

Railway Supply Institute Annual Meeting & Marketing Outlook Event

Rail Industry Outlook

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Topics to be covered

Anthony D. Kruglinski

1. RFC/LRM/REF Overview
2. Market Review
3. Market Predictions

David I. Scott

1. David Scott Consulting Introduction
2. Discussion of DSC support for Venture Cap activity
3. Discussion of DSC activity on engineering side

David G. Nahass

1. Discussion of lease fleet restructuring business
2. Secondary Market Buying and Selling
3. Discussion of accounting changes
4. Basel III

RFC Background

- RFC is a financial advisory firm founded in 1989 (Twenty-One Years!):
 - The only firm focused solely on the global rail industry
 - Arranged over \$15 billion in financing – primarily related to rolling stock
 - The principals in RFC have more than thirty years rail equipment financing experience

What does RFC do for its clients?

- Financial Analysis (before, during and after transactions are completed)
- Transaction Structuring
 - Recently restructured fleet of 2,500 railcars for shipper
 - Handled more new coal equipment financing than any other third party advisor in last three years
 - Locomotive lease restructuring for General Motors prior to bankruptcy
- Lease Documentation
- Fleet Planning and Analysis
- Market Survey, Input and Study

LRM Background

- LRM is an acronym for Locomotive Residual Management
- LRM is an advisory firm focused on assisting companies maximize the value of their locomotive assets
- Founding partners have more than forty years of experience working with the manufacturing, financing and reselling of locomotives
- Arranges end of lease inspection and appraisal, mechanical assessment and planning for upgrade or redeployment
- Remarketing
- Broad range of additional engineering services
- Works with financial institutions, lessors and shippers

Rail Equipment Finance Conference

- “REF” is the only North American conference devoted to the market for railcars, locomotives and the financing of that equipment
- 2011 will be the 25th year of the conference
- Held at the LaQuinta Resort and Spa in LaQuinta, CA (Palm Springs)
- Held first full week of March
- Widely regarded as the most content driven and relevant rail and equipment related conference
- Last year REF was attended by over 225 professionals in the rail and locomotive equipment and finance marketplace

www.railequipmentfinance.com

David Scott Consulting Background

- DSC was founded in 2005 when the Electro Motive Division (EMD) of General Motors Corporation was sold to a private equity purchaser
- Founded in principal by David I. Scott, former Executive Director of EMD, DSC is an engineering, design and manufacture group engaged in locomotive design
- DSC draws on a network of professionals on project basis to achieve best in class results. Typically, a DSC project team has more than half a century of locomotive design and manufacturing experience
- DSC clients are manufacturers, re-manufacturers, railroads (Class I, II and III) and shippers
- DSC also conducts locomotive appraisals for financial institutions. These are done during and at the end of lease term

DSC Engineering Activity

- NS battery switcher- commissioned 9/09
- Class 1 crashworthy design and evaluation
- GenSet builder skid design
- Class 1's emissions strategy and testing
- Class1 emissions compliance costing
- Electric power industry start up in energy storage
- Modern loco reconfiguration

DSC Venture Capital Activity

- Shhhhhhhh!
 - Plenty of people think rail sector is attractive
 - Still!
- Supplier roll up strategy
- Maintenance support roll up strategy

Lease Restructuring

- RFC has had excellent success in restructuring shipper leased railcar fleets, single investor and leveraged leases
 - Railcar lease fleets
 - RFC examines long term needs of lessee and compares equipment demand with existing portfolio and practices in leasing
 - RFC, on behalf of Lessee, may enter into bilateral discussions with a client's lessors to optimize lease term, rent expense and lease terms and conditions
 - Typical fleet restructuring takes from six months to one-year depending on the planning and approval process of an RFC client
 - Successful on a macro and micro basis
 - Single investor and leveraged lease restructuring
 - Reviews a specific lease (generally with an initial term greater than 12 years) that, at the present time, is unattractive
 - May be based on economics, equipment design, terms and conditions, or tax position of RFC's client at the present time
 - Using RFC originated and perfected strategies, RFC is able to evaluate leases and determine with accuracy if a lease can be refinanced and the potential savings

Lease Restructuring

- Overall aspects of lease and portfolio restructuring
 - Intimate relationship between RFC and its client. RFC's success in restructuring projects is based on the ability of RFC and our client to identify disadvantageous aspects of current leases where improvement can be generated.
 - Restructuring may be focused on issues that are generally outside traditional leases
 - Addresses what for many lessees is not a core-competency
 - Value driver in weak economy. Many companies undertake it on their own with varying degrees of success

Who's Buying and Who's Selling

- Opportunistic railcar and locomotives sales and purchases going on throughout the marketplace
- Lessons learned in equipment marketplace
- What does the equipment market say about railcar and locomotive demand

Changes in Accounting Rules

- Three basic things to keep in mind:
 1. End of off-balance sheet leasing
 2. End of the traditional US leveraged lease
 3. No grandfathering for existing leases
- Other items of importance to keep in mind:
 1. Accounting on residuals
 2. Changes in the bank marketplace
 3. Don't rely on renewals
- Timing for implementation

BASEL III