



Operator:

Good day, and welcome to the GATX second 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. Thanks for listening in to our second quarter conference call. With me today are Brian Kenney, President and CEO of GATX Corporation; Bob Lyons, Senior Vice President and Chief Financial Officer; and Tom Ellman, Chief Commercial Officer for Rail. I hope you all have had the opportunity to review our press release. I'll provide a brief overview and then we'll open up for your questions. Before we begin, I'd like to remind you that any forward-looking statements made on this call represent 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. For a discussion of these factors, I refer you to our 2007 Form 10-K filing.

Now, let's review the numbers. Today, we reported net income from continuing operations of \$40.9 million or \$0.82 per diluted share for the second quarter 2008. In the second quarter of 2007, we reported net income from continuing operations of \$43.5 million or \$0.79 per diluted share. Year to date, we reported net income from continuing operations of \$93.1 million or \$1.85 per diluted share compared to \$80.5 million or \$1.44 per diluted share in the same period 2007. The 2008 year-to-date results include a \$6.8 million or \$0.13 per diluted share benefit from the reversal of tax reserves which were reported in the first quarter.

As noted in our press release, our Rail portfolio continued to perform well, despite the weak market. Our utilization is still high at 98%, thanks, in part, to an increase in scrapping. When a car comes off lease or into the shop for

repairs, we evaluate that car under our economic repair limit model to determine whether to repair or to scrap the car. With scrap prices almost 80% higher than scrap prices at year end, more and somewhat younger railcars are being designated for scrap. Gains from our scrapping activities are found in Other Income on our Income Statement.

The LPI renewal lease rates improved nearly 6% over the expiring rates and lease terms were an average of 63 months. While the renewal rate change in the second quarter was positive, average expiring rates are rising, making comps more difficult and nominal lease rates are declining off of recent highs. We continue to expect nominal lease rates, LPI renewal rate variance, and utilization to trend down as the year progresses.

In Europe, demand remains strong across all railcar types and backlogs at the manufacturers lengthened. Our wholly owned tankcar fleet at GATX Rail Europe and AAE Cargo, our freight and intermodal car joint venture, have continued to advance in the strong market. We've started to see some signs of economic weakening, particularly in the German economy. However, we have yet to see any material impact on our operations.

In Specialty, the marine joint ventures and commercial engine aircraft leasing joint venture with Rolls-Royce continued to provide outstanding returns. Vessel utilization and day and charter rates remained strong in the first half of the year. We anticipate some softening in the ocean-going shipping market later in 2008; however, returns remain excellent. We also saw additional investment opportunities compared to the first quarter in both industrial and marine equipment.

ASC continues to see robust demand and improving freight rates in its markets. The comparatively rainy spring and summer has increased water levels on the Great Lakes allowing ASC improved operating efficiency. However, the rapid rise in diesel fuel prices, a portion of which cannot be passed on to customers, dampened results. Moreover, an adverse litigation judgment further impacted

results by \$2.9 million. That said, demand for vessel capacity remains solid and we expect it to continue through the remainder of the sailing season.

Investment volume picked up in the second quarter primarily in new railcars and marine and industrial equipment. We did not repurchase stock during the quarter choosing to retain our equity capital for potential investment opportunities. Any further stock repurchase activity will depend on the size and probability of any investment.

Overall, GATX had a solid first half. As we noted in the press release, we continue to expect our full-year 2008 earnings to be in our previously announced range of \$3.15 to \$3.35, excluding the tax benefit reported in the first quarter. We remain focused, not only on managing through the difficult leg of the cycle, but on capitalizing on any opportunities that a difficult market may yield.

So, with that quick overview I'd like to turn it over to you for your questions. Melissa?

QUESTION AND ANSWER

Operator:

Thank you. The question and answer session will be conducted electronically today. If you would like to ask a question, please press star one on your touchtone keypad. If you are using a speakerphone, please make sure that your mute function is turned off to allow your signal to reach our equipment. Once again, if you'd like to ask a question today, please press star one and we'll pause for just a moment. And our first question today comes from Robert Napoli from Piper Jaffray.

Robert Napoli:

Good morning.

Rhonda Johnson:

Good morning.

Robert Napoli:

You guys are clearly in a great position to make an acquisition, less than two times, I guess, balance sheet debt-to-equity, and is that the focus at this point and I know you can't say much, but how are you -- how do you think about these investment opportunities? I guess the discussion in the market is that obviously CIT, GE and Wachovia all have sizable portfolios and I just don't know, you know, when you look at investment opportunities, what size is too large for you guys and, you know, how likely are you to make an acquisition of something that is that large or are there opportunities besides those for fleet acquisitions that are smaller that would fit better with your strategy? So, this is a strategy question more than asking you specifically about an acquisition, hope you can give some color on?

Brian Kenney:

Well, that's certainly what we prepared the Company for over the last couple years and that is why leverage is so low and it's been our investment strategy over the last few years to not invest at the peak as dramatically as where we are now. So yes, that is the strategy. That's what we're looking for, to invest more aggressively in the downturn. That's just not acquisitions, though, Bob, of fleets and companies. That's also perhaps going out there and placing the big order as we did during the last downturn. So yes, that is entirely the focus. I think we're -- put ourselves in a position to do that and we'll vet every opportunity fully that presents itself.

Robert Napoli:

But, Brian, if it -- I mean, I was hoping you might be able to give a color on kind of size of acquisitions that might make sense for you guys and this is exactly what -- years ago what you said you were looking to do. What's different than probably what you pointed out is that your market is actually in pretty good shape so far, but you have these properties out there. What is -- you know, can you maybe give some size of, you know, what you would prefer to invest in if you --

Bob Lyons:

This is Bob Lyons. It's a bit of a difficult question to answer. What I can tell you is, you know, being as big a player as we are in the marketplace we look at every opportunity that comes our way and there's nothing that would deter us just based on size. You don't get to dictate size of portfolios that are in the marketplace, so you have to respond to what's out there and, you know, we will, as Brian mentioned, clearly vet all of those opportunities and there's nothing that would preclude us based on size from pursuing anything that was economically attractive for our shareholders.

Robert Napoli:

So, are you seeing, besides the rail opportunities are you seeing anything outside of rail that is intriguing to you at this point?

Brian Kenney:

No. No. We're not really looking to make any acquisitions of anything specifically outside of rail.

Robert Napoli:

A lot of these aircraft leasing companies are trading at low multiples these days.

[Laughter]

Bob Lyons:

We've been there, Bob.

Robert Napoli:

Thanks. Just last question. Europe -- what kind of -- and if you look five years down the road, what kind of growth opportunities do you have? I don't know how you want to quantify it. Europe is a, you know, what kind of a growth rate you could see in that business?

Brian Kenney:

You know, in terms of growth of assets it's kind of hard to tell, Bob. If there's any issue right now in our European businesses, it's along the lines of railcar supply. Those manufacturers have gone, from two to three years ago, from being half full to being overwhelmed and the

backlog's very high and the cost is dramatically higher. So, we're actually -- you know, if you talk about strategic issues, that's one that we're, you know, constantly thinking about and trying to get creative in the way we address it -- that growth going forward. So, for instance, we're looking hard at putting new people in the business in the manufacturing side. We're assembling cars ourselves in Poland. We're taking all kinds of actions and as is our partner. Our partner in the freight car business is actually backward integrated a little bit and is trying to ensure railcar supply. So, I can't give you an exact growth rate but it is a challenge in Europe right now because of the situation over there. It's caught up to the U.S. very quickly.

Robert Napoli:

Thank you.

Operator:

Our next question comes from John Hecht from JMP Securities.

John Hecht:

Morning, guys. Thanks for taking my questions. I wonder if you could shed more detail on what assumptions you're making embedded in your utilization and pricing assumptions for the second half of the year in your guidance. I guess more detail about which -- from a regional perspective and do you expect one to fall off more than another given your outlook on the economy?

Bob Lyons:

I'll take a quick stab at that and then let Tom Ellman, our Chief Commercial Officer from Rail, fill in the blanks, but if you recall, John, at the beginning of the year we opened the year with 98% utilization and indicated at that point in time that we wouldn't be surprised to see that come off, you know, at least a couple hundred basis points as the year progressed. We're still at 98%, so we're running ahead of where we thought we were. Partly that's due to scrapping but in general we've performed -- the portfolio has performed a little bit better than we had anticipated coming into the year, but where we sit here today midyear we still expect utilization pressure to occur as the year progresses and I

think Tom can offer some commentary a little bit more about what particular markets.

Tom Ellman:

Yes. You know, as Bob mentioned, we've seen -- we anticipated the market softening a little bit throughout the course of the year and the biggest single area that is showing weakness continues to be the housing sector and of all the cars in our fleet that are idle, about a quarter of them, are center beam cars which carry lumber. That market should continue to present a challenge for us but as far as changes from today, we anticipate being able to maintain the levels of utilization that we saw coming in at the beginning of the year. So, we don't see any change in decline from that original guidance, any change in our expectations from earlier this year.

John Hecht:

And real quick, you mentioned lumber is 25% of your idle cars. What does that kind of lumber exposure relative to the whole portfolio?

Tom Ellman:

Our total exposure to that car type, we have about 2,000 cars in that service. So, out of our 110,000 total.

John Hecht:

Okay. And along those same lines I wonder if you can maybe provide some commentary in the market outside of your own portfolio. What are you seeing in terms of idle cars out there from -- on your competitors and particularly in the tank car segment and, you know, maybe the ethanol -- side of things. Has anything changed since the last quarter relative to your expectations?

Tom Ellman:

It's pretty consistent with what we've been talking about throughout the course of the year. The -- ethanol continues to be over supplied. We've been talking about maybe 10% of that fleet nationally not going to work. That probably remains pretty close to accurate. The thing that has changed, though, is the builders have ratcheted back putting incremental production into that fleet. So, we mentioned that maybe late '09, 2010 we'd expect some of that supply

to work its way out of the system. That appears to be on course because we're seeing a slowdown in incremental supply there.

John Hecht:

Okay. And last question, Rhonda referred to a big jump in the Other Income related to scrapping, that you're scrapping trains earlier in their life cycle given the increase in scrap steel prices. Is this something that we should account for, for a period of time going forward now given steel prices in your fleet or is that more of a one time jump in those types of revenues?

Tom Ellman:

Like Rhonda mentioned early on, this hasn't been a programmatic increase to the level of scrapping, rather it's when a car comes into a repair facility, we make an evaluation on the future economic flows that we get between that car and scrapping it and with scrap prices moving upward it's tilting more of those decisions toward the scrap side. So, as long as scrap prices stay where they are, we'll probably reach a little bit further down that chain on the scrapping side. So, I would expect the second half of the year to be fairly consistent with the first half of the year.

John Hecht:

Great. Thank you guys very much.

Brian Kenney:

That scrapping will be exacerbated by a weaker market, however, right? You're still scrapping old cars, but as they come in off lease, which will happen more and more in a weak market. You saw our renewal percentage dip, for instance, in the second quarter. As you look at putting them out on assignment, a lot of times that's going to require service and with scrap prices the way they are, that decision, you know, gets a little tougher. So, you may take more directly out of service in scrap in a weak market.

John Hecht:

Yes. So, it sounds like this trend is going to be dictated by scrap prices more than anything?

Brian Kenney:

Yes. I think that's true.

Bob Lyons:

Fair statement.

John Hecht:

Thanks very much, guys.

Operator:

And our next question comes from Paul Bodnar from Longbow Research.

Paul Bodnar:

Good morning. Quick question on what you're looking at in terms of used cars, I think it's more the profile. I mean, obviously you guys are heavily weighted towards, you know, tank cars. I mean, would you plan on maintaining that going forward or would you look at, you know, picking up more freight cars or non-tank cars in the market?

Brian Kenney:

Well, tank cars have become a smaller percentage of our fleet over the last five years -- I think we like a big diverse fleet. We like the stability that the tank car market offers. We're a leader in the tank car. That will continue but yes, we'll consider all car types and you might see further weighting towards freight in our fleet. That's basically been the opportunities that have been available in the market the last couple years as well.

Paul Bodnar:

Okay. So, just what's out there and what it looks like, not so much having to maintain a specific profile.

Brian Kenney:

No. We're not shooting for a specific profile. We always have internal debate about how volatile certain car types are. And in general freight cars are more volatile. So, we like the tank car market. We like being a leader there but we're much more focused on a diverse fleet at the right price.

Paul Bodnar:

Okay. And also what do you say see in the marketplace right now just in term of new and used car prices? I mean, how has that changed over the past quarter?

Tom Ellman:

Yes, the builders are continuing to struggle. You've seen overall backlogs come down, but because of their relatively high input costs on the steel side we really haven't seen any kind of decline in new car costs. In fact, we've seen the opposite -- that costs appear to continue to be going upward because of the pressure they're seeing on their supply side.

Paul Bodnar:

What kind of increase have you seen out there now, I mean is 10%, 15% up? Considering last quarter was more of a single digit down number year over year.

Tom Ellman:

It's probably in the low double-digits right now.

Paul Bodnar:

Okay.

Brian Kenney:

So, you've seen margin probably contract in manufacturers over the last year or so but their base cost is going up which, you know, if this continues long term should spell, you know, pretty good trend for existing car lease rates, across the cycle.

Paul Bodnar:

But that's going to make it pretty difficult in terms of buying a new car and what kind of return you can earn on that car and leasing it out, right? I mean it's just much more attractive for someone to lease a used car at this point?

Tom Ellman:

And that's exactly why we've tried to be so active on the long term supply agreement side so we can lock in those costs before this kind of

thing happens. You're right. In the spot market it's difficult to make that math work.

Paul Bodnar:

Okay. Thanks a lot.

Operator:

And just a reminder, if you do have a question, that is star one. And our next question comes from Art Hatfield from Morgan Keegan.

Art Hatfield:

Morning everybody,

Brian Kenney:

Art

Art Hatfield:

A -- first question on -- in the rail group, the share of affiliates earnings going negative Can you tell us what was going on there and if that's kind of a trend we'd see at all going forward?

Bob Lyons:

Actually, Art, it's Bob speaking, that was a bit of an anomaly. Operationally there's no developments other than, you know, continued strength in our affiliates which is within rail mostly AAE, our cargo affiliate, and our joint venture affiliate in Europe. They did have a mark-to-market on a derivative --

Art Hatfield:

Okay

Bob Lyons:

-- for about \$3.5 million in that range to the negative, which was an unusual item in the quarter and has already essentially -- appears to have reversed. So, no particular operational trends there at all --

Art Hatfield

Okay

Bob Lyons:

-- within an accounting treatment on a derivative.

Art Hatfield:

Okay.

Brian Kenney:

That was in anticipation of a planned financing, too.

Bob Lyons:

Right. They hedge out fairly long term on their financing needs.

Art Hatfield:

Okay, okay. Secondly, I think it was a year ago, Brian, you were talking about maintenance expense bumping up and we've seen that and I think you're talking about really kind of a two year bubble in maintenance. Is that -- am I remembering correctly and if so, is that still the case and should we see that number kind of trend down as we move into '09?

Brian Kenney:

No. You'll see it probably go up in '09. If you look -- what I talked about was the compliance bubble that's sitting out there.

Art Hatfield:

Right.

Brian Kenney:

2008 is the start of that. It's really going to last for about three years, probably scheduled to peak in 2009. So, if you look at our compliance cars on the tank car side, scheduled, we have 25% more cars coming in for compliance in 2008 and 2007. Over the next three years it's going to average 40% or more higher than the prior three years, so a real bubble for the next three years on that first structural inspection of tank cars. The other thing I'll say about it, Art, if you look year-to-date, maintenance I believe is up \$15 million from '07. A third of that is just FX in Europe, so a weaker dollar.

Art Hatfield:

Oh, okay, okay. And then finally I want to make sure that I kind of interpret what you're doing here correctly but when you talk about not buying any stock in the quarter to conserve that cash, that's not -- that doesn't have anything to do with the fact that you would have trouble raising capital in the current markets we're in, is it?

Bob Lyons:

No. Not at all, Art. It's Bob speaking. It's really just kind of balance sheet, capital structure management. We don't -- you know, we're not concerned about our ability to go out in this capital market and try to raise funds to do a transaction. In fact, we think that's one of the very big strengths we have.

Art Hatfield:

Right.

Bob Lyons:

In terms of us versus other potential buyers of portfolios is we're BBB+, Baa1. We have a very conservative balance sheet and a solid capital structure and we've been able to access the capital market this year a couple different times already when others can't and so our financing capabilities we believe are very strong. That's a competitive advantage for us. So, not repurchasing the stock is consistent with that, but it's really just balance sheet management.

Art Hatfield:

Okay. And that's kind of what I thought. I just wanted to make sure that was clarified if anybody had an issue, but when you look out right now and this may be -- I don't want to say a stupid question, but it may be very hypothetical, but what kind of position are you in? I guess the best way to put it is how much dry powder do you feel that you have to put to work in this environment?

Bob Lyons:

Well, you can see with recourse leverage where it's at at the end of the second quarter here at two and a half-to-one, if you check the last page of the press release. I know you need to weed

through a lot to get there, but the leverage calc is there and it's as low as it has been at any time in recent history and we've indicated that, you know, over time we would feel the business would support moving that leverage up materially, you know, probably closer more to the four to one type level which is manageable on a long term basis and anything, any transaction that may or, you know, take place in the secondary market we would do so with an eye towards maintaining a very flexible and strong capital structure.

Art Hatfield:

Thank you. And then finally kind of in the same vein but given how strong your balance sheet is -- and the rumors are hot and heavy about all these freight cars that are out on the market potentially, do you see any real competitors for you in any potential bidding situation that develops in the market?

Brian Kenney:

I don't think there's any shortage of private equity, for instance, that's interested in entering this market as an example.

Bob Lyons:

I would say this asset class has proven itself through cycles to attract capital.

Art Hatfield:

Yes.

Bob Lyons:

Because of its stability of cash flows and the underlying customer base and so, you know, GATX would not stand alone in its interest in other portfolios.

Art Hatfield:

Okay. That's all I got. Thank you very much.

Operator:

Our next question comes from Rick Shane from Jefferies.

Rick Shane:

Hi, guys, a couple different questions. In terms of what was scrapped during the quarter what was the number of cars, or could you help us understand what the utilization rate would look like perhaps without as much scrap activity?

Tom Ellman:

Yes. For the quarter we scrapped 800 cars. For the first half of the year we scrapped about 1,500, which as I mentioned earlier, we'd expect to scrap a similar number the second half of the year.

Rick Shane:

Great.

Tom Ellman:

And on the 110,000 cars in North America you can do the math on the utilization impact.

Rick Shane:

Perfect. That's very helpful. Thank you. And then just a housekeeping issue. Do you guys foresee any impact from FAS 140?

Bob Lyons:

No. Nothing in particular.

Rick Shane:

Thank you guys very much. All my other questions have been asked and answered.

Operator:

And once again, if you would like to ask a question, it is star one or if you are on a speaker phone, please make sure that your mute function is turned off to allow your signal to reach our equipment. Our next question comes from Jordan Hymowitz from Philadelphia Financial.

Jordan Hymowitz:

Hey, guys, good quarter. A couple quick questions. One, as you approach this year your repricing is going to be pretty close to zero at that point. So, I guess my question is ex-

acquisitions, what do you think your organic growth rate is in '09, and '10, low to mid-single digits? Is that a good guess?

Bob Lyons:

How are --Jordan, how are you defining organic growth?

Jordan Hymowitz:

Before stock buyback, sorry, or capital issues just on a EBITDA line.

Bob Lyons:

Well, we don't forecast into '09. We only give that information at the beginning of '09.

Jordan Hymowitz:

But on a longer term basis -- in other words -- okay. I guess you answered the question. My second question is could you kind of quantify the makeup of the Wachovia and the GE mix compared to your own? Obviously it's a lot less tank cars. You know, CIT kind of breaks out what their mix is. Can you kind of quantify what Wachovia and GE's mix is on different car types?

Bob Lyons:

Yes. I don't think we're in a position to go there. We could give you a ballpark on the numbers. GE, we believe, is somewhere in the range of 140,000 to 145,000 cars. I think Wachovia's is in the 60,000, 70,000 range. GE is a big competitor of ours in tank, the third largest lessor in the tank car business but beyond that, really not going to get into a lot of details about what's in their portfolios.

Jordan Hymowitz:

Okay. Thank you.

Operator:

And once again, that's star one if you would like to ask a question. And at this time we have no further questions and I'd like to turn the call back over to Ms. Johnson for any further closing or additional remarks.

Rhonda Johnson:

Thanks, everyone, for participating and I'll be available this afternoon if anyone has any additional questions.

Operator:

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