Operator:

Good day, everyone, and welcome to the GATX fourth quarter and full-year earnings conference. As a reminder, today's conference is being recorded.

At this time, I would like to turn the conference over to Ms. Jennifer Van Aken. Please go ahead, ma'am.

Jennifer Van Aken:

Thank you, Sarah, and good morning, everyone. Thanks for joining us for the fourth quarter and 2012 year-end conference call. With me today are Brian Kenney, President and CEO of GATX Corporation; Bob Lyons, Executive Vice President and Chief Financial Officer; and Tom Ellman, Senior Vice President and Chief Commercial Officer. Tom is joining us to provide additional insight on questions you may have regarding the North American rail industry.

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 2011 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'll keep my remarks brief this morning, and then Brian will provide some comments on key focal points for GATX in 2013 and beyond. After that, we'll take questions.

Today, we reported 2012 fourth quarter net income of $29.7 million, or $0.62 per diluted share. This includes a benefit of $2.8 million, or $0.06 per diluted share, from Tax Adjustments and Other Items which are detailed on Page 13 of this morning's press release. This compares to 2011 fourth-quarter net income of $31.6 million, or $0.67 per diluted share, which includes a benefit from Tax Adjustments and Other Items of $1.9 million, or $0.05 per diluted share.

For the full-year 2012, net income was $137.3 million, or $2.88 per diluted share, including a benefit of $3.5 million, or $0.07 per diluted share from Tax Adjustments and Other Items. Again, these items are detailed on Page 13 of this morning's press release. By comparison, 2011 net income was $110.8 million, or $2.35 per diluted share, including a benefit of $15.8 million or $0.34 per diluted share from Tax Adjustments and Other Items.

The fourth-quarter and full-year 2012 results are reflective of the strong demand for tank cars in North America. Rail North America maintained strong utilization, achieved lease rate increases and longer terms on renewals, while the renewal success rate averaged over 80% during the year.

In the fourth quarter, the renewal rate change of GATX's Lease Price Index improved to 32.3%, resulting in the full-year renewal rate change of the LPI of 25.6%, stronger than what we initially anticipated. Throughout 2012, we continued to take delivery of railcars ordered under our five-year supply agreement. The lease rates on those new car deliveries are very favorable, and the lease terms average about 7 to 10 years.

2012 was also a record investment year in Europe, as we added over 1500 new railcars to the wholly-owned fleet.

American Steamship Company operated 14 vessels and carried 29.7 million net tons of cargo in 2012, compared with 28.4 million in 2011.

Portfolio Management also had a solid year, as asset remarketing income was favorable; and the Rolls-Royce and Partners Finance affiliates had continued strong performance.

In the coming year, leases on about 22,000 railcars are scheduled for renewal in North America. And we expect the renewal rate change of the Lease Price Index to be in the same range as the strong 26% experienced in 2012. Due to an increase in scheduled compliance work in North America, we expect maintenance expense to increase materially in 2013. In addition to railcars scheduled to deliver under the five-year supply agreement in North America, we expect opportunities for additional investment in both new and used equipment. We also anticipate continued asset remarketing opportunities, although the ultimate level of income from this activity will be dictated by market forces.

We expect another solid year from Rail International, and we are optimistic about our investment opportunities in this market.

ASC may see a slight down-tick in demand, primarily due to competitor capacity availability. And, as noted in the release, the low water levels will present operating challenges.

In Portfolio Management, we anticipate another strong year from the Rolls-Royce affiliates and stable remarketing opportunities.

Considering these items, we currently expect 2013 earnings to be in the range of $3.10 to $3.20 per diluted share.

And with that overview, I'll turn it over to Brian.

Brian Kenney:

Thanks, Jennifer. Between the press release and Jennifer's opening comments, you should have a good understanding of what drove 2012 outstanding operating and financial performance, as well as what will drive our 2013 earnings outlook. But what I want to do is take a few minutes to address some of the issues and opportunities that shareholders ask me about on a consistent basis, and how that may affect our tactics in 2013 and beyond.

First issue is that GATX is operating in a very mixed railcar leasing market globally. In both North America and Europe, the tank car market remains stable to very strong. There's many new investment opportunities. But on the other hand, certain freight car types on both continents remain relatively weak; and that drives somewhat different tactics that I talked about on this call a year ago.

So on one hand, in our global tank car fleet, especially for those cars in petroleum service, our tactics will be very similar to last year. So we'll try to continue to push lease rates higher; we'll attempt to extend lease terms; and we're going to deploy new cars from our committed multi-year supply contracts in both North America and Europe.

On the other hand, and in contrast, for many freight car types such as coal and grain in North America or intermodal in Europe, the objective is simply to keep cars deployed. We're going to try to increase utilization, and, to the extent possible, we'll shorten lease terms in order to more effectively capitalize when the market does improve.

So, while it's common for various car types to operate in different types of market conditions, I don't remember such a stark difference in the relative strength of tank and freight worldwide; but we have adjusted our commercial and car procurement strategies accordingly and we will take advantage of market opportunities that we see along the way.

Second issue I'd like to address is what we referred to in the past as our maintenance bubble in North American rail. That's our term for the increased compliance maintenance expense that we'll experience over the next few years related to our tank car fleet in North America. Now, part of being a market leader in full-service tank car leasing involves performing a wide variety of FRA, AAR, and other mandated maintenance programs on your tank car fleet. Now, these programs are generally triggered by age and/or time and that means the genesis for this compliance bubble we are entering started with a relatively large volume of cars we purchased 15 years ago.

But, to size that compliance bubble for you, in 2012 GATX had approximately 4700 cars that were due and scheduled for at least one compliance program. In 2013, that number of cars increases to almost 7500. So that's an increase of about 60%. And, in addition, in 2013, each car that comes in has an average of three different compliance programs due. So that drives a lot of expense.

You've heard us talk about, in the past, our HM201 compliance program. Now, HM201s are the periodic qualification inspection of the tanks. That's a very comprehensive inspection program, and very expensive. And the number of HM201s due in 2013 is increasing 20%, to over 4,000 cars. So, we use the term compliance bubble because the number of compliance cars due, as I said, increases in 2013; increases even more in 2014 -- in fact, peaks in 2014; then starts to come down in 2015, and it's actually lower than this year's level by the 2016 to 2017 timeframe.

In addition to the start of that compliance bubble in 2013, maintenance expense will increase for other reasons, mainly due to a lower planned renewal success ratio than in 2012. A lower renewal success percentage is likely due both to some weak freight car types that I already mentioned, as well as our concern that the 80 plus percent renewal success ratio that we experienced in 2012 is likely not sustainable longer-term.

Now, these are the two main factors that will combine to drive maintenance expense higher by as much as 10% in 2013. So, what are we doing? Well, we have been responding, actually, for a while. In order to meet that increased car volume and deal effectively with our compliance bubble, we've made major strides in increasing our owned shop efficiency over the last few years. And we have contractually locked up space in our third-party repair network. So we believed we're pretty well-equipped to handle the bubble.

The last topic I want to address is one of growth and investment. As you know, we have two committed supply agreements, one in North America for 12,500 cars over five years; and one that we executed in Europe in 2012 for up to 3,000 cars over the next three years. In our North American agreement, as we've said before, all cars delivered to date have been successfully placed at very attractive rates and relatively long terms. In fact, we have placed cars with customers that will deliver under this agreement all the way out into the third quarter of 2014.

Now, the European agreement is just underway. But both agreements are cost-advantaged relative to market prices, and we believe it will create significant value for the shareholders for decades to come. Now, while I'm pleased with the way our committed investment is progressing, I'm even more encouraged that we have found other ways to grow the worldwide fleet.

A few examples -- in North America, our commercial team identified almost $140 million of non-supply-agreement investments. Now, these opportunities range from secondary market purchases of cars in fleets, to additional orders with existing customers, to sale/leaseback on customer fleets -- but in a very competitive market, with rapidly rising asset prices that we're seeing today. And as you layer GATX's disciplined investment philosophy on top of that, generating that level of investment is pretty difficult, but our team did a great job last year.

Another example is starting our railcar leasing business in India in 2012. Now, India is a growing market full of potential, and GATX was the first market participant to gain a leasing license in India. Our first cars are just delivering in India at the end of 2012. And I am sure this effort is going to have bumps and stops and starts along the way. But, once again, it will prove to be an attractive market in the long run.

We'll continue those investment efforts in 2013. We're going to explore other avenues as well. And that's all with the primary objective, as always, of serving our customer base more efficiently. And while we're on the topic of investment, I should not neglect to mention that we will also consider our own shares as an investment as well.

And that brings me to my final point about the long-term value, which I believe is GATX. We think we're just in the early stages of realizing the benefits of the outstanding investments and railcar orders that we placed from late 2008, where the rail market collapsed, to early 2011 when it started to pick up again. And although

2013 earnings growth will not match the 40% growth we saw in 2012, we're confident that the Company has been positioned to outperform the prior peak earnings per share from 2008, and will generate tremendous cash flow and record return on equity for our shareholders in the future.

We're highly focused on that mission; and, actually, we've never been more optimistic about our future.

So, with that, I would like to open it up to questions.

QUESTION AND ANSWER

Operator:

(Operator Instructions). We'll hear from James Ellman with Ascend.

James Ellman:

Thank you very much for taking my question. I've got two. First one is just a question about your annual forecasting. Is there anything different in the process this year for 2013, versus the process you used to forecast your expected range of earnings for 2012 and 2011?

Bob Lyons:

Well, the business is very similar today, structurally and operationally, to where it was a year ago. Obviously, we take into account all of the market activity that has taken place here during the course of the past year, and try to layer in some reasonableness test; but no significant change, in terms of the methodology or process.

James Ellman:

All right. I appreciate under-promising and over-delivering, but in January of 2011 you gave us a mid-point of earnings of $1.75. You did $2.01 -- so, 15% surprise. In January 2012, you had a mid-point of $2.50. You had a great year, and you did $2.81, for a 12% surprise. What is different about 2013 that we shouldn't expect that you're using the same level of conservatism in the expectations that you are giving out to the Street?

Bob Lyons:

Well, I think it's a fair question. I think -- a couple of things I'll comment on, and then if Brian wants to jump in, he can as well. One issue he touched on -- Brian touched on during his opening comments -- was the maintenance side of the equation here. We got a significant, unexpected benefit from that in 2012; as our renewal success rate, being north of 80%, had a very positive impact on the maintenance profile for this year.

Now, we're not assuming we can maintain above 80% renewal success rate. In fact, in prior years, anything close to that would have been outstanding. To average that for the full year was well beyond our expectation. And so when we look at this year, we have -- in 2013, we have that issue, plus the fact we have the maintenance -- or the compliance cars coming our way.

So from a cost standpoint, I think there is some very high level of certainty around some of the challenges we'll face.

Brian Kenney:

Yes, I would even get a little more granular on that and say, compared to a year ago, if you look at certain freight car types, they are definitely not getting any better. And we have more renewals and expirations coming up. So, we pretty much know what's going to happen in coal and grain -- and weather is not cooperating. Also, in Europe, it is a weaker environment than it was a year ago facing our business. So there are some differences between now and a year ago.

James Ellman:

Okay. Thank you. One other quick question would be, could you tell us what's the differential in the actual dollars of lease rates in the U.S. versus Europe for a comparable tank car? And what might be the cost to actually move a tank car from Europe to the U.S. -- to lease it in the U.S. instead?

Bob Lyons:

Well, moving cars from one region to another is cost-prohibitive. It's a question we do get from time to time; and, certainly, we look at it, and others do too. But it's really not an economical decision, long term. With regards to lease rate -- I don't know if, Tom, if you want to add anything to that -- kind of hard to compare. The cars are -- the markets are very different.

Tom Ellman:

That's just exactly what I was going to say, Bob. It's really not comparing apples to apples. So it's not something -- the differential in absolute rate between the two geographies is not something we're focused on.

Brian Kenney:

Right, but if you look at it, lease rates on a monthly basis, if you were to convert European rates -- which are really quoted daily to monthly -- it's going to be much higher in Europe, but the terms are going to be much lower. So, as Tom said, it's apples and oranges.

James Ellman:

All right. Thanks so much for taking the questions. And thanks so much for actually taking questions from investors. Much appreciated.

Bob Lyons:

Thank you.

Operator:

Next, we'll hear from Mike Baudendistel with Stifel Nicolaus.

Mike Baudendistel:

Thanks very much. The railroads, earlier this week, have been talking about essentially using fewer cars online by running trains faster with less terminal dwell, et cetera. Canadian Pacific, specifically, has been talking about using a lot fewer assets, as far as rolling stock. And I know that most of your customers are shippers rather than railroads, but is that having an impact with railroads using the cars more efficiently? Or is that weakness you were describing more related to the traffic volumes, of being down in certain segments?

Tom Ellman:

Great question -- and both factors are in play. And coal is a great case study there. You are seeing challenges in coal, both because of decreased underlying demand because of things like low natural gas prices, the relatively mild weather. But then, in addition to that issue, you're seeing the fact that the railroads are moving the cars more efficiently, and more quickly. So to move the same volume of coal, you don't need as many cars when they're moving more quickly.

Mike Baudendistel:

Okay.

Brian Kenney:

In 2012, I think, on average, they did pick up velocity and reduce dwell time. Recently, though, that has moved the other direction, I've seen.

Mike Baudendistel:

Great. And that capital spending that you talk about outside of the committed orders that you take from Trinity, is that capital spending you think is going to come online in '13 and '14? Or is that something that's more longer term in nature?

Tom Ellman:

What's going on overall with any kind of incremental cars that we purchase -- if they are new, backlogs are in the 4- to 6-month range for a freight car. And they're out into -- deep into 2014, roughly third quarter 2014, for tank cars. The investment that Brian talked about had both new cars, which will deliver according to that schedule, and the acquisition of existing cars, which you obviously take possession of right away.

Bob Lyons:

Mike, it's Bob Lyons. I'd like to add to that just one other point of clarification, too. This year, we had about $770 million of investment volume, total, across GATX, which is one of the highest years we've had in recent memory. And coming into 2013, we actually have committed about $450 million already between the order -- the North American order here with Trinity, and also in Europe. So, a very good order book coming into the year at advantaged prices. And then we'll look to supplement that along the way.

Mike Baudendistel:

Okay. Good. A couple questions on India. I appreciate the comments there. I think you mentioned that you have some railcars there already, in the press release. How many do you have currently? How many would you expect to have over the next 3 to 5 years? And what is the ultimate goal? Do you have a market share in mind? And do you have a sense of how fast that market is growing?

Brian Kenney:

All good questions. They just started to deliver -- the initial order was for 10 rakes, or about 450 cars. And, literally, we just had one or two rakes delivering by the end of the year. The ultimate goal there is -- right now, we have essentially 100% market share, because it's a brand-new market where leasing wasn't allowed until recently. And we are the first participant.

Obviously, that will change over time. We expect other people to come into the market. Our goal there is to have -- I would say, an aggressive goal would be have a few hundred million dollars in investment in India over the next 3 to 5 years. As I said, also, there will be fits and starts because it's certainly a different operating environment. And there's a lot of construction of rail network underway.

Mike Baudendistel:

Great. Those were the questions I had. Thank you.

Bob Lyons:

Thank you.

Operator:

Our next question today will come from Matt Brooklier with Longbow Research.

Matt Brooklier:

Thanks. Good morning.

Bob Lyons:

Good Morning

Matt Brooklier:

I wanted to try to dig in a little more bit more on expected 2013 maintenance expense for the tank cars. Is there any way to provide a little bit more color with respect to the potential magnitude of that expense on a dollar basis; maybe in total, or per car?

Brian Kenney:

Probably the best way to look at it is that it could be up as high as 10% in 2013 from 2012.

Matt Brooklier:

Okay, so that 10% increase in your total maintenance expense line …

Bob Lyons:

That's in the North American maintenance line, correct.

Matt Brooklier:

Just in the in the NA line, okay.

Bob Lyons:

And remember, that number actually -- from 2011 to 2012, went down a little bit.

Matt Brooklier:

Right. Okay.

Bob Lyons:

That gives you some idea of the certainty we have around the operating challenge coming our way this year.

Brian Kenney:

That was actually something we should have used to respond to an earlier question. We did not expect maintenance expense to be down in 2012. We tried very hard to essentially smooth out this bubble by pulling cars forward for compliance in 2012 -- completely unsuccessful at that, because cars are in such high demand. So that's why it's a little tough to forecast it. But based on what's due, it could be up in the range of 10%.

Matt Brooklier:

Okay. So that's the upper end of the range? Or is that the middle?

Bob Lyons:

It's kind of what we are expecting

Matt Brooklier:

Okay. Can you reference or discuss a prior maintenance bubble? Maybe the last cycle where you'd had a greater number of your cars that needed these particular checks?

Brian Kenney:

Not really. In terms of the compliance; there was a mini-bubble in 2008. That was driven more commercially, by the fact we had -- it was a very challenged market, and we were seeing cars get returned a lot more. So I would say that was more commercially driven. This is the first, really compliance-driven maintenance bubble, at least I've seen.

And as I said, you make the bed for this thing back when you invest in a lot of cars back in -- literally 1998. And they're all coming due for structural inspections and other inspections this year.

Bob Lyons:

I'd add, too, that there are others in the industry that will have the same challenge. That's why I think it's important to refer back to the comment that Brian made. And we took steps over the course of the last couple of years to lock up some of that third-party capacity because other competitors of ours will be looking for space to do their compliance work, as well. And we feel we're in an advantaged position.

Matt Brooklier:

Okay, that's a good point. The lease renewal rate running at, I think, 80% through the year -- what are your expectations for lease renewals as we turn the corner and progress through 2013?

Bob Lyons:

Sure. Well, we came into 2012 expecting that number to be in the 70% - 75% range. And we were completely, positively, surprised by that. So when we look at 2013, we're still expecting a very strong environment overall, particularly on the tank car side. But we are back in that 70% - 75% range in terms of renewal success; which is still very healthy, but it is down from the record year we just had.

Brian Kenney:

But getting more granular -- and I should let Tom answer -- it's different, radically different, for tank and certain freight car types.

Tom Ellman:

Yes. And, specifically, we've talked a couple times about coal and grain. And those are going to make up a material portion of the total cars that we have up for renewal in the year. So while we'll do better than that 70% - 75% range for tank cars, coal and grain will be significantly challenged, which leads us to the expectation of 70% - 75%, overall.

Brian Kenney:

And that's an important point, because we don't want anybody to think that we're forecasting a weaker tank market in 2013, because we're not.

Matt Brooklier:

Okay. So the function of stepping down from an 80% to 70% - 75% range is a greater number of relative renewals for coal and grain cars, versus tank. And you think you can retain the current high-end renewal rate on tank cars this year?

Bob Lyons:

Yes.

Matt Brooklier:

Okay. That's all I got. Thank you for the time.

Bob Lyons:

Thank you.

Operator:

We'll take our next call from Steve Barger with KeyBanc Capital Markets.

Steve Barger:

Good morning.

Bob Lyons:

Good morning, Steve.

Steve Barger:

To follow up on that last question on renewals, you expect that that will continue to be strong in 2013. Do you expect tank car lease rates can continue to go up, and you can push prices higher? Or does it feel like that's topping out, to some degree?

Tom Ellman:

As long as demand remains as strong as it is, and new car backlogs are out 18 months, we're going to have -- we're going to be well-positioned to execute on our strategy of increasing lease rates and lengthening lease terms. So we expect the tank car dynamics to continue in 2013.

Brian Kenney:

And the other thing to add there is, on that comparison, the expiring rate, on average, actually comes down a little bit again in 2013.

Steve Barger:

Got it. And in terms of the OEMs, I know they are out to mid-2014 right now. Are you seeing any change in terms of pricing on tank cars? If you have been making inquiries, are they up, down, or flat sequentially from 3Q?

Tom Ellman:

Yes, much like the situation we are facing. As long as those dynamics continue, the builders are well-positioned to continue to price their product attractively. So, as long as those dynamics continue, we should see them continue to push up their sale prices.

Steve Barger:

Got it. You talked about tougher conditions for coal and grain cars. That's certainly been reflected in the industry order activity. But you guys are good at taking the long view. Do you see any opportunities to buy new or used cars in those other types, where pricing may be getting more competitive from the OEMs or in the secondary market?

Tom Ellman:

One important thing to note is we have done that to a degree. Some of the incremental opportunities that Brian has talked about, both this year and in past years, have been doing exactly that. What we do every time we have a potential investment opportunity, is do exactly what you said -- take the long view. So the challenge is, you're going to get an attractive price for those assets, and you have an expectation about what will happen long term. But in the near term, can you put the car to work and get the rate that you'd need to justify that investment? And we absolutely will look at those asset classes and make that evaluation.

Brian Kenney:

Yes, as an example, the 18,000-plus cars we took into the fleet from 2008 to 2010 -- a lot of those were coal, at very attractive prices.

Steve Barger:

Right, okay.

Bob Lyons:

Very young coal, too, I would add.

Steve Barger:

And on the flipside of that question, are you getting inquiries or are you seeing opportunities to potentially sell tank cars into the market, given how elevated prices are? Or does it make more sense to take the rate and term right now?

Tom Ellman:

We look at exactly the same thing on the other side of the equation. And our sales activity that you see includes a number of tank cars that we feel are priced at pretty attractive levels, relative to the expectation about what you could get for leasing those cars over the rest of their life. So we do both all the time, and have indeed sold tank cars this year.

Steve Barger:

Got it. And you said that, in terms of your expirations for 2013, there's a material amount of coal and grain, but is -- trying to get a little more granular, is the mix of expiring cars about the same as the fleet overall? Or is it skewed one way or the other?

Tom Ellman:

Yes, I can give you some numbers for order of magnitude, if that will be helpful. In coal, we expect around -- a little under 3,000 coal car expirations; and in grain, a little under 1,000.

Steve Barger:

Got it. And in terms of the LPI, 32% -- amazing number. That typically includes everything that came off in the quarter, right? Was the mix dramatically different in the LPI from what you were seeing earlier in the year? Or did it include coal and grain cars or sand cars?

Bob Lyons:

The mix really has not changed that much.

Brian Kenney:

The mix doesn't change in the LPI.

Bob Lyons:

And again, the other thing, too, is -- keep in mind, some of those coal cars that are scheduled for renewal -- renewal and come back and go idle, they are not picked up in that LPI number.

Steve Barger:

Some of the cars that came back but don't go back out, is that what you said?

Bob Lyons:

Correct, right.

Steve Barger:

Okay, right, right. My understanding is that LPI is a representation of the mix of renewals in each quarter, right?

Brian Kenney:

No, it's a static mix of our most common car types. So, as Bob said, sometimes you can get a little bit of a weird answer if no cars renew in that quarter, or if a car – a very little number of cars renew at some rate that's either very high or very low due to a specific customer reason. But, in general, it's a pretty good representation of our fleet on a constant basis over time.

Steve Barger:

Got it. Okay.

Bob Lyons:

Yes, I was just going to mention, Steve, too, as we've talked about in the past, the LPI is a good barometer. It can give you a little bit of an odd reading from quarter to quarter, depending on what transpired. But it is a good directional indicator.

Steve Barger:

Very good. Thank you.

Operator:

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

Art Hatfield:

Morning, everyone. On the coal car expirations, I think the number was given that you have 3,000 in 2013. What's the total number of coal cars in your fleet?

Tom Ellman:

We have a little under 7500 coal cars in the fleet.

Art Hatfield:

And can you talk a little bit about what your long-term view of the coal market is? And if at this time -- given some of the secular trends in that market, wouldn't expectations be that that's not going to turn for a while? And if so, what are some of the things you can do with these cars at this point in time? You had mentioned that you had bought a bunch a few years ago that were very young. Do you start to turn to think about becoming more of a seller out of the fleet? Or is it possible that you could be making money scrapping these cars in some sort of fashion, if in fact the long-term trends aren't as favorable as you'd like them to be?

Tom Ellman:

Yes, one great thing about all the markets we operate in is they will ultimately self-correct. And even when you look at the North American coal car fleet, last year there were 275,000 cars; this year, there is 266,000 cars. So the total number of cars in the fleet comes down. So even with a decreased demand, at some point, supply and demand will come back into balance.

In addition, the weather should moderate the differential between the price of natural gas and the price of coal will be more favorable at some point. So, all those factors lead us to realize that coal will get better. The great question is, when, and to what extent? And in the meantime, what we're going to do is exactly what Brian said at the beginning -- focus on utilization and focus on keeping those cars at work.

The scrapping alternative can absolutely become attractive on older assets. But it's not very realistic in the younger-to mid-life-portion of the cars. But we'll do that evaluation on the fleet all the time.

Art Hatfield:

Okay, I appreciate that answer, and I apologize. I, unfortunately, got on the call several minutes late and I know you've touched on the maintenance expense line item and their guidance for 2013. But, historically, Brian, you've always said, anytime these cars come in for a maintenance event -- I think the term you used is they tend to attract dollars.

So, when we think about your guidance for the year, is it safe to assume that you guys are taking a very conservative view of -- yes, these things are coming in. We know what's expected, but we're also kind of adding to that a little bit, based on what we've seen historically as these things come in. We've had incremental dollars going to maintenance expense.

Brian Kenney:

Yes, that's absolutely factored in. And I'd say it's a realistic expectation, as opposed to a conservative one. It's based on our experience and what is due on the car. As I said, I don't know if you caught it earlier, there's more than one program due, generally, on a car when it comes in. In fact, in 2013, they're averaging three programs when they come in. So it's more expensive in a lot of cases than just an HM201. And, as you said, it attracts -- they're going to do what's necessary for that car when you get a hold of it.

The good news is, in the market for tank cars, it's tough to get a hold of it right now because it's in such high demand. So when you do get it, you do what's necessary.

Art Hatfield:

Great. And then finally, with that in mind, you talked a little bit about the pricing and supply and demand for tank in 2013. But is it reasonable to think, with all these maintenance events coming up, and cars coming out of the market, that we could -- if demand doesn't change -- see incremental upside pressure on pricing, as demand tightens up with these maintenance events going on?

Tom Ellman:

Yes, it's a great question, but the underlying dynamics are so strong in terms of what it means for net demand for tank cars. Could maintenance make that even stronger? That's certainly possible. But I think, as far as what we're trying to do in terms of taking rates up and lengthening lease terms, that would just make that strategy even more successful.

Art Hatfield:

Right. And then,

Brian Kenney:

I'm sorry. We're also trying to do more cars out in the field. We've been trying to do that over the last decade, really. But we're really trying to accelerate that. And you'll see that in 2013, just for that reason -- trying to get them back to customers as fast as we can.

Art Hatfield:

Thanks. That's helpful. And then final, last question. The demand that we've seen for petroleum product over the last few years has really driven demand for that high-capacity, roughly 30,000-gallon tank car. Some of our conversations with some of the rails and people up north of the border is talk about the Canadian -- whatever you call it, tar sands or oil sands, that heavier crude that's coming out of there has a different car that would be used to transport that product.

Do you starting to see, or have you seen, changes in the demand makeup of some of the cars that would be -- some of the smaller coil cars that would be used to move that product?

Tom Ellman:

Yes, and you are absolutely right. And the difference is that car is a little bit smaller and it has coils and insulation -- the car that serves the oil sands in Canada. And right through this uptick, we have seen demand for both car types; both the 30,000-gallon family of cars for the Bakken, and the coil and insulated car for the oil sands.

Art Hatfield:

Has demand or pricing for one or the other outpaced the other one? Or they have pretty much been in lockstep?

Tom Ellman:

They are both unprecedentedly strong, so …

Art Hatfield:

Okay, fair enough. Thanks for your time.

Bob Lyons:

Thank you.

Operator:

Steve O'Hara of Sidoti & Company has our next question.

Steve O'Hara:

Yes. I think most of the questions have been answered. But in terms of the 30,000-gallon cars, did you say what portion of your fleet is devoted to that type? And that you operate under the same type of contract signings, and do you look for any different balance sheet strength on the point of your customers there? Or do you see that market as stable as general tank?

Tom Ellman:

First of all, as far as the fleet goes, the 30,000-gallon family of cars represents about 10% of our tank car fleet. And I'll let Bob comment more fully, if he wants, on the customer credit quality. But, in general, in this market, just like we're in a position to command the lease rates and terms that we're after, we're also very selective on the credit quality.

Bob Lyons:

Yes, I would just very quickly support that comment. But any time the market is this strong, we're always looking to move -- where we can -- our cars into the hands of the strongest customers we have. We already start from a good base, because we have an excellent customer base. And, we rarely ever have a credit issue. But we certainly don't pass the opportunity to continue strengthening it.

Brian Kenney:

If I could add my two cents and let Tom expand on it, the other thing we do here -- it's a little different from other market participants -- is we try to maintain a diversified fleet, from a customer and product perspective. So, you might think in this market we're trying to dump every car we can into crude service, and that's not what we're doing.

Tom Ellman:

That's absolutely right. As we've populated the cars in our supply agreement, we look to maintain a mix of both the growth opportunities that you're seeing in crude, but also to serve our traditional customer base in the chemical, food and other petroleum markets. And one thing worth pointing out is, in addition to the demand for crude cars, more crude being produced, period, helps all petroleum products.

And if you look at our tank car fleet, in one way or another, about one-third of that tank car fleet serves the petroleum market. So this strength in crude and the underlying strength it provides to all the derivative products is something we get to participate in with the expiration of the cars, and the renewal rates, and assignments on that fleet of cars.

Steve O'Hara:

Okay. And then to go back to the maintenance quickly, does this material increase depend on getting them back for customers? So if your renewal rate increases, does that have an impact? Or are these things that just have to be done, and you have to bring them in anyway?

Brian Kenney:

They are scheduled and due for compliance, so we have to get them in. It's tougher to get them in. You might have missed earlier -- I said we tried to smooth the bubble a little bit by bringing cars in earlier in 2012, and had very little success at doing that, because they're in such high demand. But they are due. What I've thrown out there is what is due in 2013.

Bob Lyons:

And, Steve, just to be clear. If we get north of 80% renewal success rate in 2013, we'll do a little bit better. But, really, the big driver in '13 is the compliance side of the equation here -- and those are scheduled.

Steve O'Hara:

Okay. Thank you very much.

Operator:

We'll take our next call from Gregory Macosko with Lord Abbett.

Gregory Macosko:

Yes, thank you. Just a few brief points. On a general basis, if I look at a coal and a grain car versus a tank car, in general terms would it be fair to say that profitability -- the dollar profit on a tank car would be, in general, higher, relative to the lease term, et cetera?

Tom Ellman:

Well, what the real difference would be in general -- and I'm not talking about today's crude market – but, in general, tank cars tend to have less volatility than various freight car types. And it has to do with, primarily, the amount of manufacturing capacity that has been devoted to tank cars versus other freight car types. But the overall profitability, over the life of the car, in general, I don't think you'd see a material difference. You would see a difference in the volatility of the earnings stream.

Gregory Macosko:

But on a near-term basis, I would assume that would be the case, just given the demand. Okay. Then with regard to -- you didn't talk very much about remarketing -- the number of cars sold was somewhat down. What is some of your expectations going forward on a general basis?

Bob Lyons:

Well, on remarketing overall, we had an incredibly strong year across GATX on a consolidated basis, with about $65 million in remarketing income. As we look to 2013, our expectation is, we'll be in that range again. But really more because we see some opportunities within our Portfolio Management area, with some scheduled -- or, hopefully planned sales here in 2013. Rail remarketing income, at this point, we're assuming is going to come down just a little bit in 2013.

Gregory Macosko:

I'm sorry, I meant scrappage. Excuse me. I didn't mean --

Bob Lyons:

It would be in the same range as 2012 on the scrapping side.

Gregory Macosko:

Okay. Thanks very much.

Bob Lyons:

Okay. Thank you.

Operator:

Our next question will be from Kent Mortensen with Thrivent Asset Management.

Kent Mortensen:

Good morning. I wanted to ask about -- I wanted to have you expand a little bit on your buyback comment. If I have it correct, my model looks like the last time you guys really did large share repurchases, back '07 time frame. So I just want to get your thoughts on that and the parameters associated around a buyback.

Bob Lyons:

Well, we also were active in the spring of 2009, Kent, after the financial crisis hit and all stocks took a significant dip. We bought -- we were active in the market at that point in time. So we have $70 million left under an existing authorization. And, as Brian mentioned in his opening comments, we'll continue to look at our stock as an investment opportunity, right along with all the other opportunities we have in front of us in hard assets.

And if you look back to 2006 and beyond, in total, we've repurchased about $450 million worth of stock over that period of time. So we're certainly not averse to doing it.

Kent Mortensen:

Is there something that is triggering that comment today, though? I don't remember you bringing it up in the previous calls, like last year.

Brian Kenney:

No, we actually -- I think if you look back, we reference it every year. But I think it is a little different for me right now, based on the investments we've made over the last few years. The market conditions we're looking at, especially in the tank car side going forward, as well as the challenge of investing into such a difficult, high-asset price market, I think -- I always view the stock as undervalued. But I just think it's -- in my view, it's heightened to continue to consider share repurchases an alternative here.

Bob Lyons:

And, Kent, I pointed out before in response to a different question -- but with roughly $770 million of investment volume this year, that was a very strong year. And it was a challenge, really, to find some of those opportunities in the secondary market. And to the extent we don't find as many robust opportunities in 2013, we will look for other alternatives for deploying capital.

Kent Mortensen:

Very good. And then I want to ask you about this -- can you give a little more detail on this $14.8 million charge on the gas compression business? I would think that would be a pretty strong market right now. Is that an asset that you've had for quite a long time? Can you tell us a little bit about it?

Bob Lyons:

Sure. It was actually a joint venture with two other parties that we made the initial investment in 2008. As we do from time to time, we invested in that business because it was an equipment leasing business with a service component attached to it. And as we saw the business develop over time, it became clear to us that the service element -- which is what we like -- was not as critical in that marketplace. And we were in a position where it was more of just kind of a financing business, and one with subpar scale, and so we saw an opportunity to exit. And the joint venture itself was a bit of a challenge with two other partners, so we saw an opportunity to wind that up, and exit this year -- and that was the right long-term economic decision for GATX.

Kent Mortensen:

I can also appreciate you harvesting a loss in a really otherwise strong year. The timing seemed good. Are there other losses like that out there in the portfolio that you could potentially be harvesting going forward?

Bob Lyons:

We're certainly not planning to. When I look across the asset classes that we're in right now, the one that, longer-term, would be a candidate for potential sale would be some of the ocean-going marine investments that we have -- and we'll continue to look at those. They’re not core to GATX, or we don't necessarily need to be in those markets, and we'll look for the right exit point on those, but would hopefully do so on a better basis than exiting our investment in Enerven here recently.

Kent Mortensen:

Great, thank you.

Operator:

And we have no further questions at this time.

Jennifer Van Aken:

Okay. I'd like to thank everyone for your participation on the call this morning. And I will be available this afternoon to answer any additional questions. Thanks.

Operator:

Ladies and gentlemen, that does conclude today's conference. Again, thank you all for joining us.