XTRA CORPORATION *Annual Report*

99

Five Year Selected FINANCIAL DATA

XTRA Corporation and Subsidiaries

Year ended September 30, (Millions of dollars except per share amounts)	1999	1998	1997	1996	1995
Operations					
Revenues	$ 464	$ 461	$ 435	$ 422	$ 378
Cash provided from operations	277	293	269	272	237
Capital expenditures (1)	265	199	249	210	699
Pretax income	58 (2)	99 (3)	71	69	98
Net income	35 (2)	60 (3)	43	41	57
Per Share Information					
Basic earnings per share	$ 2.49 (2)	$ 3.90 (3)	$ 2.79	$ 2.56	$ 3.40
Diluted earnings per share	$ 2.49 (2)	$ 3.88 (3)	$ 2.78	$ 2.56	$ 3.39
Dividends declared per share	$ —	$ 0.64	$ 0.78	$ 0.70	$ 0.62
Financial Position					
Total assets	$ 1,573	$ 1,575	$ 1,585	$ 1,537	$ 1,516
Total debt	852	802	892	892	898
Total stockholders' equity	337	408	360	342	359

(1) Includes equipment leased in under operating leases and capital expenditures for acquisitions.

(2) Includes one-time pretax charges of $13 million for restructuring, a $25 million equipment write-down, and a $1 million unusual item for expenses related to the terminated merger. Without these one-time charges, fiscal 1999 Basic and Diluted earnings per share would have been $4.16.

(3) Includes a $1 million pretax unusual item for expenses related to the terminated merger. Without this unusual item, fiscal 1998 Basic and Diluted earnings per share would have been $3.93 and $3.91, respectively.

To Our SHAREHOLDERS:

In fiscal year 1999, XTRA Corporation completed three initiatives to pursue its strategy of building value for its shareholders: the outsourcing of the management of its international container leasing business, the creation of a Shared Service Center, and the repurchase of $111 million of common stock. Excluding the one-time impact of the outsourcing and restructuring charges, XTRA enjoyed a strong year in terms of both earnings and cash flow from operations. We would like to thank our shareholders for their continued support and our employees for their ongoing effort.

Effective June 1, 1999 Textainer Equipment Management Limited, a major equipment lessor, began managing XTRA's marine container fleet. The agreement allows XTRA to achieve economies of scale by having our fleet managed by a quality container lessor like Textainer with its significantly larger fleet and cost effective infrastructure. The Company expects that it will be able to achieve significant cost savings as a result of this outsourcing. XTRA's transition of its accounting, finance, information technology, and human resource functions to a Shared Service Center based in St. Louis, Missouri was successfully completed by the end of fiscal 1999.

During fiscal 1999, the Company repurchased 2.7 million shares of its common stock for $111 million, which represents 17% of shares outstanding at the beginning of the year. On September 17, 1999, XTRA announced that its Board of Directors had approved a new $100 million stock repurchase authorization, which becomes effective upon completion of the prior $200 million stock repurchase program.

Overall, 1999 was a year in which the Company achieved significant progress. The product of our efforts is evident in our strong levels of earnings and cash flow from operations. XTRA's 1999 diluted earnings per share before one-time charges and an unusual item showed a 6% increase compared to fiscal year 1998, while our cash flow from operations was at a healthy level of $277 million.

FINANCIAL PERFORMANCE

Net income per diluted share, before one-time charges and an unusual item, increased to a record $4.16 in 1999 compared to $3.91 per share in 1998, a 6% increase, on fewer shares outstanding. Final diluted earnings per share and net income in 1999 were $2.49 and $35 million.

Cash flow from operations was a strong $277 million in 1999 comparable to $293 million in 1998.

XTRA's revenues are affected primarily by equipment utilization, which declined to 81% in fiscal year 1999 from 86% in 1988. In 1999, North American utilization decreased to 85% from 87% in 1998 and International utilization declined 11 percentage points to 71% from 82% in 1998.

The Company experienced modest revenue growth in fiscal 1999, increasing $3 million to $464 million. The additional revenue was generated by our North American operations, which grew by $20 million to $401 million, primarily due to more working units and improving lease rates. International operations contributed $63 million to total revenues, $17 million less than 1998 due primarily to lower utilization.

NORTH AMERICAN OPERATIONS

Over-the-Road Trailers

XTRA Corporation is one of the two largest highway trailer lessors in North America, capturing 25% of the leasing market. XTRA Lease, our largest business unit, provides a wide variety of over-the-road and storage trailers to contract and common carriers and private fleet owners throughout North America. This unit contributed 66% of the Company's total revenue in 1999.

In fiscal year 1999, we invested $235 million in North American over-the-road equipment and by year end, operated a fleet of 85,000 units with a net investment of $902 million.

Fiscal year 1999 was a strong year for over-the-road trailer leasing. The U.S. economy continued to grow and consumer confidence remained strong. Just-in-time inventory management kept retail inventories low, while sales grew, and imports increased due to the Asian financial crisis. The overall utilization rate of 87% in 1999 was quite strong, down only modestly from 1998's utilization of 90%.

Intermodal

XTRA Intermodal leases three types of equipment: intermodal trailers, chassis, and domestic containers. Customers are primarily North American railroads and global steamship lines. This division contributed 20% of XTRA Corporation's total revenues in fiscal year 1999. At September 30, 1999, XTRA Intermodal operated a total fleet of 54,000 units with a net investment of $265 million.

Intermodal Trailers

XTRA is the third largest lessor of intermodal trailers, with an estimated market share of 23%. In 1999, the railroads continued to ship greater proportions of freight in containers than in trailers. Given the overall demand for intermodal trailers and the expected continued trend toward domestic containers from trailers, we believe our fleet is appropriately sized. Utilization declined moderately to average 75% in 1999, compared to 78% in 1998. Utilization was lower than 1998 primarily during the spring and summer, which we believe is attributable to service disruptions caused by the split up of Conrail.

Chassis

XTRA is the fifth largest lessor of chassis in North America, with a market share of 8%. At September 30, 1999, the fleet size was 26,000 units. Utilization averaged 85% in 1999, as compared to 88% in 1998.

XTRA continues to focus on value-added neutral chassis pools, which are managed chassis fleets located at railroad and port terminals. Chassis pools are desirable because leased equipment can be substituted for carrier-owned equipment to improve the carriers' asset utilization and reduce their redundant expenses.

Domestic Containers

At September 30, 1999, our domestic container fleet consisted of 8,000 units. Until a deeper operating lease market develops, we do not anticipate making any additional investment.

INTERNATIONAL OPERATIONS

Marine Containers

XTRA International leases marine containers globally. The Company believes that with the addition of the XTRA fleet, Textainer, which manages XTRA's fleet, is the world's third largest lessor of marine containers. In fiscal year 1999, XTRA International contributed 14% of XTRA's overall revenues. Equipment utilization declined to 71% from 82% in 1998.

During 1999, the marine container leasing industry continued to suffer from oversupply, weak pricing, and geographic imbalance causing increased repositioning costs from North Europe and the United States to the Far East. Economies of scale attained through the outsourcing agreement with Textainer should help the economic performance of this business unit in the future. No additional capital spending is anticipated for marine containers.

CAPITAL STRATEGY AND FINANCING

Total capital spending in 1999, including equipment financed off balance sheet, was $265 million, $66 million higher than 1998. During fiscal 1999, the Company repurchased 2.7 million shares of common stock for $111 million. XTRA continues to maintain strong investment grade ratings and a solid balance sheet. At year-end, the Company's debt to equity ratio, including the $50 million operating lease, was 2.6 to 1.0, which is at the lower end of our long-term target range of 2.5 - 3.0 to 1.0. Cash flow from operations in 1999 reached a strong level of $277 million, enhancing our already strong financial position.

THE XTRA OUTLOOK

XTRA continues to be a leader in freight transportation equipment leasing. After a strong year, we look forward to 2000 as an opportunity to exceed our current levels of performance and we are well positioned to do so. Our balance sheet and cash flows are strong and our market positions are significant. We remain committed to our three-pronged strategy to build shareholder value by growing the existing businesses, pursuing external growth through acquisitions, and implementing timely repurchases of our stock.

For 2000, we anticipate continued solid performance in our over-the-road business. Freight demand should continue to be strong as North American economies grow at a moderate pace. The intermodal business, including intermodal trailers, chassis, and domestic containers, will remain steady, representing a significant source of cash flow. At the present time, we do not anticipate significant improvement in the marine container business in fiscal 2000.

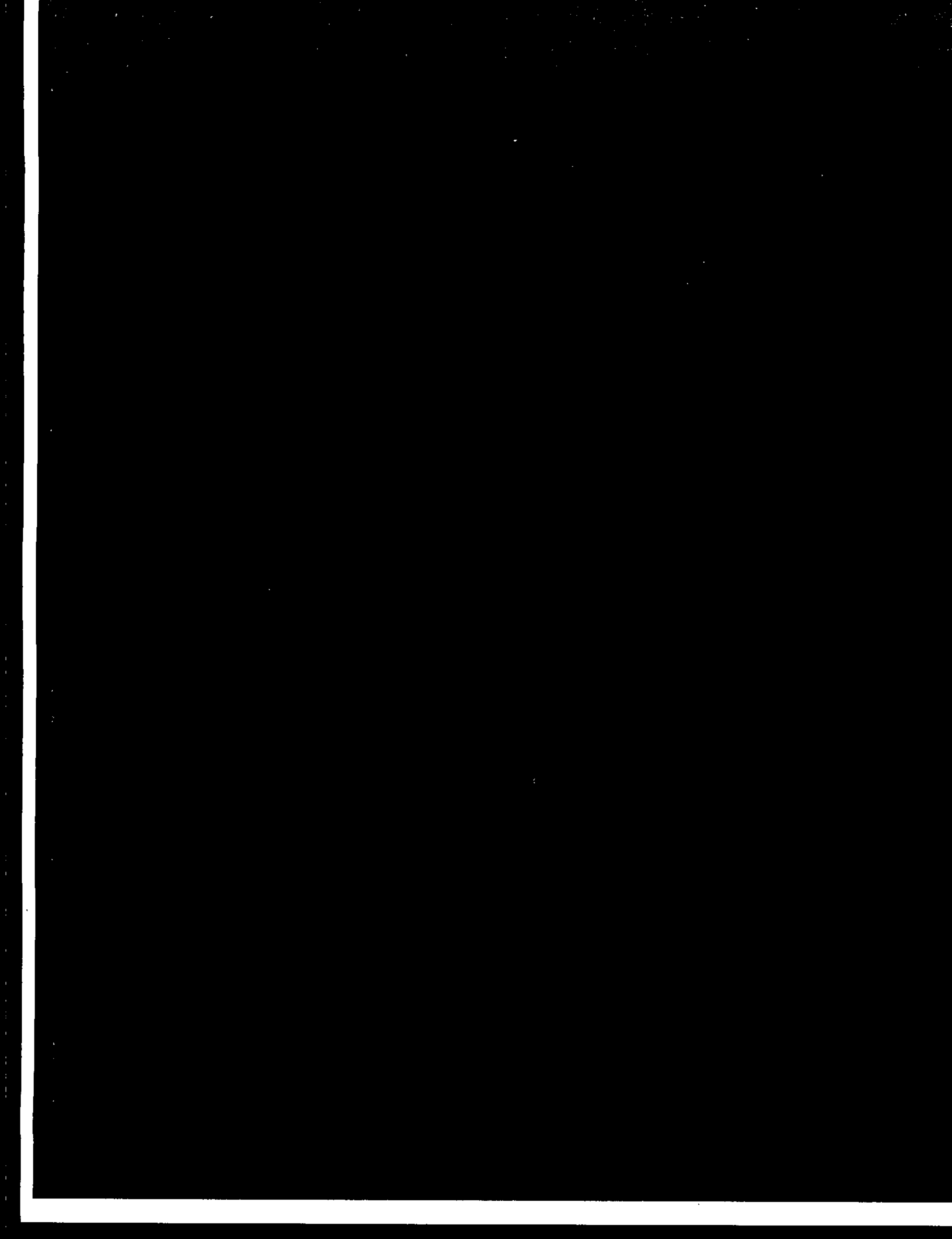
We would like to take this opportunity to commend the hard working people who comprise the XTRA team. These talented individuals are the driving force behind XTRA's success. Without their dedication, expertise, and professionalism, XTRA would not be the industry leader it is today.

Finally, we wish to recognize the retirement of Messrs. Robert M. Gintel, Herbert C. Knortz and Francis J. Palamara from XTRA's Board of Directors. They have made significant and lasting contributions to the performance of the Company during the last decade. We will miss their wise and valued counsel, but wish them well in their future endeavors.

Sincerely,

Robert B. Goergen
Chairman

Lewis Rubin
President and Chief Executive Officer



Form 10-K*

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1999

COMMISSION FILE NUMBER 1-7654

[XTRA CORPORATION]

Exact name of registrant as specified in its charter

DELAWARE (State or other jurisdiction of incorporation or organization)	**06-0954158** (I.R.S. employer identification number)
60 STATE STREET **BOSTON, MASSACHUSETTS 02109-1826** (Address of principal executive offices)	**(617) 367-5000** (Registrant's telephone number)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	*Name of exchange on which registered*
Common Stock, Par Value $.50 per Share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: none

Shares Outstanding of the Registrant's Common Stock at November 9, 1999:	12,812,400
Aggregate market value of voting and non-voting common Equity held by non-affiliates of the Registrant at November 9, 1999:	$ 519,000,000

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ✓ No __

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ✓.

Portions of the Registrant's Annual Report to Stockholders for the fiscal year ended September 30, 1999, of which this Form 10-K is a part, are incorporated by reference in Parts I, II and IV. Portions of the Registrant's definitive Proxy Statement for use at the 2000 Annual Meeting of Stockholders are incorporated by reference in Part III.

* Exhibits to Form 10-K and Parent Company Financial Statements and Schedules have been included only in copies of the Form 10-K filed with the Securities and Exchange Commission.

A copy of this Form 10-K, including a list of exhibits and the Parent Company Financial Statements and Schedules, is available free of charge to stockholders upon written request to: Vice President and Chief Financial Officer, XTRA Corporation, 60 State Street, Boston, Massachusetts 02109. In addition, upon similar request, copies of individual exhibits will be furnished upon payment of a reasonable fee.

Form 10-K TABLE OF CONTENTS

XTRA Corporation and Subsidiaries

ITEM		PAGE
	[PART I]	
1	Business	8
2	Properties	13
3	Legal proceedings	13
4	Submission of matters to a vote of security holders	14
4A	Executive officers of the registrant	14
	[PART II]	
5	Market for the registrant's common equity and related shareholder matters	15
6	Selected financial data	16
7	Management's discussion and analysis of financial condition and results of operations	16
7A	Quantitative and qualitative disclosures about market risk	16
8	Financial statements and supplementary data	16
9	Changes in and disagreements with accountants on accounting and financial disclosure	16
	[PART III]	
10	Directors and executive officers of the registrant	17
11	Executive compensation	17
12	Security ownership of certain beneficial owners and management	17
13	Certain relationships and related transactions	17
	[PART IV]	
14	Exhibits, financial statement schedules, and reports on Form 8-K	17
	Signatures	18
	Parent and subsidiaries	19

PART I

[ITEM 1] BUSINESS

The discussion below contains certain forward-looking statements including estimates of economic and industry conditions. Actual results may vary from those contained in such forward-looking statements. See "Cautionary Statements for Purposes of the 'Safe Harbor' Provisions of the Private Securities Litigation Reform Act of 1995" contained below.

XTRA Corporation (the "Company" or "XTRA") is a leading global transportation equipment lessor with operations in the highway, domestic intermodal and marine container markets. The Company manages a diverse fleet of approximately 287,000 units, constituting a net investment of approximately $1.5 billion, consisting of over-the-road ("OTR") trailers; intermodal equipment, including intermodal (or "piggyback") trailers, chassis and domestic containers; and marine containers.

Transportation equipment customers lease equipment to cover cyclical, seasonal and geographic needs and as a substitute for purchasing. In addition, capital and capacity-constrained transportation providers often use leasing to maximize their asset utilization and reduce capital expenditures. By maintaining a large and diversified fleet, leasing companies are able to provide customers with a broad selection of equipment and quick response times, which reduce equipment shortfalls and lost opportunities.

Lease Types and Rates

Transportation equipment is generally leased through operating or finance leases. XTRA primarily participates in the operating lease segment, generally placing less emphasis on finance leases because it believes the value-added component of such leases is low. Operating leases can be either daily ("per diem") leases or term leases. Per diem leases are for a period of less than one year, generally with the option to return the equipment without prior notice. Term leases are for a period of one year or more, with most being for an original term of three to five years. Term lease agreements may have early termination penalties that apply in the event of early redelivery, although in most cases equipment is not returned prior to the expiration of the lease. Operating lessors generally offer certain customer services, which may include roadside assistance, insurance, repair and maintenance and regulatory compliance. Operating lessors will enter into term leases due to the greater revenue stability associated with longer-term leases even though long-term lease rates are typically lower than per diem lease rates. The percentage of equipment on term leases versus per diem leases varies widely among leasing companies, depending upon each company's desire to have predictable revenues and cash flows. The Company's relatively high percentage of equipment on term leases reflects a desire for fairly consistent cash flows.

Many of XTRA's OTR per diem and term leases provide for additional fees if the equipment is returned to a location other than the originating location. XTRA's marine container and intermodal trailer leases allow the customers to return equipment to a different location. Returns of marine containers are subject to quantity and location limitations and additional drop-off fees are built into the lease terms. XTRA's marine container leases may also provide customers with incentives to return marine containers to more desired locations.

Lease rates depend on several factors including the type of lease, length of term, maintenance provided, type and age of the equipment and market conditions. In addition, in the OTR trailer business, the Company charges its customers a fee based on the number of miles the trailer has been moved or charges actual tire and brake wear incurred. The Company offers additional value-added services for which the Company charges specified fees. For example, in the OTR trailer business, these services include roadside assistance, various insurance alternatives and trailer repair and maintenance. Over the last several years, healthy market demand has allowed XTRA to maintain a strong overall term lease portfolio. At September 30, 1999 approximately 39% of the total fleet was leased to customers under term lease.

Utilization

An important indicator of the Company's performance is the portion of its fleet that is on lease at any given time. This measure, called the utilization rate, is defined as the number of units on lease divided by the total number of units in the fleet. The Company leases equipment both on a term and a per diem basis in order to effectively utilize the fleet and maintain a balance between the greater stability of revenue associated with term leases and the increased profitability potential of per diem lease pricing. The Company actively manages the distribution of its units and keeps a large, diversified and well-maintained fleet of mostly standardized equipment in order to operate at high utilization rates.

Equipment Fleet

The Company's equipment fleet has increased over time through purchases of new equipment and through fleet acquisitions of other leasing companies. The Company's fleet size and net investment includes equipment owned by the Company, equipment leased-in from third parties under operating and capital leases, and equipment leased to third parties under finance leases. At September 30, 1999, 3% of the Company's net investment in equipment represented equipment leased-in under operating leases.

The Company's fleet and net investment consisted of the following units and net investment at the end of its last five fiscal years:

EQUIPMENT FLEET

	Number of units				
At September 30, (Units in thousands)	1999	1998	1997	1996	1995
Over-the-road trailers	85	79	78	75	76
Intermodal trailers	20	22	23	24	29
Chassis	26	24	23	24	21
Domestic containers	8	9	10	8	8
Marine containers	148	165	162	152	126
Total	287	299	296	283	260

EQUIPMENT FLEET

	Net investment[1]				
At September 30, (Millions of dollars)	1999	1998	1997	1996	1995
Over-the-road trailers	$ 902	$ 770	$ 718	$ 632	$ 628
Intermodal trailers	126	153	168	197	237
Chassis	116	107	112	119	107
Domestic containers	23	31	41	36	42
Marine containers	313	388	414	419	373
Total	$ 1,480	$ 1,449	$ 1,453	$ 1,403	$ 1,387

(1) For purposes of this presentation, the net investment in equipment leased to the Company on an operating basis represents the present value of the remaining lease payments. The net investment in revenue equipment leased to customers under finance leases as well as equipment owned by the Company or leased to the Company under capital leases represents the net carrying value of this equipment.

For information regarding business information by operating segment and geographic area, see Note 7 of the Notes to Consolidated Financial Statements. For additional information, including financing and capital expenditures, see Management's Discussion and Analysis of Financial Condition and Results of Operations. Such information is incorporated herein by reference.

Description of Operating Divisions

The Company conducts its leasing operations through three divisions: XTRA Lease, XTRA Intermodal, and XTRA International.

XTRA Lease: General

XTRA Lease, the Company's OTR trailer business operation, leases trailers to contract and common motor carriers and to private-fleet owners throughout North America. XTRA Lease's fleet includes approximately 85,000 trailers, comprised mostly of dry cargo vans 48' and 53' long by 102" wide. For the fiscal year ended September 30, 1999, the average equipment utilization rate for the OTR business was 87%. Approximately 41% of the XTRA Lease units were leased on a term basis as of September 30, 1999, with the balance of units available for lease on a per diem basis.

XTRA Lease: Competitive Environment

XTRA estimates the leasing segment of the North American OTR trailer fleet (fleet owned by leasing companies) to be about 340,000 units. XTRA enjoys a strong competitive position in the OTR trailer segment and believes its fleet of approximately 85,000 units, or 25% of the leased fleet, is exceeded by only one competitor who has an estimated share of 30%. The remainder of the industry is fragmented and primarily spread among many smaller, regional equipment providers.

XTRA Lease: Market Trends

Management believes that the demand for leased OTR trailers will increase due to a number of factors. One contributing factor is the increasing trend of private fleet owners outsourcing transportation fleets as companies move towards a variable cost approach to operating their businesses. In addition, as more private owners seek to provide their services with fewer owned units to reduce costs and capital commitments, they typically look to truckload carriers and logistics companies to handle their transportation needs. Truckload carriers and logistics companies represent a significant portion of XTRA Lease's customer base.

A second factor, the continued move toward time definite inventory strategies, such as just-in-time, as well as better driver time management and truck utilization, should focus companies on leasing rather than owning trailers. An increasing number of trailers are left empty at loading docks as drivers employ a drop-off rather than a wait-and-unload strategy to improve efficiencies and driver utilization. The result is an increasing ratio of trailers to trucks in the freight transportation market. The Company believes that leasing companies will increasingly be relied upon to handle these growing trailer needs.

Recently, some domestic freight has moved from the railroad to the trucking industry. The Company believes this has occurred due to the increased consolidation in the railroad industry, which has caused more rationalized track and service availability and an increase in containerized trade from overseas, which is placed on railroads at major ports, displacing domestic traffic. These factors have increased the volume of the Company's truckload and less-than-truckload customers, who in turn continue to use leasing companies such as XTRA to satisfy increased demand.

Due to its national operating network and its strong reputation, XTRA believes it is well positioned to capitalize on the trends which favor the use of leasing companies.

XTRA Intermodal: General

XTRA's intermodal business is comprised of three rental products: intermodal trailers, chassis and domestic containers. Intermodal traffic refers to the shipment of goods in standardized equipment through two or more modes of transportation, usually rail, truck or ship. On certain routings, shipping goods over two or more modes of transportation is more cost efficient. For example, over long distance, high density freight lanes, intermodal transportation can be more cost efficient than trucking. Further, containerization is more efficient and economical than "break bulk transportation," in which the goods are unpacked and repacked at various intermediate points on route to their final destination.

Intermodal (piggyback) trailers are designed to be carried on rail flatcars, pulled by tractor over the highway and, to a lesser extent, transported over water by ships and barges. The Company's intermodal trailer fleet of 20,000 units consists primarily of units 48' and 45' long by 102" wide. Approximately 26% of the intermodal trailer fleet was leased on a term basis as of September 30, 1999, with the remainder of the fleet available for lease on a per diem basis.

Chassis are wheeled rectangular frames used to transport containers over the highway. XTRA's chassis are used as transport vehicles for marine and domestic containers, which are loaded or unloaded at shipyards, rail terminals or consignee locations. Once loaded, the chassis and the container together are the functional equivalent of a trailer. Loading the container on a chassis allows the container to be delivered to or from the inland destination.

Marine chassis are generally 20' or 40' in length to accommodate marine containers, while domestic chassis are generally 48' or 53' in length and handle domestic containers. The Company's fleet of 26,000 units consists primarily of marine chassis and is leased to steamship lines, railroads and motor carriers. Approximately 52% of the chassis fleet was leased on a term basis as of September 30, 1999 with the balance available for lease on a per diem basis.

Domestic containers are designed to transport freight over rail or on chassis over highway within North America. These containers substitute for intermodal and OTR trailers, particularly on long-haul, heavy volume routes.

XTRA's fleet of 8,000 units consists primarily of 48' long by 102" wide units leased to North American railroads and other domestic freight carriers. Approximately 82% of the Company's domestic containers were leased on a term basis as of September 30, 1999, with the balance available for lease on a per diem basis.

XTRA Intermodal: Competitive Environment

XTRA believes that it is the third largest intermodal trailer lessor in North America, with approximately 23% of the total leasing market. XTRA believes that its largest competitor owns in excess of 38% of the total market.

In the leased segment of the chassis market (chassis owned by leasing companies), the Company believes that it is the fifth largest lessor in the United States with approximately 8% of the market. The Company believes its largest competitor owns approximately 32% of the leasing market.

In the leased segment of the domestic container market, the Company believes that it is the third largest lessor in the United States with approximately 13% of the market.

XTRA Intermodal: Market Trends

Over the last decade, there has been a gradual shift in intermodal traffic from the use of intermodal trailers to domestic containers to transport goods over rail. The shift has occurred primarily due to the railroads' promoting the increased use of domestic containers because of the lower cost of transporting them versus intermodal trailers.

The demand for leased chassis in North America has been growing significantly due primarily to the growth in the use of international and domestic containers. The use of containers, which are placed on chassis to transport the container to the next destination, has increased due to the many benefits of shipping goods by container versus alternative methods. As the use of containerized trade continues to increase, the market for chassis, an essential part of moving the container to the final destination, will similarly increase. In addition, the railroads and shipping lines have focused on reducing their capital expenditures on ancillary assets in favor of more core assets such as railcars or ships. To take advantage of this trend, the Company has established neutral chassis pools at key rail interchange locations and ports in the United States.

XTRA International: General

The Company's 148,000 marine containers are standard, dry cargo 20' and 40' rectangular steel boxes leased primarily to steamship lines for transporting freight on ships worldwide. Container usage has exceeded world gross domestic product growth primarily as a result of the logistical advantages and efficiencies resulting from containerization. Standardization of the construction, maintenance and handling of containers allows containers to be picked up, dropped off, stored and repaired throughout the world.

For the 1999 fiscal year, the average utilization rate for the Company's marine containers was 71%. Approximately 34% of XTRA's marine container fleet was leased on a term basis at September 30, 1999, with the remainder of the fleet available for lease on a per diem basis.

XTRA International: Competitive Environment

XTRA agreed to outsource the management of its international container leasing business effective June 1, 1999 to Textainer Equipment Management Limited. The Company believes that, with the addition of the XTRA fleet, Textainer owns or manages a fleet of approximately 850,000 twenty foot equivalent units, making it the world's third largest container fleet with a market share of 13% of the leasing segment of the industry. The two largest competitors in this segment each have approximately a 18% market share. Over the last several years, there has been consolidation in the container leasing business resulting from several acquisitions. The result of the consolidation has been fewer lessors, and a more rationalized industry, but has not yet resulted in a more stabilized lease pricing environment.

XTRA International: Market Trends

Demand for leased containers is influenced primarily by the volume of international and domestic trade. In recent years, however, the rate of growth in the supply of containers has exceeded world gross domestic product as a whole due to several factors, including the existence of geographical trade imbalances, the expansion of shipping lines, changes in manufacturing practices and increased exports by certain technologically advanced countries of component parts for assembly in other countries and the subsequent re-importation of finished products. However, aggressive spending for newer, lower cost containers over the last few years has caused supply growth to exceed demand growth creating excess supplies and decreased utilization. Leasing companies currently own approximately half of the world's container fleet with the balance owned predominantly by the shipping lines.

Environmental Matters

Although the nature of the Company's operations at its owned and leased facilities is such that it is not a heavily regulated entity pursuant to Federal and state environmental laws and regulations, the Company is required to comply with such laws and regulations, including laws and regulations related to the generation, handling, storage, transportation, treatment and disposal of hazardous and solid wastes. In addition, under various Federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may become liable for the costs of removal or remediation of hazardous or toxic substances, typically without regard to fault.

The Illinois Environmental Protection Agency has notified the Company of alleged environmental contamination of its Fairmont City, Illinois property that resulted from the prior owners' zinc smelting operations. As a result, the Company has taken certain actions to suppress dust that have significantly reduced the level of airborne contaminants at the site. Based on the Company's current understanding of the nature of the contamination at the site, the Company does not believe that the ultimate resolution of this matter will have a material adverse effect on the Company's results of operations, cash flows or financial condition.

The Company believes that its facilities are in compliance in all material respects with all applicable United States Federal, state and local environmental laws, ordinances and regulations, as well as comparable laws and regulations outside the United States. No assurances can be given, however, that the current environmental condition of the Company's owned and leased facilities is not other than as currently understood by the Company, or will not be adversely affected by the condition of properties in the vicinity of the Company's owned and leased properties or by the activities of third parties unrelated to the Company, or that future laws, ordinances or regulations will not impose any material environmental liability on the Company.

Regulation

The Company's over-the-road and intermodal equipment is subject to various Federal and state licensing and operating regulations as well as to various industry standards. The Federal Highway Administration (the "FHWA") published a rule, effective June 1, 1999 to amend the Federal Motor Carrier Safety Regulations. The rule requires that motor carriers engaged in interstate commerce install retroreflective tape or reflex reflectors on the sides and rear of all trailers that (i) were manufactured prior to December 1, 1993, (ii) have an overall width of 80 inches or more and (iii) have a gross vehicle weight rating of 10,000 lbs. or more. The FHWA has mandated that motor carriers complete the installation within two years of the effective date of the rule. The Company currently estimates that as of September 30, 1999 the cost of complying with the regulation will amount to approximately $5 million. The cost to install the reflective tape will be capitalized and depreciated over the remaining life of the trailers impacted by this regulation.

Employees

The Company had 777 employees at September 30, 1999.

Corporate Organization

The Company was organized in 1957. XTRA's corporate management offices are located at 60 State Street, Boston, Massachusetts 02109-1826 (telephone number (617) 367-5000).

XTRA, Inc., a wholly-owned direct subsidiary of XTRA Corporation, owns substantially all of the Company's transportation equipment and conducts the Company's leasing business through certain of its subsidiaries pursuant to management service agreements.

[ITEM 2] PROPERTIES

The Company maintains 86 facilities for the storage and distribution of its OTR and intermodal equipment throughout North America, occupying 670 acres, of which 376 acres are owned. These facilities generally occupy 2 to 16 acres. The Company also maintains 7 chassis pools at various customer locations.

[ITEM 3] LEGAL PROCEEDINGS

From time to time, the Company is involved in various claims and legal actions arising out of the normal course of its business. Currently, there are no pending claims or actions that management believes will have a material adverse effect on the Company's financial position, results of operations or cash flows.

[ITEM 4] SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to stockholders of the Company during the fourth quarter of 1999.

[ITEM 4A] EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Company, the age of each, and the period during which each has served in his present office are as follows:

Lewis Rubin (61) - President and Chief Executive Officer. Mr. Rubin was President and Chief Executive Officer of Flexi-Van Corporation, a company engaged in the leasing of intermodal transportation equipment, from 1981 to 1983. He served as President and Chief Executive Officer of Gelco CTI Container Services, a subsidiary of Gelco Corporation, and as an Executive Vice President of Gelco Corporation from 1984 to 1988. Mr. Rubin was elected President and Chief Operating Officer of the Company in 1990. He was elected to his present position in 1990.

Jordan L. Ayers (40) - Vice President, XTRA Intermodal. Mr. Ayers joined the Company in 1994 as Vice President, Sales, XTRA Intermodal and was promoted to Vice President, Sales and Marketing, XTRA Intermodal in 1997. He was elected Divisional Executive Vice President, XTRA Intermodal in 1999. He was elected to his present position in 1999. Mr. Ayers was previously employed by Transamerica Leasing, a major intermodal equipment lessor.

Jeffrey R. Blum (47) - Vice President, Planning and Development. Mr. Blum joined the Company in 1995 as Vice President of Human Resources and became Vice President, Administration and Human Resources in 1996. He was elected to his current position in 1999. Prior to 1995, Mr. Blum served in similar capacities at First Winthrop Corporation from 1993 to 1995 and Signal Capital Corporation prior to 1993.

William H. Franz (48) - Vice President, XTRA Lease. Mr. Franz was previously employed by two large over-the-road lessors, Transport International Pool and Strick Lease. He joined the Company in 1992 and was elected Divisional Executive Vice President, XTRA Lease in 1993. He was elected to his present position in 1993.

Thomas A. Giacchetto (34) - Vice President, General Counsel and Secretary. Mr. Giacchetto joined the Company in 1995 as Senior Corporate Counsel. He became Chief Counsel and Secretary in 1998 and was elected to his present position later in 1998. Prior to joining the Company, Mr. Giacchetto was an associate with Hutchins, Wheeler & Dittmar, a Boston law firm, from 1990 through 1995.

Christopher P. Joyce (38) - Vice President and Treasurer. Mr. Joyce joined the Company in 1985. He was promoted to Assistant Treasurer in 1991 and was elected Treasurer in 1993. Mr. Joyce was elected to his present position in 1996.

Gregory C. Kowert (52) - Vice President, Administration. Mr. Kowert joined the Company as Vice President, Administration in March 1999. He was Chief Financial Officer and Vice President of UP/Graphics, Inc., a printing company, since 1998. From 1996 to 1998, he was Chief Financial Officer, Senior Vice President, Finance and Secretary of Connectivity Technologies, Inc., a manufacturer and distributor of wire, cable and networking products. Prior to that, he served as Chief Financial Officer, Director, and Vice President, Finance of O'Sullivan Industries Holdings, Inc., a furniture manufacturer.

Michael J. Soja (50) - Vice President and Chief Financial Officer. Mr. Soja joined the Company as Assistant Controller in 1974, was elected Controller in 1978 and Vice President in 1979. He was elected Vice President, Finance and Administration in 1981 and Vice President, Finance and Treasurer in 1990. Mr. Soja was elected to his present position in 1990.

All terms of office expire as of the date of the Board of Directors' meeting following the next Annual Meeting of Stockholders and until their respective successors are elected and qualified.

PART II

[ITEM 5] MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is listed on the New York Stock Exchange and trades under the symbol "XTR". The approximate number of record holders as of November 9, 1999 was 637. The following table sets forth the range of high and low sale prices of the Company's Common Stock on the New York Stock Exchange Composite Tape and dividends declared during fiscal years ended September 30, 1998 and 1999.

		High	Low	Dividends Declared
1998:	First Quarter	60 –	50 –	.20
	Second Quarter	66 1/16	57 3/4	.22
	Third Quarter	64 13/16	45 1/2	.22
	Fourth Quarter	62 7/8	46 5/16	—
1999:	First Quarter	49 1/4	37 1/2	—
	Second Quarter	43 1/2	37 1/2	—
	Third Quarter	46 1/4	37 3/4	—
	Fourth Quarter	47 13/16	39 3/4	—

The Company paid quarterly cash dividends on its Common Stock from January 1977 through the third quarter of 1998. The Company agreed under the terms of the Recapitalization Merger Agreement not to pay dividends on the Company Common Stock pending consummation of the Merger (see Note 14 of the Notes to Consolidated Financial Statements). Since the termination of the Merger Agreement, the Company has not paid dividends and has no current plans to do so. Future dividends, if any, will be determined by the Board of Directors and will be dependent upon the earnings, financial condition, and cash requirements of the Company and other relevant factors existing at the time.

The Company's sources of funds for the payment of dividends on its capital stock are advances and dividends from its direct and indirect wholly-owned subsidiaries, including XTRA, Inc. The primary sources of funds for XTRA, Inc. are cash flows from operations, advances from its subsidiaries, and external financing. The Company's loan agreements contain covenants that restrict the payment of dividends or repurchases of common stock by the Company and certain loan agreements contain covenants that restrict advances to and payment of dividends to the Company by its subsidiaries, including XTRA, Inc. Under the most restrictive provisions of the Company's loan agreements, the combined amount of repurchases of common stock and cash dividends which could be paid on the Company's capital stock was limited to $96 million at September 30, 1999.

[ITEM 6] SELECTED FINANCIAL DATA

This information is set forth in the table appearing on page 1 of the Company's 1999 Annual Report, which table is incorporated herein by reference.

[ITEM 7] MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this item appears in the Company's 1999 Annual Report beginning at page 24 and is incorporated herein by reference.

[ITEM 7A] QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has financed its operations with a combination of short-term borrowings and longer term financing. The Company borrows on a short-term basis by issuing commercial paper and using several uncommitted lines of credit, both of which are back-stopped by the unused borrowing capacity under the Company's $225 million Revolving Credit Agreement. The Company's short-term borrowings, back-stopped by the Revolving Credit Agreement, are classified as long term debt and are principally at variable rates and constitute approximately 20% of on balance sheet indebtedness. The balance of indebtedness represents long-term fixed rate borrowings. At September 30, 1999, the fair value of the Company's long-term debt was $855 million. A 10% change in interest rates (from 7% to 7.7%, for example) would result in a $19 million change in the fair value of the long-term debt.

The Company's earnings are affected by fluctuations in the exchange rate of the U.S. dollar as compared to the Mexican peso and Canadian dollar. These earnings fluctuations are primarily a result of the Company investments in and financing of these operations, as opposed to operating results. Overall, the Company's exposure to fluctuations in foreign exchange rates is not significant.

[ITEM 8] FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

For the Financial Statements and Supplementary Data for XTRA Corporation and its subsidiaries, see Index to Financial Statements on page 20 of the Company's 1999 Annual Report, which Financial Statements and Supplementary Data are incorporated herein by reference.

[ITEM 9] CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

PART III

[ITEM 10] DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(a) **Directors** - Information with respect to all directors may be found in the Company's definitive Proxy Statement for the 2000 Annual Meeting of Stockholders (the "2000 Proxy Statement") under the caption "Information with Respect to Director Nominees," which is to be filed with the Securities and Exchange Commission. Such information is incorporated herein by reference.

(b) **Executive Officers** - Information with respect to executive officers of the registrant appears in Item 4A of this Report on Form 10-K.

[ITEM 11] EXECUTIVE COMPENSATION

This information is contained in the 2000 Proxy Statement under the captions "Executive Compensation Tables" and "Compensation of Directors." Such information is incorporated herein by reference.

[ITEM 12] SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This information is contained in the 2000 Proxy Statement under the captions "Stock Ownership by Directors and Executive Officers" and "Beneficial Ownership of More than Five Percent of Voting Securities." Such information is incorporated herein by reference.

[ITEM 13] CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information is contained in the 2000 Proxy Statement under the captions "Information with Respect to Director Nominees" and "Certain Transactions." Such information is incorporated herein by reference.

PART IV.

[ITEM 14] EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K

(a) Required exhibits are included only in the Form 10-K filed with the Securities and Exchange Commission.

(b) The Company filed a Current Report on Form 8-K, dated November 15, 1999, which disclosed certain financial information for the fiscal fourth quarter ended September 30, 1999.

(c) For Financial Statements and Schedule, see Index to Financial Statements on page 20 of the Company's 1999 Annual Report, which Financial Statements and Schedule are incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

XTRA Corporation
(Registrant)
By /s/ Lewis Rubin
President and Chief Executive Officer

November 9, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURES	TITLE	DATE
/s/ Robert B. Goergen	Chairman of the Board of Directors	November 9, 1999
/s/ Lewis Rubin	President, Chief Executive Officer and Director	November 9, 1999
/s/ Michael J. Soja	Vice President and Chief Financial Officer	November 9, 1999
/s/ Thomas S. McHugh	Controller	November 9, 1999
/s/ Michael D. Bills	Director	November 9, 1999
/s/ H. William Brown	Director	November 9, 1999
/s/ Michael N. Christodolou	Director	November 9, 1999
/s/ Martin L. Solomon	Director	November 9, 1999

PARENT AND SUBSIDIARIES*

NAME	STATE OR PROVINCE OF INCORPORATION
XTRA Corporation	Delaware
Subsidiary of XTRA Corporation	
XTRA, Inc.	Maine
Subsidiaries of XTRA, Inc.	
XTRA Intermodal, Inc.	Delaware
XTRA International Ltd.	Delaware
XTRA Mexicana, S.A. de C.V.	Mexico
Distribution International Corporation	Delaware
Subsidiaries of Distribution International Corporation	
Strick Canada Limited	Ontario
XTRA Lease, Inc.	Delaware

*Certain inactive subsidiaries have been omitted.

Index to FINANCIAL STATEMENTS

XTRA Corporation and Subsidiaries

(Information required by Part II, Items 7 and 8 and Part IV, Item 14 of Form 10-K)

FINANCIAL STATEMENTS	PAGE
Consolidated balance sheets - September 30, 1999 and 1998	21
Consolidated income statements for the three years ended September 30, 1999	22
Consolidated statements of cash flows for the three years ended September 30, 1999	23
Management's discussion and analysis of financial condition and results of operations for the three years ended September 30, 1999	24
Cautionary statements for purposes of the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995	30
Unaudited quarterly condensed consolidated statements of operations for the years ended September 30, 1999 and 1998	32
Consolidated statements of stockholders' equity for the three years ended September 30, 1999	33
Notes to consolidated financial statements	34
Report of independent public accountants	47
Schedule for the three years ended September 30, 1999	
Schedule 1- Parent Company financial statements	*

*The Parent Company financial statements have been included in the Form 10-K filed with the Securities and Exchange Commission and have been omitted from this Annual Report

Consolidated BALANCE SHEETS

XTRA Corporation and Subsidiaries

September 30, (Millions of dollars except per share and share amounts)	1999	1998
Assets		
Property and equipment	$ 2,266	$ 2,200
Accumulated depreciation	(827)	(748)
Net property and equipment	1,439	1,452
Lease contracts receivable	38	42
Trade receivables, net	78	64
Other assets	14	14
Cash	4	3
Total Assets	$ 1,573	$ 1,575
Liabilities and Stockholders' Equity		
Liabilities		
Debt	$ 852	$ 802
Deferred income taxes	309	287
Accounts payable and accrued expenses	75	78
Total Liabilities	1,236	1,167
Commitments and Contingencies (Note 5)		
Stockholders' Equity		
Preferred Stock, without par value; total authorized: 3,000,000 shares Common Stock, par value $.50 per share; authorized: 30,000,000 shares issued and outstanding: 12,812,400 shares at September 30, 1999; 15,372,903 shares at September 30, 1998	6	8
Capital in excess of par value	–	57
Retained earnings	341	354
Unearned compensation – restricted stock	(3)	–
Accumulated other comprehensive income	(7)	(11)
Total Stockholders' Equity	337	408
Total Liabilities and Stockholders' Equity	$ 1,573	$ 1,575

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated INCOME STATEMENTS

XTRA Corporation and Subsidiaries

For the year ended September 30, (Millions of dollars except per share and share amounts)	1999	1998	1997
Revenues	$ 464	$ 461	$ 435
Operating Expenses			
Depreciation on rental equipment	152	151	149
Rental equipment operating expense	113	108	109
Selling and administrative expense	45	42	43
Revenue equipment writedown	25	–	–
Restructuring costs	13	–	–
Total Operating Expenses	348	301	301
Operating Income	116	160	134
Interest expense	58	58	63
Foreign exchange (gain) loss	(1)	2	–
Income before provision for income taxes and unusual item	59	100	71
Unusual item: costs related to terminated merger	1	1	–
Pretax income	58	99	71
Provision for income taxes	23	39	28
Net Income	$ 35	$ 60	$ 43
Basic earnings per common share	$ 2.49	$ 3.90	$ 2.79
Basic shares outstanding (in millions)	13.9	15.3	15.3
Diluted earnings per common share	$ 2.49	$ 3.88	$ 2.78
Diluted shares outstanding (in millions)	13.9	15.4	15.3

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of CASH FLOWS

XTRA Corporation and Subsidiaries

For the year ended September 30, (Millions of dollars)	1999	1998	1997
Cash Flows from Operations			
Net Income	$ 35	$ 60	$ 43
Add non-cash income and expense items:			
Depreciation and amortization, net	151	150	148
Revenue equipment writedown	25	–	–
Deferred income taxes, net	22	35	26
Bad debt expense	4	5	5
Add other cash items:			
Net change in receivables, other assets, payables, and accrued expenses	(24)	(7)	(7)
Cash receipts on lease contracts receivables	25	24	21
Recovery of property and equipment net book value	39	26	33
Total Cash Provided from Operations	277	293	269
Cash Used for Investment Activities			
Additions to property and equipment	(215)	(199)	(249)
Total Cash Used for Investment Activities	(215)	(199)	(249)
Cash Flows from Financing Activities			
Borrowings of debt	75	–	72
Payments of debt	(25)	(90)	(72)
Net proceeds from exercise of stock options	–	5	1
Repurchase of common stock	(111)	–	(13)
Dividends paid	–	(10)	(12)
Total Cash Used for Financing Activities	(61)	(95)	(24)
Net increase (decrease) in cash	1	(1)	(4)
Cash at beginning of year	3	4	8
Cash at end of year	$ 4	$ 3	$ 4
Total interest paid	$ 58	$ 58	$ 59
Total income taxes paid (refunded)	$ 2	$ 3	$ (5)

The accompanying notes are an integral part of these consolidated financial statements.

The discussion below contains certain forward-looking statements including estimates of economic and industry conditions, equipment utilization, and capital expenditures. Actual results may vary from those contained in such forward-looking statements. See "Cautionary Statements for Purposes of the 'Safe Harbor' Provisions of the Private Securities Litigation Reform Act of 1995" contained below. Reference to years in the discussion below refers to XTRA Corporation's fiscal years (the period from October 1 to September 30).

XTRA Corporation leases, primarily on an operating basis, freight transportation equipment, including over-the-road trailers, marine containers, intermodal trailers, chassis, and domestic containers. XTRA's equipment utilization, lease rates, and therefore, profitability, are impacted by the supply of and demand for available equipment, the level of economic activity in North America, world trade activity, the actions of its competitors, and other factors in the freight transportation industry. Utilization and profitability are usually seasonally lower in the second and third fiscal quarters than in the first and fourth fiscal quarters. In general, the Company's receivable collection experience has been good. However, industry downturns tend to lengthen the collection period of certain receivables.

The Company's pretax profits have been cyclical, principally due to the variability of the Company's revenues and the high percentage of fixed costs. To moderate this cyclicality, the Company attempts to maintain a balance between the amount of equipment leased on a per diem and term basis and maintains a mix of various types of freight transportation equipment available for lease. The Company has historically maintained a high proportion of its debt at fixed rates to reduce the impact of fluctuations in interest rates.

XTRA's marine container leasing operation reduces XTRA's dependence on the North American transportation industry. Although the marine container business is international, substantially all transactions are denominated in U.S. dollars.

Revenues

Revenues are a function of lease rates and working units; the latter depends on fleet size and equipment utilization. Utilization, the ratio of revenue-earning units to the total fleet, is derived from billing information, usage reports and other information from customers, assumptions based on historical experience, and equipment inventories taken at Company depots, and is an approximation. Utilization is impacted by the supply of, and demand for, available equipment, the level of economic activity in North America, and world trade activity.

The following table sets forth the Company's average equipment utilization (dollar weighted by investment in each type of equipment), average fleet size in units, and average net investment in revenue equipment for the three years ended September 30, 1999. The Company's average fleet size and net investment includes equipment owned by the Company, equipment leased-in from third parties under operating and capital leases, and equipment leased to third parties under finance leases.

For the year ended September 30, (Millions of dollars)	1999	1998	1997
North America			
XTRA Lease			
Utilization	87%	90%	88%
Units	85,000	79,000	77,000
Net investment (in millions)	$ 832	$ 738	$ 674
XTRA Intermodal			
Utilization	79%	81%	82%
Units	53,000	54,000	54,000
Net investment (in millions)	$ 281	$ 290	$ 322
Total			
Utilization	85%	87%	86%
Units	138,000	133,000	131,000
Net investment (in millions)	$ 1,113	$ 1,028	$ 996
International			
Utilization	71%	82%	79%
Units	160,000	164,000	157,000
Net investment (in millions)	$ 350	$ 404	$ 418
Consolidated			
Utilization	81%	86%	84%
Units	298,000	297,000	288,000
Net investment (in millions)	$ 1,463	$ 1,432	$ 1,414

Overall, 1998 revenues increased by 6% or $26 million in 1998, primarily due to improvement in the North American businesses. In 1998, the Company's overall equipment utilization increased by 2%. XTRA's North American revenues increased 6% or $22 million due to more working units, as well as an improvement in lease rates. North American utilization averaged 87% in 1998, as compared to 86% in 1997.

XTRA's 1998 International revenues increased 5% or $4 million. An increase in revenues attributable to more working units was partially offset by lower average effective lease rates. XTRA's marine container utilization improved to 82% from 79% in 1997. The Company's average international fleet size increased in 164,000 units in 1998 from 157,000 units in 1997 as a result of modest capital spending.

Revenues increased by 1% or $3 million in 1999. The Company's average equipment utilization declined from 86% in 1998 to 81% in 1999. Average net investment in equipment increased by $31 million due primarily to an increase in the net investment in over-the-road trailers, which was partially offset by a decline in the net investment in the marine container and intermodal equipment fleets.

The Company's North American revenues increased 5% or $20 million from the same period a year ago due to strong levels of domestic freight leading to more working units, as well as an improvement in lease rates. The Company's North American utilization averaged 85% in 1999, as compared to 87% in 1998. XTRA Lease's revenues increased $23 million from 1998 due to strong levels of domestic freight leading to more working units, as well as an improvement in lease rates. XTRA Lease's utilization averaged 87% in fiscal year 1999, as compared to 90% in 1998. XTRA Intermodal's revenues decreased $3 million from fiscal 1998 due primarily to a decrease in working units. XTRA Intermodal's utilization averaged 79% in fiscal 1999, compared to 81% in 1998.

The Company's North American over-the-road fleet of 85,000 units, consisting primarily of over-the-road trailers, represented 57% of average net investment in equipment in 1999, compared to 79,000 units, or 51% of average net investment in equipment in 1998. The Company continues to downsize its North American intermodal trailer fleet as the railroads shift toward more domestic container usage. XTRA's intermodal trailer fleet averaged 22,000 units in 1999, or 10% of average net investment in equipment in 1999, versus 23,000 units, or 11% of average net investment in equipment in 1998.

International revenues decreased 22% or $17 million in 1999, primarily due to fewer working units and a decrease in lease rates. Equipment utilization declined to 71% from 82% in the comparable prior year period. Marine container lease rates in 1999 reflect a decline from 1998 and continue to be at low levels for the Company and the industry as a whole. The Company's average marine container fleet size declined to 160,000 units in 1999 from 164,000 units in 1998.

Operating Expenses

Total operating expenses were unchanged in 1998 and 1997 at $301 million. In 1999, operating expenses, excluding one time charges and an unusual item, increased by 3%, or $9 million from 1998.

Depreciation expense increased 1%% or $2 million in 1998 and 1% or $1 million in 1999 due to a larger fleet investment.

In 1998, rental equipment operating expenses decreased by 1% or $1 million, due to lower repair and maintenance and storage and repositioning costs, which were partially offset by higher facility costs. In 1999, rental equipment operating expenses increased by 4% or $5 million due to higher storage and repositioning costs at XTRA International, partially offset by a $1 million gain on the sale of real estate. Selling and administrative expenses in 1998 decreased by $1 million from 1997. In 1999, selling and administrative expenses increased 7% or $3 million due primarily to higher compensation and information technology expenses.

One-Time Charges Included in Operating Expenses

XTRA recorded one-time charges during the second quarter of fiscal 1999 for establishing a Shared Service Center, restructuring its marine container operations and recording additional depreciation to adjust a portion of its marine container fleet to realizable value. These charges were $4 million, $9 million and $25 million, respectively.

The Company has consolidated its financial, accounting, human resources, and information technology operations into a Shared Service Center located in St. Louis, Missouri to achieve cost savings and efficiencies. The transition to the Shared Services Center was substantially complete at the end of fiscal 1999. Approximately $2 million of the total charge of $4 million is related to severance payments and the

remainder is provided for the consolidation of existing facilities. During fiscal 1999, approximately $3 million was charged to this reserve for the consolidation of existing facilities and severance payments.

XTRA agreed to outsource the management of its international container leasing business effective June 1, 1999 to Textainer Equipment Management Limited, a major equipment lessor. The agreement allows the Company to achieve economies of scale by having its fleet managed by a quality container lessor with a significantly larger fleet and cost effective infrastructure. XTRA recorded a restructuring charge of approximately $9 million related to the costs of closing its XTRA International offices. Approximately half of the charge is for severance payments and the remainder is primarily for the write-off of non-revenue assets. During fiscal 1999, approximately $4 million was utilized for the write off of capitalized software and hardware and $5 million for employee severance costs was charged against the reserve.

Additionally, the Company identified a number of older, less desirable marine containers that it intends to sell over the period ending March 31, 2000, and as a result recorded a depreciation charge during the second quarter of fiscal 1999 of $25 million to write down the containers to their estimated net realizable value. In fiscal 1999, approximately 13,000 containers of the approximate 20,000 that were identified as held for disposal have been sold. The Company does not currently anticipate making any further investment in the international container business.

Unusual Item: Costs Related to Terminated Merger

During the fourth quarter of fiscal 1998 and the first quarter of fiscal 1999, XTRA recorded approximately $1 million in each quarter as an unusual item on the income statement. These expenses were related to the terminated merger with Wheels MergerCo.

Normalized Operating Results

Excluding the unusual charge, fiscal 1998 net income was unchanged at $60 million and diluted earnings per share would have been $3.91. Excluding the unusual charge in the first quarter of fiscal 1999 and the one-time charges included in operating expenses recorded in the second quarter of fiscal 1999, net income and diluted earnings per share would have been $58 million and $4.16 for fiscal 1999.

Interest Expense

Interest expense is a function of the amount of average net debt outstanding (long-term debt less cash) and average interest rates. The following table sets forth total average net debt outstanding and interest expense as a percentage of total average net debt outstanding.

For the year ended September 30,	1999	1998	1997
Average net debt outstanding (millions of dollars)	$ 837	$ 829	$ 882
Interest expense as a percentage of average net debt outstanding	6.9%	7.0%	7.1%

In 1998, interest expense declined 8% or $5 million due primarily to a decrease in average net debt outstanding as well as a lower average effective interest rate. Interest expense in 1999 was unchanged from 1998 as slightly higher average net debt outstanding was offset by a lower average effective interest rate.

Foreign Exchange Gain (Loss)

The $2 million foreign exchange loss in 1998 was due to a strengthening of the U.S. dollar against the Canadian and Mexican currencies. In 1999, the $1 million foreign exchange gain was due to the U.S. dollar declining versus the Canadian dollar. During 1999, the Company ceased accounting for its operations in Mexico as a highly inflationary economy.

Pretax Income

In 1998, pretax income increased 39% or $28 million due to higher equipment utilization, improved North American lease rates and lower expenses, including interest expense. In 1999, pretax income, before one-time charges and an unusual item declined 3% or $3 million primarily due to lower equipment utilization at XTRA International.

Provision for Income Taxes

The Company's effective income tax rate was approximately 40% in 1999, 1998, and 1997. For additional information regarding the provision for income taxes, see Notes 1 and 4 of the Notes to Consolidated Financial Statements.

FINANCIAL LIQUIDITY AND CAPITAL RESOURCES

Significant capital investment is required by the Company's leasing operations, not only for growth but also for replacement of units retired from service. However, during periods of slower economic growth or excess equipment supplies, capital expenditures may be curtailed until demand for transportation equipment increases.

The following table sets forth capital expenditures by equipment type, including units acquired by acquisition, units purchased, and units leased-in from third parties under operating leases and capital leases. The capital expenditures for fiscal 2000 represent XTRA's commitments for 1999 as of November 5, 1999.

(Millions of dollars)	2000	1999	1998	1997
Over-the-road trailers	$ 87	$ 235	$ 176	$ 193
Intermodal trailers	–	–	–	–
Chassis	–	16	6	2
Domestic containers	–	–	–	18
Marine containers	–	–	10	30
Non-revenue equipment	–	14	7	6
Total	$ 87	$ 265	$ 199	$ 249

The Company recognizes that managing capital spending is essential to maintaining the quality of its fleet. The Company increases its fleet by purchasing new and used equipment and by acquiring equipment from other leasing companies. In 1998, capital expenditures declined slightly to $199 million, partially as a result of the pending merger agreement. The vast majority of the 1998 capital expenditures was for over-the-road trailers. In 1999, due to strong conditions in its North American businesses, capital expenditures increased to $265 million, of which $235 million was for over-the-road trailers. Fiscal 1999 capital expenditures include $50 million leased-in under an operating lease. As of November 5, 1999, XTRA's committed capital expenditures for fiscal 2000 amounted to $87 million. The Company may increase capital spending in 2000 if conditions warrant. Actual capital expenditures for 2000 will depend on the Company's assessment of business conditions.

During the three years ended September 30, 1999, the Company generated $839 million of cash flow from operations. During this same period, XTRA invested $713 million in property and equipment, paid dividends of $22 million, repurchased $118 million of common stock, net of stock options exercised, and reduced net debt (debt less cash) outstanding by $35 million. Capital expenditures of $50 million were made through an off balance sheet lease financing during fiscal 1999. See Note 5 of the Notes to Consolidated Financial Statements.

During fiscal 1999, the Company repurchased approximately 2.7 million shares of its common stock for approximately $111 million. Total shares repurchased in 1999 represent 17% of the total shares outstanding at the beginning of fiscal 1999.The Company has authorized in September 1999 the repurchase of up to an additional $100 million of Company common stock.

Although some level of future capital spending can be financed internally, the ability to fund expenditures above that level will depend upon the availability of external financing. The Company historically has had available to it a variety of external sources at favorable rates and terms to finance its acquisitions and the growth of its leasing equipment fleet. However, the availability of such capital depends heavily upon prevailing market conditions and the Company's capital structure and credit ratings.

Currently, the Company's external financing options include a combination of medium-term and long-term borrowings in the public and private debt market, a revolving credit agreement, intermediate and long-term financing from banks and institutional investors, and lease financing. XTRA and XTRA, Inc. have registered with the Securities and Exchange Commission $604 million of securities consisting of Preferred Stock and Company Common Stock of XTRA as well as senior and subordinated debt securities of XTRA, Inc., fully and unconditionally guaranteed by XTRA Corporation (the "Shelf Registration") (see Note 3 of the Notes to Consolidated Financial Statements). As of November 5, 1999, XTRA, Inc. had $457 million available for issuance under this Shelf Registration. As of November 5, 1999, the Company had $77 million of unused committed credit available under its $225 million Revolving Credit Agreement. For additional information regarding debt, see Note 3 of the Notes to Consolidated Financial Statements.

Year 2000

The Company has completed an assessment of year 2000 risks at each of its operating divisions. Detailed action plans were developed for critical operational systems, purchased software, hardware components, and critical third parties.

Critical operational systems that were custom designed for their specific business functions have been modified and tested for year 2000 compliance. These modified systems have been installed and are currently being used in the day to day business operations of the Company. Packaged software has been upgraded to a year 2000 compliant version. Operating system upgrades have been made for certain hardware components, while other hardware components were replaced.

The plans for critical operating systems, purchased software and hardware components were completed in October, 1999. A final comprehensive simulation was then conducted to ensure that all integration of components in the information systems infrastructure is year 2000 compliant and fully operational.

The Company has contacted critical vendors, suppliers, and customers with whom the Company does business for a statement regarding their year 2000 readiness. This communication process was completed during the fourth quarter of fiscal 1999. Based on the responses received, the Company is not aware of any third party's year 2000 problems that would have a material adverse impact on the Company. The Company has contingency plans in place for continuing operations in the event of any unforeseen interruptions. At this point, the Company has not identified any required contingency plans that would require material expenditures to be made.

In total, the Company has spent $1 million for its year 2000 efforts, which encompasses assessing, modifying, and testing its internal information systems.

While the Company does not believe that the year 2000 matters discussed above will have a material impact on its business, financial condition, or results of operations, no assurances can be given as to what extent the Company may be affected by such matters. The unavailability of the Company's internal information systems for a sustained period of time or disruptions in the economy generally resulting from year 2000 issues could have a materially adverse effect on the Company.

New Accounting Pronouncements

In fiscal 1999, the Company adopted Statement of Financial Accounting Standards No.130, "Reporting Comprehensive Income", (SFAS 130), which requires companies to report all non-owner changes in equity during a period in a financial statement for the period in which they are recognized. The Company has chosen to disclose Comprehensive Income, which encompasses net income and foreign currency translation adjustments, in the Consolidated Statements of Stockholders' Equity.

Also in fiscal 1999, the Company adopted Statement of Financial Accounting Standards No.131, "Disclosures about Segments of an Enterprise and Related Information", which requires companies to present segment information based upon the way that management organizes the segments within a company. Adoption of this standard did not impact the Company's consolidated financial position, result of operations, or cash flows; its effect was limited to the form and content of the Company's disclosures.

In March 1998, the AICPA issued SOP 98-1, "Accounting for the Costs of Computer Software Developed for or Obtained for Internal-Use". The provisions of the SOP must be applied in financial statements for fiscal years beginning after December 15, 1998 (Fiscal year 2000 for the Company). The SOP will require the capitalization of certain costs incurred after the date of adoption in connection with developing or obtaining software for internal use. The Company currently expenses such costs as incurred. The Company does not believe that the adoption of the SOP will have a significant impact on the Company's future earnings or financial position.

CAUTIONARY STATEMENTS FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The foregoing Part I, Item 1. Business; Management's Discussion and Analysis of Financial Condition and Results of Operations; and letter to our shareholders contain certain forward-looking statements, including estimates of economic and industry conditions, equipment utilization, and capital expenditures. In addition, the Company may occasionally make forward-looking statements and estimates such as forecasts and projections of the Company's future performance or statements of management's plans and objectives. These forward-looking statements may be contained in, among other things, SEC filings and press releases made by the Company and in oral statements made by the officers of the Company. Actual results could differ materially from those contained in such forward-looking statements. Therefore, no assurances can be given that the results in such forward-looking statements will be achieved. Important factors that could cause the Company's actual results to differ from those contained in such forward-looking statements include, among others, the factors mentioned below. An additional risk factor is the Company's ability to address the "Year 2000" problem in a timely and efficient manner.

VARIABLE REVENUES AND OPERATING RESULTS

The Company's revenues may vary significantly from period to period while a high percentage of its operating costs are fixed. As a result of the variability of the Company's revenues and the Company's limited ability to reduce its fixed operating costs, the Company's profitability may be cyclical and subject to significant fluctuation from period-to-period. The Company's revenues are a function of lease rates and working units; the latter depends on fleet size and equipment utilization (the ratio of revenue earning equipment to the total fleet). Some of the factors which affect lease rates and working units are competition, economic conditions and world trade activity, the supply of and demand for available equipment, aggressive purchasing of equipment by the Company's customers and competitors leading to an excess supply of equipment and reduced lease rates and utilization, shifting traffic trends in the industry, severe adverse weather conditions, strikes by transportation unions and other factors in the freight transportation industry. The Company's fixed costs include depreciation, rental equipment lease financing expense, a portion of rental equipment operating expenses and selling and administrative expenses.

AVAILABILITY OF NEW EQUIPMENT

New equipment is built to the Company's specifications and reflects industry standards and customer needs. The Company obtains new equipment from a number of manufacturers. Certain of these manufacturers have consolidated and, in the process, eliminated manufacturing facilities. These manufacturers are, in turn dependent on the prompt delivery and supply of the components required to assemble the trailers, chassis and containers. Historically, delivery times have varied from three to fifteen months from when the order is placed, and there can be no assurance that equipment will be available at the times or of the types needed by the Company. In addition, it is difficult to accurately predict demand for the Company's equipment in future periods. As a result, the Company's performance in a given period may be adversely affected because of its inability to quickly increase fleet size to take advantage of unexpectedly strong demand due to extended back orders or reduce fleet size in response to lower levels of demand.

COMPETITION

Leasing transportation equipment is a highly competitive business and is affected by factors related to the transportation market. Lease terms and lease rates, as well as availability, condition and size of equipment and customer service are all-important factors to the lessee. The Company has many competitors, some of which have leasing fleets that are larger in size than the Company's leasing fleet and some of which have greater resources. Various types of transportation equipment compete for freight movement: Over-the-road trailers, intermodal trailers, marine and domestic containers and railroad rolling stock are all potential vehicles for the movement of freight.

CUSTOMER CONSOLIDATION

Certain industries in which the Company competes, including trucking and shipping, are in the process of consolidation. As a result of this consolidation, the Company's customers may be better able to manage their equipment requirements and may seek increased efficiencies through direct ownership of equipment. In such event, the ratio of leased equipment to owned equipment may decrease, which could reduce the overall market for the Company's services.

AVAILABILITY OF CAPITAL

The acquisition of new equipment, both for growth as well as replacement of older equipment, requires significant capital. In addition, over the past several years, the Company has grown its fleet through acquisitions of other companies, requiring additional capital. The Company plans to continue to pursue acquisition opportunities. Historically, the Company generally has had available a variety of sources to finance such expenditures and acquisitions at favorable rates and terms. However, the availability of such capital depends heavily upon prevailing market conditions, the Company's capital structure, and its credit ratings. No assurances can be given that the Company will be able to obtain sufficient financing on terms that are acceptable to it to fund its operations and capital expenditures or to enable the Company to take advantage of favorable acquisition opportunities.

Unaudited Quarterly Condensed Consolidated Statements of **OPERATIONS**

XTRA Corporation and Subsidiaries

For the four quarters ended September 30, 1999 and 1998 (Millions of dollars except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1999				
Revenues	$ 123	$ 110	$ 111	$ 120
Expenses [1]	93[2]	129[3]	93	91
Pretax income (loss)	30	(19)	18	29
Provision (benefit) for income taxes	12	(8)	7	12
Net income (loss)	$ 18	$ (11)	$ 11	$ 17
Basic earnings (loss) per common share	$ 1.18	$ (0.82)	$ 0.85	$ 1.28
Basic shares outstanding (in millions)	15.4	13.9	13.2	13.0
Diluted earnings (loss) per common share	$ 1.18	$ (0.82)	$ 0.85	$ 1.28
Diluted shares outstanding (in millions)	15.4	13.9	13.2	13.0
1998				
Revenues	$ 121	$ 109	$ 112	$ 119
Expenses [1]	91	91	92	88[4]
Pretax income	30	18	20	31
Provision for income taxes	12	7	8	12
Net income	$ 18	$ 11	$ 12	$ 19
Basic earnings per common share	$ 1.18	$ 0.71	$ 0.80	$ 1.20
Basic shares outstanding (in millions)	15.3	15.3	15.3	15.4
Diluted earnings per common share	$ 1.17	$ 0.71	$ 0.80	$ 1.20
Diluted shares outstanding (in millions)	15.4	15.4	15.4	15.4

(1) Includes operating and interest expenses.

(2) Includes a $1 million unusual charge related to the terminated merger.

(3) Includes $13 million of restructuring charges and a $25 million equipment write-down charge.

(4) Includes a $1 million unusual charge related to the terminated merger.

Consolidated Statements of STOCKHOLDERS' EQUITY

XTRA Corporation and Subsidiaries

For the three years ended September 30, 1999 (Millions of dollars)	Common Stock $.50 Par Value	Capital in Excess of Par Value	Retained Earnings	Unearned Compensation on Restricted Stock	Accumulated Other Comprehensive Income [1]	Total Stockholders' Equity
Balance at September 30, 1996	$ 8	$ 64	$ 273	$ –	$ (3)	$ 342
Comprehensive income:				–	–	
Net income	–	–	43	–	–	43
Translation adjustment	–	–	–	–	(1)	(1)
Total comprehensive income	–	–	–	–	–	42
Common stock cash dividends declared at $0.78 per share	–	–	(12)	–	–	(12)
Options exercised and related tax benefits		1	–	–	–	1
Repurchase of common stock	–	(13)	–	–	–	(13)
Balance at September 30, 1997	8	52	304	–	(4)	360
Comprehensive Income:						
Net income	–	–	60	–	–	60
Translation adjustment	–	–	–	–	(7)	(7)
Total comprehensive income	–	–	–	–	–	53
Common stock cash dividends declared at $0.64 per share	–	–	(10)	–	–	(10)
Options exercised and related tax benefits	–	5	–	–	–	5
Repurchase of common stock	–	–	–	–	–	
Balance at September 30, 1998	8	57	354	–	(11)	408
Comprehensive income:						
Net income	–	–	35	–	–	35
Translation adjustment	–	–	–	–	4	4
Total comprehensive income	–	–	–	–	–	39
Shares granted under restricted stock plan, options exercised, and related tax benefits, net	–	4	–	(4)	–	–
Amortization of unearned restricted stock	–	–	–	1	–	1
Repurchase of common stock	(2)	(61)	(48)	–	–	(111)
Balance at September 30, 1999	$ 6	$ –	$ 341	$ (3)	$ (7)	$ 337

(1) Other comprehensive income, for the Company, consists of the change in cumulative translation adjustments during the period.

The accompanying notes are an integral part of these consolidated financial statements.

[1] SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

XTRA Corporation leases, primarily on an operating basis, freight transportation equipment including over-the-road trailers, intermodal trailers, chassis, and domestic containers, and marine containers. XTRA leases over-the-road and intermodal equipment throughout North America, predominantly within the United States, to contract and common motor carriers, private fleet owners, and railroads. In addition, the Company leases marine containers worldwide to steamship lines.

Principles of Consolidation

The consolidated financial statements include the accounts of XTRA Corporation and its wholly-owned subsidiaries (the "Company"). All material intercompany accounts and transactions have been eliminated. Certain amounts in the prior year financial statements have been reclassified to be consistent with the current year's presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

Provisions for income taxes recognize the tax effect of all revenue and expense transactions as well as any change during the period in deferred tax assets and liabilities. The effects of changes in tax rates and laws on deferred tax assets and liabilities are reflected in net income in the period in which such changes are enacted.

Leases

The Company records the majority of its leases using the operating method of accounting. Full-payout or near full-payout leases, where the present value of the of the minimum lease payments at the beginning of the lease term equals or exceeds 90% of the fair value of the leased property, are accounted for under the finance method.

Depreciation

The Company provides for depreciation by using the straight-line method to amortize the cost of property and equipment to its estimated residual value over its estimated useful life. Revenue equipment is depreciated using estimated useful lives of 10 to 20 years. In addition, the Company reviews the condition and types of its revenue equipment to determine if any impairment has occurred.

When equipment is sold or retired, its cost and accumulated depreciation are removed from the balance sheet and any gain or loss is included in revenues. Revenue equipment with an original cost of approximately $141 million, which has reached the end of its estimated useful life, remains in service and is included in Revenue Equipment at September 30, 1999.

Equipment and Real Estate Disposals

For purposes of the statements of cash flows, the total proceeds from the continuous disposal of fleet assets is reflected in cash flow from operations and the gain or loss is included in revenues in the income

statement. Gain or loss from the sales of real estate are included in the income statement in rental equipment operating expense. Gains on the sale of real estate were $1 million in fiscal 1999.

Repair and Maintenance

Repair and maintenance expenses are charged to operating expenses when incurred and amounted to $29 million, $28 million, and $29 million in 1999, 1998, and 1997, respectively.

Earnings per Share

Basic earnings per share is computed by dividing income available to common stock-holders by weighted average shares outstanding. Diluted earnings per share reflects the effect of all other outstanding common stock equivalents using the treasury stock method.

Foreign Currency Translation

The Company translates the assets and liabilities of its foreign operations at the exchange rates in effect at year-end. Revenues and expenses are translated using average exchange rates in effect during the year. Gains and losses from foreign currency translation for the Company's Canadian operations are credited or charged to cumulative translation adjustment included in stockholders' equity in the accompanying Consolidated Balance Sheets. The gains and losses from remeasurement of certain intercompany liabilities of the Company's Canadian businesses are included in foreign exchange gain or loss. The Company's operations in Mexico were accounted for as a highly inflationary economy in fiscal 1997 and 1998 and, accordingly, all translation gains and losses were charged to foreign exchange loss. In fiscal 1999, the Company's operations in Mexico ceased being accounted for as a highly inflationary economy and, accordingly, all translation gains and losses are credited or charged to cumulative translation adjustment, and included in stockholder's equity.

[2] EQUIPMENT LEASES

The Company uses the operating method of accounting for the majority of its equipment leases. Under this method, revenue is recognized in the month earned based on the terms of the lease contract, and the equipment is depreciated to its estimated residual value over its estimated useful life.

The finance method of accounting is used for revenue equipment leased to customers on a full-payout or near full-payout basis at lease inception. Under this method, finance lease income, the difference between the total lease receivable and the net book value less the residual value of the related equipment, is deferred and amortized as revenue over the lease term using the interest method, which provides a level rate of return on the net investment in the lease.

The following schedule summarizes the future minimum rental receipts on operating and finance leases by year as of September 30, 1999:

(Millions of dollars)	Operating Leases	Finance Leases
2000	$ 114	$ 21
2001	54	13
2002	38	6
2003	23	2
2004	12	1
2005 and thereafter	4	2
Total	$ 245	$ 45

The components of the net investment in finance leases as of September 30, 1999 and 1998 were as follows:

(Millions of dollars)	1999	1998
Minimum lease payments receivable	$ 45	$ 51
Add: estimated residual values	7	7
	52	58
Less: deferred finance lease income	(14)	(16)
Lease contracts receivable, net	$ 38	$ 42

[3] DEBT

Debt as of September 30, 1999 and 1998 consisted of the following:

(Millions of dollars)	1999	1998
Unsecured financing		
Medium-term Notes	$ 673	$ 656
Revolving Credit Agreement	169	128
Total unsecured financing	842	784
Secured financing	10	18
Total debt	852	802
Less: current portion	(94)	(72)
Long-term debt	$ 758	$ 730

The $673 million of Medium-term Notes have a weighted average interest rate of 7.0% and maturities from fiscal years 2000 to 2019. At September 30, 1999, $457 million remained available under the shelf registration for future debt issuance. The weighted average interest rate incurred was 7.0% during 1999, 1998, and 1997.

The Company's Revolving Credit Agreement has bank commitments of $225 million at September 30, 1999 and a revolving period maturity date of June 30, 2001. Pricing on the Revolving Credit Agreement is dependent on the Company's credit ratings and is based on a fixed spread over the London Interbank Offered Rate (LIBOR). The Company pays a facility fee on any unused commitment in the facility.

Unless the Company requests and the banks approve a renewal or extension of the agreement, borrowings outstanding on the revolving period maturity date will be converted to a five year term loan payable in equal quarterly installments with a final term maturity of June 30, 2006.

The Company borrows on a short-term basis by issuing commercial paper and using uncommitted lines of credit. Short-term borrowings are back-stopped by the unused borrowing capacity under the Revolving Credit Agreement. They have therefore been classified as Revolving Credit Agreement borrowings. At September 30, 1999 and September 30, 1998, such borrowings amounted to $169 million and $128 million, respectively. At September 30, 1999, the $169 million of Revolving Credit Agreement borrowings had a weighted average interest rate of 5.6%. The weighted average interest rates incurred under the Revolving Credit Agreement, consisting primarily of short-term borrowings, were 5.2%, 5.8%, and 5.7% during 1999, 1998, and 1997, respectively. At September 30, 1999, $56 million of unused commitment was available under the Revolving Credit Agreement.

The secured financing at September 30, 1999, consisting of capital lease obligations, has a weighted average interest rate of 8.9% and is payable in installments through 2001. The weighted average interest rates incurred under the secured financing were 8.5%, 9.1%, and 10.0% during 1999, 1998, and 1997, respectively.

Revenue equipment recorded on the consolidated balance sheets related to secured financing was as follows at September 30, 1999 and 1998:

(Millions of dollars)	1999	1998
Revenue equipment	$ 29	$ 41
Accumulated depreciation	(17)	(22)
Net secured equipment	$ 12	$ 19

Assuming the Company were to convert the Revolving Credit Agreement to a term loan on its revolving period maturity date, the amount of minimum maturities of all debt during each of the next five fiscal years and thereafter would be as follows:

(Millions of dollars)	Minimum Debt Maturities
2000	$ 94
2001	102
2002	116
2003	103
2004	58
2005 and thereafter	379
Total payments and maturities	$ 852

The Company's loan agreements contain minimum debt service tests and restrictive covenants including restrictions on the amount of debt in relation to revenue equipment and stockholders' equity and limitations on secured borrowings. The Company's loan agreements contain covenants that restrict the payment of dividends or repurchases of common stock by the Company. In addition, certain loan agreements contain covenants that restrict advances to and the payment of dividends to the Company by its subsidiaries, including XTRA, Inc. Under the most restrictive provisions of the Company's loan agreements, the combined amount of repurchase of common stock and cash dividends which could be paid on the Company's capital stock was limited to $96 million at September 30, 1999. Since the termination of the merger agreement, the Company has not paid dividends and has no current plans to do so.

[4] INCOME TAXES

The components of the provision for income taxes for 1999, 1998, and 1997 are as follows:

(Millions of dollars)	1999	1998	1997
Current tax provision			
Federal	$ –	$ 2	$ 1
State	1	2	1
Current tax provision	1	4	2
Deferred tax provision			
Federal	19	30	22
State	3	5	4
Deferred tax provision	22	35	26
Provision for income taxes	$ 23	$ 39	$ 28

The provision differs from income taxes currently payable because certain items of income and expense are recognized in different periods for financial statement purposes than for tax return purposes.

The reasons for the difference between the statutory U.S. Federal income tax rates and the Company's effective income tax rates for 1999, 1998, and 1997 are as follows:

(Millions of dollars)	1999	1998	1997
Federal statutory rate	35%	35%	35%
Increase in taxes resulting from:			
State taxes and other	5	5	5
Effective income tax rate	40%	40%	40%

The components of the net deferred tax liability as of September 30, 1999 and 1998 are as follows:

(Millions of dollars)	1999	1998
Assets		
Capital lease obligations	$ 3	$ 7
Investment tax credits	1	1
Alternative minimum tax credits	21	22
Other	19	16
Total deferred tax assets	$ 44	$ 46
Liabilities		
Revenue equipment	$ 330	$ 312
Other	23	21
Total deferred tax liabilities	353	333
Net deferred tax liability	$ 309	$ 287

The Company estimates that after filing its fiscal 1999 tax return, it will have $1 million of investment tax credit carryforwards available to reduce future federal income tax liabilities. The investment tax credit carryforwards expire in 2001. The Company also estimates that after filing its fiscal 1999 tax return, it will have $21 million of alternative minimum tax credit carry forwards available to reduce future federal income tax liabilities. The benefit of both tax credit carry forwards has been recorded in the Company's financial statements. The Company has not recognized a valuation allowance for deferred tax assets.

[5] COMMITMENTS AND CONTINGENCIES

The Company's offices and certain facilities are occupied under leases expiring at various dates. In addition, the Company has leased certain revenue equipment with an original cost of $50 million under a ten year operating lease expiring in 2009.

At September 30, 1999, the Company's lease commitments under the non-cancelable portion of these leases for the next five years and in total thereafter were as follows:

(Millions of dollars)	Revenue Equipment	Office Facilities	Total Lease Commitments
2000	$ 7	$ 5	$ 12
2001	5	5	10
2002	5	4	9
2003	5	4	9
2004	6	3	9
2005 and thereafter	31	5	36
Total	$ 59	$ 26	$ 85

Rental equipment lease financing expense amounted to $1 million in 1999 and 1997, respectively, which is included in the income statement under the caption "Depreciation on rental equipment." Other rental expense amounted to $6 million in 1999, 1998, and 1997, respectively.

As of November 5, 1999, the Company had committed capital expenditures of $87 million, principally for over-the-road trailers, in fiscal 2000.

The Illinois Environmental Protection Agency has notified the Company of alleged environmental contamination of its Fairmont City, Illinois property that resulted from the prior owners' zinc smelting operations. As a result, the Company has taken certain actions to suppress dust that have significantly reduced the level of airborne contaminants at the site. Based on the Company's current understanding of the nature of the contamination at the site, the Company does not believe that the ultimate resolution of this matter will have a material adverse effect on the Company's results of operations, cash flows or financial condition.

[6] RETIREMENT PLANS

The Company provides retirement benefits to substantially all of its employees through a qualified and funded defined contribution retirement plan. The Company's yearly profit sharing contributions are discretionary and include an employee-matching contribution to a 401(k) plan and a profit sharing contribution and are based on a specified percentage of employee qualified compensation. The retirement trust fund's assets are administered by a trustee. Participants are entitled to their vested portion of the retirement assets upon termination of employment. The Company recorded expenses of $2 million each year in 1999, 1998, and 1997 in connection with the defined contribution retirement plan.

[7] SEGMENT AND GEOGRAPHIC INFORMATION

In 1999, the Company adopted Statement of Financial Accounting Standards No. 131 ("SFAS 131"), "Disclosures about Segments of a Business Enterprise and Related Information," which establishes standards for reporting information about reportable operating segments. The Company's operating divisions and related transportation equipment, in applying the aggregation criteria of SFAS 131, have been aggregated into two reportable segments: North America and International.

The North American reporting segment consists of the Company's XTRA Lease and Intermodal divisions that lease over-the-road and intermodal equipment predominantly within the United States. The International division leases marine containers worldwide. Information about the Company's reportable segments and geographic segments is presented in the tables below.

Segment Information: (Dollars in millions)	North America	International	Total
1999:			
Revenues	$ 401	$ 63	$ 464
Depreciation expense	122	30	152
Interest expense	44	14	58
Non-recurring charges	5	34	39
Pretax income (loss)	105	(47)	58
Capital expenditures (including $50 million leased-in under an operating lease)	265	–	265
Total segment assets at September 30, 1999	1,238	335	1,573
1998:			
Revenues	$ 381	$ 80	$ 461
Depreciation expense	118	33	151
Interest expense	42	16	58
Non-recurring charges	1	–	1
Pretax income	97	2	99
Capital expenditures	189	10	199
Total segment assets at September 30, 1998	1,165	410	1,575
1997:			
Revenues	$ 359	$ 76	$ 435
Depreciation expense	117	32	149
Interest expense	45	18	63
Pretax income (loss)	76	(5)	71
Capital expenditures	219	30	249
Total segment assets at September 30, 1997	1,150	435	1,585

Geographic information:		1999	1998	1997
Revenues	United States	$ 371	$ 352	$ 331
	Other countries	93	109	104
	Total revenues	$ 464	$ 461	$ 435
Assets	United States	$ 1,119	$ 1,064	$ 1,060
	Other countries	454	511	525
	Total assets	$ 1,573	$ 1,575	$ 1,585

[8] COMMON STOCK

Repurchase of Common Stock

The Company had authorized the repurchase of up to $200 million of its common stock in 1995 and 1996. As of November 5, 1999, the Company repurchased $189 million of common stock under the $200 million authorization. In September, 1999, the Company approved a new $100 million stock repurchase authorization, which becomes effective upon the completion of the $200 million stock purchase authorization. The timing of the repurchases, which could occur over an extended period of time, will depend on price, market conditions, and other factors.

1998 General Stock Incentive Plan

The 1998 General Stock Incentive Plan authorizes the issuance of 150,000 shares of common stock under the Plan. The Plan allows the Company to grant awards to non-executive employees including stock options, stock appreciation rights, and restricted stock awards, subject primarily to the requirement of continuing employment. The awards under this plan are available for grant over a period of ten years from the date on which the plan was adopted, but the grants may vest beyond the ten-year period. Stock options issued by the Company are exercisable at a future time as specified by the Company and generally expire from five to ten years from the date of grant. The exercise price of stock options may not be less than the fair market value of the common stock at the date of grant.

1997 Stock Incentive Plan

The 1997 Stock Incentive Plan authorizes the issuance of 500,000 shares of common stock under the Plan. The Plan allows the Company to grant awards to key employees including restricted stock awards, stock options, and stock appreciation rights, subject primarily to the requirement of continuing employment. The awards under this plan are available for grant over a period of ten years from the date on which the plan was adopted, but the grants may vest beyond the ten-year period. Stock options issued by the Company are exercisable at a future time as specified by the Company and generally expire from five to ten years from the date of grant. The exercise price of stock options may not be less than the fair market value of the common stock at the date of grant.

1991 Stock Option Plan for Non-Employee Directors

The 1991 Stock Option Plan for Non-Employee Directors authorizes the granting of options for a maximum of 100,000 shares. The option price per share is equal to the fair market value of the common stock on the date of grant. The term of each option is five years and options become exercisable one year after the date of grant.

The XTRA Corporation Deferred Director Fee Option Plan

The Deferred Director Fee Option Plan allows a non-employee director to elect to receive, in lieu of his annual retainer fee and/or board and committee meeting fees, a non-qualified stock option. The option exercise price is 50% of the fair market value of the shares at the time the options are awarded and the amount of shares is determined by dividing the director's fees by the exercise price.

1987 Stock Incentive Plan

The 1987 Stock Incentive Plan, which expired November 1997, authorized the issuance of 1,150,000 shares of common stock under the plan. The Plan allowed the Company to grant awards to key employees including restricted stock awards, stock options, and stock appreciation rights, subject primarily to the requirement of continuing employment. The awards under this plan were available for grant over a period of ten years from the date on which the plan was adopted, but grants were allowed to vest beyond the ten year period. Stock options issued by the Company are exercisable at a future time as specified by the Company and generally expire from five to ten years from the date of grant. The exercise price of stock options may not be less than the fair market value of the common stock at the date of grant.

Under the Stock Incentive Plans, the Company is authorized to grant shares of restricted stock to employees. No monetary consideration is paid by employees who receive restricted stock. Restricted stock can be granted with or without performance restrictions. In 1999, the Company granted 87,750 shares of restricted stock under the 1997 Stock Incentive Plan at an average market value of $46.34 per share and recorded the total market value of the shares granted as unearned compensation in the Statement of Stockholders' Equity. The unearned compensation is being amortized to expense over the three year vesting period. Restricted stock compensation charged to expense in 1999 was $1 million.

Accounting for Stock-Based Compensation

In October 1995, the Financial Accounting Standards Board issued Statement of Accounting Standards Number 123 (SFAS 123), "Accounting for Stock-Based Compensation," which sets forth a fair-value-based method of recognizing stock-based compensation expense. As permitted by SFAS 123, the Company has elected to continue to apply APB No.25, "Accounting for Stock Issued to Employees", to account for its stock-based compensation plans.

Had the compensation cost for these plans been determined according to SFAS 123, the Company's net income and earnings per share would have been the following pro forma amounts:

(Millions of dollars, except per share amounts)	1999	1998	1997
Net Income			
As reported	$ 35	$ 60	$ 43
Pro forma	33	59	41
Basic EPS			
As reported	$ 2.49	$ 3.90	$ 2.79
Pro forma	2.40	3.87	2.72
Diluted EPS			
As reported	2.49	3.88	2.78
Pro forma	2.40	3.86	2.71

Because SFAS 123 does not require a fair-value-based method of accounting to be applied to options granted prior to October 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

For purposes of the pro forma disclosure, the fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	1999	1998	1997
Assumptions:			
Volatility	26.0%	20.1%	20.1%
Risk-free interest rate	5.7%	4.4%	5.8%
Dividend yield	–	1.8%	1.8%
Expected life of options (years)	3	3	3
Weighted average grant date value of options granted under the:			
1998 general stock option plan	$ 11.85	–	–
1997 stock option plan	11.78	$ 8.59	–
Deferred director fee option plan	7.56	4.92	$ 4.02
1991 stock option plan for non-employee directors	10.04	9.86	8.29
1987 stock incentive Plan	–	–	9.32

The following table summarizes the stock option transactions pursuant to the Company's stock incentive and stock option plans for the three-year period ended September 30, 1999:

	Shares (000s)	Weighted Average Exercise Price Per Share ($)
Options outstanding at September 30, 1996	640	$ 48.27
Granted	262	50.05
Exercised	(30)	34.95
Forfeited	(64)	50.04
Options outstanding at September 30, 1997	808	49.10
Granted	95	52.52
Exercised	(96)	45.03
Forfeited	(14)	47.17
Options outstanding at September 30, 1998	793	49.95
Granted	424	46.00
Exercised	(5)	39.28
Forfeited	(149)	45.68
Options outstanding at September 30, 1999	1,063	48.28
Exercisable options at September 30, 1999	822	49.01
Shares available for grant at September 30, 1999	316	

The following table summarizes information about stock options outstanding at September 30, 1999:

	Options Outstanding			Options Exercisable	
	Number Outstanding at 9/30/99 (000s)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at 9/30/99 (000s)	Weighted Average Exercise Price
Range of exercise price					
$19.75 to $29.88	11	1.8	$ 22.41	11	$ 22.41
$39.00 to $60.44	1,052	1.4	48.54	811	49.38
Total	1,063	1.4	48.28	822	49.01

[9] DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and Short-term Investments

The carrying amount approximates fair value because of the short maturity of those instruments.

Debt

The fair value of the Company's fixed rate debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities. The fair value of the Company's floating rate debt is its carrying amount.

The carrying amounts and estimated fair values of the Company's financial instruments are as follows:

As of September 30, (Millions of dollars)	Carrying Amount	Fair Value
1999		
Cash and short-term investments	$ 4	$ 4
Debt	852	855
1998		
Cash and short-term investments	$ 3	$ 3
Debt	802	866

[10] 1999 ONE-TIME CHARGES

XTRA recorded one-time charges of $13 million during the second quarter of fiscal 1999 for establishing a Shared Service Center and restructuring its marine container operations. During fiscal 1999, approximately $12 million was charged against the reserve leaving a reserve balance at September 30, 1999 of $1 million. Included in the amounts charged to the restructuring reserve were $6 million of severance payments, $4 million of equipment write-downs and $2 million related to facility shutdowns.

The Company recorded a $25 million charge during the second quarter to write down 20,000 marine containers that are targeted for disposal to their estimated realizable value. Through September 30, 1999, approximately 13,000 units have been sold with a resulting loss of $16 million that has been charged against this reserve.

[11] ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for doubtful accounts as of September 30, 1999, 1998, and 1997 consists of the following:

For the three years ended September 30, (Millions of dollars)	1999	1998	1997
Balance at beginning of year	$ 16	$ 14	$ 13
Additions charged to operating expenses	4	5	5
Deductions[1]	(6)	(3)	(4)
Balance at end of year	$ 14	$ 16	$ 14

(1) Amounts charged against reserves, net of recoveries.

[12] SELECTED FINANCIAL DATA OF SIGNIFICANT SUBSIDIARY

The condensed consolidated data for XTRA, Inc., a wholly-owned subsidiary of XTRA Corporation, included in the consolidated financial information of the Company, is summarized below:

For the three years ended September 30, (Millions of dollars)	1999	1998	1997
Income Statement Data			
Revenues	$ 464	$ 461	$ 435
Pretax income	61	99	71
Net income	38	59	43
Selected Balance Sheet Data			
Receivables, net	$ 115	$ 106	$ 108
Net property and equipment	1,435	1,452	1,454
Other assets	18	17	23
Total assets	$ 1,568	$ 1,575	$ 1,585
Debt	$ 852	$ 802	$ 892
Deferred income taxes	309	287	252
Other liabilities	72	84	86
Total liabilities	1,233	1,173	1,230
Stockholders' equity	335	402	355
Total liabilities and stockholders' equity	$ 1,568	$ 1,575	$ 1,585

[13] BASIC AND DILUTED EARNINGS PER SHARE

The following tables provide a reconciliation of the numerators and denominators of basic and diluted earnings per share computations:

Year ended September 30,	1999	1998	1997
Net income (in millions) (numerator)	$ 35	$ 60	$ 43
Computation of Basic Shares Outstanding			
(in thousands, except per share amounts)			
Weighted average number of basic shares			
outstanding (denominator)	13,865	15,319	15,268
Basic earnings per common share	$ 2.49	$ 3.90	$ 2.79
Computation of Diluted Shares Outstanding			
(in thousands, except per share amounts)			
Weighted average number of basic shares outstanding	13,865	15,319	15,268
Common Stock equivalents for diluted			
shares outstanding	7	72	18
Weighted average number of diluted shares			
outstanding (denominator)	13,872	15,391	15,286
Diluted earnings per common share	$ 2.49	$ 3.88	$ 2.78

[14] TERMINATION OF RECAPITALIZATION MERGER

XTRA entered into an Agreement and Plan of Merger and Recapitalization dated as of June 18, 1998, as amended and restated as of July 31, 1998, with Wheels MergerCo LLC ("MergerCo"). MergerCo was a newly organized Delaware limited liability company formed by Apollo Management IV, L.P. and Atlas Capital Partners LLC, an affiliate of Interpool, Inc. On November 25, 1998, the Company and MergerCo mutually agreed to terminate their existing merger agreement. Previously, MergerCo had indicated that due to market conditions it did not believe it would be able to obtain the financing necessary to complete the transaction.

Report of INDEPENDENT PUBLIC ACCOUNTANTS

XTRA Corporation and Subsidiaries

To the Stockholders of XTRA Corporation:

We have audited the accompanying consolidated balance sheets of XTRA Corporation (a Delaware corporation) and subsidiaries as of September 30, 1999, and 1998, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended September 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of XTRA Corporation and subsidiaries as of September 30, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1999, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

St. Louis, Missouri

November 5, 1999

DIRECTORS

Robert B. Goergen
Chairman, The Ropart Group;
Chairman of the Board

H. William Brown
Chief Financial Officer,
Maritrans Inc.;
Director

Lewis Rubin
President and Chief Executive Officer;
Director

Michael N. Christodolou
Director of Equity Investments,
Barbnet Investment Co.;
Director

Michael D. Bills
Professor, University of Virginia;
Director

Martin L. Solomon
Chairman,
American Country Holdings Inc.;
Director

COMMITTEES OF THE BOARD OF DIRECTORS

Audit Committee
Michael N. Christodolou (Chairman)
H. William Brown
Martin L. Solomon

Executive Committee
Robert B. Goergen (Chairman)
Michael D. Bills
Lewis Rubin

Compensation Committee
Martin L. Solomon (Chairman)
Michael N. Christodolou

Nominating Committee
H. William Brown (Chairman)
Michael D. Bills
Martin L. Solomon

OFFICERS

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President and Chief Executive Officer

Thomas A. Giacchetto
Vice President, General Counsel and Secretary

Jordan L. Ayers
Vice President, XTRA Intermodal

Gregory C. Kowert
Vice President, Administration

Jeffrey R. Blum
Vice President, Planning and Development

Christopher P. Joyce
Vice President and Treasurer

William H. Franz
Vice President. XTRA Lease

Michael J. Soja
Vice President and Chief Financial Officer

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Shares Traded
New York Stock Exchange
Common Stock Symbol: XTR
Options traded on the American and Pacific Stock Exchanges

Corporate Information
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