



2008 Third Quarter Conference Call October 23, 2008

Operator:

Good day, and welcome to the GATX third quarter earnings conference call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Rhonda Johnson, Director of Investor Relations. Please go ahead, ma'am.

Rhonda Johnson:

Thank you, Gabriella, and good morning everyone, and thanks for listening in to our third quarter conference call. With me today are Brian Kenney, President and CEO of GATX Corporation, and Bob Lyons, Senior Vice President and Chief Financial Officer. I will provide a brief overview of the results highlighted in our press release earlier this morning, and then we'll open up for your questions.

First, I would 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. We have based these forward-looking statements on information currently available and disclaim any intention or obligation to update or revise these statements to reflect subsequent events or circumstances. 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 more information, 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 \$74 million, or \$1.46 per diluted share for the third quarter of 2008 which included \$16.2 million or \$0.32 per diluted share income from the sale of real estate, and the reversal of certain environmental reserves in Poland. In the third quarter of 2007, we reported net income from continuing operations of \$63.9 million or \$1.21 per diluted share, including \$9.4 million or \$0.17 per diluted share benefit from a change in statutory tax rates in Germany. Year-to-date, we reported net income from continuing operations of \$167.1 million, or \$3.31 per diluted share, including the benefits in Poland I just mentioned as well as a reversal of tax reserves in the first

quarter this year. These benefits totaled \$23 million or \$0.45 per diluted share. This compared with \$144.4 million, or \$2.63 per diluted share in the same period in 2007, which includes \$10.3 million or \$0.18 per diluted share in tax benefits.

Our third quarter results were excellent despite a very difficult environment. The rail market, particularly in certain freight car types, remains challenging but our core market, general service tank cars, continues to provide stable demand and attractive lease rates and terms. Utilization remained very high, thanks in part to high scrap steel prices and active scrapping, but also due to the diligence of our commercial and operations teams in placing cars with customers.

As we anticipated at the beginning of the year, the lease price index, which measures the change from expiring lease rate to renewal lease rate, was essentially flat in the third quarter, down from a nearly 6% increase in the second quarter. It's important to note, however, that nominal renewal lease rates remained steady between second and third quarter. Also, due to our efforts to extend lease terms, we have relatively fewer cars up for renewal in the coming months compared to prior years which will help buffer performance in what will likely be a challenging market.

Regarding investment opportunities -- as those of you who have followed us know, we're focused on remaining disciplined in our valuation analysis, regardless of where we are in the economic cycle. To the extent opportunities become available, we will maintain this valuation discipline while looking to capitalize on the advantageous position we have today.

With year-to-date results exceeding our expectations, thanks to strong year-to-date remarketing income, significant scrapping gains and increased contribution from our European operations, we now expect 2008 full year earnings to modestly exceed the \$3.15 to \$3.35 per diluted share range previously announced. This guidance excludes the \$0.45 per diluted share benefits year-to-date that I mentioned earlier.

Volatility in the markets has been unprecedented in recent months, and the impact of volatility and weakening economic news may have on our customers in the longer term has yet to be determined. However, steps we have taken in recent years to position the Company for steadier performance through cycles including extending lease terms to reduce renewal exposure in any given year, selling more volatile car types at attractive valuations and refraining from placing large speculative railcar orders at high valuations, those items should serve us well going forward. Additionally, the committed long-term nature of our leases provides stable cash flows and support for our operations. And we believe GATX is not only positioned to manage through a challenging cycle, but to capitalize on investment opportunities that provide attractive returns for our shareholders. And with that quick overview, I would like to open up for your questions. Gabriella?

QUESTION AND ANSWER

Operator:

Thank you. For those of you who have a question, please press star one on your touchtone phone. If you are using a speaker phone, you must first pick up your handset before pressing star one. And our first question comes from Bob Napoli of Piper Jaffray. Please go ahead, sir.

Bob Napoli:

Thank you, good morning and nice quarter and congratulations for positioning the company for just this kind of an environment, I guess. Question on share count. What is the end of period share count? And is the --

Rhonda Johnson:

The share count is -- we show the average share count and that's 50.9 for the third quarter.

Bob Napoli:

Right. What was the September 30th share count?

Rhonda Johnson:

It should be somewhere around -- 49 or 50 million shares. We don't give the exact number. That's not a public number until the Q comes out in the next couple weeks.

Bob Lyons:

Bob, if you're inquiring about whether or not we repurchased any stock during the third quarter, the answer to that was no, we were not active.

Bob Napoli:

Okay. And just in falling in line with that, given that you have been very diligent on your pricing metrics for the opportunities that are out there and your leverage is low in this very stressed capital markets environment, but with the low leverage you have, will you -- do you intend to re-enter the market on buybacks at this time or will you wait?

Bob Lyons:

We still have the authorization in place, as you might recall. It was a \$200 million authorization under which we completed approximately 75 in the first quarter. We haven't been active in the last couple quarters as we're trying to preserve some of that capital for investment opportunities, and I don't think that position will change near the near term, Bob. We still believe there's going to be some opportunities out there and it's prudent to maintain that capital discipline at this point in time.

Bob Napoli:

Okay. In Europe, what changes are you seeing in Europe and how much of an effect does currency have?

Bob Lyons:

Currency impact, Bob, talking '07 to '08, it's been quite favorable. Until recently, obviously the Euro was up in the \$1.40, \$1.50 range for quite a period of time and we had, versus '07, roughly a \$6 million pickup from that currency -- the weak dollar in 2008. Obviously, that's reversed here recently with the dollar strengthening quite a bit.

Brian Kenney:

I'd add that Europe overall on the Rail side is performing very well. We still are close to 100% utilization on the freight car side. Tank car side is going well. Rates are strong. Utilization is strong. We haven't seen the weakness in Europe yet that we've seen in the States but we're watching it closely.

Bob Napoli:

What do you expect? I mean, are you hearing -- do you expect that to change or -- ?

Brian Kenney:

The early return there is I think on the freight car side, because we're heavy intermodal there, so far most of the impact appears to have affected over the road as opposed to the rail. But eventually, a weak economy will catch up in Europe as well. We just have not seen it yet. Pricing is strong, utilization is strong. The reason we watch it so closely, that's what we're supposed to do, but also the term over there is generally a lot shorter than the States. So if it does affect it, it will hit it quicker on the financial results than it does in the States. As of yet, really haven't seen much weakness.

Bob Napoli:

What is the average term in Europe?

Brian Kenney:

Two years.

Bob Napoli:

Two years. Yes.

Brian Kenney:

And on the freight car side, probably averages less.

Bob Napoli:

Okay. Just a question, in the affiliate earnings, how much of that, of the affiliate earnings is from remarketing, I guess? If you're looking -- if you're thinking about a weaker environment where marketing may be less attractive or may be less opportunities, how -- within Specialty

and within Rail, how much of that is asset remarketing-based?

Rhonda Johnson:

Actually, very little of it is asset remarketing this year, Bob. We have had maybe around \$5 million in Specialty in this quarter. What you do see there in Rail is what we've talked about in the past and that the AAE has a hedge in place. Last quarter, it was a drag on affiliate earnings by about \$6 million. This quarter, it was a positive of \$9 million. And I think that's already reversed in this quarter.

Bob Napoli:

Okay.

Bob Lyons:

To follow up on that point, Bob, the last year we had much more substantial remarketing income through the affiliate line. This year it's been very moderate, so probably more of a normalized comparison -- normalized look this year.

Bob Napoli:

Okay. And you had a huge growth in Specialty assets this year. What is driving the growth in Specialty?

Bob Lyons:

There's a couple things within there, Bob. Mostly in the industrial equipment side but also in some marine equipment, integrated tug barge and other inland marine equipment. We've had a -- seen a real attractive investment profile and opportunity there so it's picked that asset number up materially year over year.

Bob Napoli:

And you still feel good about that going into next year?

Bob Lyons:

Yes, absolutely. And I think one interesting point -- number of the competitors in that business that do industrial equipment leasing have pulled back dramatically from the marketplace.

Bob Napoli:

Okay.

Bob Lyons:

And so there is definitely opportunity there and we're being diligent about using our -- where we're going to put the capital to work in specific transactions. The outlook there for specific opportunities is very positive.

Bob Napoli:

Thank you.

Operator:

Our next question comes from John Hecht from JMP Securities. Please go ahead.

John Hecht:

Morning, guys. Thanks for taking my questions. Can you guys explain where the one-time benefits -- the tax benefit and the real estate gains -- where were they in the P&L this quarter?

Rhonda Johnson:

Sure. You can find the real estate is in Other Income, at Rail and then the reversal of the environmental reserve in Poland is in Other -- is an offset in Other expenses, also in Rail.

John Hecht:

Okay.

Rhonda Johnson:

And then on the year to date, we had that reversal of a state tax reserve back in the first quarter, so on the year to date that would come -- that's a benefit in the tax line.

John Hecht:

Sort of normalized tax rate, is that going to be in the 33% range going forward?

Bob Lyons:

It will be right in that range, which we anticipated coming into the beginning of the year, John.

John Hecht:

Okay. Bob, can you give us just sort of a quick illustration or review of the liquidity in terms of obligations coming due in '09. How much you guys have available on your unsecured revolver? What kind of commitments you have, in terms of equipment purchases and just step us through that as simply as you can?

Bob Lyons:

Sure. We have approximately -- we have about \$150 million debt maturity coming up in November. That's the most significant item here in 2008. In 2009, we have about \$375 million that comes -- matures between May and June. Sitting today, we have substantial availability under our revolving credit facility, which is a \$550 million facility. That runs all the way through 2012. We renewed that last year for a five-year term in the spring of 2007. So the timing on that was positive and we locked up that capacity, as I mentioned, into 2012. At the end of the quarter, we had about \$150 million in commercial paper outstanding. And so we feel like we're in a very -- we're in a good position. We have a lot of alternatives in terms of the financing capability that we have and the near term obligations are not too onerous.

John Hecht:

And on the revolver, what is the interest rate terms?

Bob Lyons:

Well, we put that in place back, as I mentioned, in the spring of 2007. So the timing was fortuitous, I guess, and the spread on that is quite low. It would be a LIBOR-based borrowing if we ever utilized it and you can actually pull -- the full credit agreement is on our website and you can pull it and there's a pricing grid in there. And it's about -- right now, if we borrow today at the credit rating we have, essentially LIBOR plus 30 basis points.

John Hecht:

Okay. Thanks very much. And then last question is -- I wonder if you guys can comment on where you see -- well, in terms of your US leasing book, how much of the portfolio turns over next year and where do you see incremental pricing going, given some of your competitors' behavior and excess capacity on the market?

Bob Lyons:

The number of cars exposed for renewal in 2009 is similar to what we had in 2008, going to be in that 15,000 to 17,000 car range, which is just by comparison, John -- two years ago that number was 25,000 plus. So, that will give you some idea of the benefits we're going to see from an extending term. Just the cars exposed for renewal next year are quite substantially lower than we've seen in the past. In terms of rate, kind of directionally where we see things going, Brian will weigh in on that.

Brian Kenney:

Kind of hard to talk specifically about next year since it's kind of early, but I don't see the trends changing so far which is, on the freight car side, anything construction related, is still -- is having a rough go right now, so center beams, covered hoppers that carry around cement, roofing granules, plastic pellet cars, all very rough pricing and that will continue for a while. The other thing I would add to that list in the last quarter or two would be intermodal cars, very tied to economic activity and imports and exports, so those are also experiencing rough pricing. On the other side, though, on freight, there are some positives. We've talked about coal and grain being weak over the last year. That's reversed itself. There was a lot of the oversupply on coal cars. That's worked its way through the market and our fleet and the national fleet pretty much is 100% utilized at this point. Pricing is increasing. Same is true for grain. Pricing increases there. There's actually bright spots on the freight side.

On the tank car side, the main concern continues to be ethanol. Still a lot of, thousands of idle cars in the industry and pricing has decreased dramatically there. There's still cars delivering there. That will continue. We look at that continuing for a couple years. But other

than that, on the tank car side, especially on the general service cars, pricing remains strong and we're trying to extend terms because pricing remains strong. So anything specialty chemical related, LPG, different assets, they're all doing fine right now. As far as any question marks on the tank car side, I would say we're watching fertilizer a little closer than we have in the past. But in general, tank car side is very strong. So I anticipate continued -- that all to continue into 2009.

John Hecht:

Okay. Thank you very much.

Operator:

Our next question comes from Jordan Hymowitz of Philadelphia Financial. Please go ahead.

Jordan Hymowitz:

Hey, guys. Most of my questions have been answered. The real estate you said is in the Other Income line, in the Rail segment?

Rhonda Johnson:

Yes.

Jordan Hymowitz:

And how much dollar amount was that?

Bob Lyons:

\$12 million.

Jordan Hymowitz:

Okay. That's the difference there. And then asset remarketing income was also higher than expected in the quarter. Was that the scrap steel in that number?

Rhonda Johnson:

No, scrap steel is also in Other Income.

Jordan Hymowitz:

How much was scrap steel?

Rhonda Johnson:

Scrap, as we said in the press release, was \$11 million in the quarter versus \$4 million last year.

Jordan Hymowitz:

And did you accelerate this position in any way or that is a normal run rate?

Brian Kenney:

Yes, I would say we did. Scrap prices earlier in the year were over \$500 a ton for a while there. Now it's around \$200 a ton. But you saw us take advantage of that \$500 price along with a weaker rail market to scrap more cars. So we scrapped this year over 3000 cars, I believe. So, yes, we did and I'm glad we did.

Jordan Hymowitz:

Okay. So, if you're making a model -- usually 4 to \$5 million is a run rate?

Bob Lyons:

Yes, that's probably -- it's a tough call because that scrap price is so volatile.

Jordan Hymowitz:

If scrap stayed where it is today --

Bob Lyons:

-- dropped in half here in about a two-month period.

Brian Kenney:

There's two effects of that. One is obviously the proceeds and the gain you realize on cars you scrapped. The other is older cars will tend to stick around longer, if that scrap price stays at \$200 per ton. If it stays there at \$200 per ton, you will see a large decrease. I don't know if we have a number yet, for instance, for 2009. We would expect to see lower scrapping activity and lower proceeds per car scrapped.

Jordan Hymowitz:

Did you scrap the same number of cars as you expected and just got more gains or did you actually increase the number of scrapped cars?

Brian Kenney:

We did both. We increased the number.

Jordan Hymowitz:

And if you had not increased the number of cars more than your targeted number, whatever that was, how much of that was the utilization rate, per se? See where I'm going here?

Brian Kenney:

Yes. Yes. And I would say if you didn't scrap any cars, utilization would have dropped over a point.

Jordan Hymowitz:

Oh, that's it?

Brian Kenney:

Yes.

Jordan Hymowitz:

Okay. So --

Brian Kenney:

Just from fleet activity, you would have seen over a point drop in utilization. Scrapping enabled it to stay level.

Jordan Hymowitz:

But that's nothing, objectively.

Bob Lyons:

That's scrapping and sales.

Brian Kenney:

That's true, yeah.

Bob Lyons:

Because we did sell a number of cars during the first nine months of the year too, but it's about a point.

Jordan Hymowitz:

Okay. Thank you.

Operator:

Our next question comes from Rick Shane of Jefferies & Company. Please go ahead.

Rick Shane:

Thanks, guys. Most of my questions have been answered, too. I do want to have one clarification related to John Hecht's question. Did you say that the \$550 million revolver -- you're not drawn at all on that, currently?

Bob Lyons:

That's correct, Rick.

Rick Shane:

Great. Thank you. And then the other question, I realize that there are a lot of variables here, but if we were basically just to take a standard tank car, sort of middle of the road tank car -- where is pricing now? Spot pricing for purchase and where did it peak and when? Just want to get a sense of how --

Brian Kenney:

I'll talk in percentage terms because there's so many different car types and I'd really not like to talk about our specific costs. It peaked probably, I don't know, I guess would be 18 months ago and after a year -- years of runup in pricing due to both manufacturing margin increasing and steel price increasing. So it probably peaked 18 months ago. I would say it's down around 15% from that peak, due both to a reduction in manufacturing margin and recent steel price decreases.

Rick Shane:

Great. Perfect. That answers all my questions, guys. Thank you very much.

Operator:

Our next question comes from Paul Bodnar of Longbow Research. Go ahead, sir.

Paul Bodnar:

Kind of a follow-up question here. In terms of the current renewal rates with customers, not on the pricing side, but just what frequency is

the same customer keeping the car at this point? And kind of where do you see that headed in the future here?

Bob Lyons:

Paul, I can handle that. It's Bob. We have seen that number come down. I think if we go back in the past earnings calls, we have seen that number anywhere between, 50% and 80%, kind of at its peak. In terms of customers that are keeping the existing cars on renewals, I'd say right now that number is coming down into the low end of that range, but utilization is hanging in there because assignments have been particularly robust. We've been able to -- our commercial group has been very adept at being able to take cars off lease, that are coming off lease and put them with new customers. We've seen virtually no utilization impact from that decline. That's not unexpected in this type of environment.

Brian Kenney:

Complete the loop there. Obviously you would rather renew a car because the other thing about a lot of assignment activity is your maintenance costs can increase as those cars go. Unless they go service to service in the exact same commodity, they usually come into the repair network and you prepare them for the next customer. So you can see some short-term cost increase there.

Paul Bodnar:

And then kind of beyond that, into '09, last time during a downturn you had 90% utilization. I know you've done a lot of things to prepare for yourselves. That is not necessarily the case this time around. Where do you see trough utilization type rates? I want to know what the best way to approach that is?

Bob Lyons:

We haven't laid out any long-term utilization expectations yet, Paul. I think we will -- as we typically do at the beginning of the year, fourth quarter earnings release, we'll lay out the expectations for '09 and we'll get into some detail on utilization at that point. We certainly hope if the -- there's a significant or extended turn -- downturn -- we'll do better than we did last time around. As you mentioned, we have

taken a number of steps, including extending terms. We don't have a big order book, which we did the last time around as we were going into a downturn and we sold a lot of cars that are high utilization volatility in the last two years. So we feel confident we'll do substantially better than that number that was posted last time around. But I wouldn't at this point give any specifics on exactly where we see it going.

Paul Bodnar:

Okay. And then I guess in the ASC segment over there, I know you've had a lot of things come up for renewal this year and looks like you're getting some price realization over rates from last year. But directionally, how much more is still available there in terms of contracts up for renewal and with the potential softening in the steel market? Is that going to impact the potential renewal rates you can get on those contracts?

Bob Lyons:

Well, there's at least a couple -- a couple or a few big contracts that roll each year. It's not like Rail where you're renewing 16,000 cars a year. There's spot business and then each year there's a few substantial contracts that come up for renewal. But we still feel that given where those rates are going to be coming off of, a number of those were put in place in early 2000, 2001 period when it was extremely challenging, that will do fine. Maybe not as robust as we've been the past year, but we still feel that comfortably in positive territory there.

Paul Bodnar:

Great. One last question too, just on the new railcar side. Has pricing come down enough to make it attractive at all to enter there? Would you look at entering into one of these multi-year purchase agreements or is there a certain car type that you see is attractive right now for additional investment?

Brian Kenney:

Prices have come down 15%. It's not to the point that we want to do that. We're constantly examining where we are. That is a big objective of ours, is to place that big, long-term order in the down cycle. I don't think we're there yet. I think -- you're going to look at a number of

things. You're going to look at how aggressive the manufacturers are. You're going to look at steel pricing. You're going to look at what's your runway there. What sign of recovery is out there or at least bottoming out. I don't think it's all lined up in our view yet. But it's a lot closer than it was 18 months ago.

Paul Bodnar:

Great. Thanks a lot.

Operator:

Our next question comes from Kim Burkhardt of Burkhardt Research. Please go ahead.

Kim Burkhardt:

Good morning. A number of my questions have been answered as well. But my one question -- the credit environment is tightening up, asset utilization is strong and lowering -- the volumes are lower for the US rail market. What do you see car building looking like in 2009 and 2010?

Bob Lyons:

I think right now it's -- there are others out there who forecast that information, publicly, quarterly and we take a close look at that. Right now, you know, obviously the backlog we believe will continue to come down in terms of new car orders, it doesn't appear that there's a lot of activity out there right now for new car orders as you would expect. Looks like that will persist, indefinitely, into 2009. But I can't comment specifically on what the '10 number will look like.

Brian Kenney:

The latest forecast we saw, for instance, on tank cars, probably half in 2009 of what was produced in 2008. So I believe the number was in the low 20s in 2008. It's looking like it will probably be about half of that in 2009, for instance. Beyond that, as Bob said, we'll just have to see.

Kim Burkhardt:

Thank you.

Operator:

Our next question comes from Bart Hatfield with Morgan Keegan. Go ahead, sir.

Art Hatfield:

Actually, it's still Art.

[Laughter]

Rhonda Johnson:

But I like Bart.

Bob Lyons:

We do like Bart.

Art Hatfield:

I think I could get easily confused with Bart Simpson. We don't want that. Hey, I apologize. I got on about 10 minutes late but some of the questions I had had been answered. Let me ask the outlook a little bit differently. If you look at the current backlog and how it looks like it's going to be delivered, do you think if that -- those deliveries occur without any cancellations, could that -- do you think that could put some kind of short-term unusual pressure on pricing over the next few quarters or three to four quarters?

Bob Lyons:

Yeah. I think that's an insightful comment and one that I think is very true. If those cars are built and they come into the marketplace, there will be pretty aggressive competition to get those placed and that will have an impact on rates.

Art Hatfield:

Okay. Bob, when did pricing bottom out, which quarter did pricing bottom out in the last cycle?

Bob Lyons:

We actually have a lease price index that goes back, provides historical data going back quite a long period of time but I -- we really -- we kind of crossed the line back in the positive territory about 2004.

Brian Kenney:

I would say mid-2004.

Bob Lyons:

It was probably in '03 when you hit the low point of the renewal rate. Because we slowly started to work our way back to even territory and crossed that line in '04.

Art Hatfield:

Okay. And do you recall -- and this may be a little bit difficult to remember -- but at the bottom last time, kind of how short lease terms, average lease terms got to?

Rhonda Johnson:

Well, back then we weren't publicly quoting a renewal lease term.

Art Hatfield:

Okay.

Rhonda Johnson:

But if you looked at the overall lease portfolio. Right now we're -- for the whole portfolio, we're at about, a little above 4.5 years. We were probably below four heading towards three and a-half at the downturn. You never really get that far away from a four, though.

Art Hatfield:

Okay.

Brian Kenney:

But if you looked just at what we were doing incrementally, it was probably three or less back then and it was up to six or seven in the last two years. And if you talk about term management in general, I made a point earlier, you may not have been on for it and I think it's important -- is that we're still trying to stay long in a lot of the specialty tank car types because rates are very attractive still. There's certain car types where we're trying to push it down and those are car types -- I don't really want to mention it and get too much into competitive. Generally if you think there's going to be a short-term recovery, or it already is recovering,

you're going to try to stay a little bit short and our term has come down over the last year. But we won't take credit for that because in a lot of cases customers are also asking for a shorter term because they don't have a clear view of their commitments either. But it's very car type by car type in terms of your strategy on that.

Art Hatfield:

Okay. That's very helpful, Brian. Thanks. Then finally, and I hate to ask this because it shows that I don't do math very well. I want to make sure. If I look at the guidance, the comments you made about guidance and where you're at for the year, excluding the \$0.45, the high end of your range that you gave this year would put you -- a number in Q4 of approximately \$0.50. Is that -- am I correct in thinking that way?

Bob Lyons:

That math works. And as we said in the press release, we expect to be moderately above the high end of that range.

Art Hatfield:

Right. Right, right, right. I just wanted to make sure I was -- when we think about Q4, though, given what scrap steel prices have done, the scrap rates should be less and usually you guys are pretty conservative on how you look at expectations for asset remarketing gains. Is that fair to say?

Bob Lyons:

Yes. And I think that definitely has guided our thinking in terms of the fourth quarter. Not anticipating any material or big remarketing activity. There will be some but it's not going to be huge numbers by any stretch and with scrap steel prices where they're at, that number will dial back a bit as well.

Art Hatfield:

Is there a number and if this is getting too close to anything competitive, just say so, but is there a number on scrap steel in the current environment where you kind of cross that threshold where you want to accelerate your scrapping?

Bob Lyons:

Well, what we do, Art is first of all, regardless of where the scrap steel price is, we're always going to be scrapping at some level.

Art Hatfield:

Okay.

Bob Lyons:

When you think about the age profile of the fleet and the cars that roll off in a given year. So even at low scrap steel prices you're going to have cars that just reach the end of their life. You're always going to be scrapping some cars every year. What we do is we look at what we call an economic repair limit on a car in terms of where it is in its age profile -- what reinvestment needs to be made in the car to put it back out to work and what kind of rate it's going to get when it goes back out to work and then you compare that again to what the return would be from scrapping the car. With scrap prices incredibly high like they were through the first three quarters, you have more cars that kind of flip into the scrap bucket. Now, you have more cars that will stay and that will continue to keep on lease.

Art Hatfield:

That's just a simple modeling procedure given the current environment that you're looking at, you just plug the numbers in and --

Bob Lyons:

Yes, the model hasn't changed over the years. It's just the inputs definitely have.

Art Hatfield:

And then just a couple last things and I'll get off. Did you mention earlier what the average age of the fleet was here in North America?

Bob Lyons:

About 16 years.

Art Hatfield:

Okay.

Bob Lyons:

Around there.

Art Hatfield:

Yes, that's pretty consistent. And given the environment we're in with the capital markets doing what they're doing and the economy really showing some signs of continued weakening, do you see any monumental changes going on in the competitive landscape today and is there anything else that you anticipate occurring over the next six or 12 months?

Brian Kenney:

That's a good question. I think everybody's very aggressive out there. A lot of others have more cars delivering that they're going to have to place, so as Rhonda said earlier and Bob reiterated, that can get challenging from a pricing perspective. As far as structural, there's been a lot of stuff for sale out there. It hasn't changed hands yet, so I don't know that it will. So it could be just the same environment we're looking at now.

Art Hatfield:

Okay.

Bob Lyons:

One positive on that front, too, is I think there will be an absence of new entrants into the market. Kind of just from a fundamental buy cars-and-grow portfolio. Which is normal typically what you see during more challenging times.

Art Hatfield:

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

Bob Lyons:

Thank you.

Rhonda Johnson:

Gabriella?

Operator:

Yes ma'am. Our next question comes from Gregory Macosko of Lord, Abbett. Please go ahead.

Gregory Macosko:

Yes, thank you. I had a simple math question, too. Relative to the lease price index, I just want to understand that better. That's the expiration divided by the renewal rate?

Bob Lyons:

The renewal rate -- it's the percentage increase over the expiring rate, so if you had a car that went on at \$500 three years ago and you renewed it at \$550, that would be 10%.

Gregory Macosko:

Okay. Okay. Thank you. And clearly that's moderating and coming down and relative to the expirations, you said that they were reasonable in '09. Are you -- I mean, are those older, longer leases? Shorter leases? Or are they pretty average in terms of that expectation there?

Bob Lyons:

That's a fairly normal rollover profile. The number in terms of the cars that are going to roll over, is lower than what we've seen back in '04, '05. There isn't any particular one car type or mix or anything that's skewing that, that pool of cars that will renew in 2009. One thing to back up on the renewal rate that I think is very important to point out is between the second quarter and the third quarter -- the rate at which we renewed cars has essentially stayed flat. It was consistent between the second and third quarter, which is an encouraging performance and the reason the LPI compressed was because the expiring rate went up. Mathematical -- pretty simple mathematical endeavor. But, I think, more from a larger perspective, what's encouraging is those rates held in between second and third quarters. Phenomenal lease rates.

Gregory Macosko:

OK, yes, I understand. Also with regard -- I think I believe you said you had an approximately \$5 million of sort of negotiating

costs in your SG&A line relative to possible acquisitions of railcars. Is there also in other areas, perhaps in the shipping area or any other areas where there is opportunities that have been considered and discussed for acquisition?

Brian Kenney:

No, it hasn't really been a priority in that area and I think asset prices are still extremely high, although it looks -- certainly looks to be coming down, but no, we really haven't focused on that in the shipping area.

Gregory Macosko:

Okay. Thank you very much.

Operator:

Our next question comes from Gregory DiMarzio of Century Capital Management. Please go ahead.

Gregory DiMarzio:

Hi, guys, I apologize if this has already been asked but relative to some of the questions surrounding the utilization rate and as we look at it, can you guys tell us what a 1% move in the utilization rate, what effect that has?

Bob Lyons:

Well, if you think about the number of cars on lease in a given year, that would be 1100 cars, a 1% drop in utilization. And you can -- I mean, just for benchmark's sake, use \$500 per month.

Brian Kenney:

It's about 6.5, \$7 million of revenue per year.

Bob Lyons:

Do the simple math on that, you're in that ballpark.

Gregory DiMarzio:

OK, but I guess my question is, what about margin effects? Do we have to add on an effect because of other items?

Bob Lyons:

No, not really. That's -- it's pretty clean.

Gregory DiMarzio:

Pretty clean.

Bob Lyons:

Pretty easy number to zero in on.

Gregory DiMarzio:

Okay.

Rhonda Johnson:

As we talked about earlier, your maintenance costs can go up a little bit because you're having to bring the cars in and clean them and put them into storage. That you see a little bit of additional impact there, but by far the bigger impact is on your revenue.

Gregory DiMarzio:

Okay. But you would -- there are no real expense items to take down?

Brian Kenney:

Well, you know, running repairs comes down. There are items that come down but it's overwhelmed by that revenue growth.

Gregory DiMarzio:

Got you. The second thing and again, I apologize to the extent it's been asked, is there a time period by which if you can't utilize your capital -- I know you were disappointed or you suggested in your press release that you were significantly below what the sellers wanted to sell for, is there a time period by which you would shift to more aggressively use capital to buy back stock?

Bob Lyons:

We're under no -- I have no specific time frame. I don't feel there's any clock ticking. I think if anything, as the prices weaken and may continue to do so but I have no specific time frame under which we need to use X amount of capital by such date.

Gregory DiMarzio:

Great. Okay. Thanks, guys.

Operator:

Our next question comes from Bob Napoli of Piper Jaffray. Please go ahead.

Brian Kenney:

You know Bob, that's really pushing it, given what you did yesterday -- to come on twice.

Bob Napoli:

Sorry about that. I appreciate your responses.

Brian Kenney:

That's okay.

Bob Napoli:

There are some opportunities in the aircraft leasing industry at pretty attractive valuations. Any interest in getting back into that business?

Bob Lyons:

None.

Brian Kenney:

Trying to think how to answer that more dramatically.

Bob Lyons:

No. We've been there as you know --

Bob Napoli:

Half kidding

Bob Lyons:

-- and it's an asset class that we don't have any intention of pursuing.

Brian Kenney:

Not with this management team here.

Bob Napoli:

Yes. Half kidding on that. Three quarters kidding on that question. With regards to credit quality, and credit risks, generally you've had very little exposure, a little bit more in Specialty than in Rail, but where are you most focused on on the credit side today? Where do you have the most risk and concerns?

Brian Kenney:

It's a good question. You're focused on your more highly levered -- I think in this downturn more than others, since it's so credit driven. You're more focused on your highly levered customers that have near-term maturities and the financial trouble that you may encounter, but you're still not worried about it unless they're really in a car type that you will have trouble putting back to work. So it's kind of a double trigger there. You're looking at some of your weaker credits but you're looking at especially the ones that have car types that might come back and sit. So that's the general way to answer it.

Bob Napoli:

Are there more --

Bob Lyons:

On the industrial equipment side, Bob, you know what's there, the transactions are smaller and the credits tend to be -- sometimes can be smaller names but our focus there when we do that business, obviously, very much focused on the assets so not that you are going to bypass the credit issues but there are substantial hard assets sitting behind the transactions themselves.

Bob Napoli:

I mean, are you seeing more stress today as you monitor those things? Are you seeing a much higher level of stress or not at this point?

Bob Lyons:

We're paying certainly -- we always pay attention to it and we're keenly focused on it but we haven't seen any material -- really any material developments to date.

Bob Napoli:

Okay. The LPI index, if prices were to moderate somewhat from here which is probably a reasonable expectation, as you start looking at next year, where do you see that index going to?

Brian Kenney:

Well, even if rates stay the same as where they are today, that index will go into negative territory because that expiring rate will continue to increase.

Bob Napoli:

And how far are we below -- I mean car types, car prices are down 15%, lease rates never went up as much as car prices did. Are lease rates down 10 or something like that from peak?

Brian Kenney:

No. In a lot of car types they're not down at all.

Bob Napoli:

On average?

Brian Kenney:

On average, you know, we never really throw out that absolute rate.

Bob Lyons:

We haven't really disclosed that absolute number but it's -- all in all as we look through the course of this year, it's actually been a phenomenal rate. It's held up pretty solid. Came in a little bit better than our expectation in reality.

Bob Napoli:

Okay. And then just last question --

Bob Lyons:

A big part of that is that stable tank car base which has continued to perform very well.

Bob Napoli:

Last question on the deal side. Now, you guys have been very disciplined but was there -- are there still a lot of potential transactions out there that you're reviewing or have you reviewed all of the major ones at this point and are waiting to see what happens, I guess?

Bob Lyons:

Well, we can't comment and won't comment specifically about any particular opportunity or any discussion that might be under way. But typically there are portfolios for sale and in this type of environment there's more so and we're an active participant in the market, so we'd be in the communication flow or traffic flow on opportunities. But we can't really speak to anything more than that at this point. The main thing is we are very focused on making sure that we use our capital wisely and we do so in a way that preserves our very solid credit rating and our access to sufficiently priced capital and that's helped us, been a big benefit to us to date and we're not going to dispatch from that view or that concept of how we pursue things.

Bob Napoli:

Okay. Thank you.

Operator:

And our last question comes from Jordan Hymowitz of Philadelphia Financial. Please go ahead.

Jordan Hymowitz:

My questions have actually been completed. So, thank you very much.

Bob Lyons:

Thanks, Jordan.

Rhonda Johnson:

Well thanks to everyone for participating in the conference call and if you have any additional questions you can contact me. I'll be around all afternoon. Thanks.