



**2007 Fourth Quarter Conference Call  
January 24, 2008**

**Operator:**

Good day and welcome to the GATX fourth quarter earnings call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Rhonda Johnson, the Director of Investor Relations; please go ahead, ma'am.

**Rhonda Johnson:**

Thank you, Melissa and good morning everyone. Thank you for taking time during this busy earnings season to join us for our fourth quarter and 2007 year end conference call.

With me today are Brian Kenney, President and CEO of GATX Corporation; Bob Lyons, Senior Vice President and Chief Financial Officer; and Jim Earl, Executive Vice President and Chief Operating Officer.

I will provide opening comments and then we'll throw it open to your questions. Before we begin, I'd like to remind you that any forward-looking statement made on this call represents our best judgment as to what may occur in the future. The Company's actual results will depend on a number of competitive and economic factors, some of which may be outside the control of the Company. I refer you to our Form 10-K for the year ended December 31, 2006, on file with the SEC for a discussion of the most important of these factors.

As noted in the press release, we had significant tax benefits in 2007 and 2006, from enacted statutory tax rate changes in several international jurisdictions where we operate. Specifically, Canada, the United Kingdom and Germany. To provide relative operating comparisons, all numbers I quote in this summary will exclude these tax benefits. A reconciliation to GAAP net income, including these benefits is included in the press release on page 14.

Today, we reported fourth quarter 2007 income from continuing operations of \$31.6 million, or 62 cents per diluted share. This compares to 2006 fourth quarter income of \$28.7 million or 51 cents per diluted share. For the full-year

2007, income from continuing operations was \$165.7 million or \$3.08 per diluted share, compared to \$145.5 million or \$2.55 per diluted share in 2006, a 14% increase in income from continuing operations, and a 21% increase in earnings per share.

As evidenced by the earnings I just highlighted, 2007 was an outstanding year at GATX both operationally and strategically which Brian details in his comments included in the press release. Much of our success in both 2007 and in setting the table for longer term opportunities is evidenced in Rail. In 2007, fleet utilization remained very high, ending the year at nearly 98%, a slight deterioration from the beginning of the year. We continue to take advantage of attractive lease rates, renewing leases on average 16% higher than expiring rates in 2007 and we locked those rates in for an average of 72 months.

With our focus on extending term over the last few years, we have limited the number of leases rolling over as the market continues to soften. In 2008, we have less than 20,000 railcars up for renewal compared to over 35,000 just a few years ago. In addition to lengthening term, we continue optimizing our fleet through targeted car sales, which contributed significant remarketing income to our results, and we acquired new and used railcars and locomotives at attractive prices. In addition, we invested more than \$90 million in Europe, where we are enjoying a strong market. All of these factors contributed to the excellent 2007 results and have positioned the Company to capitalize on opportunities any market weakness may present.

Specialty segment profit in 2007 increased over 2006, as income from the marine joint ventures continued to benefit from high vessel demand and charter rates, generating an excellent return. Once again, remarketing activity contributed exceptionally strong gains reflecting the high asset values in the market.

American Steamship has just completed the sailing season. Demand on the Great Lakes continued to be very strong and all customer contracts were completed. However, challenging weather conditions and lower water

levels on the Lakes brought significant vessel delays late in the season, resulting in fewer operating days and lower segment profits when compared to 2006. ASC continues to renew freight contracts at higher market rates and demand appears robust for the year ahead.

Looking forward to 2008, we see both challenge and substantial opportunities for GATX. As noted in the press release, segment profit at both Rail and Specialty are expected to decline marginally, primarily the result of deliberately lower remarketing income and increasing maintenance costs at Rail from higher fleet churn and greater compliance activity. These negatives are expected to be partially offset by strong performance from Europe and improved profit at ASC. These segment expectations, taken together with the benefit of the \$200 million share repurchase authorization announced today, result in EPS in the range of \$3.15 to \$3.35 per diluted share in 2008 and a positive improvement over 2007 despite a weakening market.

In closing, we're looking forward to the year ahead, as we are well positioned in this market. We believe there will be opportunities to make attractive investments, thereby creating substantial long-term value for our shareholders. And with that, Bob, Brian, Jim and I are ready to take your questions. Melissa?

## QUESTION & ANSWER

### Operator:

Thank you, Ms. Johnson. The question-and-answer session will be conducted electronically. If you would like to ask a question, please do so by pressing the star key followed by the digit one on your touch-tone telephone. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, that is star one if you'd like to ask a question.

And our first question comes from Brannon Cook from JPMorgan.

### Brannon Cook:

Good morning.

### Rhonda Johnson:

Good morning.

### Brannon Cook:

So, I had a question around the outlook in the railcar market. It looks like the utilization hung in there at a pretty solid level in the fourth quarter, and, you know, looking at your guidance, it seems that you have some confidence that you're going to be able to hold up the railcar utilization in the North American market. Could you give a little color around, kind of your expectations there, relative to the guidance you gave?

### Bob Lyons:

Sure, Brannon. It's Bob Lyons; I can give you a quick summary of what we're thinking going forward. We are anticipating, as we go through 2008, that there would be some deterioration in that utilization level. As the market continues to face challenges in specific car types and generally a weaker tone than what we experienced in 2007. But, you know, looking forward, we're not talking about levels that approached, you know, the early 2001-2002 timeframe, where utilization dips significantly. We're talking a couple hundred basis points-type move.

### Brannon Cook:

OK. And as kind of a follow on to that, could you talk a bit about – you talked about lower remarketing income in '08 versus '07. I guess, in '07 you had around \$61 million of remarketing income. In '06, it was \$47 million. Should we think about the remarketing income coming in a bit more at the '06 level, you know, meaningfully lower than we were in '07?

### Bob Lyons:

That's a more reasonable assumption, correct. We anticipate – 2007 was an exceptionally strong year, as we took advantage of some opportunities in the marketplace and we continued our fleet optimization in Rail. So, we are expecting some continuation of that in 2008, but not at the levels we experienced this year. So, you know, looking back at 2006 is a more reasonable range.

**Brannon Cook:**

OK. And just, as a final question, on asset purchase opportunities. Clearly, the overall railcar market is weakening a bit from a railcar price perspective. Could you talk about, you obviously, you had the deal with Trinity -- purchasing some railcars there. Could you talk a little bit about what you see in '08 in terms of opportunities? Are things getting to the point where things are getting increasingly attractive to take advantage of some opportunistic transactions?

**Brian Kenney:**

It's Brian, Brannon. Yeah, you saw our volumes spike, especially in the fourth quarter, and asset prices are coming down. I think I've talked about it in the past that freight car pricing, although we haven't placed an order, so it's hard to really test that until you do on the freight car side. When we get quoted, prices are down probably 10% or more over the last year. On the tank car side, we'd say generally it's down less. Obviously, it was down enough for us to order 2,000 cars from Trinity. I would say that's for a very specific tank car type that we think are still attractive in this market.

So, you know, the general comment is freight car pricing's down double digits. Tank car pricing is down a little less. We did place the order but, I don't think prices are down near to the point where we'll go out and place a massive order yet. The fact is they're still not quite as attractive as they need to be for us. So, we'll see what happens here. My expectations are, if you look at 2008 in investment volume and investment opportunities, we want to at least do what we did in 2007. I hope the opportunity is there to do a lot more. I think, if you ask us the way that might play out in a weak market, we think that secondary market might be more attractive first, as other lessors either try to generate gains or get out of certain car types that are challenging for them, or maybe even getting out of the business. So, we'd expect to see that get attractive first.

And the longer the weakness lasts, I think, you'll then see new car pricing come down even farther, at least that's our expectation. Right now, manufacturers -- if you look at what they've talked about in 2008, they still have a pretty decent order book. I don't know how

that lasts, if that lasts into 2009. So the longer this weakness lasts, we would expect that maybe new car pricing gets more attractive as well. Regardless, we expect to have a bigger year in 2008 than we did in 2007.

**Brannon Cook:**

OK. Great, thanks for the time.

**Operator:**

Our next question comes from John Hecht from JMP Securities.

**John Hecht:**

Good morning, thanks for taking my question. Just a little bit -- a little bit more questions related to the guidance. The first, in terms of the roll rate, Rhonda, you said 20,000 cars in '08. Is that directly owned, or does that include what you had owned through affiliates as well?

**Rhonda Johnson:**

That's our owned cars.

**John Hecht:**

OK.

**Rhonda Johnson:**

So, those that we own directly in North America.

**John Hecht:**

And going forward, is it fair to assume a similar amount to '09, given the lease durations, at this point?

**Rhonda Johnson:**

Yes, I think that's fair.

**John Hecht:**

OK, and you announced a repurchase program. Is that something we should just kind of incorporate over the course of the year? Or would you be a little bit more aggressive earlier in the year, given the stock price? Or is there anything you can -- any color you can shed on that?

**Bob Lyons:**

Sure. It's – yeah, I would – we don't have a set timeframe, but obviously, we feel based on where the stock's at today and the announcement of the authorization, that this was an attractive opportunity for us, so I'd like to try to capitalize on that. But, to do so, you know, diligently.

**John Hecht:**

And then, you've announced through Trinity and ARI some committed purchase programs. Can you give us a sense for, on a quarterly basis, you know, what type of delivery rates we should see on those committed programs?

**Jim Earl:**

John, it's Jim. You know, they come in reasonably evenly throughout the year, although the Trinity program kicks in in the second quarter. So, you know, basically we're looking at 2,000 cars delivering pretty evenly over the course of the year. And, I'd note that almost all of those cars are tank cars that will be coming from both of the programs.

**John Hecht:**

OK, and finally, what tax rate are you assuming in your guidance?

**Bob Lyons:**

The tax rate we're assuming for 2008, John -- is this year's effective tax rate was 30 – call it 36%. We're assuming a lower tax rate in 2008 given the composition, the geographical composition of the income from some bigger contributions from some lower tax rate jurisdictions. So below 35% is the assumption for 2008. We'll benefit from a lot of the inactive tax reductions that we've talked about.

**John Hecht:**

All right, thanks very much.

**Operator:**

Our next question comes from Carl Drake from SunTrust Robinson Humphrey.

**Carl Drake:**

Good morning. I was wondering if you could talk a little bit about, you know, embedded in the guidance the type of lease increases that might be embedded on expiring leases as we go through the year and when that number might directionally flatten out or go even perhaps go negative into '09?

**Bob Lyons:**

Sure. We – as we've indicated previously, you know, we felt based on the expired rates that we could see in the system coming up, that even -- we said this even over a year ago, we felt we'd be in good shape going into 2008, you know, well into 2008. We had 12% increase in the fourth quarter, this year, of 2007. But the expiring rate will continue to move up as we go through 2008, as we would expect. So, the first half of the year we should be in, you know, very much in positive territory, but it will become more challenging later in the year.

**Carl Drake:**

OK. And later in the year, perhaps could flatten out? Is that, I guess, depending on industry conditions?

**Bob Lyons:**

Sure.

**Carl Drake:**

OK.

**Bob Lyons:**

Yes. A lot will depend – good point – a lot will depend on industry conditions, but that's a fair assessment.

**Carl Drake:**

And could you also talk a little bit about Europe, the state of the European market. Is that still very strong? What you're seeing there, in terms of, you know, the outlook on utilization and lease rate increases there?

**Jim Earl:**

Yeah, this is Jim Earl. The European market has remained quite strong, actually. Our -- both in our wholly owned tank car business and in our joint venture freight car business, the demand is quite high. Utilization in those fleets is very solid, and the deliveries -- new cars that are coming into the fleet are being placed, well in advance of delivery, actually. And so, at least for the time being that business looks very solid and looking into 2008, I'd say that continues. Our outlook there is pretty positive. The changes in that marketplace continue to benefit operating lessors, the structural changes in Europe are pretty positive for our type of business in providing full-service leasing of these assets.

**Carl Drake:**

Do you expect utilization to remain firm or flattish in '08 in Europe?

**Jim Earl:**

Yes. I don't expect otherwise. You know, there could be a slight improvement. Now, it's all predicated, of course, on the economy staying solid. And that, you know, that, of course, our crystal ball is less clear. But, at least the indication so far remains very solid.

**Brian Kenney:**

Carl, the one point I'd make -- it's Brian -- is echo what Jim said, and then say, however, term in Europe of our leases is a lot shorter than in the U.S. So, if it ever were to spread over there, which once again, we're not seeing, but if it were, you'd see the financial impact probably faster.

**Carl Drake:**

OK, thanks. Last question. On the ethanol update, maybe you could give an update on the backlog of ethanol cars coming to market -- idle cars, and true this is all embedded in the guidance we discussed.

**Rhonda Johnson:**

Sure. If you look at the market in 2007, you know, in North America, we produced about 7.3 billion gallons. That's up from about 4.8 billion

in '06. And the cars -- the number of cars that we're serving the market increased substantially, as well, going from 12,500 cars to 19,600. Now, as you will remember those are 30,000-gallon tank cars, and we have about 6,000 of those in our fleet. A little maybe around 40, 45% of those are currently in ethanol service. And of those, we've only got around 100 that are idle. So we've definitely got a 98% utilization there.

**Carl Drake:**

OK. Any guesstimate on the number of leases coming up for renewal in 2008 in that sector? Is that roughly around a 20 -- a little bit less than 20%?

**Rhonda Johnson:**

Yes.

**Carl Drake:**

OK

**Brian Kenney:**

And that will be taking 400 to 500 new 30,000-gallon cars, as well.

**Carl Drake:**

OK, and is it still roughly about 25,000 of ethanol-enabled cars coming online off of backlog in the next 18 months or so?

**Rhonda Johnson:**

You know, that's difficult to say. The backlog numbers just came out today, and there's nearly 40,000 tank cars in the backlog. You know, so now the question is, how many of those 40,000 tank cars are still designated to be the 30,000-gallon tank car? You know, there was -- part of that, the reason for the jump in the backlog is the very large order that GE placed with Greenbrier of which a significant number of those appeared to be for ethanol. But, at this point, it's a little difficult to say.

**Carl Drake:**

OK. Thanks very much.

**Operator:**

Just a reminder, to ask a question, that is star one. And next we'll move to Art Hatfield from Morgan Keegan.

**Art Hatfield:**

Good morning, everyone. Most of my questions have been answered, but just a couple of other things. On the share repurchase you announced today, can you talk – give us some guidance on how you expect that to impact the share count throughout the year?

**Bob Lyons:**

Sure, Art. I think there's a couple of things going on with the share count. There's the repurchase we announced this year, on an average basis. There's obviously, the share repurchase we undertook last year, and the remaining convertible debt that we have outstanding which goes away this year, in 2008. So if you look at the year end share count of the average in the third and fourth quarter, excuse me, was about 53 million shares. That will come down substantially in 2008, on an average basis, probably in the range of 48 million shares, given the repurchase activity and the convertible going away.

**Art Hatfield:**

So you're saying the average for the year '08 should be about 48 million?

**Bob Lyons:**

Right. So the impact of the share repurchase is significant on that total EPS calculation.

**Art Hatfield:**

OK, and the convertible, when does that occur? Is that February?

**Rhonda Johnson:**

August.

**Art Hatfield:**

August. OK. OK. Thank you. The other thing, too, I'd like to ask about this, and you've talked a little bit about this, but the reason for doing

the share repurchase, you know -- we've seen the market -- I hate to use the word deteriorate, but weaken somewhat lately and you've talked about what asset prices are doing. Are you concerned that there's not going to be any investment opportunities in the near term and that's one of the reasons to take on this new share repurchase?

**Brian Kenney:**

No. No, I think if you look at what we've been doing, we're balancing investment with share repurchase and maintaining a strong balance sheet, and we'll continue to do that going forward. So no, that's not the case at all. In fact, I hope to do more investment volume in 2008.

**Art Hatfield:**

OK, and that – to hear your confidence, Brian, is helpful. The other question, and this may be hard to answer, but Bob, you had talked about utilization and your expectation for utilization to be down a little bit this year. Can you talk a little bit about how you guys balance price and utilization? Meaning, is there a level on a car type to where, you just – you're uncomfortable going below a certain price level? And if so, how long are you willing to let a car sit, before you wait for prices to come back?

**Jim Earl:**

Art, it's Jim. You know, honestly, as an operating guy, I don't like any non-utilization and so, you know, that's important to an operating lessor. But, clearly, you balance a bunch of things including price, term, how long you're willing to go, how long you want to lock in at a particular price level, competitive activity, of course and then you think about transition costs. You know, to the extent cars are returned, they go into inventory and then they have to be prepared to go back out on lease. You know, all of those things enter into our equation and thinking about the merits of dropping price, for instance, to maintain utilization. You know, generally speaking, utilization is good, but we will always balance those things.

And some of those transition costs apply to our customers, as well. And the costs associated with preparing cars to return and then taking

new cars into their fleet, all of which will affect kind of their willingness to give up cars, as well. And, I think, it's with all of that in mind that we step back and then say, "What do we think is going to happen" in a very mixed marketplace, which we are experiencing today, which you know, it's worth noting. While overall there is some deterioration, there are pockets of very strong parts of that, of the North American rail business right now and you can look at the AAR car loading statistics to pick out some of those areas. So, you know, we get very tactical on this stuff and very specific to our customers, their particular situation at the time and those elements of our fleet.

**Brian Kenney:**

But to speak more generally, Art

**Art Hatfield:**

Yeah

**Brian Kenney:**

You do manage the fleet differently as the market turns down. So you've heard us talk a lot about pushing price higher over the last few years, and pushing term, and we were willing to take the risk of cars coming back because we knew they had other places to go.

**Art Hatfield:**

Right

**Brian Kenney:**

Now, as the market goes down, as Jim said, you want to – if, you don't like non-utilized cars, so you push price pretty hard in the other direction if you have to on certain car types. You also try to shorten the term for car types to the extent possible. Whereas, before we were trying to push it out. So it is a different way of managing the fleet than we have done in the last few years.

**Art Hatfield:**

Have those dynamics swung dramatically? Or do you think there's still movement in that direction towards shortened term and more aggressive pricing?

**Bob Lyons:**

Well, I think, you saw the term number in the fourth quarter still being high --

**Art Hatfield:**

Right

**Bob Lyons:**

-- that we achieved. So there's been no sea change in that front, but there are pockets where we will selectively look at car types.

**Art Hatfield:**

OK

**Bob Lyons:**

Art, if I could, the other thing I'd like to add to both Jim and Brian's comments, the question hasn't come up, but it may regarding the forecast and kind of what's been assumed on maintenance too. Maintenance has gone up materially between 2006 and 2007 as we've talked about in the past, as we continue to deal with more compliance cars and work on conversions. We're assuming, as we look forward, in 2008, that number continues to move up, as we also are dealing with compliance cars and then as utilization comes down, you know, you have churn in the fleet, where you have to bring those cars in and clean them and prepare them for the next user or storage. So, you know, that kind of all factors into the points Jim was talking about.

**Art Hatfield:**

That's very helpful. And finally, and this is kind of related to what you've been talking about, but the competitive dynamics of the industry have been pretty well documented over the last year. Has anything materially changed in -- with regards to how your competitors have been acting?

**Jim Earl:**

Well, you know, it remains a very competitive environment out there. And as some of our competitors see their utilization drop, they will utilize some of the same tactics we're talking about. And so, in certain instances, where there

are pockets of idle cars, pricing will be very aggressive. In those other areas, where there is not really a surplus of equipment, we would expect that pricing and the activity there, should stay, you know, very rational, actually.

**Art Hatfield:**

But, you would say, overall based on supply and demand, pricing appears to be fairly rational?

**Jim Earl:**

Yes, I would say that. There are always pockets that get our attention and it can be a little disappointing at times, but overall, I think that's an accurate statement.

**Art Hatfield:**

OK. Thank you very much. Thanks for your time, as always.

**Operator:**

If you find your question has been answered, you may remove yourself by pressing the pound key. We'll now move on to Paul Bodnar from Longbow Research.

**Paul Bodnar:**

Yes, just real quick. In 2008, how do you expect to balance your CapEx plans between Europe and North America? Do you expect more heavy investment in Europe in '08?

**Bob Lyons:**

Well we had a solid year in 2007 in terms of investment volume there. Broadly speaking, I wouldn't anticipate a major change in the mix of investment as we look at 2008. So, without getting into more details, I think the general structure will be similar.

**Paul Bodnar:**

OK, and then secondly, just in the marketplace, where are you seeing the largest pockets of weakness in terms of idle car types in North America, at this point?

**Brian Kenney:**

We think it's anything construction- or housing-related.

**Jim Earl:**

Yes, lumber cars in particular, quite a large surplus there; some surplus in coal, although that seems to be working through slowly. You know, and beyond that, as Brian noted, certainly construction related equipment is suffering. Automotive is starting to, you know, you're seeing automotive car loadings drop as that market deteriorates. So, you know, it's not unexpected. It's really -- rail activity is very reflective of overall economic activity.

**Brian Kenney:**

Yes, so a lot of freight cars and tank cars generally hanging in there outside of ethanol, which we've already talked about.

**Paul Bodnar:**

Are you also seeing -- I mean the coal market, in terms of a lot of idle cars there, but that will recover, in particular, in the steel car type or is that kind of across the board on both aluminum and steel at this point?

**Jim Earl:**

Yeah, it's mixed. And I would actually say it's probably -- our case is a little different than the industry, but I think, actually the industry, the aluminum car types are more idle right now. Part of that is driven by the railroads and their lack of congestion and their ability to cycle equipment pretty quickly in that service. Eastern-type steel coal cars, actually there is reasonable demand right now, because a couple of the big eastern railroads have very significant fleet replacement needs. And so there is a fair amount of activity there as they kind of deal with their fleet, some of their mechanical issues in their fleets, and then increasing export coal movement -- as the -- with the weak dollar.

**Paul Bodnar:**

OK. Thanks a lot, guys.

**Operator:**

Our next question comes from Bob Napoli from Piper Jaffray.

**Bob Napoli:**

Thank you. Good afternoon.

**Brian Kenney:**

Hi, Bob.

**Bob Napoli:**

A few questions left, I guess. Europe. Would it be possible, I guess this is a request, to get more detailed information on Europe. Now, in both your earnings press release – I know you give some information on your 10-Q, but, I'd like to get more information even down to the profitability level, you know, within your earnings release, railcars, because it is becoming a much more significant piece of your business and it's growing probably faster than most anything else. Is that possible -- to get that information?

**Bob Lyons:**

Bob, I think you'll see in our 10-K we're going to expand our discussion and disclosures around Europe. And then, we'll roll that into whatever level we bring that to. We'll also – you know, duly noted, and a good point, and we'll take that into consideration as we look at our releases and Qs going forward.

**Bob Napoli:**

Great. Thank you. Your plans for Europe, as far as asset growth in '08? I mean I think you grew assets about 20% in it looked like you were trending through the third quarter in '07. Is that – would you expect a similar rate in '08?

**Bob Lyons:**

Well, I would expect a similar investment level in 2008, to what we experienced in 2007.

**Bob Napoli:**

OK. The – I'm just curious on the – I mean this is – I know I'm the person who every quarter told you your leverage is too low and to return

more capital to shareholders, but we are – and this is an unusual environment, and obviously, the repurchase shows your confidence in your capital structure and your leverage is very low. But, I mean have you discussed the buyback at all with the rating agencies? And do you feel like there's any, you know, they're acting shakier on all counts these days.

**Bob Lyons:**

We've had no issues on that front, Bob, and yes, we have discussed this with the rating agencies.

**Bob Napoli:**

Great, thank you.

**Bob Lyons:**

So we feel confident about where our leverage is and balancing that repurchase activity with the opportunities we are seeing and we believe we'll see in the marketplace.

**Bob Napoli:**

And that's – maybe – I mean, there does seem to be a lot of economic uncertainty today. Certainly the market thinks so. You know, certainly the mortgage, the residential mortgage market, if you follow that closely, tells you there is. But with the economic uncertainty, would it be prudent to be patient on the share repurchase, even given your low leverage to see where the economy maybe shakes out, as we go through the year? Or do you think you have enough visibility and that the market's wrong about the economy?

**Bob Lyons:**

I wouldn't say the market's wrong about the economy. But I would say, we can undertake the \$200 million share repurchase and still have ample capacity to capitalize on what we see out there, or what may be coming.

**Bob Napoli:**

Yeah, I guess, my only thought is that -- you know, you may have -- if the economy does continue to worsen, you might be able to buy it at a cheaper price.

**Brian Kenney:**

I hope not, Bob.

**Bob Napoli:**

OK

[Laughter]

**Bob Lyons:**

This feels pretty cheap already.

**Bob Napoli:**

The maintenance expense, I know you just mentioned, generally, that it's -- I mean, how long -- how much longer does the additional maintenance expense, primarily tied to the wheels, I guess, and does that additional maintenance expense get completed for the wheel changes in 2008? Will you see a similar trend in the growth of maintenance expenses in '08, versus '07?

**Bob Lyons:**

Yes. And I think the key, one of the key things there is the fact that, you know, the cars that we have scheduled for compliance, federally mandated compliance goes up, you know, each year through 2009 and then begins to come down.

**Bob Napoli:**

OK

**Bob Lyons:**

So we'll be managing that. And also, as I mentioned before, if utilization ticks down, you know, that factors into the maintenance expense, as well as we work through that churn in the fleet.

**Rhonda Johnson:**

And those issues, Bob, are separate from the changing of the wheel sets.

**Bob Napoli:**

OK

**Rhonda Johnson:**

That's an ongoing program. I mean, you're constantly changing wheels on these cars. It has been an expense that has increased for us in the last couple of years because the railroads are now able to change those on privately owned cars. And when they do, they've typically done that for newer cars. That's not been as big of an issue here in the fourth quarter as these other things that Bob has all ready talked about. So that's separate from this compliance and some of the other things we're talking about there.

**Bob Napoli:**

OK. With the credit crunch that we have today and the number of companies struggling in different areas, are you seeing any opportunities from a struggling company that are in your business -- private companies or whatever? Are there portfolios out there that you may be able to acquire in either the railcar business or the, you know, in the marine area?

**Brian Kenney:**

Well, the answer is, we hope so. We would never discuss any of that specifically, but that's one of the reasons we've managed the balance sheet like we have over the last couple of years -- to be able to take advantage of that when that does arise.

**Bob Napoli:**

But you're not seeing situations right now?

**Brian Kenney:**

You know, I think in general, people are struggling a little more but I haven't seen anything specific that says that they are going to put their fleet up for auction, no.

**Bob Lyons:**

Something to consider on that, you know, there are definitely rail fleets in the hands of people who are struggling, but the rail fleets tend to be very solid performers in assets. And so while it's possible and we're hopeful that some of those may pry loose, it's probably not the top priority for some of those who are challenged right now.

**Bob Napoli:**

OK.

**Bob Lyons:**

But we are working that angle, undoubtedly.

**Bob Napoli:**

The deferred tax line declined this quarter. And, I mean, I look at that as, I mean, as a kind of a source of capital over the long run. So I was kind of confused in the decline at the quarter and year over year. Shouldn't we expect that deferred tax line to grow generally in line with your portfolio?

**Rhonda Johnson:**

Yes, that's true. It should grow in line with investment. The reason that you saw it contract is because of those tax rate changes. What happens is those tax rate changes that are occurring in Germany and the U.K. and Canada are being implemented slowly over time. But what you get in this one time benefit is a change – you reset your portfolio to the new tax rate and that lowers your deferred taxes. So, that's the impact that you're seeing there in the fourth quarter.

**Bob Napoli:**

Oh, OK. Let's see, last question, thank you very much. The shipping business -- the marine business -- you've been getting some pretty good price increases, and you've made, actually, some more investments into the shipping business, and I just wonder what your thoughts are on that business, and, you know, how much more can pricing go up on the marine business?

**Brian Kenney:**

You know, that's what we ask ourselves all of the time. I think -- if you look at rates, on average, in 2007 --

**Bob Napoli:**

Um-hmm

**Brian Kenney:**

-- they were up dramatically, actually from the prior year -- really across all of our blue water marine, as well as prices up in the Great Lakes, as well, and well in excess of what we thought when we originally made the investments. And it is tied to the world economy, so we'll have to watch that carefully. But right now, we don't see any weakness in sight in 2008.

**Bob Napoli:**

OK, and as far as investments, any additional investments into the marine sector?

**Brian Kenney:**

You know, you've seen us invest -- while we bought a big portion of the Norton fleet at the end of 2006. We did some investments in 2007. We're building the vessels in China, the LPG and ethylene vessels. We did some inland investment, as well. But it's a very difficult investment environment with the way asset prices are. They're -- I think those guys did a good job finding those opportunities. If anything, we'll also look, as we did in 2007, we'll look at 2008 at whether that -- it makes sense to sell some.

**Bob Napoli:**

OK and are there any other asset classes that you're looking at, that seem opportunistic that is an area for increased investment for you in 2008?

**Brian Kenney:**

No. We're always looking at other long-lived, widely used asset classes. As far as anything that's worth talking about right now that would hit the radar screen, not really.

**Bob Napoli:**

OK. Thank you and congratulations. You're doing a nice job managing the company through this.

**Brian Kenney:**

Thank you.

**Operator:**

Our next question comes from Rick Shane from Jefferies and Company.

**Rick Shane:**

Hey, guys. Thanks for taking my questions. I have just a couple. You talked about 20,000 cars available for release in 2008, and you mentioned a few years ago, that that was about 35,000. What was the exact number for 2007, if you have it?

**Rhonda Johnson:**

It was about 24,000, I believe.

**Rick Shane:**

OK. Great. Thanks, Rhonda. You guys always talk about pricing in terms of a – in the context of a basket of cars, and I think that's a useful way to look at it. But, as outsiders, I don't think we necessarily have a lot of insight into that. When did the value of that basket of cars peak? And where are we in relation to that peak at this point?

**Bob Lyons:**

In value, do you mean ... ?

**Rick Shane:**

No, I don't mean value. I mean in terms of lease price. I apologize.

**Brian Kenney:**

So, absolute price.

**Bob Lyons:**

Absolute price was probably second quarter, maybe of 2007, right around there.

**Rick Shane:**

And how much are we down from there?

**Brian Kenney:**

It's not significant.

**Bob Lyons:**

Not significant. It's been a tick down each quarter probably from the first quarter of 2007, but not a major number.

**Rick Shane:**

OK. So basically, flat?

**Brian Kenney:**

Yes. The issues that we're showing when we talk about lower increases there in 2008 is also because the expiring rate is moving up.

**Rick Shane:**

OK. That's helpful.

**Bob Lyons:**

The other point too, Rick, while the basket is designed to try to take some of the mixed volatility out of the equation, it's not perfect. There are still car types and that's why we hesitate a little bit on quarter to quarter, because there are still certain car types within the basket -- if you have a large renewal that can have an impact. But it is, you know, a pretty good proxy.

**Rick Shane:**

That makes sense. And then, you know, in context of the guidance, what is – I mean, and again, I understand why there's a pretty wide range and that makes sense to us. When you look at the high end of that guidance and the low end of the guidance, what are the one or two factors that you think really drive the sensitivity? I'm assuming that you sort of build that, you know, from a bottoms-up approach and you have – and again, I realize there are probably even more bullish and more bearish scenarios in \$3.15 and \$3.35, but when you look at the key assumptions that drive that range, where's the real sensitivity?

**Brian Kenney:**

You know, the two biggest variables that can change earnings significantly -- or really in any year-- is one, fleet utilization. Pricing -- pricing can change too, but that takes a while for the impact to really hit. So utilization's number one.

And the second would be if a large remarketing opportunity presents itself, and you see a big gain. So those are the two that immediately hit earnings.

**Rick Shane:**

OK.

**Bob Lyons:**

And the other one I'd add, too -- kind of in that order, you know, third on the list would be maintenance expense -- to the extent there's some variability around that number that would hit you immediately.

**Rick Shane:**

Great, guys. Thank you very much for time. I appreciate the thoughtful answers.

**Operator:**

Our next question comes from Mario Gabelli from Gabelli and Company.

**Mario Gabelli:**

Hi. Just a couple of quick things from 30,000 feet. Your next door neighbor, Union Tank Car, has a new owner. Any indication that you guys have been able to dissect the valuation put on that piece of the business and what it means for your enterprise value?

**Bob Lyons:**

No, we haven't been able to do that given that the Marmon Group is comprised of 120 or so odd companies. Obviously, Union Tank is a sizeable piece of that, but, you know, all in all when we look at that acquisition by Berkshire of the Marmon Group, you know, we don't see any material change in Union's operations. They always had access to fairly cheap capital, so there won't be a change there. You know, it's a disciplined, well-run company that will continue to be so. So we're not anticipating any major changes as a part of that acquisition.

**Mario Gabelli:**

Alright. Thanks. Second, you did a very interesting deal with a short line. How many opportunities do you see out there for that kind

of a transaction? How much are you willing to talk about at the moment?

**Jim Earl:**

Well, I'll talk about it a little bit. We are actively engaged with searching for and looking for similar opportunities with other short line and regional railroads where it makes sense. You know, that's a customer area for us that has been important for a number of years, particularly in our locomotive business. And we have very strong relationships with a number of players in that market. So, to the extent it makes sense, and that needs to tie together the geographic and business characteristics of the railway, their equipment needs and their desire to grow. And, you know, when those opportunities kind of come together in the right combination, I think they are -- it should be a repeatable model, and so we're actively looking for it. I think -- I agree it's a pretty interesting opportunity and one we'd like to have the opportunity to do again.

**Mario Gabelli:**

Yeah, well too bad they didn't sell you their locomotives, but I can appreciate why he likes to keep those.

There's a new tax stimulation bill and it probably will include some benefits to business in terms of either accelerated depreciation or anything like that. How does that help you one way or the other, if that comes through? Or is it, from what you're hearing, anything special?

**Bob Lyons:**

Nothing material, Mario. You know, the depreciation on railcars and other assets that we invest in is all ready fairly well accelerated.

**Mario Gabelli:**

No, unless it's an investment tax credit or something like that, it's not going to be a real extra juice.

**Bob Lyons:**

Not expected.

**Brian Kenney:**

Yeah, Mario, they were talking – the railroads were pushing real hard to get infrastructure included in that, that didn't happen. I know they are still pushing. I don't know that it has any traction.

**Mario Gabelli:**

Yeah, literally.

[Laughter]

**Mario Gabelli:**

Just going back to the tanks that you just bought -- if you were paying \$1 -- once -- a year or two ago, what price can we assume? Is it 80 cents on the dollar, these opportunistic purchases?

**Brian Kenney:**

No, that would be too much. And I don't – you know, it's enough where it made sense in those certain cars types. I don't – you're not going to pin me down on the specifics of that one.

**Mario Gabelli:**

OK. Alright. I just keep echoing the notion of, obviously, buying some long lived assets by starting your own private equity fund. But that's down the road. And thank you and just don't do an ASR. Some investment bank will try to pitch you on one, but I'm glad you're not going to do that.

**Brian Kenney:**

I'm writing that down. Thanks.

**Mario Gabelli:**

You bet.

**Bob Lyons:**

Thank you.

**Operator:**

Just a reminder to ask a question, that is star one. And our next question comes from Jim Kieffer from Artisan Partners.

**Jim Kieffer:**

Yeah, hi, guys. You already talked a little bit about the blue water assets but I wanted you to circle back to that for a moment. You know, as an outsider hearing about rates and values and so forth, I can't help but think sell, sell. And so, I wanted to get a little more perspective from you all on what would cause you to hesitate considering selling these assets? I mean, I would certainly hope it wouldn't have anything to do with taking an earnings hit.

**Brian Kenney:**

No. Taking an earnings hit?

**Jim Kieffer:**

In other words, earnings from that asset going away as a result of this sale?

**Brian Kenney:**

No. No. We look at – seriously look at our entire portfolio of assets and no matter what segment it's in for hold versus buy, when we think there's an opportunity and that's what would drive it.

**Jim Kieffer:**

What's driving the hold mentality at this point is my question, then?

**Brian Kenney:**

Because we're at a very attractive cost and we don't see rates – although we've looked out at deliveries and capacity and demand, and right now, it still looks pretty strong. However, having said that, we did do some opportunistic sales in 2007. We're going to look again in 2008. And that's why I specifically said that we may actually take some off the table.

**Jim Kieffer:**

What would be the trigger point for a full exit?

**Brian Kenney:**

A full exit?

**Jim Kieffer:**

Yup.

**Brian Kenney:**

Well, you know, I would think it would be our view that there's a long-term decline.

**Jim Kieffer:**

Wouldn't that be too late, though, to wait until then?

**Brian Kenney:**

Well, hopefully, we can be a little more forward looking than that. But once again, I like the basis on which we're into that business. It's a very attractive return.

**Bob Lyons:**

Yes, to echo Brian's comment, when we talked about remarketing income and expectations in 2008, we are looking at some opportunities there and assume that there is some activity on that front in 2008.

**Jim Kieffer:**

OK. Great. Thank you.

**Operator:**

Our next question comes from Greg Hillman from First Wilshire Securities Management.

**Greg Hillman:**

Yeah, good morning. Could you talk about whether there's any opportunities to securitize, you know, like your rail fleet? And whether that's being done in the industry? Or start your own fund and sell to institutional investors, since a lot of your value added is in managing the rail fleet, rather than owning it?

**Jim Earl:**

Well, there definitely is securitization done in the railcar industry. From time to time, we do utilize or secure some of our assets through long-term, sale lease back financing. But that comes at a cost because it inhibits your flexibility to actively

manage your portfolio like we have done very aggressively here in the last three years.

So, while we look at that, and there's a number of factors that come into play, including our tax position and other elements, the big thing is the flexibility you have to manage your fleet through cycles. And the more you securitize your portfolio, the less you can do that. Plus, our access to the unsecured markets remains very much at the ready and attractive to us. So we're not pushed in that direction in any way.

**Greg Hillman:**

OK. And then also, could you just talk about your available capital to do purchases, to do acquisitions or other investment activities, you know, at this point, you know, your lines of credit and what's on the balance sheet?

**Bob Lyons:**

Well, we have a \$550 million backup facility which is in place through 2012. We actually extended that and made some positive amendments to that facility back in May of 2007. So we've locked that up for five years as our standard backup facility, which is very good to have and somewhat in excess of what we need, but it's nice to have there. Aside from that, we have access to the capital markets and unsecured markets as needed without any issue, so we can tap those. I think the bigger question is kind of looking at the balance sheet and how much you can take on in terms of an acquisition. And, you know, we have factored into our guidance here, and our expectations in 2008 some pretty significant investment volume in addition to the share repurchase and feel very comfortable about the capacity we have to capitalize on what's out there.

**Rhonda Johnson:**

And the other thing to remember is through the cycles, you know, the portfolio continues to kick off a ton of cash. So the cash generating ability of the Company is significant, as well as all of the credit opportunities that we have before us.

**Greg Hillman:**

OK. And one final question, in terms of are there any public companies that make railroad car wheels?

**Jim Earl:**

Not that you could look at as a stand-alone business that I am aware of.

**Greg Hillman:**

OK, fine. Thank you.

**Operator:**

Just a reminder, if you'd like to ask a question, that is star one.

[Pause]

**Rhonda Johnson:**

OK

**Operator:**

And at this time we have no further questions.

**Rhonda Johnson:**

Thank you very much everyone. And I'm available this afternoon if have any follow-ons.

**Operator:**

That concludes today's presentation. Thank you for attending and have a great day.