GATX Corporation

Operator:

Good day and welcome to the GATX First Quarter Conference Call. Today's conference is being recorded. At this time I'd like to turn the conference over to Miss Jennifer Van Aken.

Jennifer Van Aken:

Thank you, Renee and good morning everyone. Thanks for joining us for the First Quarter 2014 Conference Call. With me today are Brian Kenney, President & CEO of GATX Corporation; Bob Lyons, Executive Vice President & Chief Financial Officer; and Tom Ellman, Executive Vice President & President, Rail North America.

As a reminder, any forward-looking statements made on this call represent 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, refer to our 2013 Form 10-K for a discussion of these factors. You can find this report, as well as other information about the Company, on our website www.gatx.com.

I will give an overview of the results provided in our press release earlier this morning, and after that, we'll open it up to questions. Before I get into the numbers, there are a couple of items noted in the press release that I want to point out. The first item is a change in the depreciable lives of our North American railcar fleet. This change, effective January 1, 2014, was based on a review of the economic lives and usage of our railcars. On average, we extended the depreciable lives of the fleet by approximately two years. The impact of this change in the first quarter was an after-tax benefit of $3.5 million, or $0.08 per diluted share. To reflect the full-year impact of this change, we are increasing our 2014 full-year earnings estimate to the range of $4.15 - $4.35, from the previously provided range of $3.85 - $4.05.

The second item I want to mention is regarding the fleet of approximately 18,500 per diem boxcars acquired in late March. These railcars are excluded from the fleet statistics provided in the earnings release and will be excluded from our discussions regarding GATX's North American railcar fleet performance on the call this morning. We essentially took full control of this fleet on April 1st, and we are integrating the fleet into our operations. This per diem fleet has characteristics that differ from most of GATX's term lease fleet; therefore, as we move forward, we will determine the best metric to provide to give you a snapshot of this fleet.

Now, on to the first-quarter results. Today, we reported 2014 first quarter net income of $42.1 million, or $0.90 per diluted share. This compares to 2013 first quarter net income of $27.1 million, or $0.57 per diluted share, which includes the negative impact from Tax Adjustments and Other Items of $1.3 million, or $0.03 per diluted share. Details relating to Tax Adjustments and Other Items are detailed on Page 8 of this morning's press release.

These results are reflective of the continued robust demand for tank cars in North America and improving demand for freight cars. Rail North America's fleet utilization was 98.5% at the end of the first quarter and we continue to achieve very strong lease rate increases on long-term renewals.

In the first quarter, the renewal rate change of GATX's Lease Price Index was 33.9%, and the average renewal term was 62 months. During the quarter, our renewal success rate was very high -- more than 85%. We continued to selectively sell certain railcars and generated more than $20 million in asset remarketing income.

We were also active on the investment side as we acquired the previously mentioned boxcar fleet, made other secondary market investments, and continued to take delivery of new railcars under our committed purchase program.

Rail International had a solid start to the year. The European tank car leasing market remained

stable and GATX Rail Europe continued to take delivery of new tank cars and scrap older equipment during the quarter.

American Steamship Company's navigation season was delayed due to the ice coverage on the Great Lakes. ASC is currently operating 12 vessels and expects to operate 14 this season.

Portfolio Management's results were driven primarily by the performance of the Rolls-Royce and Partners Finance affiliates. The joint ventures now have a portfolio of more than 400 engines, with a net book value that exceeds $2.6 billion.

One final note before we take questions -- tomorrow is our annual Shareholders' Meeting. It will be held in downtown Chicago at the Northern Trust building, which is at the corner of LaSalle and Monroe. The meeting begins at 9:00 AM central time. Slides from Brian Kenney's presentation will be posted to our website www.gatx.com.

With that brief overview, we'll open it up for questions. Renee?

QUESTION AND ANSWER

Operator:

Thank you. (Operator Instructions) And we'll take our first call from Justin Long with Stephens.

Justin Long:

Thanks, good morning and congrats on the quarter. I was wondering, first, if you could comment on the announcement from Transport Canada yesterday and how their call to retrofit, or phase-out, some of the DOT-111s in flammable service in the next 3 years could impact your business? And then, just in general, with some of the recent hearings on tank car regulation here in the U.S., could you just update us on how these discussions have been progressing and the next steps for that process?

Brian Kenney:

Sure. It's Brian, I can take that. Really, two things happened in Canada yesterday. Transport Minister Raitt signed a directive banning the use of what we refer to as A-515 tank cars for dangerous goods service in Canada. Those are older cars, generally more than 30-years old, and they have weaker steel and no reinforcement along the bottom of the tank. There's been some experience in the industry of these cars pulling apart.

I think her directive said either you can't load them, or if they are loaded, you have 30 days to get them unloaded so they can't be used anymore. And to size that for you, there's about 5,000 of those cars in the North American industry. We have about 1,500, but only about 700 of those are in that dangerous goods service and we have, as far as we can tell, less than 100 of those cars currently in or traveling to Canada. So it's not a big issue for GATX -- that immediate order she signed.

The second part of what she talked about was the rule that she intends to finalize this summer – so, very soon -- and that will require that all crude oil and ethanol transports into Canada after May 1, 2017 need to be transported in a car that meets that CP-1232 design that was adopted in October 2011 – so, that's what she said. We don't have the details yet. We'll work with her staff to get that, and we're gathering our fleet data. So I don't have the exact numbers here, but we have a small number of cars traveling in ethanol service in Canada, if any. And as far as crude, I don't think there's a large number of cars in Canada that we have that aren't already at that CP-1232 standard. She did put that out there and that, of course, generates the question, what about the harmonization between the U.S. and Canada? And to that point -- what's the dialogue in the U.S.?

So you have Canada saying what they're going to do, and it's a fluid situation in the U.S. It seems to change day-to-day as far as what the regulators are focusing on. I think PHMSA is working on the rulemaking that we anticipate will have a revised standard for new cars to be built, as well as any retrofit or phase-out

requirements for the older design existing cars and we think that rulemaking will likely also address what commodities are covered as well as the relevant time period to get the retro fit or phase-out done.

But it does seem almost certain that in the U.S. as well, there'll be a retrofit or phase-out of these older DOT-111 cars that carry crude that were in service prior to the new design. What PHMSA is doing is really just a continuation of what they started last September with their advance notice of the proposed rulemaking, and so we're waiting and we're urging them to give us some certainty here. As far as the schedule, which was your other question, you know, it went to the Secretary of Transportation in March. We understand it got sent to OMB last Friday on the 18th. They generally have three months to clear it, so it's possible we could have these new rules by the end of the year.

Justin Long:

Okay, great -- that's really helpful. Thanks, Brian. And in the discussions, do they still seem to be focused on DOT-111 tank cars that are in flammable service? Are you seeing it narrowed just to the crude cars specifically? I think some of the numbers I've seen would suggest there's about 80,000 tank cars in flammable service today. Is that still the population that's being discussed?

Brian Kenney:

And that's -- when I say fluid, that's why it's kind of hard to pin that down. You're right, there's about 100,000 cars in the industry that are in flammable service and about 80,000 of those, the number you just referred to, is that old design prior to CP-1232?

Justin Long:

Right.

Brian Kenney:

The ones that are most in the cross hairs are the non-jacketed old cars. But, you know, everything in flammable service is on the table. What you are seeing is Canada's saying crude oil and ethanol. For instance, the AAR position just addresses crude oil. The RSI position, which we're a part of, addresses both crude, ethanol and other Packing Group 1 and 2 commodities. So it's really unclear and everybody has a different plan. That's one of the things that's hard to determine is what the scope of this will be right now. But certainly all flammable cars, of which we have about 13,000, are up for discussion.

Justin Long:

Okay, great -- thanks for that update. As a follow-up, looking at your guidance -- your updated guidance for 2014 -- I think at the midpoint, it was an EPS increase of about $0.30. I just wanted to clarify, was that increase solely from the change in depreciation or was there something else that drove that increase?

Bob Lyons:

That was the primary -- this is Bob. That was the primary driver to the change in the guidance, the annualized benefit from that depreciation change.

Justin Long:

Thanks Bob. One last one, I just had a general question that might be helpful in thinking about the impact of a potential non-tank recovery and how that could impact your business. If you look at your overall railcar fleet today, you know, it's roughly 60% tank, maybe 40% non-tank -- but if we were to think about the contribution to segment profit, what's the approximate breakdown between those two pieces?

Bob Lyons:

Yeah, Justin. We haven't and we don't break that out separately. We aggregate the tank and freight car fleet and will continue to do so. I think, historically, the fleet has been that 60/40 balance, but it's actually more with the recent acquisition of boxcars that has moved closer to 50/50.

Justin Long:

Okay, great -- I'll leave it at that. I appreciate the time.

Operator:

And we'll take our next question from Art Hatfield with Raymond James.

Art Hatfield:

Thank you. Brian, when you comment on you think possibly we could get the rules by the end of the year, are you talking about final rules or the initial proposed rules?

Brian Kenney:

It's possible we could have final rules by the end of the year. I certainly know they're getting a lot of pressure to do that.

Art Hatfield:

Right.

Brian Kenney:

But it did go to OMB last Friday from what we hear. So, that typically is a 90-day process and then they would publish it and it would be out there for comments. So, it's certainly feasible we could have something by the end of the year.

Art Hatfield:

Okay. Okay. Going back to the results on the first quarter -- and I can't remember when you guys gave guidance at the beginning of the year if you had given us a range of -- and I hadn't even had a chance to look at my notes yet -- given us a range of what you expected gains on asset dispositions would be for the year? But Q1 was a little bit – actually, quite a bit higher than what I was looking for. Can you help me -- is that how I should think about that for the balance of the year? Was Q1 a higher-than-normal quarter for the year and should we see that decline as we move throughout the rest of the year?

Bob Lyons:

Yes, Art -- it's Bob. I would not annualize Q1 in terms of the remarketing income. For the full year, this year, the guidance we gave is that we expected remarketing income in 2014 to be modestly lower than where it was in 2013. We happened to get, in the first quarter, a pretty sizeable piece of that, so I wouldn't annualize it. Last year, it was a little bit flipped. If you recall the remarketing income, at least within Rail, was relatively light during the first half of the year and then was larger in the second half of the year, and that just has to do with the timing of planned sales.

Art Hatfield:

Okay, that's all I've got for the moment. I'll hop back in line. Thanks.

Operator:

And we'll take our next question from Mike Baudendistel with Stifel.

Mike Baudendistel:

Thank you. I just wanted to ask a high level with the addition of the boxcars in the quarter. If you could talk just a little bit about your strategy on the portfolio management of your railcar fleet? Is it more of a diversification strategy? Was that an area that you expect rates to improve over time and the assets were attractively priced, or any detail there?

Tom Ellman:

Yes -- this is Tom Ellman. You actually hit a lot of the reasons right in the body of your question. It was an area that our portfolio was a little bit light on. We had about 2,000 cars prior to this transaction, and we really try to maintain a diversified fleet, so it was a chance to add to that portion of the portfolio. We did feel -- we always invest opportunistically, and we found this to be an attractive opportunity to pick up some assets at the right price. And overall, what's been going on in that market -- in the box car market -- is over time you've seen quite an attrition of the fleet. Back in the 1970s there was over half a million boxcars in North

America. As recently as 2008, we had about 190,000, and at the beginning of this year we had 130,000. So, over time, there've been less and less boxcars and the traffic that needs to move in those boxcars has declined, but not at that same rate.
The parts -- the boxcars that we purchased primarily move packaging material, container board, some of it moves beverages. Those parts of the market tend to move with GDP, and we think the supply/demand dynamic is pretty attractive now with that attrition that's happened over time. And then, positioning ourselves with these existing assets, when there is another opportunity to add new cars to the fleet, we'll be well-positioned controlling that installed base.

Mike Baudendistel:

Great -- that's great detail. Also, I wanted to ask, on covered hoppers, noticed the orders are very strong in the first quarter, sort of consistent with your comment on demand there. Were you part of that ordering? And, related to that, was any of that improved demand dynamic just related to the surge in grain and sort of the shippers struggling to get grain to market? And is some of that expected to go away or do you feel that will continue to surge?

Tom Ellman:

One of the things we've been talking about recently in the last several quarters is how the overall strength of the market's been driven by the tank car side, and we've been waiting for improvement in freight cars. We are absolutely seeing that. One area that has been very strong and continued to be strong in the first quarter was small-cube covered hoppers that move frac sand, primarily, and cement. That demand has continued to be very strong through the first quarter and that was actually the biggest single piece of ordering activity that you saw in the first quarter.

But grain also has been strong and some of that has to do on a much smaller scale with the attrition phenomenon that I talked about. The peak mid-cube covered hopper fleet, the car type that moves grain, was about 288,000 cars. It got down to about 255,000 and with a good harvest and investment not occurring in a large scale in that area, when we saw a little uptick, new cars had to be ordered. That new-car lift helps with the existing fleet, as well. And then as far as our participation, we invest throughout the cycle, we look for opportunities to invest in all car types, and covered hoppers are a part of our investment portfolio.

Mike Baudendistel:

Okay, and then just one last one from me, related to the discussion on regulations earlier. The chairwoman at the Highway Safety Board seemed pretty pessimistic about timing on the U.S., maybe not as optimistic as you by the end of the year. Can you just comment on how many of those 13,000 cars you have in flammable liquid service do touch Canada, if say, Canada is far ahead of the U.S. on the regulations front?

Tom Ellman:

I'm sorry. You want to know how many of the total flammable liquid cars go into Canada?

Mike Baudendistel:

That's right -- if you have an estimate there.

Tom Ellman:

Order of magnitude, it's significantly more in the United States than Canada. It's not something we track the movement between them, because the way we look at and the way everybody manages the fleet, it's really a North American market, and that's why the harmonization that Brian alluded to in his comments is so important. Eventually, it's highly likely the regulations will indeed be harmonized, and exactly how much time they spend in each area won't be the key driver.

Mike Baudendistel:

Okay, that's all for me. Thank you.

Operator:

And we'll take our next question from Matt Brooklier with Longbow Research

Matt Brooklier:

Thanks, good morning. Can you remind us of what percentage of the fleet right now is covered hoppers?

Tom Ellman:

Yes. Give or take -- well, it depends on which covered hoppers? Are you primarily interested in the small-cubed covered hoppers, or all covered hoppers, period?

Matt Brooklier:

I'll take whatever numbers you have.

Tom Ellman:

The small-cubed covered hoppers, which was the big demand driver -- we have a little over 6,000 of those in our fleet. The total covered hopper portfolio, I think is, Jennifer help me, 15%, 20%?

Jennifer Van Aken:

If we include all of them, including, like, the specialty-covered hoppers and pneumatic-covered hoppers, it's a little over 20%.

Tom Ellman:

Okay.

Matt Brooklier:

Okay, so 20% is the total covered hopper number, which also includes medium, large, and some specialty covered hoppers.

Jennifer Van Aken:

That's right.

Matt Brooklier:

Okay. Maybe if you could also provide some color in terms of what other freight cars are starting to show some momentum here? And also, if there's specific equipment category that you feel -- and you talked to boxcars as being one class where there's been either a lot of attrition over the past couple of years, or multiple years -- or there has in general been under-investment, and you think these cars are getting potentially ready for demand upswing?

Tom Ellman:

Just in general, across all of the freight car types, there's been limited investment the past several years. So we would anticipate general investment opportunities across the board. In the first quarter, specifically, we already hit on two of the three main areas where we saw significant improvement -- the small-cube covered hoppers, the grain-type covered hoppers. The one we didn't touch on is coal. Historically, coal is still, overall, in a challenging place from a total utilization and total rates that are achievable in the market, but compared to recent history, a very significant improvement. We now have about 70 idle coal sets in the market, the peak was about 300, and even as recently as last quarter, we were at about 150 -- so, significant improvement in coal, as well.

Matt Brooklier:

Okay, appreciate the color.

Operator:

And we'll take our next question from Doug Dyer with Heartland Advisors.

Doug Dyer:

Good morning everyone. So far you have not given any estimates for what the potential costs of tank upgrades can be, and I can understand that you're probably waiting for some more concrete numbers and guidelines. What do you have to see before you can come out with an estimate for us?

Brian Kenney:

We have to see what the exact retrofit is required and for what cars. But it could easily run into the tens of thousands of dollars, and I'll let Tom chime in. But in general, we didn't invest heavily, for instance, in the old 30,000-gallon tank cars during the ethanol boom, so our fleet is probably, on average, older than others.

And I think I said this before, we'd probably be less likely to do a very expensive retrofit on our fleet because it just wouldn't make sense.

Tom Ellman:

Right. Again, the key complication is exactly what's the scope of the retrofit. If you looked at doing things like adding a jacket to non-jacketed cars and adding head shields, two of the very expensive items, as Brian said, you would easily be in the tens of thousands of dollars. A very rough wide range I'm going to give you, but a reasonable range might be to think of something between $30,000 and $80,000. It is a big, big range, depending on the scope.

Doug Dyer:

Alright, well -- thank you very much.

Operator:

(Operator Instructions) We'll go to Steve Barger with KeyBanc Capital Markets for our next question.

Steve Barger:

Hi, good morning.

Bob Lyons:

Morning.

Steve Barger:

Just a modeling question -- given some of these regulatory changes that we're talking about, or anything else that's going on in the market, is there going to be a negative impact to SG&A on a year-over-year basis? Or is this something you feel you can handle with existing assets?

Bob Lyons:

No. There wouldn't be any impact on SG&A, Steve.

Steve Barger:

Okay. Given the change to the depreciable life, is D&A of $60 million per quarter a good number going forward then?

Bob Lyons:

That's a reasonable number.

Steve Barger:

Okay. And I don't want to get too much into out-year guidance, but just conceptually, given the economics from the existing fleet and the newly acquired fleet and how the other segments are working -- once you comp out on this re-measurement of D&A, can you get back to growing EBITDA in the high single-digit range the way the portfolio is working?

Bob Lyons:

As you know, we don't really drive back to an EBITDA number so I don't have that sitting here in front of me. We -- put the depreciation number to the side for a moment -- commercially, operationally, the first quarter very much played out the way we anticipated, and the full year would continue to be in the range that we had previously laid out. I do want to circle back though, real quick, Steve, to your prior question about D&A. Recall, that in the first quarter American Steamship doesn't record any depreciation –

Steve Barger:

Right.

Bob Lyons:

So you will see that, and in the second through fourth quarters.

Steve Barger:

Got it -- that's all I've got today. Thanks.

Operator:

And we'll take our next question from Bill Baldwin with Baldwin Anthony Securities. Go ahead.

Bill Baldwin:

Good morning. Thank you. Can you provide any color as to if you're seeing any activity coming out of the petrochemical sector with their planned and scheduled heavy, capital investment programs over the next several years. Are they lining up their railcar requirements at this point in time?

Tom Ellman:

Yes. One of the benefits that we've been talking about with both natural gas and crude oil in North America is the long-term benefit that we're going to see on the end products, which has been GATX's core fleet for a long time -- that come out of the refining process and that use those raw materials. We are seeing -- the biggest place you see it -- is in some of the plastic pellet cars that people are starting to make inquiries on and take some order positions.

Bill Baldwin:

Would you basically say that, that order trend is probably still, for the most part, still in front of us?

Tom Ellman:

Yes. A lot of that really, I think, is because on the supply side there's just been so much demand for tank cars moving crude oil, that there hasn't been the capacity, really, on the tank car side for a lot of other car types. So, I think that's a fair assessment. But, one important thing is, the scope and scale of those are unlikely to be as large as -- unlikely to be nearly as large as the crude oil, Bill.

Bill Baldwin:

Thank you.

Operator:

And we'll take our next question from Steve O'Hara with Sidoti & Company.

Steve O'Hara:

Hi, good morning.

Brian Kenney:

Morning.

Steve O'Hara:

In the past year you have talked about the recovery being bifurcated and a good demand in tank is offset by, let's say, weaker demand in the freight car types. And I'm curious, in terms of, you know, do you see that -- it seems like that seems to be improving? And then, I'm wondering where, in terms of the cycle, where you think you are in terms of the cycle on the tank side, the freight side, and then in terms of peak margins, where do you see those? Do you see those getting back to, and you are near there anyway, the prior peak? And do you think you can exceed that if you get both tank and freight moving at the same time?

Tom Ellman:

Maybe, I'll start with where we are on the cycles and then let Bob or Brian add to it if they wish. On the tank car side, it's very fair to say we're at the top. We're at all-time highs on any way you want to measure the tank car market cycle. On the freight car side it's fair to say we're improving. One of the things that we look at, which is a reasonable measure of how strong demand is overall, is where are new car backlog is out to, how long do you have to wait for a new car? Because that is the alternative to an existing car. And for quite a while, on most freight car types, the time that you had to wait was simply time to get the material, time to add it to the production line. We're now, generally speaking, out into the first quarter or, in some cases, even the middle of 2015, so we're starting to see that lengthen out. Just for comparison sake, at the real strength of either the tank car or some of the very strong freight

car markets, that gets a little closer to two years.

Brian Kenney:

I think your question is about peak margin versus last time. I would say the rail business, because of the strength in the tank market is more profitable today than it was at the last peak in 2008. The reason margins overall might have been higher back then is because there was two components that don't exist today that were there in 2008, and one is we had $40 million to $50 million dollar in marine income, which is essentially zero today.

Bob Lyons:

That's within the portfolio management sector, the ocean-going.

Brian Kenney:

Right. And the second thing was that scrap prices were very high back then, over $500 a ton, and a little more than half of that today, so we don't have as much scrap income. Absent those two factors, I think Rail is much more profitable today. That's not to say we’ve peaked here though, as everybody has pointed out in the call. Tank is still very strong and freight car margins are coming up. It still has legs, but I'd say we’re already more profitable than we were in 2008 on the Rail business.

Bob Lyons:

Understand, too, the way we look at it conceptually, we have gotten back almost to a peak-net income level and expect to be there this year from a record standpoint. And that's largely without the benefit of significant contribution from freight. So to the extent that begins to come along, that’ll be positive.

Steve O’Hara:

Maybe this is a follow-up in terms of the tank car cycle -- do you see -- how long does a peak usually last? Do you see this peak being any different just due do the energy issues and the petrochemical development that somebody else mentioned, as well?

Tom Ellman:

At least from my perspective, I would always bet on the cycle at some point. So we are at an all-time high. It's lasted for a few years now. But, ultimately, supply and demand have a way of coming back into balance. One really important thing to look at is the supply side here. The industry can now build about 35,000 tank cars a year, and the total tank cars in North America are about 330,000. So there's the capacity to replace the entire tank car fleet in less than 10 years, and a tank car might last somewhere in the order of 40 years. So at some point, when demand comes down a little bit, it's likely that the market will overshoot on the supply side and so it's something that we're watching out for. Exactly when or how, that's a difficult question to answer. But at the highest level of your question, is something different this time? The length it lasts and the height of the market might be different, but at some point the cycle should come back.

Steve O’Hara:

So, in terms of that, that seems to be why you’re, or maybe a reason for kind of pushing term, I guess, and then maybe yes or no on that? And in terms of the LPI, maybe you mentioned it earlier or I could have missed it -- when these boxcars come into the fleet, is that going to skew the LPI? Will you call that out if it does?

Bob Lyons:

Yes, I can answer that question. As of right now, the quarterly numbers that we provided don't include the box car fleet. We have essentially just took control of that fleet within the last month, so we'll determine what the best metrics are on a go-forward basis. That business has some different operational characteristics to it, so we'll provide some benchmark information for you, but my assessment is we'll continue to provide the LPI information on the term fleet the way that you have seen it historically.

Brian Kenney:

And to the first part of your question -- it's Brian -- yes that is why we're pushing term. Because

when we see this type of tank car market, we generally push term. We try not to guess when it's going to turn. But one thing we have said over the last year, and this is the complex thing to figure out right now, is we believe that the industry will get over-built on tanks for crude oil. We've been saying that for quite some time. We think the cycle could turn in a couple of years as new pipelines come in and we've been very vocal about that. What throws that into a little bit more uncertainty is the regulatory side. If a lot of cars have to exit the market, it's more uncertain as to how long the cycle will last. It's a more complex equation this time around. But, yes, that's why we're extending term, because we think tank car rates are very strong and offer a good return for GATX, so we might as well lock it in.

Steve O'Hara:

Okay and I'm sorry -- and then one more, if I could. If you said this again, I apologize. In terms of you versus the industry, would you say you're -- based on the discussions that are happening right now -- would you say you're more or less impacted than the industry in general to the potential of these regulatory changes, or is that just too tough to quantify?

Brian Kenney:

It's too tough to quantify until the rules come out. I will say, if the rules just focus on crude oil and ethanol, we have about 4,600 cars in that service and that's a little light as a percentage of our fleet compared to some of the other big players.

Steve O'Hara:

Okay. Thank you very much.

Operator:

And we'll take a follow-up question from Art Hatfield with Raymond James.

Art Hatfield:

Thanks for taking my call. Brian, as we think about this -- and I know that we're speculating out the whazoo here – but, depending on what the regulators end up doing, are you in a position to actually benefit from the standpoint that if it's a retrofit cycle, you've got the capacity in your maintenance facilities to take on some third-party work?

Brian Kenney:

That's an interesting question. I will say that we are totally focused on doing our own fleet first --

Art Hatfield:

Right

Brian Kenney:

-- and getting it perfect

Art Hatfield:

Right.

Brian Kenney:

I really am not thinking right now of taking other people's cars to do retrofits or compliance work. It's not that it's impossible, but we're focused on our own fleet first.

Art Hatfield:

Understood. And again, I know this is speculative, but when the comment is made a potential cost to retrofit a car could be $30,000 to $80,000 -- and I know this is difficult because it depends on the age of the car -- just roughly speaking, maybe you have, maybe you haven't done this but if it's at the mid-point, let's say $50,000, $60,000, what do you think lease rates would have to do to make that kind of investment economical?

Tom Ellman:

Well, I mean, as you pointed out, considerable speculation embedded in your question. The first question that we would have is, depending on the requirement of the retrofit, would we even do it, or would you be better off replacing it with a new car. Then if you're going to, calculating -- it has to do with how much term you have left, how long the car would be viable

to be in service upon doing the retrofit, there's just too many variables to come up with a number.

Art Hatfield:

Let me ask this, and I appreciate the answer. I know I put you in a box on that to some degree. Let me ask you this. If we get into a situation where it is a high number and it makes no sense, how easy is it to transition these cars into other types of service? And what I mean by that is we may see a cycle where we need to build more oil cars, but the cars that are getting displaced can go into other areas of service, so you have a net neutral impact on demand over the next several years as a result of how the regulations play out.

Tom Ellman:

One of the things about tank cars, in general, is their ability to carry multiple commodities. So, even today the car types that are impacted, some of those are in Packing Group 3, so less hazardous service. There's a possibility to put some of them in non-hazardous service. The issue comes down with how many you could put in a different service, how big that market is compared to the crude and ethanol markets. So, certainly that cascading that you're talking would happen and we would look to do that. Exactly how many you could move to a different service would be, in some degree, dependent, once again, on Brian's opening comments, on what the regulations impact.

Brian Kenney:

(Multiple speakers) Bottom line is.

Art Hatfield:

Go ahead, I'm sorry.

Brian Kenney:

Having said that, we have already sold a decent amount of these cars --

Art Hatfield:

Right

Brian Kenney:

-- that are subject to this and we've already placed some of those in less-hazardous service and we're also going through all the way to internal gyrations are out -- can you repackage these things somehow for other service. So there's a gamut of things you can do as Tom described. It just depends on how big the market is and what the ultimate retrofit is.

Art Hatfield:

Knowing what you've been able to do with these cars, I'm less worried about your direct impact, but maybe the alternative -- more indirect impact of -- the impact on the lease rates in the overall industry.

Brian Kenney:

Of course, we're trying to get out ahead of that. But, you know, everybody else will be trying to redeploy their cars, as well.

Art Hatfield:

Right, right, right. Thanks for your time today.

Operator:

It appears we have no further questions at this time.

Jennifer Van Aken:

Okay. I'd like to thank everybody for their participation on the call this morning, and I will be available this afternoon to answer any additional questions.

Operator:

That does conclude today's presentation and we thank you for your participation.