



## 2008 Fourth Quarter Conference Call January 23, 2009

### Operator:

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

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

### Rhonda Johnson:

Thank you, Megan, and good morning, everyone. Thank you for taking time during a busy earnings season to join us for our fourth quarter and 2008 year-end 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'll provide opening comments and then Brian will discuss 2008 and the year ahead.

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, 2007, filed with the SEC for a discussion of the most important of these factors.

Today, we reported fourth quarter 2008 income from continuing operations of \$28.9 million or \$0.58 per diluted share. This compares to 2007 fourth quarter income of \$41.4 million, or \$0.81 per diluted share, which includes a deferred tax benefit of \$9.8 million or \$0.19 per diluted share. For the full-year 2008, income from continuing operations was \$196 million or \$3.89 per diluted share, including \$23.2 million or \$0.45 per diluted share of benefits associated with a state tax reserve reversal, sale of real estate and an environmental reserve reversal in Poland. By comparison, 2007 income from continuing operations was \$185.8 million or \$3.44 per diluted share, which includes \$20.1 million or \$0.36 per diluted share of deferred tax benefits. The 2008 results, excluding the aforementioned items, reflect a 12% increase in EPS and 15% return on average equity.

As evidenced by the high line -- by the earnings I just highlighted, 2008 was an outstanding year at GATX. Despite the increasing uncertainty in the market in 2008, rail fleet utilization remained very high ending the year at nearly 98%, on par with the previous year thanks to the diligence of our commercial and operations teams; teams in placing cars with customers as well as railcar scrap and sales. On average, we renewed leases at rates 5% higher than expiring rates, and we locked in those rates for an average of 63 months. In the fourth quarter, the positive LPI was the result of stable performance in our tank car fleet which helped mitigate lease rate pressure in our freight car fleet. With our focus on extending term over the last few years, we have limited the number of leases rolling over in a weaker market. In 2009, we have only around 15,000 railcars exposed for renewal compared to nearly 30,000 just a few years ago. In addition to lengthening term, we continued to optimize our fleet through targeted car sales which contributed significant remarketing income to our results. We also purchased more than 7500 railcars at very attractive prices, including the more than 3600 railcars in the Allco fleet acquisition announced in December.

Specialty segment profit in 2008 decreased slightly compared to 2007, due to an expected decline in remarketing activity and slightly lower income from the Marine joint ventures due to slowing shipping demand. For most of the sailing season at American Steamship, demand on the Great Lakes continued to be strong and higher lake levels led to more efficient movement of cargo on the Lakes. All customer contracts were completed, however demand dropped significantly late in the year as steel producers reacted to the changes in the economic environment.

As we look at the year ahead and as noted in our press release, we currently expect 2009 earnings per share in the area of \$2.50 per diluted share subject to variability. Brian will discuss this in more detail in his comments, so I'll turn it over to him.

**Brian Kenney:**

Thanks, Rhonda. Before we open the call to questions, I wanted to make a few comments on our 2008 performance, the 2009 earnings outlook and why we decided to provide guidance at all in our earnings release. So let me take that last issue first. We had considerable debate internally about whether or not to provide earnings guidance for 2009. Especially given the fact that most companies that have announced earnings have refrained from providing guidance due to the uncertain environment, I mean I get that. But ultimately, we felt that not giving some guidance runs contrary to all the work we've done over the last few years to reduce that extreme earnings volatility that GATX exhibited in past downturns. We are a very different Company now, and I didn't want to leave people guessing and actually assuming the worst by not providing some form of guidance for 2009.

The way we're structured, we should be able to provide some visibility into 2009. So let me start by talking about what's behind our 2008 performance and how that relates to 2009's current estimates. In 2008, we had record EPS that was obviously driven by solid business performance, but it was also driven by us taking advantage of what I'll call some "market anomalies" in some situations which have since disappeared. In fact, looking back, we spent the last few years taking advantage of some of these anomalies and I'm thrilled that our operating managers acted economically as opposed to assuming that these conditions would last forever. So let me give you a few examples of that.

If you look back to mid-year 2008, scrap steel prices peaked at around \$500 a ton. If you listened to market forecasts at the time, a lot of them said that price would hold or actually increase from there. There's a variety of factors going into that -- the China effect and some other ones. As you know from our prior earnings calls, however, our people stayed true to our economic model, which said that with a \$500 scrap price, and the prospect of redeploying an aging railcar into a weakening market, you scrap. And scrap we did. We scrapped a record 4,000 cars and had about \$30 million in scrap gains in 2008. And looking back, with the year-end scrap price as low as \$80 per ton, that was a great move. However, if you look at the scrap

price at least coming into 2009, it's rebounded slightly, but it's still below \$200 a ton. So the probability of that level of scrapping income in 2009 is remote.

Another example -- on the Marine side, everyone's well aware of the record day rates and resulting asset valuations which actually peaked in 2008. The same valuation peaks were true for a number of our car types in the rail business. So in 2008 and 2007 as well, we monetized a number of our marine vessels and railcars at those record valuations. At the same time, we extended our renewal terms in Rail, locked in some of those peak marine charter rates through contracts that will partially insulate us well into 2010. At any rate, in retrospect, our actions were well-timed and they produced robust remarketing gains during the last two years. But with the rapid decline in these markets and these asset valuations in the last few months, once again it's unlikely to produce that level of gains in 2009. So in 2009, as we said in the press release, we do expect our core markets of Rail and Marine to deteriorate further and be under pressure. But as we've discussed with you many times before, we felt this deterioration was inevitable and therefore we've prepared GATX to not only withstand it, but hopefully take advantage of it.

Having said that, in this market there's a number of things we cannot predict with any level of certainty, and some of those factors are the reasons for our cautionary tone concerning the 2009 earnings estimate in the press release. So let me discuss two of those. The first and perhaps most impactful to our earnings variability in 2009, our corporate credit spread -- corporate credit spreads and the state of the capital markets in general. If you look at our committed investment in 2009, we don't have to do any financing -- our backup lines are more than sufficient. Obviously, that's not the way we want to run the business. And Bob would prefer to go out and do several hundred million dollars of term financing. We certainly have the access to the market to do that, as we proved in November, but it's a lot more expensive now just like it is for everyone. So if the capital markets improve from today's condition, that could be positive for our earnings estimates. If they deteriorate further, it could be extremely negative.

There's also secondary effects of a capital market improvement or deterioration. For instance, if the capital market improves from where it is today, it could allow potential buyers of certain of our assets to access the necessary financing and then we could produce remarketing gains at levels that we aren't anticipating today. So a lot of the uncertainty around that estimate in the press release comes from the uncertainty on credit spreads in the capital markets.

Another issue, but it's related actually, is the uncertainty around our investment volume, particularly as it relates to the fleet and portfolio acquisitions in the secondary market. As you know, we're going into this downturn with a strong balance sheet and we're featuring low leverage on an historical basis -- that was by design. The idea was to pickup attractive fleets and portfolios from those companies who are struggling in this difficult market and need liquidity. The Allco acquisition -- fleet acquisition -- in December was a great example. We acquired almost 3700 cars at a great valuation and that had extremely attractive assumable debt. A great transaction for a variety of reasons: there's no people -- it was a fleet acquisition -- no people, no systems, no integrations. We'll be looking to repeat that in 2009.

But of course it's difficult-to-impossible to tell if those kinds of opportunities will be available. And if they are available and we're able to do it, it's also difficult to predict what effect they'll have on 2009 earnings. As we've discussed many times before, even a great acquisition economically in railcar leasing can be dilutive from an accounting perspective for the first few years. And that would not stop GATX from making the acquisition if it made sense. So until we see what develops in terms of investment opportunities in 2009, there is more volatility around our earnings estimate.

So that's just a few examples. If I summarize, 2009 will be a year of extreme challenge but, I think it's going to be a year of excellent opportunities as well. And we've prepared the Company to take advantage of a downturn, we plan on just doing that and we're also going to manage the business -- businesses -- efficiently as possible. So 2009 earnings -- dependant on a variety of factors as I just laid out and some of them are beyond our control. But sitting here

today, I'm pretty sure we have the right team, the right fleet, the right assets and the right focus to create significant value for our shareholders going forward. So I hope that helps. Let's go ahead and open it up to questions.

## QUESTION AND ANSWER

**Operator:**

Alright. At this time, if you would like to ask a question, please press star and then one on your touchtone phone. You may withdraw your question at any time by pressing the pound key. Once again, if you would like to ask a question, please press star then the number one on your touchtone phone. Our first question comes from the site of Robert Napoli [Piper Jaffray]. Your line is now open.

**Bob Napoli:**

Good morning. Nice job -- guys have been waiting for this time for years. Unfortunately, that means that the economy isn't doing so well. But a few questions on -- first of all, on pricing. Pricing came in for the quarter better than we expected. You're up 3.5%. I just wondered, we think prices have declined in the market pretty significantly. What are you expecting throughout 2009? Why was your pricing as positive as it was in the quarter?

**Bob Lyons:**

Good morning. This is Bob Lyons.

**Bob Napoli:**

Good morning.

**Bob Lyons:**

Thanks for your questions. The fourth quarter was stronger than we had anticipated. If you recall, the third quarter was -- the LPI was a negative 0.3%.

**Bob Napoli:**

Um-hmm

**Bob Lyons:**

We assumed going into the fourth quarter the number would be negative. Tank car pricing in particular held up stronger than we had anticipated. As you would expect for everything going on in the marketplace, the freight car side of the equation was quite pressured. So as we look into 2009, what occurred in the fourth quarter really doesn't change our view on what will happen in 2009, which is, rates will come under pressure as the LPI across the board in 2009 on average would be a negative performance. So we're going to have some difficult comps going into 2009.

**Bob Napoli:**

OK and then on the utilization side, I saw you scrapped a lot of cars in the fourth quarter, the acquisition you made, essentially, that was 100% utilized?

**Brian Kenney / Bob Lyons:**

Yes.

**Bob Napoli:**

Behind your outlook for next year, how low do you expect that -- are you anticipating? What kind of range would you expect for utilization to decline to?

**Bob Lyons:**

Well, as we came into 2008, we had expected that we'd probably see a couple hundred basis point drop in utilization.

**Bob Napoli:**

Um-hmm

**Bob Lyons:**

It held up stronger, most for commercial reasons, but largely due to scrap. So as we go into 2009, I think at least a couple hundred basis points, Bob, is not out of the question in terms of utilization for '09.

**Bob Napoli:**

OK. You took a \$7 million loss provision in the quarter. Is that in the affiliate earnings? Is that why affiliate earnings went down so much?

**Bob Lyons:**

No. It's actually in -- would be Other Operating - - Other Cost and Expenses within that line would be Rail. We took that on a provision on a direct finance lease, a bit of an anomaly. We don't have a lot of direct finance leases, so we don't have a lot of reservable assets. But in this case, we do. So, we took that reserve. The affiliate income was down at Rail more due to -- if you recall in past quarters, there is some volatility around a hedge that's in place on a future financing at our affiliate, AAE.

**Bob Napoli:**

Um-hmm

**Bob Lyons:**

That had a negative impact during the quarter. On a full-year basis, it was de minimus. But quarter to quarter, it bounced around a little bit.

**Bob Napoli:**

OK. Then the loss -- can you give me a little more color around the provision and I will move aside here?

**Bob Lyons:**

Sure. We had a customer that filed for bankruptcy, a sizable customer in the chemical industry that filed very recently. We have a number of cars on lease to them. Typically under an operating lease. Not a provisionable asset -- not something you can take a reserve against, which is about 97% or 98% of what we do. In this case, some of the cars we have on lease with them are under a direct finance lease -- and the cars themselves are somewhat of a challenged car type within the DFL. With a direct finance lease, there's a receivable. So we are able to reserve against that receivable. We went ahead and did that in the fourth quarter.

**Bob Napoli:**

OK. Thank you.

**Operator:**

Our next question comes from the site of John Hecht [JMP Securities]. Your line is now open.

**John Hecht:**

Good morning, thanks for taking my questions. In the ASC division, you talked about rates getting weaker in the fourth quarter and we saw the revenue drop off from Q3 to Q4 -- more sizable than prior quarters. I know some of that's rate related, some of that's weather related, historically. Can you give us a sense -- was this all rate related this quarter? or was there some of it related to your ability to move product on the Great Lakes?

**Rhonda Johnson:**

John, it's actually related more to a drop off in demand late in the quarter. The weather was actually in our favor this year. It was generally fairly smooth out on the Lakes and the lake levels were high. The rates themselves are set, as you know, on a more annual basis. This is not a leasing company, but an actual operating company. What we saw happen was demand dropped off towards the end of the year. So any additional product that we may have shipped for people -- that kind of demand fell off. And that's something that we're looking at very closely as we go into 2009. All of the ships are laid up right now for their winter work, and we'll be working with our customers very closely to see what demand looks like for the 2009 sailing season that begins in March.

**Brian Kenney:**

The other thing going on in revenue at ASC is -- fuel costs decreased dramatically in the fourth quarter, as you know, and that's passed through on revenue.

**John Hecht:**

OK, that's revenue, not a cost factor --

**Brian Kenney:**

Well, it's both, it's included as a pass through in revenue, it's also done on the cost side. So you still have -- both of those are dropped as well on a relative basis in the fourth quarter.

**John Hecht:**

And, can you guys break out the -- of your other income -- the scrap component of that in Q4?

**Rhonda Johnson:**

Sure. The scrap component of that was back to a more normal number -- about \$3 million.

**John Hecht:**

And then, finally, in the quarter -- can you give us a sense, the end of term leases, how many you -- if I pick right, you probably had about 4,000 or so leases coming to term in the fourth quarter. Given that your utilization rate held up, is it fair to think that you were able to release nearly 100% of those? Or is there something else to think about in that factor?

**Bob Lyons:**

There's a couple things to think about there John. Utilization did hold strong even though there was fairly limited scrapping activity in the fourth quarter. But, not all of the cars immediately turn right back on lease with the existing customer. As you know, we look at a renewal rate percentage in terms of the number of cars that stay on lease with the existing customer. That can range anywhere between 50% during challenging times up to -- we saw 80% in '07, early '08. We'll be right around 60% during the quarter that renewed with the existing customer. Cars that come off lease then are placed with other customers, they're assigned to other customers. And our commercial team did an excellent job during the quarter in terms of assignment activity. So it was a busy quarter commercially, but a very successful one and I think it's put us in a good position as we go into 2009. The other thing I'd add about 2009 renewals -- Rhonda mentioned about 15,000 cars up for renewal in 2009. There's not a lot of seasonality to that, it's pretty evenly spread, so when you're thinking about '09, you can kind of think about those rolling over fairly evenly through the year.

**John Hecht:**

OK and then, finally, before I let someone else hop in here, is -- you talked about good assignment activity for the 40% at the end of term -- existing customers that may have not

renewed. How are you competing there given the weakness in the environment? Was it on price? Are you gaining market share because of weakness of your competitors? How would you characterize that?

**Brian Kenney:**

The assets are fairly interchangeable but we have great relationships, we have a great salesforce. And we're competing on the basis of price. As I said many times over the last few years, as the market was going up, we wanted to be the price leader on the way up and really push price and lock it in for as long as we can. On the way down, we also want to be the price leader. In other words, we won't be undersold and leave assets at utilization, especially for -- at low utilization -- especially for a good customer. We are competing on price. In this kind of market, there are a lot of idle cars out there.

**John Hecht:**

Thanks very much.

**Operator:**

Our next question comes from the site of Paul Bodnar [Longbow Research]. Your line is now open.

**Paul Bodnar:**

Kind of a follow-up on that last thing. You said there are a lot of idle cars out there -- just a little bit of color on some of the different car types and where you see some of the bigger issues, it is pretty probably broad based at this point?

**Brian Kenney:**

In general, if you listened to us in 2008 -- we started, really a year-and-a-half ago -- talking about anything related to construction and how there was some weakness there. Then it spread to all freight car types, probably with the exception of coal and grain, which were strong in 2008. Now, you are even starting to see weakness in there. If you saw shipments recently in coal and grain -- they're down as well. Although our fleet in coal and grain is pretty close to 100% utilized, we're starting to see rates drop there and they'll be under pressure next year. But you also heard us talk

about the tank car side, generally staying strong, especially in the general service type of cars. I would say at this point there's weakness across the board, including the tank car side. It's pretty widespread at this point. There are a few car types hanging in there, but, in general, we are seeing weakness across the board. It will be a very competitive 2009.

**Paul Bodnar:**

Some of these cars come back. And if you have to send it out to a new customer, do you tend to do a lot of additional maintenance work? So, should we expect maintenance costs to increase potentially in '09 with falling utilization levels?

**Brian Kenney:**

That's a great question. I was actually going to add that to Bob's answer, that's exactly right. If your renewal percentage drops, your assignment percentage hopefully goes up and you stay at that utilization, but that's going to cost you some money. Because it's not -- I want to say -- it depends on the type of car and the options, but it's very rare sometimes that cars go from service to service without going through the maintenance network. When that happens, it attracts costs and your maintenance costs will go up. That's what we call churning the fleet. We will see that in -- actually we saw it in 2008. That's why volumes were higher at our service centers. We will see that again in 2009. That is one of the reasons maintenance will be up in 2009. The other reason maintenance will be up in 2009 is the amount of compliance that has to be done in the tank car fleet. We've been talking about that for a while here. A lot of overbuilding actually, in the mid- to late-'90s in the tank car side. A lot of those cars are coming through for their first structural inspection. That was heavy in 2008, it's actually higher in 2009 and '10 before that comes down. Maintenance will be up for all those reasons.

**Paul Bodnar:**

Thanks a lot.

**Operator:**

Our next question comes from the site of Art Hatfield [Morgan Keegan]. Your line is now open.

**Art Hatfield:**

Thank you. Brian, or Bob, I guess. On the write-off, the loss provision you took in the quarter. How do we think about going forward? Does that write-off take care of all of the receivables that were potentially due you? And if through the bankruptcy process, I don't know if there is a liquidation or whatnot, do those -- eventually could those cars be turned back to you?

**Bob Lyons:**

Well, let me just talk about what typically would happen in a bankruptcy scenario, because they do occur from time to time. It's possible that more may occur in 2009. What normally happens in that situation, you have operating lease assets into that particular customer. You engage in a dialogue with the customer about their needs for their equipment. Potentially renegotiate the lease rate, or if the lease rate is unacceptable to us, we can take the cars back and put them on lease somewhere else. You rarely have a buildup of a large receivable because these are month to month -- they're long-term leases but they pay monthly. In this particular situation, as I said, it was very unique, where we had cars under a direct finance lease. That is not our norm. And if there is a receivable within that DFL that we reserved against, not fully, because we anticipate that some of the cars will remain on lease and in use. This is a big customer, they're ongoing, they're going to continue to operate. It's a big chemical company that is not shuttering its doors. It's quite the opposite; it actually just restarted another plant. So, they're going to have car needs. For all the cars in their fleet, we don't know. It's early to tell at this point, but we will work hard to keep our cars fully utilized, and to the extent that some of those come back, we'll look for homes elsewhere.

**Art Hatfield:**

At this point in time, it is fair to say that you're not anticipating that happening? And I say that assuming that you haven't included any of those cars in the 15,000 up for renewal this year?

**Bob Lyons:**

That's correct.

**Art Hatfield:**

OK. OK. Just refresh my memory on the scrap gains -- where does that fall on the income statement?

**Rhonda Johnson:**

In Other Income.

**Art Hatfield:**

OK and then finally, the tax rate in the quarter was a little bit lower than we were looking for. Anything unique going on there?

**Bob Lyons:**

We're generating a larger percentage of our income, currently from foreign operations, which operate at a much lower tax jurisdiction, so we would expect the full-year tax rate in 2009 to be low compared to historical norms of 34%, 35%, we're probably looking in the low 30s for the full year in 2009.

**Art Hatfield:**

OK. All my other questions were answered, thank you.

**Operator:**

Our next question comes from the site of Samuel Crawford [Stone Harbor Investment Partners]. Your line is now open.

**Samuel Crawford:**

Thanks very much for taking my questions. Could you give a brief evaluation of customer credit quality across the portfolio? I know that's a hard question to answer because it requires you to generalize, but maybe if you could speak to the broader quality and then to the very weakest portion of the portfolio, the one that most concerns you?

**Brian Kenney:**

In general, customer credit quality is very strong in our rail business. Historically, there's been somewhere along the area of two-tenths of 1% in terms of credit losses. The customers that we're focused on right now, are the ones that are highly levered, and highly levered and using

cars of types that are weak right now. For instance, chemical customers that may be highly levered, and as an example lease a lot of plastic pellet cars from us. You have your eye on those type of customers right now, as an example.

**Samuel Crawford:**

Um-hmm

**Brian Kenney:**

As far as, if you go through our top 10 though, however, I would say most of them are extremely solid credits and in fact a lot of them have higher credit ratings than we do.

**Bob Lyons:**

Correct.

**Samuel Crawford:**

OK. The last question is just going back to a fleet purchase that you executed some time back, most recently, there was a description of assumption of debt, and it was never quite clear to me, in conversations with IR or from the press release, whether that debt had been assumed, at a face value, or if it had been assumed at a discount that was reflective of perhaps a recovery bankruptcy. Was it assumed at discount?

**Bob Lyons:**

No, it assumed at face value. That total amount was roughly \$185 million of debt. \$189 million of debt, I believe. It was also -- its term debt and very low cost debt, which was one of the attractive elements of this acquisition. The cash contribution from GATX to execute the total acquisition was fairly low, around \$30 million.

**Samuel Crawford:**

Just as a last one there, if it's not too invasive. Would it be possible to get what an average coupon on that debt would have been?

**Bob Lyons:**

About 5.5%.

**Samuel Crawford:**

Thank you very much.

**Brian Kenney:**

Which at the time was probably, if we had to go out and raise that money would have been a 300 basis point pick up. So it was a great transaction.

**Samuel Crawford:**

Understood.

**Operator:**

Our next question comes from the site of Matt Vittorioso [Barclays Capital]. Your line is now open.

**Matt Vittorioso:**

I was wondering if we could just run through your liquidity at the end of the year. I noticed your cash is just over \$100 million. What was the availability on your revolver?

**Bob Lyons:**

Well, the revolver backstops our commercial paper outstanding. If you look at year end, I think we had roughly \$124 million of commercial paper outstanding. You have that against the cash. So it's really a net of about \$25 million. We have \$550 million in our primary credit facility, which runs through 2013. Essentially, almost all of that is available. The other thing I'd point out -- Brian mentioned in his comments -- the financing we did back in early November, the \$200 million five-year secured deal that we did. In December, we also did a couple other things. We did another \$50 million bank term loan, secured. We were able to access that market. We also layered on top of the 550, another \$100 million 364-day unsecured revolver. Essentially, we have \$650 million of CP backup or short-term liquidity back up that is virtually untouched.

**Matt Vittorioso:**

OK, and what are your maturities in 2009?

**Bob Lyons:**

We have a May maturity of \$120 million and June of \$250 million.

**Matt Vittorioso:**

My last question. Being a bit new to your company, when you talk about having extended the lease terms out over 60 months, certainly that reduces the risk for renewing. In an environment like this, what is the risk that customers -- do they break leases, or do people walk away from these contracts? Are there consequences to doing that, just for a little clarification?

**Brian Kenney:**

In general, the credit losses have been so low historically because when customers do not pay you take back the cars.

**Matt Vittorioso:**

Um-hmm

**Brian Kenney:**

We have a, as you can see, a 98%, probability of redeploying them right now. We expect some pressure on utilization, but generally you take back the cars and you redeploy them. That is some significant leverage if you're shutting down a plant of a customer. The credit quality of our customers, the fact that these are critical assets to their operations and the fact that we could redeploy them elsewhere has held that credit loss percentage down over time. Having said that, as we said in the press release, obviously some customers are going to run into some trouble and we're watching it closely.

**Matt Vittorioso:**

OK. If I may, one more, just on free cash flow in the quarter, did you generate free cash? What was CapEx and what would you say is your ability to pull back on CapEx in 2009 to generate cash?

**Bob Lyons:**

Well, we're not particularly focused on pulling back on CapEx to generate free cash given the liquidity that we have and the investment

opportunities. We think we still have all the leverage. We have committed CapEx in 2009 of about \$370 million. After that, after 2009, it drops off substantially. We really have some remaining railcar deliveries in 2009, but beyond that committed CapEx is pretty light. We are hopeful that we'll see investment opportunities well in excess of that. But as Brian mentioned in his opening comments, that remains to be seen in terms of what kind of portfolios or fleet acquisition opportunities are out there.

**Matt Vittorioso:**

OK.

**Rhonda Johnson:**

And I just want to remind you, Matt, too, just of the cash-generating abilities of the portfolio. On average, you're going to see somewhere around maybe \$350 million in cash from operations and portfolio proceeds. So this is not just a matter of available credit, but also the fact that the portfolio generates nice cash flow, even during a downturn.

**Matt Vittorioso:**

Right.

**Bob Lyons:**

For the quarter, that's a good point. And for the full-year 2009, because we were very active in terms of scrapping proceeds and selling assets at attractive valuations, that cash from operations and portfolio proceeds number is going to eclipse the \$500 million mark.

**Rhonda Johnson:**

In 2008.

**Bob Lyons:**

In 2008, excuse me. 2009, just the pure cash from operations, will still put you in the 350 to 450 range.

**Matt Vittorioso:**

So, with your committed CapEx then -- you're looking at basically a free cash flow neutral in '09, is that the right way to look at it?

**Bob Lyons:**

We don't -- if you just look at those two numbers, that's fine, but we don't focus too much on free cash flow. We're trying to look for opportunities to deploy capital and grow the business.

**Matt Vittorioso:**

Understood. Thank you very much.

**Operator:**

Our next question comes from the site of Rick Shane [Jefferies & Company]. Your line is now open.

**Rick Shane:**

Good morning, thanks for taking my questions. A couple of things. Obviously, what you're describing in terms of the bankruptcy, for your customers, a reorganization, is there -- and so your expectation is that you're not going to get most of the cars back. As they go through reorganization, how much ability do they have to renegotiate lease rates? And do you have -- if you don't like the renegotiated lease rates, do you have the ability to take back the cars that you chose to?

**Bob Lyons:**

Well, they have unfettered right to try to renegotiate the leases as anybody would in any bankruptcy. That is their opening to go back to all of the vendors across the board and renegotiate terms. If we don't like the rates, we can take the cars back. We're not obligated in any way, shape or form to enter into a contract that we're not happy with.

**Rick Shane:**

OK, so there is no notion of some sort of cram down or anything? You can take a price or walk away?

**Bob Lyons:**

Yes.

**Rick Shane:**

Great. In terms of this -- and you've obviously had more questions on credit because it's becoming a greater overall concern. In the context of the bankruptcy that you experienced and the context of what you're looking at now across your book -- were there warning signs there? What did you see in advance? Obviously once you're in that situation, I'm not suggesting that you just walk away, but what were the stress indicators that you saw? And have you seen those in other parts of your book at this point that concern you?

**Brian Kenney:**

The biggest thing in that one instance without getting too specific and talking about names, is a dramatic increase in leverage over the last couple of years. As I said, you tend to watch the customers a little more closely if they have a car type that's difficult to redeploy. Yes, they were on the radar screen already for those two reasons. As far as -- but you made a comment about being able to pull out of there. You can't do that either if you are a lessor. In fact these cars, the fact that Bob has tried to explain they were on this direct finance lease, they were on a long-term lease. We didn't have the ability to just go in and say, give them back either.

**Rick Shane:**

Understood. Last question, please. You talked about committed CapEx of \$379 million. I'm assuming that is not budget, that is actually committed CapEx through forward purchase agreements? Correct?

**Bob Lyons:**

That's correct.

**Rick Shane:**

If you were to look at those forward purchase agreements in the context of current market pricing, how much above or below new rates, new contractual rates, would you be getting those cars? Is it 5% above market, 5% below market?

**Brian Kenney:**

It is a little tough to tell. I would say in general, since one of the orders was placed two plus years ago, I would say it would be above market, if you placed an equivalent order today. Now, that order will adjust based on changes in cost components. Steel is a good example. It will come down considerably. I'm saying since it was placed two years ago, it probably has a higher margin than an order you would achieve today if you went out there. The other one I think probably looks pretty good still.

**Rick Shane:**

It is basically two orders and are they roughly the same size?

**Brian Kenney:**

Yes. It takes in the new-car pricing which has come down pretty dramatically over the last few months. If you look at the steel component alone, there was a -- as I said, all these, or at least most of these orders adjust with components and steel prices, and back when scrap was \$500 per ton, on a typical tank car, that steel surcharge would have been \$13,000. At today's prices, it's more like \$1,700. So just the decrease in steel price alone suggests a 13% reduction in car costs, and that's keeping manufacturing margin constant. If you ask me what does a new car cost today, which is why I hedged on the answer a little bit, you don't know until you go out there and place it and I got to believe the manufacturing margin is -- would be pretty close to zero.

**Rick Shane:**

They just want to keep the factories open. Guys thank you very much for your answers.

**Bob Lyons:**

Thank you.

**Operator:**

Our next question comes from the site of Frank Bisk [Pilot Advisors]. Your line is now open.

**Frank Bisk:**

Good morning. Of the \$370 million of CapEx for '09, I guess most of that is for new railcars -- correct?

**Brian Kenney:**

Correct.

**Frank Bisk:**

And of the new railcars that are going to come in, do you have leases on those yet, or some you do, some you don't? Can you talk about that?

**Bob Lyons:**

Sure. We have some we do, some we don't is the right summary on that. When we place the order like that, an advance order, we typically do not have -- if we place an order for 1,000 cars you typically will not have 1,000 of those leased up ahead of time. We do have a good weighting of those already placed. We still have some that we'll need to work through in 2009, but it's not an unmanageable number by any stretch.

**Frank Bisk:**

OK, and then as you look farther and you look at whether you are going to buy additional or -- I guess whether you buy new or buy used or do nothing, can you just talk about used prices, just all the railroads have reported they're stacking cars or they're putting them on the side. What kind of -- what are the returns if you buy used instead of just going to a manufacturer?

**Bob Lyons:**

Right. It's a little difficult to gauge right now. We always -- we look at both of those avenues for opportunities to grow the fleet. I can't say that one is a better alternative than the other. It's really just constantly being in the market to see what is available, both with the builders and cars from the secondary market. I will say the transaction we completed in December, the 3600 cars we bought there, will generate substantial economic value for the shareholders long term. We got a very, very good price on that transaction.

**Brian Kenney:**

It's a theoretical answer, but I would say in a lot of cases the market value of cars are lower than build costs right now. If you're able to get them at, quote, unquote, market value, it will probably be more attractive right now.

**Frank Bisk:**

Okay.

**Brian Kenney:**

At some point the manufacturers won't build a car if they're going to take a big loss.

**Bob Lyons:**

The other thing to point out too is that some of these cars that conceptually may be available for the marketplace, are held by people who've been in the business a long time and understand how it works. It's not like there will be a flood of sellers at a low point because they know how the cyclical nature of the business works. Occasionally, you can get some very good opportunities, like we did in December.

**Frank Bisk:**

Okay. Just one other question, just in the segment data. In Other Income, there are scrappings in there, what else is in there? And then asset remarketing income, which was \$31 million for the year in Rail, is that just selling -- that is actually selling the cars to someone else, not scrapping them?

**Rhonda Johnson:**

Correct.

**Frank Bisk:**

OK.

**Rhonda Johnson:**

We have had a program in place the last few years, where we have been just quietly selling off portfolios of railcars and optimizing our fleet for this downturn. That is what you see there in asset marketing income. Other Income, scrap gains, obviously, repair revenue, so revenue from repairing cars for third parties, any kind of

interest income or fee income would also be in there but that's a very tiny part of what we do.

**Frank Bisk:**

OK, thank you.

**Operator:**

Our next question comes from the site of Robert Napoli [Piper Jaffray]. Your line is now open.

**Bob Napoli:**

Thank you. On the debt side, you have \$370 million of debt rolling over this year, you have, your free cash flow just about pays for the committed purchases. What is the -- and you have the backup lines of about \$600 million of available credit. Will you use those back-up lines to fund the debt that's rolling over, or will you refinance those and I guess you'd rather raise capital on the market? If you do, how much higher would spread -- what's the incremental spread on that in today's market?

**Bob Lyons:**

The answer to your question -- when we're taking the pieces, Bob, we could use those lines, that is what they're there for.

**Bob Napoli:**

Um-hmm

**Bob Lyons:**

But we prefer to manage our business much more on a term fashion. We would want to go into the market and raise term debt. We did that back in early November, the coupon on that was 9%.

**Bob Napoli:**

Um-hmm

**Bob Lyons:**

For a five-year secured deal, spreads have probably improved a little bit since then -- the Treasury rates have obviously come down since then. 9%, is 300 plus basis points more than we would normally fund.

**Bob Napoli:**

Um-hmm

**Bob Lyons:**

That is \$6 million a year of interest expense above and beyond what we would normally incur. So it's material. If rates stay at that level that's kind of the spread you would have to pay. We're constantly monitoring to see where spreads are at, and what the best opportunity is for us. We're in a really good position that we're not pressed at any point in time to go out and do something that is particularly onerous. We'll be opportunistic.

**Bob Napoli:**

What is the cost of the lines, the unused lines? What is the rate on those if you were to choose to use those?

**Bob Lyons:**

Well, actually the credit agreement for the big ones, the \$550 million line is actually on our website; that one goes through 2013. That was put in place about two years ago. So the costs associated with that vary. If we ever borrowed on it, it would be probably LIBOR plus 30 basis points type funding.

**Bob Napoli:**

OK.

**Bob Lyons:**

We don't typically tap that, it's there in the backup. \$100 million facility was put in place, we haven't -- that was done with a smaller group of banks, that information won't be posted anywhere. Suffice to say it was definitely more expensive than the one we did two years ago. We felt it was the right step to take to add some additional liquidity to the mix because of the uncertainty about what's going on in the marketplace right now.

**Bob Napoli:**

Last cycle, you guys placed a decent-sized order right in the middle of the dire economic scenario we were in. We're in another one of those scenarios. I think you must have said to me

many times over the years that you wish you had at least doubled that order. Next cycle, we're going to make a much bigger order. Is it far enough into this? Are the railcar manufacturers hard up enough, if you will, that you can go out there and place an order that's going to have railcars delivered a couple years down the road at great prices or are we not at that point yet?

**Brian Kenney:**

Well, you're right. It's one of our objectives, not only to pick up portfolios, but to place that long-term railcar order at the right time. You can't time it; you never get it perfectly right in terms of timing. Last time, we hit it at the bottom. The things we're looking at, Bob, the steel pricing, component pricing, how aggressive the manufacturer is getting, are you seeing some signs of a rail market recovery or at least the market bottoming out? We're looking at all that and all I'll say is we haven't placed the order yet.

**Bob Napoli:**

So we're not bottoming out yet. How about the U.K. business? I'm getting worried about that. In that it's a short-term average lease, much shorter average lease term, I think it's like two years.

**Brian Kenney:**

I assume you are referring to our European rail business?

**Bob Napoli:**

Right, I'm sorry. The European rail business. Yes.

**Brian Kenney:**

It's a good question. We spent a lot of time in 2008 saying that. You're exactly right. Bob, the term is shorter over there, both on the tank car side and freight car side. We hadn't seen any signs through most of 2008 that the recession had spread over there. Obviously, it's in recession now over there. We're starting to see some of those signs; the automotive and chemical sectors have been hard hit over there. In general, the housing sector is better than the U.S. But still, I say right now we're seeing signs

that the tank car side is holding in there pretty well, utilization is still really high. On the freight car side, utilization is still really high, over 99%. We're starting to see container volumes come down and there is some reduced demand there. We'll see some weakness in 2009. It will hit the fleet.

**Bob Napoli:**

With regards to the Marine business -- while your revenue was down much below what we'd expected, the combination of fuel pass throughs and lower demand, the income from that business was very strong. Why was the income? If you just look at the marine operating revenue minus marine operating expenses, that was several million higher than I thought it would have been given that revenue level. Was there anything unusual in there?

**Rhonda Johnson:**

Well, again, that has the -- you have the offset of the fuel costs being low, which would be in the marine operating expenses. So those --

**Bob Napoli:**

That's just the pass through, it shouldn't have helped income, right?

**Rhonda Johnson:**

Well, not entirely, not 100% pass through. It would also be helping you on your expense line.

**Brian Kenney:**

In general, volumes were strong in 2008 until the last few months; pricing was extremely strong.

**Bob Napoli:**

Last question, your operating expenses were -- came in across the board a little bit better, the G&A side, the maintenance expenses, does that have to do with the move of the office on the G&A side? You did a nice job controlling expenses.

**Bob Lyons:**

There was nothing unusual in there during the quarter.

**Bob Napoli:**

OK.

**Bob Lyons:**

We are, like everybody, we will be intently focused on SG&A expenses in 2009, and we will look to get material reduction in our SG&A for 2009 to reflect what's going on in the marketplace. We're going to continue to manage that line very, very tightly.

**Bob Napoli:**

OK and the jump up in interest expense -- was the 9% deal that you did -- is primarily the --

**Bob Lyons:**

Also reflecting the fact that there was a substantial amount of volume done in the fourth quarter.

**Bob Napoli:**

Thank you.

**Operator:**

Our next question comes from the site of Art Hatfield [Morgan Keegan]. Your line is now open.

**Art Hatfield:**

Bob kind of touched on one of the things I want to follow-up on. Brian, looking at some of the fundamental data in the rail industry, I think there is a perverse argument to be made with regards to maybe we're getting close to a bottom. How do you -- I don't want to say, I guess protect is the wrong word, but how do you balance out not waiting long and if you look back at the last cycles, was there a period after the rail fundamentals bottomed where maybe 6 months or 12 months later, was when car prices bottomed out? Is there a way to think about that as we look out over the next year?

**Brian Kenney:**

I think that's difficult to answer that with any certainty. I don't feel, at this point, if you look at the traffic in the first couple weeks, the rail volume in the first couple weeks of January,

there's some pretty significant decreases there. You want to see how that rolls through before you declare, "OK, we are at the bottom." As far as the manufacturing -- they are still manufacturing cars. Rhonda, what is the latest in terms of backlog?

**Rhonda Johnson:**

We haven't seen the statistics yet for the end of the fourth quarter and the backlog is probably still going to be reasonably high, but indications are that the build is going to be pretty low this year, probably 20,000 is probably a good guess, and maybe half of that is tank cars. Definitely the orders have been drying up and it looks like it's going to be a difficult year for the manufacturers.

**Brian Kenney:**

Having said that, it doesn't feel as if they are beating down our door.

**Art Hatfield:**

That is a fair statement. Another issue -- I hate to get back to the credit quality issue, but thinking about one area that may have built out too much over the last few years with the ethanol market, and maybe with gas prices and oil prices coming in like they have, fear of ethanol refinery, bankruptcies, that risk is improved recently. Can you talk about that and maybe what kind of potential exposure you have to that market?

**Brian Kenney:**

We are very highly utilized. We've gone through this story before. About how we've stayed with the larger, more stable, creditworthy customers and ethanol for the most part. Our fleet utilization--?

**Rhonda Johnson:**

98%.

**Brian Kenney:**

98% in the ethanol fleet right now. We do -- so we have, I think utilization will come down in that car type in 2009 even at GATX. We do have some leases rolling over. We also have, I believe, 300 cars delivering in 2009, but those

are all placed. Just like everything else, there's general weakness that might slip a little bit, but right now it doesn't. The bigger impact there is lower lease rates as opposed to credit utilization.

**Art Hatfield:**

Thank you. That's all I have.

**Operator:**

Your next question comes from the site of John Hecht [JMP Securities]. Your line is now open.

**Brian Kenney:**

This is going so long we're in the first quarter call now.

[Laughter]

**John Hecht:**

Everybody is taking two rounds here. Two quick questions. What is the average age of your railcar fleet at the current time and maybe where was it a year ago?

**Rhonda Johnson:**

It's still around 16 years, John. We always try and keep it around the midpoint.

**Bob Lyons:**

With the acquisition of Allco, John, those cars were average age of two years, 3600 cars added to the fleet. The number will come down a little bit. It's a huge fleet and a little tough to move that needle in just one year's time.

**John Hecht:**

Then final question, for Brian. You just -- or I think Rhonda just talked about the backlog, 20,000 cars, 10,000 tank cars. You referred to some idleness in the market prior, but we didn't get much specifics there. Just trying to get a sense do you have any of those idle car numbers, so we can get a sense or put this in context for what we might need to see in absorption rates for the new backlog along with your renewals?

**Rhonda Johnson:**

For the whole market, are you talking about?

**John Hecht:**

Yes.

**Rhonda Johnson:**

There was an article out yesterday that suggested that there's at least over 100,000 railcars sitting idle at the three major railroads, getting your arms around that number is really difficult. You have to go car type by car type. There're still substantial numbers of ethanol cars that are idle. The backlog in tank cars, which last we saw, was around 25,000 cars. A good at least half of that was scheduled to be 30s -- the ethanol-capable tank cars. You will probably see that number come down. I don't think people want to be continuing to build a significant number of 30s when the market is soft and the price of ethanol is way down -- with the gas prices being down where they are. It is still in flux and it is really hard to tell exactly what's out there. But anecdotally, you can say that storage prices have gone up, particularly in certain areas of the country where there may be a large number of cars that are in storage, that kind of implies there is a significant number of cars out there that are being stored at this time.

**John Hecht:**

Is that an idle number you are talking about? The 100,000 idle that you read about?

**Rhonda Johnson:**

Yes.

**John Hecht:**

Just to give us context, finally, one more question, how big did that number get in '01, and '02?

**Bob Lyons:**

I'm not sure how large that number got. Based on some of the comments from the rail people yesterday, from some of the railroads that released, you know what they see stored, as much as they've seen in recent history, so it's a big number.

**John Hecht:**

OK, thanks very much, guys.

**Operator:**

It appears that we have a follow-up question from the site of Robert Napoli [Piper Jaffray]. Your line is now open.

**Bob Napoli:**

Sorry, guys. Really quick.

**Bob Lyons:**

Bob, you should just walk over here.

[Laughter]

**Bob Napoli:**

Just looking at the balance sheet, and I noticed the equity section actually -- shareholders' equity went down by \$50 million in the quarter. You earned more than your dividends. It was just, mostly an OCI hit of some sort --

**Bob Lyons:**

That is exactly right, Bob, and the biggest piece of that is FX.

**Bob Napoli:**

-- is FX related?

**Bob Lyons:**

Yes.

**Bob Napoli:**

Thanks. That's it. Are you buying lunch?

[Laughter]

**Operator:**

It appears that we have no further questions at this time.

**Rhonda Johnson:**

Well, thank you everyone for participating. I'll be available this afternoon if you have any additional follow-up questions.

**Operator:**

This does conclude today's teleconference. You may disconnect at any time. Thank you and have a great weekend.