INTERPOOL INC
Form S-1
August 02, 2005

As filed with the Securities and Exchange Commission on August 1, 2005

Registration Statement No. 333-___________

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

INTERPOOL, INC.
(Exact name of registrant is specified in its charter)

Delaware	**7359**	**13-3467669**
(State or other jurisdiction of incorporation or organization)	**6159** (Primary Standard Industrial Classification Code No.)	(I.R.S. Employer Identification Number)

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211 College Road East
Princeton, New Jersey 08540
(609) 452-8900
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

MARTIN TUCHMAN
Chairman and Chief Executive Officer
Interpool, Inc.
211 College Road East
Princeton, New Jersey 08540
(609) 452-8900
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:
Jeffrey S. Lowenthal, Esq.
Stroock & Stroock & Lavan LLP
180 Maiden Lane
New York, New York 10038
(212) 806-5400

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement, as determined by the selling shareholders.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box [ ]

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Aggregate Price Per Unit (1)	Proposed Maximum Aggregate Offering Price (1)	Amount of Registration Fee
Common Stock, par value $.001 per share	8,333,333(1)	(2)	(2)	(2)
Series A Warrants	5,475,768	$18.00(3)	$98,563,824(3)	$11,652
Series B Warrants	2,857,565	$18.00(3)	$51,436,170(3)	$6,003
Total				$17,655

(1) Represents the number of shares of common stock that are issuable upon exercise of the warrants as of August 1, 2005. Pursuant to Rule 416 under the Securities Act, in the event of a stock split, stock dividend, or similar transaction involving the common stock, in order to prevent dilution, the number of shares registered shall be automatically increased to cover additional shares. In addition, pursuant to Rule 416, the shares being registered include an additional indeterminate number of shares of common stock issuable upon exercise of the warrants in the future as the result of anti-dilution adjustments.

(2) Pursuant to Rule 457(g) under the Securities Act, no separate registration fee is required for the securities to be issued upon the exercise of the warrants.

(3) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(g) under the Securities Act of 1933, based on the current exercise price of the warrants.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED AUGUST 1, 2005

P R O S P E C T U S

Series A Warrants to Purchase an Aggregate of 5,475,768 Shares of Common Stock
Series B Warrants to Purchase an Aggregate of 2,857,565 Shares of Common Stock
8,333,333 Shares of Common Stock Issuable Upon Exercise of the Warrants

This prospectus relates to warrants to purchase an aggregate of 8,333,333 shares of our common stock and the shares of our common stock issuable upon exercise of the warrants. This prospectus also covers any additional shares of common stock that may become issuable upon any anti-dilution adjustment pursuant to the terms of the warrants. We are registering the warrants and the shares of common stock issuable upon exercise of the warrants for resale by the selling securityholders named in this prospectus, or their transferees, pledgees, donees or successors. In addition, we may use this prospectus in connection with the issuance by us from time to time of the shares of common stock issuable upon exercise of the warrants, provided that the warrant holder is not the initial warrant holder or a warrant holder who acquired the warrants from the initial warrant holder in a private transaction or series of private transactions.

We will not receive any proceeds from the resale of the warrants or the shares of common stock issuable upon exercise of the warrants by the selling securityholders. Upon the exercise of the warrants, we will receive cash proceeds of $18.00 per share (such price subject to adjustment) unless, under certain circumstances, the warrant holders elect to pay the exercise price by canceling debt, as more fully described in this prospectus. We have paid the expenses of preparing this prospectus and the related registration statement.

The selling securityholders may sell the warrants or the shares issuable upon exercise of the warrants from time to time, in amounts, at prices and on terms determined at the time of offering. The selling securityholders may sell the warrants and the shares of common stock issuable upon exercise of the warrants through ordinary brokerage transactions or through any other means described in the section entitled "Plan of Distribution" beginning on page 104.

SEE THE SECTION ENTITLED "RISK FACTORS" THAT BEGINS ON PAGE 14 FOR A DISCUSSION OF THE RISKS THAT YOU SHOULD CONSIDER PRIOR TO TENDERING YOUR OUTSTANDING NOTES FOR EXCHANGE.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus is [____________], 2005.

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted.

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PROSPECTUS SUMMARY

All fleet statistics including the size of the fleet, utilization of the leasing equipment or the rental rates per day that are set forth in this prospectus include our equipment, including that portion of our equipment managed by Container Applications, Inc. ("CAI"). To the extent that our equipment is managed by CAI, the equipment is considered fully utilized since it is not available for us to put on hire regardless of whether all of the units are generating income. All equipment owned by CAI or managed by CAI (with the exception of equipment owned by us and managed by CAI) is excluded from all statistics, unless otherwise indicated. In addition, all of our chassis assigned to chassis pools are considered fully utilized. This exclusion of information relative to CAI, unless indicated otherwise, provides a focus on the drivers which are critical to our core business. The market share, ranking and other data contained in this prospectus are based either on our management's own estimates, independent industry publications, reports by market research firms or other published independent sources and, in each case, are believed by management to be reasonable estimates. However, market share data is subject to change and cannot always be verified with certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey of market shares. As a result, you should be aware that market share, ranking and other similar data set forth herein, and estimates and beliefs based on such data, might not be reliable.

This summary highlights selected information contained elsewhere in this prospectus. You should read the entire prospectus carefully, including "Risk Factors" and our financial statements and related Notes, before making an investment decision. Unless otherwise noted, references to "Interpool," refer to Interpool, Inc., a Delaware corporation. Unless otherwise noted, references to "we," "our" and "us" refer collectively to Interpool and its consolidated subsidiaries.

Interpool, Inc.

We believe we are the largest lessor of intermodal chassis in North America and one of the world's leading lessors of intermodal dry freight standard containers. At March 31, 2005, our chassis fleet totaled approximately 211,000 chassis and our container fleet totaled approximately 802,000 twenty-foot equivalent units ("TEU"). From 1998 to 2003, we increased the size of our chassis fleet at a compound annual rate of 22% and our container fleet at a compound annual rate of 12%. During 2004, our chassis fleet remained flat and our total container fleet declined by 7%, primarily due to the contractual runoff of the container direct financing lease portfolio and the fact that we entered into only a limited number of new lease transactions due to the reduced availability of new financings during the first three quarters of 2004. This reduction in availability was due to the delay in filing our Annual Report on Form 10-K for 2002, our Quarterly and Annual Reports on Forms 10-Q and 10-K for 2003 and our Quarterly Reports on Form 10-Q for 2004. Our fleet of containers decreased from 808,000 TEU at December 31, 2004 to 802,000 TEU at March 31, 2005 primarily due to the sale or retirement of damaged and older containers. The size of our chassis fleet increased from 208,000 units at December 31, 2004 to 211,000 units at March 31, 2005.

We concentrate on leasing equipment to our customers on a long-term basis (leases for a term greater than one year). Substantially all of our new equipment is initially leased for terms of five to eight years and approximately 77% of our total fleet of chassis and 81% of our total fleet of containers as of March 31, 2005 are on long-term lease. We believe our focus on long-term leasing has enabled us to:

- Maintain high utilization rates of our equipment fleet, consisting of both operating and direct financing leases, which over the last five years averaged 99% for containers and 95% for chassis;
- Achieve more stable and predictable earnings; and
- Concentrate on the expansion of our asset base through the purchase and lease of new equipment to fulfill specific orders for new long-term leases.

Approximately 22% of our chassis are currently leased on a short-term basis to satisfy customers' peak or seasonal requirements and to provide operational flexibility, generally at higher rates than under long-term leases. For customers who require daily or weekly chassis rentals, we operate chassis pools at major domestic shipping ports and terminals. These chassis pools consist of our chassis as well as those of our customers.

Approximately 19% of our containers are currently leased on a short-term basis. Our 50%-owned consolidated subsidiary, CAI, markets our containers available for short-term leasing as part of its fleet, facilitating redeployment of our containers at the end of long-term leases. Our relationship with CAI maximizes utilization of our container fleet and increases our influence in the marketplace by giving us one of the world's largest container lessor fleets on a combined basis. At March 31, 2005, CAI had a container fleet of approximately 601,000 TEU. Approximately 185,000 TEU were owned by CAI with the remaining 416,000 TEU managed for others. CAI's managed equipment included approximately 151,000 TEU that were managed for us.

We have been involved in the business of leasing transportation equipment since 1968. We lease our chassis and containers to a diversified customer base of over 600 shipping and transportation companies throughout the world, including nearly all of the world's 25 largest international container shipping lines and major North American railroads. We provide customer service and market to our customers through a worldwide network of offices and agents. We believe one of the key factors in our ability to compete effectively has been the long-standing relationships that we have established with most of the world's large shipping lines and major North American railroads. As a result of these relationships, 22 of our top 25 customers have been customers for at least 10 years.

Our Strategy

Our objective is to continue to expand on our market position as a leading long-term lessor of intermodal transportation equipment. To achieve this objective, we intend to continue to:

- Focus on our core business of domestic chassis and international marine container leasing;
- Concentrate on long-term leasing to achieve high utilization rates and minimize the impact of economic cycles on earnings;
- Remarket equipment when returned by lessees; and
- Make strategic acquisitions of complementary businesses and asset portfolios on an opportunistic and financially disciplined basis.

Corporate Information

Our executive offices are located at 211 College Road East, Princeton, New Jersey 08540. Our main telephone number is (609) 452-8900. We were incorporated in the State of Delaware in 1988. Our principal website is located at www.interpool.com. The information contained on that website, as well as any of our other websites, is not part of this prospectus.

Warrants Being Registered

Series A Warrants being registered	The Series A Warrants are currently exercisable for an aggregate of 5,475,768 shares of common stock. The warrants expire on September 1, 2014.
Series B Warrants being registered	The Series B Warrants are currently exercisable for an aggregate of 2,857,565 shares of common stock. The warrants expire on September 1, 2014.
Common stock being registered	8,333,333 shares issuable upon exercise of the warrants
Common stock outstanding as of June 30, 2005	27,639,853 shares (this does not include the 8,333,333 warrant shares being registered)
Use of proceeds	We will not receive any proceeds upon the sale of the warrants or the shares of common stock offered in this prospectus by the selling securityholders. Upon the exercise of the warrants, we will receive cash proceeds of $18.00 per share (such price subject to adjustment) unless, under certain circumstances, the warrant holders elect to pay the exercise price by cancellation of debt. We intend to use any proceeds from the exercise of the warrants, after deduction of any related expenses, for working capital and general corporate purposes.
Dividend policy	We paid a quarterly dividend of $0.0625 per share on our common stock in January and April 2005. In June 2005 the Board of Directors approved an increase in the quarterly dividend from $0.0625 to $0.075 per share commencing with the July 2005 dividend payment.

New York Stock Exchange symbol	IPX (for common stock only; the warrants are not listed on any national securities exchange)

Summary Consolidated Historical Financial and Operating Data

The following table sets forth our selected historical consolidated financial data for the periods and at the dates indicated. The historical consolidated financial data for each of the years in the five year period ended December 31, 2004 are derived from and qualified by reference to the historical consolidated financial statements that have been audited and reported upon by KPMG LLP, independent registered public accounting firm. The historical financial data for the three months ended March 31, 2004 and 2005 and as of March 31, 2005 are derived from our unaudited condensed consolidated financial statements. In our opinion, this unaudited information has been prepared on a basis consistent with the audited consolidated historical financial statements appearing elsewhere in this prospectus and includes all adjustments, consisting only of normal recurring accruals, that we consider necessary for a fair presentation of our financial position and results of operations for these periods. This information should be read in conjunction with our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical consolidated financial statements and the Notes thereto. The historical results presented are not necessarily indicative of future results.

(in thousands, except per share amounts)

	Years Ended December 31,					(un Thre Ended M
	(1)(2) 2000(4)(5)	(1)(2) 2001(4)	(1)(2) 2002(3)	2003(1)(2)	2004	2004
Income Statement Data:						
Equipment leasing revenue...	$287,553	$338,718	$325,080	$374,287	$388,183	$94,937
Depreciation and amortization of leasing equipment........	$66,075	$79,678	$88,707	$87,498	$89,458	22,872
Interest expense............	$87,809	$98,270	$108,344	$106,688	$112,013	$28,381
Fair value adjustment for warrants.................	--	--	--	--	$49,222	--
Income before cumulative effect of change in accounting principle.....	$44,040	$28,104	$4,389	$41,190	$8,429	$10,207
Net Income per share:						
Basic..................	$1.61	$1.03	$0.16	$1.51	$0.31	$0.37
Diluted................	$1.61	$0.97	$0.15	$1.42	$0.29	$0.35
Weighted average shares outstanding:						
Basic..................	27,421	27,417	27,360	27,365	27,380	27,378
Diluted................	27,426	28,973	29,202	30,396	28,960	30,243
Cash dividends declared per common share.........	$0.15	$0.1925	$0.2275	$0.25	$0.25	$.0625

Ratio of earnings to fixed charges...........	1 .6	1.3	1.0	1.4	1.2	1.4

(1) As disclosed in our Quarterly Report on Form 10-Q for the nine months ended September 30, 2004, the Company uncovered an immaterial error related to the consolidated financial statements not part of any current filing, which has been reported as an adjustment to opening retained earnings. For further information regarding this adjustment, see Note 1 to the Consolidated Financial Statements included in this prospectus.

(2) Certain reclassifications have been made to the 2003, 2002, 2001 and 2000 amounts in order to conform to the 2004 presentation.

(3) Effective June 27, 2002, our consolidated financial statements include CAI as a consolidated subsidiary. See Note 11 to the Consolidated Financial Statements included in this prospectus.

(4) As a result of adopting Statement of Financial Accounting Standards No. 145 ("SFAS 145") "Rescission of FASB statements 4, 44 and 64, Amendment of FASB statement No 13 and Technical Corrections," extraordinary gains related to the retirement of debt during the years ended December 31, 2001 and 2002, respectively, have been reclassified into operating income on a pretax basis. Income before cumulative effect of change in accounting principle include net of tax amounts of $558 and $840 for the years ended December 31, 2001 and 2000, respectively.

(5) The 2000 income statement data excludes $660 resulting from the cumulative effect of change in accounting principle. The 2000 results include earnings from the assets acquired from Transamerica ("TA"), which we acquired on October 24, 2000, with an effective date of October 1, 2000. The 2000 results include only the chassis acquired from TA as the rail trailers and domestic containers were identified as assets held for sale at the time of purchase.

Balance Sheet Data:	**As of March 31,** 2005 (in thousands) (unaudited)
Cash and cash equivalents..........................	$266,322
Net investment in direct financing leases...........	$370,627
Leasing equipment, net.............................	$1,643,470
Total assets.......................................	$2,428,844
Debt and capital lease obligations.................	$1,686,419
Stockholders' equity...............................	$418,029

	As of December 31,					As of March 31
	2000	2001	2002	2003	2004	2005
Fleet Data:(1)						
Chassis:						
Chassis units.........	175,000	190,000	204,000	208,000	208,000	211,000
Utilization rate......	97%	94%	93%	96%	97%	97%
Containers:						
Containers (TEU)......	650,000	703,000	796,000	870,000	808,000	802,000
Utilization rate......	99%	97%	99%	99%	99%	99%

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(1) Excludes CAI data.

RISK FACTORS

An investment in the warrants and our common stock involves risk. You should carefully consider the risks we describe below before deciding to invest in the warrants or our common stock. The market price of the warrants and/or our common stock could decline due to any of these risks, in which case you could lose all or part of your investment. In assessing these risks, you should also refer to the other information included in this prospectus, including our consolidated financial statements, including the notes thereto, appearing elsewhere in this prospectus.

Risks Relating to our Common Stock and Warrants

Exercise of warrants and options will dilute the ownership interest of existing shareholders.

The shares issuable upon the exercise of these warrants and the shares issuable upon exercise of the options that we have issued or may issue in the future to our employees and directors will dilute the ownership interests of existing shareholders.

Shares eligible for future sale may cause the market price for our common stock to drop significantly, even if our business is doing well.

We cannot predict the effect, if any, that future sales of our common stock or the availability of shares for future sale will have on the market price of our common stock from time to time. As of June 30, 2005, we had outstanding 27,639,853 shares of our common stock. Shares issuable upon exercise of these warrants (totaling 8,333,333 shares), shares issuable upon exercise of our outstanding options (totaling 4,013,063 shares) or other shares of our common stock that we issue in the future may become available for resale in the public market from time to time, and the market price of shares of our common stock could drop significantly if the holders of these shares sell them or are perceived by the market as intending to sell them. In addition, the existence of the warrants and options may encourage short selling by market participants.

Absence of a public trading market for the warrants may limit the ability of a purchaser to resell the warrants.

There is no established trading market for the warrants, and the warrants may not be widely distributed. We do not intend to list the warrants on any national securities exchange. There can be no assurance that a market will develop for the warrants. Even if a market for the warrants does develop, the price of the warrants may fluctuate and liquidity may be limited. If a market for the warrants does not develop, then purchasers of the warrants may be unable to resell the warrants for an extended period of time, if at all.

Risks Relating to Our Business and Operations

We are subject to the cyclicality of world trade which may impair demand for our chassis and containers.

The demand for our chassis and containers primarily depends upon levels of world trade of finished goods and component parts. Recessionary business cycles, political conditions, the status of trade agreements and international conflicts may have an impact on our operating results. The demand for leased chassis also depends upon domestic economic conditions and volumes of exports to the United States which are likely to be adversely affected if the value of the United States dollar declines. When the volume of world trade decreases, our business of leasing chassis and containers may be adversely affected as the demand for chassis and containers is reduced. A substantial decline in world trade may also adversely affect our customers, leading to possible defaults and the return of equipment prior to the end of a lease term.

We operate in a highly competitive industry, which may adversely affect our results of operations or ability to expand our business.

The transportation equipment leasing industry is highly competitive. We compete with many domestic and foreign leasing companies, some of which have greater financial resources and access to capital than we do. From time to time, the industry may have large under-utilized inventories of chassis and containers, which could lead to significant downward pressure on pricing and margins. In addition, if the available supply of intermodal transportation equipment were to increase significantly as a result of, among other factors, new companies entering the business of leasing and selling intermodal transportation equipment, our competitive position could be adversely affected.

Potential customers may decide to buy rather than lease chassis and containers.

We, like other suppliers of leased chassis and containers, are dependent upon decisions by shipping lines and other transportation companies to lease rather than buy their equipment. In addition, our ability to achieve our strategy of expanding our business in response to customer demand for long-term leasing would be adversely affected if our customers shifted to more short-term leasing over long-term leasing. Most of the factors affecting the decisions of our customers are outside our control. Operating costs such as storage and repair and maintenance costs also increase as utilization decreases.

Pending governmental investigations may adversely affect us.

Following our announcement in July 2003 that our Audit Committee had commissioned an internal investigation by special counsel into our accounting, we were notified that the SEC had opened an informal investigation of Interpool. As we anticipated, this investigation was subsequently converted to a formal investigation and remains pending as of the date this registration statement was filed. We are fully cooperating with this investigation. The New York office of the SEC has received a copy of the written report of the internal investigation and has received documents and information from us, our Audit Committee and certain other parties pursuant to SEC subpoenas. In late 2003, we were also advised that the United States Attorney's office for the District of New Jersey received a copy of the written report of the internal investigation and opened a parallel investigation focusing on certain matters described in the report by the Audit Committee's special counsel. We were informed that Interpool is neither a subject nor a target of the investigation by the U.S. Attorney's office. We cannot predict the final outcome of these investigations and accordingly cannot be assured that they will not result in the taking of actions adverse to us.

Stockholder litigation may adversely affect us.

In February and March 2004, several lawsuits were filed in the United States District Court for the District of New Jersey, by purchasers of our common stock naming us and certain of our present and former executive officers and directors as defendants. The complaints alleged violations of the federal securities laws relating to our reported Consolidated Financial Statements for the years ended December 31, 2000 and 2001 and the nine months ended September 30, 2002, which we announced in March 2003 would require restatement. Each of the complaints purported to be a class action brought on behalf of persons who purchased our securities during a specified period. In April 2004, the lawsuits, which seek unspecified amounts of compensatory damages and costs and expenses, including legal fees, were consolidated into a single action with lead plaintiffs and lead counsel having been appointed. The plaintiffs filed a consolidated amended complaint in September 2004, which includes allegations of purported misstatements and omissions in our public disclosures throughout an expanded purported class period from March 31, 1999 through December 26, 2003. In November 2004, we filed a motion to dismiss the amended complaint, which is currently pending. In the event our motion to dismiss is denied, we would expect to incur additional defense costs typical of this type of class action litigation. We intend to vigorously defend this lawsuit but are unable at this time to ascertain the impact this litigation may have on our financial position or results of operations.

Our internal controls and procedures require further improvements.

As we disclosed in our 2002, 2003 and 2004 Form 10-K reports, and in our Form 10-Q reports for the years 2003 and 2004, and the quarter ended March 31, 2005, we have previously concluded that certain internal control deficiencies identified by our external auditors and by management, as well as through the investigation by the Audit Committee of the Board of Directors, constituted "material weaknesses" or "significant deficiencies" as defined by the Public Company Accounting Oversight Board (United States). In addition, as described in detail in our 2004 Form 10-K report and our Form 10-Q report for the quarter ended March 31, 2005, our review of internal controls over financial reporting, using the framework defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), confirmed that most of the previously disclosed deficiencies still existed as of December 31, 2004 and March 31, 2005. Accordingly, management, including our Chief Executive Officer and Chief Financial Officer, concluded that our controls over financial reporting, as required under the Sarbanes-Oxley Act, were not effective as of December 31, 2004.

We believe that actions implemented to date and those we expect to implement in 2005, 2006 and beyond will correct the material weaknesses in our internal controls and information systems and that our processes and systems of internal controls will be effective. However, we cannot give any assurances that all material weaknesses and significant deficiencies have been entirely corrected or that internal control weaknesses will not be identified from time to time in the future. Any material internal control weakness could materially affect our financial results.

Defaults by our customers could adversely affect our business by decreasing revenues and increasing doubtful accounts, storage, collection and recovery expenses.

We are dependent upon our lessees continuing to make lease payments for our equipment. A default by a lessee may cause us to not be able to collect receivables for past services and incur expenses for storage, collection and recovery. Repossession from defaulting lessees may be difficult and more expensive in jurisdictions whose laws do not confer the same security interests and rights to creditors and lessors as those in the United States and in jurisdictions where recovery of equipment from the defaulting lessees is more cumbersome.

If a lessee defaults, we may be unable to re-lease recovered equipment for comparable rates or terms. Our reserves for anticipated losses may increase over historical levels or not be sufficient to cover actual losses, or our earnings may be adversely affected by customer defaults.

Sustained Asian economic instability could reduce demand for leasing.

A number of the shipping lines to which we lease containers are entities domiciled in several Asian countries. In addition, many of our customers are substantially dependent upon shipments of goods exported from Asia. From time to time, there have been economic disruptions, financial turmoil and political instability in this region. If similar events were to occur in the future, they could adversely affect these customers and lead to a reduced demand for leasing of our containers or otherwise adversely affect us.

Changes in market price, availability or transportation costs of containers and chassis manufactured in China could adversely affect our ability to maintain our supply of containers and chassis.

Changes in the political, economic or financial condition of China, which would increase the market price, availability or transportation costs of containers or chassis, could adversely affect our ability to maintain our supply of equipment. China is currently the largest container producing nation in the world and a significant supplier of chassis. We currently purchase substantially all of our containers and a significant portion of our chassis from manufacturers in China. In the event that it were to become more expensive for us to procure containers and chassis in China or to transport these containers or chassis at a low cost from China to the locations where they are needed, because of a shift in U.S. trade policy toward China, increased tariffs imposed by the United States or other governments, a significant downturn in the political, economic or financial condition of China, or for any other reason, we would have to seek alternative sources of supply. We may not be able to make alternative arrangements quickly enough to meet our equipment needs, and the alternative arrangements may increase our costs. It is impossible to predict the effect that recent changes in Chinese currency policy to let the yuan float in relation to the dollar will have on our ability to maintain our supply of containers and chassis.

We are controlled by a limited number of stockholders; this concentrated ownership could discourage acquisition bids for us that are not supported by our majority stockholders or limit the price investors will be willing to pay in the future for shares of our common stock.

As of June 30, 2005, approximately 63.55% of our common stock was beneficially owned, directly or indirectly, in the aggregate by Martin Tuchman, Warren L. Serenbetz, Jr., Raoul J. Witteveen and Arthur L. Burns, together with certain members of their immediate families and certain related entities. Each of Messrs. Tuchman, Serenbetz and Burns is a member of our Board of Directors and Mr. Tuchman and Mr. Burns are executive officers. Mr. Witteveen is a former director and executive officer. These individuals, either directly or indirectly, have the ability to elect all of the members of our Board of Directors and to control the outcome of all matters submitted to a vote of our stockholders. Our concentrated ownership may discourage acquisition bids for us that are not supported by our majority stockholders. This concentration of ownership could limit the price that investors might be willing to pay in the future for shares of our common stock.

We have relationships with and have entered into transactions with members of our management and affiliated entities that may involve inherent conflicts of interest.

Various relationships exist and various transactions have been entered into between or among us, on the one hand, and members of our management and affiliated entities, on the other hand. Some of these relationships and transactions may involve inherent conflicts of interest. (See "Certain Relationships and Related Transactions.")

We are dependent on the knowledge and experience of members of our senior management; loss of these members could adversely affect our ability to formulate and achieve our strategy and pursue new business initiatives.

Our growth and continued profitability are dependent upon, among other factors, the abilities, experience and continued service of certain members of our senior management, including Martin Tuchman, our Chairman and Chief Executive Officer. Mr. Tuchman holds, either directly or indirectly, a substantial equity interest in Interpool and also is a director of Interpool. Additionally, other members of our senior management possess knowledge of, and extensive experience in, the intermodal transportation industry. We rely on this knowledge and experience in our strategic planning and in our day-to-day business operations. If one or more members of our senior management were to resign or otherwise be unavailable to serve us, the loss could adversely affect our ability to formulate and achieve our strategy and pursue new business initiatives. In addition, we do not currently have employment agreements with all of our executive officers.

The volatility of the residual value of chassis and containers upon expiration of their leases could adversely affect our operating results.

Although our operating results primarily depend upon equipment leasing, our profitability is also affected by the residual values (either for sale or continued operation) of our chassis and containers upon expiration of their leases. These values, which can vary substantially, depend upon, among other factors,

The maintenance standards observed by lessees;

- The need for refurbishment;
- Our ability to remarket equipment profitably;
- The cost of comparable new equipment;
- The cost to remanufacture chassis;
- The availability of used equipment;
- Rates of inflation;
- Market conditions;
- The costs of materials and labor; and
- The obsolescence of certain types of equipment in our fleet.

Most of these factors are outside of our control. Operating leases, which represent the predominant form of lease in our portfolio, are subject to greater residual risk than direct financing leases.

Loss of our eligibility for tax benefits under the U.S.-Barbados tax treaty could increase our tax liability.

Through December 31, 2004, we claimed tax benefits under an income tax convention between the United States and Barbados ("pre-2005 Treaty"), the jurisdiction in which our subsidiary Interpool Limited, which operates our container business, is incorporated. Specifically, under that income tax convention, any profits of Interpool Limited from leasing of containers used in international trade generally are taxable only in Barbados and not in the United States.

Interpool Limited has been entitled to the benefits of the Tax Convention for each year by satisfying the two-pronged test to the "limitation of benefits" provision: (1) more than 50% of the shares of Interpool Limited were owned, directly or indirectly, by any combination of individual United States residents or citizens (the "51% U.S. ownership test"), and (2) its income was not used in substantial part, directly or indirectly, to meet liabilities to persons who were not residents or citizens of the United States (the "base erosion test"). We believe Interpool Limited passed both of these tests through December 31, 2004.

On July 14, 2004, the United States and Barbados signed a protocol to the pre-2005 Treaty ("post-2004 Treaty") that contains a more restrictive limitation on benefits provision than the pre-2005 Treaty. The post-2004 Treaty took effect on January 1, 2005 following its ratification by the United States Senate and the government of Barbados on December 20, 2004. Under the post-2004 Treaty, in addition to having to satisfy the 51% U.S. ownership and base erosion tests described above, Interpool Limited is only eligible for Treaty benefits with respect to its container rental and sales income if Interpool, Inc. is listed on a "recognized stock exchange" and Interpool, Inc.'s stock is "primarily" and "regularly" traded on such exchange.

Although our common stock had been delisted during 2004 and was not traded on the New York Stock Exchange as of December 31, 2004, on January 13, 2005 Interpool, Inc. was again listed, and began trading, on the New York Stock Exchange. Interpool believes this listing and its current trading volume satisfies the "primarily" and "regularly" traded requirements of the post-2004 Treaty, and that Interpool Limited qualified for benefits under the post-2004 Treaty on January 13, 2005.

There is no assurance we will continue to satisfy the "regularly" traded, 51% U.S. ownership or base erosion tests of the post-2004 Treaty. In addition, at some future date the tax convention could be further modified in a manner adverse to us or repealed in its entirety, or we might not continue to be eligible for these tax benefits.

As a company resident in Barbados, Interpool Limited is required to file tax returns in Barbados and pay any tax liability to Barbados. However, no Barbados tax returns have been prepared or filed for Interpool Limited for any period subsequent to its 1997 tax year. We believe the failure to file these returns has not resulted in any material underpayment of taxes, interest or penalties (other than a nominal late filing penalty), because we believe no material Barbados taxes would have been due for the years for which returns have not been filed. We further believe Interpool Limited's failure to file these returns would not present any other material risk to Interpool. The preparation of these tax returns is currently in process and we intend to submit these returns as promptly as practicable. However, we cannot be assured our failure to file these returns would not adversely affect us.

A substantial portion of our future cash flows will be needed to service our indebtedness. Since our debt was downgraded beginning in 2003, our cost of borrowing has increased.

Historically, we have made, and continue to make, use of indebtedness to finance our equipment leasing activities and for other general corporate purposes. As of March 31, 2005, our total outstanding indebtedness was approximately $1.7 billion. We anticipate that we will incur additional indebtedness in the future. We are required to dedicate a substantial portion of our cash flow to payments on our indebtedness, thereby reducing the amount of cash flow available to fund working capital, capital expenditures, including fleet growth, and other corporate requirements. Should our cash flow be insufficient to service our debt obligations, we would be required to seek additional funds to meet our obligations. Additional funds, if needed, might not be available to us or, if available, might not be made available on terms acceptable to us.

Our business is highly dependent upon the availability of capital. In particular, the growth and replacement of our fleet through new equipment purchases or acquisitions, as well as the refinancing of our existing debt, will require further debt or equity financings. There is no assurance that interest rates and advance rates on any future financings will be as attractive as those experienced in the past. If we raise additional funds by issuing equity securities, further dilution to the existing stockholders may result.

During October and November 2003, the ratings on our debt securities were downgraded by three major rating agencies, Standard & Poor's, Fitch, and Moody's, citing the resignation of our former President, continued delay in issuing audited restated consolidated financial statements for 2000 and 2001 and our audited consolidated financial statements for 2002 to be included in our 2002 Annual Report on Form 10-K, and the need to obtain waivers from our lenders to avoid technical defaults under our loan agreements associated with the financial statement delays. Our debt securities were again downgraded by all three rating agencies following our press release on December 29, 2003, that indicated that release of our 2000, 2001 and 2002 financial statements and the filing of our 2002 Annual Report on Form 10-K would again be delayed. Our 2002 Annual Report was subsequently filed on January 9, 2004. On January 27, 2004, Moody's again downgraded our debt securities citing continued uncertainty associated with the delayed release of our financial information for 2003. We were subsequently advised that Moody's also reduced the "shadow rating" of our chassis securitization. We were advised by the provider of the insurance "wrap" portion of the chassis securitization that, as a result of the downgrade of the shadow rating, we are liable to indemnify such provider for certain of the provider's increased capital charge costs. During October 2004, we reached an agreement with such provider, pursuant to which we will pay approximately $0.2 million per month in additional premium, declining as the loan is paid down. Such additional premium will be further adjusted downward after eighteen months if the shadow rating improves, potentially going away entirely. In addition, as part of this agreement the wrap provider and the other participants in the chassis securitization have permanently waived any early amortization event or default associated with the downgrade of the shadow rating. Such downgrades may also have a negative effect on our interest cost, although two financings completed in the fourth quarter of 2004 and first quarter of 2005 totaling approximately $650.0 million have interest rates that will reduce should our credit ratings improve. Although the credit ratings of our debt securities were upgraded by Moody's on March 4, 2005, there can be no assurance that we will not be downgraded again in the future.

Increases in interest rates may increase our debt service obligations and adversely affect our liquidity.

A portion of our borrowings are at variable rates of interest and expose us to interest rate risk. As of March 31, 2005, $223.5 million or 13.3% of our borrowings are exposed to changes in variable interest rates. As interest rates rise, our debt service obligations increase. A significant rise in interest rates could have a material adverse effect on results of operations in future periods. For further discussion on interest rate risk see "Management's Discussion and Analysis of Financial Condition and Results of Operation Quantitative and Qualitative Disclosure about Market Risk."

The price of our common stock may fluctuate.

The market price for our common stock has fluctuated in the past, and several factors could cause the price to fluctuate substantially in the future. These factors include:

Announcements of developments related to our business;

Fluctuations in our quarterly results of operations;

Sales of substantial amounts of our shares into the marketplace;

General conditions in our industry or the worldwide economy;

A shortfall in revenues or earnings compared to securities analysts' expectations;

Changes in analysts' recommendations or projections;

Announcements of new acquisitions; and

An outbreak of war or hostilities.

The current market price of our common stock may not be indicative of future market prices.

Future changes to the fair market value of our common stock purchase warrants will cause volatility in our earnings.

On September 14, 2004, we issued two series of warrants in connection with a financing pursuant to which we sold $150.0 million of long-term Notes. The warrants are exercisable for a total of 8,333,333 shares of our common stock at an exercise price of $18.00 per share. The warrants are currently classified as a liability on our Consolidated Balance Sheets. Generally accepted accounting principles require that, as long as the warrants are classified as a liability rather than equity, the liability should be stated at fair market value. Changes in the fair market value of the warrants from one quarter to the next quarter are recorded as a non-cash expense or income in the Consolidated Statements of Income. The fair market value of these warrants increased from $22.5 million at September 30, 2004 to $71.7 million at December 31, 2004, resulting in non-cash expense in the fourth quarter of 2004 of $49.2 million that adversely affected our net income for that quarter and the year. The increase in fair market value resulted primarily from the increase in the market price of our common stock. The fair market value of these warrants as of March 31, 2005 was $64.9 million, resulting in non-cash income in the first quarter of 2005 of $6.9 million. The changes in fair market value recorded during the fourth quarter of 2004 and the first quarter of 2005 were primarily related to changes in the market price of our common stock during those periods. The market price of our common stock increased during the fourth quarter resulting in an increase in the fair market value of the warrants and decreased during the first quarter resulting in a decrease in the fair market value of the warrants. Because these warrants continue to be classified as a liability, any further increase in the fair market value of the warrants will result in an additional non-cash expense to our Consolidated Statements of Income. If the fair market value of the warrants decreases in the future, we will record non-cash income in our Consolidated Statements of Income. Accordingly, future changes to the fair market value of these warrants will cause volatility in our future financial results.

Our charter documents and Delaware law may inhibit a takeover and limit our growth opportunities, which could cause the market price of our shares to decline.

Our Restated Certificate of Incorporation and Amended and Restated By-laws, as well as Delaware corporate law, contain provisions that could delay or prevent a change of control or changes in our management that a stockholder might consider favorable. These provisions apply even if the change may be considered beneficial by some stockholders. If a change of control or change in management is delayed or prevented, the market price of our shares could decline. In addition, our Restated Certificate of Incorporation and Amended and Restated By-laws contain provisions that may discourage acquisition bids for Interpool.

FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference in this prospectus contain "forward-looking statements" within the meaning of the securities laws. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control. All statements other than statements of historical facts included or incorporated by reference in this prospectus, including the statements under "Summary," "Risk Factors," "Management Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this prospectus regarding our strategy, future operations, financial position, estimated revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this prospectus, the words "will," "believe," "anticipate," "intend," "estimate," "expect," "project" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. All forward-looking statements speak only as of the date of this prospectus. We do not undertake any obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this prospectus are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved. The cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

USE OF PROCEEDS

The selling securityholders will receive all of the proceeds from their sale of the warrants and the shares of common stock issuable upon exercise of the warrants offered in this prospectus. Upon the exercise of the warrants, we will receive cash proceeds of $18.00 per share (such price subject to adjustment) unless, under certain circumstances, the warrant holders elect to pay the exercise price by cancellation of debt. We intend to use any proceeds from the exercise of the warrants, after deduction of any related expenses, for working capital and general corporate purposes.

PRICE RANGE OF COMMON STOCK

Our common stock was listed on the New York Stock Exchange from 1993 to December 2003. Effective December 29, 2003, due to the delay in filing our 2002 Annual Report on Form 10-K with the Securities and Exchange Commission, our common stock and other listed securities were suspended from trading on the New York Stock Exchange, and delisting proceedings were commenced. Although we filed our 2002 Form 10-K on January 9, 2004 and appealed the suspension, our listed securities were delisted in April 2004. During the period the suspension and delisting were in effect, our common stock was traded on the over-the-counter market under the symbol IPLI. In

December 2004, after making all delinquent SEC filings, we applied for relisting on the New York Stock Exchange and on January 13, 2005, our common stock and other listed securities were relisted on the New York Stock Exchange. Our common stock is traded on the New York Stock Exchange under the symbol "IPX." The following table sets forth for the periods indicated commencing on January 1, 2003, the high and low closing sale prices for our common stock. All share and per share data have been rounded to the nearest cent.

	Common Stock Price	
	High	**Low**
Year ended December 31, 2003		
First Quarter	16.83	13.14
Second Quarter	18.60	13.88
Third Quarter	18.55	15.50
Fourth Quarter	19.40	12.00*
Year ended December 31, 2004 *		
First Quarter	16.50	14.00
Second Quarter	17.50	15.50
Third Quarter	19.10	16.50
Fourth Quarter	24.00	17.25
Year ending December 31, 2005		
First Quarter	24.00	21.60
Second Quarter	22.23	18.60
Third Quarter (through July 26, 2005)	21.69	21.05

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* The low closing price for the fourth quarter of 2003 and all closing prices for 2004 were obtained from the over-the-counter market.

As of June 30, 2005 there were approximately 2,368 stockholders of record of our common stock. On June 30, 2005, the last reported sale price of our common stock on the New York Stock Exchange was $21.38 per share.

DIVIDEND POLICY

We paid a quarterly dividend of $0.0625 per share on our common stock in January and April 2005. We paid a quarterly dividend of $0.0625 per share on our common stock in January, April, July and October of 2004 and 2003. We paid a quarterly dividend of $0.055 per share on our common stock in January, April, July and October of 2002 and a quarterly dividend in the amount of $0.05 per share on our common stock in July and October 2001. Prior to July 1, 2001, we had paid a quarterly dividend of $0.0375 per share on our common stock for the prior 17 quarters.

The Board of Directors has instituted a dividend reinvestment plan, which went into effect at the end of 2001. The plan is non-dilutive; shares required for the plan are acquired on the open market by an independent third party plan administrator and not through the issuance of additional shares by us.

In June 2005 the Board of Directors approved an increase in the quarterly dividend from $0.0625 to $0.075 per share commencing with the July 2005 dividend payment.

CAPITALIZATION

The following table sets forth our short-term debt and capitalization as of March 31, 2005. Our short-term debt and capitalization is presented on an actual basis.

You should read the information in this table together with our consolidated financial statements and the related Notes and with "Selected Consolidated Historical Financial and Operating Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

	As of March 31, 2005 (in thousands)
Short-term debt obligations (including current portion of long-term debt and capital lease obligations)	$263,270
Long-term debt and capital obligations (less current portion)	1,423,149
Minority interest in equity of subsidiaries	40,885
Stockholders' equity:	
Preferred stock, par value $.001 per share, 1,000,000 authorized, none issued	-
Common stock, par value $.001 per share, 100,000,000 shares authorized, 28,286,564 shares issued and outstanding	28
Additional paid-in capital	138,021
Unamortized deferred compensation - stock grants	(504)
Treasury stock, at cost, 646,711 shares	(11,508)
Retained earnings	292,582
Accumulated other comprehensive loss, net of taxes	(590)
Total stockholders' equity	418,029
Total capitalization	$1,882,063

SELECTED CONSOLIDATED HISTORICAL FINANCIAL AND OPERATING DATA

The following table sets forth our selected historical consolidated financial data for the periods and at the dates indicated. The historical financial data for each of the years in the five year period ended December 31, 2004, and at December 31, 2000, 2001, 2002, 2003 and 2004 are derived from and qualified by reference to the historical consolidated financial statements that have been audited and reported upon by KPMG LLP, independent registered public accounting firm. The historical financial data for the three months ended March 31, 2004 and 2005 and as of March 31, 2005 are derived from our unaudited condensed consolidated financial statements. In our opinion, this unaudited information has been prepared on a basis consistent with the audited consolidated historical financial statements appearing elsewhere in this prospectus and includes all adjustments, consisting only of normal recurring accruals, that we consider necessary for a fair presentation of our financial position and results of operations for these periods. This information should be read in conjunction with our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical consolidated financial statements and the Notes thereto. The historical results presented are not necessarily indicative of future results.

	(in thousands, except per share amounts)					(un
	Years Ended December 31,					Thre Ended M
	(1)(2) 2000(4)(5)	(1)(2) 2001(4)	(1)(2) 2002(3)	2003(1)(2)	2004	2004
	----	----	----	----	----	----
Income Statement Data:						
Equipment leasing revenue...	$287,553	$338,718	$325,080	$374,287	$388,183	$94,937
Depreciation and amortization of leasing equipment........	$66,075	$79,678	$88,707	$87,498	$89,458	22,872
Interest expense...........	$87,809	$98,270	$108,344	$106,688	$112,013	$28,381
Fair value adjustment for warrants................	--	--	--	--	$49,222	-
Income before cumulative effect of change in accounting principle.....	$44,040	$28,104	$4,389	$41,190	$8,429	$10,207
Net income per share:						
Basic..................	$1.61	$1.03	$0.16	$1.51	$0.31	$0.37
	=====	=====	=====	=====	=====	=====
Diluted...............	$1.61	$0.97	$0.15	$1.42	$0.29	$0.35
	=====	=====	=====	=====	=====	=====
Weighted average shares outstanding:						
Basic..................	27,421	27,417	27,360	27,365	27,380	27,378
Diluted...............	27,426	28,973	29,202	30,396	28,960	30,243
Cash dividends declared per common share.........	$0.15	$0.1925	$0.2275	$0.25	$0.25	$.0625
Ratio of earnings to fixed charges............	1.6	1.3	1.0	1.4	1.2	1.4

(1) As disclosed in our Quarterly Report on Form 10-Q for the nine months ended September 30, 2004, the Company uncovered an immaterial error related to the consolidated financial statements not part of any current filing, which has been reported as an adjustment to opening retained earnings. For further information regarding this adjustment, see Note 1 to the Consolidated Financial Statements included in this prospectus.

(2) Certain reclassifications have been made to the 2003, 2002, 2001 and 2000 amounts in order to conform to the 2004 presentation.

(3) Effective June 27, 2002, our consolidated financial statements include CAI as a consolidated subsidiary. See Note 11 to the Consolidated Financial Statements included in this prospectus.

(4)

As a result of adopting Statement of Financial Accounting Standards No. 145 ("SFAS 145") "Rescission of FASB statements 4, 44 and 64, Amendment of FASB statement No. 13 and Technical Corrections," extraordinary gains related to the retirement of debt during the years ended December 31, 2001 and 2002, respectively, have been reclassified into operating income on a pretax basis. Income before cumulative effect of change in accounting principle include net of tax amounts of $558 and $840 for the years ended December 31, 2001 and 2000, respectively.

(5) The 2000 income statement data excludes $660 resulting from the cumulative effect of change in accounting principle. The 2000 results include earnings from the assets acquired from Transamerica ("TA"), which we acquired on October 24, 2000, with an effective date of October 1, 2000. The 2000 results include only the chassis acquired from TA as the rail trailers and domestic containers were identified as assets held for sale at the time of purchase.

	(in thousands)					(unaudite	
	As of December 31,					As of March 31,	As Ma
	2000	2001	2002	2003	2004	2004	
Balance Sheet Data:							
Cash and cash equivalents...	$157,224	$103,760	$170,613	$141,019	$309,458	$140,807	
Net investment in direct financing leases...........	$213,180	$275,372	$334,129	$426,815	$363,445	$403,626	
Leasing equipment, net	$1,231,037	$1,335,610	$1,557,639	$1,636,716	$1,579,196	$1,628,896	$1
Total assets...............	$2,204,590	$1,923,052	$2,241,944	$2,373,036	$2,404,086	$2,329,899	$2
Debt and capital lease obligations	$1,706,985	$1,429,680	$1,672,211	$1,715,687	$1,718,198	$1,725,462	$1
Stockholders' equity........	$341,322	$352,072	$336,996	$383,640	$394,186	$388,669	

	As of December 31,					As of Mar
	2000	2001	2002	2003	2004	2005
Fleet Data:(1)						
Chassis:						
Chassis units..............	175,000	190,000	204,000	208,000	208,000	211,000
Utilization rate...........	97%	94%	93%	96%	97%	97%
Containers:						
Containers (TEU)...........	650,000	703,000	796,000	870,000	808,000	802,000
Utilization rate...........	99%	97%	99%	99%	99%	99%

(1) Excludes CAI data.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our historical financial condition and results of operations in conjunction with "Risk Factors," "Selected Consolidated Historical Financial and Operating Data" and our consolidated financial statements and the related Notes included elsewhere in this prospectus. (All fleet statistics including the size of the fleet, utilization of the leasing equipment or the rental rates per day that are set forth in this prospectus include our equipment, including that portion of our equipment managed by CAI. To the extent that our equipment is managed by

CAI, the equipment is considered fully utilized since it is not available for us to put on hire regardless of whether all of the units are generating equipment leasing revenue. All equipment owned by CAI or managed by CAI (with the exception of equipment owned by us and managed by CAI), is excluded from all statistics, unless otherwise indicated. In addition, all of our chassis assigned to chassis pools are considered fully utilized. This exclusion of information relative to CAI, unless indicated otherwise, provides a focus on the drivers which are critical to our core business.)

General

We are one of the world's leading suppliers of equipment and services to the intermodal transportation industry. We believe we are the world's largest lessor of intermodal container chassis and a world-leading lessor of international dry freight standard containers used in international trade.

Our primary sources of equipment leasing revenue are derived from operating leases and income earned on direct financing leases. We generate this revenue through leasing transportation equipment, primarily intermodal container chassis and intermodal dry freight standard containers. Operating lease equipment (operating leases) and direct financing leases are the two major asset types that generate this revenue. In the case of operating lease equipment, we retain the substantive risks and rewards of equipment ownership. In the case of direct financing leases, the lessee generally has the substantive risks and rewards of equipment ownership and the right to purchase the equipment at the end of the lease term. This equipment leasing revenue is supplemented by other sources of revenue such as fees charged to the lessee for handling, delivery and repairs earned under contractual agreement with the lease customer. Equipment leasing revenue derived from an operating lease generally consists of the monthly lease payments from the customer. For direct financing leases, the lessee's payment is segregated into principal and interest components much like a loan. The interest component, calculated using the effective interest method over the term of the lease, is recognized by us as equipment leasing revenue. The principal component of the direct financing lease payment is reflected as a reduction to the net investment in the direct financing lease.

Our mix of operating and direct financing leases is a function of customer preference and demand and our success in meeting those customer requirements. An operating lease, during its initial lease term, will generally be more profitable than a direct financing lease, primarily due to the return of principal inherent in a direct financing lease, which is usually greater than the depreciation expense associated with an operating lease. However, after the initial term (and any renewal) of an operating lease expires, the operating lease will have redeployment costs and related risks that are avoided under a direct financing lease. In evaluating the revenue performance of our operating lease portfolio, the primary factors considered are utilization and daily rental rates.

During the year ended December 31, 2004, as compared with the year ended December 31, 2003, our equipment leasing revenues increased due to strong demand for equipment, resulting in a favorable increase in utilization rates for our chassis and continued high utilization rates for our containers. During 2004, the size of our chassis fleet was at essentially the same level as the earlier period. However, our fleet of containers decreased from 870,000 twenty-foot equivalent units ("TEU") to 808,000 TEU primarily due to the number of direct financing leases maturing being greater than the investment in new direct financing lease containers. Utilization of our container and chassis fleets (including equipment on both operating and direct financing leases) was 99% and 97%, respectively, at December 31, 2004.

During the first quarter of 2005, as compared with the first quarter of 2004, total equipment leasing revenues were essentially unchanged. Our fleet of containers decreased from 808,000 TEU at December 31, 2004 to 802,000 TEU at March 31, 2005 primarily due to the sale or retirement of damaged and older containers. The size of our chassis fleet increased from 208,000 units at December 31, 2004 to 211,000 units at March 31, 2005. We have continued to experience high utilization of equipment, both in our container and chassis business segments during the first quarter of 2005. Utilization of our container and chassis fleets (including equipment on both operating and direct financing leases) was 99% and 97%, respectively, at March 31, 2005.

Although daily rental rates for new long-term leases in our operating lease container fleet remained relatively flat during 2003, container daily lease rates on new equipment rose in 2004 due to the increased demand for equipment as well as the increases in costs of new containers. However, daily rental rates for used containers are very competitive and expiring operating leases for larger contracts are sometimes renewed at daily rental rates that are lower than the rental rates in the initial lease term.

Daily rental rates for long-term leases of new equipment in our container fleet rose during the first quarter of 2005 primarily due to the increased cost of new equipment. Recently, however, an excess supply of new containers has developed in China. While we believe this situation is probably temporary due to the significant deliveries of container ships scheduled for the next several years and the normal retirement of older containers, it has resulted in a slowing of new production, some reduction in new container prices and, in turn, has also resulted in some softness in leasing demand and daily rental rates for long-term leases of new equipment. In addition, daily rental rates for used containers are very competitive and expiring operating leases are sometimes renewed at daily rental rates that are lower than the rental rates during the initial lease term. During the second quarter of 2005, the number of new containers we had available for long-term lease increased, as customer demand for new on-hires was below demand expectations. However, we do expect to place most of this equipment on long-term lease during the third and fourth quarters of 2005.

Lease rates for new chassis were essentially flat during the first half of 2004. They rose in the last half of 2004, and continue to rise thus far in 2005. Price increases for new chassis are largely driven by the increase in steel costs, but have increased at a slower rate than container costs due to the large number of sub-assemblies that make up a chassis. Many of these sub-assemblies were in inventory prior to the steel cost increases and only recently have started to rise in price. The effect of higher material costs has been tempered by the recent shift in the manufacturing base for chassis toward China, where there are significantly lower labor and overhead costs. Lease rates for used chassis remained flat during the first half of 2004, but have been rising since then. The increases are due largely to the depletion of used chassis inventories and the rising price of new and remanufactured chassis.

Lease rates for new chassis rose during the first quarter of 2005 due to both the increased cost of new equipment and the overall limitations in production space. Lease rates for used chassis have been gradually rising since mid-2004 largely due to the depletion of used chassis inventories and the rising price of new and remanufactured chassis.

We anticipate that industry demand for chassis and containers will generally be strong in 2006. This expectation is supported by continued anticipation of a major expansion of the world cellular container ship fleet through 2008 and as evidenced by recent reports that the major shipyards are experiencing large order backlogs through 2008. The world cellular container ship fleet is expected to increase by 14.2% in 2005, 15.8% in 2006 and 12.0 % in 2007 (excluding scrapping) as reported in the February 2005 edition of *Containerisation International*. As of January 1, 2005, the total order book was for 964 ships with a total capacity of approximately 3.8 million TEU, or approximately 53% of the world cellular container ship fleet. Nevertheless, periods of fluctuation in leasing demand can occur. As indicated above, during the second quarter of 2005, we noted a decrease in leasing demand for containers and in daily rental rates for long-term container leases. We are not able currently to predict whether this decrease in demand represents a trend that will continue in the third quarter or thereafter.

We believe a number of factors have contributed to the strong demand for equipment in the industry. From 2002 to 2003, according to the *Containerisation International Yearbook 2005*, global containerized traffic increased by 9.6%, from 276.6 million TEU in 2002 to 303.1 million TEU in 2003, fueling demand for transportation equipment generally. In addition, several major shipping lines started to bring new, very large 8,000-9,000 TEU ships to the West Coast of the United States in the fall of 2004. When ships of this size are unloaded, they require the use of a larger number of chassis to move the containers to local railroad terminals or their final destinations. The large quantity of vessels on order will also require additional containers to support them. Demand for chassis has also been affected by the inability of large, fully loaded ships to pass through the Panama Canal. These ships typically discharge their cargo on the West Coast of the United States, with the cargo being moved by "land bridges", by truck and rail, inland and across the country, using chassis at various stages during this process. At the same time, the demand for chassis, along with increased congestion at many of the rail and marine facilities around the country, have fueled an increase in the pooling of chassis for greater efficiencies. Correspondingly, we have experienced an increase in demand for our "PoolStat" chassis management services as more shipping lines are entering into these chassis sharing arrangements. In addition, we have continued to experience high demand in our own Trac Lease neutral chassis pools at railroads and marine terminals.

Our container fleet (including units on hire as direct financing leases) decreased in size by 7.0% from December 31, 2003 to December 31, 2004, while our chassis fleet held at essentially the same level. We were not able to take full advantage of the strong customer demand for containers and chassis during the latter part of 2003 and the first nine months of 2004, as a result of the delay in filing our Annual Report on Form 10-K for 2002, our Quarterly and Annual Reports on Forms 10-Q and 10-K for 2003 and our Quarterly Reports on Form 10-Q for 2004 which adversely affected our ability to obtain the financing necessary for us to purchase equipment for lease to customers. In addition, the requirement to maintain certain levels of unrestricted cash continued to limit the amount of new business we have written with our customers during the first nine months of 2004. This requirement was eliminated when our revolving credit facility and one other facility were repaid in full during November 2004. We have successfully completed $747.0 million of financings and commitments from January 1, 2004 to December 31, 2004, of which $517.0 million is secured by equipment and leases, while the remaining $230.0 million is unsecured debt. Of the $517.0 million of new financings and commitments secured by equipment and leases, approximately $333.0 million was used (1) to satisfy required payments to equipment manufacturers, (2) to finance previously unencumbered assets, (3) to re-finance existing secured debt, and (4) for other working capital requirements. This left $184.0 million available under these facilities for future use at December 31, 2004. Of the $230.0 million of unsecured debt, one financing for $150.0 million was completed during September 2004, with $49.1 million of the proceeds concurrently used to reduce existing unsecured debt. A second financing for $80.0 million of unsecured debt was completed during November 2004. (For further discussion of these transactions, see "Debt and Capital Lease Obligations" below and Note 4 to the Consolidated Financial Statements.) In addition, our cost of new financing during 2004 was higher than we experienced in 2003, due to higher interest rates in general and increased borrowing costs resulting from the lowering of our credit ratings over the past year. The increase in interest expense during 2004 was the result of increased interest rates and bank fees paid in order to obtain waivers related to our delayed filings, offset by carrying lower debt balances as compared to the prior year period. We regularly evaluate financing proposals which, when coupled with available cash balances and funds available under commitments mentioned above, could be used for growth, for refinancing existing facilities and for working capital.

During the first three months of 2005, we received net additional financing commitments of $223.0 million from several institutions. At March 31, 2005, (excluding $45.5 million available under CAI's revolving credit facility), we have a total of $412.1 million of unused commitments for growth, to re-finance existing secured debt or for other working capital requirements. Our interest expense was $1.0 million higher during the first quarter of 2005 than it was during the first quarter of 2004 as we experienced a higher level of interest rates in general, coupled with an increase in the amortization of deferred financing fees. These increases were partially offset by the fact that no waiver-related bank fees were paid during the first quarter of 2005 as they had been during the first quarter of 2004. We regularly evaluate financing proposals which, when coupled with available cash balances and funds available under commitments mentioned above, could be used for growth, for refinancing existing facilities and for working capital.

As of March 31, 2005, our commitments for future capital expenditures totaled approximately $206.0 million with approximately $166.2 million committed for the remainder of fiscal 2005. Our available liquidity at March 31, 2005, including $457.6 million available under credit facilities, was $700.2 million after deducting $23.7 million of restricted cash. Required debt repayments and capital lease payments for the next 12 months totaled $263.3 million. Based on our existing cash balances, financings closed, and our financial projections of operating cash flow for the future, we believe that we will have sufficient liquidity to grow our portfolio while meeting our obligations and commitments as they become due.

Other than interest expense and depreciation expense on our operating lease equipment, our primary expenses are corporate administrative and lease operating expenses, which include maintenance and repair expense, as well as storage and positioning expense. Our lessees are generally responsible for lease operating expenses during the term of their lease. Our corporate administrative expenses are primarily employee related costs such as salary expense, costs of employee benefits, information technology expenses and travel and entertainment costs, as well as expenses incurred for outside services such as legal, consulting and audit related fees. During 2004, lease operating and administrative expenses as a percentage of total revenues were 35.9%, compared to 38.9% during the same period in 2003. During the first three months of 2005, lease operating and administrative expenses as a percentage of total revenues were 36.9%, compared to 32.8% during the same period in 2004. The additional personnel and systems enhancements we are adding to improve our internal controls, as well as additional procedures being implemented to comply with Sarbanes-Oxley requirements, have added incremental administrative expenses in 2005.

During 2003 and 2004, we incurred significant costs related to the investigations by our Audit Committee and the SEC, separation agreements with our former Chief Financial Officer and our former President, legal representation for the Company as well as our officers, directors and employees, the payment of fees in order to obtain necessary waivers from our financial institutions and, during 2004, the proceedings before The New York Stock Exchange to delist our securities. We will continue to incur additional costs relating to the formal investigation by the SEC and the class action lawsuit, including the cost of legal representation for the Company and our current and former officers, directors and employees.

Non-performing receivables totaled $11.7 million at March 31, 2005 compared with $12.5 million at December 31, 2004. Reserves of $11.2 million and $11.8 million, respectively, have been established against these non-performing receivables. During the first three months of 2005, receivable write-offs net of recoveries totaled $0.8 million as compared with $0.2 million for the same period in 2004.

Our net income for the year ended December 31, 2004 was $8.4 million as compared with $41.2 million for the year ended December 31, 2003, a reduction of 79.6%. The December 31, 2004 net income included non-cash expense of $49.2 million (for which no tax benefit is derived) resulting from the change in fair value of the warrants issued by us during September 2004 in connection with a Securities Purchase Agreement pursuant to which we sold $150.0 million of 6.0% Notes due in 2014 (See Note 4 to the Consolidated Financial Statements). In addition, our 2004 net income included an after tax gain on the settlement of an insurance litigation of $5.2 million. Our net income per share on a fully diluted basis for the year ended December 31, 2004 and 2003 was $0.29 and $1.42, respectively. Annualized return on average stockholders' equity was 2.2% for the year ended December 31, 2004 compared to 11.5% for the year ended December 31, 2003. Excluding the non-cash expense for the change in the fair value of the warrants and the gain on settled insurance litigation, the annualized return on average stockholder's equity was 13.5% for the year ended December 31, 2004.

Our net income for the three months ended March 31, 2005 was $20.4 million as compared with $10.2 million for the three months ended March 31, 2004, an increase of 100.0%. The March 31, 2005 net income included non-cash income of $6.9 million (for which no tax expense is recorded) resulting from the change in fair value of the warrants issued by us during September 2004 in connection with a Securities Purchase Agreement pursuant to which we sold $150.0 million of 6.0% notes due in 2014. Our net income per share on a fully diluted basis for the three months ended March 31, 2005 and 2004 was $0.63 and $0.35, respectively. Annualized return on average stockholders' equity was 20.1% for the three months ended March 31, 2005. Excluding the non-cash income for the change in the fair value of the warrants, the annualized return on average stockholder's equity was 13.3% for the three months ended March 31, 2005.

We conduct business with shipping line customers throughout the world and are therefore subject to the risks of operating in disparate political and economic conditions including those associated with increasing oil prices. Offsetting this risk is the worldwide nature of the shipping business and the ability of our shipping line customers to shift their operations from areas of unfavorable political and/or economic conditions to more promising areas.

Approximately 99% of our revenues are billed and paid in U.S. dollars. We believe these factors substantially mitigate foreign currency rate risks.

Our container leasing operations are primarily conducted through our subsidiary, Interpool Limited, a Barbados corporation, as well as through CAI, our consolidated 50% owned subsidiary. Our effective tax rate benefits substantially from the application of an income tax convention, pursuant to which the profits of Interpool Limited from international container leasing operations are exempt from federal taxation in the United States. These profits are subject to Barbados tax at rates that are significantly lower than the applicable rates in the United States.

Through December 31, 2004, we claimed treaty benefits under the United States and Barbados income tax treaty ("pre-2005 Treaty"). The pre-2005 Treaty contained a limitation on benefits provision which denies treaty benefits under certain circumstances. However, we did not fall within the pre-2005 Treaty's limitation on benefits provision.

On July 14, 2004, the United States and Barbados signed a protocol to the pre-2005 Treaty which was ratified on December 20, 2004 ("post-2004 Treaty") that contains a more restrictive limitation on benefits provision than the pre-2005 Treaty. The post-2004 Treaty took effect on January 1, 2005 following its ratification by the United States Senate and the government of Barbados on December 20, 2004. Under the post-2004 Treaty, Interpool Limited is only eligible for Treaty benefits with respect to its container rental and sales income if, among other things, Interpool, Inc., is listed on a "recognized stock exchange" and Interpool, Inc.'s stock is "primarily" and "regularly" traded on such exchange.

Although we were not listed on a recognized stock exchange at December 31, 2004, on January 13, 2005, Interpool, Inc. was listed, and began trading, on the New York Stock Exchange. We believe this listing and our current trading volume satisfies the "primarily" and "regularly" traded requirements of the amended Barbados Tax Treaty ("Treaty") in effect beginning January 1, 2005, thus qualifying us for benefits under the Treaty on January 13, 2005. We estimated there should be no U.S. current tax expense for the period from January 1, 2005 to January 12, 2005, when we were not covered by the Treaty.

Results of Operations

Three Months Ended March 31, 2005 Compared to Three Months Ended March 31, 2004

Equipment Leasing Revenue. Our equipment leasing revenues increased to $95.1 million for the three months ended March 31, 2005, from $94.9 million in the three months ended March 31, 2004, an increase of $0.2 million.

Container leasing segment revenues were essentially unchanged at $43.8 million for the three months ended March 31, 2005, compared to $43.9 million in the three months ended March 31, 2004. The decrease was primarily attributable to a reduction in direct financing lease revenues of $0.9 million, partially offset by an increase in container operating lease revenues of $0.8 million. The incremental container operating lease revenues, as compared to the prior year period, are primarily due to increasing utilization rates experienced by CAI, partially offset by a 5% reduction in the average size of our container operating lease fleet. The daily rental rates and the utilization rates for the overall container fleet were higher, partially offsetting the reduced revenue resulting from the reduction in the average size of our container operating lease fleet. Utilization rates of our container fleet have historically been calculated assuming containers managed by CAI were 100% utilized since they were not available to us to put on hire regardless of whether all of these units are generating revenue. Under this method, utilization rates of our container operating lease fleet were 99% and 98% at March 31, 2005 and 2004, respectively. The utilization rates of our operating lease container fleet, considering CAI's actual utilization rates for our operating lease containers managed by CAI, were 96% and 94% at March 31, 2005 and 2004, respectively.

Domestic intermodal equipment segment revenues increased to $51.3 million for the three months ended March 31, 2005, from $51.0 million in the three months ended March 31, 2004, an increase of $0.3 million or 1%. The increase was attributable to an increase in chassis operating lease revenues of $0.7 million, partially offset by a decrease in direct financing lease revenues of $0.4 million. The incremental chassis operating lease revenues are primarily due to an increase in the utilization rates for our chassis fleet as compared to the prior year period and our chassis operating lease fleet which increased in size by 2%. The utilization rates of our domestic intermodal chassis operating lease fleet were 97% and 96% at March 31, 2005 and 2004, respectively.

Other Revenue. Our other revenues increased to $4.9 million for the three months ended March 31, 2005, from $4.1 million in the three months ended March 31, 2004, an increase of $0.8 million or 20%.

Container leasing segment other revenues remained consistent at $2.5 million for the three months ended March 31, 2005, compared to $2.4 million in the three months ended March 31, 2004. The increase was primarily attributable to an increase in container positioning revenue of $0.5 million, partially offset by a reduction in billable repairs to our lessees at the termination of a lease of $0.4 million.

Domestic intermodal equipment segment other revenues increased to $2.4 million for the three months ended March 31, 2005, from $1.7 million in the three months ended March 31, 2004, an increase of $0.7 million or 41%. The increase was primarily attributable to an increase in billable repairs to our lessees at the termination of a lease of $0.6 million and an increase in chassis positioning revenue of $0.1 million.

Lease Operating and Administrative Expenses. Our lease operating and administrative expenses increased to $36.9 million for the three months ended March 31, 2005 from $32.4 million in the three months ended March 31, 2004, an increase of $4.5 million or 14%.

The increase was primarily due to:

An increase in maintenance and repair costs of $3.0 million primarily due to an increase in repairs of equipment for the chassis product line, partially offset by a reduction in the repair activity within the container product lines.

An increase in legal and consulting fees of $1.2 million primarily due to increased consulting services in order to comply with the Sarbanes-Oxley Act and other corporate initiatives.

An increase in salary expense of $1.0 million primarily related to an increase in headcount and other employee related costs.

A decrease in storage costs of $1.0 million primarily due to increased utilization experienced within CAI's container fleet as well as our containers managed by CAI.

A further breakdown of the lease operating and administrative expense variances, as compared to the prior period, by reportable segment is as follows:

Container leasing segment lease operating and administrative expenses decreased to $10.5 million for the three months ended March 31, 2005 from $12.2 million in the three months ended March 31, 2004, a decrease of $1.7 million or 14%. This decrease can be summarized as follows:

Container

(Dollars in millions)	Leasing
Storage expense	$(0.9)
Maintenance and repairs expense	(0.4)
Positioning and handling expense	(0.3)
Legal and consulting fees	(0.2)
Salaries expense	0.4
Other, net	(0.3)
Total	$(1.7)

Domestic intermodal equipment segment lease operating and administrative expenses increased to $26.4 million for the three months ended March 31, 2005 from $20.3 million in the three months ended March 31, 2004, an increase of $6.1 million or 30%. This increase can be summarized as follows:

(Dollars in millions)	Domestic Intermodal Equipment
Maintenance and repairs expense	$3.4
Legal and consulting fees	1.4
Salaries expense	0.6
Positioning and handling expense	0.3
Storage expense	(0.1)
Other, net	0.5
Total	$6.1

Provision for Doubtful Accounts. Our provision for doubtful accounts increased to $0.7 million for the three months ended March 31, 2005 from $0.6 million for the three months ended March 31, 2004. During the three months ended March 31, 2005, our nonperforming receivables decreased $0.8 million ($11.7 million at March 31, 2005 and $12.5 million at December 31, 2004). As of March 31, 2005 and December 31, 2004, our non-performing receivables, net of applicable reserves, were 0.60% and 1.01%, respectively, of accounts receivable, net. Our provision for doubtful accounts is provided based upon a quarterly review of the receivables. This review is based on the risk profile of the receivables, credit quality indicators such as the level of past-due amounts and economic conditions, as well as the value of underlying collateral in the case of direct financing lease receivables.

Fair Value Adjustment for Derivative Instruments. Our non-cash fair value adjustment for derivative instruments income amounted to $0.7 million for the three months ended March 31, 2005 as compared to expense of $1.0 million for the three months ended March 31, 2004. The income for the three months ended March 31, 2005, as well as the expense for the prior year period, was primarily due to the change in fair value of interest rate swap agreements held which do not qualify as cash flow hedges.

Fair Value Adjustment for Warrants. Our non-cash fair value adjustment for warrant income amounted to $6.9 million for the three months ended March 31, 2005, without a similar item in the prior year period. The income for the three months ended March 31, 2005 was due to the change during the first quarter of 2005 in the fair value of the Warrants issued during September 2004 in connection with the 6.0% Notes, which Warrants are classified as a liability on the accompanying Consolidated Balance Sheets. This reduction in the value of the Warrants is due primarily to the decrease in the market value of our common stock during the first quarter of 2005. The fair market value of these Warrants decreased from $71.7 million at December 31, 2004 to $64.9 million at March 31, 2005. Because these Warrants are classified as a liability, any further increase in the fair market value of the Warrants will result in an additional non-cash expense to the Condensed Consolidated Statements of Income. If the fair market value of the warrants decreases in the future, we will record non-cash income in our Condensed Consolidated Statements of Income. Accordingly, future changes to the fair market value of these Warrants have the potential to cause volatility in our future results.

Depreciation and Amortization of Leasing Equipment. Our depreciation and amortization expenses decreased to \$22.0 million for the three months ended March 31, 2005, from \$22.9 million for the three months ended March 31, 2004, a decrease of \$0.9 million or 4%. This decrease was primarily due to reductions to our operating lease fleet.

Impairment of Leasing Equipment. Our expense related to the impairment of leasing equipment decreased to \$0.9 million for the three months ended March 31, 2005, from \$2.0 million for the three months ended March 31, 2004, a decrease of \$1.1 million. This decrease was primarily due to a reduction in impairment losses for idle equipment (\$1.3 million) which is primarily due to the favorable market conditions in the resale sector for containers.

Income for Investments Accounted for Under the Equity Method. The decrease in (income)/loss for investments accounted for under the equity method of \$0.1 million during the three months ended March 31, 2005 resulted primarily from reduced earnings for certain investments accounted for under the equity method.

Other Income, Net. We had other income of \$3.7 million during the three months ended March 31, 2005 compared to \$0.7 million of other income for the three months ended March 31, 2004. The increase of \$3.0 million was primarily due to an increase in gains on equipment sales of \$2.6 million, including an increase of \$1.4 million in gains on equipment sales to third parties recognized by CAI. The increase in gains on equipment sales recognized by CAI was due to an increase in volume of units sold to these investors, as well as an increase in the returns generated on these sales. The remainder of the increase in gains on equipment sales was primarily due to the favorable market conditions we experienced in the resale sector for containers as compared to the prior year period.

Interest Expense. Our interest expense increased to \$29.4 million in the three months ended March 31, 2005 from \$28.4 million in the three months ended March 31, 2004, an increase of \$1.0 million or 4%. The increase in interest expense was primarily attributable to increased interest rates resulting in increased interest expense of \$2.7 million and an increase in amortization of deferred financing fees of \$0.4 million, partially offset by a decrease of \$2.1 million for bank fees incurred during the three months ended March 31, 2004 in order to obtain waivers related to our delayed filings.

Interest Income. Our interest income increased to \$4.0 million in the three months ended March 31, 2005 from \$0.7 million in the three months ended March 31, 2004, an increase of \$3.3 million. The increase in interest income was primarily due to an increase in average invested cash balances due to the proceeds received during late 2004 under new debt agreements and the receipt of \$1.6 million of past due interest received on a note receivable which was accounted for as non-performing at December 31, 2004 due to the multiple extensions of the repayment terms by the borrower.

Minority Interest Expense, Net. The change in minority interest expense, net of \$1.0 million for the three months ended March 31, 2005 as compared to the prior year was primarily due to an increase in net income reported by our 50%-owned consolidated subsidiary, CAI.

Provision for Income Taxes. We recorded an income tax provision of \$3.1 million for the three months ended March 31, 2005 as compared to \$2.3 million for the three months ended March 31, 2004. This increase resulted principally from the net increase in taxable income of \$4.1 million after adjusting for the \$6.9 million permanent tax difference that arose from the non-cash income pertaining to the Warrant liability, and a \$0.4 million increase in the valuation allowance for state net operating losses.

Interpool Limited's pre-tax income (international sourced income) is taxed at a low rate (approximately 3%) due to the income tax convention between the United States and Barbados. The domestic intermodal division's pre-tax income (United States sourced income), including corporate activities and the results of operations of CAI, is taxed at the higher United States tax rates. During the three months ended March 31, 2005, 27% of taxable income was generated from United States sources as compared to 32% during the three months ended March 31, 2004, thus reducing the net increase in the provision for income taxes.

Net Income. As a result of the factors described above, our net income increased to $20.4 million in the three months ended March 31, 2005 from $10.2 million in the three months ended March 31, 2004.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Equipment Leasing Revenue. Our equipment leasing revenues increased to $388.2 million for the year ended December 31, 2004, from $374.3 million in the year ended December 31, 2003, an increase of $13.9 million or 4%.

Container leasing segment revenues increased to $181.5 million for the year ended December 31, 2004, from $175.1 million in the year ended December 31, 2003, an increase of $6.4 million or 4%. The increase was primarily attributable to an increase in container operating lease revenues of $9.4 million, partially offset by a decrease in direct financing lease revenues of $3.1 million. The incremental container operating lease revenues, as compared to the prior year period, are primarily due to our container operating lease fleet which increased in size by 7%. The daily rental rates for the overall container fleet were lower, partially offsetting the incremental revenue resulting from the increased average size of our container operating lease fleet. Utilization rates of our container fleet have historically been calculated assuming containers managed by CAI were 100% utilized since they were not available to us to put on hire regardless of whether all of these units are generating revenue. Under this method, utilization rates of our container operating lease fleet were 99% at December 31, 2004 and 2003. The utilization rates of our operating lease container fleet, considering CAI's actual utilization rates for our operating lease containers managed by CAI, were 96% and 94% at December 31, 2004 and 2003, respectively.

Domestic intermodal equipment segment revenues increased to $206.7 million for the year ended December 31, 2004, from $198.5 million in the year ended December 31, 2003, an increase of $8.2 million or 4%. The increase was attributable to an increase in chassis operating lease revenues of $9.4 million, partially offset by a decrease in direct financing lease revenues of $1.2 million. The incremental chassis operating lease revenues are primarily due to an increase in the utilization and daily rental rates for our chassis fleet as compared to the prior year period. The utilization rates of our domestic intermodal chassis operating lease fleet were 97% and 96% at December 31, 2004 and 2003, respectively.

Computer leasing equipment segment revenues decreased $0.6 million as compared to the prior year period due to the liquidation of the computer leasing segment which was completed during the first quarter of 2004.

Other Revenue. Our other revenues decreased to $16.2 million for the year ended December 31, 2004, from $27.8 million in the year ended December 31, 2003, a decrease of $11.6 million or 42%.

Container leasing segment other revenues decreased to $8.7 million for the year ended December 31, 2004, from $11.8 million in the year ended December 31, 2003, a decrease of $3.1 million or 26%. The decrease was primarily attributable to a decrease in container positioning revenue of $2.0 million as well as a reduction in billable repairs to our lessees at the termination of a lease of $1.2 million.

Domestic intermodal equipment segment other revenues decreased to $7.5 million for the year ended December 31, 2004, from $16.0 million in the year ended December 31, 2003, a decrease of $8.5 million or 53%. The decrease was primarily attributable to a reduction in billable services for positioning of equipment provided to the United States military of $4.0 million and a reduction in billable repairs to our lessees at the termination of a lease of

$4.4 million.

Lease Operating and Administrative Expenses. Our lease operating and administrative expenses decreased to $145.3 million for the year ended December 31, 2004 from $156.4 million in the year ended December 31, 2003, a decrease of $11.1 million or less than 7%.

The decrease was primarily due to:

A decrease in storage costs of $4.7 million primarily due to increased utilization experienced within CAI's container fleet as well as within the domestic intermodal chassis product line.

A decrease of $2.7 million in positioning and handling expenses, primarily due to a reduction in services incurred for the United States military.

A decrease in maintenance and repair costs of $2.6 million primarily due to a decrease in repairs of equipment for both the chassis and container product lines.

A decrease in legal and consulting fees of $2.0 million primarily due to a reduction in legal fees related to the Audit Committee and SEC investigations in 2003 and the class action lawsuit, partially offset by increased consulting services.

A decrease in commission expense of $1.1 million primarily due to the write-off of deferred sales commissions in the prior year period, as well as an overall reduction in agency commissions.

An increase in foreign exchange gains of $1.1 million primarily due to the effects of foreign currency fluctuations.

A decrease in travel and entertainment expense of $0.7 million primarily due to reduced executive travel incurred within the container leasing segment.

An increase in salary expense of $3.9 million primarily related to an increase in headcount and other employee related costs, partially offset by the expenses recorded in 2003 related to separation agreements with our former Chief Financial Officer who resigned in July 2003 and our former President who resigned in October 2003.

A further breakdown of the lease operating and administrative expense variances, as compared to the prior period, by reportable segment is as follows:

Container leasing segment lease operating and administrative expenses decreased to $46.7 million for the year ended December 31, 2004 from $54.2 million in the year ended December 31, 2003, a decrease of $7.5 million or 14%. This decrease can be summarized as follows:

(Dollars in millions)	**Container Leasing**
Storage expense	$(3.9)
Legal and consulting fees	(1.7)
Commissions expense	(1.1)
Exchange	(1.1)
Maintenance and repairs expense	(0.8)

Travel and entertainment expense	(0.7)
Positioning and handling expense	(0.5)
Salaries expense	3.0
Other, net	(0.7)
Total	$ (7.5)

Domestic intermodal equipment segment lease operating and administrative expenses decreased to $98.6 million for the year ended December 31, 2004 from $102.1 in the year ended December 31, 2003, a decrease of $3.5 million or 3%. This decrease can be summarized as follows:

(Dollars in millions)	Domestic Intermodal Equipment
Positioning and handling expense	$(2.2)
Maintenance and repairs expense	(1.8)
Storage expense	(0.8)
Legal and consulting fees	(0.3)
Salaries expense	0.9
Other, net	0.7
Total	$(3.5)

During 2003 and 2004, we incurred significant costs related to the investigations by our Audit Committee and the SEC, separation agreements with our former Chief Financial Officer and our former President, legal representation for the Company as well as our officers, directors and employees, the payment of fees in order to obtain necessary waivers from our financial institutions and, during 2004, the proceedings before The New York Stock Exchange to delist our securities. We will continue to incur additional costs relating to the formal investigation by the SEC and the class action lawsuit including the cost of legal representation for the Company and our current and former officers, directors and employees. The costs incurred during 2003 and 2004 are as follows:

(Dollars in millions):	Year Ended December 31, 2003	Year Ended December 31, 2004
Audit fees for the reaudits and restatements	$3.6	$0.5
Cost of investigations	5.9	0.2
Legal and consulting fees	3.2	2.4
Separation agreements	5.9	0.3
Bank waiver fees	1.6	2.5
Amounts before tax	$20.2	$5.9
Amounts net of tax	$12.9	$4.0

Provision for Doubtful Accounts. Our provision for doubtful accounts decreased to $1.5 million for the year ended December 31, 2004 from $4.2 million for the year ended December 31, 2003. The decrease was primarily attributable to an improvement in the risk profile of our outstanding receivables, partially offset by the reversal during the prior year period of bad debt provisions previously recorded by Microtech, without a similar reversal of bad debt provisions during the current year period ($0.4 million). During the year ended December 31, 2004, our non-performing receivables decreased $0.3 million ($12.5 million at December 31, 2004 and $12.8 million at December 31, 2003). As of December 31, 2004 and December 31, 2003, our non-performing receivables, net of applicable reserves, were 1.01% and 1.27%, respectively, of accounts receivable, net. Our provision for doubtful accounts is provided based upon a quarterly review of the receivables. This review is based on the risk profile of the receivables, credit quality indicators such as the level of past-due amounts and economic conditions, as well as the value of underlying collateral in the case of direct financing lease receivables.

Fair Value Adjustment for Derivative Instruments. Our non-cash fair value adjustment for derivative instruments income amounted to $2.4 million for the year ended December 31, 2004 as compared to income of $0.8 million for the year ended December 31, 2003. The income for the year ended December 31, 2004, as well as the prior year period, was primarily due to the change in fair value of interest rate swap agreements held which do not qualify as cash flow hedges.

Fair Value Adjustment for Warrants. Our non-cash fair value adjustment for warrants expense amounted to $49.2 million for the quarter and year ended December 31, 2004, without a similar item in the prior year period. The expense for the year ended December 31, 2004 was due to the change in the fair value of the Warrants issued during September 2004 in connection with the 6.0% Notes, which Warrants are classified as a liability on the accompanying Consolidated Balance Sheets. Due primarily to the increase in the market value of our common stock during the last quarter of 2004, the fair market value of these Warrants increased from $22.5 million at September 30, 2004 to $71.7 million at December 31, 2004. Because these Warrants are classified as a liability, any further increase in the fair market value of the Warrants will result in an additional non-cash expense to the Consolidated Statements of Income. If the fair market value of the Warrants decreases in the future, we will record non-cash income in our Consolidated Statements of Income. Accordingly, future changes to the fair market value of these Warrants have the potential to cause volatility in our future results.

Depreciation and Amortization of Leasing Equipment. Our depreciation and amortization expenses increased to $89.5 million for the year ended December 31, 2004, from $87.5 million for the year ended December 31, 2003, an increase of $2.0 million or 2%. This increase was primarily due to additions to our operating lease fleet.

Impairment of Leasing Equipment. Our impairment of leasing equipment expense decreased to $4.6 million for year ended December 31, 2004, from $9.0 million for the year ended December 31, 2003, a decrease of $4.4 million. This decrease was primarily due to a reduction in impairment losses related to damaged equipment that was subsequently remanufactured ($3.0 million), and a decrease in impairment losses for idle equipment ($1.5 million).

(Income)/Loss for Investments Accounted for Under the Equity Method. The increase in (income)/loss for investments accounted for under the equity method of $2.1 million during the year ended December 31, 2004 resulted primarily from improved earnings for certain investments accounted for under the equity method.

Gain on Insurance Settlement. During the year ended December 31, 2004, we signed an agreement settling the lawsuit and claims under our insurance policy related to the default of a South Korean Customer. In connection with this settlement, we recognized a pre-tax gain of $6.3 million related to the $26.4 million settlement of the claim during the three months ended June 30, 2004.

Other (Income)/Expense, Net. We had other income of $15.7 million during the year ended December 31, 2004 compared to $5.1 million of other income for the year ended December 31, 2003. The increase of $10.6 million was primarily due to:

An increase in gains on equipment sales of $13.7 million, including an increase of $10.4 million in gains on equipment sales to third parties recognized by CAI. The increase in gains on equipment sales recognized by CAI was due to an increase in volume, as well as an increase in the returns generated on the equipment sales due to the favorable market conditions within the container resale sector. In addition, during the fourth quarter of 2004, we sold certain assets of CTC Container Trading (U.K.) Limited, a wholly-owned subsidiary which leased specialized cargo carrying units and other equipment for use by companies operating in the North Sea, which resulted in a pre-tax profit of approximately $0.9 million. The remainder of the increase in gains on equipment sales was primarily due to the favorable market conditions we experienced in the resale sector for containers as compared to the prior year period, as well as sales of certain railcars which contributed favorably to profits on equipment sales.

A $2.9 million gain recorded in October 2003 resulting from the consolidation of assets and liabilities of a special purpose entity (which no longer qualified for off-balance sheet treatment for accounting purposes) formed as part of our container lease securitization program. This gain resulted primarily from the favorable credit loss experience through September 30, 2003 on the underlying direct financing leases as compared to the assumed credit losses of 1.5%.

Interest Expense. Our interest expense increased to $112.0 million in the year ended December 31, 2004 from $106.7 million in the year ended December 31, 2003, an increase of $5.3 million or 5%. The increase in interest expense was primarily attributable to an increase in amortization of deferred financing fees of $2.8 million, increased interest rates resulting in increased interest expense of $2.6 million and an increase of $0.9 million for bank fees in order to obtain waivers related to our delayed filings. These increases were partially offset by reduced borrowings resulting in a reduction in interest expense of $1.0 million.

Interest Income. Our interest income decreased to $3.4 million in the year ended December 31, 2004 from $4.0 million in the year ended December 30, 2003, a decrease of $0.6 million or 15%. The decrease in interest income was primarily due to reduced earnings on invested cash balances due to lower interest rates, partially offset by an increase in average invested balance.

Minority Interest Expense, Net. The change in minority interest expense, net of $6.5 million for the year ended December 30, 2004 as compared to the prior year was primarily due to a $13.5 million increase in net income reported by our 50%-owned consolidated subsidiary, CAI.

Provision for Income Taxes. We recorded an income tax provision of $13.7 million for the year ended December 31, 2004 as compared to $3.3 million for the year ended December 31, 2003. This increase was principally caused by an increase in taxable income of $26.9 million as adjusted for the $49.2 million permanent tax difference that arose from the non-cash expense pertaining to the Warrant liability. In addition, a larger proportion of taxable income was generated from United States sources as compared to lower-taxed international source income.

Interpool Limited's pre-tax income (international sourced income) is taxed at a low rate (approximately 3%) due to the income tax convention between the United States and Barbados. The domestic intermodal division's pre-tax income (United States sourced income), including corporate activities and the results of operations of CAI, is taxed at the higher United States tax rates. During the year ended December 31, 2004, 36% of taxable income was generated from United States sources as compared to a loss experienced during the year ended December 31, 2003, thus contributing to the increase in the provision for income taxes.

Net Income. As a result of the factors described above, our net income decreased to $8.4 million in the year ended December 31, 2004 from $41.2 million in the year ended December 31, 2003.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Equipment Leasing Revenue. Our equipment leasing revenues increased to $374.3 million for the year ended December 31, 2003, from $325.1 million in the year ended December 31, 2002, an increase of $49.2 million or 15%.

Container leasing segment revenues increased to $175.1 million for the year ended December 31, 2003, from $138.3 million in the year ended December 31, 2002, an increase of $36.8 million or 27%. The increase was attributable to $17.1 million of incremental leasing revenues as a result of consolidating the activities of CAI for a full year in 2003 as compared to approximately six months in 2002. In addition, container operating lease revenues increased $10.1 million and direct financing lease revenues increased $9.6 million. The incremental container operating lease revenues are primarily due to our container operating lease fleet which increased in size by 11% and an increase in the utilization rates for our containers as compared to the prior year period. The daily rental rates for containers were relatively flat as compared to the prior year period. Utilization rates of our container fleet have historically been calculated assuming containers managed by CAI were 100% utilized since they were not available to us to put on hire regardless of whether all of these units are generating revenue. Under this method, utilization rates of our container operating lease fleet were 99% and 98% at December 31, 2003 and 2002, respectively. The utilization rates of our operating lease container fleet, considering CAI's actual utilization rates for our operating lease containers managed by CAI, were 94% and 92% at December 31, 2003 and 2002, respectively.

Domestic intermodal equipment segment revenues increased to $198.5 million for the year ended December 31, 2003, from $185.3 million in the year ended December 31, 2002, an increase of $13.2 million or 7%. The increase was attributable to an increase in chassis operating lease revenues of $12.4 million and direct financing lease revenues which increased $0.8 million. The incremental chassis operating lease revenues are primarily due to our chassis operating lease fleet which increased in size by 5% and an increase in the utilization rates for our chassis as compared to the prior year period. The daily rental rates for chassis were relatively flat as compared to the prior year period. The utilization rates of our domestic intermodal chassis operating lease fleet were 96% and 93% at December 31, 2003 and 2002, respectively.

Computer leasing equipment segment revenues decreased to $0.6 million for the year ended December 31, 2003, from $1.5 million in the year ended December 31, 2002, a decrease of $0.9 million or 60%. This decrease is due to the liquidation of the computer leasing segment which was taking place throughout 2003.

Other Revenue. Our other revenues increased to $27.8 million for the year ended December 31, 2003, from $19.9 million in the year ended December 31, 2002, an increase of $7.9 million or 40%.

Container leasing segment other revenues increased to $11.8 million for the year ended December 31, 2003, from $8.1 million in the year ended December 31, 2002, an increase of $3.7 million or 46%. The increase was primarily attributable to an increase in container positioning revenue of $2.1 million and an increase in billable repairs to our lessees at the termination of a lease of $1.6 million.

Domestic intermodal equipment segment other revenues increased to $16.0 million for the year ended December 31, 2003, from $11.8 million in the year ended December 31, 2002, an increase of $4.2 million or 36%. The increase was primarily attributable to an increase in billable services for positioning of equipment provided to the United States military of $4.0 million.

Lease Operating and Administrative Expenses. Our lease operating and administrative expenses increased to $156.4 million for the year ended December 31, 2003 from $117.0 million in the year ended December 31, 2002, an increase of $39.4 million or 34%.

The increase was primarily due to:

An increase of $13.0 million resulting from the consolidation of the activities of CAI for the full year in 2003 compared to approximately six months in the prior year.

An increase in legal fees of $11.6 million primarily related to the Audit Committee and SEC investigations as well as the restatement of our 2001 and 2000 annual financial results and the financial results of the first three quarters of 2002.

An increase in salary expense of $5.9 million due to recording of substantially all costs related to separation agreements with our former Chief Financial Officer who resigned in July 2003 and our former President who resigned in October 2003. In addition, salary expense increased by $2.6 million as a result of an increase in headcount and other employee related costs.

An increase in maintenance and repair costs of $4.7 million primarily due to the refurbishment of chassis for use within the chassis product line and an increase in repairs within the container product line.

An increase in audit expenses of $4.3 million primarily as a result of the restatement of our 2001 and 2000 annual financial results and the financial results of the first three quarters of 2002.

An increase of $3.5 million in positioning and handling expenses, primarily due to an increase in services provided for the United States military during 2003.

An increase in insurance expense of $0.8 million primarily due to premiums for insurance coverage against customer insolvency and related equipment losses. The premium rates and deductibles for this type of insurance have increased as a result of higher claim experience by the Company and others within the industry.

A decrease in storage costs of $6.4 million primarily due to increased utilization, as well as a reduction in storage related expenses as we sold equipment recovered from a customer in default.

A decrease in computer leasing equipment segment lease operating and administrative expenses of $0.4 million due to the liquidation of the computer leasing segment which was taking place throughout 2003.

A further breakdown of the lease operating and administrative expense variances, as compared to the prior period, by reportable segment is as follows:

Container leasing segment lease operating and administrative expenses (excluding the activities of CAI as CAI was a consolidated entity for the full year in 2003 compared to approximately six months in the prior year) increased to $27.0 million for the year ended December 31, 2003 from $26.1 in the year ended December 31, 2002, an increase of $0.9 million or 3%. This increase can be summarized as follows:

(Dollars in millions)	Container Leasing
Legal fees	$1.7
Audit expense	1.3
Salaries expense	1.2
Maintenance and repairs expense	1.2
Insurance expense	0.3
Storage expense	(5.0)
Other, net	0.2
Total	$0.9

Domestic intermodal equipment segment lease operating and administrative expenses increased to $102.1

million for the year ended December 31, 2003 from $76.3 in the year ended December 31, 2002, an increase of $25.8 million or 34%. This increase can be summarized as follows:

(Dollars in millions)	Domestic Intermodal Equipment
Legal fees	$9.9
Salaries expense	7.3
Maintenance and repairs expense	3.5
Positioning and handling expense	3.5
Audit expense	3.0
Insurance expense	0.5
Storage expense	(1.4)
Other, net	(0.5)
Total	$25.8

Provision for Doubtful Accounts. Our provision for doubtful accounts decreased to $4.2 million for the year ended December 31, 2003 from $7.8 million for the year ended December 31, 2002. The decrease was primarily attributable to reduced provisions for Microtech ($2.0 million) and additional provisions for specific customers which became part of our non-performing receivables during 2002. During 2003, our non-performing receivables increased $1.7 million ($12.8 million at December 31, 2003 and $11.1 million at December 31, 2002). As of December 31, 2003 and 2002, our non-performing receivables, net of applicable reserves, were 1.27% and 2.54%, respectively, of accounts receivable, net. Our provision for doubtful accounts is provided based upon a quarterly review of the receivables. This review is based on the risk profile of the receivables, credit quality indicators such as the level of past-due amounts and economic conditions, as well as the value of underlying collateral in the case of direct financing lease receivables.

Fair Value Adjustment for Derivative Instruments. Our non-cash fair value adjustment for derivative instruments income amounted to $0.8 million for the year ended December 31, 2003 as compared to expense of $5.5 million in the year ended December 31, 2002, a change of $6.3 million. This change is primarily related to the change in the fair market value of interest rate swaps accounted for as free standing derivatives.

Depreciation and Amortization of Leasing Equipment. Our depreciation and amortization expenses decreased to $87.5 million for the year ended December 31, 2003, from $88.7 million for the year ended December 31, 2002, a decrease of $1.2 million or 1%.

While our operating fleet grew, the related increase in depreciation was offset by the following:

A decrease related to the write-off of $7.5 million during the year ended December 31, 2002, representing the book value of the unrecovered equipment from a lease customer in default. No similar write off was recorded in 2003.

A depreciation reduction of $2.3 million and $0.2 million for chassis and containers, respectively, due to the change to our estimated useful lives which was effective April 1, 2002.

A $1.0 million decrease in impairment write-downs recorded in 2003 ($3.1 million) as compared to 2002 ($4.1 million) based on an evaluation of the carrying value of our long-lived assets.

An increase in depreciation expense of $7.7 million resulting from the consolidation of the activities of CAI for full year 2003, as opposed to approximately six months in 2002.

Impairment of Leasing Equipment. Our impairment of leasing equipment expense decreased to $9.0 million for the year ended December 31, 2003, from $9.6 million for the year ended December 31, 2002, a decrease of $0.6 million. This decrease was primarily due to a reduction in impairment losses for idle equipment ($0.8 million), partially offset by an increase in impairment losses related to damaged equipment that was subsequently remanufactured ($0.3 million).

Losses for Investments Accounted for Under the Equity Method. The decrease in losses for investments accounted for under the equity method of $4.9 million during the year ended December 31, 2003 as compared to the prior year period resulted primarily from decreased equity method losses of CAI that we recorded through June 26, 2002, at which time CAI became our consolidated subsidiary. For the period from January 1, 2002 through June 26, 2002, our share of the equity losses of CAI was $4.0 million. In addition, for the year ended December 31, 2003, we recorded $1.7 million representing our share of equity losses as a result of certain other investments accounted for under the equity method of accounting, as compared to equity losses of $2.6 million for the year ended December 31, 2002.

Other (Income)/Expense, Net. We had other income of $5.1 million during the year ended December 31, 2003 compared to $1.1 million of other expense for the year ended December 30, 2002. The change of $6.2 million for the year ended December 31, 2003 was primarily due to:

The establishment of reserves during 2002 for our Notes receivable from PCR ($4.0 million), which effectively reduced the carrying value of these Notes to zero during 2002, and the establishment of a reserve for our guarantee of PCR debts due to third parties as well as other liquidation accruals which are our responsibility ($5.7 million).

Payments of $2.7 million made to PCR by a company controlled by certain of our officers and directors which were expensed during 2002.

The write off in 2002 of Microtech's $1.4 million of computer equipment related receivables from PCR which have been determined to be uncollectible.

A $2.9 million gain recorded in October 2003 resulting from the consolidation of assets and liabilities of a special purpose entity (which no longer qualified for off-balance sheet treatment for accounting purposes) formed as part of our container lease securitization program. This gain resulted primarily from the favorable credit loss experience through September 30, 2003 on the underlying direct financing leases as compared to the assumed credit losses of 1.5%.

An increase in fee income of $0.7 million as a result of our acting as an agent and arranging a lease transaction between two parties during 2003.

Gains on equipment sales of $0.7 million during the year ended December 31, 2003 as compared to losses on equipment sales of $4.3 million during the prior year period. The change of $5.0 million resulted primarily from gains on equipment sales to third parties recognized by CAI which became a consolidated subsidiary on June 27, 2002, as well as losses on the sale of leasing equipment of $3.0 million resulting primarily from equipment recovered from a customer in default which generated losses during 2002.

In 2003 we recorded $0.5 million in insurance revenue, which resulted in the recovery of costs incurred, resulting from a policy covering losses realized on a defaulted loan as compared to $10.6 million recorded in 2002.

The sale of our Chicago property in 2002, which had been acquired as part of the acquisition of TA and resulted in a pre-tax gain of $4.8 million.

A reduction in gains on retirement of debt of $1.1 million as compared to the prior year period.

Interest Expense. Our interest expense decreased to $106.7 million in the year ended December 31, 2003 from $108.3 million in the year ended December 31, 2002, a decrease of $1.6 million or 1%. The decrease in interest expense was primarily attributable to reduced interest rates resulting in reduced interest expense of $10.2 million and a reduction in amortization of deferred financing fees of $2.6 million as compared to the prior year period. These decreases to interest expense were partially offset by increased borrowings to fund capital expenditures, resulting in incremental interest expense of $7.7 million, an increase in interest expense of $1.7 million related to CAI for a full year of expense in 2003 compared with approximately six months in 2002 and $1.7 million of bank fees in order to obtain waivers related to our delayed filings.

Interest Income. Our interest income decreased to $4.0 million in the year ended December 31, 2003 from $4.6 million in the year ended December 31, 2002, a decrease of $0.6 million or 13%. The decrease in interest income was primarily due to reduced earnings on invested cash balances due to lower interest rates, as well as a decline in invested cash balances.

Minority Interest Expense, Net. The change in minority interest expense, net of $0.1 million for the year ended December 31, 2003 as compared to the prior year resulted primarily from a decrease in minority interest income of $0.1 million as a result of the consolidation of CAI effective June 27, 2002.

Provision/(Benefit) for Income Taxes. We recorded an income tax provision of $3.3 million for the year ended December 31, 2003 as compared to a tax benefit of $1.4 million for the year ended December 31, 2002. This increase in the provision for income taxes was caused by an increase in pre-tax income of $41.5 million and the mix between pre-tax income and losses generated from international sources and United States sources. The international container division that is taxed at lower rates (approximately 3%) based upon the income tax convention between the United States and Barbados, contributed favorably to net income. The domestic intermodal division (including corporate activities) which is taxed at higher United States tax rates, experienced reduced losses during the year ended December 31, 2003, as compared to the prior year. Additionally, other provisions for deferred tax asset valuation allowances increased the tax provision by $1.2 million during the year ended December 31, 2003 while the provisions for deferred tax asset valuation allowances decreased tax benefits by $6.3 million for the year ended December 31, 2002.

Net Income. As a result of the factors described above, our net income increased to $41.2 million in the year ended December 31, 2003 from $4.4 million in the year ended December 31, 2002.

Liquidity and Capital Resources

Historically, we have used funds from various sources to meet our corporate obligations and to finance the acquisition of equipment for lease to customers. The primary funding sources have been cash provided by operations, borrowings (generally from banks), securitization of lease receivables, the issuance of capital lease obligations and the sale of our securities. In addition, we have generated cash from the sale of equipment being retired from our fleet. In general, we have sought to meet debt service requirements from the leasing revenue generated by our equipment. Our scheduled capital lease and debt service payments (principal and estimated interest) for 2005 total $341.9 million and for 2006 total $230.0 million. Scheduled payments due to us under non-cancelable operating and direct financing lease agreements with our lessees total $302.2 million for 2005 and $260.6 million for 2006. As of December 31, 2004, we had approximately $284.6 million of unrestricted cash and marketable securities on hand. The combination of unrestricted cash and marketable securities ($284.6 million) and non-cancelable lease payments due to us during 2005 and 2006 ($562.8 million) exceeds our scheduled debt service payments (principal and estimated interest) of $571.9 million for 2005 and 2006 by approximately $275.5 million. In addition, as of March 31, 2005, we had approximately $242.6 million of unrestricted cash and marketable securities on hand.

Our utilization rates, as well as those of our competitors are at high levels. We anticipate that demand for chassis will continue to be strong well into 2006. We also expect that the current weakness in the demand for new container leasing will improve, driven primarily by the fact that all major shipyards are reporting large order backlogs through 2008. As of January 1, 2005, the existing order backlog was enough to account for an increase of approximately 58% in the world's cellular container ship fleet and is expected to result in demand for a significant number of additional containers and chassis, as well as high utilization of existing units, for the next several years. Lease rates on both new and used chassis have been rising since the middle of 2004, reflecting increases in the cost of new chassis and increased utilization of used chassis. Lease rates for new containers have also been increasing along with the cost of the underlying units. Lease rates for used containers were competitive for much of 2004, although expiring leases are sometimes renewed at lower lease rates. It is management's expectation that lease rates will also remain strong for the next several years.

We have usually funded a significant portion of the purchase price for new containers and chassis through secured borrowings from financial institutions under various credit facilities. While we successfully completed financings and commitments totaling $747.0 million during 2004, our ability to borrow funds on terms as favorable as those available previously was limited from March 31, 2003 through September 30, 2004. This limitation was due to the delay in filing our Annual Report on Form 10-K for 2002, our Quarterly and Annual Reports on Forms 10-Q and 10-K for 2003 and our Quarterly Reports on Form 10-Q for 2004. These factors, coupled with the requirement to maintain certain levels of unrestricted cash until the delayed financial filings were completed, affected the amount of business we wrote with our customers during 2004. During the first quarter of 2005, we received an additional $223.0 million in net financing commitments, none of which has been utilized as of the date this registration statement was filed with the SEC, and completed a draw-down under a lease arrangement with a Japanese lessor for which we received additional cash proceeds of approximately $4.2 million. As of March 31, 2005 (excluding $45.5 million available under CAI's revolving credit facility), a total of $412.1 million of these financing commitments were available for future use. In addition, we regularly evaluate financing proposals which, when coupled with available cash balances and funds available under commitments mentioned above, could be used for growth, for re-financing existing facilities and for working capital.

Our financial restatement and re-audits, as well as the completion of the internal investigations by special counsel to our Audit Committee, prevented the timely completion of our financial statements and Form 10-K for the year ended December 31, 2003, our financial statements and SEC filings for 2004 and other required periodic reports contained in our loan documents. We requested and received necessary waivers under our loan documents. During February 2004, we provided our lenders with a revised schedule for completing and filing our financial statements and periodic SEC filings for 2003 and 2004, and requested that our lenders waive any default resulting from the late preparation and filing of the financial statements and required periodic reports. We completed and filed each of the financial statements and required periodic reports mentioned above before the dates required by our lenders.

During 2003 and 2004, we received waivers from various financial institutions for the delay in issuing our SEC financial reports. In connection with certain of those waivers, we agreed to certain modifications to the terms of several of our debt agreements, including, in a few cases, the pledging of additional collateral and changes to amortization schedules. With the filing of our report on form 10-Q for the third quarter of 2004 on December 27, 2004 we were no longer delinquent with our SEC financial filings and the waivers were no longer required. In addition, the two facilities where amortization schedules had been accelerated were paid off in full during the fourth quarter of 2004.

In connection with our delayed SEC filings and the receipt of waivers from our lenders necessitated by the delayed filings, beginning in January 2004, the members of our Board of Directors and certain of their affiliates who own shares of our common stock agreed to defer their receipt of any dividend payments, until we were in compliance with all SEC filing requirements. As of December 27, 2004, we were no longer delinquent with regard to our SEC filings and the deferred dividends described above were paid prior to December 31, 2004.

Over the years, we have explored from time to time the possibility of raising capital or reducing our leverage through the issuance and sale of our equity securities. As of the date this registration statement is being filed, we have not entered into any agreement for any such transaction other than the issuance of warrants in connection with the $150.0 million Note financing consummated in September 2004.

Cash Flow

Net cash provided by operating activities amounted to $160.3 million in 2004, $150.0 million in 2003 and $120.1 million in 2002. While net income for the year ended December 31, 2004 was $32.8 million lower than net income for the year ended December 31, 2003, it included a non-cash expense of $49.2 million related to the adjustment of the fair value of warrants issued by us in the third quarter of 2004. Excluding this adjustment for the fair value of the warrants, net cash provided by these activities increased $16.4 million. This increase, along with a decrease in other receivables ($26.8 million) was partially offset by a decrease in accounts payable and accrued expenses ($13.6 million) and an increase in other assets ($13.0 million). The increase in net cash provided by these activities in 2003 as compared to 2002 was primarily due to an increase in net income, as well as changes in operating assets and liabilities in the ordinary course of business.

Net cash provided by operating activities amounted to $27.4 million for the three months ended March 31, 2005 compared to $35.0 million for the same period last year. While net income for the three months ended March 31, 2005 was $10.2 million higher than net income for the three months ended March 31, 2004, it included non-cash income of $6.9 million related to the adjustment of the fair value of warrants issued by us in the third quarter of 2004. Excluding this adjustment for the fair value of the warrants, net cash provided by these activities increased $3.3 million for the three months ended March 31, 2005 as compared to the three months ended March 31, 2004. The overall decrease in net cash provided by these activities was primarily due to an increase in accounts receivable ($8.5 million), partially offset by the previously mentioned increase in net income, exclusive of the adjustment for the fair value of the warrants, as well as changes in other operating assets and liabilities in the ordinary course of business.

Net cash used for investing activities amounted to $8.3 million in 2004, $212.7 million in 2003 and $176.4 million in 2002. The decrease in net cash used in these activities in 2004 as compared to 2003 was primarily due to a decrease in the investment in direct financing leases ($65.5 million), a decrease in acquisition of leasing equipment ($30.9 million), an increase in cash collections on direct financing leases ($11.1 million) and an increase in the proceeds from disposition of leasing equipment ($98.7 million). The increase in net cash used in these activities in 2003 as compared to 2002 was primarily due to an increase in the acquisition of leasing equipment ($45.6 million) and an increase in the investment in direct financing leases ($45.2 million), partially offset by an increase in cash collections on direct financing leases ($18.0 million).

Net cash used for investing activities amounted to $36.4 million for the three months ended March 31, 2005 compared to $42.9 million for the same period in 2004. The decrease in net cash used in these activities in 2005 as compared to 2004 was primarily due to a decrease in the investment in direct financing leases ($8.9 million), an increase in the proceeds from disposition of leasing equipment ($14.7 million) and an increase in cash collections on direct financing leases ($0.4 million), partially offset by an increase in acquisition of leasing equipment ($17.5 million).

Net cash provided by financing activities amounted to $16.4 million in 2004, $33.0 million in 2003 and $123.1 million in 2002. The decrease in net cash provided by these activities in 2004 as compared to 2003 was primarily due to an increase in repayment of revolving credit lines ($189.5 million), an increase in repayment of long term debt and capital lease obligations ($183.1 million) and a decrease in borrowings under revolving credit facilities ($57.5 million), partially offset by an increase in the proceeds from the issuance of debt ($415.5 million). The decrease in net cash provided by these activities in 2003 as compared to 2002 was primarily due to a decrease in the proceeds from the issuance of debt ($1,015.6 million), partially offset by a decrease in repayment of long term debt and capital lease obligations ($819.4 million), a decrease in repayment of revolving credit lines ($65.3 million) and an increase in borrowings under revolving credit facilities ($41.0 million).

Net cash used for financing activities amounted to $34.1 million for the three months ended March 31, 2005 compared to net cash provided by financing activities of $7.7 million for the same period in 2004. The change for these activities in 2005 as compared to 2004 was primarily due to a decrease in the proceeds from the issuance of debt ($73.1 million) partially offset by a decrease in repayment of long term debt and capital lease obligations ($28.0 million), and a decrease in repayment of revolving credit lines ($3.0 million).

The following table sets forth certain historical cash flow information for the three years ended December 31, 2004.

	Year Ended December 31 (Dollars in millions) 2004	2003	20
Net cash provided by operating activities	$160.3	$150.0	$1
Proceeds from disposition of leasing equipment	153.1	54.4	
Acquisition of leasing equipment	(206.6)	(237.5)	(1
Investment in direct financing leases	(43.7)	(109.3)	(
Net collections on direct financing leases	88.9	77.8	
Net proceeds of issuance of long-term debt and capital lease obligations in excess of payment of long-term debt and capital lease obligations	240.0	7.6	2
Net (repayment) borrowings of revolving credit lines	(215.5)	31.5	(

Contractual Obligations and Commercial Commitments

We and our subsidiaries are parties to various operating and capital leases and are obligated to make payments related to our long-term borrowings. We are also obligated under various commercial commitments, including obligations to our equipment manufacturers.

The following tables summarize our contractual obligations and commercial commitments at December 31, 2004.

Amounts Due by Period (Dollars in millions)

Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	More ye
Long-Term Debt	$ 990.7	$ 161.3	$ 298.5	$ 108.7	$ 4
Capital Lease Obligations	727.5	79.3	125.5	136.8	3
Interest on Long-Term Debt and and Capital Lease Obligations	732.6	101.3	168.9	122.8	3
Operating Leases	56.6	15.2	29.1	9.6	
Unconditional Purchase Obligations	149.6	116.7	32.9	--	
Employment Agreements	10.3	2.8	2.5	2.4	
Separation Agreements	2.6	1.3	1.3	--	
Total Contractual Cash Obligations	$2,669.9	$477.9	$ 658.7	$ 380.3	$ 1,1

Other Commercial Commitments	Total Amounts Committed	Amount of Commitment Expiration Per Period Less than 1 year	1-3 years	4-5 years	Ove
Standby Letters of Credit	$ 6.0	$6.0	$--	$--	
Guarantees	16.8	--	1.5	6.6	
Total Commercial Commitments	$22.8	$6.0	$1.5	$6.6	

Debt and Capital Lease Obligations

The following table summarizes our debt and capital lease obligations as of December 31, 2004 and 2003 and March 31, 2005:

	(Dollars in Millions) March 31, 2005	December 31, 2004	December 31, 2003
Capital lease obligations payable in varying amounts through 2013	$346.3	$329.6	$325.2
Chassis Securitization Facility interest at 5.96%, 5.99% and 5.59% at March 31, 2005, December 31, 2004 and 2003, respectively		--	--
Warehouse facility	22.5	22.5	25.5
Debt obligation	46.4	53.9	86.4
Capital lease obligation	395.5	397.8	404.7
Secured equipment financing facility, interest at 4.60% and 4.45% at March 31, 2005 and December 31, 2004, respectively, revolving period ending October 31, 2006, term out period ending April 30, 2012	237.9	243.0	--
Revolving credit facility, interest rate at 3.09% at December 31, 2003	--	--	193.5
Revolving credit facility CAI, interest at 4.47%, 4.56% and 3.37% at March 31, 2005 and December 31, 2004 and 2003, respectively	58.5	65.0	87.0
Container securitization facility, interest at 6.50% at December 31, 2003	--	--	76.6
6.00% Notes due 2014 (unsecured) net of unamortized discount of $33.1 million and $33.7 million at March 31, 2005 and December 31, 2004, respectively	196.9	196.3	--
7.35% Notes due 2007 (unsecured)	115.4	115.4	147.0
7.20% Notes due 2007 (unsecured)	45.3	45.3	62.8
9.25% Convertible redeemable subordinated debentures, mandatory redemption 2022 (unsecured)	37.2	37.2	37.2
9.875% Preferred capital securities due 2027 (unsecured)	75.0	75.0	75.0
Notes and loans payable with various rates ranging from 3.60% to 7.90% and maturities from 2005 to 2010	109.5	137.2	194.8
Total Debt and Capital Lease Obligations	1,686.4	1,718.2	1,715.7
Less Current Maturities	263.3	240.6	219.2
Total Non-Current Debt and Capital Lease Obligations	$1,423.1	$1,477.6	$1,496.5

Our debt consists of notes (including the outstanding Notes), loans and capital lease obligations with installments payable in varying amounts through 2027, with a weighted average interest rate of 6.7% and 6.2% in the three months ended March 31, 2005 and for the year ended December 31, 2004, respectively. The principal amount of debt and capital lease obligations payable under fixed rate contracts was $899.5 million at March 31, 2005. Remaining debt and capital lease obligations of $786.9 million at March 31, 2005 are payable under floating rate arrangements, of which $563.4 million has been converted to fixed rate debt through the use of interest rate swap agreements at March 31, 2005. At March 31, 2005 and December 31, 2004, most of our debt and capital lease obligations were secured by a substantial portion of our leasing equipment, direct financing leases, and accounts receivable. Approximately $469.8 million of debt was unsecured at March 31, 2005.

Debt Modifications During 2003 and 2004: Throughout 2003 and 2004, in connection with obtaining necessary waivers from lenders for late filing of our periodic reports with the SEC and the restatement of our past financial statements, we agreed to certain modifications to our existing debt agreements as follows:

Our container securitization facility was amended to relinquish our right to request additional advances under the facility and we agreed that all lease payments subsequently received under the facility would be used to reduce the indebtedness. In addition, we agreed to comply with several new covenants, consistent with those contained in the amendment to our revolving credit agreement, as described below. This facility was paid in full during December 2004.

In May 2003, we established a $200.0 million revolving warehouse facility within our chassis securitization facility and received funding from a $25.5 million debt obligation issuance. In July 2003 and October 2003, we agreed, among other things, to suspend our ability to incur additional funding under the warehouse facility until such time as the loan and guarantee parties have each agreed in their sole discretion to reinstate their funding commitments. The loan and guarantee parties are under no obligation to reinstate any commitments to the warehouse facility.

In July 2003 and October 2003, and January and February 2004, in connection with obtaining necessary amendments under the revolving credit facility due to the late filing of our periodic reports with the SEC and the restatement of our past financial statements, we agreed, among other things, to reduce advance rates under this revolving facility, to add several events of default, to increase the interest rate margin, and to maintain specified levels of unrestricted cash and cash equivalents until delinquent SEC filings were made. Specifically, we agreed to maintain unrestricted cash and cash equivalents of at least $71.0 million at all times and at least $80.0 million as of the last business day of each month, until our 2002 Form 10-K was filed. Our 2002 Form 10-K was filed on January 9, 2004. Subsequent to January 9, 2004, we were obligated to maintain unrestricted cash and cash equivalents of at least $60.0 million at all times and at least $67.5 million as of the last business day of the month until completion and filing of all delayed financial statements for 2003 and 2004. This minimum cash requirement was also adopted in the waivers of the container securitization and one other loan agreement. In conjunction with the waiver received during February 2004, we replaced our annual amortization payment with monthly amortization payments under our revolving credit facility beginning in March 2004. The related minimum cash requirement was subsequently reduced dollar-for-dollar with the amortization payments and, at June 30, 2004, amounted to $50.0 million. Beginning with the amortization payment due September 1, 2004, the minimum cash requirement was again reduced dollar-for-dollar as amortization payments were made. These facilities were paid in full during November 2004.

We also agreed to restrictions on dispositions of collateral and on encumbrances of assets as well as a limitation on concessions that could be made to our other financial institutions in connection with obtaining waivers. The October 2003 amendment also required us to provide additional financial information to the lenders under the facility and to continue the engagement of a financial advisor. With the filing of our Form 10-Q for the third quarter of 2004 during December 2004, the payment in full of certain financing facilities during the fourth quarter of 2004, and the agreement of three lenders during the first quarter of 2005, these restrictions and reporting requirements are no longer in effect.

In addition to the debt specifically identified above, we had additional notes and loans outstanding with various financial institutions. In the fourth quarter of 2003, we agreed to certain modifications to the provisions of some of these instruments. These modifications included, in certain instances, changes to the amortization schedule resulting in a requirement for accelerated principal payments of $16.6 million ($2.0 million of which were made during January and February 2004 and the rest of which were eliminated when the facility in question was paid in full during March 2004), an average interest rate increase of 241 basis points on two debt facilities having a total of $67.7 million outstanding as of December 31, 2003 and the pledging of $9.1 million in additional collateral to four facilities having a total of $38.6 million outstanding at the time the additional collateral was pledged.

In April 2003, in connection with a borrowing under the container securitization, we entered into an interest rate swap agreement with an original notional amount of $31.2 million. This swap contract matures in 2009 and the swap was used to manage interest rate risks on the floating rate borrowings in the securitization facility. In May 2003, in connection with a borrowing under the chassis revolving warehouse securitization facility, we entered into an interest rate swap with an original notional amount of $25.5 million. This swap contract matures in 2014 and the swap is used to manage interest rate risks on floating rate facilities.

New Financings and Commitments During 2004: During 2004, we entered into new financings and commitments totaling $747.0 million of which $563.0 million was utilized. The new debt utilized during 2004 consisted of the following:

Total New Debt and Capital Lease Obligations	**New Borrowin 2004**
Capital lease obligations payable through 2013 with interest imputed at rates from 5.45% to 7.45%	$55.8
6.00% Notes due 2014 (unsecured)	230.0
Secured equipment financing facility, interest at 4.45% at December 31, 2004, revolving period ending 10/31/06, term out period ending 4/30/12	243.0
Notes and loans repayable with various rates ranging from 4.28% to 7.53% and maturities from 2005 to 2009	34.2
Total New Debt and Capital Lease Obligations 2004	$563.0
Original Issue Discount on 6.00% Notes due 2014	(34.2)
Total Net New Debt and Capital Lease Obligations 2004	$528.8

New Financings During 2004: The following financings, which are included in the above summary, were completed during 2004:

In March 2004, we completed secured financings of $81.6 million and in May 2004, $13.6 million, the proceeds of which were used to pay amounts due to equipment manufacturers and for general corporate purposes. One of the March financings which was originally $76.0 million was subsequently refinanced in November and thus not included above.

We successfully completed a secured financing of $15.0 million during July 2004 with installments payable through 2005 at an interest rate of LIBOR plus 2.5%. A portion of the proceeds was used to satisfy a note payable from PCR to an unrelated financial institution, which we guaranteed for PCR. The remaining proceeds were used for general corporate purposes.

During August 2004, we entered into a lease arrangement with a Japanese lessor involving $21.1 million of equipment previously financed with a financial institution during December 2003 and May 2004. The lease "advance rate" against this equipment was 107% ($22.5 million total advance), increasing the cash proceeds received by us by $5.8 million from the level of the previous financings. The lease expires in December 2008, and we have a fixed purchase option at that time for $14.6 million that we expect to exercise. The aggregate fixed interest rate is 7.44%.

On September 14, 2004, we entered into a Securities Purchase Agreement pursuant to which we sold $150.0 million total principal amount of a new series of 6.0% Notes due 2014 (the "Notes") in a private transaction with four investors. In connection with the sale of the Notes, we also issued to the investors two series of Warrants exercisable for a total of 8,333,333 shares of our common stock at an exercise price of $18.00 per share (the "Warrants"). The exercise price will be subject to customary anti-dilution adjustments as set forth in the Warrants.

The Notes mature on September 1, 2014, with interest payable semi-annually at a rate of 6.0% per annum. We have the right to redeem the Notes at any time after September 1, 2009 with a declining premium. The maturity of the Notes can be accelerated upon the occurrence of an "Event of Default" as such term is defined in the indenture governing the Notes (the "Indenture"). The Indenture also contains various restrictive covenants, including limitations on the payment of dividends and other restricted payments, limitations on incurrence of indebtedness, and limitations on asset sales, the violation of which would result in an Event of Default.

The first series of Warrants (the "Series A" Warrants) is exercisable at any time for a total of 5,475,768 shares. The second series of warrants (the "Series B" Warrants) became exercisable for a total of 2,857,565 shares, following stockholder approval of such exercise at a special meeting of our stockholders on June 30, 2005. We also entered into agreements with the investors to file registration statements with the Securities and Exchange Commission, for the benefit of the investors, with respect to the Notes and the Warrants. The terms of the Warrants provide that the exercise price will be paid by the investors to us solely in cash except that after we have filed a registration statement with the Securities and Exchange Commission relating to the Warrants and underlying common stock, in the event such registration statement has not become effective or is otherwise not available to the Warrant holders or if the exercise of the Warrants for cash would not be permitted under the federal securities laws, the exercise price may be paid by tendering a principal amount of 6.0% Notes equal to the exercise price of the Warrants then being exercised. The sale of the Notes and Warrants pursuant to the Securities Purchase Agreement was made in reliance on the exemption from the registration requirements of the Securities Act of 1933 (the "Act") pursuant to Section 4(2) of the Act.

Of the $150.0 million in proceeds from the September 14, 2004 sale of the Notes and Warrants, we repurchased, at face value, a portion of our outstanding 7.35% Notes due 2007 ($31.6 million) and 7.20% Notes due 2007 ($17.5 million) which were held by the investors. The remaining proceeds are being used for general corporate purposes, including, but not limited to, the purchase of equipment, retirement of debt, potential acquisitions and/or working capital.

The Warrants expire on September 1, 2014, although we have the right under certain conditions to require that they be exercised at any time after our common stock trades at $30.00 per share or more for five consecutive trading days assuming the shares being issued upon exercise are registered shares.

The fair value of the warrants at the date of the transaction was estimated at $22.5 million and was recorded in warrant liability on the Consolidated Balance Sheet, with the offset recorded as a discount on the Notes. This discount is being amortized as interest expense using the effective interest method over the ten-year life of the Notes. The overall interest rate on the Notes, considering the amortization of the discount, is approximately 8.3%.

EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and potentially Settled in a Company's Own Stock* ("EITF 00-19") requires freestanding contracts that are settled in a Company's own stock, including common stock warrants, to be designated as an equity instrument, asset or liability. Under the provisions of EITF 00-19, a contract designated as an asset or liability must be carried at fair value until the contract meets the requirements for classification as equity, until the contract is exercised or until the contract expires. We have classified these warrants as a liability, as noted above, because the requirements of EITF 00-19 for classification of the warrants as equity have not been met. Because the warrants are classified as a liability, any changes in fair value are and will continue to be reported as fair value adjustment for warrants in the Consolidated Statement of Income. Due primarily to the increase in the market value of our common stock during the last quarter of 2004, the fair market value of these Warrants increased from $22.5 million at September 30, 2004 to $71.7 million at December 31, 2004. As a result, during the three months ended December 31, 2004, we recorded a non-cash expense of $49.2 million (for which no tax benefit is derived) which was reflected as fair value adjustment for warrants on the accompanying Consolidated Statements of Income. Due primarily to the decrease in the market value of our common stock during the first quarter of 2005, the fair market value of these Warrants decreased from $71.7 million at December 31, 2004 to $64.9 million at March 31, 2005. As a result, during the three months ended March 31, 2005, we recorded a non-cash fair value adjustment of $6.9 million (for which no tax expense is derived) which was reflected as fair value adjustments for warrants on the accompanying Consolidated Statements of Income. Accordingly, future changes to the fair market value of these Warrants have the potential to cause volatility in our future results. Because these warrants are classified as a liability, any increase in the fair market value of the Warrants will result in an additional non-cash expense to the Consolidated Statements of Income. If the fair market value of the Warrants decreases in the future we will record non-cash income in our Consolidated Statements of Income. In the event that all of the conditions of EITF 00-19 are met for classification of the Warrants as equity, the liability account representing the fair value of the warrants at the date the conditions are met will be reclassified to additional paid-in-capital on the Consolidated Balance Sheets.

We have agreed to file Registration Statements for the Warrants and the Notes with the Securities and Exchange Commission by August 1, 2005. In addition, we have agreed to use commercially reasonable efforts to have the Warrant Registration Statement and the Notes Registration Statement declared effective by October 1, 2005. It is impossible for us to predict when either of these registration statements will become effective. If either of these Registration Statements is not effective by November 1, 2005, or is not filed by August 1, 2005, we will be required to pay liquidated damages to the holders of these securities until the Registration Statement becomes effective or is filed, as the case may be, based upon a value of $230.0 million for the Notes (reflecting the $150.0 million sold in September and the additional $80.0 million sold in November as described below) and $150.0 million for the Warrants. For the first 90 days, the amount of liquidated damages to be paid related to the Warrants and the Notes will be calculated using a rate of 0.25% per annum for each day the Registration Statements are not effective after October 31, 2005 or if the Registration Statements are not filed by August 1, 2005. This percentage will be increased by 0.25% per annum for each 90 day period, until these conditions are met, up to a maximum of 1.00% per annum.

Copies of the Securities Purchase Agreement, the Indenture, the Warrant Agreement, the Notes Registration Rights Agreement and the Investor Rights Assessment were filed as exhibits to our report on

Form 8-K issued September 15, 2004.

On November 1, 2004, we consummated a secured equipment financing with one of our existing lenders. The financing is secured by shipping containers and related leases owned by one of our special purpose consolidated subsidiaries and leased to various third parties. The financing allows for advances from time to time up to the amount of available collateral under the facility, subject to a maximum principal amount that may be outstanding under the facility of $252.0 million. Of the $243.0 million drawn down on November 1, 2004, we used $224.4 million to refinance outstanding indebtedness, which includes the entire $154.8 million of outstanding borrowings under our revolving credit facility, which has now been terminated, as well as an existing $69.6 million loan from this lender. The remaining balance of $18.6 million was used for transaction fees and working capital purposes. The interest rate under this new facility is currently LIBOR plus 175 basis points, with a reduction to LIBOR plus 150 basis points possible as our credit rating improves. This agreement, as amended, requires that we enter into interest rate swap contracts in order to effectively convert at least seventy percent of the debt associated with operating lease equipment and ninety percent of the debt associated with direct financing leases from floating rate debt to fixed rate debt by March 31, 2005. The facility has a two-year term, after which the outstanding balance will be paid out in full over 66 months if it is not refinanced.

This agreement requires that we maintain a tangible net worth (as defined in the Agreement) of at least $300.0 million. The facility also requires us to maintain a fixed charge coverage ratio of 1.5 to 1 and a funded debt to tangible net worth ratio of 4.0 to 1.0 and contains other customary restrictive covenants. At December 31, 2004 we were in compliance with these covenants.

As described below, during the first quarter of 2005, we received additional commitments under this facility totaling $248.0 million from six additional financial institutions. As of the date this registration statement was filed, none of these additional commitments had been utilized.

On November 29, 2004, we sold $80.0 million total principal amount of new 6.0% Notes (the "November Notes") due 2014 to eight investors under the same indenture used for the $150.0 million unsecured financing completed during September 2004. The terms of the November Notes are identical to those of the Notes sold during September (as described previously in this document) with the following exceptions: (1) there were no warrants associated with the November Notes and (2) the original issue discount on the November Notes was approximately 14.7% versus 15.0% for the September Notes. The November Notes were sold at a discount which provided net proceeds totaling $68.1 million. The net proceeds are for general corporate purposes, including, but not limited to the purchase of equipment, retirement of debt, acquisitions, and/or working capital.

In December 2004, we completed two capital lease obligation transactions totaling $50.0 million, the proceeds of which were used for general corporate purposes.

In addition to the revolving credit facility mentioned previously, we paid-in-full three other secured lending facilities, totaling $37.0 million, during November 2004, including two facilities with Yardville National Bank (a subsidiary of an entity in which our Chief Executive Officer owns approximately five percent of the common stock and serves on the executive Committee of the Board of Directors.) Also in December 2004 we paid in full the remaining outstanding debt obligations of the container securitization.

New Financings During 2005: During the first quarter of 2005, we received an additional $223.0 million in net financing commitments. Commitments were received totaling $248.0 million under a financing facility established on November 1, 2004 from six financial institutions, while we cancelled a financing commitment for $25.0 million that existed as of December 31, 2004. This commitment was cancelled to allow the financial institution involved to provide a larger commitment to a facility already established during December 2004. As of March 31, 2005, none of these additional commitments had been utilized.

The additional commitment of $248.0 million brings the total committed under the November 2004 facility to $500.0 million. This financing is secured by shipping containers and related leases owned by a special purpose consolidated subsidiary of the Company and leased to various third parties. The financing allows for advances from time to time up to the amount of available collateral under the facility, subject to a maximum principal amount that may be outstanding under the facility of $500.0 million. The interest rate under this facility is LIBOR plus 175 basis points, with a reduction to LIBOR plus 150 basis points possible as our credit rating improves. This agreement, as amended, required that we enter into interest rate swap contracts in order to effectively convert at least seventy percent of the debt associated with operating lease equipment and ninety percent of the debt associated with direct financing leases from floating rate debt to fixed rate debt. On March 31, 2005, we entered into three interest rate swap contracts with original notional amounts totaling $204.9 million. These interest rate swap contracts satisfied this requirement for the amounts funded to date and will convert a significant portion of the debt outstanding from floating rate debt to fixed rate debt. The facility has a two-year term, after which the outstanding balance will be paid out in full over 66 months if it is not refinanced. At March 31, 2005, $237.9 million of debt was outstanding under this facility and $262.1 million was available for future use.

In addition, during February 2005, we entered into a lease arrangement with a Japanese lessor involving $29.9 million of equipment previously financed with a financial institution during December 2003 and May 2004. This transaction closed in two approximately equal tranches, the first of which occurred on February 28, 2005, and the second of which occurred on March 31, 2005. The lease ends in December 2008, and we have a fixed purchase option at that time that we expect to exercise. The aggregate fixed rate of interest on the lease is 7.44%. We received additional cash proceeds totaling $4.2 million at the February closing and $4.3 million at the March closing**.**

Debt Modifications During 2005: We elected not to renew the warehouse facility associated with our chassis securitization financing which had an outstanding balance of $22.5 million at March 31, 2005. As a result of this decision, the warehouse facility was not extended beyond the scheduled expiration date of March 31, 2005. Accordingly, based on the terms of the securitization financing, all cash flow from the securitization that would normally be received by us after the requirements of the securitization financing are satisfied will be used to pay down the warehouse facility until it is paid in full. In addition, based on the terms of the securitization financing, the interest rate on the warehouse facility was increased by 100 basis points as of March 31, 2005.

Commitments:A commitment for $150.0 million was completed on December 29, 2004 and will be open for 364 days, after which it will either be renewed, refinanced or will be paid out in full over the following 48 months. The advance rate under this facility will be either 60% or 75% at our option. The interest rate is determined by a pricing grid and can range from LIBOR plus 140 to 180 basis points, depending upon our tangible debt to total net worth ratio (as defined in the agreement) or our corporate credit rating, and the advance rate chosen. As of December 31, 2004, the rate would be LIBOR plus 165 basis points at a 75% advance rate and LIBOR plus 150 basis points at a 60% advance rate. There is a commitment fee of 45 basis points per annum on any unused portion of this commitment, payable quarterly in arrears. Another commitment for $25.0 million was available for future use at December 31, 2004. This commitment was scheduled to be open until March 31, 2005, after which any unfunded portion of the commitment would expire. This commitment was subsequently cancelled during February 2005 to allow the financial institution to provide a larger commitment as part of the $150.0 million facility mentioned above. During the first quarter of 2005, we received additional commitments under a secured equipment financing established on November 1, 2004 totaling $248.0 million from six additional financial institutions. As of the date this registration statement was filed, $30.0 million of these additional commitments had been utilized.

Container Securitization Facility: Effective October 1, 2003, a customer elected to return a portion of the equipment covered by a direct financing lease which had been included in a qualified special purpose entity as part of the lease securitization program. The equipment was subsequently leased to another customer under the terms of an operating lease agreement. As such, the lease could no longer be considered a financial asset and the Securitization Trust entity could no longer be treated as an off-balance sheet qualified special purpose entity for accounting purposes. Therefore, effective October 1, 2003, we consolidated the assets and liabilities of this special purpose entity and recorded the remaining obligation of this special purpose entity amounting to $17.8 million as debt and capital lease obligations on the Consolidated Balance Sheets. At December 31, 2003, $13.3 million of this debt remained outstanding. This debt was repaid in full during December 2004.

Covenants: Under our secured equipment financing facility established during November 2004 (and most of our other debt instruments), we were required to maintain covenants (as defined) for tangible net worth (the most stringent of which required the Company to maintain tangible net worth of at least $300.0 million), a fixed charge coverage ratio of 1.5 to 1 and a funded debt to net worth ratio (as defined in the agreement) of 4.0 to 1. A servicing agreement to which we are a party requires that we maintain a tangible net worth (as defined in the agreement) of at least $375.0 million plus 50% of any positive net income reported from October 1, 2004 forward. Additionally, under a credit agreement, we are required to maintain a security deposit in the aggregate amount of at least 80% of the outstanding loan balance, including interest. This amounted to $4.3 million and $4.8 million at March 31, 2005 and December 31, 2004, respectively, and is included in other assets on the Consolidated Balance Sheet. At March 31, 2005 and December 31, 2004, we were in compliance with these covenants, as amended. At March 31, 2005 and December 31, 2004, under a restriction in our 6.0% Note Indenture, approximately $1.8 million and $3.6 million, respectively, of retained earnings were available for dividends.

Other: As of March 31, 2005, our commitments for future capital expenditures totaled approximately $206.0 million with approximately $166.2 million committed for the remainder of 2005. Our available liquidity, including $457.6 million available under credit facilities, at March 31, 2005 was $700.2 million after deducting $23.7 million of cash held within the chassis securitization. Required debt repayments and capital lease payments for the next twelve months totaled $263.3 million as of March 31, 2005 which we anticipate making through our unrestricted cash balances and cash flow from operations.

In the past, cash on hand, cash flow from operations, borrowings under credit facilities and the net proceeds of the issuance of debt and equity securities has been sufficient to meet our needs for working capital, capital expenditures and required debt repayments. We also expect to continue to rely in substantial part on long-term financing for the purchase of equipment or strategic acquisitions to expand our business in the future. We cannot assure that long-term financing will be available for these purposes on acceptable terms or at all. In addition, from time to time, we may explore new sources of capital both at the parent and subsidiary levels. We regularly evaluate financing proposals which when coupled with available cash balances and funds available under commitments mentioned above, could be used for growth, for refinancing existing facilities and for working capital.

Settled Insurance Litigation

In connection with an insurance claim related to the default of a South Korean customer and a subsequent lawsuit filed by the insurance carriers against us, on June 17, 2004 we signed an agreement settling the lawsuit and our claims under the policy. Under the terms of the settlement agreement, the insurance carriers paid us a total of $26.4 million during 2004. In addition, we received the right to retain any of the equipment we had recovered since the date of the claim. We recognized a pre-tax gain of $6.3 million related to the $26.4 million settlement, which is recorded in gain on insurance settlement on the Consolidated Statements of Income.

CAI

In April 1998, we acquired a 50% common equity interest in CAI. CAI owns and leases its own fleet of containers and also manages, for a fee, containers owned by us and third parties. We entered into an operating relationship with CAI primarily to facilitate the leasing in the short-term market of containers coming off long-term operating lease, to gain access to new companies looking to lease containers on a long-term basis and to realize cost efficiencies from the operation of a coordinated container lease marketing group. For containers managed by CAI for us in the short-term market, we earn the net operating income and pay CAI a fee for managing our equipment and leasing it on our behalf. The calculation is based on the average daily net operating income of CAI's fleet of owned, leased-in and managed containers (including the portion of CAI's fleet that consists of our equipment) for each day such managed containers are part of the CAI fleet. The marketing group which is organized as our wholly-owned subsidiary, is responsible for soliciting container lease business for both us and for CAI, including long-term operating and direct financing lease business and short-term lease business on master lease agreements. We have a right to purchase all long-term operating and direct financing lease business generated by the marketing group, subject to offering to CAI, at cost, 10% of this long-term operating and direct financing lease business. By mutual agreement, CAI has purchased for its own account long-term operating and direct financing lease business generated by the marketing group in excess of such amount. In addition, on occasion, we have entered into transactions with CAI pursuant to which we have acquired equipment, and the related leases, from CAI on terms that resulted in a profit for CAI. Such equipment, as well as certain other containers purchased from time to time, are currently managed for us by CAI for a fee based upon the actual net operating income earned by such containers.

In connection with the acquisition of our equity interest in CAI, we loaned CAI $33.7 million under a Subordinated Note Agreement (the "Note") that is collateralized by all containers owned by CAI as of April 30, 1998 or thereafter acquired, subject to the priority security interest lien of CAI's senior credit facility, except for certain excluded collateral. Interest on the Note is at an annual fixed rate of 10.5% and is payable quarterly. The original repayment terms required mandatory quarterly principal payments of $1.7 million beginning July 30, 2003 through April 30, 2008. The Note was subject to certain financial covenants and was cross-collateralized with CAI's senior credit facility, subject to the terms of a subordination agreement.

On June 27, 2002, CAI entered into an amended $110.0 million senior revolving credit agreement with a group of financial institutions. To facilitate the closing of this new credit facility, we agreed to extend the repayment terms of our Note so as to require mandatory quarterly principal payments of $1.7 million beginning July 30, 2006 through April 30, 2011 and modified certain financial covenants in the Note. Interest on the Note continues to accrue at an annual fixed rate of 10.5% and is payable quarterly. The Note continues to be cross-collateralized with CAI's senior credit agreement, subject to the terms of an amended and restated subordination agreement. At the same time, we were provided a majority position on CAI's board of directors. As a result of these transactions and gaining a majority position on CAI's board, our financial statements include CAI as a consolidated subsidiary commencing June 27, 2002. Previously, CAI was accounted for under the equity method of accounting. Our share of the equity losses of CAI for the periods from January 1, 2002 through June 26, 2002 have been recorded in losses for investments accounted for under the equity method in the accompanying Consolidated Statements of Income. Since June 27, 2002, CAI's results of operations have been included in the appropriate captions on the accompanying Consolidated Statements of Income. The assets and liabilities of CAI at December 31, 2004 and 2003 have been included on the accompanying Consolidated Balance Sheets.

A total of $65.0 million was outstanding under CAI's senior revolving credit facility at December 31, 2004. Borrowings under CAI's senior credit facility were secured by substantially all of CAI's assets, other than certain excluded assets, and were payable on June 27, 2005. The senior credit facility contained various financial and other covenants.

In April 2004, we reached an agreement with CAI resolving differences in interpretation of certain provisions of the Operating and Administration Agreement (the "CAI Agreement") governing payment of appropriate remedial compensation when an age disparity develops between our containers managed by CAI and the balance of CAI's managed fleet. Pursuant to our agreement with CAI, we paid CAI $2.0 million for resolution of all disputes through February 29, 2004. The impact of this agreement was recorded by us during the three months ended March 31, 2004, as a reduction in consolidated pre-tax income of $1.0 million ($0.6 million net of tax). We anticipate that the earnings related to certain of our containers managed by CAI will be reduced to the extent the average age of such containers exceeds the average age of all other containers in CAI's fleet.

On April 28, 2005, CAI replaced its $110.0 million secured revolving credit facility, which had an outstanding principal balance of $58.5 million as of March 31, 2005 (not including letters of credit in the aggregate amount of $6.0 million as of March 31, 2005), that was scheduled to expire on June 27, 2005 with a new secured revolving credit facility. The new credit facility has a total commitment amount of up to $175.0 million and was provided by a group of banks. The interest rate under the revolving line of credit varies depending upon whether the loans are characterized as base rate loans or Eurodollar rate loans. In addition, there is a commitment fee on the unused amount of the total commitment which fee is payable quarterly in arrears. The new credit facility provides that swing line loans (up to $10.0 million in the aggregate) and standby letters of credit (up to $15.0 million in the aggregate) will be available to CAI, which sublimits are part of, and not in addition to, the total commitment of $175.0 million under the new credit facility. The term of this revolving credit facility is three years. In connection with its first loan request under the new credit facility, CAI repaid the outstanding principal balance of $58.5 million on the existing revolving credit facility (plus interest and additional fees) and repaid $15.1 million of the amounts owed to us under the outstanding subordinated note issued by CAI to us. The senior credit facility contains various financial and other covenants.

As mentioned above, on April 28, 2005 CAI repaid $15.1 million of its $33.6 million subordinated note with us. This repayment returned this note to the original payment schedule that had been modified during 2002. The remaining balance of $18.5 million is scheduled to be repaid in eleven equal quarterly installments of approximately $1.7 million beginning on October 30, 2005 and ending on April 30, 2008. In addition, the financial covenants associated with this subordinated note were also amended.

Chassis Holdings I, LLC

For many years, The Ivy Group, a New Jersey general partnership composed directly or indirectly of certain of our current and former directors and executive officers, together with certain of its principals, leased chassis to our wholly-owned subsidiary Trac Lease, Inc. ("Trac Lease") for use in Trac Lease's business. As of January 1, 2001, Trac Lease leased a total of 6,047 chassis from The Ivy Group and its principals for an aggregate annual lease payment of approximately $2.6 million. On July 1, 2001, we restructured our relationship with The Ivy Group and its principals to provide us with managerial control over the 6,047 chassis previously leased by Trac Lease from The Ivy Group and its principals. As a result of the restructuring, the partners of The Ivy Group contributed these 6,047 chassis and certain other assets and liabilities to a newly formed subsidiary, Chassis Holdings I, LLC ("Chassis Holdings"), in exchange for $26.0 million face value of preferred membership units and 10% of the common membership units, and Trac Lease contributed 902 chassis and two thousand dollars in cash to Chassis Holdings in exchange for $3.0 million face value of preferred membership units and 90% of the common membership units. The preferred membership units are entitled to receive a preferred return prior to the receipt of any distributions by the holders of the common membership units. The value of the contributed chassis was determined by taking the arithmetic average of the results of independent appraisals performed by three nationally recognized appraisal firms in connection with our establishment of a chassis securitization facility in July 2000. As the managing member of Chassis Holdings, Trac Lease exercises sole managerial control over the entity's operations. Chassis Holdings leases all of its chassis to Trac Lease at a rental rate equal to the then current Trac Lease fleet average per diem. Chassis Holdings and the holders of the preferred membership units are party to a Put/Call Agreement providing that the holders of preferred units may put such units to Chassis Holdings under certain circumstances and Chassis Holdings has the right to redeem such units under certain circumstances. Chassis Holdings will be required to make certain option payments to the holders of the preferred membership units in order to preserve its right to redeem such units. Dividends paid on the common units and distributions on the preferred units totaling $3.1 million, $2.9 million and $3.1 million for the years ended December 31, 2004, 2003 and 2002, respectively, are included in minority interest (income)/expense, net in the accompanying Consolidated Statements of Income.

Chassis Distribution Agreement

In April 2003, we agreed to become a 50% owner through an initial investment of $0.5 million of a limited liability company (the "LLC") formed with a foreign chassis manufacturer. The purpose of the LLC is to be the exclusive worldwide distributor of chassis built by this manufacturer and for us to share in the profits the LLC earns in selling these chassis to third parties. Under the terms of the Distribution agreement for this equipment, we have agreed to purchase at least 15,000 chassis at preferred pricing over a ten-year period, of which 5,651 chassis were purchased or ordered by us through December 31, 2004. We may elect to purchase additional equipment during the ten-year period at identical terms. The LLC began operations during the second quarter of 2003. We consolidate the financial statements of the LLC.

Share Repurchases

In December 2004, Warren L. Serenbetz (a former member of our Board of Directors) advised us that he intended to exercise 668,438 stock options which represented the remaining options issued to him under the terms of the 1993 Stock Option Plan. In addition, Mr. Serenbetz requested, and the Compensation Committee of the Board of Directors allowed him, to exercise these options on a cashless basis. These options had an exercise price of $10.25 per share and the market value at the date he exercised his options was $22.05 per share.

In connection with the cashless exercise feature, we withheld 310,725 shares with a market value of $6.9 million representing the cost to Mr. Serenbetz of exercising these options. In addition, we withheld 110,086 shares with a market value of $2.4 million representing the amounts advanced to Mr. Serenbetz for the payment of his minimum taxes related to the exercise. The remaining 247,627 shares were issued to Mr. Serenbetz.

The 420,811 shares withheld by the Company for the exercise price of the options and Mr. Serenbetz's minimum taxes have been recorded as treasury shares, at their market value at the date of exercise on the accompanying Consolidated Balance Sheets. The exercise also resulted in the issuance of 668,438 shares at a par value of $.001 and increased additional paid-in-capital by $6.9 million. In addition, since these options were granted to Mr. Serenbetz as compensation for services rendered, we are entitled to claim a tax deduction for non-employee compensation on our 2004 federal tax return. Since we did not recognize compensation expense on the grant or exercise of these options, the tax benefit (amounting to $3.1 million) has been recorded as additional paid-in-capital at the time these options were exercised.

During 2002, we purchased 9,300 shares for an aggregate price of $0.13 million. No shares were repurchased during 2003.

Mr. Raoul Witteveen, the Company's former President and Chief Operating Officer, holds 1,140,000 options with an exercise price of $10.25. It is anticipated that these options will be exercised prior to their expiration on October 9, 2005. Mr. Witteveen has the right, if he so elects, to pay the exercise price for these options by tendering outstanding shares of our common stock, valued at the then-current market price.

United States Federal Income Tax

We are subject to federal and state income taxes as a Subchapter "C" corporation under the Internal Revenue Code. Interpool, Trac Lease and other United States subsidiaries file a consolidated United States federal income tax return. This consolidated group is liable for federal income taxes on its worldwide income.

Personal Holding Company Issues. The federal income tax laws have two requirements for classifying a company as a personal holding company. We and our subsidiaries currently satisfy the first requirement, the ownership of more than 50% of the value of Interpool's stock by five or fewer individuals. Whether or not we or any of our subsidiaries satisfy the second requirement (that at least 60% of such corporation's adjusted ordinary gross income constitutes personal holding company income) will depend upon such corporation's income mix.

Based upon the operating results for 2004, we will not be considered a personal holding company for federal income tax purposes for 2004. If we or any of our subsidiaries were classified as a personal holding company for federal income tax purposes, in addition to our regular federal income tax liability, our undistributed personal holding company income (generally taxable income with certain adjustments, including a deduction for federal income taxes and dividends paid) would be subject to a personal holding company tax at the rate of 15%. Management anticipates that for the immediate future, our current level of dividends will be sufficient to avoid having any undistributed personal holding company income, and thus does not anticipate that any personal holding company tax will be imposed. There can be no assurance, however, that we will not at some point in the future become liable for personal holding company tax. Furthermore, we may at some point in the future elect to increase the dividend rate on our common stock in order to avoid personal holding company tax.

We have incurred certain losses from leasing activities that are characterized for tax purposes as "Suspended Passive Activity Losses." These losses can be carried forward indefinitely to offset income from future leasing activities. As of December 31, 2004, such suspended passive activity loss carryovers, including the passive activity loss carryovers of CAI, totaled approximately $356.0 million.

Interpool Limited. Under certain circumstances, Interpool may be liable for United States federal income taxes on earnings of Interpool Limited and any other foreign subsidiaries of ours, whether or not such earnings are distributed to us. This would occur if Interpool Limited realized "Subpart F income" as defined in the Code, if it were deemed to be a foreign personal holding company, or if it were to have an increase in earnings invested in United States property.

Subpart F income includes foreign personal holding company income, such as dividends, interest and rents. Although a substantial portion of Interpool Limited's income consists of rents from container leasing activities, we believe that such rents are not Subpart F income because they are derived from the active conduct of a trade or business and received from unrelated persons. However, Interpool Limited has received some dividend and interest income in past years, which was taxed as Subpart F income.

If Interpool Limited were treated as a foreign personal holding company for any year, we would be taxed on the amount we would have received if Interpool Limited had distributed all its income to us as a dividend. However, based on the operating results for 2004, Interpool Limited will not be considered a foreign personal holding company for 2004. The American Jobs Creation Act of 2004 repealed the foreign personal holding company provisions beginning after December 31, 2004.

A parent company is also subject to taxation when a foreign subsidiary increases the amount of its earnings invested in United States property during any calendar year. We do not expect that Interpool Limited will invest any earnings in United States property.

No deferred U.S. Federal income taxes have been provided on the unremitted earnings of Interpool Limited since it is the Company's intention to indefinitely reinvest such earnings. At December 31, 2004, unremitted earnings of this subsidiary were approximately $334.0 million. The deferred U.S. Federal Income taxes related to the unremitted earnings of this subsidiary would be approximately $110.0 million, assuming these earnings are taxable at the U.S. statutory rate, net of foreign tax credits. We are now exploring the implications of the repatriation provision recently enacted by the American Jobs Creation Act of 2004, but we have not yet decided whether to repatriate any unremitted earnings.

United States/Barbados income tax convention. Interpool Limited's business is managed and controlled in Barbados; it also has a permanent establishment in the United States. Under the income tax convention between the United States and Barbados, including any protocols and amendments (the "pre-2005 Treaty"), any profits of Interpool Limited from leasing of containers used in international trade generally are taxable only in Barbados and not in the United States.

Interpool Limited has been entitled to the benefits of the Tax Convention for each year by satisfying the two-pronged test to the "limitation of benefits" provision: (1) more than 50% of the shares of Interpool Limited were owned, directly or indirectly, by any combination of individual United States residents or citizens (the "51% U.S. ownership test"), and (2) its income was not used in substantial part, directly or indirectly, to meet liabilities to persons who are not residents or citizens of the United States (the "base erosion test"). We believe Interpool Limited passed both of these tests and was eligible for the benefits of the pre-2005 Treaty through December 31, 2004. If Interpool Limited had ceased to be eligible for the benefits of the pre-2005 Treaty, a substantial portion of its income would become subject to the 35% United States federal income tax and the 30% branch profits tax.

The Tax Convention does not afford Interpool Limited any relief from the personal holding company tax or any other tax that may be imposed on the undistributed earnings of a Barbados corporation. However, based on the operating results for 2004, Interpool Limited will not be considered a foreign personal holding company and there will be no personal holding company tax for 2004. The American Jobs Creation Act of 2004 repealed the foreign personal holding company provisions beginning after December 31, 2004.

July 2004 Protocol to the United States and Barbados Tax Treaty. On July 14, 2004, the United States and Barbados signed a protocol to the pre-2005 Treaty which was ratified on December 20, 2004 ("post-2004 Treaty") that contains a more restrictive limitation on benefits provision than the pre-2005 Treaty. The post-2004 Treaty took effect on January 1, 2005 following its ratification by the United States Senate and the government of Barbados on December 20, 2004. Under the post-2004 Treaty, in addition to having to satisfy the 51% U.S. ownership and base erosion tests described above, Interpool Limited is only eligible for Treaty benefits with respect to its container rental and sales income if Interpool, Inc. is listed on a "recognized stock exchange" and Interpool, Inc.'s stock is "primarily" and "regularly" traded on such exchange.

During April 2004 Interpool, Inc. was de-listed by the New York Stock Exchange. During this de-listing, our common stock was traded on the over-the-counter market under the symbol IPLI. In December 2004, after making all delinquent SEC filings, we applied for relisting on the New York Stock Exchange. On January 13, 2005 our common stock was re-listed on the New York Stock Exchange; a "recognized stock exchange" within the meaning of the post-2004 Treaty. Interpool believes this listing and its current trading volume satisfies the "primarily" and "regularly" traded requirements of the post-2004 Treaty, and Interpool Limited qualified for benefits under the post-2004 Treaty on January 13, 2005. We have estimated there should be no U.S. current tax expense for the period January 1, 2005 to January 12, 2005.

Barbados tax returns. As a company resident in Barbados, Interpool Limited is required to file tax returns in Barbados and pay any tax liability to Barbados. However, no Barbados tax returns have been prepared or filed for Interpool Limited for any period subsequent to its 1997 tax year. We believe the failure to file these returns has not resulted in any material underpayment of taxes, interest or penalties (other than a normal late filing penalty), because we believe no material Barbados taxes would have been due for the years for which returns have not been filed. We further believe Interpool Limited's failure to file these returns would not present any other material risk to Interpool. Preparation of these tax returns is currently in process, and it is our intent to submit them as promptly as practical.

State and Local Taxes

Income taxes. Interpool and Trac Lease are liable for state and local income taxes on their income, and Interpool Limited is liable for state and local income taxes on its earnings attributable to operations in the United States.

Sales tax. To date, Interpool, Trac Lease and Interpool Limited generally have not paid sales taxes on their long-term leasing revenues to the states in which they conduct business because management has believed such revenues to be exempt from state sales taxes on several grounds, including a long-standing interpretation of the Commerce Clause of the United States Constitution that would prohibit the imposition of a tax on cargo containers and chassis used primarily for transportation of goods in interstate commerce or international trade. Under the terms of our equipment leases, in the event sales tax is imposed, we would generally be entitled to recover any such sales tax from our lessees. Interpool and Trac Lease do, however, collect and remit sales tax on their short-term chassis pool (intrastate) activity.

Inflation

Management believes that inflation has not had a material adverse effect on our results of operations. In the past, the effects of inflation on administrative and operating expenses have been largely offset through economies of scale achieved through expansion of the business.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to use judgment in making estimates and assumptions that affect reported amounts of assets and liabilities, the reported amounts of income and expense during the reporting period and the disclosure of contingent assets and liabilities at the date of the financial statements. Management has identified the policies and estimates below as critical to our business operations and the understanding of our results of operations. These policies and estimates are considered critical due to the existence of uncertainty at the time the estimate is made, the likelihood of changes in estimates from period to period and the potential impact that these estimates can have on our financial statements. The following accounting policies and estimates include inherent risks and uncertainties related to judgments and assumptions made by management. Management's estimates are based on the relevant information available at the end of each period.

Allowance for Doubtful Accounts The allowance for doubtful accounts is set on a quarterly basis and is based on the risk profile of the receivables, credit quality indicators such as the level of past due amounts and non-performing accounts and economic conditions, as well as the value of underlying collateral. Changes in economic conditions or other events may necessitate additions or deductions to the allowance for doubtful accounts. The allowance is intended to provide for losses inherent in the accounts receivable, and requires the application of estimates and judgments as to the outcome of collection efforts and the realization of collateral, among other things.

Accounting for Leasing Equipment Long-lived assets are depreciated on a straight-line basis over their estimated useful lives to residual values that approximate fair value. Equipment useful lives are based upon actual experience in our fleet as well as the useful lives assigned to the equipment by independent appraisers. We continue to review our depreciation policies on a regular basis to evaluate if changes have taken place that would suggest that a change in the depreciation policies is warranted. Periodically a determination is made as to whether the carrying amount of the fleet exceeds its estimated future undiscounted cash flows. In addition, all idle equipment is evaluated to determine whether the units will be repaired and returned to service or sold based upon the best economic alternative. Assets to be disposed are reported at the lower of the carrying amount or fair value.

Lease Residual Values Operating lease equipment is carried at cost less accumulated depreciation and is depreciated to estimated residual values using the straight-line basis of depreciation over their estimated useful lives. Direct financing leases are recorded at the aggregated future minimum lease payments, including any bargain or economically compelled purchase options granted to the customer, less unearned income. We generally bear greater risk in operating lease transactions (versus direct financing lease transactions) due to redeployment costs and related risks that are avoided under a direct financing lease. Management performs annual reviews of the estimated residual values which can vary depending on a number of factors.

Goodwill Goodwill, in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142") is reviewed for possible impairment at least annually during the fourth quarter of each fiscal year. A review of goodwill may be initiated prior to conducting the annual analysis if events or changes in circumstances indicate that the carrying value of goodwill may be impaired. During this review, management relies on a number of factors including operating results, business plans, economic projections, anticipated future cash flows and market place data.

Accounting for Customer Defaults We have sought to reduce credit risk by maintaining insurance against customer insolvency and equipment related losses. We cease the recognition of lease revenues for amounts billable to the lessee after the lease default date at the time we determine that such amounts are not probable of collection from the lessee. In connection with the accounting for the insurance policy, we record a receivable which is limited to the actual costs incurred or losses recognized that would have been billable to the lessee pursuant to the lease contract (which are also covered by the insurance contract). Items that are covered under the insurance contract, for amounts billable to the lessee in accordance with the lease, that are in excess of costs incurred and losses recognized by us, are considered a gain contingency.

Derivative Financial Instruments We utilize interest rate swaps to hedge against the effects of future interest rate fluctuations. We do not enter into derivative financial instruments for trading or speculative purposes.

On January 1, 2001, we adopted SFAS No. 133, *Accounting for Derivative Instruments and Hedging* Activities ("SFAS 133"). Derivative instruments are included in the Consolidated Balance Sheet at their fair values in accounts payable and accrued expenses and changes in fair values are recognized immediately in earnings, unless the derivatives qualify as hedges of future cash flows. For derivatives qualifying as hedges of future cash flows, the effective portion of changes in fair value is recorded temporarily in accumulated other comprehensive loss as a separate component of equity, and contractual cash flows, along with the related impact of the hedged items, continue to be recognized in earnings. Any ineffective portion of a hedge is reported in current earnings. Amounts accumulated in other comprehensive loss are reclassified to earnings in the same period that the hedged transaction impacts earnings.

The net interest differential, including premiums paid or received, if any, on interest rate swaps, is recognized on an accrual basis as an adjustment to interest expense to correspond with the hedged position. We may, at our discretion, terminate or redesignate any interest rate swap agreement prior to maturity. At that time, any gains or losses on termination would continue to amortize into income to correspond to the recognition of interest on the hedged debt. If such debt instrument was also terminated, the gain or loss associated with the terminated derivative included in accumulated other comprehensive loss at the time of termination of the debt would be recognized in the Consolidated Income Statement at that time.

Warrant Valuation Our outstanding warrants are classified as a liability in accordance with EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*. Under the provisions of EITF 00-19, a contract designated as an asset or liability must be carried at fair value until the contract meets the requirements for treatment as equity, until the contract is exercised or until the contract expires. Accordingly, future changes to the fair market value of these Warrants have the potential to cause volatility in our future results. Because these Warrants are classified as a liability, any increase in the fair market value of the Warrants will result in an additional non-cash expense to the Consolidated Statements of Income. If the fair market value of the Warrants decreases in the future, we will record non-cash income in our Consolidated Statements of Income. We estimate the fair value of our Warrants on a quarterly basis using a lattice model.

Income Taxes Deferred tax liabilities and assets are recognized for the expected future tax consequences of events that have been reflected in the Consolidated Financial Statements. Deferred tax liabilities and assets are determined based on the differences between the book values and the tax basis of particular assets and liabilities, using tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided to offset any net deferred tax assets if, based upon the available evidence which may be subject to management estimates, it is more likely than not that some or all of the deferred tax assets will not be realized.

In certain situations, a taxing authority may challenge positions adopted in our income tax filings. We may apply a different tax treatment for these selected transactions in filing the tax return than for income tax financial reporting purposes. We regularly assess the tax positions for such transactions and include reserves for those differences in position. The reserves are utilized or reversed once the statute of limitations has expired or the matter is otherwise resolved. In addition, we believe the ultimate outcome of these matters will not have a material impact on the Company's financial condition or liquidity.

Through December 31, 2004 we claimed tax benefits under an income tax convention between the United States and Barbados ("pre-2005 Treaty"), the jurisdiction in which our subsidiary, Interpool Limited, operates our container business, is incorporated. Specifically, under the pre-2005 Treaty, any profits of Interpool Limited from leasing of containers used in international trade generally are taxable only in Barbados at an approximate 3% tax rate, and not in the United States. Interpool Limited was entitled to the benefits of the tax convention for each year that more than 50% of the shares of Interpool Limited were owned, directly or indirectly, by any combination of individual United States residents or citizens (the "51% U.S. ownership test") and its income was not used in substantial part, directly or indirectly, to meet liabilities to persons who were not residents or citizens of the United States (the "base erosion test"). We believe Interpool Limited passed both of these tests through December 31, 2004.

Historically, no deferred U.S. Federal income taxes have been provided on the unremitted earnings of the subsidiary since it is our past practice and future intention to permanently reinvest such earnings. We have documented our ability to reinvest earnings generated annually from our international operations. This documentation contains certain management judgments and estimates of economic conditions and the future demand for containers. Any unremitted earnings that we would be unable to reinvest in our international operations could be subject to taxation at United States tax rates. We are now exploring the implications of the repatriation provision contained in the American Jobs Creation Act of 2004, but we have not yet decided whether to repatriate any unremitted earnings.

On July 14, 2004, the United States and Barbados signed a protocol to the pre-2005 Treaty which was ratified on December 20, 2004 ("post-2004 Treaty") that contains a more restrictive limitation on benefits provision than the pre-2005 Treaty. The post-2004 Treaty took effect on January 1, 2005 following its ratification by the United States Senate and the government of Barbados on December 20, 2004. Under the post-2004 Treaty, in addition to having to satisfy the 51% U.S. ownership and base erosion tests described above, Interpool Limited is only eligible for Treaty benefits with respect to its container rental and sales income if Interpool, Inc. is listed on a "recognized stock exchange" and Interpool, Inc.'s stock is "primarily" and "regularly" traded on such exchange.

As described elsewhere in this registration statement, on January 13, 2005 our common stock was listed on the New York Stock Exchange; a "recognized stock exchange" within the meaning of the post-2004 Treaty. Interpool believes this listing and its current trading volume satisfies the "primarily" and "regularly" traded requirements of the post-2004 Treaty, and that Interpool Limited qualified for benefits under the post-2004 Treaty on January 13, 2005. We have estimated there should be no U.S. current tax expense for the period January 1, 2005 to January 12, 2005.

Recent Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections A Replacement of APB Opinion No. 20 and FASB Statement No. 3* ("SFAS 154"). SFAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle. It also requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings for that period rather than being reported in an income statement. The statement will be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2004. The Company does not expect the adoption of SFAS 154 to have a material effect on the Company's consolidated financial position or results of operations.

In March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* ("FIN 47"). The interpretation requires companies to recognize a liability for the fair value of a legal obligation to perform asset retirement activities that are conditional on a future event if the amount can be reasonably estimated. FIN 47 is effective for fiscal years ending after December 15, 2005. The Company has not yet determined the impact, if any, of FIN 47 on its financial statements.

In December 2004, the FASB published SFAS No. 123(R), *Share-Based Payment*, ("SFAS 123 (R)") which was to be effective for periods beginning after June 15, 2005. In April 2005, the effective date was amended. SFAS 123(R) will now be effective for annual periods beginning after June 15, 2005. As a result of this change, the Company will be required to adopt SFAS 123(R) on January 1, 2006. We currently account for our stock option plans in accordance with SFAS No. 148, *Accounting for Stock-Based Compensation* ("SFAS 148"). This Statement amends SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), which allows for the retention of principles within Accounting Principles Board Opinion 25, *Accounting for Stock Issued to Employees* ("APB 25"). As permitted, we have chosen to continue to account for stock-based compensation using the intrinsic value method described in APB 25 and related interpretations. APB 25 generally requires compensation costs, if any, to be recognized for the difference between the exercise price and the market price of the underlying stock on the date of the grant. Alternatively, SFAS 123 employs fair value-based measurement and generally results in the recognition of compensation expense for all stock-based awards. The adoption of SFAS 123(R) will require the recognition of compensation expense for all share-based compensation. Based on the number of options currently outstanding, the adoption of SFAS 123(R) is not expected to have a significant impact on our financial condition or results of operations. However, all future grants of share-based compensation will result in the recognition of compensation expense.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. The nature of our business exposes us to market risk arising from changes in interest rates. We manage interest rate risk to protect margins on existing transactions. Interest rate risk is the risk of earnings volatility attributable to changes in interest rates. Additionally, we consider interest rate swap contracts as an integral part of our borrowing transactions. We seek to mitigate our exposure by entering into amortizing interest rate swap contracts, which coincide with the principal and maturity of the underlying debt instruments hedged. We do not use leveraged swaps and do not use leverage in any of our investment activities that would put principal capital at risk.

The following table sets forth principal cash flows and related weighted average interest rates by expected maturity dates for debt and capital lease obligations at March 31, 2005:

(Dollars in Thousands)	Total Obligation	0-12 months	13-24 months	25-36 months	37-48 months	49-60 months	The
Variable rate facilities	$223,532	$100,246	$28,691	$25,125	$22,452	$31,629	$1
Average interest rate %		4.9%	4.9%	4.9%	4.9%	4.8%	
Fixed rate facilities(1)	1,462,887	163,024	111,288	240,908	116,417	83,857	74
Average interest rate %		6.7%	6.8%	6.8%	6.9%	7.0%	
Total Debt	$1,686,419	$263,270	$139,979	$266,033	$138,869	$115,486	$76
Average interest rate %		6.6%	6.7%	6.7%	6.8%	7.0%	

(1) These fixed rate facilities include variable instruments that have been effectively converted to fixed rate debt through the use of interest rate swap agreements.

The principal amount of debt and capital lease obligations payable under fixed rate contracts was $899.5 million at March 31, 2005. Remaining debt and capital lease obligations of $786.9 million are payable under floating rate arrangement, of which $563.4 million has been effectively converted to fixed rate debt through the use of interest rate swap agreements.

Based on outstanding debt balances at March 31, 2005 of variable rate facilities, which have not been effectively converted to fixed rate debt through the use of interest rate swaps, a 10% change in variable interest rates would have resulted in a $0.3 million change in pre-tax earnings.

Credit Risk. We maintain detailed credit records about our customers. Our credit policy sets different maximum exposure limits for our customers. Credit criteria may include, but are not limited to, customer trade route, country, social and political climate, assessments of net worth, asset ownership, bank and trade credit references, credit bureau reports, operational history and financial strength.

We seek to reduce credit risk by maintaining insurance coverage against customer insolvency and related equipment losses. We maintain contingent physical damage, recovery and loss of revenue insurance, which provides coverage in the event of a customer's insolvency, bankruptcy or default giving rise to our demand for return of all of our equipment. The policy covers the cost of recovering our equipment from the customer, including repositioning cost, damage to the equipment and the value of equipment which could not be located or was uneconomical to recover. It also covers a portion of the equipment leasing revenue that we might lose as a result of the customer's default (i.e., up to 180 days of lease payments following an occurrence under the policy). The policy in place for the three months ended March 31, 2005, which expired on April 30, 2005, included coverage of $9.0 million with a $3.0 million deductible, per occurrence. This policy has been renewed for an additional one year term commencing April 30, 2005. The new policy includes coverage of $13.0 million with a $2.0 million deductible, per occurrence. This coverage automatically renews for at lease two additional one year terms on each anniversary of the commencement date. All renewals are subject to maintaining a claim experience that does not exceed stated percentages of the policy premiums. There can be no assurance that this or similar coverage will be available in the future or that such insurance will cover the entirety of any loss.

At March 31, 2005 approximately 48% of accounts receivable and 71% of the net investment in direct financing leases were from customers outside of the United States.

At March 31, 2005, our top 25 customers represented approximately 77% of consolidated billings, with no single customer accounting for more than 8.1%.

Allowance for Doubtful Accounts. The allowance for doubtful accounts includes our estimate of allowances necessary for receivables on both operating and direct financing lease receivables. The allowance for doubtful accounts is developed based on two key components (1) specific reserves for receivables which are impaired for which management believes full collection is doubtful and (2) reserves for estimated losses inherent in the receivables based upon historical trends. We believe our allowance for doubtful accounts is adequate to provide for credit losses inherent in our accounts receivable. The allowance for doubtful accounts is intended to provide for losses inherent in the accounts receivable, and requires the application of estimates and judgments as to the outcome of collection efforts and the realization of collateral, among other things. In addition, changes in economic conditions or other events may necessitate additions or deductions to the allowance for doubtful accounts. Direct financing leases are evaluated on a case by case basis. When evaluating our operating and direct financing lease receivables for impairment, we consider, among other things, the level of past-due amounts of the respective receivable, the borrower's financial condition, credit quality indicators of the borrower, the value of underlying collateral and third party credit enhancements such as guarantees and insurance policies. Once a direct financing lease is determined to be non-performing, our procedures provide for the following events to take place in order to evaluate collectibility:

The past due amounts are reclassified to accounts receivable, The equipment value supporting such direct financing lease is reclassified to leasing equipment, and

Collectibility is evaluated, taking into consideration equipment book value and the total outstanding receivable, as well as the likelihood of collection through the recovery of equipment.

The adequacy of our allowance for doubtful accounts is provided based upon a quarterly review of the collectibility of our receivables. This review is based on the risk profile of the receivables, credit quality indicators such as the level of past-due amounts and economic conditions, as well as the value of underlying collateral in the case of direct financing lease receivables.

Non-performing receivables totaled $11.7 million at March 31, 2005 compared with $12.5 million at December 31, 2004. Reserves of $11.2 million and $11.8 million, respectively, have been established against these non-performing receivables. During the first three months of 2005, receivable write-offs net of recoveries totaled $0.8 million as compared with $0.2 million for the same period in 2004.

Controls and Procedures

(a) Management's Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports filed or submitted pursuant to the Securities Exchange Act of 1934, as amended ("Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that information required to be disclosed by the Company in its Exchange Act reports is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of its management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) and 15d-15(e) as of December 31, 2004 and as of March 31, 2005. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of such dates due to the material weaknesses described below in Management's Report on Internal Control Over Financial Reporting.

In light of these material weaknesses, in preparing its consolidated financial statements as of and for the fiscal year ended December 31, 2004 and the three months ended March 31, 2005, the Company performed additional analyses and other post-closing procedures in regard to the material weaknesses noted below to ensure the Company's consolidated financial statements for the fiscal year ended December 31, 2004 and the three months ended March 31, 2005 have been prepared in accordance with U.S. generally accepted accounting principles.

(b) Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is identified in Exchange Act Rule 13a-15(f). The Company's internal control system is a process designed to provide reasonable assurance to the Company's management, Board of Directors and shareholders regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

The Company's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and disposition of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with the authorization of its management and directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on its financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2004. In making this assessment, the Company used the control criteria framework of the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission published in its report entitled *Internal Control-Integrated Framework*. As a result of their assessment, management identified material weaknesses in the Company's internal control over financial reporting. Based on the material weaknesses identified as described below, management concluded that the Company's internal control over financial reporting was not effective as of December 31, 2004. The independent registered public accounting firm that audited the Company's consolidated financial statements has issued an audit report on management's assessment of, and the effectiveness of, the Company's internal control over financial reporting as of December 31, 2004. This report appears below in subsection (c).

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As a result of its assessment, the Company has identified the following material weaknesses in internal control over financial reporting as of December 31, 2004:

Financial reporting policies and procedures. The Company lacked sufficient policies and procedures to ensure preparation of financial information in accordance with U.S. generally accepted accounting principles, as follows:

Non-routine transactions. The Company lacked effective communication and review of the accounting for certain non-routine transactions. As an example, there was inadequate communication regarding the exercise of stock options between management and the accounting and tax departments. As a result, the tax benefit associated with the exercise of the stock options was not correctly accounted for as additional paid in capital. In addition, the Company did not consider all of the factors and assumptions in determining the fair value of two series of warrants issued in connection with a long-term debt agreement. These errors resulted in material misstatements which were detected and corrected prior to issuance of the Company's 2004 consolidated financial statements.

Elimination of intercompany transactions. The Company lacked policies and procedures for identifying and reviewing the propriety of the elimination entries within its consolidation on a timely basis. During the preparation of its Form 10-Q for the third quarter of 2004, the Company identified an entry that was recorded historically to eliminate intercompany profits generated from the sale of equipment to a wholly-owned subsidiary. These profits should have been amortized over the period in which the equipment was being depreciated by that subsidiary. No such amortization was recorded in the Company's accounting records. The amortization would have ended prior to any period being reported on by the Company in its December 31, 2004 Form 10-K. The effect of this error was to understate earnings during the period that the equipment was being depreciated. The Company determined the correction of this error should be reported as an adjustment to opening retained earnings of the earliest year presented.

Inadequate review procedures and segregation of duties. There was inadequate management review of transactions generated in the billing and procurement processes to ensure the accuracy and completeness of transactions administered by those departments. Specifically, there was incomplete documentation supporting the authorization of certain equipment purchases and an inadequate process to ensure that equipment purchases were recorded on a timely basis. In addition, the review of manual invoicing and manual credits was not always documented. There was inadequate segregation of duties in the billing, accounts receivable and accounts payable departments. Specifically, one individual had the ability to create invoices and apply cash while another individual was able to add vendors and process accounts payable. These deficiencies represented more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not have been prevented or detected.

Technical accounting expertise. The Company did not employ accounting personnel possessing an appropriate level of technical expertise in U.S. generally accepted accounting principles, as follows:

Interest rate swap transactions. The Company lacked adequate technical expertise related to accounting for derivative instruments, including the preparation of the formal documentation required under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities ("SFAS 133").* Specifically, the Company did not accurately identify in its documentation the forecasted transactions and used an inappropriate method to measure the ineffectiveness of certain interest rate swap agreements. As a result of this deficiency, these interest rate swap agreements did not qualify for hedge accounting. Accordingly, the Company restated its consolidated interim financial information for the first three quarters of 2004 by reclassifying amounts previously recorded in other comprehensive income to fair value adjustment for derivative instruments.

Income taxes. The Company lacked adequate technical expertise related to accounting for income taxes. Specifically, the Company did not apply the correct tax treatment related to the minority interest of a non-wholly- owned subsidiary. This deficiency resulted in a material misstatement in income tax expense which was detected and corrected prior to issuance of the Company's September 30, 2004 consolidated financial statements.

Additionally, the Company lacked adequate and effective analysis and management review of the relevant documentation supporting the deferred tax asset and liability accounts. This deficiency represents more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not have been prevented or detected.

Account reconciliations. The Company's accounting department was not adequately staffed with trained personnel, which resulted in a lack of complete and timely reconciliations between the subsidiary and general ledger for accounts receivable and intercompany accounts. This deficiency represented more than a remote likelihood that a material misstatement related to the accuracy and completeness of these account balances in the Company's annual or interim financial statements would not have been prevented or detected.

Information technology systems. The Company's information technology systems were inadequate to ensure accurate reporting of transactions, as follows:

Direct financing leases. The Company's lease accounting system was not designed to adequately account for all types of direct financing lease transactions in accordance with U.S. generally accepted accounting principles. Specifically, the system did not correctly account for earnings on direct financing leases with purchase options greater than $1. This deficiency represented more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not have been prevented or detected.

Security of information technology. The Company's information systems lacked security policies and procedures, including appropriate encryption and standard security settings. Additionally, the Company did not have system access controls over certain spreadsheets supporting financial information and other information systems. These deficiencies represented more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not have been prevented or detected.

Design of equipment leasing systems. The Company's systems for equipment leasing did not have certain automated interfaces thereby requiring significant manual intervention for the billing and processing of lease equipment transactions. Further, the system to track the cost of remanufacturing equipment at the end of the lease term was not designed to appropriately identify costs directly related to the underlying equipment. As a result, the accounting for these remanufacturing costs was processed manually. These deficiencies represented more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not have been prevented or detected.

(c) Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Interpool, Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting that Interpool, Inc. and subsidiaries (the Company) did not maintain effective internal control over financial reporting as of December 31, 2004, because of the effect of material weaknesses identified in management's assessment, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weaknesses have been identified and included in management's assessment as of December 31, 2004:

Financial reporting policies and procedures. The Company lacked sufficient policies and procedures to ensure preparation of financial information in accordance with U.S. generally accepted accounting principles, as follows:

Non-routine transactions. The Company lacked effective communication and review of the accounting for certain non-routine transactions. As an example, there was inadequate communication regarding the exercise of stock options between management and the accounting and tax departments. As a result, the tax benefit associated with the exercise of the stock options was not correctly accounted for as additional paid in capital. In addition, the Company did not consider all of the factors and assumptions in determining the fair value of two series of warrants issued in connection with a long-term debt agreement. These errors represented material misstatements.

Elimination of intercompany transactions. The Company lacked policies and procedures for identifying and reviewing the propriety of the elimination entries within its consolidation on a timely basis. During the preparation of its Form 10-Q for the third quarter of 2004, the Company identified an entry that was recorded historically to eliminate intercompany profits generated from the sale of equipment to a wholly-owned subsidiary. These profits should have been amortized over the period in which the equipment was being depreciated by that subsidiary. No such amortization was recorded in the Company's accounting records. The amortization would have ended prior to any period being reported on by the Company in its December 31, 2004 Form 10-K. The effect of this error was to understate earnings during the period that the equipment was being depreciated. The Company determined the correction of this error should be reported as an adjustment to opening retained earnings of the earliest year presented.

Inadequate review procedures and segregation of duties. There was inadequate management review of transactions generated in the billing and procurement processes to ensure the accuracy and completeness of transactions administered by those departments. Specifically, there was incomplete documentation supporting the authorization of certain equipment purchases and an inadequate process to ensure that equipment purchases were recorded on a timely basis. In addition, the review of manual invoicing and manual credits was not always documented. There was inadequate segregation of duties in the billing, accounts receivable and accounts payable departments. Specifically, one individual had the ability to create invoices and apply cash while another individual was able to add vendors and process accounts payable. These deficiencies represented more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not have been prevented or detected.

Technical accounting expertise. The Company did not employ accounting personnel possessing an appropriate level of technical expertise in U.S. generally accepted accounting principles, as follows:

Interest rate swap transactions. The Company lacked adequate technical expertise related to accounting for derivative instruments, including the preparation of the formal documentation required under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities ("SFAS 133")*. Specifically, the Company did not accurately identify in its documentation the forecasted transactions and used an inappropriate method to measure the ineffectiveness of certain interest rate swap agreements. As a result of this deficiency, these interest rate swap agreements did not qualify for hedge accounting. Accordingly, the Company restated its consolidated interim financial information for the first three quarters of 2004 by reclassifying amounts previously recorded in other comprehensive income to fair value adjustment for derivative instruments

Income taxes. The Company lacked adequate technical expertise related to accounting for income taxes. Specifically, the Company did not apply the correct tax treatment related to the minority interest of a non-wholly- owned subsidiary. As a result of this deficiency, income tax expense had been materially misstated. Additionally, the Company lacked adequate and effective analysis and management review of the relevant documentation supporting the deferred tax asset and liability accounts. This deficiency represented more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not have been prevented or detected.

Account reconciliations. The Company's accounting department was not adequately staffed with trained personnel, which resulted in a lack of complete and timely reconciliations between the subsidiary and general ledger for accounts receivable and intercompany accounts. This deficiency represented more than a remote likelihood that a material misstatement related to the accuracy and completeness of these account balances in the Company's annual or interim financial statements would not have been prevented or detected.

Information technology systems. The Company's information technology systems were inadequate to ensure accurate reporting of transactions, as follows:

Direct financing leases. The Company's lease accounting system was not designed to adequately account for all types of direct financing lease transactions in accordance with U.S. generally accepted accounting principles. Specifically, the system did not correctly account for earnings on direct financing leases with purchase options greater than $1. This deficiency represented more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not have been prevented or detected.

Security of information technology. The Company's information systems lacked security policies and procedures, including appropriate encryption and standard security settings. Additionally, the Company did not have system access controls over certain spreadsheets supporting financial information and other information systems. These deficiencies represented more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not have been prevented or detected

Design of equipment leasing systems. The Company's systems for equipment leasing did not have certain automated interfaces thereby requiring significant manual intervention for the billing and processing of lease equipment transactions. Further, the system to track the cost of remanufacturing equipment at the end of the lease term was not designed to appropriately identify costs directly related to the underlying equipment. As a result, the accounting for these remanufacturing costs was processed manually. These deficiencies represented more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not have been prevented or detected.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Interpool Inc. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three year period ended December 31, 2004. The aforementioned material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2004 consolidated financial statements, and this report does not affect our report dated March 28, 2005, which expressed an unqualified opinion on those consolidated financial statements.

In our opinion, management's assessment that the Company did not maintain effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO*).* Also, in our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We do not express an opinion or any other form of assurance on management's statements or representations included in "Changes to Internal Controls Over Financial Reporting "and" Limitations of Effectiveness of Controls".

(signed) KPMG LLP

Short Hills, NJ
May 2, 2005

(d) Changes to Internal Control Over Financial Reporting

As disclosed in the Company's 2002 and 2003 Form 10-K reports, and in the Company's 2003 and 2004 Form 10-Q reports, the Company had previously concluded that certain internal control deficiencies identified by its external auditors and by management, as well as through the investigation by the Audit Committee of the Board of Directors, constituted "material weaknesses" or "significant deficiencies" as defined by the Public Company Accounting Oversight Board (United States). In addition, management's review of internal control over financial reporting, using the framework defined by COSO, confirmed that most of the previously disclosed deficiencies still existed as of December 31, 2004. During the last two years, the Company has spent a significant amount of time in becoming current with its financial reporting. This was necessary due to the restatement of the Company's financial results for the years 2000 and 2001 and the first three quarters of 2002, which was not completed until January 9, 2004. Throughout the past year, the Company dedicated its resources toward the completion of six quarterly Form 10-Q reports for 2003 and 2004, as well as its Form 10-K annual report for the year ended December 31, 2003. This work was completed on December 27, 2004. Therefore, the Company was not able to correct all of the deficiencies identified during 2004 and prior years by December 31, 2004.

The Company has taken various corrective actions to remediate the material weaknesses noted above. By their nature such actions require a period of time to become fully effective. These remedial actions are as follows:

Non-routine transactions. The investigation by the Company's Audit Committee during 2003 determined that there was a lack of effective communication and review of complex transactions with both internal and external accounting resources. During 2004, the Company implemented procedures to correct this deficiency, including the establishment of regularly scheduled meetings attended by management, outside counsel and members of its Audit Committee. These procedures have been effective. The Company has investigated the cause for the failure to involve accounting and tax personnel at the appropriate time in the 2004 stock option transaction and for the failure to consider all of the factors and assumptions in determining the fair value of two series of warrants. The Company has put in place procedures to address these issues. The Company believes that these procedures will remediate these deficiencies during 2005.

Elimination of intercompany transactions. The investigation by the Company's Audit Committee during 2003 noted that the Company lacked formal policies and procedures for identifying and reviewing intercompany eliminations. The Company has implemented a procedure to review intercompany accounts on a quarterly basis to identify appropriate intercompany eliminations and believes that this procedure is generally working effectively. However, a sufficient period of time has not elapsed to effectively evaluate this remediation. After completing a review of the Company's remaining intercompany elimination entries and reassigning responsibility for the elimination entries, the Company believes that this weakness has been properly addressed.

Inadequate review procedures and segregation of duties. The investigation by the Company's Audit Committee during 2003 noted a need to improve procedures related to adequate documentation of management review and segregation of duties. Remedial actions have begun, and the re-testing of the design and effectiveness of those actions will be performed in each area after all remedial actions in such area have been implemented. Further, the development of narrative descriptions for these processes and the evaluation of the related risks and controls required to complete the work required by Section 404 of the Sarbanes-Oxley Act of 2002, provided documentation of the policies and procedures in these areas as well as the actions required to remediate any deficiencies.

Interest rate swap transactions. During the 2002 audit, the Company's external auditors noted that its financial staff did not have the proper level of understanding of the accounting for derivative instruments used to hedge exposure to floating interest rates associated with its debt and the required documentation under the provisions of SFAS 133. As a result, the Company engaged an independent consultant during November 2002 to assist with the preparation of formal documentation and accounting for these transactions. During the audit for 2004, the Company's external auditors identified deficiencies specifically related to the identification of the forecasted transactions and the methods used to assess effectiveness and measure ineffectiveness. The Company has thoroughly reviewed its documentation for all current hedging strategies and is improving the skill sets within the organization in order to improve the accounting of its hedging relationships under the provisions of SFAS 133. The Company believes that this deficiency will be remediated during 2005.

Income taxes. The investigation by the Company's Audit Committee during 2003 noted that the accounting department lacked adequate technical expertise related to accounting for income taxes and did not perform periodic reviews of the carrying values of its deferred tax assets. During the second half of 2004, the Company hired an experienced tax professional, who is also a certified public accountant. The Company believes that this addition resulted in significant improvements during 2004 and will ultimately remediate this deficiency. The Company believes that, the staffing addition made during 2004 and the procedures being implemented with regard to the communication and review of complex transactions noted above will remediate this weakness during 2005, but the Company will monitor this area closely and take further actions, including additional staffing, if required.

Account reconciliations. The investigation by the Company's Audit Committee during 2003 determined that its accounting department was not adequately staffed. The Company has hired eight additional people in its accounting department in order to address this weakness. As of the date of this filing, all account reconciliations are current. However, the Company believes that additional attention must be paid to staffing within the accounting department and throughout the Company. During 2005, the Company will continue to review its staffing levels and will continue to evaluate whether the current skill sets of its employees are adequate to meet its business needs and to ensure that it has a strong and effective control environment. The Company will monitor this area closely, make any necessary staffing changes and will also ensure that additional training is made available to its staff, as required.

Direct financing leases. During the preparation for the Company's 2002 audit, its accounting department noted inappropriate accounting for down payments on four direct financing leases as lease revenue rather than as a reduction of investment in direct financing leases. The Company reviewed the accounting for those transactions that existed at the time this deficiency was originally identified and recorded correcting entries where required as part of the restatement of its financial statements for the years 2000 and 2001 and the quarters of 2002. In addition, during the restatement of our 2002 financial statements, the Company noted that certain leases were incorrectly classified as operating leases. Management has reassigned responsibilities and manually verified the classification and income recognition for all new direct financing leases. In addition, the Company has initiated changes to its lease contracts to simplify the income recognition related to these direct financing leases. The Company also has purchased and installed a new accounting system to address the ongoing accounting and to reduce its reliance on manual verification of the accounting for its direct financing leases. This system became operational for the chassis business on January 1, 2005, and the Company anticipates that it will be operational for the container business during the second quarter of 2005. The Company anticipates that this system, combined with improved knowledge of lease accounting under the provisions of SFAS 13 and the changes made to the lease contracts, will resolve the weaknesses in this area by September 30, 2005.

Security of information technology. The investigation by the Company's Audit Committee in 2003 noted a need for security measures such as comprehensive encryption procedures and documentation of standards for setting operating systems security parameters. The lack of comprehensive encryption procedures will be remediated in 2005 by implementing both virtual private network and secure socket layer technologies for employees located outside the Company's Princeton, NJ, New York, NY, and Westchester, IL offices. For employees located in the three offices mentioned, the problem has been corrected through direct point-to-point network connections to the Company's data center. The Company has completed the documentation of standards for setting security parameters for its operating systems. The Company has initiated a project that will result in defining and establishing appropriate access to its information systems and spreadsheets, with the exception of its leasing system, and expects that the project will be completed, and appropriate access controls in place, by June 30, 2005. Access controls for the leasing system are being addressed as the Company develops its new asset management system, completion of which is expected during the first half of 2006 with individual modules becoming operational earlier.

Design of equipment leasing systems. The investigation by the Company's Audit Committee during 2003 noted a need to improve its equipment leasing systems in order to eliminate the need for numerous manual interventions. Since the identification of the deficiencies related to excessive manual intervention, the Company has implemented additional processes and controls that, in its opinion, provide reasonable assurance that its consolidated financial statements are free of material misstatement. The development of enhanced information systems is the ultimate remediation in these areas and the Company has already begun to develop such systems. The Company believes that the implementation of such systems will reduce the requirement for substantive manual testing and, therefore, reduce the possibility for error. It is management's expectation that all systems will be operational during the first half of 2006, with individual modules becoming operational earlier.

Management believes that the actions described above, when fully implemented, will be effective in remediation of the material weaknesses identified in Management's Report on Internal Control Over Financial Reporting described above.

The Company has assigned the highest priority to the short and long-term correction of the internal control deficiencies that have been identified and is initiating the steps necessary to analyze and monitor its control environment and to address any weaknesses and deficiencies. In addition to the weaknesses and deficiencies mentioned above, the Company has identified other, less significant, deficiencies that it does not consider to be "material weaknesses" but which it nonetheless believes should be remedied. These significant deficiencies have been disclosed to the Company's Audit Committee and to its independent auditors. Management has discussed its remedial action plans with the Audit Committee and will continue to provide periodic updates to the Audit Committee on progress made.

(e) Limitations of Effectiveness of Controls

As of the date of this filing, the Company is satisfied that actions implemented to date (including augmenting its internal audit function) and those in progress will correct the material weaknesses and significant deficiencies in the internal controls and information systems that have been identified. The Company notes that, like other companies, any system of internal controls, however well designed and operated, can provide only reasonable assurance, and not absolute assurance, that the objectives of the internal control system will be met. The design of any control system is based, in part, upon the benefits of the control system relative to its costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of control. In addition, over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of inherent limitation in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

BUSINESS

General

All fleet statistics including the size of the fleet, utilization of the leasing equipment or the rental rates per day that are set forth in this prospectus include our equipment, including that portion of our equipment managed by Container Applications, Inc. ("CAI"). To the extent that our equipment is managed by CAI, the equipment is considered fully utilized since it is not available for us to put on hire regardless of whether all of the units are generating income. All equipment owned by CAI or managed by CAI (with the exception of equipment owned by us and managed by CAI) is excluded from all statistics, unless otherwise indicated. In addition, all of our chassis assigned to chassis pools are considered fully utilized. This exclusion of information relative to CAI, unless indicated otherwise, provides a focus on the drivers which are critical to our core business. The market share, ranking and other data contained in this prospectus are based either on our management's own estimates, independent industry publications, reports by market research firms or other published independent sources and, in each case, are believed by management to be reasonable estimates. However, market share data is subject to change and cannot always be verified with certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey of market shares. As a result, you should be aware that market share, ranking and other similar data set forth herein, and estimates and beliefs based on such data, might not be reliable.

We believe we are the largest lessor of intermodal chassis in North America and one of the world's leading lessors of intermodal dry freight standard containers. At March 31, 2005, our chassis fleet totaled approximately 211,000 chassis and our container fleet totaled approximately 802,000 twenty-foot equivalent units ("TEU"). From 1998 to 2003, we increased the size of our chassis fleet at a compound annual rate of 22%, primarily as the result of the chassis fleet acquired during 2000 from the North American Intermodal Division of Transamerica Leasing, Inc. ("TA"), and the purchase and leaseback of approximately 20,000 chassis with a shipping line customer during 2001 and 2002. During the period from 1998 to 2003, we increased our container fleet at a compound annual rate of 12%. During 2004, our chassis fleet remained flat and our total container fleet declined by 7%, primarily due to the contractual runoff of the container direct financing lease portfolio and the fact that we entered into only a limited number of new lease transactions due to the reduced availability of new financings during the first three quarters of 2004. This reduction in availability was due to the delay in filing our Annual Report on Form 10-K for 2002, our Quarterly and Annual Reports on Forms 10-Q and 10-K for 2003 and our Quarterly Reports on Form 10-Q for 2004.

Our fleet of containers decreased from 808,000 TEU at December 31, 2004 to 802,000 TEU at March 31, 2005 primarily due to the sale or retirement of damaged and older containers. The size of our chassis fleet increased from 208,000 units at December 31, 2004 to 211,000 units at March 31, 2005.

We concentrate on leasing equipment to our customers on a long-term basis (leases for a term greater than one year). Substantially all of our new equipment is initially leased for terms of five to eight years and approximately 77% of our total fleet of chassis and 81% of our total fleet of containers as of March 31, 2005 are on long-term lease. We believe our focus on long-term leasing has enabled us to:

Maintain high utilization rates of our equipment fleet, consisting of both operating and direct financing leases, which over the last five years averaged 99% for containers and 95% for chassis;

Achieve more stable and predictable earnings; and

Concentrate on the expansion of our asset base through the purchase and lease of new equipment to fulfill specific orders for new long-term leases.

As of March 31, 2005, approximately 23% of our chassis were leased on a short-term basis to satisfy customers' peak or seasonal requirements and to provide operational flexibility, generally at higher rates than under long-term leases. For customers who require daily or weekly chassis rentals, we operate chassis pools at major domestic shipping ports and terminals. These chassis pools consist of our chassis as well as those of our customers.

As of March 31, 2005, approximately 19% of our containers were leased on a short-term basis. Our 50%-owned consolidated subsidiary, CAI, markets our containers available for short-term leasing as part of its fleet, facilitating redeployment of our containers at the end of long-term leases. Our relationship with CAI maximizes utilization of our container fleet and increases our influence in the marketplace by giving us one of the world's largest container lessor fleets on a combined basis. At March 31, 2005, CAI had a container fleet of approximately 601,000 TEU. Approximately 185,000 TEU were owned by CAI with the remaining 416,000 TEU managed for others. CAI's managed equipment included approximately 151,000 TEU that were managed for us.

We and our predecessors have been involved in the business of leasing transportation equipment since 1968. We lease our chassis and containers to a diversified customer base of over 600 shipping and transportation companies throughout the world, including nearly all of the world's 25 largest international container shipping lines and major North American railroads. We provide customer service and market to our customers through a worldwide network of offices and agents. We believe one of the key factors in our ability to compete effectively has been the long-standing relationships that we have established with most of the world's large shipping lines and major North American railroads. As a result of these relationships, 22 of our top 25 customers have been customers for at least 10 years.

Industry Overview

The fundamental components of intermodal transportation are the chassis and the container. When a container ship arrives in port, each marine container is removed from the ship and loaded onto a chassis or rail car. Most containers are constructed of steel in accordance with recommendations of the International Standards Organization ("ISO"). The basic container type is the general-purpose dry freight standard container which measures 20 or 40 feet long, 8 feet wide and 8 1/2 or 9 1/2 feet high. In general, 20-foot containers are used to carry heavy, dense cargo loads (such as industrial parts and certain food products) and can also operate in areas where transportation facilities are less developed, while 40-foot containers are used for lighter weight finished goods (such as apparel, electronic appliances and other consumer goods) in areas with better developed transportation facilities. A chassis is a rectangular, wheeled steel frame, generally 23 1/2 or 40 feet in length, built specifically for the purpose of transporting a container. Longer sized chassis, designed solely to accommodate domestic containers, can be up to 53 feet in length. Once mounted, the chassis and container are the functional equivalent of a trailer. When mounted on a chassis, the container may be trucked either to its final destination or to a railroad terminal for loading onto a rail car. Similarly, a container shipped by rail may be transferred to a chassis to travel over-the-road to its final destination. As the use of containers has become a predominant factor in the intermodal movement of cargo, the chassis has become a prerequisite for the domestic segment of the journey. A chassis seldom travels permanently with a single container, but instead serves as a transport vehicle for containers that are loaded or unloaded at ports or railroad terminals. Because of differing international road regulations and non-uniformity of international standards for chassis, chassis used in the United States are seldom used in other countries.

Containers provide a secure and cost-effective method of transporting finished goods and component parts because they are generally freely interchangeable between different modes of transport, making it possible to move cargo from a point of origin to a final destination without the repeated unpacking and repacking of the goods required by traditional shipping methods. The same container may be carried successively on a ship, rail car and chassis and across international borders with minimal customs formalities. Containerization is more efficient, more economical and safer in the transportation of cargo than "break bulk transport" in which the goods are unpacked and repacked at various intermediate points en route to their final destination. By eliminating manual repacking operations when differing modes of transportation are used, containerization reduces freight and labor costs. In addition, automated handling of containers permits faster loading and unloading and more efficient utilization of transportation equipment, thereby reducing transit time. The protection provided by sealed containers also reduces damage to goods and loss and theft of goods during shipment. Containers may also be picked up, dropped off, stored and repaired at independent common user depots located throughout the world.

The adoption of uniform standards for containers in 1968 by the ISO precipitated a rapid growth of the container industry; as shipping companies recognized the advantages of containerization over traditional break bulk transportation of cargo. This growth resulted in substantial investments in containers, container ships, port facilities, chassis, specialized rail cars and handling equipment.

Between 1990 and 2003, worldwide container traffic at the world's major ports has grown at a compound annual rate of 10.4%, calculated using the *Containerisation International Yearbook* of 1992 and 2005.

The demand for containers is influenced primarily by the volume of international and domestic trade. In recent years, however, the rate of growth in the container industry has exceeded that of world trade as a whole due to several factors, including:

- The existence of geographical trade imbalances;
- The trend in outsourcing manufacturing to lower labor rate areas;
- The expansion of shipping lines;
- The growing reliance by manufacturers on "just-in-time" delivery methods; and
- Increased exports by technologically advanced countries of component parts for assembly in other countries and the subsequent re-importation of finished products.

In recent years, domestic railroads and trucking lines have begun actively marketing intermodal services for the domestic transportation of freight. We believe that this trend should serve to accelerate the growth of intermodal transportation resulting in increased chassis and container demand.

The Leasing Market

Leasing companies own a significant portion of North America's chassis and of the world's container fleet and we believe the balance is owned predominantly by shipping lines and railroads. Leasing companies have maintained this market position because container shipping lines and railroads receive both financial and operational benefits by leasing a portion of their equipment. The principal benefits of leasing are the following:

To provide shipping lines and railroads with an alternative source of financing in a traditionally capital-intensive industry;

To enable shipping lines and railroads to expand their routes and market shares at a relatively inexpensive cost without making a permanent commitment to support their new structure;

To enable shipping lines and railroads to benefit from leasing companies' relationships with equipment manufacturers;

To enable shipping lines and railroads to accommodate seasonal use and/or geographic concentration, thereby limiting their capital investment and storage costs; and

To enable shipping lines and railroads to maintain an optimal mix of equipment types in their fleets.

Because of these benefits, container shipping lines and railroads generally obtain a significant portion of their container and chassis fleets from leasing companies, either on short-term or long-term leases. Short-term leases provide considerable operational flexibility in allowing a customer to pick up and drop off equipment at various locations at any time. However, customers pay for this flexibility in the form of substantially higher lease rates for short-term leases and drop-off charges for the privilege of returning equipment to certain locations. Many short-term leases are "master leases," under which a customer reserves the right to lease a certain number of containers or chassis as needed under a general agreement between the lessor and the lessee. Long-term leases provide the lessee with advantageous pricing structures, but often contain an early termination provision allowing the lessee to return equipment prior to expiration of the lease upon payment of an early termination fee or a retroactive increase in lease payments.

Business Strategy

Our objective is to continue to expand on our market position as a leading long-term lessor of intermodal transportation equipment. To achieve this objective, we intend to continue to:

Focus on our core business of North American chassis and international marine container leasing. Our strong market positions in the chassis and container leasing businesses provide us with economies of scale that benefit our customers. Our equipment and operations are located worldwide to meet our domestic and international customers' needs in a timely manner. In addition, we are able to focus our management and financial resources to compete effectively for equipment leasing requirements of all quantities.

Concentrate on long-term leasing to achieve high utilization rates and to minimize the impact of economic cycles on earnings. We concentrate on long-term leases in order to minimize the impact of economic cycles on our equipment leasing revenues and to achieve high utilization and more stable and predictable earnings. The lower rate of turnover provided by long-term leases enables us to concentrate on the expansion of our asset base through the purchase and lease of new equipment, rather than on the repeated re-marketing of our existing fleet.

Re-marketing of equipment when returned by lessees. When long-term leases reach their termination date, we make every effort to extend the lease with the customer that originally leased the equipment, or in lieu of that, to lease the equipment to another customer for an extended term. Containers may also be made available to our 50%-owned consolidated subsidiary, CAI, which manages our containers in the short-term marketplace. This allows us to maintain our focus on long-term leasing while CAI expands its fleet of equipment that it manages for us and for others, providing CAI with further economies of scale.

Make strategic acquisitions of complementary businesses and asset portfolios on an opportunistic and financially disciplined basis. We intend to continue to review acquisition opportunities whenever asset prices and market conditions are favorable.

Historically, we have regularly entered into new long-term lease transactions with shipping lines and other customers as market conditions warranted. During the second half of 2003 and the first nine months of 2004, however, notwithstanding strong conditions in the leasing markets, we entered into a limited number of new lease transactions, due to the reduced availability of new financings during the first three quarters of 2004. This reduction in availability was due to the delay in filing our Annual Report on Form 10-K for 2002, our Quarterly and Annual Reports on Forms 10-Q and 10-K for 2003 and our Quarterly Reports on Form 10-Q for 2004. We successfully completed a number of financings and commitments totaling $747.0 million from January 1, 2004 through December 31, 2004, of which $563.0 million was utilized and $184.0 million remained available for future use as of December 31, 2004. The proceeds of these financings were used to pay for equipment previously placed on lease, to purchase new equipment for lease, to repay debt and for working capital. During the first quarter of 2005, we received an additional $223.0 million in net financing commitments, none of which has been utilized as of March 31, 2005, and completed a draw-down under a lease arrangement with a Japanese lessor for which we received additional cash proceeds of approximately $4.2 million. In addition, we regularly evaluate financing proposals which, when coupled with available cash balances and the funds available under commitments mentioned above, could be used for growth, for re-financing existing facilities and for working capital.

Operations

We offer our customers both operating leases and direct financing leases to satisfy customer preference and demand. In most cases, a direct financing lease provides the customer the opportunity to acquire ownership of the equipment.

Lease rentals are typically calculated on a per diem basis, regardless of the term of the lease. Our leases generally provide for monthly billing and require payment by the lessee within 30 to 60 days after presentation of an invoice. Generally, the lessee is responsible for payment of all taxes and other charges arising out of use of the equipment and must carry specified amounts of insurance to cover physical damage to and loss of equipment, as well as bodily injury and property damage to third parties. In addition, our leases usually require lessees to repair any damage to the chassis and containers, other than normal wear and tear. Lessees are also required to indemnify us against our losses arising from accidents and other occurrences involving the leased equipment. Our leases generally provide for lessees to pay handling charges. Our short-term leases usually assess drop-off charges upon redelivery of containers. All of our operating leases, both short-term and long-term, generally set forth a list of locations where lessees may return equipment, along with any monthly quantity return limits.

Long-term leases provide the lessee with advantageous pricing structures, but often contain an early termination provision allowing the lessee to return equipment prior to expiration of the lease upon payment of an early termination fee or a retroactively applied increase in lease payments. We experience minimal early returns of our equipment under our long-term leases, primarily because of the penalties involved. Additionally, customers may bear substantial costs related to repositioning and repair upon return of the equipment.

Frequently, a lessee will desire to retain long-term leased equipment well beyond the initial lease term. In these cases, long-term leases will be renewed at the then prevailing market rate, for one to five-year periods, as part of a short-term agreement or as a direct financing lease.

Trac Lease Chassis Pools. For customers who require daily or weekly chassis rentals, we operate Trac Lease chassis pools at most of the major ports and terminal operations throughout the United States. These chassis pools consist of our chassis placed at facilities for use by approved shipping lines, railroads and truckers. Chassis are rented from these pools in a manner similar to the way rental cars are offered on an as needed basis. Customers pay a higher than normal daily rate for use of these chassis, but in return are generally not responsible for repair charges. Additionally, they experience an easy access and an easy return process, and have no ongoing carrying and administrative responsibilities for the chassis. The principal ports in the United States where we operate chassis pools are Baltimore, Boston, Charleston, Houston, New York, Newark, Norfolk, and Savannah. We also operate chassis pools at over 40 inland railroad locations within the United States.

Depots. We and our 50% owned consolidated subsidiary, CAI, operate in all major containerized transportation markets in North America and throughout the world. Depots are facilities owned by third parties at which containers, chassis and other items of transportation equipment are stored, maintained and repaired. For containers, we utilize independent agents/depots to handle and inspect equipment delivered to, or returned by lessees, as well as to store containers that are not leased and to perform maintenance and repairs. Some agents are paid a fixed monthly retainer to defray recurring operating expenses and some are paid a minimum level of commission income. In addition, we generally reimburse our agents for incidental expenses. For chassis, we have our own field staff which oversees the functions performed by depots.

Logistic Support. Our worldwide network of offices and relationships and our industry experience enables us to provide logistic services in order to facilitate the movement of chassis and containers to meet our customers' needs.

Repositioning and Other Operating Expenses. If lessees return large numbers of equipment to a location with a larger supply than demand, we may incur expenses in repositioning the equipment to a more favorable location. Repositioning expenses generally range between $75 and $1,000 per unit, depending on geographic location, distance and other factors, and may not be fully covered by any drop-off charge collected from the lessee. We also incur storage costs, which generally range between $.20 and $3.18 per unit per day depending on location and equipment type. In addition, we bear other operating expenses associated with our chassis and containers, such as costs of maintenance and repairs not required to be made by lessees, agent fees, depot expenses for handling, inspection and storage, and any insurance coverage in excess of that maintained by the lessee.

Maintenance, Repairs and Refurbishment. As chassis and containers age, the need for maintenance increases, and they may eventually require extensive maintenance. Our customers are generally responsible for maintenance and repairs of equipment other than normal wear and tear. When normal wear and tear of equipment is extensive, the equipment may have to undergo a major repair including a refurbishment or remanufacture. Refurbishing and remanufacturing of chassis involves substantial cost, but remanufacture or refurbishment costs are substantially less than the cost of purchasing a new chassis. In the past we also refurbished containers, but in recent years it has not been cost effective to do so.

Disposition of Containers and Chassis. On an ongoing basis, we sell containers that were previously leased. The decision to sell depends on the equipment's condition, remaining useful life and suitability for continued leasing or for other uses, as well as prevailing local market resale prices and an assessment of the economic benefits of repairing and continuing to lease the equipment compared to the benefits of selling. Pursuant to our relationship with CAI, containers that have come off long-term lease and have been designated for short-term leasing (not including renewals with existing lessees) are generally provided to CAI for deployment in CAI's fleet. For such containers, CAI pays us its average total fleet per diem rate (net of operating expenses) less a management fee. This payment may be subject to reduction to the extent the average age of the Interpool containers exceeds the average age of the CAI containers. Containers made available for short-term leasing under our agreement with CAI are reported by us as fully utilized. Containers are also sold to shipping or transportation companies for continued use in the intermodal transportation industry or to secondary market buyers, such as wholesalers, depot operators, mini storage operators, construction companies and others, for use as storage sheds and similar structures. Because older chassis can be economically remanufactured, chassis are rarely sold.

The selling price of a container or chassis will depend upon, among other factors, mechanical or economic obsolescence, the current newly manufactured equipment price, its physical condition and location. While there have been no major technological advances in the short history of containerization that have made active equipment obsolete, several changes in standards have decreased the demand for older equipment, such as the increase in the standard height of containers from 8 feet to 8 1/2 feet in the early 1970's.

Sources of Supply. Over 90% of the world's container production occurs in China. Historically, most chassis used in the United States have been manufactured domestically; however, China began producing ISO standard chassis for the U.S. market in 2003 and accounted for a substantial portion of chassis production for the domestic market in 2004 and 2005.

When manufacturing is complete, new chassis and containers are inspected to insure that they conform to applicable standards of the International Standards Organization and other international self-regulatory bodies, as well as our internal standards.

"PoolStat"™ Chassis Management Services

Our chassis customers are turning to outside service companies to help them manage chassis that they own and lease. We offer management services under the trademarked name "PoolStat"™. "PoolStat"™ aggregates chassis activity data from over 400 locations around the country and reports on this activity, processing more than two million transactions monthly. Customers contract with us to track their chassis nationally and determine usage patterns, ongoing requirements, and overall fleet efficiencies. Reports are provided using a "PoolStat"™ proprietary Internet based report generator. "PoolStat"™ services also include the use of field staff under contract where field management of chassis operations is involved.

A major service requested by our customers and provided by "PoolStat"™ is assistance in the formation and running of "cooperative chassis pools." Cooperative chassis pools consist of chassis contributed for common use by the shipping lines (chassis owned and/or leased and under their control) to be pooled at marine terminals and railroad depots. These chassis pools are different from our chassis pools in that the shipping lines supply the chassis rather than us supplying the chassis on a rental basis. Our "PoolStat"™ software compiles data from each location and reports on levels of chassis contribution as compared to the levels of chassis usage by each shipping line in the cooperative pool. Each participating line is required to supply a fair share of equipment relative to its usage. The management services we provide for cooperative chassis pools often involves field staff assisting in the repositioning of chassis as well as overseeing the maintenance and repair process. Benefits to the participants of this program include:

- More efficient use of chassis leading to lower overall inventory requirements at each location;
- Decreased maintenance, repair and other operating expenses;
- Improved equipment control capabilities;
- Reduced customer administrative time and expense of managing a chassis fleet; and
- The ability to participate in cooperative pool net revenues

By providing the "PoolStat"™ service, we are able to forge closer relationships with our customers for both short-term and long-term leasing opportunities. As of July 15, 2005 there are approximately 230,000 chassis under "PoolStat"™ management and we are continuing to seek opportunities to increase its level of business. We believe that "PoolStat"™ is the leading provider of chassis management services in the United States.

Marketing and Customers

We lease our chassis and containers to over 600 shipping and transportation companies throughout the world, including nearly all of the world's 25 largest international container shipping lines and major North American railroads. The customers for our chassis include a large number of domestic lessees, many of which are domestic subsidiaries or branches of international shipping lines to which we also lease containers. With a network of offices and agents covering major ports in the United States, Europe and the Far East, we have been able to supply containers in nearly all locations requested by our customers. During the three months ended March 31, 2005, our top 25 customers represented approximately 77% of our consolidated net billing, with no single customer accounting for more than 8.1%.

Credit Process

We perform detailed credit risk analysis on our customers. Our credit policy sets different maximum exposure limits depending on our relationship and previous experience with each customer. Credit criteria may include, but are not limited to, customer trade route, country, social and political climate, assessments of net worth, asset ownership, bank and trade credit references, credit bureau reports, operational history and financial strength.

We seek to reduce credit risk by maintaining insurance coverage against customer insolvency and related equipment losses. We maintain contingent physical damage, recovery and loss of revenue insurance, which provides coverage in the event of a customer's insolvency, bankruptcy or default giving rise to our demand for return of all of our equipment. The policy covers the cost of recovering our equipment from the customer, including repositioning cost, damage to the equipment and the value of equipment which could not be located or was uneconomical to recover. It also covers a portion of the equipment leasing revenue that we might lose as a result of the customer's default (i.e., up to 180 days of lease payments following an occurrence under the policy). The policy in place for the three months ended March 31, 2005, which expired on April 30, 2005, included coverage of $9.0 million with a $3.0 million deductible, per occurrence. This policy has been renewed for an additional one year term commencing April 30, 2005. The new policy includes coverage of $13.0 million with a $2.0 million deductible, per occurrence. This coverage automatically renews for at least two additional one-year terms on each anniversary of the commencement date. All renewals are subject to maintaining a claim experience that does not exceed stated percentages of the policy premiums. There can be no assurance that this or similar coverage will be available in the future or that such insurance will cover the entirety of any loss.

Competition

There are many companies leasing intermodal transportation equipment with which we compete. Some of our competitors have greater financial resources than we do, or are affiliates of much larger companies. Historically, there has been consolidation in the container leasing business resulting from several acquisitions. Several chassis lessors have recently sold their fleets. This has resulted in an environment, where currently only two major chassis lessors remain: Interpool and Flexi-Van Leasing, Inc.

In addition, the containerized shipping industry, which we service, competes with providers of alternative methods of transporting goods, such as non-containerized services by air, truck and rail. We believe that in most instances these alternative methods are not as cost-effective as the shipping of containerized cargo.

Because rental rates for chassis and containers are not subject to regulation by any government authority but are determined principally by the demand for and supply of equipment in each geographical area, price is one of the principal methods by which we compete. In times of low demand and excess supply, leasing companies tend to grant price concessions, such as free days or pick-up credits, in order to keep their equipment on lease and to avoid storage charges. We attempt to design lease packages tailored to the requirements of individual customers and consider our long-term relationships with customers to be important to our ability to compete effectively. We also compete on the basis of our ability to deliver equipment in a timely manner in accordance with customer requirements.

Relationship with CAI

We own a 50% common equity interest in CAI, which we acquired in April 1998. CAI owns and leases-in its own fleet of containers and also manages, for a fee, containers owned by us and by third parties. We entered into our operating relationship with CAI primarily to facilitate the leasing in the short-term market of containers coming off long-term operating lease, to gain access to new companies looking to lease containers on a long-term basis and to realize cost efficiencies from the operation of a coordinated container lease marketing group. For containers managed by CAI for us in the short-term market, we earn the net operating income and pay CAI a fee for managing our equipment and leasing it on our behalf. The calculation is based on the average daily net operating income of CAI's fleet of owned, leased-in and managed containers (including the portion of CAI's fleet that consists of our equipment) for each day such managed containers are part of the CAI fleet. The marketing group, which is organized as a wholly-owned subsidiary of Interpool, is responsible for soliciting container lease business for both Interpool and CAI, including long-term operating and direct financing lease business and short-term lease business on master lease agreements. We have a right to purchase all long-term operating and direct financing lease business generated by the marketing group, subject to offering to CAI, at cost, 10% of this long-term operating and direct financing lease business. By mutual agreement, CAI has purchased for its own account long-term operating and direct financing lease business the marketing group has generated in excess of such amount. In addition, on occasion, we have entered into transactions with CAI pursuant to which we have acquired equipment, and the related leases, from CAI on terms that resulted in a profit for CAI. Such equipment, as well as certain other containers purchased from time to time, are currently managed for us by CAI for a fee based upon the actual net operating income earned by such containers.

The 50% equity interest in CAI not held by us is owned by CAI's chief executive officer. Under the terms of a Shareholder Agreement we entered into in 1998 with CAI's chief executive officer, because an initial public offering for the registration and sale of CAI's common stock was not initiated before April 2003, CAI's chief executive officer has the right to request an independent valuation of CAI. Such independent valuation of CAI has not been requested. If such an independent valuation of CAI were to be requested, we would have the right, following the completion of such valuation, to make a written offer to acquire the chief executive officer's 50% equity interest in CAI for an amount equal to 50% of the fair value of CAI as indicated in the appraisal. If we do not elect to make such an offer, CAI's chief executive officer would have a right to require CAI to take the necessary steps to effect an initial public offering to sell his equity. All costs associated with any such initial public offering of CAI would be borne by CAI.

In connection with the acquisition of our 50% equity interest in CAI in 1998, we loaned CAI $33.7 million under a subordinated note agreement, which is collateralized by all containers owned by CAI as of April 30, 1998 or thereafter acquired, subject to the priority security interest lien of CAI's senior credit facility, except for certain excluded collateral. Interest on this subordinated note is at an annual fixed rate of 10.5% and is payable quarterly. The original repayment terms required mandatory quarterly principal payments of $1.7 million beginning July 30, 2003 and ending on April 30, 2008. The subordinated note was subject to certain financial covenants and was cross-collateralized with CAI's senior credit facility, subject to the terms of a subordination agreement.

On June 27, 2002, CAI entered into an amended $110.0 million senior revolving credit agreement with a group of financial institutions. To facilitate the closing of this new credit facility, we agreed to extend the repayment terms of our subordinated note so as to require mandatory quarterly principal payments of $1.7 million beginning July 30, 2006 and ending on April 30, 2011. We also agreed to modify certain financial covenants in the subordinated note.

Interest on the subordinated note continues to accrue at an annual fixed rate of 10.5%, payable quarterly. The subordinated note continues to be cross-collateralized with CAI's senior credit agreement, subject to the terms of an amended and restated subordination agreement. In connection with these modifications, CAI's chief executive officer agreed that we would have the right to designate a majority of the members of CAI's board of directors. As a result of these transactions and gaining a majority position on CAI's board, our financial statements include CAI as a consolidated subsidiary commencing June 27, 2002.

A total of $65.0 million was outstanding under CAI's senior revolving credit facility at December 31, 2004. Borrowings under CAI's senior credit facility were secured by substantially all of CAI's assets, other than certain excluded assets, and were payable on June 27, 2005. The senior credit facility contained various financial and other covenants.

In April 2004, we reached an agreement with CAI resolving differences in interpretation of certain provisions of the Operating and Administration Agreement (the "CAI Agreement") governing payment of appropriate remedial compensation when an age disparity develops between our containers managed by CAI and the balance of CAI's managed fleet. Pursuant to our agreement with CAI, w