

CAI International, Inc.
Form 10-Q
May 08, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2009

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission file number: 001-33388

CAI International, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-3109229
(I.R.S. Employer
Identification No.)

One Embarcadero Center, Suite 2101

San Francisco, California
(Address of principal executive offices)

94111
(Zip Code)

415-788-0100

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common
Common Stock, \$.0001 par value per share

April 30, 2009
17,920,778 shares

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

This Quarterly Report on Form 10-Q contains certain forward-looking statements, including, without limitation, statements concerning the conditions in our industry, our operations, our economic performance and financial condition, including, in particular, statements relating to our business and growth strategy and service development efforts. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for certain forward-looking statements so long as such information is identified as forward-looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information. When used in this Quarterly Report on Form 10-Q, the words may, might, should, estimate, project, plan, anticipate, expect, intend, outlook, similar expressions are intended to identify forward-looking statements and information. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. These forward-looking statements are based on estimates and assumptions by our management that, although we believe to be reasonable, are inherently uncertain and subject to a number of risks and uncertainties. These risks and uncertainties include, without limitation, those identified under Risk Factors below, as well as those identified in our Annual Report Form 10-K for the fiscal year ended December 31, 2008 filed on March 16, 2009, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law. Reference is also made to such risks and uncertainties detailed from time to time in our filings with the SEC.

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CAI International, Inc.****Consolidated Balance Sheets****(In thousands, except share information)****(UNAUDITED)**

	March 31, 2009	December 31, 2008
ASSETS		
Cash	\$ 12,156	\$ 28,535
Accounts receivable (owned fleet), net of allowance for doubtful accounts of \$1,057 and \$1,044 at March 31, 2009 and December 31, 2008, respectively	15,507	16,224
Accounts receivable (managed fleet)	22,503	24,683
Current portion of direct finance leases	5,715	6,108
Prepaid expenses	2,521	2,954
Deferred tax assets	1,924	1,924
Other current assets	4,051	563
Total current assets	64,377	80,991
Container rental equipment, net of accumulated depreciation of \$87,160 and \$86,936 at March 31, 2009 and December 31, 2008, respectively	303,845	310,397
Net investment in direct finance leases	13,005	14,003
Furniture, fixtures and equipment, net of accumulated depreciation of \$741 and \$722 at March 31, 2009 and December 31, 2008, respectively	575	629
Intangible assets, net of accumulated amortization of \$3,490 and \$3,081 at March 31, 2009 and December 31, 2008, respectively	6,103	6,608
Total assets	\$ 387,905	\$ 412,628
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable	\$ 6,586	\$ 4,682
Accrued expenses and other current liabilities	2,646	3,747
Due to container investors	17,789	23,847
Unearned revenue	4,621	4,542
Current portion of capital lease obligation	2,948	4,514
Rental equipment payable	774	3,905
Total current liabilities	35,364	45,237
Revolving credit facility	190,200	208,200
Capital lease obligation	17,996	18,070
Deferred income tax liability	25,213	25,348
Income taxes payable	2,004	1,983
Total liabilities	270,777	298,838

Stockholders equity:

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Common stock, par value \$.0001 per share ; authorized 84,000,000 shares; issued and outstanding, 17,920,778 shares at March 31, 2009, and December 31, 2008	2	2
Additional paid-in capital	102,930	102,706
Accumulated other comprehensive income	(2,863)	(2,022)
Retained earnings	17,059	13,104
Total stockholders equity	117,128	113,790
Total liabilities and stockholders equity	\$ 387,905	\$ 412,628

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**CAI International, Inc.****Consolidated Statements of Income****(In thousands, except per share data)****(UNAUDITED)**

	Three Months Ended March 31,	
	2009	2008
Revenue:		
Container rental revenue	\$ 14,119	\$ 11,446
Management fee revenue	2,493	2,910
Gain on sale of container portfolios	256	2,922
Finance lease income	708	373
Total revenue	17,576	17,651
Operating expenses:		
Depreciation of container rental equipment	4,371	3,012
Amortization of intangible assets	408	312
Impairment of container rental equipment	36	95
Gain on disposition of used container equipment	(790)	(822)
Equipment rental expense	20	20
Storage, handling and other expenses	1,710	874
Marketing, general and administrative expense	4,915	4,448
Loss (gain) on foreign exchange	80	(44)
Total operating expenses	10,730	7,895
Operating income	6,846	9,756
Interest expense	1,302	2,023
Interest income	(4)	(47)
Net interest expense	1,298	1,976
Income before income taxes	5,548	7,780
Income tax expense	1,593	2,491
Net income	\$ 3,955	\$ 5,289
Net income per share:		
Basic	\$ 0.22	\$ 0.31
Diluted	\$ 0.22	\$ 0.31
Weighted average shares outstanding :		
Basic	17,897	17,109
Diluted	17,897	17,109

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**CAI INTERNATIONAL, INC.****CONSOLIDATED STATEMENTS OF CASH FLOW****(in thousands)****(UNAUDITED)**

	Three Months Ended March 31,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 3,955	\$ 5,289
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,425	3,048
Amortization of debt issuance costs	123	109
Amortization of intangible assets	408	312
Impairment of container rental equipment	36	95
Stock-based compensation expense	225	296
Loss (gain) on foreign exchange	48	(44)
Gain on sale of container portfolios	(256)	(2,922)
Gain on disposition of used container equipment	(790)	(822)
Deferred income taxes	(164)	(77)
Bad debt expense	13	(163)
Changes in other operating assets and liabilities:		
Accounts receivable	2,836	(1,397)
Deposits, prepayments and other assets	(3,183)	350
Accounts payable, accrued expenses and other current liabilities	960	1,087
Due to container investors	(6,058)	8,296
Unearned revenue	140	447
Net cash provided by operating activities	2,718	13,904
Cash flows from investing activities:		
Purchase of containers	(10,113)	(32,372)
Net proceeds from sale of container portfolios	2,822	22,157
Net proceeds from disposition of used container equipment	5,354	3,975
Purchase of furniture, fixtures and equipment	(10)	(54)
Receipt of principal payments from direct financing leases	1,523	852
Net cash used in investing activities	(424)	(5,442)
Cash flows from financing activities:		
Proceeds from capital leases	354	
Proceeds from bank debt	5,000	17,500
Principal payments on capital lease	(1,067)	(31)
Principal payments made on bank debt	(23,000)	
Debt issuance costs		(284)
Net cash (used in) provided by financing activities	(18,713)	17,185
Effect on cash of foreign currency translation	40	141
Net (decrease) increase in cash	(16,379)	25,788
Cash at beginning of the period	28,535	8,433

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Cash at end of the period	\$	12,156	\$	34,221
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Income taxes	\$	3,039	\$	2,365
Interest		1,300		1,768
Supplemental disclosure of non-cash investing and financing activity:				
Transfer of container rental equipment to direct finance lease		220		1,215

See accompanying notes to unaudited consolidated financial statements.

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CAI INTERNATIONAL, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009 and 2008

(1) The Company and Nature of Operations

CAI International, Inc. and subsidiaries (CAI or the Company) operates in the international intermodal marine cargo container leasing business. Within this single industry sector, the Company generates revenue from two reportable segments: container leasing and container management. The container leasing segment specializes primarily in the ownership and leasing of intermodal dry freight standard containers, while the container management segment manages containers for container investors. The Company leases its containers principally to international container shipping lines located throughout the world. The Company sells containers primarily to investor groups and provides management services to those investors in return for a management fee.

On September 12, 2007, the Company formed Container Applications Limited, a wholly owned subsidiary in Barbados, to facilitate the Company's international leasing and related business operations.

On April 30, 2008, the Company acquired CAI Consent Sweden AB (Consent), formerly named Consent Equipment AB, a European container and intermodal equipment leasing company, for \$14.6 million in cash (net of \$1.3 million cash acquired) and the assumption of approximately \$25.7 million in debt. Consent is headquartered in Gothenburg, Sweden, and has operations located in Sweden, Germany and the United Kingdom.

The Company's corporate headquarters are located in San Francisco, California.

(2) Accounting Policies and Recent Accounting Pronouncements

(a) Accounting Policies

There have been no changes to the Company's accounting policies other than those discussed in Note 2(b) below during the quarter ended March 31, 2009. Refer to Notes 2(a) through 2(n) to the consolidated financial statements in the Company's Annual Report Form 10-K for the year ended December 31, 2008, filed with the SEC on March 16, 2009.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The accompanying unaudited interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal years ended December 31, 2008 and 2007, included in the Company's Annual Report Form 10-K filed with the U.S. Securities and Exchange Commission on March 16, 2009.

The accompanying unaudited consolidated financial statements include the accounts of the Company. All intercompany transactions have been eliminated in consolidation. Certain reclassifications have been made to the accompanying prior period financial statements to conform with the current year's presentation. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the Company's financial position as of March 31, 2009 and December 31, 2008, the results of operations for the three-months ended March 31, 2009 and 2008 and the Company's cash flows for the three months ended March 31, 2009 and 2008. The results of operations and cash flows for the periods presented are not necessarily indicative of the results of operations or cash flows which may be reported for the remainder of 2009 or in any future period.

(b) Recent Accounting Pronouncements

In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157, Fair Value Measurement*, which delays the effective date of Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measurement*, to fiscal years beginning after November 15, 2008, for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually). SFAS No. 157 is applicable to impairment and business combination accounting. The Company does not have material financial assets or liabilities accounted for

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at fair value. The Company adopted the provisions of SFAS No. 157 on January 1, 2009 for non-financial assets and liabilities and there was no material impact on i