC operations are located at customer facilities, our DCC business utilizes and benefits from our extensive network of FMS facilities.

In order to customize an appropriate DCC transportation solution for our customers, our DCC logistics specialists perform a transportation analysis using advanced logistics planning and operating tools. Based on this analysis, they formulate a logistics design that includes the routing and scheduling of vehicles, the efficient use of vehicle capacity and overall asset utilization. The goal of the plan is to create a distribution

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system that optimizes freight flow while meeting a customer s service goals. A team of DCC transportation specialists can then implement the plan by leveraging the resources, expertise and technological capabilities of both our FMS and SCS businesses.

To the extent a distribution plan includes multiple modes of transportation (air, rail, sea and highway), our DCC team, in conjunction with our SCS transportation specialists, selects appropriate transportation modes and carriers, places the freight, monitors carrier performance and audits billing. In addition, through our SCS business, we can reduce costs and add value to a customer s distribution system by aggregating orders into loads, looking for shipment consolidation opportunities and organizing loads for vehicles that are returning from their destination point back to their point of origin (backhaul).

DCC Business Strategy

Our DCC business strategy revolves around the following interrelated goals and priorities:

- increase market share with customers with large fleets that require a more comprehensive and flexible transportation solution;

- align our DCC business with other SCS product lines to create revenue opportunities and improve operating efficiencies in both segments, particularly through increased backhaul utilization;

- leverage the expertise and resources of our SCS and FMS businesses; and

- expand our DCC support services to create customized transportation solutions for new customers and enhance the solutions we have created for existing customers.

Competition

Our DCC business segment competes with truckload carriers and other dedicated providers servicing on a national, regional and local level. Competitive factors include price, equipment, maintenance, service and geographic coverage and driver and operations expertise. Value-added differentiation of the DCC offerings has been, and will continue to be, our emphasis.

ADMINISTRATION

We have consolidated most of our financial administrative functions for the U.S. and Canada, including credit, billing and collections, 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 reduce ongoing annual administrative costs, 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 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 engine exhaust emissions, drivers hours of service, security and ergonomics.

The U.S. Environmental Protection Agency has issued regulations that require progressive reductions in exhaust emissions from diesel engines from 2007 through 2010. Some of these regulations require subsequent reductions in the sulfur content of diesel fuel which began in June 2006 and the introduction of emissions after-treatment devices on newly manufactured engines and vehicles beginning with the model year 2007.

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 published our first environmental performance report in 1996 following PERI (Public Environmental Reporting Initiative) guidelines. 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 our staff and 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 2008, we launched a Green Center on *http://www.Ryder.com/greencenter* to share our key environmental programs and initiatives with all stakeholders.

SAFETY

Our safety culture is founded upon a core commitment to the safety, health and well-being of our employees, customers, and the community. It is this commitment that made us an industry leader in safety throughout our 75-year history and contributed to our being awarded the Green Cross for Safety from the National Safety Council.

Safety is an integral part of our business strategy because preventing injury improves employee quality of life, eliminates service disruptions to our customers, increases efficiency and 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 topics delivered by location safety committees cover specific and relevant safety topics and managers receive annual safety leadership training. Regular safety behavioral observations are conducted by managers throughout the organization everyday and remedial training takes place on-the-spot and at every location with a reported injury. We also deliver a comprehensive suite of highly interactive training lessons through Ryder Pro-TREAD to each driver individually over the internet.

Our safety policies require that all managers, supervisors and employees incorporate 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.

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EMPLOYEES

At December 31, 2008, we had approximately 28,000 full-time employees worldwide, of which 24,100 were employed in North America, 2,000 in South America, 1,400 in Europe and 500 in Asia. On December 17, 2008, we announced strategic initiatives to increase our global competitiveness, which we expect to result in the elimination of approximately 3,200 positions worldwide during 2009. We have approximately 15,200 hourly employees in the U.S., approximately 3,400 of which are organized by labor unions. These employees 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 99 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

All of the executive officers of Ryder were elected or re-elected to their present offices either at or subsequent to the meeting of the Board of Directors held on May 2, 2008 in conjunction with Ryder s 2008 Annual Meeting. They all hold such offices, at the discretion of the Board of Directors, until their removal, replacement or retirement.

Name	Age	Position
Gregory T. Swienton	59	Chairman of the Board and Chief Executive Officer
Robert E. Sanchez	43	Executive Vice President and Chief Financial Officer
Robert D. Fatovic	43	Executive Vice President, General Counsel and Corporate Secretary
Art A. Garcia	47	Senior Vice President and Controller
Gregory F. Greene	49	Executive Vice President and Chief Human Resources Officer
Thomas S. Renehan	46	Executive Vice President, Sales and Marketing, U.S. Fleet Management Solutions
Anthony G. Tegnelia	63	President, Global Fleet Management Solutions
John H. Williford	52	President, Global Supply Chain Solutions

Gregory T. Swienton has been Chairman since May 2002 and Chief Executive Officer since November 2000. 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 has served as Executive Vice President and Chief Financial Officer since October 2007. He 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 positions.

Robert D. Fatovic has served as Executive Vice President, General Counsel and Corporate Secretary since May 2004. He previously served as Senior Vice President, U.S. Supply Chain Operations, High-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 positions within the Law department including Vice President and Deputy General Counsel.

Art A. Garcia has 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 positions within Corporate Accounting.

Gregory F. Greene has served 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. Mr. Greene joined Ryder in August 1993 and has since held various positions within Human Resources.

Thomas S. Renehan has served as Executive Vice President, Sales and Marketing, U.S. Fleet Management Solutions, since October 2005 and as Senior Vice President, Sales and Marketing from July 2005 to October 2005. He previously served as Senior Vice President, Asset Management, Sales and Marketing from March 2004 to July 2005, as Senior Vice President, Asset Management from December 2002. Mr. Renehan joined Ryder in October 1985 and has held various positions within Ryder s FMS business.

Anthony G. Tegnelia has served as President, Global Fleet Management Solutions since October 2005. He previously served as Executive Vice President, U.S. Supply Chain Solutions from December 2002 to October 2005. Prior to that, he was Senior Vice President, Global Business Value Management. Mr. Tegnelia joined Ryder in 1977 and has held a variety of other positions with Ryder including Senior Vice President and Chief Financial Officer of Supply Chain Solutions and Senior Vice President, Field Finance.

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.

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

In addition to the factors discussed elsewhere in this report, the following are some of the important factors that could affect our business.

Our operating and financial results may fluctuate due to a number of factors, many of which are beyond our control.

Our annual and quarterly operating and financial results are affected by a number of economic, regulatory and competitive factors, including:

- changes in current financial, tax or regulatory requirements that could negatively impact the leasing market;

our inability to obtain expected customer retention levels or sales growth targets;

unanticipated interest rate and currency exchange rate fluctuations;

labor strikes, work stoppages or driver shortages affecting us or our customers;

sudden changes in fuel prices and fuel shortages;

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competition from vehicle manufacturers in our U.K. business operations; and

changes in accounting rules, estimates, assumptions and accruals.

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

We have achieved annual operating revenue growth over the last few years in spite of a U.S. freight recession, in part due to a strong focus on increased contractual revenue growth and market expansion and acquisitions. During the fourth quarter of 2008, however, our business, particularly our transactional commercial rental business, began to experience the effects of worsening macroeconomic conditions, further exacerbated by certain customer-specific challenges and significant disruptions in the financial and credit markets globally. As economic conditions worsened globally during late 2008, we began to see a significant decline in rental performance and utilization as well as slow used vehicle sales activity resulting from a worsening freight recession. Significant uncertainty around macroeconomic and industry conditions may impact the spending and financial position of our customers.

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;

pricing 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;

increased pension costs due to negative asset returns; and

increased risk of declines in the residual values of our vehicles.

We are uncertain as to how long current, unfavorable macroeconomic and industry conditions will persist and the magnitude of their effects on our business and results of operations. If these conditions persist or further weaken, our business and results of operations could be materially adversely affected.

We are exposed to risks associated with the current financial crisis.

Financial markets in the U.S. and abroad have experienced extreme disruption, including severely diminished liquidity and credit availability resulting in higher short-term borrowing costs and more stringent borrowing terms. Recessionary conditions in the global economy threaten to cause further tightening of the credit markets, more stringent lending standards and terms and higher volatility in interest rates. While these conditions and the current economic downturn have not impaired our ability to access credit markets, these conditions may adversely affect our business in the future, particularly if there is further deterioration in the world financial markets and major economies. The current credit conditions may also adversely affect the business of our customers. Difficulties in obtaining capital may lead to the inability of some customers to obtain affordable financing to fund their operations, resulting in lower demand for leasing services from Ryder. Furthermore, liquidity issues could impair the ability of those with whom we do business to satisfy their obligations to us.

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. Changes in residual values also impact the overall competitiveness of our full service lease product line, as estimated sales proceeds are a critical component of the overall price of the product.

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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. In our commercial rental product line, however, we do not purchase vehicles against specific customer contracts. Rather, we purchase vehicles and optimize the size and mix of the commercial rental fleet based upon our expectations of overall market demand for short-term and long-term rentals. 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 this market demand 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 or used vehicle market.

Continued decline in automotive volumes and instability in the automotive industry would adversely affect our results and increase our credit risk.

Approximately 48% of our global SCS revenues is from the automotive industry and is directly impacted by automotive vehicle production. In addition, a number of our FMS customers, particularly transportation and trucking companies, provide services to the automotive industry. Automotive sales and production are impacted by general economic conditions, consumer preference, fuel prices, labor relations, the availability of credit and other factors. The North American automotive industry which generally includes General Motor Corporation (GM), Ford Motor Company and Cerberus Capital Management L.P. (Chrysler LLC) (the Detroit 3), has been weak for some time as a result of strong competition from foreign OEMs, high fixed costs particularly related to significant employee pension and healthcare benefit commitments, unsuccessful product launches and overcapacity. More recently both domestic and foreign automakers have reported significantly lower sales, and have responded by reducing production capacity both through plant shutdowns and a reduction in the number of production shifts. These plant shutdowns and shift eliminations have negatively impacted our results in 2008. Any prolonged plant shutdowns and additional shift eliminations can significantly reduce our operations with the OEMs as well as the operations of the automotive suppliers and transportation providers that we service in both our FMS and SCS businesses, and can have a negative impact on our future results.

We are also subject to credit risk associated with the concentration of our accounts receivable from our automotive and automotive-related customers. In response to declining market share and significant losses, the Detroit 3 have announced significant restructuring actions. In addition, GM has sought and obtained assistance from the U.S. government. If these actions do not improve GM s financial condition and liquidity position, they may not be able to fund their operations and may seek bankruptcy protection. If GM or our other automotive or automotive-related customers combined 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, incur impairment charges or require additional restructuring actions, all of which could have a material negative impact on our operating results and financial condition.

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

During 2008, sales to our top ten SCS customers representing all of the industry groups we service, accounted for 65% of our SCS total revenue and 61% of our SCS operating revenue (revenue less subcontracted transportation), with GM accounting for 17% of our SCS total and operating revenue. The loss of any of these customers or a significant reduction in the services provided to any of these customers, particularly GM, could impact our domestic and international operations and adversely affect our SCS financial results. While we continue to focus our efforts on diversifying our customer base we may not be successful in doing so in the short-term.

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.

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

Substantially all of our SCS services are provided under contractual arrangements with our customers. Under most of these 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, 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 contracts provide for renegotiation upon a material change, there is no assurance that we will be successful in obtaining the necessary price adjustments.

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:

- we compete with many other transportation and logistics service providers, some of which have greater capital resources than we do;

- some of our competitors periodically reduce their prices to gain business, which may limit our ability to maintain or increase prices;

- 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; and

- 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.

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 entities. Specifically, 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 Environmental Protection Agency or other authorities, relating to the hours of service that our drivers may provide in any one-time period, security and other matters. Compliance with these regulations could substantially impair equipment productivity and increase our costs.

New regulations governing exhaust emissions could adversely impact our business. The Environmental Protection Agency has issued regulations that require progressive reductions in exhaust emissions from certain diesel engines through 2007. Emissions standards require reductions in the sulfur content of diesel fuel since June 2006 and the introduction of emissions after-treatment devices on newly-manufactured engines and vehicles utilizing engines built after January 1, 2007. In addition, each of these requirements could result in higher prices for tractors, diesel engines and fuel, 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.

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

We sponsor a number of defined benefit plans for employees in the U.S., U.K. and other foreign locations. 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, 2008 were $1.48 billion and $976 million, 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, there can be no assurance that we will succeed, and continued upward pressure could reduce the profitability of our business and negatively impact our cash flows.

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. In recent years, our development has been favorable compared to historical selected loss development factors because of improved safety performance, payment patterns and settlement patterns; however, there is no assurance we will continue to enjoy similar favorable development in the future. 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

We maintain 677 FMS locations in the U.S., Puerto Rico and Canada; we own 440 of these facilities and lease the remaining facilities. Our FMS locations generally include a repair shop, rental counter, fuel service island and administrative offices.

Additionally, we manage 222 on-site maintenance facilities, located at customer locations.

We also maintain 126 locations in the U.S. and Canada in connection with our domestic SCS and DCC businesses. Almost all of our SCS locations are leased and generally include a warehouse and administrative offices.

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We maintain 140 international locations (locations outside of the U.S. and Canada) for our international businesses. These locations are in the U.K., Ireland, Germany, Mexico, Argentina, Brazil, Chile, China, Thailand and Singapore. The majority of these locations are leased and generally include a repair shop, warehouse and administrative offices.

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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of our security holders during the quarter ended December 31, 2008.

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
	High	Low	Share
2008			
First quarter	**$ 65.25**	**40.31**	**0.23**
Second quarter	**76.64**	**60.28**	**0.23**
Third quarter	**75.09**	**58.02**	**0.23**
Fourth quarter	**62.19**	**27.71**	**0.23**
2007			
First quarter	$ 55.62	47.88	0.21
Second quarter	55.89	49.24	0.21
Third quarter	57.70	48.19	0.21
Fourth quarter	49.93	38.95	0.21

Our common shares are listed on the New York Stock Exchange under the trading symbol R. At January 30, 2009, there were 9,713 common stockholders of record and our stock price on the New York Stock Exchange was $33.78.

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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, 2003 to December 31, 2008.

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, 2003 and that all dividends were reinvested. Past performance is not necessarily an indicator of future results.

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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, 2008:

	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)]	Approximate Dollar Value That May Yet Be Purchased Under the Discretionary Program[(3)]
October 1 through October 31, 2008	**5,857**	**$ 51.71**		**636,564**	**$ 130,400,437**
November 1 through November 30, 2008	**10,294**	**30.01**		**636,564**	**130,400,437**
December 1 through December 31, 2008	**1,280**	**35.14**		**636,564**	**130,400,437**
Total	**17,431**	**$ 37.68**			

(1) During the three months ended December 31, 2008, we purchased an aggregate of 17,431 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 plan relating to investments by employees in our common stock, one of the investment options available under the plan.

(2) In December 2007, our Board of Directors authorized a two-year anti-dilutive repurchase program. Under the anti-dilutive program, management is authorized to repurchase shares of common stock in an amount not to exceed the lesser of the number of shares issued to employees upon the exercise of stock options or through the employee stock purchase plan for the period from September 1, 2007 to December 12, 2009, or 2 million shares. Share repurchases of common stock may be made periodically in open-market transactions and are subject to market conditions, legal requirements and other factors. Management may establish a prearranged written plan for the Company under Rule 10b5-1 of the Securities Exchange Act of 1934 as part of the anti-dilutive repurchase program, which would allow for share repurchases during Ryder s quarterly blackout periods as set forth in the trading plan. During the three months ended December 31, 2008, no repurchases had been made under this program. Towards the end of the third quarter, we temporarily paused purchases under both programs given current market conditions. We will continue to monitor financial conditions and will resume repurchases when we believe it is prudent to do so.

(3)

In December 2007, our Board of Directors also authorized a $300 million share repurchase program over a period not to exceed two years. Share repurchases of common stock may be made periodically in open-market transactions and are subject to market conditions, legal requirements and other factors. Management may establish a prearranged written plan for the Company under Rule 10b5-1 of the Securities Exchange Act of 1934 as part of the $300 million share repurchase program, which would allow for share repurchases during Ryder s quarterly blackout periods as set forth in the trading plan. During the three months ended December 31, 2008, no repurchases had been made under this program. Towards the end of the third quarter, we temporarily paused purchases under both programs given current market conditions. We will continue to monitor financial conditions and will resume repurchases when we believe it is prudent to do so.

Securities Authorized for Issuance under Equity Compensation Plans

The following table includes information as of December 31, 2008 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 (a)**		**Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)**	**Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans Excluding Securities Reflected in Column (a) (c)**
Equity compensation plans approved by security holders:				
Broad based employee stock option plans	**2,836,965**	**$**	**39.87**	**5,044,201**
Employee stock purchase plan				**557,924**
Non-employee directors stock plans	**123,074**		**11.09**	**41,471**
Equity compensation plans not approved by security holders				
Total	**2,960,039**	**$**	**38.67**	**5,643,596**

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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				
	2008	2007	2006	2005	2004
	(Dollars and shares in thousands, except per share amounts)				
Operating Data:					
Revenue	**$ 6,203,743**	6,565,995	6,306,643	5,740,847	5,150,278
Earnings from continuing operations[1]	**$ 199,881**	253,861	248,959	227,628	215,609
Net earnings[1],[2]	**$ 199,881**	253,861	248,959	226,929	215,609
Per Share Data:					
Earnings from continuing operations Diluted[1]	**$ 3.52**	4.24	4.04	3.53	3.28
Net earnings Diluted[1],[2]	**$ 3.52**	4.24	4.04	3.52	3.28
Cash dividends	**$ 0.92**	0.84	0.72	0.64	0.60
Book value[3]	**$ 24.17**	32.52	28.34	24.69	23.48
Financial Data:					
Total assets	**$ 6,689,508**	6,854,649	6,828,923	6,033,264	5,683,164
Average assets[4]	**$ 6,924,342**	6,914,060	6,426,546	5,922,758	5,496,429
Return on average assets(%)[4]	**2.9**	3.7	3.9	3.8	3.9
Long-term debt	**$ 2,478,537**	2,553,431	2,484,198	1,915,928	1,393,666
Total debt	**$ 2,862,799**	2,776,129	2,816,943	2,185,366	1,783,216
Shareholders equity[3],	**$ 1,345,161**	1,887,589	1,720,779	1,527,456	1,510,188
Debt to equity(%)[3]	**213**	147	164	143	118
Average shareholders equity[3],[4]	**$ 1,778,489**	1,790,814	1,610,328	1,554,718	1,412,039
Return on average shareholders equity(%)[3],[4]	**11.2**	14.2	15.5	14.6	15.3
Adjusted return on capital(%)[5]	**7.3**	7.4	7.9	7.8	7.7
Net cash provided by operating activities	**$ 1,255,531**	1,102,939	853,587	779,062	866,849
Capital expenditures paid	**$ 1,234,065**	1,317,236	1,695,064	1,399,379	1,092,158
Other Data:					
Average common shares Diluted	**56,790**	59,845	61,578	64,560	65,671
Number of vehicles Owned and leased	**163,400**	160,700	167,200	163,600	165,800
Average number of vehicles Owned and leased[4]	**162,200**	165,400	164,400	166,700	165,100
Number of employees	**28,000**	28,800	28,600	27,800	26,300

			2008	2007	2006	2005	2004
(1)	*Comparable earnings from continuing operations*	*$*	***254,753***	*251,910*	*245,883*	*220,001*	*190,979*
	Comparable earnings per diluted common share from continuing operations	*$*	***4.49***	*4.21*	*3.99*	*3.41*	*2.91*

Refer to the section titled Non-GAAP Financial Measures in Item 7 of this report for a reconciliation of comparable earnings to net earnings.

(2) Net earnings in 2005 included (i) income from discontinued operations associated with the reduction of insurance reserves related to discontinued operations resulting in an after-tax benefit of $2 million, or $0.03 per diluted common share, and (ii) the cumulative effect of a change in accounting principle for costs associated with the future removal of underground storage tanks resulting in an after-tax charge of $2 million, or $0.04 per diluted common share.

(3) Shareholders equity at December 31, 2008, 2007, 2006, 2005 and 2004 reflected after-tax equity charges of $480 million, $148 million, $201 million, $221 million, and $189 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) 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 net earnings to adjusted net earnings and average total debt and shareholders equity to adjusted average total capital.

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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.

OVERVIEW

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

The *Fleet Management Solutions (FMS)* business segment is our largest segment providing 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. FMS revenue and assets in 2008 were $4.01 billion and $6.14 billion, respectively, representing 65% of our consolidated revenue and 92% of consolidated assets.

The *Supply Chain Solutions (SCS)* business segment provides comprehensive supply chain consulting including distribution and transportation services throughout North America and in South America, Europe and Asia. SCS revenue in 2008 was $1.64 billion, representing 26% of our consolidated revenue.

The *Dedicated Contract Carriage (DCC)* business segment provides vehicles and drivers as part of a dedicated transportation solution in the U.S. DCC revenue in 2008 was $548 million, representing 9% of our consolidated revenue.

2008 was a year of significant accomplishments for us, as we delivered strong earnings, operating revenue growth and positive free cash flow following more than two full years of a U.S. freight recession. We also successfully completed four accretive acquisitions in 2008. However, in the fourth quarter of 2008, we saw significant deterioration in general economic conditions, particularly affecting our transactional commercial rental business. In December 2008, we announced several strategic actions, including discontinuing certain operations and workforce reductions, that will better position us for the market conditions we anticipate in the upcoming year.

Total revenue was $6.20 billion, down 6% from $6.57 billion in 2007. Revenue comparisons were impacted by a previously announced change from gross to net revenue reporting in a subcontracted transportation agreement, which had no impact on operating revenue or earnings. Excluding this item, total revenue increased 5% primarily as a result of higher fuel services revenue. Operating revenue (total revenue less fuel and subcontracted transportation) was $4.70 billion in 2008, up 1%. Operating revenue growth was driven by contractual revenue, including acquisitions in our FMS business segment, new and expanded business in SCS partially offset by lower commercial rental revenue.

Net earnings decreased to $200 million from $254 million in 2007 and net earnings per diluted common share decreased to $3.52 from $4.24 in 2007. Net earnings included certain items we do not consider indicative of our ongoing operations and have been excluded from our comparable earnings measure. The

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

following discussion provides a summary of the 2008 and 2007 special items which are discussed in more detail throughout our MD&A and within the Notes to Consolidated Financial Statements:

	NBT	Net Earnings	EPS
	(Dollars in thousands, except per share amounts)		
2008			
Earnings / EPS	**$ 349,922**	**$ 199,881**	**$ 3.52**
Restructuring and other charges primarily related to exit costs associated with a previously announced plan to discontinue certain international supply chain operations and workforce reductions	**58,435**	**53,159**	**0.94**
Benefit associated with the reversal of reserves for uncertain tax positions due to the expiration of statutes of limitation in various jurisdictions		**(7,931)**	**(0.14)**
Benefit from a tax law change in Massachusetts		**(1,614)**	**(0.03)**
Brazil charges for prior years adjustments (1)	**6,498**	**6,831**	**0.12**
Charges related to impairments and write-offs of international assets (1)	**5,548**	**4,427**	**0.08**
Comparable earnings	**$ 420,403**	**$ 254,753**	**$ 4.49**
2007			
Earnings / EPS	$ 405,464	$ 253,861	$ 4.24
Benefit from tax law changes in Canada		(3,333)	(0.06)
Gain on sale of property (1)	(10,110)	(6,154)	(0.10)
Restructuring and other charges related to cost management and process improvement actions	11,578	7,536	0.13
Comparable earnings	$ 406,932	$ 251,910	$ 4.21

(1) Refer to Note 25, Other Items Impacting Comparability, in the Notes to Consolidated Financial Statements.

Excluding the special items listed above, comparable net earnings were $255 million, up 1% from $252 million in 2007. Comparable earnings per diluted common share were $4.49, up 7% from $4.21 in 2007. Earnings growth in the FMS and DCC business segments was largely offset by a decline in SCS earnings.

With our strong earnings and cash flows, we repurchased a total of 4 million shares of common stock in 2008 for $256 million. We also increased our annual dividend by 10% to $0.92 per share of common stock. In addition, during 2008, we paid $246 million and acquired the assets of Lily Transportation, Gator Leasing, Gordon Truck Leasing and Transpacific Container Terminal Ltd. and CRSA Logistics Ltd.

Capital expenditures increased to $1.27 billion compared to $1.19 billion in 2007. The growth in capital expenditures reflects higher full service lease vehicle spending for replacements and expansion of customer fleets. Our debt balances grew 3% to $2.86 billion at December 31, 2008 due to acquisitions and share repurchase programs. Our debt to equity ratio also increased to 213% from 147% in 2007. Our total obligations (including off-balance sheet debt) to equity ratio also increased to 225% from 157% in 2007. Leverage ratios were impacted by the unrecognized pension plan losses, share repurchases, foreign currency translation adjustments and acquisitions.

2009 Outlook

In 2009, we plan to manage through the impacts of a prolonged economic recession by focusing our efforts on the cyclical impacts in commercial rental and used vehicle sales and concentrating on cost improvement actions. We expect 2009 comparable earnings per diluted common share to decline because of

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

higher pension expense, lower commercial rental and used vehicle sales results and lower volumes, particularly in the automotive industry. We expect to partially offset these negative impacts through cost reduction initiatives, operational improvements and the carryover impact of acquisitions and share repurchases. In 2009, we will continue to focus on our contractual revenue growth and retention strategies, including the evaluation of selective acquisitions, while retaining financial discipline. Total revenue is targeted to decrease by 10% to 16% while operating revenue is expected to decrease by 5% to 11%. The 2009 forecast for total revenue includes the adverse impact of lower anticipated fuel prices and unfavorable foreign exchange rates.

ITEMS AFFECTING COMPARABILITY BETWEEN PERIODS

Revenue Reporting

In transportation management arrangements where we act as principal, revenue is reported on a gross basis for subcontracted transportation services billed to our customers. We realize minimal changes in profitability as a result of fluctuations in subcontracted transportation. Determining whether revenue should be reported as gross (within total revenue) or net (deducted from total revenue) 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 and conditions of the arrangement. Effective January 1, 2008, our contractual relationship with a significant customer for certain transportation management services changed, and we determined, after a formal review of the terms and conditions of the services, that we were acting as an agent based on the revised terms of the arrangement. This contract modification required a change in revenue recognition from a gross basis to a net basis for subcontracted transportation beginning on January 1, 2008. This contract represented $640 million and $565 million of total revenue for the years ended December 31, 2007 and 2006, respectively.

Accounting Changes

See Note 2, Accounting Changes, for a discussion of the impact of changes in accounting standards.

ACQUISITIONS

We have completed various asset purchase agreements in the past two years, under which we acquired a company s fleet and contractual customers. The FMS 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.

Company Acquired	Business Segment	Date	Vehicles	Contractual Customers	Market
Gordon Truck Leasing	FMS	August 29, 2008	500	130	Pennsylvania
Gator Leasing, Inc.	FMS	May 12, 2008	2,300	300	Florida
Lily Transportation Corp.	FMS	January 11, 2008	1,600	200	Northeast U.S.
Pollock NationaLease	FMS/SCS		2,000	200	Canada

October 5,
2007

On December 19, 2008, we completed the acquisition of substantially all of the assets of Transpacific Container Terminal Ltd. and CRSA Logistics Ltd. (CRSA) in Canada, as well as CRSA operations in Hong Kong and Shanghai, China. This strategic acquisition adds complementary solutions to our SCS capabilities including consolidation services in key Asian hubs, as well as deconsolidation operations in Vancouver, Toronto and Montreal.

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

FULL YEAR CONSOLIDATED RESULTS

	Years ended December 31			Change	
	2008	2007	2006	**2008/ 2007**	2007/ 2006
	(Dollars and shares in thousands, except per share amounts)				
Earnings before income taxes	**$ 349,922**	405,464	392,973	**(14)%**	3%
Provision for income taxes	**150,041**	151,603	144,014	**(1)**	5
Net earnings	**$ 199,881**	253,861	248,959	**(21)%**	2%
Per diluted common share	**$ 3.52**	4.24	4.04	**(17)%**	5%
Weighted-average shares outstanding Diluted	**56,790**	59,845	61,578	**(5)%**	(3)%

Earnings before income taxes (NBT) decreased to $350 million in 2008 compared to $405 million in 2007. NBT in 2008 included a fourth quarter restructuring charge primarily associated with a plan to discontinue current supply chain operations in Brazil, Argentina, Chile and Europe. Comparable NBT increased to $420 million compared to $407 million in the prior year. The improvement in comparable NBT was driven by better operating performance in our FMS contractual business partially offset by a decline in commercial rental results and reduced profitability in our SCS business segment. Net earnings decreased to $200 million in 2008 or $3.52. Net earnings in 2008 included income tax benefits primarily related to the reversal of reserves for uncertain tax positions. Comparable net earnings increased to $255 million or $4.49 in 2008 from $252 million or $4.21 in 2007 due to the improvement in NBT. This improvement was slightly offset by a higher tax rate on comparable earnings resulting from an increase in non-deductible foreign losses. Earnings per diluted common share growth in 2008 exceeded the net earnings growth rate reflecting the impact of share repurchase programs.

NBT increased to $405 million in 2007 compared to $393 million in 2006. NBT in 2007 included restructuring charges and a gain on the sale of property. Comparable NBT increased to $407 million compared to $399 million in 2006 reflecting the benefits of (i) lower pension costs; (ii) contractual revenue growth in the FMS business segment; (iii) lower safety and insurance costs; (iv) lower incentive-based compensation; and (v) lower depreciation as a result of our annual depreciation review implemented January 1, 2007. These items more than offset the significant impact of weak U.S. commercial rental market demand and lower used vehicle sales results in our FMS business segment. Net earnings increased to $254 million in 2007 compared to $249 million in 2006. Net earnings in 2007 included an income tax benefit primarily associated with enacted changes in Canadian tax laws. Net earnings in 2006 included an income tax benefit associated with enacted changes in Texas and Canadian tax laws. Comparable net earnings increased to $252 million or $4.21 in 2007 from $246 million or $3.99 in 2006. Earnings per diluted common share growth in 2007 exceeded the net earnings growth rate reflecting the impact of share repurchase programs.

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

See subsequent discussion within Full Year Consolidated Results and Full Year Operating Results by Business Segment for additional information on the results noted above.

	Years ended December 31			Change	
	2008	2007	2006	**2008/ 2007**	2007/ 2006
	(Dollars in thousands)				
Revenue:					
Fleet Management Solutions	**$ 4,450,016**	4,162,644	4,096,046	**7%**	2%
Supply Chain Solutions	**1,643,056**	2,250,282	2,028,489	**(27)**	11
Dedicated Contract Carriage	**547,751**	567,640	568,842	**(4)**	
Eliminations	**(437,080)**	(414,571)	(386,734)	**(5)**	(7)
Total	**$ 6,203,743**	6,565,995	6,306,643	**(6)%**	4%
Operating revenue(1)	**$ 4,704,506**	4,636,557	4,454,231	**1%**	4%

(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 net of related intersegment billings, 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 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. Subcontracted transportation revenue in our SCS and DCC business segments is excluded from the operating revenue computation as subcontracted transportation is largely a pass-through to our customers and 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.*

Total revenue decreased 6% to $6.20 billion in 2008 compared with 2007. Total revenue in 2008 was impacted by a change, effective January 1, 2008, in our contractual relationship with a significant customer that required a change in revenue recognition from a gross basis to a net basis for subcontracted transportation. This change did not impact operating revenue or earnings. During 2007, total revenue from this contractual relationship was $640 million. Excluding this item, total revenue increased 5% during 2008 compared with 2007 primarily as a result of higher fuel services revenue. Operating revenue increased 1% primarily due to FMS contractual revenue growth, including acquisitions, which more than offset the decline in commercial rental revenue. Total revenue in 2008 included an unfavorable foreign exchange impact of 0.3% due primarily to the weakening of the British pound.

Total revenue increased 4% to $6.57 billion in 2007 compared with 2006. Total revenue growth was driven by contractual revenue growth in our SCS and FMS business segments, and by favorable movements in foreign currency exchange rates related to our international operations, offset partially by a decline in FMS commercial rental revenue. SCS revenue growth was due primarily to new and expanded business. Contractual revenue growth in our FMS segment, principally full service lease revenue, resulted from new contract sales and lease replacements beginning in the second half of 2006. We realized revenue growth in all geographic markets served by FMS in 2007. Total revenue in 2007 included a favorable foreign exchange impact of 1.2% due primarily to the strengthening of the Canadian dollar and British pound.

Our FMS segment leases revenue earning equipment and provides fuel, maintenance and other ancillary services to our SCS and DCC segments. Eliminations relate to inter-segment sales that are accounted for at

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

rates similar to those executed with third parties. The increases in eliminations in 2008 and 2007, reflects primarily the pass-through of higher average fuel costs.

	Years ended December 31			Change	
				2008/	2007/
	2008	2007	2006	**2007**	2006
	(Dollars in thousands)				
Operating expense (exclusive of items shown separately)	**$3,029,673**	2,776,999	2,735,752	**9%**	2%
Percentage of revenue	**49%**	42%	43%		

Operating expense increased in 2008 compared with 2007 from the impact of higher fuel costs due to higher average market prices. Fuel costs are largely a pass-through to customers for which we realize minimal changes in profitability during periods of steady market fuel prices. We continue to realize favorable development in prior years self-insurance loss reserves and as a result benefited from lower safety and insurance costs. In recent years, our development has been favorable compared with historical selected loss development factors because of improved safety performance, payment patterns and settlement patterns.

Operating expense increased in 2007 compared with 2006 in conjunction with the growth in operating revenue as well as higher fuel costs due to higher average market prices. The increase in operating expense was partially offset by lower safety and insurance costs due to favorable development in prior years self-insurance loss reserves.

	Years ended December 31			Change	
				2008/	2007/
	2008	2007	2006	**2007**	2006
	(Dollars in thousands)				
Salaries and employee-related costs	**$1,399,121**	1,410,388	1,397,391	**(1)%**	1%
Percentage of revenue	**23%**	21%	22%		
Percentage of operating revenue	**30%**	30%	31%		

Salaries and employee-related costs decreased in 2008 compared with 2007 primarily due to lower headcount, including cost savings initiatives from 2007. Average headcount decreased 3% in 2008 compared with 2007. The number of employees at December 31, 2008 decreased to approximately 28,000 compared to 28,800 at December 31, 2007. We expect headcount to decline in 2009 due to the previously announced strategic initiatives.

Pension expense totaled $3 million in 2008 compared to $29 million in 2007. Lower pension expense was primarily a result of the freeze of our U.S. and Canadian pension plans. On January 5, 2007, our Board of Directors approved an amendment to freeze U.S. pension plans effective December 31, 2007 for current participants who did not meet certain grandfathering criteria. As a result, these employees ceased accruing further benefits after December 31, 2007 and began participating in an enhanced 401(k) plan. During the third quarter of 2008, our Board of Directors approved the freeze of the defined benefit portion of the Canadian retirement plan, which resulted in a curtailment gain of

$4 million. In connection with the freeze of the pension plans, we provided an enhanced 401(k) savings plan to employees. See Note 23, Employee Benefit Plans, in the Notes to Consolidated Financial Statements, for additional information regarding these items. Total savings plan costs increased $20 million during 2008 primarily as a result of the enhanced 401(k) plan. The net impact of pension and savings plan costs was a net decrease of $6 million for 2008 compared with 2007.

We apply actuarial methods to determine the annual net periodic pension expense and pension plan liabilities. 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 and the expected

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

long-term rate of return on assets. Accounting guidance applicable to pension plans does not require immediate recognition of the current year effects of a deviation between these assumptions and actual experience. We have experienced significant negative pension asset returns in 2008 the result of which will materially increase pension expense for 2009. We expect 2009 pension expense, on a pre-tax basis, to increase approximately $62 million primarily because of a lower than expected return on assets in 2008 partially offset by higher discount rates. See the section titled Critical Accounting Estimates Pension Plans for further discussion on pension accounting estimates.

Salaries and employee-related costs increased in 2007 compared with 2006 primarily as a result of merit increases and higher outside labor costs from new and expanded business in our SCS business segment offset partially by lower pension expense and incentive-based compensation. Average headcount increased 2% in 2007 compared with 2006. Pension expense decreased $41 million in 2007 compared with 2006 due to (i) higher expected return on assets because of prior year actual returns and contributions, and (ii) the impact of higher interest rate levels at December 31, 2006. Incentive-based compensation expense decreased $15 million in 2007 compared with 2006, as we achieved a lower level of performance relative to target in 2007.

	Years ended December 31			Change	
				2008/	2007/
	2008	2007	2006	**2007**	2006
	(Dollars in thousands)				
Subcontracted transportation	**$323,382**	950,500	865,475	**(66)%**	10%
Percentage of revenue	**5%**	14%	14%		

Subcontracted transportation expense represents freight management costs on logistics contracts for which we purchase transportation from third parties. Subcontracted transportation expense decreased in 2008 as a result of net reporting from a contract change. Subcontracted transportation expense in 2007 grew due to increased volumes of freight management activity from new and expanded business and higher average pricing on subcontracted freight costs, resulting from increased fuel costs.

Subcontracted transportation expense is directly impacted by whether we are acting as an agent or principal in our transportation management contracts. To the extent that we are acting as a principal, revenue is reported on a gross basis and carriage costs to third parties are recorded as subcontracted transportation expense. The impact to net earnings is the same whether we are acting as an agent or principal in the arrangement. Effective January 1, 2008, our contractual relationship with a significant customer changed, and we determined, after a formal review of the terms and conditions of the services, we were acting as an agent based on the revised terms of the arrangement. As a result, the amount of total revenue and subcontracted transportation expense decreased by $640 million in 2008 compared with 2007 due to the reporting of revenue net of subcontracted transportation expense for this particular customer contract.

	Years ended December 31			Change	
				2008/	2007/
	2008	2007	2006	**2007**	2006
	(Dollars in thousands)				

Depreciation expense	**$843,459**	815,962	743,288	**3%**	10%
Gains on vehicle sales, net	**(39,312)**	(44,094)	(50,766)	**(11)**	(13)
Equipment rental	**80,105**	93,337	90,137	**(14)**	4

Depreciation expense relates primarily to FMS revenue earning equipment. Depreciation expense increased to $843 million in 2008 compared to $816 million in 2007, reflecting the impact of recent acquisitions and increased capital spending. The increases were partially offset by lower adjustments in the carrying value of vehicles held for sale of $13 million in 2008 compared with 2007. Depreciation expense increased to $816 million in 2007 compared to $743 million in 2006, reflecting higher average vehicle investment from increased capital spending and higher adjustments in the carrying value of vehicles held for

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

sale of $18 million. 2007 benefited from adjustments made to residual values as part of our annual depreciation review.

We periodically review and adjust residual values, reserves for guaranteed lease termination values and useful lives of revenue earning equipment based on current and expected operating trends and projected realizable values. See the section titled Critical Accounting Estimates Depreciation and Residual Value Guarantees for further discussion. 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 2008, 2007 and 2006, we completed our annual depreciation review of the residual values and useful lives of our revenue earning equipment. 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 and extent of alternative uses. Based on the results of the 2007 review, the adjustment to 2008 depreciation was not significant. Based on the results of our 2006 analysis, we adjusted the residual values of certain classes of our revenue earning equipment effective January 1, 2007. The residual value changes increased pre-tax earnings for 2007 by approximately $11 million compared with 2006. Based on the results of the 2008 review, the adjustment to 2009 depreciation is not significant.

Gains on vehicle sales, net decreased in 2008 compared with 2007 due to a 32% decline in the number of vehicles sold partially offset by improved gains per unit sold. In 2007, we had excess used truck inventories and increased our wholesale activity in order to reduce inventory levels. Wholesale prices are lower than our retail prices and result in lower gains per unit. In light of current market conditions, we expect a significant decline in overall used vehicle sales results, including gains and carrying value adjustments, reflecting lower retail prices and higher wholesale activity. Gains on vehicle sales, net decreased in 2007 compared with 2006 due to a decline in the average price of vehicles sold mostly as a result of wholesale activity taken to reduce excess used truck inventories.

Equipment rental consists primarily of rent expense for FMS revenue earning equipment under lease by us as lessee. Equipment rental decreased $13 million in 2008 due to the reduction in the average number of leased vehicles. Equipment rental increased $3 million in 2007 compared with 2006 as a result of the sale and leaseback of $150 million of revenue earning equipment completed in May 2007.

	Years ended December 31			Change	
	2008	2007	2006	**2008/ 2007**	2007/ 2006
	(Dollars in thousands)				
Interest expense	**$157,257**	160,074	140,561	**(2)%**	14%
Effective interest rate	**5.5%**	5.6%	5.7%		

Interest expense totaled $157 million in 2008 compared to $160 million in 2007. The decrease in interest expense reflects a lower average cost of debt principally from lower commercial paper borrowing rates. The growth in interest expense in 2007 compared with 2006 reflects higher average debt levels to support capital spending, the funding of global pension contributions in 2006 and share repurchase programs. A hypothetical 10 basis point change in short-term market interest rates would change annual pre-tax earnings by $0.7 million.

Years ended December 31			Change	
			2008/	2007/
2008	2007	2006	**2007**	2006